DUTB

Creating Good with Excellence

# BAMC ANNUAL REPORT 2017

APRIL 2018

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## HIGHLIGHTS AND SUMMARY OF 2017

2017 was an exceptional year for BAMC. It not only reached, but also considerably surpassed most of the key performance indicators set by the Government of the Republic of Slovenia (hereinafter: the Government) in the Guidelines on the operations of BAMC (hereinafter: the Guidelines). Successful and efficient operations resulted in record-breaking levels of cash generation and profit with substantially reduced financial and operating costs.

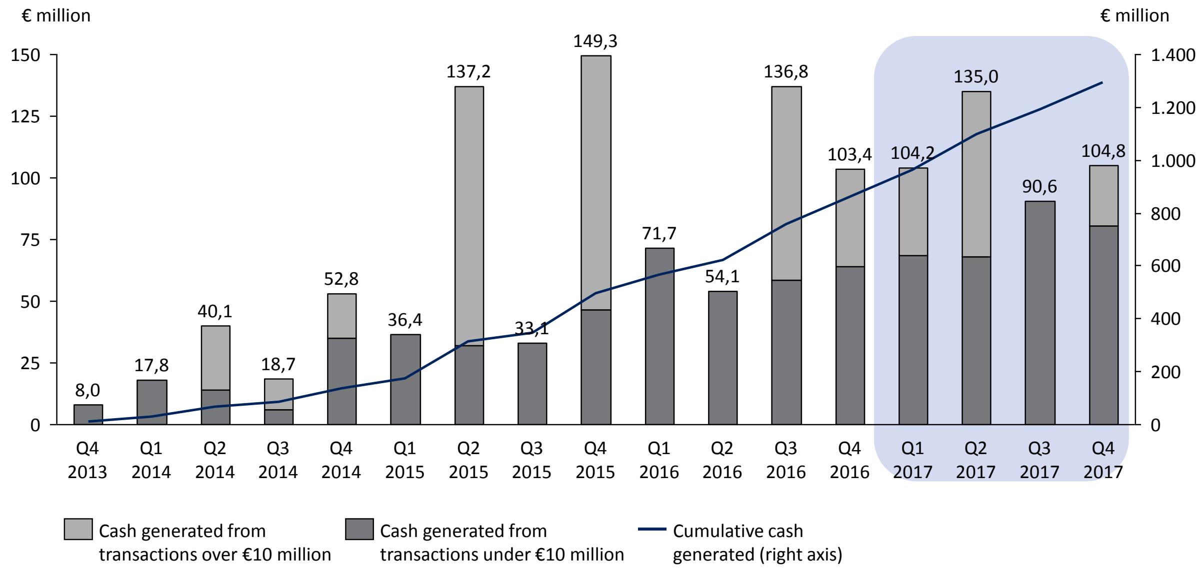
TABLE 1: BAMC KPIS FOR 2017

| Key Performance Indicator | 2017 target* | 2017 result |
|---|---|---|
| Minimum cumulative cash generated (in € million) | 676 | 1.294 |
| Cash generated % | 10,0% | 21,5% |
| EROE | 8,0% | 24,7% |
| Cost efficiency | 1,90% | 1,88% |

**NOTE:** *As defined in the Guidelines, adopted by the Government on 7 December 2016.
Definitions and additional KPI data are presented in more detail in Table 6.

€434,7 million of cash inflows were generated by asset sales and debt repayments managed in 2017, more than double the statutory target of 10% with 21,5% of all assets' transfer value liquidated in just one year, thus being the most successful year in BAMC's history. While the loan portfolio remained the main driver of inflows with €322 million, almost €100 million of cash generated from the real estate portfolio confirmed BAMC's effectiveness and direction of repossessing real estate from collateral proceedings, managing and adding value to it for the sale at the appropriate time. Most notably, the large residential complexes of Celovški dvori in Ljubljana and Nokturno in Koper were almost completely sold in 2017, accompanied by the sale of numerous commercial and business premises as well.

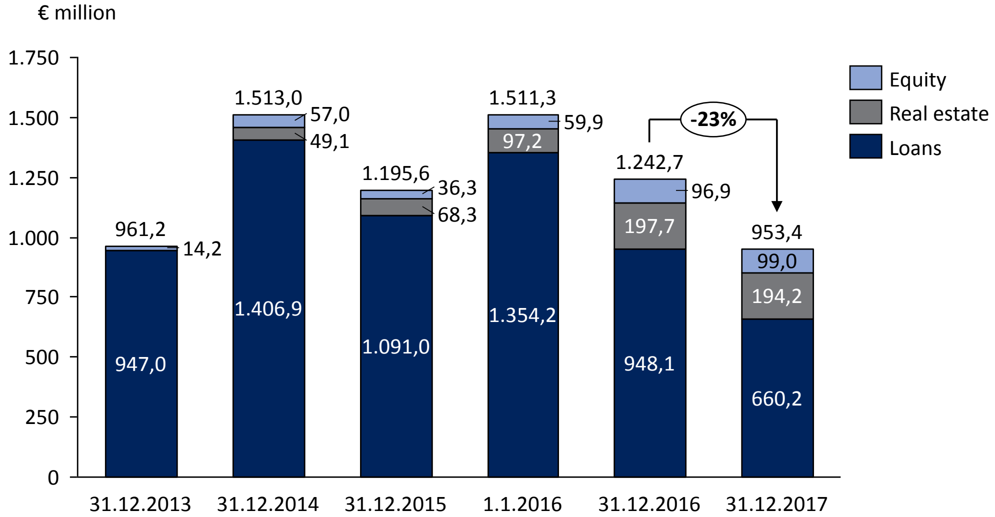
FIGURE 1: CASH GENERATED BY QUARTERS



A record-level after-tax profit of €67,0 million has been generated in 2017, shooting the company's end-of-year equity up to €146,4 million and raising the EROE (economic return on equity, the averaged yearly return on invested capital with corrections) to 24,7%, high above the required 8% threshold.

The balance sheet was reduced by 23%, mainly on the claims part as additional real estate repossessions and movements in equity positions resulted in the latter two portfolios remaining at their last year's 'levels.

FIGURE 2: ASSETS UNDER MANAGEMENT

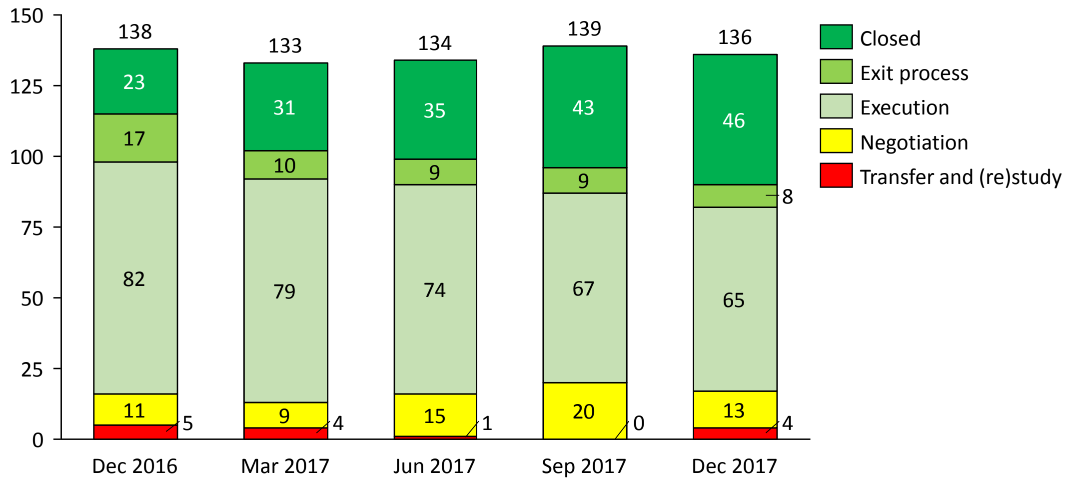



**NOTE:** 1 January 2016 displays the fair value of the portfolio at the merger of Factor banka and Probanka into BAMC. Since the merger BAMC also manages a minor leasing portfolio which is presented together with "Loans".

Surplus liquidity allowed BAMC to perform several early debt repayments ahead of schedule during the year, while the last two outstanding bonds, issued during the transfers of assets, were repaid at the end of the year. Part of the repayment had to be refinanced, with the terms on the new commercial loans being much more favourable, further reducing planned financial expenses and allowing BAMC greater flexibility in future debt management.

Further progress has been achieved in the restructuring of viable debtors. Notable cases include the successful closure of the Cimos d.d sales process and several substantial refinancings whereby BAMC recovered the complete gross exposure (the remaining debtors from Vizija group, Sava Turizem d.d., Sava TMC d.o.o., Ilana d.d. etc.). Furthermore, the number of completely closed restructuring cases doubled in one year and, together with the cases in the final stage(s) of restructurings, almost 40% of relevant cases have been completed or are close to completion.

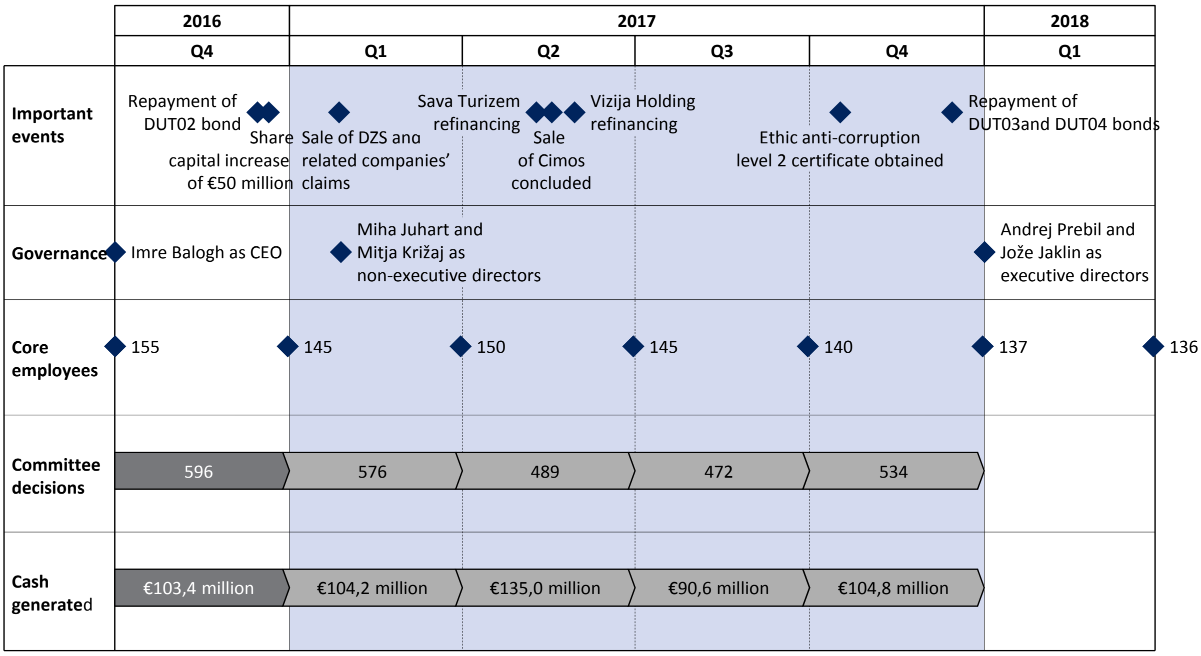
FIGURE 3: PROGRESS IN RESTRUCTURING CASES




**NOTE:** Case progress is estimated monthly by case managers. The number of cases in restructuring or recovery may vary due to changed circumstances in the debtors' positions or a change in BAMC strategy pursued towards a specific debtor and thus, due to different purpose and methodology, varies from the classification used for valuation purposes.
In the last quarter of 2017 the metric was amended for the first category, Transfer and (re)study, which from then may also include cases with processes that had to be reassessed or otherwise restarted. That explains the renewed presence of cases in this category.

Changes occurred in the Board composition in 2017: one non-executive director resigned and the mandate of another non-executive director and two executive directors expired at year-end, while two new non-executive directors were appointed at the beginning of the year and two new executive directors were appointed in fall, assuming their positions on 1 January 2018.

FIGURE 4: BAMC'S OVERVIEW OF 2017




**NOTE:** Core employees displayed in the figure relate to staff engaged in regular operations.

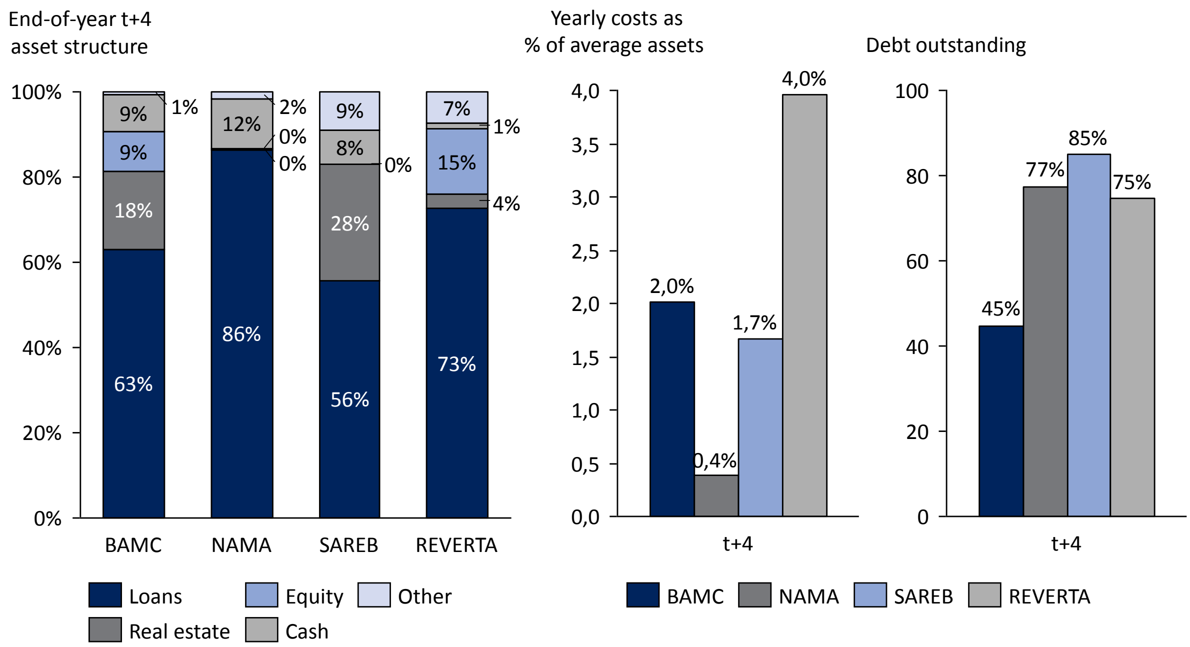
In 2017 BAMC also obtained the higher grade of Anti-Corruption Compliance System Certificate. BAMC is the only company in Slovenia with the aforementioned certificate, which is acquired only by companies with a high level of business integrity, transparency and prevention of conflict of interests at all levels of the company's operations.

In the context of public finance consolidation, BAMC exerted a positive effect on reducing the state deficit in 2017. With its transactions BAMC has, in accordance with ESA methodology, which is monitored by the Ministry of finance and the Bank of Slovenia, closed the year exceeding the plans, with a considerable surplus.

Last but not least, the European Commission has also acknowledged BAMC's work and contribution as its Country Report Slovenia 2018 indicates the areas of sustainable resolution of non-performing loans and implementation of BAMC's strategy as the two where Slovenia has made substantial progress.

To internationally compare BAMC's performance, three peer organisations were selected for benchmarking: NAMA from Ireland, SAREB from Spain and REVERTA from Latvia. Benchmarking is done based on the relative time of operations, i.e., not comparing results of calendar years but of years after the set-up of the respective company.[1]

FIGURE 5: SELECTED BENCHMARKING DATA




**NOTE:** NAMA was established in December 2009, SAREB was established in November 2012 and REVERTA was established in May 2012. "t+4" relates to respective company's fourth year of operations.
For comparability with other institutions the cost efficiency calculation is simplified and thus differs from the reported BAMC KPI version as prescribed in the Guidelines (Table 6).Debt outstanding compares financial liabilities in the respective year of operations to the total debt issued to finance acquired assets. **SOURCE:** Own calculations from companies' annual reports.

[1] As first assets were transferred to BAMC in December 2013, it if effectively in operation for four complete years making 2017 results the "t+4" input for benchmarking.

## RESULTS OF FOUR YEARS OF EFFECTIVE OPERATIONS

Immediately after the first asset transfers at the end of 2013, BAMC responsibly pursued its task of securing the highest possible repayment from the claims, equity stakes and real estate that were transferred to it. Additional transfers in 2014 and the merger of Factor banka and Probanka into BAMC in early 2016 added to the scope and complexity of asset management which, after four years of effective operations resulted in the following achievements.

Total cash generation in the amount of €1.293,9 million, representing 64,0% of all assets' transfer value (four years of statutory requirement at minimum 10% cash generation per year would mean at least 40% of assets' transfer value to be liquidated by the end of 2017).

BAMC adjusted its capital by almost €200 million due to decisions of the owner (Republic of Slovenia) during its lifetime through various transactions as specified in the table below. Including the profit of 2017, the EROE indicator, which presents the average yearly return compared to the invested capital with corrections (€60,5 million), shot up to 24,7% (with the statutory requirement set at 8%).

TABLE 2: CORRECTIONS TO INITIALLY INVESTED CAPITAL SINCE INCEPTION

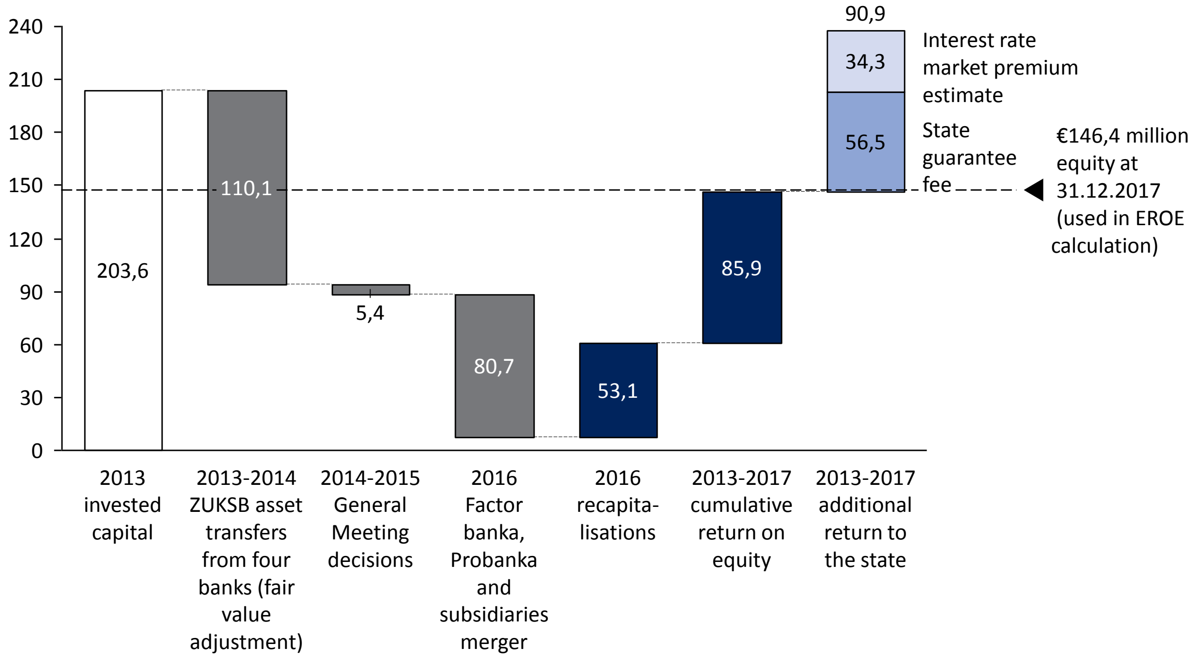
| in € million | **Effect on BAMC equity** |
|---|---|
| **Capital invested by the Republic of Slovenia in 2013** | **203,6** |
| **Cumulative capital adjustments due to the decisions of the owner in the 2013 – 2017 period** | **-196,2** |
| Transfers of non-performing assets from NLB, NKBM, Abanka and 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 year-end 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 (adjustments and recapitalisations) at year-end 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.

Additional €90,9 million represents another stream of contribution to the state, through both guarantee fee payments directly to the budget and additional margin[2] on the interest for issued bonds, paid to the (then) state-owned banks. The figure below displays all main categories' effects for the period 2013-2017.

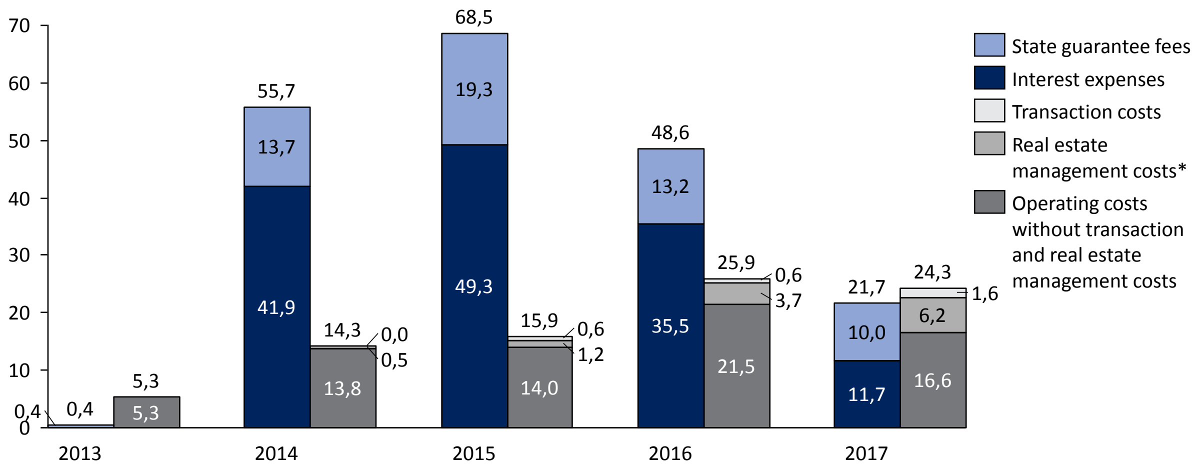
[2] Estimated as an 80 basis points mark-up on the country-risk adjusted market interest rate following the information during the bonds' issuance processes.

FIGURE 6: EQUITY EFFECTS AND ADDITIONAL RETURN SINCE INCEPTION




Several refinancing transactions under favourable conditions in last years, allowing for more flexibility in debt reduction coupled with tighter liquidity management brought about a multi-fold reduction of financing costs, bringing them even below operating costs for the first time in 2017.

FIGURE 7: FINANCING AND OPERATING COSTS




**NOTE:** *Real estate management costs without real estate transaction costs which are already included in the "transaction costs" category, together with equity transaction costs.

## LETTER FROM THE CEO

2017 was an exceptional year for BAMC from all major aspects: sound, transparent and efficient operations resulted in record-breaking financial indicators, while the company made notable further progress on the road to fulfil its mission and transform itself into an entity of excellence and a knowledge centre for distressed asset management.

Cash flow generation hit all-time high levels at €435 million, and facilitated the simultaneous reduction in borrowing. Moreover, with full repayment of the last tranches of high-cost original debt and partial refinancing of it with low cost and flexible bank loans, BAMC completed its three-year program of sharp reduction of borrowing costs. This effect, combined with a 23% reduction in basic operational expenses, the further improved profitability of accomplished transactions in all three asset classes, and the reflection of corporate restructuring and recovery efforts in asset values resulted in a return to high profitability in 2017. New strategic initiatives helped achieve these targets last year, the most significant being full refinancing by banks of debtors with restored financial health, and added value through real estate developments realised in subsequent sales.

The key to commercial success is the credibility BAMC has been building up with market participants. The two fundamental pillars of this established trust is professional and ethical conduct on the one hand, and sound historic track record of completed transactions in efficient and transparent sales processes on the other. The most notable achievements in 2017 were that BAMC was awarded and became the only Slovenian corporate entity to boast with the highest grade international anti-corruption certificate by Ethic Intelligence, and the company's extensive involvement in knowledge sharing on experiences in management of problem assets on a European level.

BAMC being at half-way of its lifetime, and having completed four full years of effective operations, it's worth looking back before we look into the future. By the end of 2017, BAMC generated €1,3 billion of cash flow, 64% of transferred and merged assets, which is outstanding also by international comparison. As a result, borrowing was reduced to 45% of cumulative original levels, and financing costs were reduced from €69 million in 2015 to €22 million in 2017. In earlier years mainly through the interest and guarantee fee payment stream, and recently mainly through the profit stream, BAMC has already returned more than half of the invested capital to the Slovenian public sector.

BAMC is widely recognised as having one of the most complex profiles among (national) distressed asset management companies. Though by absolute size it is in the mid-range internationally, by relative size and impact to the economy it is among the largest: all transferred and merged assets added up to one fourth of total bank loans to domestic corporates in 2013 in conjunction with the banking sector rehabilitation program. Slovenia performed a spectacular economic recovery since then, and we are proud that the country advanced the farthest in implementation of country-specific recommendations by European Commission specifically in those fields where BAMC is a decisive player: NPL reduction and the implementation of BAMC's strategy. Though difficult to measure its impact precisely, but in addition to direct effects of cash generated, the contribution to reduction of public debt and recently the deficit, indirect macroeconomic impacts comprise corporate restructuring (already on third of viable companies restored and completely out of BAMC's portfolio) and recycling previously inefficiently used assets back to the normal economy. In just four years in business, BAMC has become one of the key channels in Slovenia for channelling capital, both domestic and foreign, into the real economy and an international role model in NPL management, a best practice example for how to tackle problems in a banking system suffering from a high percentage of corporate problem loans.

The biggest business challenge we face in the future is how to maintain the momentum when, though the portfolio is still containing numerous exciting investment opportunities, it is getting more and more granular, with increasing unit costs. The key here is to maintain a constant rich deal flow via further nurturing BAMC's robust commercial culture, sales controlling and support mechanisms. Since the company has come a long way to transform itself into a self-improving organisation, polishing the operations further and dynamic adaptation to changing circumstances are the main driving forces.

And the staff, our professional and dedicated colleagues. I am proud that merely a year after the pains of the merger and downsizing, the highest values among BAMC staff proved to be identification with the company's mission, cohesion and cooperation, respect for professionalism. For the management it is the greatest achievement to forge a team which shares a common vision, ready to act with enthusiasm and deliver results.

Finally, let me thank for their dedication and precious contribution to Aleš Koršič, Janez Škrubej and Janez Širovnik, our outgoing Board members, and extend a warm welcome to Andrej Prebil and Jože Jaklin, who joined the Board in 2018 and participate in the fulfilment of BAMC's invaluable mission for Slovenia.

Dr. Imre Balogh
CEO

# Report of the Board of Directors for 2017

Under the second paragraph of Article 282 of the Companies Act (Official Gazette of the Republic of Slovenia No. 42/2006, as amended; hereinafter: ZGD-1), the Board of Directors of BAMC (hereinafter: the Board) hereby submits the report on the management of the company during the financial year 2017, the audit of the annual report for 2017, and its position on the auditor's report for 2017.

## Composition of the Board of the Bank Assets Management Company

ZUKSB[3] and the Articles of Association of BAMC stipulate that BAMC has a one-tier governance system, and that the Board consists of seven members, of which three are executive and four non-executive directors.

During 2017, BAMC operated with a full Board. As per the end of 2017 the structure of the Board was as follows:

- Miha Juhart, non-executive director, Chairman of the Board,
- Janez Širovnik, non-executive director, Deputy Chairman of the Board,
- Mitja Križaj, non-executive director,
- Juan Barba Silvela, non-executive director,
- Imre Balogh, CEO,
- Janez Škrubej, executive director,
- Aleš Koršič, executive director.

Chairman of the Board, Marko Simoneti submitted his resignation from the position of member of the Board to the Government on 27 October 2016. The Government agreed with the termination of his membership from the Board as per 27 January 2017.

On 5 January 2017 the Government in the capacity of the General Meeting of BAMC appointed Miha Juhart and Mitja Križaj as the new non-executive directors with the effective date 28 January 2017. With this appointment, the Board vacancy was filled. On its first regular meeting on 23 February 2017 the Board elected Miha Juhart as the new Chairman.

In accordance with the amended ZUKSB, all new Board members are appointed for a period of five years. The mandate of members of the Board who have been appointed to their position before ZUKSB amendments came into effect expired at the end of 2017.

Executive Directors Janez Škrubej and Aleš Koršič and non-executive director Janez Širovnik have been appointed before ZUKSB amendments came into effect, therefore their functions expired at the end of 2017.

[3] Official Gazette of the Republic of Slovenia No. 105/12, as amended.

In order to appoint new executive directors, BAMC conducted an international selection procedure. The process was carried out transparently, competitively, confidently and in accordance with the best business practice in the field of recruitment. On 24 October 2017, the non-executive directors appointed Andrej Prebil as Executive Director of the Asset Management and Jože Jaklin as Executive Director for Corporate Affairs. Their five-year term began on 1 January 2018.

### Report on the activities of the Board

In its activities, the Board was acting in accordance with the principles of transparency, adherence to the law and good professional conduct. The decisions of the Board contributed to the company's development, ensured the upgrading of basic business functions, regulated all areas of operations and oversaw the adoption of relevant policies.

During 2017 the Board held 12 regular meetings and 15 per capsulam sessions and adopted 297 decisions. All Board members have proactively taken part in the decision-making process and monitored how Board decisions were being implemented, in accordance with the BAMC Board Rules of Procedure.

### Key matters covered in 2017

1) The Board spent a great deal of time on the preparation and review of the 2016 annual report. A final review of the annual report for 2016 and the auditor's report was undertaken by the Board at the meeting of the Board on 25 April 2017.

2) The Board was involved in the performance of organizational climate evaluation, which showed that employees regard BAMC as an interesting working environment which poses a professional challenge, has good management and competent and professional employees, but also revealed some weaknesses in terms of processes and work optimization, cooperation and communication. In September the Board took note of the presentation of the action plan for the improvement of BAMC's organizational climate.

3) Term of Janez Škrubej and Aleš Koršič expired on 31 December 2017. In view of this, the Board also placed a great deal of attention on the international selection process of new executive directors. At its 69th session, which took place on 15 May 2017, the Board appointed a Nomination Committee to oversee the process of selecting the new executive directors. The committee was composed of the following members: Mr Miha Juhart as chairman, Mr Janez Širovnik as deputy chairman, and Ms Sonja Šmuc and Mr Primož Klemen as members of the Nomination Committee. The international selection process was conducted in a transparent, competitive, fair and confidential manner and in accordance with best business practice in the field of human resources. Based on the Committee's proposal, the non-executive directors appointed Andrej Prebil and Jože Jaklin as the new executive directors for a 5-year term on 24 October 2017, effective as of 1 January 2018.

4) The Board placed attention to refinancing of BAMC financial liabilities and authorised three early debt repayments in the total amount of €269 million. In order to refinance BAMC liabilities falling due in mid-December of 2017, BAMC took out €710 million of loans in a transparent and competitive process. The loans under the new loan agreements will be repaid quarterly, according to the loan repayment schedules. The refinancing and repayment of financial liabilities marks an important step in the fulfilment of BAMC's mission, as defined by the ZUKSB. With the lower interest rates, BAMC has reduced its future costs of financing, reduced its debt leverage and repaid invested funds, reducing the burden on the Republic of Slovenia and the taxpayers.

Over the course of the year, other activities of the Board included also:

- presentation of organizational units,
- NPL Port d.o.o. further strategy,
- monitoring of the course of audit of the Court of Audit,
- adoption of a Financial plan 2017-2022,
- reviewing of quarterly and half-year business reports,
- adoption of internal audit plan,
- strengthening of internal control system based on recommendations of Internal Audit, and
- reviewing and amending internal policies.

In April 2017 the Board performed a self-evaluation of its effectiveness. The average score of all answers combined was 3,46 on a four-level scale. With certain exceptions, the scoring was roughly unified among Board members, meaning that there were no significant discrepancies in individual assessments. This shows that the members had a good understanding of the questions and indicates a relatively unified scoring of the operations of the Board.

### WORK OF THE BOARD'S COMMITTEES

The work of the Board is supported by four committees: Audit Committee, Accreditation Committee, Remuneration Committee, and Credit and Investment Committee.

#### *AUDIT COMMITTEE*

At the first session of the Audit Committee in 2017, the Committee was in the old setting, i.e. Marko Simoneti as Chairman, Janez Širovnik as member and Tamara Jerman as an independent external member. After Marko Simoneti's resignation the Board appointed Mitja Križaj as the new Chairman of the Audit Committee in February 2017.

The Audit Committee met on 12 regular meetings and held two extraordinary meetings in 2017.

The topics that Audit Committee paid attention to on its meetings were:

- monitoring of the financial reporting procedures, supervising of the integrity of BAMC financial information and evaluation of the information disclosed in the annual report,
- monitoring of the statutory audit of financial statements and cooperation with the auditor on the audit of the BAMC annual report, supervision of the independence of the selected external auditors through inquires to the audit team and obtaining and reviewing of their written statement on independence,
- regular reviews of all reporting to various external supervisory institutions (Commission for Prevention of Corruption, Ministry of Finance, various Parliamentary bodies RS, National Investigations Bureau and others) as well as all other regulatory reporting requirements (Securities Market Agency, Financial Administration of the Republic of Slovenia and others),
- updates and status reports about the audit of Court of Audit, for which the decision with the objective to issue an opinion on regularity, economy and efficiency of BAMC's operations in years 2014 and 2015, was issued in January 2016 and in 2016 the auditors finished with their field work, so in 2017 the Committee monitored auditors' additional requests for documents and explanations as well as the anticipated date of the issue of the draft report,
- regular reviews of the efficiency and effectiveness of BAMC's system of internal controls, compliance, internal auditing and risk management, through regular meetings with responsible leads of mentioned functions and implementation and monitoring of their regular periodic reports on their activities and findings.

The Audit Committee regularly and closely monitors the work of the Internal Audit Function (hereinafter: IAF). The monitoring of the IAF's work includes: review, commenting and approval of the proposed IAF's plan(s), reviews of individual internal audit assignment reports, as well as review of regular quarterly IAF's reports on activities. Twice a year the IAF's activities reports include follow-up report on the implementation of issued recommendations. Through this report the members of the Audit Committee monitor management's response and remedy activities taken, following the recommendations of the IAF, as well as recommendations of other supervisory bodies, like external auditors and the Court of Audit.

Also in 2017 all members of the Audit Committee filled-in self-assessment questionnaires. Answers were gathered and reviewed on the Committee's meeting in July 2017. The resolutions accepted, following the self-assessment exercise, were also presented to the Board.

*Accreditation Committee*

In 2017 the Committee consisted of the following members: Janez Širovnik as Chairman, Janez Škrubej and Aleš Koršič as members and Sonja Šmuc as an independent external member. In February 2017 Sonja Šmuc was appointed as Vice Chairman of the Accreditation Committee.

The Accreditation Committee continued with its core activities in 2017. BAMC recruits possible candidates both among its employees and among professionals with previous proven experience in corporate governance and industry expertise.

The Accreditation Committee met on seven regular meetings and four per capsulam meetings in 2017 and approved as appropriate eight candidates for the supervisory board positions in five different companies. The Board has approved all of the proposed candidates.

### *Remuneration Committee*

In 2017 the Committee consisted of the following members: Janez Širovnik as Chairman, Sergeja Slapničar as an independent external member and Juan Barba Silvela as member of the committee.

The topics that Remuneration Committee paid attention to on their meetings were:

- ensuring the legality and appropriateness of the remuneration of the Board and members of the committees of the Board,
- facilitating a uniform and transparent system for the remuneration of the Board and members of the committees of the Board,
- to check the compliance of board members' employment agreements with the Remuneration Policy adopted by the Government of the Republic of Slovenia,
- remuneration packages being sufficiently attractive to enable the company to attract and retain staff of high professional competence and integrity,
- BAMC's organization and staffing being appropriate for the effective and efficient operation of the company and for fulfilling its objectives,
- BAMC operating with the appropriate number of staff possessing the necessary skills to meet the company's goals,
- staff remuneration levels being broadly aligned with the market,
- incentive structures contributing to efficient and target-driven results while maintaining the highest standards of professionalism and integrity.

The Remuneration Committee met on eight regular meetings in 2017.

### *Board Credit and Investment Committee*

The Board has the Executive Credit and Investment Committee (ECIC) and the Operative Credit and Investment Committee (OCIC) to decide on claims owned or managed by BAMC and to decide on matters related to acquisition of, investment into and disposal of individual assets, related to said exposures. The most important credit and investment decisions are taken by the ECIC, which has a Chairman and a Vice-chairman and at least 3 members appointed by the Management Board.The Board also has the Board Credit and Investment Committee (BCIC) in respect to give consent to the decisions/proposals of ECIC/BCIC if necessary.

Until February 2017 Marko Simoneti was the president of Board Credit and Investment Committee. The Board appointed Miha Juhart as the Chairman of the BCIC in February 2017 for replacement of Marko Simoneti, and reconfirmed Janez Širovnik as the Vice-chairman of the BCIC.

Board Credit and Investment Committee and Executive Credit and Investment Committee have met on a weekly basis in 2017 and have adopted 557 (ECIC) and given consent to 189 (BCIC) credit and investment decisions.

### Evaluation of the work of the Board

In accordance with its mandate stipulated in BAMC's Articles of Association and the ZUKSB as well as applicable corporate law, and with consideration to the recommendations of the Public Limited Company Management Codex and good business practices, the Board was actively involved in guiding BAMC's operations, supervising its business operations with the assistance of its Board committees. In the evaluation of its work, the Board finds that it has successfully completed all required procedures to allow the company to continue its successful operations and functioning.

### Review of the annual report

Following the audit committee review, the Board discussed the proposed annual report during its session of 24 April 2018. The certified auditor presented the audit observations during the audit committee meeting of 20 April 2018.

The Board has reviewed the BAMC annual report and concluded that it is in compliance with the company's Articles of Association, and the ZUKSB-A. The Board 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 31 December 2017.

BAMC prepared financial statements in accordance with the fifth paragraph of Article 4 of ZUKSB-A which defines that BAMC shall apply the International Financial Reporting Standards (hereinafter: IFRS) and the third paragraph of Article 4 of ZUKSB-A which stipulates that BAMC shall not include in its consolidated annual report the companies whose equity stakes or shares it had acquired by means of purchase/compensated acquisition of bank assets, or as part of corporate restructuring as per the first paragraph of Article 10a of this Act.

The Annual Report includes all essential information required for public disclosure and the audit. The Board also concluded that the financial statements and documents on which the financial statements for the year are based, as well as the completed annual report, was reviewed by a certified auditor, and an unqualified opinion was issued.

In light of the above, and with consideration of the fact that the Board has tracked and reviewed the company's operations throughout the financial year and has reviewed the annual report after it was submitted and found that it accurately reflects the true and actual condition of BAMC, the Board has concluded that the annual report is satisfactory and has given its approval regarding its contents.

## INFORMATION ON THE CERTIFIED AUDITOR'S REPORT

The Board reviewed the audit report and concluded that the certified auditor had no objections regarding the work and conduct of the individuals responsible for the preparation of financial statements. Based on the above, the Board concludes that the responsible individuals are working in accordance with regulations, international accounting standards and the principles of honesty and credibility.

The Board has taken note of the unqualified opinion from the certified auditor dated 23 April 2018 and established that the auditor's report confirms that the financial statements for the year ended 31 December 2017 are prepared, in all material respects, in accordance with the accounting requirements of ZUSKB-A.

# Presentation of BAMC

Table 3: Basic company data on 18 April 2018

| | |
|---|---|
| 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 1 4293 877 |
| 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 18 April 2018 | Miha Juhart, Chairman of the Board | 28 January 2022 |
| | Mitja Križaj, Deputy Chairman of the Board | 28 January 2022 |
| | Juan Barba Silvela | 24 March 2021 |
| Executive directors as at 18 April 2018 | Imre Balogh, CEO | 30 September 2021 |
| | Andrej Prebil, CAM | 31 December 2022 |
| | Jože Jaklin, CAO | 31 December 2022 |

**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 non-executive director Marko Simoneti ended on 27 January 2017.
On 24 October 2017 non-executive directors appointed Andrej Prebil and Jože Jaklin as executive directors with their five-year term beginning on 1 January 2018.
The term of executive directors Janez Škrubej and Aleš Koršič ended on 31 December 2017.
The term of non-executive director Janez Širovnik ended on 31 December 2017. Since then BAMC has three non-executive directors until the fourth is appointed.

## Corporate governance

BAMC has a one-tier system of corporate governance, where the highest decision-making body is the Board of Directors. 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 permanent 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. Non-executive directors have the powers equivalent to those of the Supervisory Board according to the law governing commercial companies and do not manage BAMC. They select executive directors, overview operations, decide on strategies and regulations but are not involved in operative decisions (apart from giving/denying consent as members of the Board Credit and Investment Committee).

BAMC has an internal audit function reporting directly to the Board of Directors. 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. Organizational unit Compliance and Corporate Security are responsible for running the Corporate Security and Compliance Committee, which deals with issues related to the scope of activities of those units. The two units 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 claims 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. With such a decision-making committee structure 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.

### Non-executive directors as at 31 December 2017

Dr. **Miha Juhart**, Chairman of the Board of Directors of BAMC, is a Doctor of Juridical Science. He teaches at the University of Ljubljana's Faculty of Law as a professor of civil and corporate law. He has extensive professional and managerial experience. He was a member of the expert council of the Securities Market Agency, and served two terms as its chairman. He is the prorector of the University of Ljubljana and the dean of the University of Ljubljana's Faculty of Law. He served on the supervisory board of Krško Nuclear Power Plant, Pozavarovalnica Sava d.d., and DARS d.d., and worked with leading law firms and corporations in various fields of law, mostly real estate and corporate, contract and status law. He served as an arbitrator in numerous domestic and international arbitration cases.

**Janez Širovnik,** the Deputy Chairman of the Board of Directors (as at 31 December 2017) of BAMC and Chairman of the Remuneration Committee is a member of the Board of Directors of the public limited company SIP Šempeter d.d., in charge of marketing, development and quality control. He began his career at the company Imgrad d.o.o., following which he managed the foreign trade company Industriaimport. He was an executive sales manager in Riko Ribnica d.o.o., followed by seven years managing the Dutch company Eurotechniek and later I.tra.s, providers of advisory, manufacturing and commerce-related services. He is also involved in providing advisory services as director of Holinvest d.o.o., a subsidiary of the Dutch company SO.FI.CO, specializing in providing advisory services to production-oriented companies. He has specific and organizational skills in the field of management and restructuring operations. He has a solid foundation in the engineering and manufacturing industry in the broader European area.

**Juan Barba Silvela** has over 20 years of experience in the field of real estate and finance. In September 2014 he was appointed partner & executive director of the real estate fund Meridia Capital. Prior to that, he was first Real Estate Director and later Head of Transactions in Spanish asset management company Sareb. He gained his professional and management experience in companies such as Doughty Hanson, Aareal Bank AG, Principal Financial Group and Arthur Andersen Real Estate. For the past 18 years he has been a professor of Real Estate Finance in the Real Estate Master Program of the Instituto de Empresa in Madrid. He holds a degree in business administration and a degree in law from the Pontificia Comillas University.

**Mitja Križaj**, who holds a bachelor's degree in economics, has over 20 years of managerial experience in banking and finance, real estate and asset management operations, as well as corporate management of companies dealing with restructuring and turnaround situations as well as banks and other financial organizations. He is currently employed in the consulting and investment company Fundament, which provides business and financial consultancy, with a focus on operational and financial restructuring, real estate advisory, project development and asset management activities. Prior to his current position, he served as a director of Hypo Leasing d.o.o., later Heta Asset Resolution d.o.o., who was directly responsible for restructuring and managing nonperforming and nonstrategic assets of Hypo Alpe Adria in Slovenia. He was also the chairman of the management board of Triglav Nepremičnine d.o.o., a member of Zavarovalnica Triglav d.d., and in his early years he was professionally involved in Bank Austria Creditanstalt and Hypo Alpe Adria. He is currently a member of the supervisory board and chairman of the audit committee of Slovenian Railways and a member of the supervisory board of SIJ – Slovenian Steel Industry d.o.o.

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The term of non-executive director Janez Širovnik ended on 31 December 2017. Since then BAMC has three non-executive directors until the fourth is appointed.

## EXECUTIVE DIRECTORS AS AT 31 DECEMBER 2017

Dr. **Imre Balogh** is CEO and Executive Director of the Bank Asset Management Company (DUTB d.d.) since October 2016. Before that, he was acting CEO since October 2015 and a Non-Executive Director of DUTB since April 2015 and was also managing as President & CEO the orderly wind-down of Probanka d.d., Maribor between September 2013 and October 2015. Previously, Dr. Balogh worked as advisor and member of the Strategy Committee of the Supervisory Board, First Ukrainian International Bank, Kiev. Prior to that he held positions in sequence as Chief Strategist, CFO, Chief Risk Officer, Chief Business Officer, in MKB Bank Hungary, and was Chairman/Board member in banks, finance, brokerage and insurance companies in four CEE countries (1988-2012). His earlier experience in NPL management embraces deleveraging corporate and real estate portfolios in Hungary, Bulgaria and Romania after 2008, and a good bank/bad bank split in Romania (2009/10). Dr. Balogh holds Masters and dr. univ. degrees in economics, PhD in regional sciences, and received executive education at Wharton and Harvard Business Schools.

**Janez Škrubej**, Executive Director for Asset Management, holds a master's degree in economics from Ljubljana University and an MBA from Drury University in the US. Prior to that he worked at the international consultancy-audit company Deloitte d.o.o. for several years as head of financial consultancy services, where he gained extensive experience in the fields of mergers and acquisitions, valuations, due diligence and corporate restructuring in Slovenia and the wider region. From 2002 to 2005 he worked as a sales manager at Lek d.d. of the Novartis Group where, in addition to sales management, he managed the market entry of new products, from the completion of product development to launch on the market. Prior to that he managed ITC Group d.o.o., a company that introduced innovative IT business solutions for business partners such as AT&T/Lucent Technologies, US Robotics and others. Mr Škrubej also served as a supervisory board member of Pivovarna Laško from mid-2014 until October 2015 when the company has been sold to Heineken. He was also a member of the Board of Governors of American Chamber of Commerce for one year, starting September 2013.

**Aleš Koršič**, Executive Director for Corporate Affairs, holds a bachelor's degree in law and a master degree in economics. Before being appointed to his function at BAMC, he worked as a legal advisor at Cimos d.d. He served as a member of the Supervisory Board of the foundry company Livarna Vuzenica from 2003 to 2006, and as a member of the Board of Directors of the foundry company Livarna Kikinda in Serbia from 2005 to 2011. He served as acquisitions coordinator in numerous projects in Slovenia and abroad, including post-acquisition integration activities. He also has experience in corporate restructuring and business reorganisation.

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On 24 October 2017 non-executive directors appointed Andrej Prebil and Jože Jaklin as executive directors with their five-year term beginning on 1 January 2018.
The term of executive directors Janez Škrubej and Aleš Koršič ended on 31 December 2017.

**Andrej Prebil**, Executive Director for asset management, holds a bachelor's degree in economics. Prior to his arrival at BAMC, he spent 15 years working in tourism, 12 of which he served in executive positions, acquiring extensive professional knowledge and experience in strategic and operational management, finance and controlling, risk management and operational and financial restructuring. Most recently, he served as chairman of the management board of Hoteli Bernardin d.d., and before that as chairman of the management board of Sava Turizem d.d. (2011-2016) and director of Hotel Lev (2004-2011). In the latter, he oversaw implementation of a complex crisis management process, as well as operational and financial restructuring. In 2008-2011, he was responsible for strategic finance and controlling within the tourism division of ACH. Prior to this, he served as the assistant to the director for finance and controlling at Grand Hotel Union, and he started his professional career as an analyst, planner and controller of financial operations at Grand Hotel Union. As member of supervisory boards he obtained in-depth knowledge in monitoring and supervising the management of equity, investments and real estate. He is currently the chairman of the supervisory board of Eles. He is also active in the tourism industry as the president of the Tourism and Hospitality Chamber of Slovenia and member of the STO council.

**Jože Jaklin**, Executive Director for corporate affairs, holds a bachelor’s degree in economics. After his graduation, he also obtained an international MBA degree from Clemson University, USA. He served as procurator of Litostroj Ravne d.o.o. and Liv Kolesa d.o.o. for two years prior to his arrival at BAMC. In both companies, he was responsible for optimization of the production process and preparing the company for sale. Before that he served as the chairman of the management board of DZS d.d. and as member of the management board responsible for finance, accounting, controlling and IT at Luka Koper d.d. (2014) and Salonit (2011-2014). He was involved in the restructuring process of Cimos d.d. in the 2009-2011 period, and in the 2003-2009 period he served as director of Litostroj E.I., successfully carrying out an extensive restructuring program. Prior to that, he served as an assistant to the director at Geoplin d.o.o. (2001-2003), member of the management board responsible for privatization and financial restructuring at the Slovenian Development Corporation (1997-2001), and as deputy director at the Agency for Privatization and Restructuring (1993-1997). At the Agency, he actively participated in the restructuring of the ownership structure of companies. He was awarded the title of Certified Appraiser from the Slovenian Institute of Auditors.

## NORMATIVE FRAMEWORK

Besides ZUKSB, the regulation that defines the operations and organisational structure of BAMC consists of:

- the Decree on the implementation of measures to strengthen the stability of banks
- the Guidelines on the operations of the Bank Assets Management Company, which govern the operations of BAMC in detail,
- the Articles of Association of the Bank Assets Management Company, and
- the BAMC's Remuneration Policy.

BAMC fully complied with the provisions of the specific regulations governing its activity.

Operations in individual areas are also defined by internal bylaws adopted or refined by the Board. In 2017 four new internal bylaws and 12 amendments to internal bylaws were approved by the Board. The most important among them were:

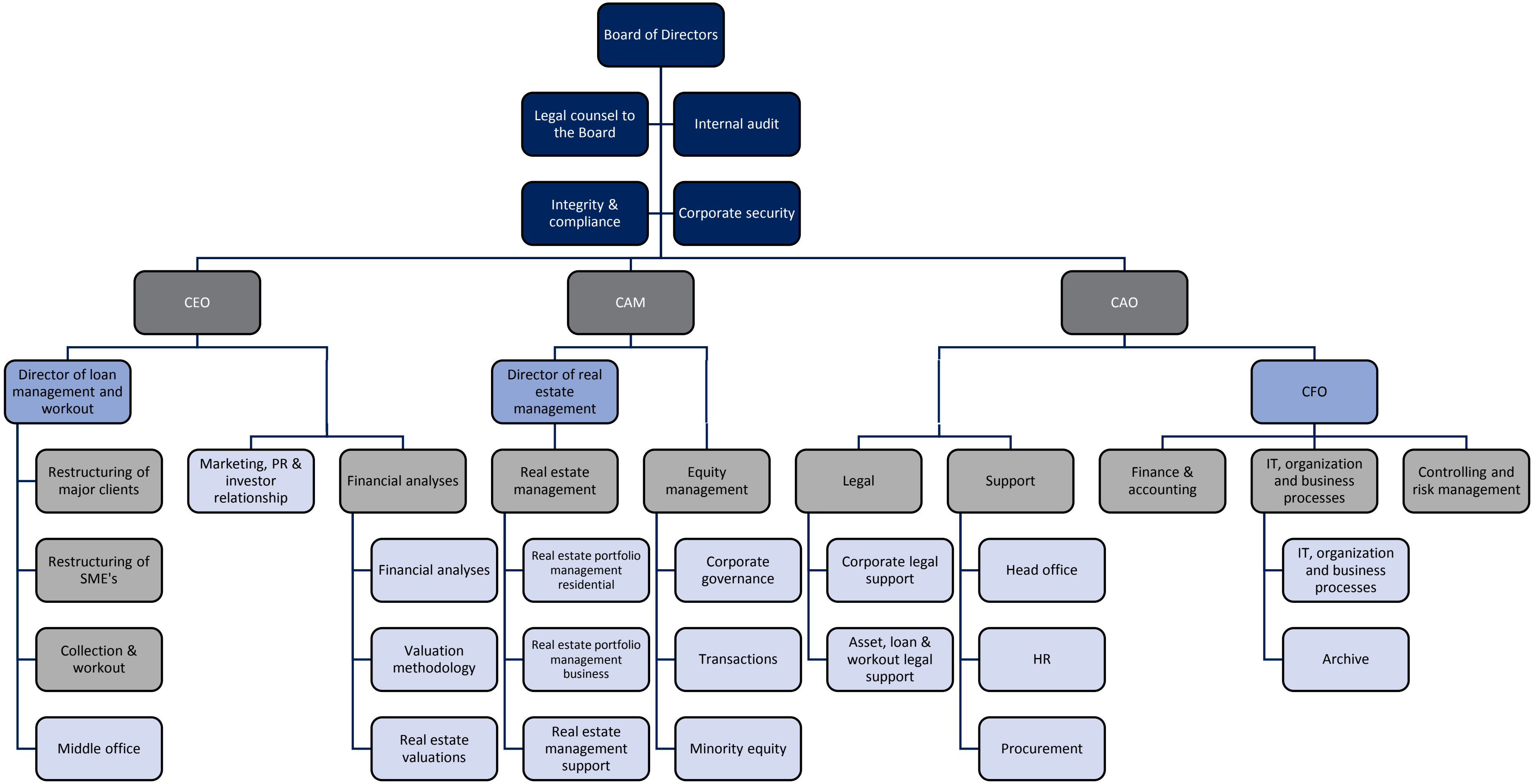
- Process and decision-making powers of the committees,
- Rules on the work of Accreditation Committee,
- Investment policy on the management of liquidity reserves, and
- Valuation Policy.

## ORGANISATIONAL STRUCTURE

BAMC's portfolio structure has changed significantly with the merger of Factor banka and Probanka in 2016. Changes in internal organization were therefore crucial in order 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 were strengthened by enhanced functions of internal audit, compliance and anti-money laundering and corporate security, all reporting to the Board. The internal organization, also fully corresponds to the amendments of ZUKSB regarding restricted role of non-executive directors, distinction of functions, and powers of BAMC.

FIGURE 8: ORGANISATIONAL STRUCTURE




**NOTE:** Organisational structure as at 31 December 2017.

## ORIGIN OF ASSETS

In late 2013 the Government completed the recapitalisation of the two largest Slovenian banks, Nova Ljubljanska banka d.d., Ljubljana (hereinafter: NLB) and Nova kreditna banka Maribor d.d., Maribor (hereinafter: NKBM). The aforementioned banks transferred €3,3 billion in non-performing assets, primarily loans, to BAMC at a transfer value of €1.008,4 million in exchange for bonds issued by BAMC. BAMC's first step was to determine the initial fair value of acquired assets. The valuation process was completed in June 2014 and, through €175,6 million downward and €145,7 million upward adjustment to transfer values for claims received together with €9,9 million initial loss in equity received, resulted in a total initial loss recognition of €39,9 million.

In H1 2014, real estate with a transfer value of €11,6 million was received form NKBM and in H2 2014 BAMC received additional non-performing assets from Abanka Vipa d.d., Ljubljana (hereinafter: Abanka) and Banka Celje d.d., Celje (hereinafter: Banka Celje) in exchange for additional issued bonds. Thus, €1.142,4 million of non-performing assets were transferred to BAMC from Abanka in October 2014 at a transfer value of €423,8 million and additional €392,2 million from Banka Celje in December 2014 at a transfer value of €125,7 million. After 2014 asset transfers from NKBM, Abanka and Banka Celje BAMC estimated their initial fair values, following the valuation methodology used for the first transfers as well. Claims towards 173 debtors were assessed at €165,3 million below transfer values while in 89 cases the fair value was €96,8 million above transfer values. Together with €0,9 million loss from equity and €1,4 million gain from bonds the total fair value of assets taken over was thus €68,0 million or 12,1% lower than the transfer prices which again resulted in initial loss recognition by BAMC.

### BAMC PAID €623 MILLION MORE FOR THE ASSETS THAN THE ESTIMATED MARKET VALUE

Before the transfers of the assets and before approval of the state aid to banks transferring NPL's, the EU estimated the market value of the assets transferred under legislative directions, i.e. the price at which the banks could have sold the assets in a "fire sale" process to a buyer other than BAMC. The difference between these market values and the transfer values is documented in EU state aid decisions regarding the four banks. The market values were estimated to be €623 million less than the transfer prices.

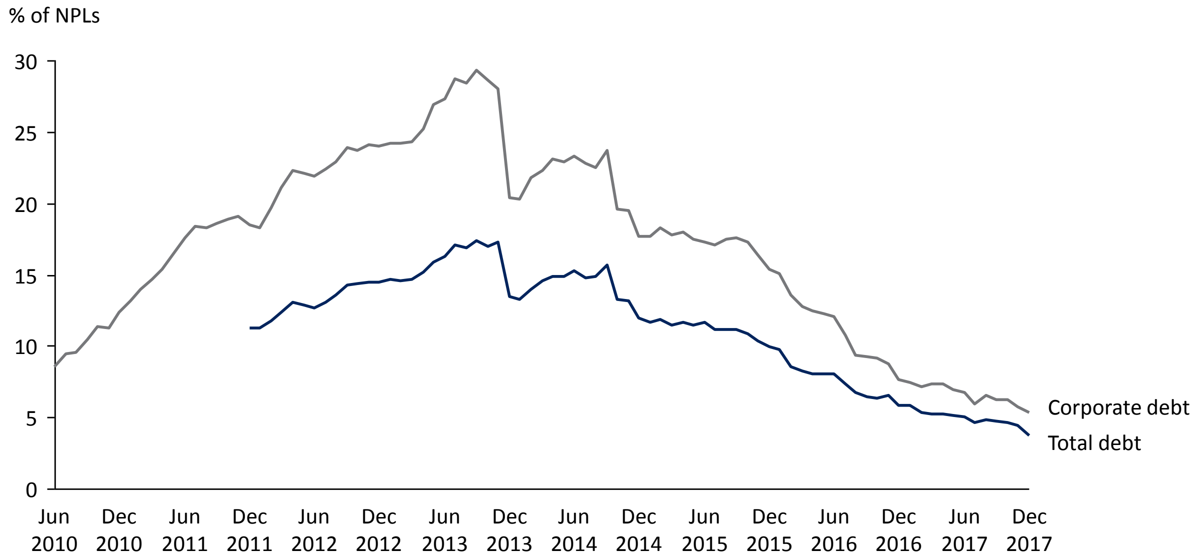
In order to complement its exposures to certain debtors, in 2014 BAMC purchased claims (loans) totalling €172,9 million from Factor banka and Probanka in the amount of €38,6 million in arm's length transactions at negotiated prices.

At the beginning of 2016, based on Government decision, BAMC merged Factor banka and Probanka. By absorbing the two former banks, BAMC effectively became the direct owner of all assets of the two merged companies in the amount of €417,0 million and took over all of their outstanding liabilities, including five subsidiaries registered in Slovenia. BAMC assessed the value of the merged assets upon initial recognition to fair value. The fair values of merged assets according to BAMC methodology were €67,0 million lower than their book values according to bank valuation methodology. Together with the cumulative negative net equity of the two companies of €8,6 million and provisions for lawsuits in the amount of €3,8 million, the total negative difference of €79,4 million in the BAMC financial statements was disclosed as a return of capital to the owner. All the above mentioned effects are part of the corrections to initially invested capital as presented in Table 2.

## Status of NPLs in Slovenia

The share of NPLs in the Slovenian banking sector is continuously decreasing from its peak at 18,1% (28,0% for corporate debt) in late 2013, just before the transfers of first assets to BAMC. At the end of 2017 total claims over 90 days in arrears amounted to €1,3 billion (share of 3,7%) with NPLs' share in corporate debt (making up over a half of total in value) at 5,3%. Industry-wise, construction industry is still displaying a fifth of NPLs (20,0%), followed by agriculture, forestry and fishing (8,6%) and accommodation and food service activities (8,3%). On the other hand, transportation and storage industries and utilities' industry have less than 1% of NPLs among claims towards them. Apart from the latter, all other industries have undergone a 20-50% reduction in the share of NPLs during 2017.[4]

Figure 9: Movement of the share of NPLs in the Slovenian banking sector




**Note:** NPLs as claims overdue over 90 days.

**Source:** Banka Slovenije: Mesečna informacija o poslovanju bank, August 2010 – February 2018. Total debt % data not available prior to December 2011.

[4] All data (except for 2013) from Mesečna informacija o poslovanju bank, February 2018.

# BUSINESS REPORT

## Corporate governance statement

In accordance with the provisions of the fifth paragraph of Article 70 of the ZGD-1 and the Corporate Governance Code (hereinafter: the Code), the Bank Assets Management Company hereby issues the following corporate governance statement as part of the annual report.

### Statement of compliance with the Corporate Governance Code

The BAMC's Board of Directors hereby declares that it complied with the Corporate Governance Code, as amended on 27 October 2016, to the maximum extent possible in 2017, with the exception of specific provisions based on BAMC's unique status (its sole shareholder being the Slovenian government), provisions that are governed by the law (ZUKSB) and provisions that the company has otherwise adopted in its Articles of Association and bylaws, as well as provisions of the Code in cases where non-binding actions are not specified in its bylaws or where specific actions are not defined as legal obligations.

In 2017 BAMC also complied with the Corporate Governance Policy of BAMC adopted by the Board on 20 February 2015 and amended on 29 November 2016.

In companies where BAMC, has a direct or indirect stake in the share capital or in the voting rights in the company to a large extent (and depending on the legislation and organizational options in companies), BAMC follows the principles and recommendations of the Code of corporate governance. BAMC's goal is to establish a clear and transparent governance system that restores the trust of both domestic and international investors, employees and the general public in the Slovenian corporate governance system. The full text of the Corporate Governance Code is available on the website of the Ljubljana Stock Exchange (http://www.ljse.si/cgi-bin/jve.cgi?doc=8377) and the Corporate Governance Policy of BAMC is available on the BAMC website (http://www.dutb.eu/en/equity.aspx).

### Information regarding the functioning and key competences of the company's General Meeting and description of shareholder rights[5]

Key elements of BAMC's corporate governance structure are defined by ZUKSB and Articles of Association. BAMC has a one-tier corporate governance system consisting of a General Meeting and a Board.

ZUKSB changed some provisions regulating the role of the Board, General Assembly and gave some additional supervisory powers to the Ministry of Finance, but strictly excludes its right to interfere with individual cases and business decisions. BAMC reports monthly to the Ministry of Finance on the basis

[5] Information regarding the functioning and key competences of the company's General Meeting and description of shareholder rights relate to ZUKSB and Articles of Association valid in 2017.

of the Guidelines. Furthermore, the Ministry has the power to request of BAMC any and all documents and information required for supervision, with the exception of documents and information related to confidential relations.

### *GENERAL MEETING*

The tasks and competences of the BAMC's General Meeting are vested in the Government as the sole shareholder.

The General Meeting makes decisions on basic matters concerning BAMC, in particular:

- the adoption of the company's Articles of Association and amendments thereto,
- the adoption of the annual report,
- decisions regarding the use of distributable profits,
- decisions regarding the appointment and dismissal of non-executive members of the Board,
- decisions regarding the granting of discharge to the members of the Board,
- decisions regarding measures to increase and decrease capital, and
- decisions regarding the appointment of an auditor.

The General Meeting is convened by the Board through a simple majority vote. The convening of the General Meeting must be published minimum 30 days prior to the meeting. The shareholder duly entered in the central register of book-entry securities at the end of the fourth day prior to the scheduled date of the General Meeting is entitled to participate at the General Meeting and exercise voting rights. The Government of Republic Slovenia, in the capacity of the General Meeting of BAMC, carries out General Meetings, even if the General Meeting is not convened by the Board, or if provisions of the law governing companies have not been complied with the content of the meeting, the published agenda or the referenced periods.

The General Meeting was convened two times in 2017.

## INFORMATION REGARDING THE COMPOSITION AND ACTIVITIES OF MANAGEMENT OR SUPERVISORY BODIES AND THE COMMITTEES THEREOF[6]

### *BOARD OF DIRECTORS OF BAMC*

BAMC's Board comprises seven members, four of whom are non-executive directors[7] and three of whom are executive directors[8]. The non-executive directors are appointed and recalled by the

[6] Information regarding key competences of the Board relate to ZUKSB and Articles of Association valid in 2017.

[7] On 5 January 2017 the Government in the capacity of the General Meeting of BAMC appointed Miha Juhart and Mitja Križaj as non-executive directors for the period of five years with their mandate beginning on 28 January 2017.

The term of the non-executive director Janez Širovnik ended on 31 December 2017. Since then BAMC has three non-executive directors until the fourth is appointed.

[8] On 24 October 2017 non-executive directors appointed Andrej Prebil and Jože Jaklin as executive directors with their five-year term beginning on 1 January 2018.

The term of executive directors Janez Škrubej and Aleš Koršič ended on 31 December 2017.

Government, where three non-executive directors are proposed by the ministry responsible for finance and one is proposed by the ministry responsible for the economy. Executive directors are selected on the basis of a public call for applications. Executive directors are appointed and dismissed by the non-executive directors. With the recall of the executive director shall cease his/her membership in the Board. Each member of the Board is appointed individually. Members of the Board who are not executive directors, shall have the powers of the Supervisory Board according to the law governing commercial companies and shall not manage BAMC.

Members of the Board are appointed for the period of five years. Executive directors serve on a full-time basis as employees of BAMC. The function of Board members who were appointed before the amended ZUKSB ceased on 31 December 2017.

The main competences of the Board include:

- management of and control over the company's operations,
- the appointment and recall of the Chairman and Deputy Chairman of the Board from among its non-executive members,
- representation of the company in the conclusion of contracts with individual members
- the approval of the Rules of Procedure for the Board and Executive Directors,
- giving consent to the decisions/proposal of credit committees,
- the appointment of members of the Audit Committee, Remuneration Committee and other committees established by the Board,
- the formulation of a proposal for use of distributable profit,
- verification of the annual report (approval of the annual report is at the discretion of the General Meeting),
- compilation of a report on the review of the annual report for the General Meeting,
- convening of the General Meeting,
- submission of a proposal to the General Meeting regarding the appointment of an auditor based on the Audit Committee's recommendation,
- the appointment and recall of the company's procurators,
- approving financial plan,
- the adoption of the business strategy and policy in accordance with Article 10a of the ZUKSB, and
- other competences in accordance with the law, Articles of Association and resolutions of the General Meeting.

Executive directors represent the company and act on its behalf. Executive directors represent the company individually and without limitations for the relevant area or areas of operations assigned in accordance with the Board resolution. The Board may pass a resolution to define specific legal transactions in which executive directors must represent the company jointly.

Executive directors are competent and responsible for the following:

- managing the company's day-to-day operations,
- compiling the annual report,
- preparing the financial plan,
- drawing up the business strategy,
- registering subscriptions and submitting documents to the court register,
- maintaining the books of account, and
- executing transactions in line with the Articles of Association.

### *BOARD COMMITTEES*

Board constituted Audit Committee, Remuneration Committee and Accreditation Committee to assist and advice the Board in decision-making and in its supervisory function.

All Board members are members of the Board Credit and Investment Committee as well.

### *AUDIT COMMITTEE*

The Audit Committee (hereinafter: AC) is appointed by the Board. All members of the AC except the independent expert (or experts) are members of the Board. The AC consists of a minimum of three members, while two members represent the quorum. The Board appoints a chair of the AC from among its ranks. At least one AC member should be an independent expert in accounting or auditing.

The AC should meet at least four times per year. The practice at BAMC is that AC meetings are convened before each regular Board meetings. The Chairman of the Board, other AC members, the CEO, CFO, Head of internal audit and representatives of external auditors, and other persons may attend the meeting by invitation extended by the AC. Each year, the AC meets at least once with external and internal auditors without the management team present.

The Board mandated the AC to:

- investigate every activity within its purview;
- request all information it requires from any employee, while all employees are under instructions to accommodate any request made by the AC, and
- procure external legal and independent professional advice at the company's cost, and ensure the presence of external associates with appropriate experience and in-depth knowledge, if they feel it necessary.

Key scope of work and responsibilities of the AC relate to financial reporting, internal control and risk management, internal audit, compliance and external audit.

### *REMUNERATION COMMITTEE*

The Remuneration Committee is an internal BAMC body and its function is part of the corporate governance structure of BAMC itself. The scope of the Remuneration Committee's responsibilities is to set up an appropriate remuneration policy for BAMC staff in the first phase and to help prepare the framework for tracking employee performance. In general, the Remuneration Committee is responsible for preparing the decisions related to remuneration.

The Committee has at least three members:
- two non-executive directors of BAMC, and
- external member(s), who is/are expert(s) in management performance evaluation and remuneration outside of BAMC.

### *Accreditation Committee*

The Accreditation Committee is an internal BAMC body which selects possible candidates for supervisory board membership in other companies. It is therefore not a committee as certain similar bodies envisaged by the Companies Act (e.g., the Audit Committee) whose function would be part of corporate governance of BAMC itself. The Accreditation Committee selects suitable internal or external candidates, based on the internal criteria and conditions as well as the needs of the company's supervisory board, given the challenges the company is faced with.

The Committee has at least the following members:
- one executive director of BAMC who is also the Head of Asset Management,
- a non-executive director of BAMC,
- an external member, who is an expert on corporate governance outside of BAMC.

### *The Board Credit and Investment Committees*

The Board established the Executive Credit and Investment Committee (ECIC) and the Operative Credit and Investment Committee (OCIC) to decide on claims owned or managed by BAMC and to decide on matters related to acquisition of, investment into and disposal of individual assets, related to said exposures. The Board also has the Board Credit and Investment Committee (BCIC).

In order to increase the efficiency of work, the Board transferred decisions on the loan portfolio and the real estate and equity investments owned by BAMC to the executive and operational levels. BCIC only gives consent to decisions/suggestions of ECIC on taking the decisions which are complex, have significant value or policy impact, are precedential, strategic, high risk or have a high public sensitivity. Such decisions are firstly taken on the executive level and a consent is given on BCIC level. Other decisions are normally taken in executive and operational level committees.

The delegation and decision powers of BAMC's case committee structures is clearly defined in BAMC's policy Process and decision-making powers of the committees. This policy was approved by BAMC's owner, the government of the Republic of Slovenia and is valid from 16 March 2016.

The BCIC consists of all Board members of BAMC. The BCIC has quorum if at least half of non-executive directors and if at least half of all members are present.

### KEY FEATURES OF THE COMPANY'S INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN CONNECTION WITH THE FINANCIAL REPORTING PROCESS

Internal control mechanisms help the company achieve its objectives and are an integral part of the values and principles formulated by the management. They are applied in everyday operations in the form of policies, guidelines, processes, procedures and activities with the aim of managing risks within acceptable limits. All employees are involved in the internal control system, with specific groups of employees holding special roles and responsibilities. The Board promotes and monitors the functioning of the internal control system, while executive directors are responsible for developing and updating the internal control system. Operational managers formulate, implement and monitor internal controls in their areas of responsibility, while other employees carry out their responsibilities as agreed. A number of central registers for follow-up and reporting on functioning of specific controls are managed by compliance, internal audit and controlling and risk units. The internal control system is an integral part of all processes, while a transparent mechanism of control points facilitates regular reviews of processes and the assessment exposure to risks. The risk management and control mechanisms are presented in detail in the Risk management chapter (page 65).

*EXTERNAL AUDIT*

BAMC's financial statements for 2017 were audited by KPMG Slovenija, d.o.o. As part of its audit of the financial statements, the external auditor reports its findings to the Board and the Audit Committee.

Audit costs are disclosed in Note 29 to the financial statements.

# BAMC'S MISSION AND STRATEGIC GOALS

## MISSION OF BAMC AS DEFINED IN THE GUIDELINES

BAMC's mission is defined in the Guidelines and in line with the mission the Board of BAMC has adopted BAMC's key objectives and strategic goals.

- Implement the measures to strengthen the stability of banks, adopted by the Government of the Republic of Slovenia.
- Promote trust in the financial system and operate by the rules of the business-financial profession and the highest ethical management standards, avoiding any conflict of interest.
- Implement a proactive, cooperative and holistic approach to the restructuring of companies.
- Being an active asset owner.
- Manage the assets in a way that would allow exiting at the best possible price.

## BAMC BUSINESS STRATEGY 2016-2022

BAMC Business Strategy 2016-2022, adopted by the Board and approved by the Government in late 2016, is a key corporate document defining the following key objectives and strategic goals of BAMC:

BAMC's financial goal is to maximize the return to state and ultimately to the taxpayer and in this respect:

- (1) Redeem the state guaranteed bonds issued to pay for the transferred assets, and (2) in addition, generate the required return on the initially invested equity by the Republic of Slovenia.
- Consistent with the previous objective, act in the way which will aim to restructure companies when economically justifiable and to contribute to a renewal of sustainable activities in the property and other asset markets in Slovenia.
- Manage assets intensively and invest in them so as to optimise their income-producing potential and disposal value.

Loans will constitute the bulk of BAMC's assets throughout its lifetime. However, as repayments and refinancing of debt of successfully restructured companies will reduce the share of restructuring cases in the portfolio, the active management of own (repossessed) and collateralised real estate gains importance over time. BAMC's own financing will closely follow the cash flows from managing its assets and will minimise financing costs through tight liquidity management. In accordance with ZUKSB the lifespan of BAMC is limited to the end of 2022. For more details on BAMC Business strategy 2016-2022 see:
http://www.dutb.eu/SiteAssets/en/croporate_documents/BAMC%20Business%20strategy%202016-2022%20with%20Business%20plan%20summary.pdf

For effective strategic planning, monitoring and reporting, the Government and BAMC have defined a set of Key Performance Indicators, i.e. KPIs, as presented in the financial overview section (page 55).

## SIGNIFICANT EVENTS IN 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 surplus 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 d.d. and Sava TMC d.o.o., 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 k.d.d. and Vizija Holding Ena k.d.d. refinanced most of their liabilities towards BAMC. Together 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 numerous successful transactions, cash generation has surpassed the statutory goal of at least annual 10% already in May 2017. Additionally, the 50% threshold of cumulative cash generated since inception of BAMC was also surpassed in May 2017.

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

On 15 September 2017 BAMC made an early repayment of €31,0 million of a bilateral loan.

On 17 October 2017, BAMC obtained the Anti-Corruption Compliance System Certificate by ETHIC Intelligence Agency, which is the highest level certificate to be awarded. BAMC is the only company in

Slovenia with the aforementioned certificate, which is acquired only by companies with a high level of business integrity, transparency and prevention of conflict of interests at all levels of the company's operations. More on the certificate can be found at:
http://www.ethic-intelligence.com/certification/anti-bribery-compliance-certification/21535-bank-assets-management-company-bamc-slovenia/

On 24 October 2017 non-executive directors appointed Andrej Prebil and Jože Jaklin as executive directors with their five-year term beginning on 1 January 2018.

In October and November 2017, another debtor, CGP d.d., refinanced its remaining liabilities, thus completely repaying all of its over €30 million exposure, transferred to BAMC.

In addition to cases, stressed above, seven more debtors completely refinanced their obligations in 2017 with only these final transactions totalling almost €20 million.

On 15 December 2017 maturing DUT03 and DUT04 bonds were repaid in full in the amount of €548,7 million, together with interest from both bond issues in the amount of €4,0 million. Also a maturing €169,0 million loan was repaid on the same day. Repaid liabilities were mostly refinanced with new and less expensive sources.

On 19 December 2017 BAMC received the “Draft audit report on the regularity and efficiency of the operations of BAMC d.d. in 2014 and 2015”. A written response was prepared and sent to the Court of Audit in January 2018, stating BAMC comments to the Court of Audit findings. After a clarification meeting, the “Proposal audit report on the regularity and efficiency of the operations of BAMC d.d. in 2014 and 2015” was received and commented upon by BAMC in February 2018. By the time of BAMC Annual report 2017 preparation the final audit report on the regularity and efficiency of the operations of BAMC d.d. in 2014 and 2015 has not been published by the Court of Audit.

## EVENTS AFTER THE ACCOUNTING PERIOD

On 9 February 2018 BAMC made a partial early repayment of €28,5 million of syndicated long-term loan.

On 7 March 2018, as part of the European Semester Winter Package, the European Commission published the Country Report Slovenia 2018 in which it found that Slovenia has made substantial progress in country-specific recommendations in two areas specifically related to BAMC's operations: sustainable resolution of non-performing loans and implementation of BAMC's strategy. The report can be found at:
https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-slovenia-en.pdf

On 21 March 2018, the Government, acting in the capacity of the BAMC's General meeting, passed a decision instructing BAMC to execute a compensated transfer of ownership of its equity stake in KOTO d.o.o., Ljubljana, to the Republic of Slovenia. The purchase price for the equity stake was set at €1,6 million and is increased by an additional €1,3 million, subject to the suspensive condition regarding the waiver of the contractual obligation to reach the target net debt/EBITDA for 2017. In BAMC's judgement the above purchase price does not reflect the market value of the company and thus substantially deviates from the carrying value of the equity stake as at 31 December 2017.

## MANAGEMENT OF ASSETS

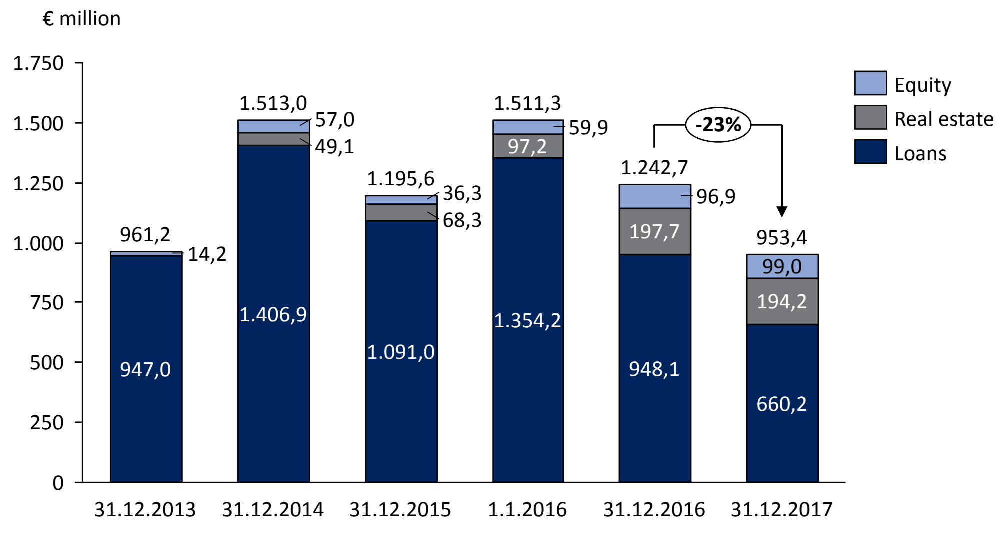
BAMC's assets are mostly managed individually, at the level of a claim towards a specific debtor, equity investment in a specific company or individual item of real estate. Where BAMC owns both claims and equity in the company, the maximization of enterprise value is targeted, applying different strategies. 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 31 December 2017 BAMC had almost €1,0 billion of assets at fair value under its management, a reduction of 23% compared to the previous year-end. The majority (69%) was represented by loan claims, followed by real estate (20%) and equity holdings (10%). The size of the real estate portfolio remained relatively unchanged despite record sales due to considerable additional repossessions of collateral made by BAMC in 2017, in line with the new strategic initiatives in the field of real estate.

FIGURE 10: ASSETS UNDER MANAGEMENT



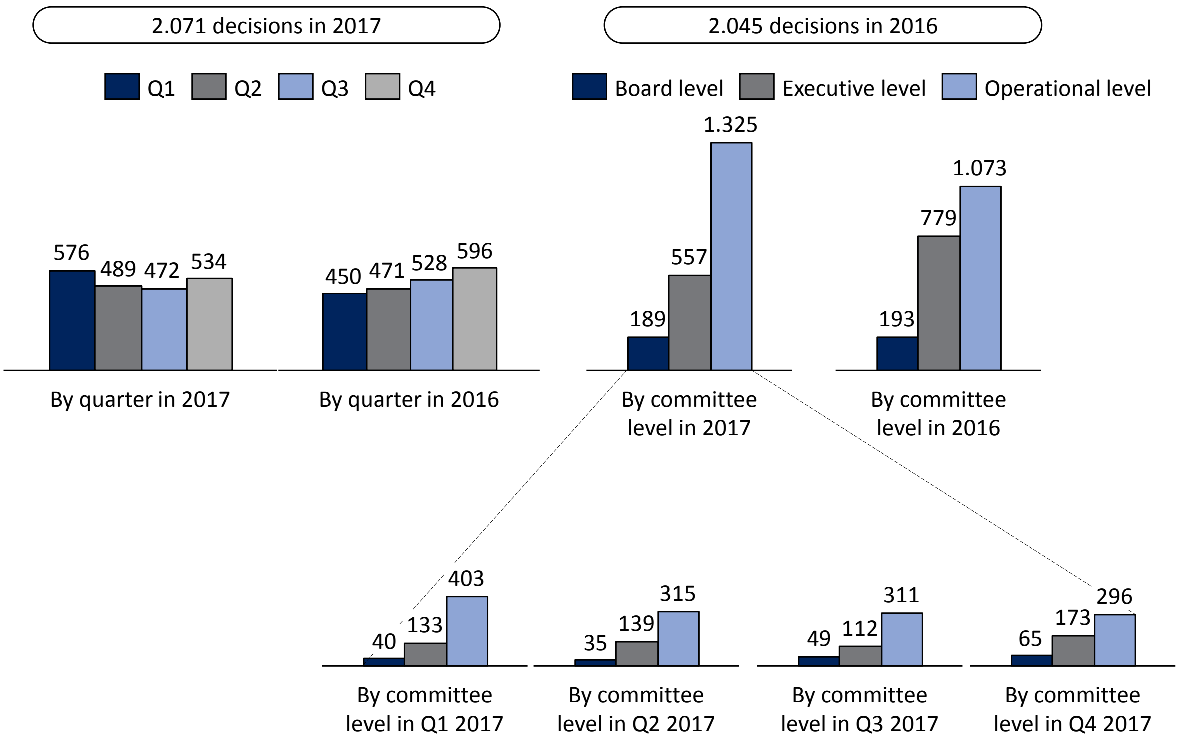

**NOTE:** 1 January 2016 displays the fair value of the portfolio at the merger of Factor banka and Probanka into BAMC. Since the merger BAMC also manages a minor leasing portfolio which is presented together with "Loans".

## 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 2.071 credit and investment decisions on operational, executive and board levels in 2017. As seen from the breakdown below, changes in the decision-making system from 2016 resulted in an increased number of delegated decisions taken at the operational level, increasing its power and responsibility, while the executive level maintained control over and concentrate on high volume/impact and complex cases (approximately 10% of cases representing almost 80% of portfolio value).

FIGURE 11: BREAKDOWN OF DECISIONS TAKEN

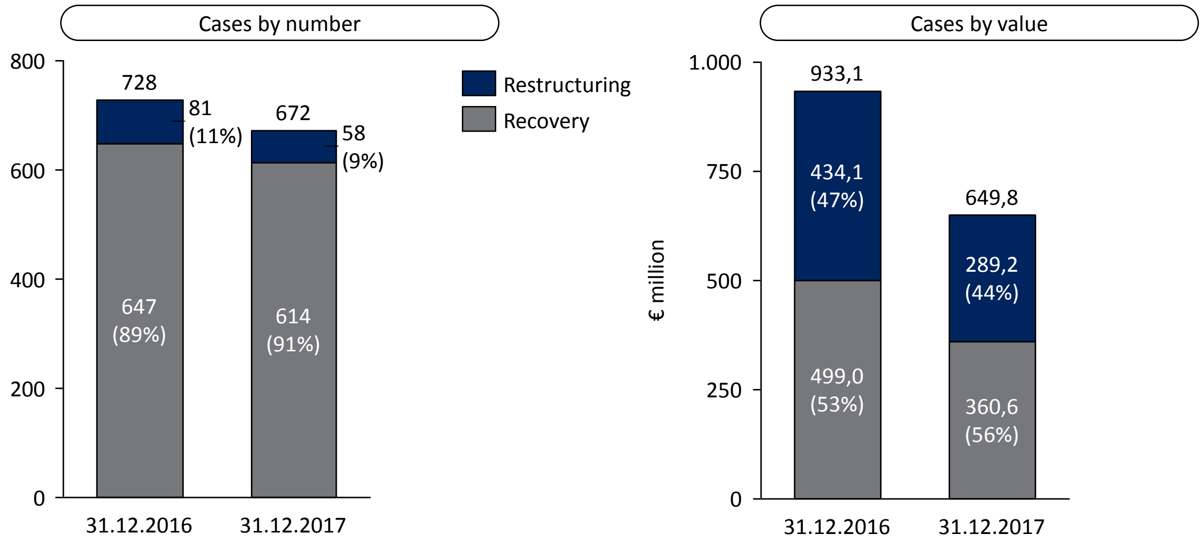


## LOAN PORTFOLIO MANAGEMENT

BAMC manages debtors of various exposures in its loan portfolio. 748 cases with smaller exposures were valued on a group level and 672 debtors were valued individually. These larger cases are presented in more detail below.

Out of 672 individually valued claims at year-end 2017, 58 are having a predominant restructuring strategy and 614 cases a recovery one, for valuation purposes.[9] While the number of cases compared to the end of 2016 decreased by 8%, the value of the portfolio decreased by 30%, displaying a trend of faster liquidation of larger cases while a number of smaller-value cases remain in BAMC's portfolio. The presented loan cases' estimated fair value of €649,8 million corresponds to 16% of the total gross exposure of almost €4,0 billion.[10]

FIGURE 12: INDIVIDUALLY VALUATED CASES BY STRATEGY




**NOTE:** The value of cases reported differs from total loans' value reported in Figure 10 and elsewhere. This and the following figures present breakdowns of individual valuations while smaller exposures are valued as well but are not reported here.

[9] 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 these, 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.

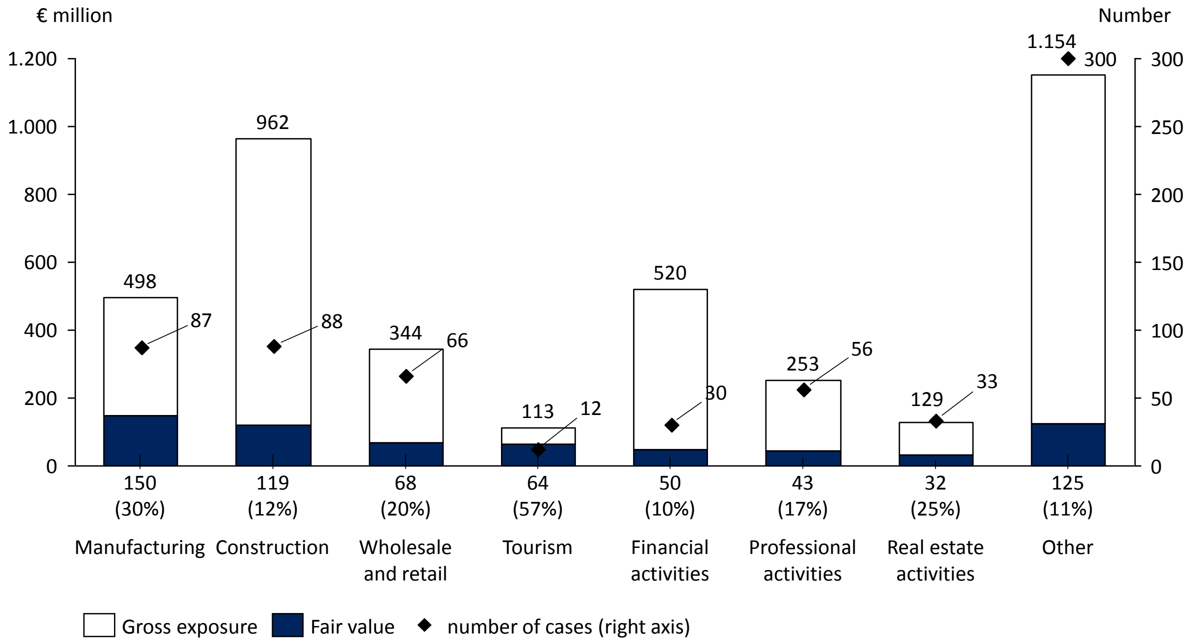
Note that BAMC may, conditioned on not worsening its creditor position, pursue a restructuring strategy also in cases termed as recovery for valuation purposes, see Progress in restructuring cases (page 3).

[10] It has to be noted that the main reason for the apparent deterioration in the ratio of net to gross exposure is BAMC's no partial write-off policy under which the whole remaining gross exposure of the case is being recorded until the end of all formal proceedings also in cases where there is no collateral or other repayment prospects left.

### Industry characteristics

Almost a quarter of all gross exposure is related to the construction industry, but in terms of fair value it is surpassed by manufacturing industry with the latter accounting for almost a quarter of total loan portfolio fair value. The two are also represented with the highest number of debtors and are followed by wholesale and retail industry and tourism with the latter estimated to hold almost 60% of value compared to gross exposure in a small number of cases.

Figure 13: 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.

It has to be noted that the main reason for the apparent deterioration in the ratio of net to gross exposure is BAMC's no partial write-off policy under which the whole remaining gross exposure of the case is being recorded until the end of all formal proceedings also in cases where there is no collateral or other repayment prospects left.

### Purchases of claims and shot-term financing

In 2017, following economically-sound analyses optimising its exposure and creditor positions, BAMC acquired additional claims towards six debtors in the value of €3,8 million (€22,2 million gross) and provided justified shot-term loan financing towards five companies in the value of €4,7 million.

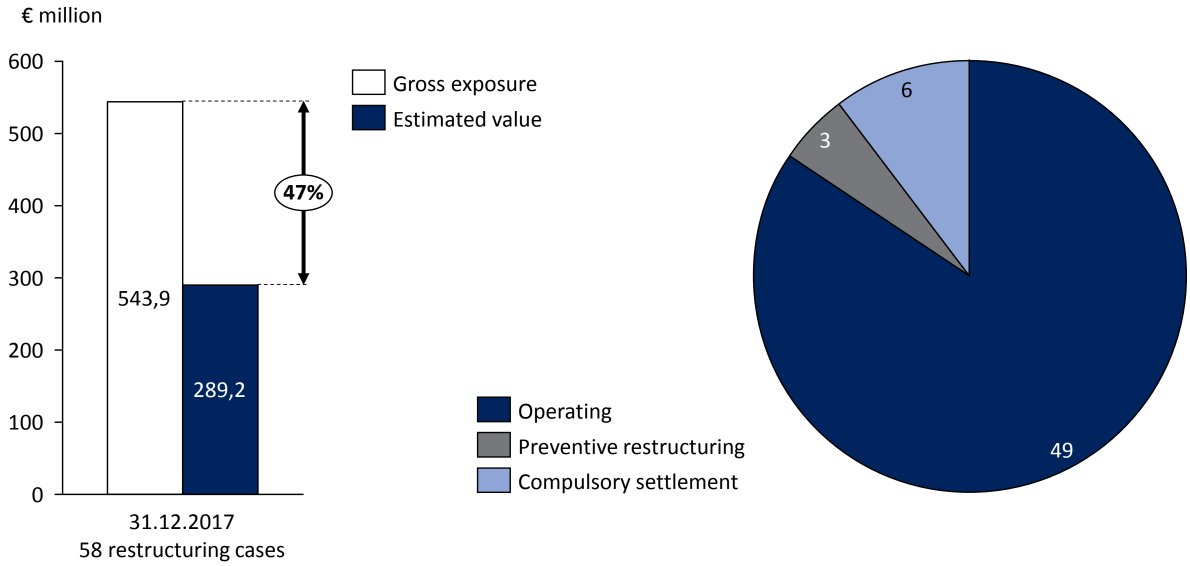
## CORPORATE RESTRUCTURING

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.

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. Next to financial, operational restructuring may also be required.

At the end of 2017, BAMC evaluated 58 companies as restructuring cases for valuation purposes. With an outstanding gross debt to BAMC in the amount of €543,9 million, the estimated fair value of the aforementioned claims was €289,2 million. Thus, a portfolio value difference to gross claims of 47% suggests much more value can be extracted from the management of restructuring cases than from the recovery cases (which have an estimated portfolio value haircut to gross claims of 89%).

FIGURE 14: RESTRUCTURING CASES OVERVIEW

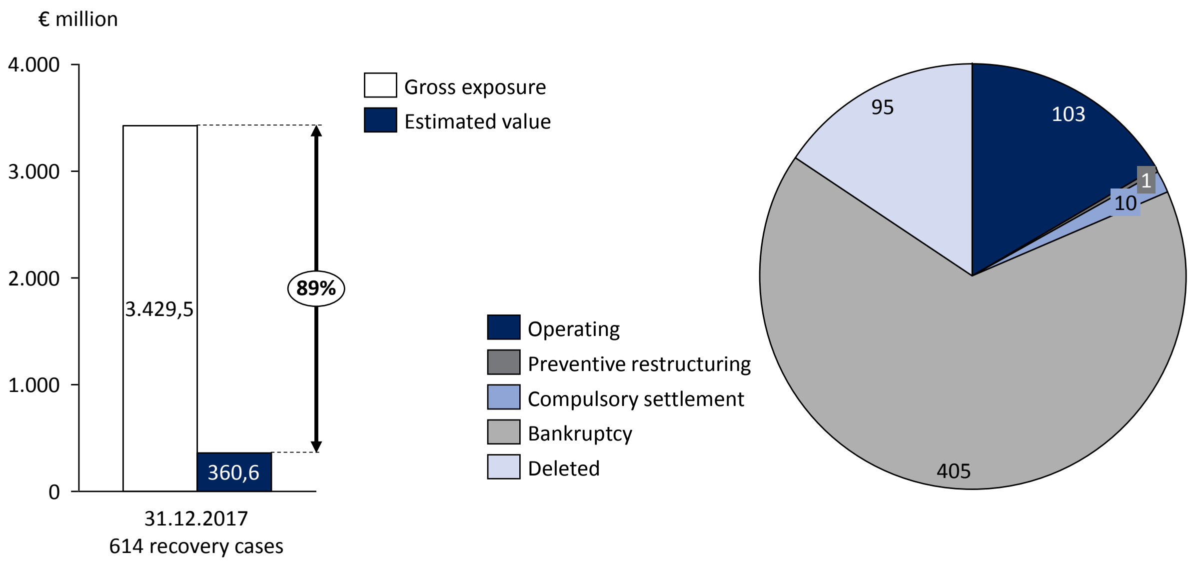


### LOAN MANAGEMENT USING THE RECOVERY STRATEGY

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 the end of 2017, BAMC was valuing 614 claims as recovery cases, against which it held €3,4 billion in gross claims, the fair value of which was estimated at €360,6 million. Compared with companies in restructuring, recovery companies as a group proved to have a substantially lower potential of repayment as the fair value of claims towards them was estimated at 11% of gross exposure while this estimate amounted to 53% of gross exposure in restructurings.

FIGURE 15: RECOVERY CASES OVERVIEW




**NOTE:** It has to be noted that the main reason for the apparent deterioration in the ratio of net to gross exposure is BAMC's no partial write-off policy under which the whole remaining gross exposure of the case is being recorded until the end of all formal proceedings also in cases where there is no collateral or other repayment prospects left.

## NOTABLE PROGRESS IN BOTH RESTRUCTURING AND RECOVERY CASES

Out of 136 cases with a pursued (effective) restructuring strategy, 46 (34%) were already closed by the end of 2017, half of them (23) successfully completed in the last year (see Figure 3 for details). In addition to the ones mentioned below, notable other examples include: Ilana d.d., Imparo d.o.o., Sportina d.o.o., Unior d.d., Vesol d.o.o. etc. BAMC has also closed 45 recovery cases in 2017, bringing the total number of closed recovery cases to 78. Together with 121 cases in after-bankruptcy procedures (meaning that the bankruptcy proceedings of the original debtors have been completed) this represents 32% of all 628 individual recovery cases.

### CIMOS

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.

### SAVA GROUP

Following the Government's decision the claims towards Sava d.d. and bonds issued by it were transferred to SDH d.d. and KAD d.d. in 2016. After this transfer BAMC was exposed only to Sava Turizem d.d. and Sava TMC d.o.o. (100% owned by Sava Turizem d.o.o.). In 2017, Sava Turizem d.d. already had a sustainable level of debt and profitable business activity.

The claims towards Sava Turizem were transferred to BAMC due to the insolvent owner – Sava d.d. After the transfer of BAMC's claims towards Sava d.d. to SDH d.d. and KAD d.d. and the confirmation of the compulsory settlement by the new creditors, the ownership of Sava Turizem d.d. did not pose any significant risk to commercial banks, so the banks decided to refinance its debt. In May 2017, BAMC was repaid in the full amount of total gross exposure.

## VIZIJA GROUP

From May to August 2017, the holding companies Vizija Holding k.d.d and Vizija Holding Ena k.d.d refinanced and fully repaid their exposure towards BAMC in several tranches. On the other hand, a long-term financial restructuring plan was negotiated and signed with the construction company CGP d.d. in June 2017.

After stabilizing the financial situation of the company and rescheduling the repayment of financial obligations, CGP d.d. managed to obtain financing at commercial banks and at the end of October 2017, the debtor succeeded to repay the total amount of gross exposure to BAMC.

## CLAIMS TOWARDS BIO POWER PLANTS

High costs are associated with managing claims toward bio power plants, as BAMC has to ensure physical security, it has to provide cleaning and removal of waste material, and conduct agreements with specialist on this field. An important step forward was done in 2017 as one of the claims has been restructured in the compulsory settlement so that the business may continue. One of the bio power plants was sold in bankruptcy procedure, the SPA was signed in August 2017.

## MIP

As the cooperation with former bankruptcy trustee of MIP d.d.-in bankruptcy had been unsuccessful for many years, the credit committee proposed and the Court confirmed a replacement of the bankruptcy trustee. Following the change, sale of MIP complex (real estate and movables) in Kromberk was performed at an auction in autumn of 2017. The sales agent Troostwijk Auctions BV received several thousand offers. The best offer was submitted by the company Pivka perutninarstvo d.d. with the purpose to increase its production capacities, brining several new workplaces in the region. The SPA has been signed on 12 January 2018.

## PORTFOLIO SALE OF CLAIMS TOWARDS NATURAL PERSONS AND SMALL EXPOSURE PORTFOLIO REDUCTION

In April 2017 the process of portfolio sale of claims towards 170 natural persons was successfully completed. Receivables have arisen from credit transactions or transactions on personal accounts and were completely unsecured. Receivables were in delay for more than 1.000 days and were subject to bankruptcy, enforcement or other recovery procedures that were unsuccessful. The debtors were free from assets and completely unresponsive. In these cases no repayment activities have appeared over a longer period of time.

According to the Action plan adopted in July 2017, comprising 1.253 small exposure cases, all planned activities were carried out for 914 cases (73% of all). Within already implemented activities the small exposures portfolio has already been reduced by 684 cases. Also the portfolio sale procedure for additional 194 cases is already in progress.

## 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, whereby BAMC regardless of form of its original claim (debt or equity) 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. Additionally, a substantial equity portfolio was received in 2016 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 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 was 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.

TABLE 4: DEBT TO EQUITY CONVERSIONS IN 2017

| (in € million)<br>**Company** | **Nominal value of conversion into other company's equity** |
|---|---|
| Zvon ena holding d.d. | 3,4 |
| Zvon dva holding d.d. | 0,3 |
| **Total** | **3,7** |

BAMC's equity management in 2017 was engaged in the following activities:

- managing minority ownership exposures (e.g., monitoring the business results of the companies, attending general meetings of shareholders and executing ownership rights in line with ZGD-1 etc.),
- in majority owned companies the equity department has supported and worked with the credit department in active monitoring of the progress of financial and 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 the Act Governing the Remuneration of Managers in Companies with Majority Ownership held by the Republic of Slovenia regarding remuneration of management,
- executing activities in cases where the sale process has been started (M&A activities),

- considerable time was also dedicated to managing nine majority owned real estate SPV's and six minority equity exposures abroad, given the complexity of the legal environment and the structure of the portfolio.

BAMC's corporate governance continued with support to ongoing business and financial restructurings in majority owned companies through consistent and proactive:

- monitoring of business results and regular Corporate Governance Risk Assessments;
- assessment of work of Supervisory Boards, Procurators and Directors.

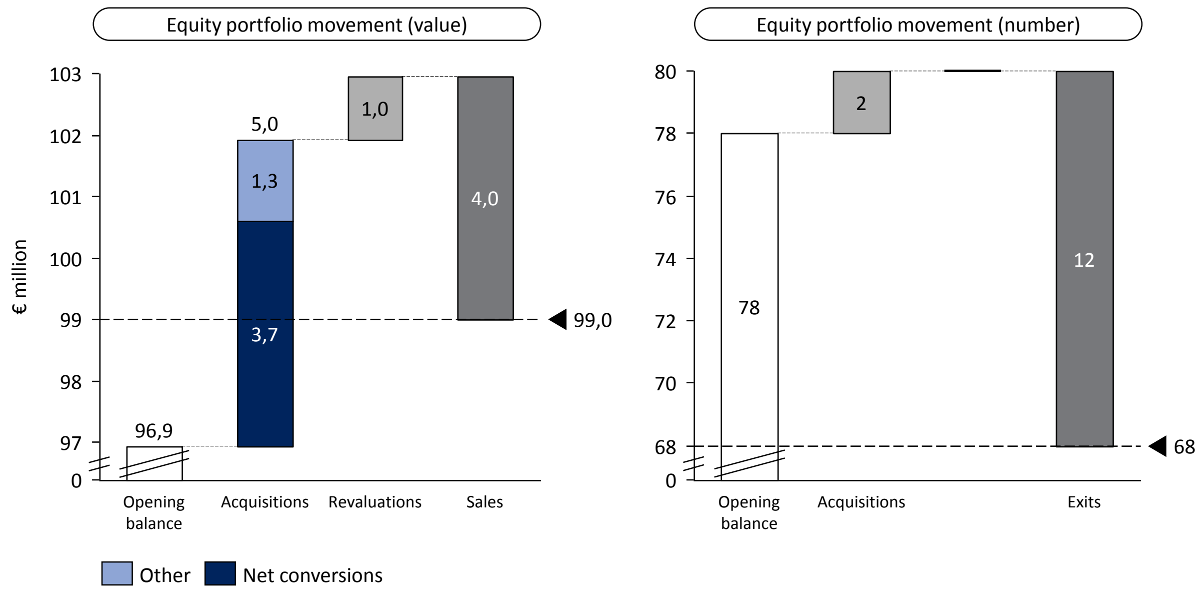
TABLE 5: EQUITY PORTFOLIO CHARACTERISTICS AS AT 31 DECEMBER 2017

| Ownership | Count | Type of holding | Count | Domestic/foreign | Count |
|---|---|---|---|---|---|
| Majority (over 50%) | 25 | Fund | 2 | | |
| Important (over 20%) | 5 | Shares | 25 | Domestic | 40 |
| Minority (under 20%) | 23 | Ownership stake | 26 | Foreign | 13 |
| **Total** | **53** | **Total** | **53** | **Total** | **53** |

**NOTE:** BAMC had equity stakes in 68 companies on 31 December 2017. 15 companies in bankruptcy procedures are excluded from the table.

In 2017 BAMC exited from several minority equity investments and lead the sales process with internal human resources without engaging external financial and legal advisors for two majority owned companies. As at the end of 2017, there were five ongoing sales processes. In 2017 BAMC received a total of €9,1 million in dividends (2016: €1,5 million) and participated at 33 shareholder meetings. As of the end of the year, it managed an equity portfolio worth €99,0 million (2016: €96,9 million).

FIGURE 16: EQUITY PORTFOLIO MOVEMENT




**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).
"Exits" include sold, deleted or otherwise exited equity positions.

## REAL ESTATE PORTFOLIO MANAGEMENT

Real estate accounts for by far the largest amount of collateral for claims transferred to BAMC. Because the quality of the claims transferred to BAMC was poor, and a recovery strategy is therefore the most rational approach for the majority of corporate debtors, the majority of the real estate collateral will also be subject to redemption on the market by official receivers and by the corporate debtors themselves. In such cases BAMC is repaid by means of the proceeds, less the costs of the sale procedures. Alternatively, BAMC may decide to take possession of the real estate 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 fair price. On its web site, BAMC announces all current court auctions of real estate pledged to BAMC being offered for sale in various insolvency proceedings.

### TAKEOVER OF REAL ESTATE

When appropriate selling prices cannot be obtained in real estate collateral recovery procedures or the insolvency procedures are expected to take too long, BAMC itself decides to participate in the (real estate) sale processes and to purchase the real estate by offsetting its claim against the debtor. The basic criterion that BAMC upholds in taking the decision to assume direct ownership of a collateral asset is the assessment of whether direct ownership and management of the real estate, which can also require the development of the real estate and/or repairs, will ultimately result in the sale of the real estate, allowing BAMC to recover more for the real estate than the selling price expected to be achieved in the real estate collateral recovery 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, and whether the real estate is not subject to potential obligations, for example due to pollution and similar concerns.

### BAMC'S REAL ESTATE SALES

Sales of BAMC proprietary real estate in 2017 generated €95,8 million, with over 600 complete or, in most cases, 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 and Nokturno. Major business-industrial portfolio sales include the following real estate projects: The TAM Maribor business facility, part of the KLI Logatec business complex, building land plot in the Brnik industrial zone with a combined worth of approximately €13,2 million. BAMC conducts sales either by itself or through a realtor selected in a public tender.

## CELOVŠKI DVORI

In case of 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 2017, BAMC delivered 221 residential units, 23 business premises and a few storage units and parking spaces to new owners.

BAMC received a total of nearly 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 EUR/m$^2$ of effective surface area, i.e. the apartment living area, excluding balconies, terraces and storage areas. It also successfully sold some units through e-auctions. In 2017, the yield from the sale of the aforementioned project amounted to approximately €33,6 million (excl. VAT).

## NOKTURNO

In the Nokturno residential project, BAMC attended an auction as a bidder and took over 215 apartments and two retail premises with the appertaining two storage units and parking spaces. After extensive investments and maintenance carried out in 2016, BAMC signed 46 contracts of sale based on binding bids received in the first sale process, which took place during the open house viewing period, and later it applied the traditional sales approach, resulting in an additional 110 contracts of sale sold until the end of 2017 (i.e., approximately 11 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 (approx. 25 per month; source: GURS report 2016, p. 33) and considering that these are above-average-sized apartments of a higher quality standard. The average realized market value per apartment unit was approx. 195.000 EUR, or 2.500 EUR/m$^2$ sold surface area, accounting for the relevant factors (both figures inclusive of VAT). By the time of annual report preparation, the number of all apartments sold increased to 190.

In 2017, BAMC successfully finalized the sale of 87 apartments in the business/commercial complex Harmony in Sofia, Bulgaria. Aspect of particular note in this project included the coordination of sales abroad (agency, lawyer, buyers, etc.), finalizing the garage driveway and resolution of a legal dispute with a neighboring building, as well as orderly handover of the apartment units. Compared to the values from the bankruptcy proceedings, BAMC was able to secure a significant premium in the project.

BAMC also successfully sold a few large land plots for residential projects in 2017. The most notable among these are the sales involving the "Kitajski zid" land plot measuring close to 7.000 $m^2$, and two land plots in Maribor, the approximately 39.000 $m^2$ land plot "Kamenškova" near Pekrska gorca and approximately 43.000 $m^2$ land plots "Pobrežje".

### TVM OFFICE BUILDING

BAMC acquired the business complex TVM Maribor in July 2016, together with the equipment for the production of buses as the only bidder at the third public auction in the bankruptcy procedure of TVM d.o.o. During 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 took 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 and later a public call for binding offers was published. The highest bid was submitted by TAM EUROPE d.o.o., and the sales contract was signed in May 2017. In July 2017, the buyer paid the full purchase price, and the complex was successfully handed over. In the process, BAMC substantially increased the value of the real estate.

Other notable sales include a number of large industrial facilities, such as the complex of the former Inde factory in Koper, and the sale of a large industrial complex in Vransko. There is also increasing demand for land plots with communal infrastructure, zoned for business/industrial use, therefore BAMC was able to attract an investor at Ig near Ljubljana to resume development of the failed project. Also, a large land plot near the Brnik airport was sold and will be used for the purposes of the logistics center. The sale of some large business/office spaces was also successfully finalized, both in Ljubljana and Maribor.

## KLI LOGATEC INDUSTRIAL COMPLEX

BAMC took over ownership of the industrial complex of the former furniture factory KLI Logatec in the process of merging Factor banka in 2016. The entire complex spans over an area of 127.771 m$^2$. The area and industrial buildings have been abandoned and poorly maintained for an extended period of time. As a result, the premises were in extremely bad condition and unfit for use. Since the complex in its existing state did not attract any interest of potential investors, Factor banka prepared a plan for dividing it up into smaller units, which would require an investment of communal utilities infrastructure and demolition of derelict buildings, amounting to approx. €4,5 million. The investment was not executed due to the high cost and low price of buildable land plots for industrial purposes in the Logatec area.

In 2017, BAMC received an inquiry from two investors interested in purchasing the land plots in Logatec. BAMC managed to negotiate a proper selling price and sold the whole complex, without the office building. The brownfield development is expected to create some 200 new jobs.

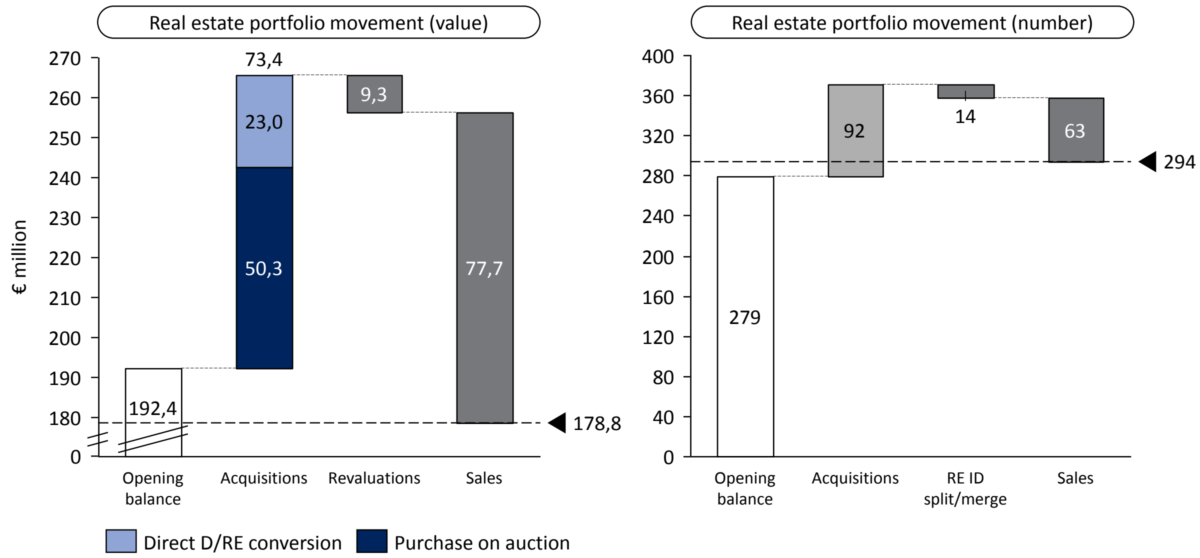
In 2017, BAMC prepared the substantive conceptual framework and the legal documentation supporting the concept of real estate project development through joint investments/partnerships. Contingent on favorable developments in the real estate market and suitable choice of real estate, this endeavor will provide a basis for generating higher added 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 preliminary meetings have already been conducted. For each specific project there will be a 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.

## BAMC'S REAL ESTATE PORTFOLIO

In 2017, BAMC took over 92 real estate units through debt-to-asset swaps, worth a total of € 73,4 million. Major real estate projects taken over comprise of:

- apartment complex in Koper (ES Gorica d.o.o.-in bankruptcy),
- parking garages at Kotnikova and Metelkova ulica, Ljubljana,
- Rožna dolina land plot, Ljubljana,
- the building land plot PC Brnik ,and
- the gravel pit area near Podutiška cesta, Ljubljana.

FIGURE 17: REAL ESTATE PORTFOLIO MOVEMENT




**NOTE:** "Revaluations" also include increase in value due to investments.

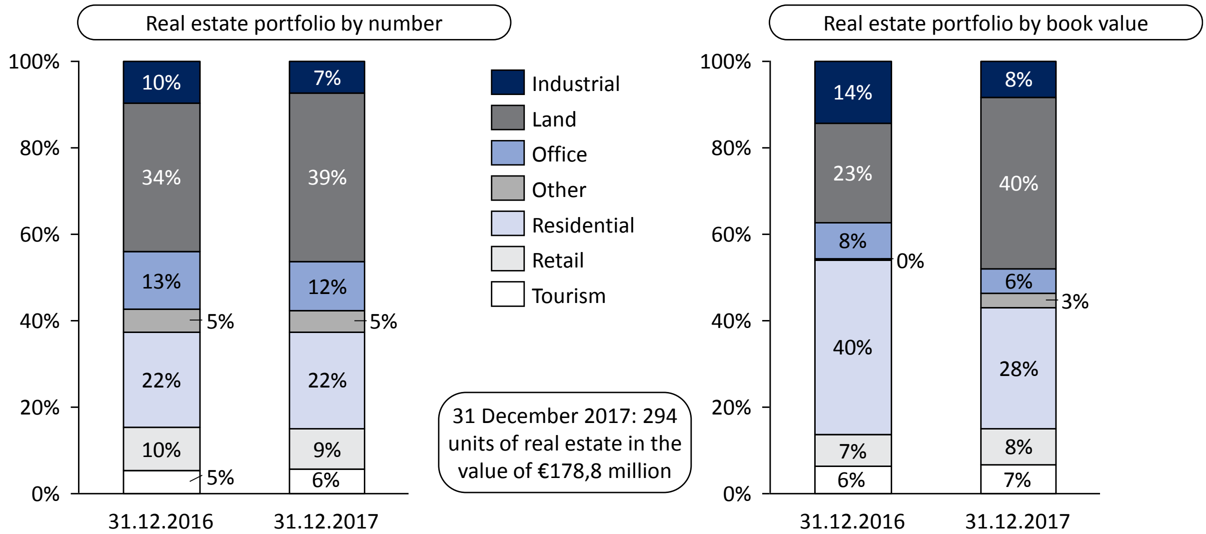
Only real estate that has been entirely taken over by BAMC is presented in this figure. The difference to the balance sheet real estate value of €194,2 million is in the latter including real estate in the process of repossession, advance payments and minor equipment assets.

"Sales" value in the figure realte to costs of invetories sold, i.e., the book value reduction of the real estate portfolio. Actual inflows received for these sales amounted to €95,8 million (see also Table 10).

Only completely sold real estate units are reported in sales number, while many more units were partly sold (e.g., some of the apratments in an apartment buliding) but the unsold part of the unit is still in BAMC ownership.

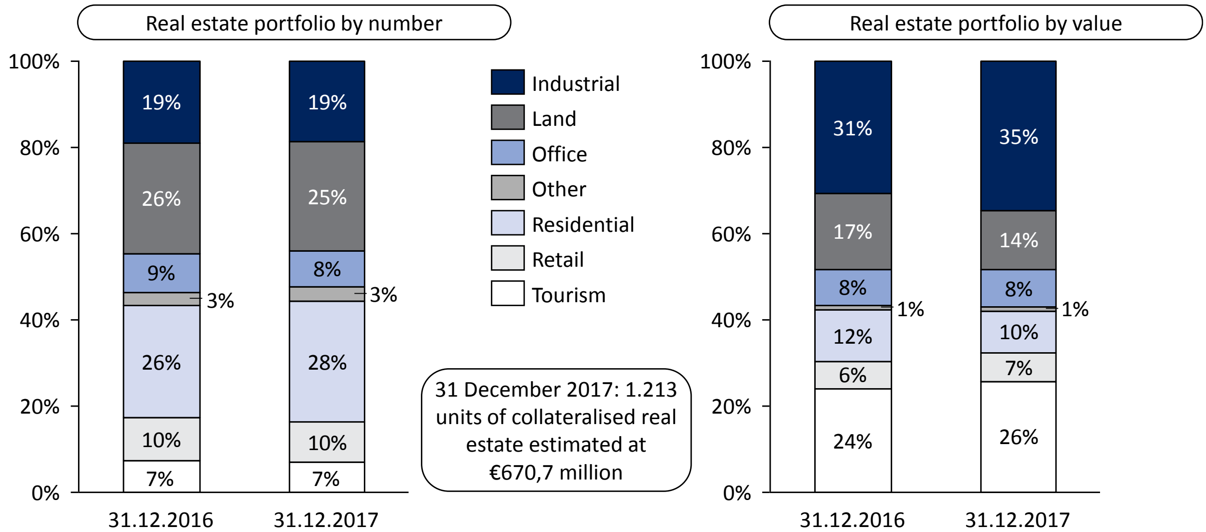
As of the end of 2017, BAMC owned 294 units of real estate with a total book value of €178,8 million. Most of BAMC-owned real estate consists of land plots and residential buildings, followed by industrial and business real estate. The land plots are mostly zoned for residential development, while industrial properties are most often not in use.

FIGURE 18: REAL ESTATE OWNERSHIP PORTFOLIO STRUCTURE




**NOTE:** Only real estate that has been entirely taken over by BAMC is presented in this figure. The difference to the balance sheet real estate value of €194,2 million is in the latter including real estate in the process of repossession, advance payments and minor equipment assets.

FIGURE 19: REAL ESTATE COLLATERAL PORTFOLIO STRUCTURE



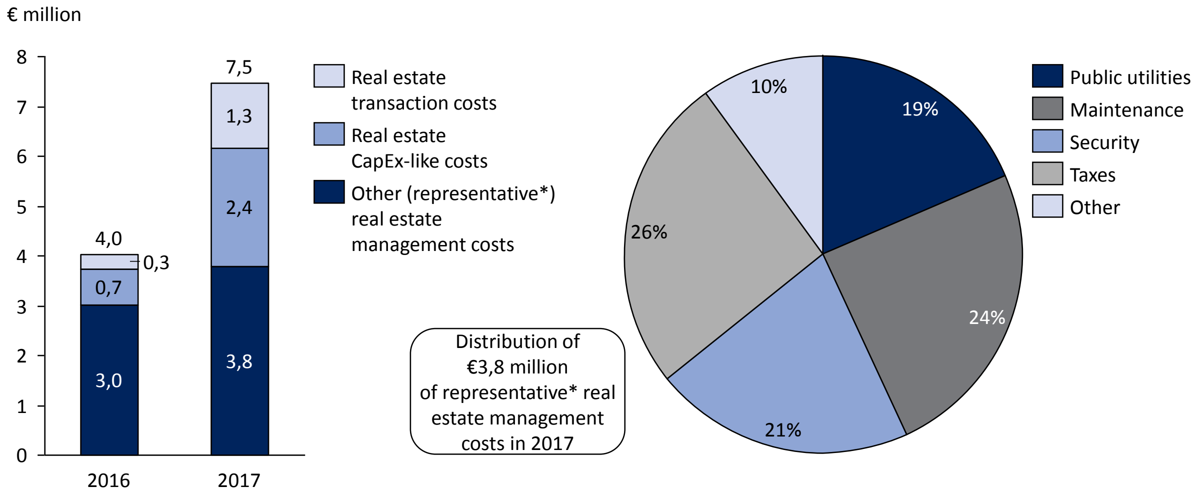

## REAL ESTATE FACILITY MANAGEMENT

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 preserved, such as cleaning, waste disposal, security, insurance, fixing roof and windows/doors, changing locks, cutting grass etc. In addition, diverse legal and technical defects of the real estate have to be eliminated in some cases: 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 made fit 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 €7,5 million in 2017, mostly related to owned real estate and a minor part associated with by real estate pledged as collateral to insure loans. The largest cost items were maintenance costs (which include various repairs) for a total of €2,4 million which may also be viewed as CapEx-like investment costs, followed by real estate transaction costs (fees) in the amount of €1,3 million and taxes (which are almost entirely represented by NUSZ - compensation for use of building sites) amounting to €1,0 million in 2017.

FIGURE 20: REAL ESTATE MANAGEMENT COSTS




**NOTE:** *For additional information purposes the distribution of representative real estate management costs is presented, i.e., remaining costs without transaction and CapEx-like real estate management costs.

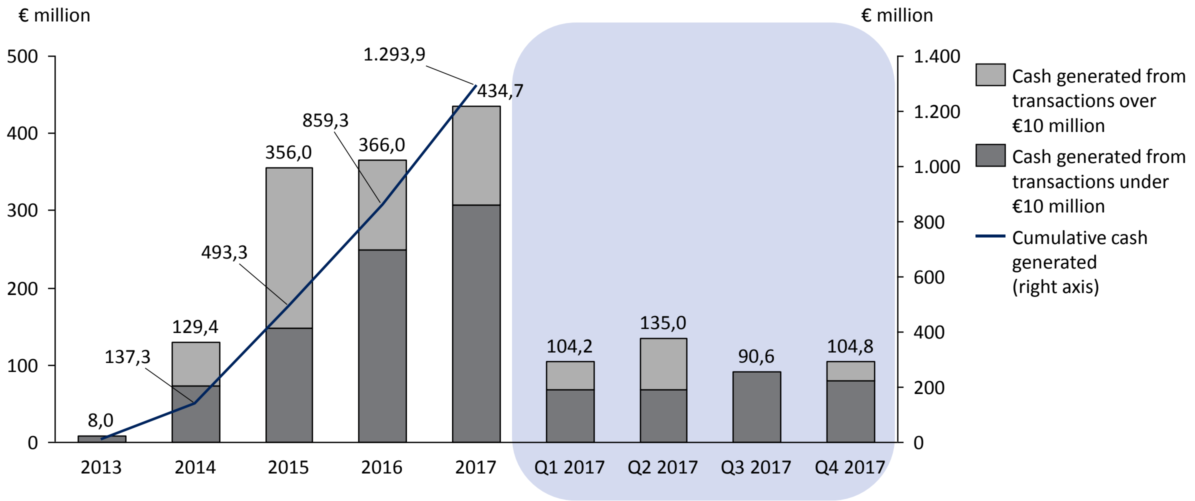
# FINANCIAL OVERVIEW OF 2017

## CASH GENERATED[11]

BAMC generated €434,7 million of inflows in 2017 from the management of acquired assets, which represents 21,5% of the asset transfer value[12]. Smaller (under €10 million) transactions at an average of €76,9 million per quarter provided a strong and stable cash inflow with larger transactions completing the cash generation mainly in the first half of the year.

2017 yearly cash generation even exceeded the record one from 2016 and, since its inception until year-end 2017, BAMC generated €1.293,9 million in inflows from the management of acquired assets. Surpassing the 50% transferred assets cashed threshold in May 2017, BAMC ended the year with 64,0% of assets' transfer value cashed in four years.

FIGURE 21: CASH GENERATED




Also on an individual monthly level, smaller (under €10 million) transactions did not deviate much from the average of €25,6 million per month. The massive stable cash inflow from numerous smaller ticket

[11] 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.

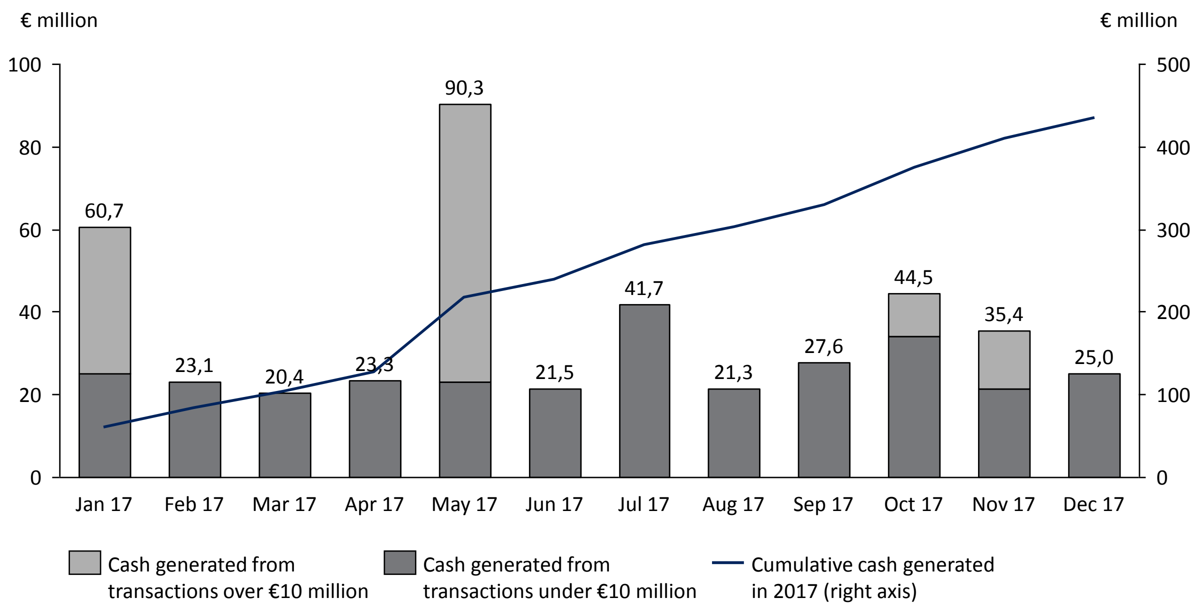
[12] Cash generated in proportion to acquired assets KPI in the amount of 21,5% is calculated as the ratio of inflows generated to the time-weighted value of the portfolio, where the date of transfer to BAMC is used as the weight. The same reasoning is applied to the purchases of additional exposures 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 30 June 2017 would be given a weight of 0,5 (effectively adding €1,0 million to the weighted value of the portfolio) for the 2017 denominator calculation as BAMC would only have half a year available for the liquidation of acquired assets (by 31 December 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.

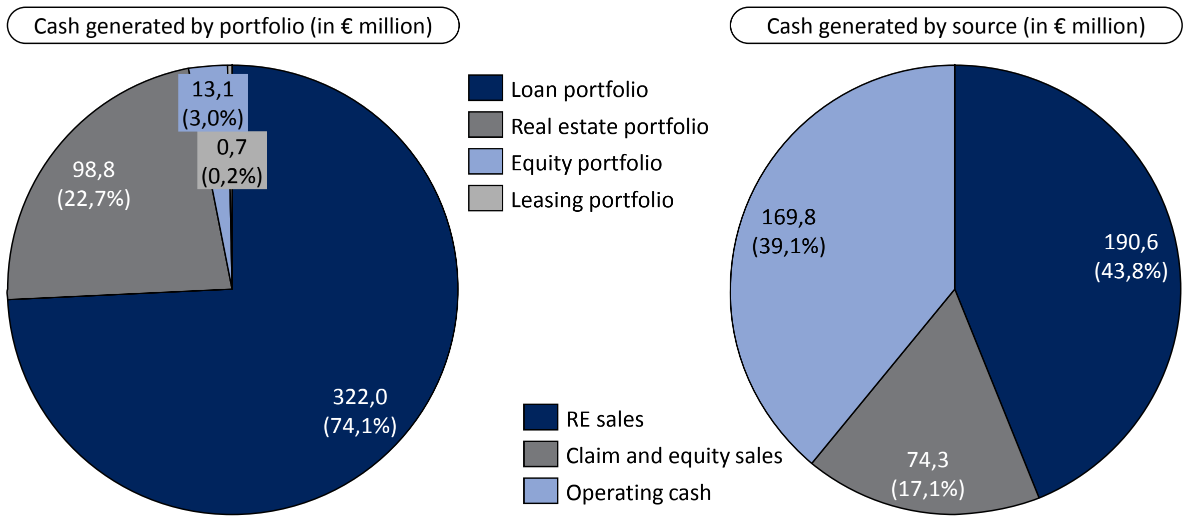
transactions facilitated the complete refinancing based on amortising debt schedule with early repayment options, which in turn are triggered by large tickets. The largest single transaction was the sale of DZS group claims to York in the beginning of the year, followed by refinancings of Sava Turizem d.d. and Sava TMC d.o.o. debtors in May and Vizija debtors in May, October and November.

Figure 22: Monthly cash generated




Portfolio-wise, a great majority of inflows came from the loan portfolio, but these included considerable sales of real estate and other assets in insolvency proceedings, resulting in a more levelled partition of inflows by source.

Figure 23: 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, refinancings, rents, dividends, leasing and other inflows.

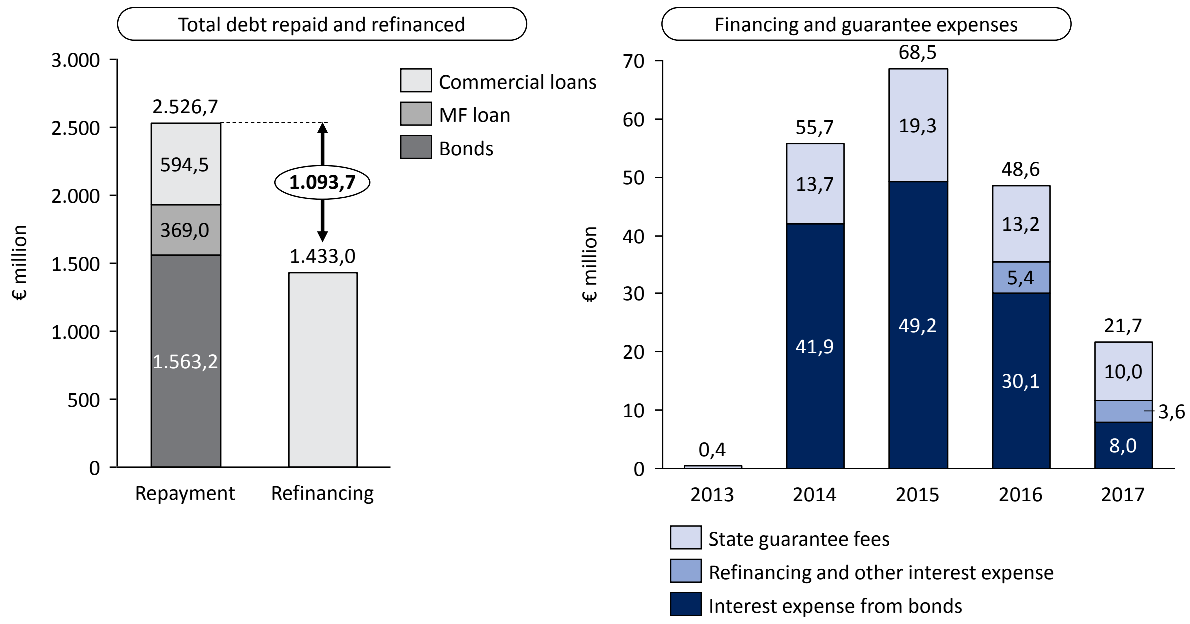
## DEBT REPAYMENT

In December 2017, BAMC's last two bonds, DUT03 and DUT04, matured in a total amount of €553 million, as well as a bilateral €169 million loan borrowed from a Slovenian bank had to be repaid. BAMC refinanced these obligations on the market, since the inflows generated in 2017 were partly used for the repayment of existing loans during the year (thus lowering the interest costs in the interim period) and were not sufficient to repay the entire bond debt. In a highly competitive bidding process BAMC took out three long-term loans in a total amount of €710 million (€100 million from a commercial bank in Slovenia, €50 million from a commercial bank abroad, and €560 million from a syndicated loan). The loans are amortizing with a smaller balloon due in mid-December 2022. BAMC also has the option of early repayment, which gives it flexibility in managing its liquidity until the end of its lifetime. The loans are secured with a state guarantee, subject to a 1,0% guarantee fee payable to the Republic of Slovenia. The interest rates for the refinancing loans are significantly lower than the 1,5% and 1,375% interest rates on the matured DUT03 and DUT04 bonds, respectively. BAMC's cost of financing in 2018 will thus be reduced by approximately €9 million.

All in all, in 2017 BAMC repaid €838 million in accordance with applicable loan repayment schedules, and also made an early repayment of an additional €269 million worth of loan principal for a total of €1,1 billion. The refinancing of DUT03 and DUT04 bonds and partial repayment of state-backed financial liabilities marks another important step in the fulfilment of BAMC's mission, as defined by the ZUKSB. BAMC thus reduced its future costs of financing, reduced its debt leverage and recovered invested funds, reducing the burden on the Republic of Slovenia and the taxpayers.

Since its inception BAMC already repaid more than €2,5 billion of debt which it had to partly refinance with €1,4 million, resulting in a total net repayment of €1,1 billion. Since 2013, BAMC has also paid €138 million in interest and €57 million in state guarantee fees.

FIGURE 24: TOTAL DEBT REPAID/REFINANCED AND FINANCING EXPENSES




**NOTE:** Principal values without interest are reported as debt repaid.

## 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 EOY 2017) | | 2017 | 2016 | 2016* |
|---|---|---|---|---|---|---|
| | | Cumulative | Yearly average | | | |
| **Guidelines-defined KPIs** | | | | | | |
| Cumulative cash generated | Absolute amount (in € million) | - | - | 1.294 | 859 | 863 |
| Cash generated % | Cash generated / NPAs transfer value | 64,0% | 16,0% (a) | 21,5% | 18,1% | 18,3% |
| EROE | Equity / invested capital with corrections - 1 | 142,0% | 24,7% (g) | - | - | |
| Cost efficiency | Operating costs / average total assets | - | 1,42% (a) | 1,88% | 1,84% | |
| **Additional BAMC-followed KPIs** | | | | | | |
| ROE | Net income (loss) / average equity | 46,6% | 10,0% (g) | 59,3% | -8,0% | |
| Funds returned to RS | Payback / RS invested assets | 76,6% | - | 0,0% | 31,8% | |
| Gross funds returned to RS | Gross payback / RS invested assets | 102,4% | - | 7,2% | 31,9% | |
| Debt outstanding | Debt / initial debt | - | - | 44,7% | 64,1% | |
| Guaranteed debt outstanding | Guaranteed debt / initial guaranteed debt | - | - | 45,4% | 65,0% | |
| **Basic data** (in € million) | | | | | | |
| Cash generated | | 1.294 | 323 | 435 | 366 | 369 |
| RS invested assets | Cumulative invested capital | - | - | 258 | 258 | |
| Debt | Balance sheet debt value | - | - | 880 | 1.263 | |
| Equity | Balance sheet equity value | - | - | 146 | 79 | |
| Invested capital with corrections | | - | - | 61 | 61 | |

**GENERAL NOTES:** *Data as reported in the BAMC Annual Report 2016. Due to a review of cash generated inflows therewith related values have changed and are restated.
KPIs required by the Guidelines and presented in Table 1 are marked in grey.
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 four full years of operation into account. (a) = arithmetic average, (g) = geometric average.
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 considerably in 2016 due to the merger of Factor banka and Probanka into BAMC, raising the statutory 10% yearly goal in absolute terms.
- "Invested capital with corrections" is corrected for day-one losses and other corrections of capital due to the decisions of the owner as well as recapitalizations. See Table 2 for details.
- As defined in the Guidelines, operating costs used in the calculation of "cost efficiency" KPI exclude transaction costs, incurred in assets' sales processes. See Table 13 for details.
- "Payback" includes all corrections to invested capital. As there were no corrections to invested capital in 2017, this indicator's value is 0,0% for the year.
- "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.
- "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

The 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. In order to better present business operations BAMC is using a changed format of its income statement[13].

BAMC recorded a bottom line net profit of €67,0 million in 2017. The result for 2017 is incomparably better than in 2016 as the loan portfolio provided record-breaking profit on the one hand while financial expenses more than halved on the other hand and operating costs were reduced by 7%.

TABLE 7: INCOME STATEMENT SUMMARY

| in € thousand | 1 Jan 2017 to 31 Dec 2017 | 1 Jan 2016 to 31 Dec 2016 | Index 2017/2016 |
|---|---|---|---|
| Result from loans | 95.037 | 29.418 | 323 |
| Result from equity instruments and bonds | 10.227 | 29.991 | 34 |
| Result from inventories | 11.233 | 7.887 | 142 |
| Other income | 3.553 | 273 | 1.304 |
| Financial expenses | -22.144 | -48.634 | 46 |
| Operating costs | -24.862 | -26.738 | 93 |
| **Net profit/loss before tax** | **73.044** | **-7.803** | **-936** |
| Income tax expense | -6.058 | 0 | - |
| **Net profit/loss after tax** | **66.986** | **-7.803** | **-858** |

### INCOME STATEMENT BREAKDOWN

Result from managing loans was €95,0 million in 2017, more than three times better than in 2016 with both, capital gains and the revaluation effect contributing substantial parts. The negative net other income from loans was led by negative foreign exchange differences.

TABLE 8: RESULT FROM LOANS

| in € thousand | 1 Jan 2017 to 31 Dec 2017 | 1 Jan 2016 to 31 Dec 2016 | Index 2017/2016 |
|---|---|---|---|
| Capital gains/losses | 42.541 | 54.526 | 78 |
| Net revaluation result | 54.208 | -30.372 | -178 |
| Other income from loans | -1.712 | 5.263 | -33 |
| **Total result from loans** | **95.037** | **29.418** | **323** |

Result from equity and bonds in 2017 amounted to €10,2 million with minimal revaluation result compared to the previous year but substantial dividend receipts.

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

TABLE 9: RESULT FROM EQUITY AND BONDS

| in € thousand | 1 Jan 2017 to 31 Dec 2017 | 1 Jan 2016 to 31 Dec 2016 | Index 2017/2016 |
|---|---|---|---|
| Capital gains/losses | 60 | 1.636 | 4 |
| Net revaluation result | 1.035 | 26.686 | 4 |
| Dividends | 9.080 | 1.454 | 624 |
| Other income from equity investments and bonds | 52 | 214 | 24 |
| **Total result from equity investments and bonds** | **10.227** | **29.991** | **34** |

Income from inventories relates almost entirely to inventories of real estate. The sales income of €95,8 million (the carrying amount of which was €77,7 million), five times more than in 2016, clearly displays the positive result of successful sale of BAMC-owned real estate in 2017. BAMC also generated €2,4 million from temporary renting inventory of real estate but recorded €9,3 million of decrease in value of inventory of real estate due to revaluation.

As at 31 December 2017 BAMC estimated a surplus in the expected net realizable value of inventory of real estate over the historical cost thereof in the amount of €10,1 million. In accordance with IFRS, this amount is not disclosed as revaluation income at the end of the year, but will be recognised as sales income when BAMC sells the real estate in question.

With the intensive repossessions from collateralised claims, extensive fit-for-sale measures and an unprecedented scope of sales, BAMC's real estate management costs increased significantly. The direct costs of managing inventory of real estate, excluding labour costs, totalled €7,5 million in 2017, and related mostly to the maintenance or CapEx-like costs, transaction costs and taxes.

TABLE 10: RESULT FROM INVENTORIES

| in € thousand | 1 Jan 2017 to 31 Dec 2017 | 1 Jan 2016 to 31 Dec 2016 | Index 2017/2016 |
|---|---|---|---|
| Income from rents | 2.390 | 2.075 | 115 |
| Income from inventories sold | 95.810 | 18.219 | 526 |
| Cost of inventories sold | -77.703 | -14.957 | 519 |
| Net revaluation result from inventories | -9.264 | 2.594 | -357 |
| Real estate management costs | -7.473 | -4.028 | 186 |
| of these real estate transaction costs | -1.300 | -284 | 457 |
| of these CapEx-like real estate management costs | -2.393 | -737 | 325 |
| **Total result from inventories** | **3.760** | **3.903** | **96** |

**NOTE:** Real estate management costs included under "Costs of services" part of operating costs in Table 7 are included here.

BAMC's financial expenses for 2017 were €26,5 million lower than in 2016. With the repayment of DUT02 bond in December 2016 and its partial refinancing with much less expensive borrowing from the commercial market (backed by guarantee from the Republic of Slovenia) the costs of financing reduced significantly for 2017. 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 31 Dec 2017 | 1 Jan 2016 to 31 Dec 2016 | Index 2017/2016 |
|---|---|---|---|
| Interest expenses from debt securities and borrowings | -11.676 | -35.370 | 33 |
| Guarantee fees | -9.992 | -13.162 | 76 |
| Other financial expenses | -476 | -102 | 467 |
| **Total financial expenses** | **-22.144** | **-48.634** | **46** |

Overall, operating costs not related to real estate management costs totalled €17,4 million in 2017 and were 23% lower than in the previous year and 7% below budget.[14] Process optimization, in-house completion of potential external advisory services and downsizing effects all contributed to the cost decline.

TABLE 12: OTHER RESULT WITHOUT REAL ESTATE

| in € thousand | 1 Jan 2017 to 31 Dec 2017 | 1 Jan 2016 to 31 Dec 2016 | Index 2017/2016 |
|---|---|---|---|
| Other income | 3.553 | 273 | 1.304 |
| Costs of material | -109 | -255 | 43 |
| Costs of services | -6.469 | -7.508 | 86 |
| Costs of outsourced back office and accounting services | -1.609 | -1.180 | 136 |
| Advisory fees | -2.166 | -3.320 | 65 |
| of these equity transaction costs | -264 | -347 | 76 |
| of these merger-related costs of services | 0 | -490 | |
| Other service costs | -2.694 | -3.008 | 90 |
| Depreciation | -210 | -362 | 58 |
| Labour costs | -8.522 | -10.750 | 79 |
| of these merger-related labour costs | 0 | -1.258 | |
| Other expenses | -2.079 | -3.834 | 54 |
| **Other result** | -13.836 | -22.437 | 62 |
| **Other result without transaction costs** | **-13.573** | **-20.343** | **67** |

**NOTE:** Real estate management costs are not included here as part of "Costs of services" but in Table 10.
The "Other result without transaction costs" for 2016 also excludes merger costs as explained in the 2016 annual report.

Labour costs totalled €8,5 million in 2017, a decrease of 21% relative to the previous year. Lower labour costs were the result of a continued decrease in the number of employees, as the average monthly

[14] BAMC Financial plan 2016-2022 envisaged €24,5 million of operating costs for 2017, of these €18,7 million of costs not related to real estate management.

number of employees at BAMC was 181 in 2016 with 162 at the end of 2016 compared to the average monthly number of 156 in 2017 with 150 at the end of the year, a 14% and 7% decline, respectively.[15]

Other expenses totalled €2,1 million in 2017. These costs are primarily associated with judicial proceedings that are the result of intensive efforts to liquidate the assets of debtors in insolvency, provisions for lost lawsuits and some realisations thereof.

The largest part of non-labour costs is accounted for by the costs of services, which amounted to €6,5 million, excluding real estate management costs. The highest proportion of these costs relate to costs of outsourced back office services (mainly payable to NPL Port d.o.o.) in the amount of €1,6 million and costs of intellectual services, the majority of which were the costs of legal and notary services in the amount of €1,4 million.

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 €1,6 million in 2017 as presented in Table 13.

TABLE 13: TRANSACTION COSTS

| in € thousand | **1 Jan 2017 to 31 Dec 2017** | **1 Jan 2016 to 31 Dec 2016** |
|---|---:|---:|
| Real estate transaction costs | 1.300 | 284 |
| Equity transaction costs | 264 | 347 |
| **Total transaction costs** | **1.564** | **631** |

[15] The number of employees in NPL Port d.o.o., a service company to which back office services are outsourced, was 18 as the 31 December 2017.

## BALANCE SHEET

TABLE 14: BALANCE SHEET SUMMARY

| in € million | 31 Dec 2017 | 31 Dec 2016 | Index 2017/2016 |
|---|---|---|---|
| **Assets** | **1.050,4** | **1.370,4** | **77** |
| Loans | 660,2 | 948,1 | 70 |
| Real estate | 194,2 | 197,7 | 98 |
| Equity | 99,0 | 96,9 | 102 |
| Cash and equivalents | 90,6 | 122,3 | 74 |
| Other | 6,3 | 5,4 | 117 |
| **Liabilities** | **904,0** | **1.291,0** | **70** |
| Bonds | 0,0 | 548,9 | 0 |
| Borrowings | 880,2 | 714,6 | 123 |
| Other | 23,8 | 27,5 | 86 |
| **Equity** | **146,4** | **79,4** | **184** |

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

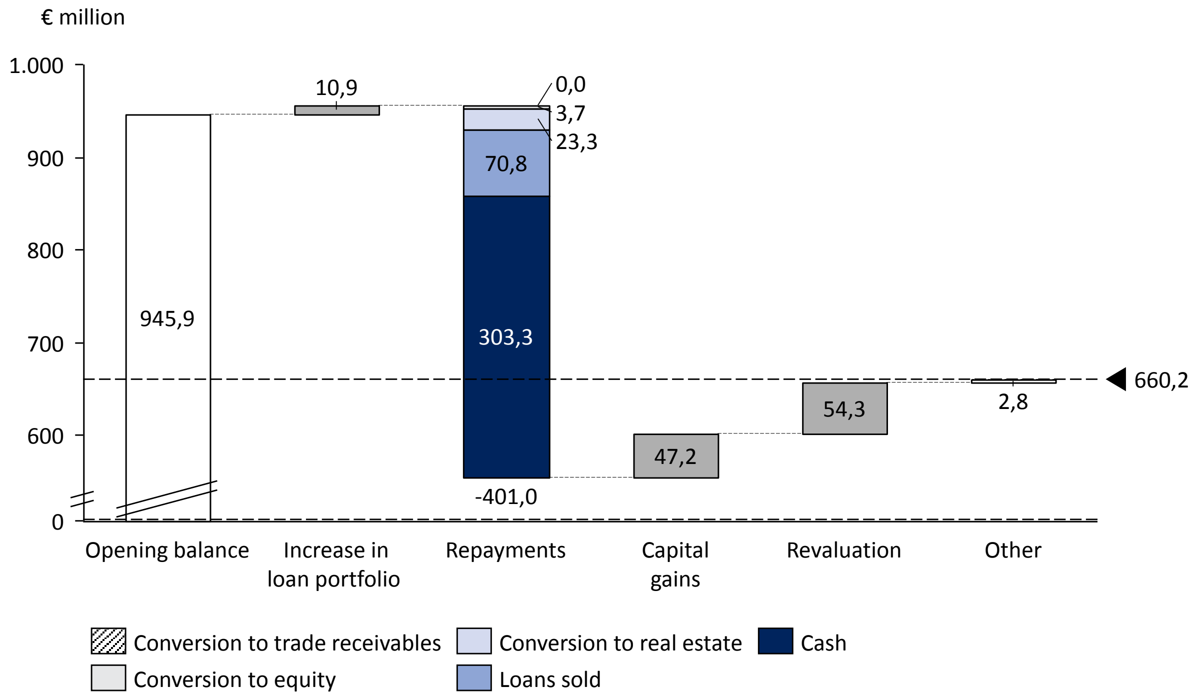
### ASSETS

BAMC's total assets decreased by €320,0 million (23%) in 2017 and stood at €1.050,4 million at the end of the year, mainly driven by a reduction in the loan portfolio following successful liquidation of claims. Loans accounted for the highest proportion of BAMC's assets as at 31 December 2017. The value of loans totalled €660,2 million at the end of the year, a decrease of 30% relative to the balance at the end of the previous year.

Repayments of loans in 2017 amounted to €401,0 million and include cash repayments in the amount of €303,3 million, sales of loans in the amount of €70,8 million, €23,3 million of debt to real estate conversions and €3,7 million of debt to equity conversions. On the other hand, BAMC granted some new and purchased certain loans from other creditors which increased the total value of the loan portfolio by €10,9 million. The revaluation effect increased the loan balance by €54,3 million.[16]

[16] The €54,2 million loan revaluation reported in Table 8 additionally includes revaluation result of the leasing portfolio.

Figure 25: Loan movement




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 the end of 2017, BAMC disclosed a carrying amount of real estate stock of €194,2 million while the estimated net realizable value of all inventory of real estate was €204,3 million. The carrying amount of real estate was down only €3,5 million in 2017 despite substantial 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.

The fair value of equity investments in BAMC's ownership amounted to €99,0 million at 31 December 2017 and did not change much on the aggregate level but has seen some upward and downward revaluations within the portfolio, dependent on the performance and sales prospects of ownership stakes owned.

Trade and other operating receivables represented the prevailing share of "other" assets with €5,2 million at 31 December 2017. Paid security payments made up more than a third among them.

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 €90,6 million in cash and cash equivalents at its disposal at the end of 2017. Any surplus funds available in 2017 were used for reducing debt ahead of schedule.

## LIABILITIES

BAMC financed its assets at 31 December 2017 mainly through debt sources, more precisely via liabilities in the amount of €880,2 million. After the repayment of the last two outstanding bonds in December 2017 all liabilities relate to loans taken up with various banks for which the Republic of Slovenia provides an explicit guarantee. With regular and early repayments BAMC decreased its liabilities exposure for €383,2 million in 2017.

TABLE 15: FINANCIAL OBLIGATIONS AS AT 31 DECEMBER 2017

| **Financial instrument** | **Amount issued** (in € million) | **Amount outstanding** | **Interest rate** | **Issued** | **Interest payment** | **Maturity** |
|---|---|---|---|---|---|---|
| Commercial loan | - | 1,3 | - | upon merger | Half-yearly | May 2018 |
| Commercial loan | 355,0 | 46,0 | - | Dec 2016 | Quarterly | Dec 2021 |
| Commercial loan | 150,0 | 120,0 | - | Dec 2016 | Half-yearly | Dec 2021 |
| Commercial loan | 560,0 | 560,0 | - | Dec 2017 | Quarterly | Dec 2022 |
| Commercial loan | 50,0 | 50,0 | - | Dec 2017 | Quarterly | Dec 2022 |
| Commercial loan | 100,0 | 100,0 | - | Dec 2017 | Quarterly | Dec 2022 |

**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, are guaranteed by the Republic of Slovenia.

Other liabilities and provisions amounted to €23,8 million at 31 December 2017. The balance from the end of 2016 decreased by €3,8 million and includes €6,1 million of income tax liability, provisions for potential losses in lawsuits and issued guarantees in the amount of €5,5 million, and received advanced and security payments in the amount of €4,3 million as the biggest items.

## EQUITY

BAMC's equity totalled €146,4 million at 31 December 2017 which is €67,0 million more than at the end of 2016. In the absence of extraordinary 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, which is built up through the use of the default probability scorecard, 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.

For more details on the valuation methodology see Note 4 in the financial part of the annual report.

The asset valuation process is extensively supported with established internal controls for all types of valued assets. These controls are performed within the organizational unit controlling and risk and are done separately from organizational units which value BAMC's assets. Internal controls in asset valuations are preventative controls and are proactive in the sense of ensuring stabile and sound underlying assumptions used as inputs for asset valuation. They include control of provided traceability, consistency and argumentation of used inputs for valuation of all types of assets. Complementary to the review of the owner of asset valuation process, internal controls serve as an early comprehensive overview of the changes of the fair value, measured through profit or loss.

## RISK MANAGEMENT

Taking risks is an integral part of doing business. BAMC is exposed to numerous risks, both financial and non-financial, that could impact the financial or operational efficiency and have a negative effect on the value of capital. Financial risks are core risks that BAMC is exposed to when collecting debt from borrowers or concluding financial agreements. Non-financial risks are those associated with failures in BAMC's processes, failures to comply with rules, regulations, legal requirements, and the ethical norms that are generally considered to BAMC's employees and activities. Ability to understand these risks and their successful management have a direct impact on stability and results achieved by BAMC.

With the help of an effective risk management system BAMC can assess, 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. BAMC puts a lot of effort into understanding, measuring and managing risks, and has set up an effective risk management framework and a strong risk management culture.

In the forthcoming years BAMC will also have to address the risk of any fire-sale situations at the end of its mandate. Main focus of renewed risk management system will be on tackling these challenges in a way that will be capable to support BAMC to resolve all its assets and to terminate all its activities and operations in an orderly manner.

BAMC's overall capacity to take risks is set out in the Risk management policy, which defines competences and responsibilities, risk management process, main risk categories and provides a tool for risk measurement with general treatment of each risk category. Operational risks are additionally addressed with Operational Risk Management Framework, which formalised risk acceptance levels, set by the Risk and Compliance Management Committee.

The Risk and Compliance Management Committee is an advisory Committee on an executive level in the area of risk management and compliance. It consists of responsible and competent persons from the fields of risk management, compliance, internal audit and main business units. The Committee performs business activities of risk management and supports identification, monitoring, assessment and mitigation of risks, within acceptable risk levels.

BAMC significantly strengthened corporate security in 2017 and adopted several internal bylaws, which lowered risks, to which BAMC is exposed. A special Committee on Corporate Security and Compliance was established that passes decisions related to the Rules on Employee Accountability in regard to Corporate Integrity Violations.

The risk, to which BAMC is most exposed to, is credit risk. BAMC measures its loans and receivables based on fair value through profit and loss, according to the future expected cash flows by debtors. Great attention has been given to improvement of credit risk management process, both in the process of measuring creditworthiness of borrowers and approving their exposures and in the process of monitoring, managing and collection of credit collateral. In 2017, BAMC started an extensive project regarding comprehensive review and consolidation of collateral, submitted to credit exposures. A unified database for all types of collateral has been established which will facilitate everyday procedures with enforcement of this collateral.

BAMC has continued with conservative approach towards market risk. The preceding year was notable for vibrant scene on real estate markets. Slovenia has achieved substantial economic growth in 2017, real growth of GDP on a yearly level was 5,0% (3,1% in 2016).[17] Yield to maturity of 10-year Slovenian government bonds as at end of 2017 amounted to 1,157% (1,052% in 2016).[18] Yearly change of SBI TOP was 12,4%, average daily turnover at Ljubljana stock exchange was €1,4 million (6,2% growth in comparison to 2016), and capitalisation of shares grew for 5,5%.[19]

Liquidity conditions in 2017 remained favourable for BAMC. Liquidity risk was significantly reduced in 2017 since BAMC fully repaid its obligations - bonds DUT03 (in amount of €422,9 million) and DUT04 (in amount of €125,8 million). Additionally, BAMC has repaid loans from banks in total amount of €563,0 million (with interest) in 2017. For repayment of these liabilities BAMC acquired new loans in the total amount of €710,0 million

Regarding operational risks BAMC continued with regular preventive activities to reduce the likelihood of loss events. According to the database of loss events, most of the loss events in 2017 resulted as a consequence of human error, therefore BAMC paid greatest attention to causes of these most relevant operational risks.

## THREE LINES OF DEFENCE

BAMC follows the principle of three lines of defence to ensure a systematic and effective approach towards identified risks.

Asset management departments (and departments with supporting function) form the first line of defence. They are accountable for identifying and addressing the risks that occur in conducting their day-to-day operations, when collecting debt or selling assets within applicable frameworks.

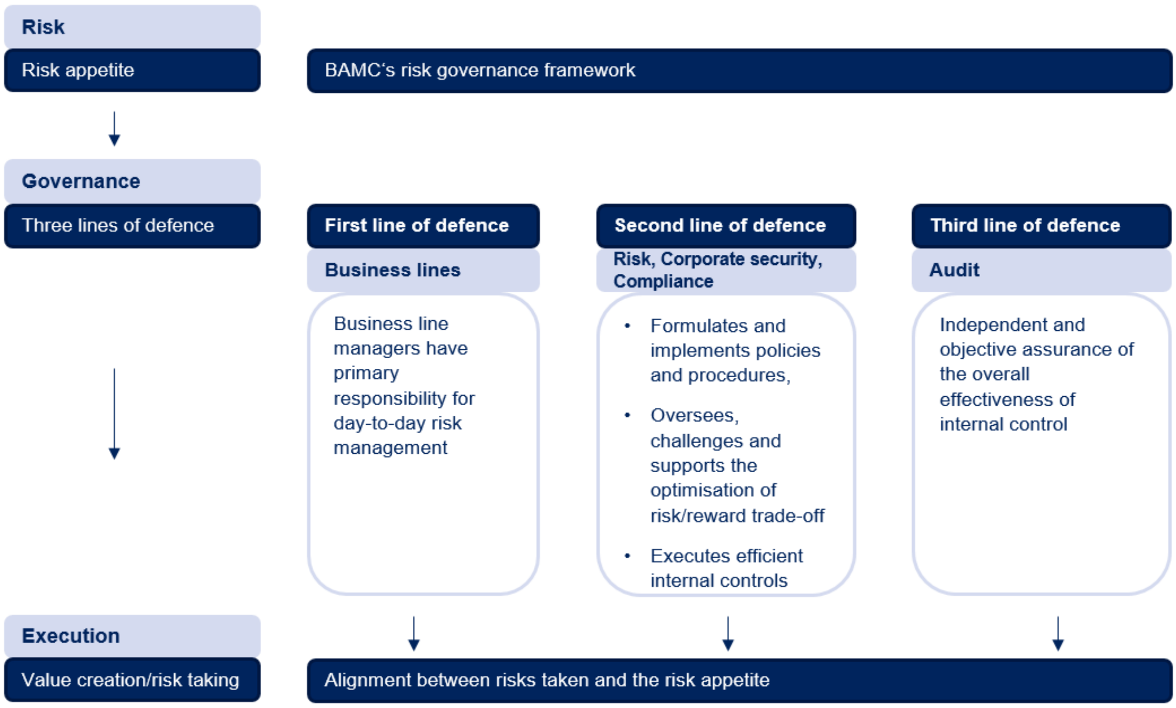
BAMC recognised the importance of an effective system of risk management and empowered the system of internal controls which reflects in a strong second line of defence. Risk, Corporate security and Compliance work independently from business lines to ensure management of all types of risks identified by BAMC.

[17] Source: Statistical office of the Republic of Slovenia, GDP by measures and year.

[18] Source: Bloomberg.

[19] Source: Ljubljana Stock Exchange, Yearly Report – Year 2017, Trading Summary.

FIGURE 26: THREE LINES OF DEFENCE




**Controlling and risk** is a newly formed organizational unit, which is combined from previously separate organization units of risk management and controlling. It now provides a comprehensive overview of all risk exposures (controlling, market, liquidity, operational, among other). The unit prepares regular reports for different parties, is custodian to Risk and Compliance Management Committee and prepares regular risk reports for Audit and Board Committees. The organizational unit includes risk management function, which is responsible for the risk management system as a whole, its management, mitigation and monitoring. An important priority of the risk management function is also raising the level of risk awareness in the Company.

**Compliance** advises senior management on compliance laws, compliance rules and standards and keeps them informed of developments in this area; informing employees of changes in the relevant legislation, in internal regulations and also in internal procedures, cooperating and reporting to several government bodies, e.g., Ministry of finance, Court of Audit, Commission for Prevention of Corruption, law enforcement agencies, Information Commissioner, Stock exchange, etc.; preparing an integrity plan and measures for identification and prevention of corruption and the risk of other wrongdoing or unethical conduct.

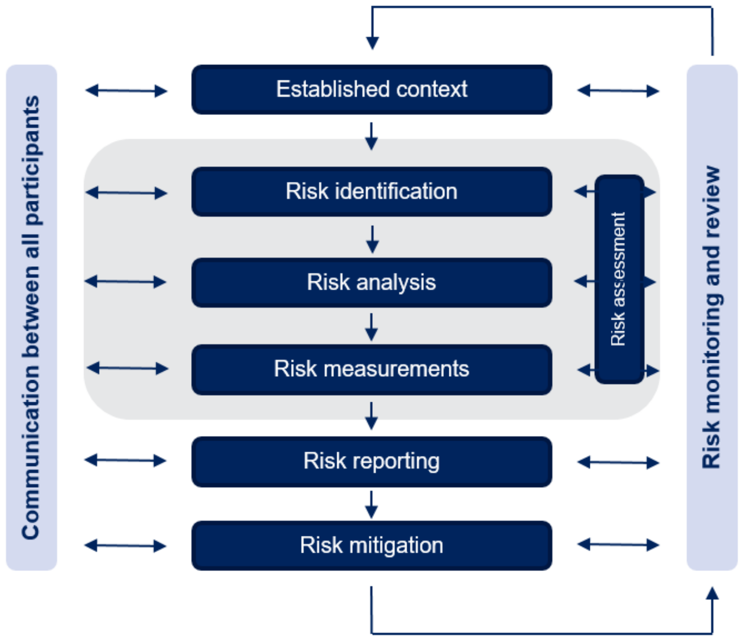
**Corporate Security** was appointed (transformed from the task force function) at the end of 2016 and became fully operational in 2017 to orderly and systematically investigate suspicious practices in and outside BAMC. It identifies and effectively mitigates or manages, at an early stage, any developments that may threaten the resilience and continued operations of a corporation. A corporate function oversees and manages the close coordination of all functions within the company that are concerned with security, continuity and safety.

Internal audit is BAMC's third line of defence, which tests and evaluates the risk governance and management system as a whole, estimates the effectiveness of performed internal controls and revises the management of key risks. More on the internal audit function may be found at the end of this chapter.

## Risk management process

BAMC's risk management process follows the feedback principle, resulting in constant monitoring of efficient risk identification, reporting and implementation of adopted mitigations.

Figure 27: Risk management process



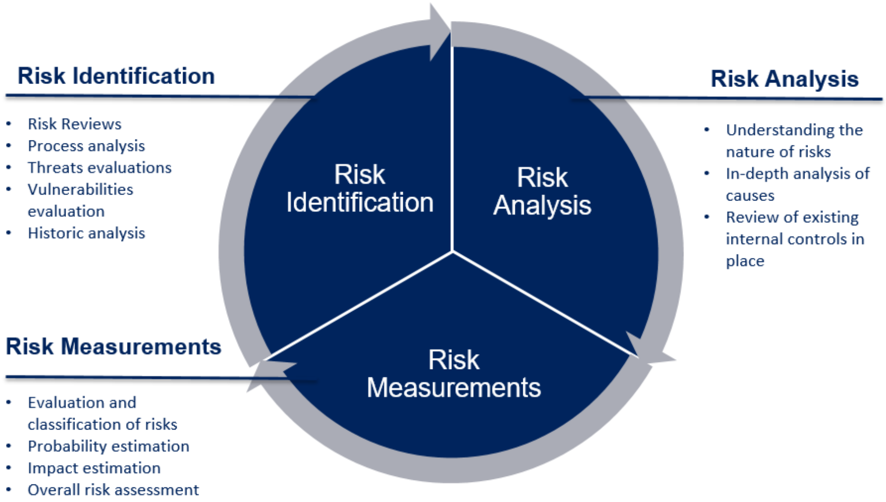

## Established context

The risk management framework is established with adopted internal bylaws. Board of Directors of BAMC defines and manages risks and implements the risk management system in a structured, consistent and coordinated way. Audit Committee assists the Board of Directors in fulfilling its supervisory responsibilities. The Committee acts independently from executive management with the aim to ensure that the interests of the shareholders are properly protected in relation to financial reporting, internal controls, risk management, auditing, and compliance. The Audit Committee is accountable for keeping itself informed about the statutory audit of the annual accounts and monitoring the impartiality of the statutory auditors. Risk and Compliance Management Committee is an advisory committee on an executive level in the area of risk management and compliance and supports identifying, monitoring, assessment and mitigation of risks, within acceptable risk levels.

## RISK ASSESSMENT

BAMC assesses risks through risk identification, analysis and measurements in line with the risk assessment model.

FIGURE 28: RISK ASSESSMENT PROCESS




### *RISK IDENTIFICATION*

All business units are actively involved in identifying key risks for their scope of operations and BAMC as a whole. Main risk identification is performed with risk reviews (comprehensive review of specific process or part of the process, supporting documentation or projects). 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). The role of risk management 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). All identified risks are gathered in Risk Catalogue, which serves as a roadmap for risk management activities.

### *RISK ANALYSIS*

Risk analysis is usually an in-depth analysis of causes that exposed BAMC to certain risk. It is crucial in understanding the nature and impact of risk, which serves as a base ground for adoption of relevant risk measurements. An essential part of risk analysis is review of existing internal controls that are already established and test of their capacity and their robustness.

### *RISK MEASUREMENT*

Measurement of risks is important in order to provide relevant priority list of risks that should be addressed first. BAMC performs evaluation and classification of risks according to the probability for realisation of each risk and according to the impact that realisation of such risk would have on BAMC’s operations. 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 four-point scale and the total estimation of risk is a product of probability estimation and value estimation. Such approach allows clear and objective measurement of risks. In that way, risks are mitigated and monitored as a result of an objective analysis and not as a subjective opinion.

Most significant BAMC's risks are presented in the Heat map below.

FIGURE 29: HEAT MAP OF MOST IMPORTANT RISKS FOR BAMC

| Probability estimation \ Impact estimation | Low (1) | Moderate (2) | High (3) | Extremely high (4) |
|---|---|---|---|---|
| Extremely high (4) | | - Risks of human resources management | | |
| High (3) | | - Risk of costly lawsuits and litigations | - Process mistakes | |
| Moderate (2) | | - Risk of fraud<br>- IT risks<br>- Credit risks<br>- Risk of failed restructuring strategies | - Risk of BAMC's limited life-span<br>- Risk of non-compliance with all legislative requirements<br>-Risk of missed legal deadlines | - Liquidity risk (repayment of BAMC's liabilities) |
| Low (1) | - Reputational risks<br>- Country risks<br>- Market risks<br>- Political risks | - Risk of delay in obligatory reporting<br>- Risk of non-achieving BAMC's KPIs<br>- Risk of breaching confidentiality | - Risk of lengthy bankruptcy procedures<br>-Risk of not retaining maximum value of bankruptcy proceeds | - Risk of damage of assets, pledged to or owned by the BAMC |

**Legend of total estimation of risk (as a product of probability and value estimation)**

| | | | |
|---|---|---|---|
| Low importance | Moderate importance | High importance | Extremely high importance |

## RISK REPORTING

Identified and assessed risks are presented to the Risk and Compliance Management Committee, to the Audit Committee and to the Board of Directors Committee at their regular sessions. BAMC identified reporting on risk topics as a crucial component in risk management process and provided guidelines for accurate and on-time risk management reporting in the Risk Management policy and the Operational Risk Management Framework.

### RISK MITIGATION

Risk and Compliance Management Committee adopts a risk mitigation strategy for each case. Strategies to mitigate identified risks are as it follows:

- **Risk Acceptance:** deliberate acceptance of risks within certain limits without any significant risk mitigations.
- **Risk Transfer**: transfer of the risk to the third party, attempt to share risk with other counterparts (most common in the form of insurance of outsourcing).
- **Risk Reduction**: searching for solutions, that would significantly decrease existing risk (or would not increase it) with the aim to improve existing situation. Risk reduction is the most common risk mitigation strategy and is usually introduced in the form of internal controls to prevent series of events that would worsen the existing situation.
- **Risk Avoidance**: declining, avoiding risk in a way that single projects will not be conducted since the possibility of failure is estimated as too high. Risk will not be mitigated, rather avoided, already started activities will be stopped.

### RISK MONITORING

Once the risk is identified, measured and introduced to the Risk and Compliance Management Committee, is evaluated and risk mitigation strategies are set, risk monitoring comes in place. Mitigations that were determined as a response to certain risk should be monitored whether or not they contribute to the achieving of desired results. Re-assessments is done in a way to examine the likelihood of any new risks.

### INTERNAL CONTROL SYSTEM

Special attention of risk management was devoted to increased and empowered internal control system in 2017. Controlling and risk 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.

## Key risks and their mitigation

Most important identified risks are presented below. More detailed and quantified presentation of risks is given in the financial part of the annual report.

### Risk of non-compliance with relevant legislative requirements

| Total estimation of risk | | | |
|---|---|---|---|
| Low | Moderate | High | Extremely high |
| | | | |

Several legislative requirements will come into force in 2018, among the most important ones for BAMC are International Financial Reporting Standard 9 – Financial instruments (hereinafter IFRS 9) and General data Protection Regulation (hereinafter: GDPR). BAMC has already taken all necessary steps to ensure the compliance with both legislative requirements. Simulation of changes due to adoption of IFRS 9 was already performed and BAMC does not expect any significant and material changes due to such adoption. In order to meet the GDPR requirements a special working group was nominated to address the most important issues. The group will be perform all necessary tasks, as required by the GDPR by the date the regulation comes into force, i.e., 25 May 2018.

### Liquidity risk

| Total estimation of risk | | | |
|---|---|---|---|
| Low | Moderate | High | Extremely high |
| | | | |

Liquidity risk was reduced in 2017 compared to the end of 2016, since BAMC repaid all bonds issued, which represented the main liquidity risk in previous business years. BAMC fully repaid its obligations consisting of bonds DUT03 (in the amount of €422,9 million), DUT04 (€125,8 million) and additional commercial loan (€169,0 million). For the repayment of these liabilities BAMC acquired new loans in the total amount of €710,0 million. BAMC has an option for an early repayment of these loans which brings additional flexibility in managing liquidity risks.

### Risks arrising from joint venture project

| Total estimation of risk | | | |
|---|---|---|---|
| Low | Moderate | High | Extremely high |
| | | | |

BAMC took additional innovative approaches to succeed with achieving maximum value in resolving assets. It is expected to officially start with the first joint venture project in 2018, where BAMC participates in such project with real estate (land), that BAMC owns, and external partner provides cash contribution to acquire a shareholding to achieve maximal investment return. Such project exposed BAMC to several new risks, which BAMC plans to mitigate with governance and management of the overall project and extensive due diligence of the joint venture partner.

### Risk of failed restructuring strategies

| Total estimation of risk | | | |
|---|---|---|---|
| Low | Moderate | High | Extremely high |

Risk of failed restructuring (risk of deterioration in the financial position of borrowers) is most connected to the abbility to collect repayments by the borrowers, where debt is not collected in enforcement proceedings. 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.

### Risk of non-achieving BAMC's KPIs

| Total estimation of risk | | | |
|---|---|---|---|
| Low | Moderate | High | Extremely high |

Key performance Indicators (KPIs) are a measurable value that demonstrate how effectively BAMC is achieving key business objectives and measure BAMC's performance against them. They help to understand if BAMC is on the right track for success – and if it's not, where to focus its attention. BAMC manages this risk with established frameworks for measuring results in the form of KPIs and using these KPIs to guide course corrections to drive business performance. Constant development of BAMC's activities to ensure achieving KPIs, which are set at all organizational units, is therefore crucial. BAMC introduced constant monitoring of KPIs achievements and reports it regularly to the senior management of BAMC in order to ensure active and timely response, when necessary. Among the KPIs, the biggest risk of not attaining the required threshold is associated with the cost efficiency indicator, as, in reducing its portfolio even ahead of plans, BAMC is incurring certain fixed costs which cannot be reduced as fast as the asset base. Additionally, the assets remaining in BAMC's portfolio are less profitable and more granular, increasing the unit costs even further.

## 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.

Internal audit in BAMC started in the last quarter of 2014, when an internal auditor was hired. Key activities at the start of operations included preparation and acceptance of Charter of Internal Audit Function, start of internal audit assignments, following the approved IAF‘s plan and preparation and issuance of first internal audit reports. Key internal audit activities in the following year included first cases‘ audits (recovery and restructuring), drafting of the IAF Manual and support to Corporate Security Function and its activities. Merger and reorganization activities resulted in fluctuations in IAF (headcount changing from two to four to one), which led to announcement of open job positions, interviews and selection of two candidates (joining in early 2017).

Audit work in 2017 focused on completing assignments started in prior periods, namely procurement and vendor management process and closed cases. Work continued with audit of key BAMC processes that were not looked at yet from the internal audit perspective: real estate cases’ management, valuation process, decision-making process and restructuring instruments.

Other processes and functions that were within the scope of the Internal Audit Function's work and were completed in 2017 include follow-up audit on the prior year IT risk assessment, which was performed with the help of an external service provider, payments request and general processes review in BAMC real estate department.

The Internal Audit Function, with the help of the internal IT department, migrated the follow-up process on Internal Audit Function’s recommendations to an in-house developed application. After initial adjustments the application has proven to be a useful tool to the Internal Audit Function as well as to the auditees.

The independence of the IAF, selection of the work, findings and recommendations and consecutively the work of IAF were not impaired in year 2017. Resources assigned to the IAF in 2017 are assessed as sufficient.

# Organisation and accompanying activities

## Human resource management

One of the objectives of BAMC has been to establish and run a company with highly professional, motivated, highly ethical staff who show a high degree of self-initiative and independence. High professionalism and solid corporate governance lead to the realization of strategic goals and help to maximize overall value to the Republic of Slovenia. BAMC staff is selected to comply with very high professional standards. Furthermore, BAMC seeks to employ, train and develop the best Slovenian team in all of its important functions. Teamwork, openness and aptitude to take action are critical to hiring and developing a highly motivated and professional team and ensuring their loyalty to BAMC.

In accordance with the third paragraph of Article 70 of the ZGD-1, BAMC explicitly states that it does not have a diversity policy in place. Regardless of this, the share of women in management positions (directors and managers) is 38%.

Due to the reduction in the portfolio size and business process optimization, the number of BAMC core employees, i.e., employees engaged in regular operations, was down by 6%, from 145 to 137. The total number of employees was down 7% in 2017, from 162 to 150. Of this figure, 139 colleagues are employed on a permanent basis and 11 are employed on a temporary basis.

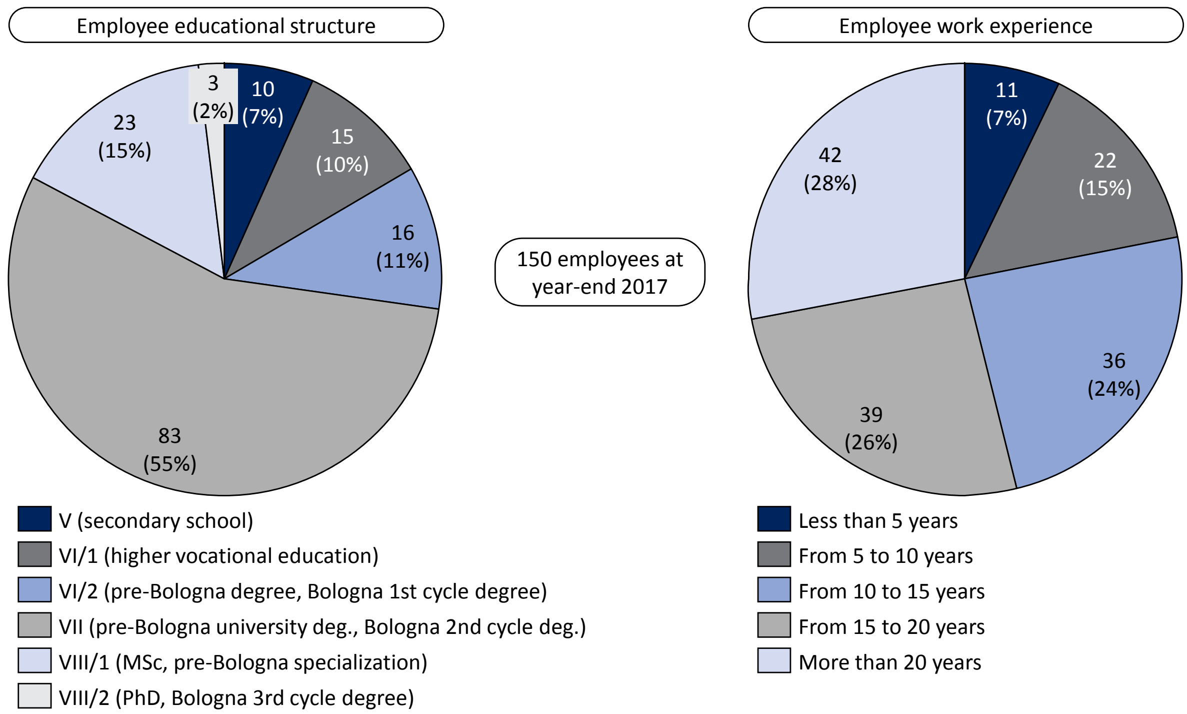
Table 16: Headcount by working area

| **Organizational unit** | **Core employees** | | **Total employees** | |
|---|---|---|---|---|
| | **31 Dec 2017** | **31 Dec 2016** | **31 Dec 2017** | **31 Dec 2016** |
| Credit management | 34 | 39 | 38 | 48 |
| Asset management | 30 | 32 | 34 | 35 |
| Analyses and legal support | 23 | 21 | 24 | 21 |
| General support and other | 44 | 40 | 47 | 40 |
| Top management | 6 | 6 | 6 | 6 |
| Unassigned | 0 | 7 | 1 | 12 |
| **Total** | **137** | **145** | **150** | **162** |

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

BAMC has a team of 61% women and 39% men. 72% of its staff hold at least a university degree, 17% also a master's of science or a doctorate, which is a sound basis for decision-making based on expertise. The average age of the staff is 42, which is reflected in dynamism and responsiveness of the team. BAMC has a seasoned team, with an average of 17 years of working experience with maturity being a valued component as 28% of staff have more than 20 years of working experience. The information on staff breakdown is valid as at 31 December 2017.

FIGURE 30: EDUCATION AND WORK EXPERIENCE OF EMPLOYEES




After complex change management brought by the three-way merger in 2016, BAMC continued strategic development of the company's HR function in 2017. After three years the organizational climate survey was repeated, which showed that employees regard BAMC as an interesting working environment which poses a professional challenge, has good management and competent and professional employees. The highest value scores were identification with BAMC's mission and cooperation with colleagues. Additionally, employees also pointed out that BAMC is an environment with flexible working time which enables an individual to acquire new knowledge and skills. Despite its young age and limited lifespan, BAMC's knowledge, experience and operational results are making it an increasingly recognized and important player in both the domestic and international professional community, restructuring and NPL management arena.

As BAMC is essentially a project-based company with winding-down planned in 2022 there is an ever-increasing risk of its employees being offered opportunities in the labour market and leaving the company. With the consideration of its temporary nature, the company has a stay bonus system with the aim of retaining key employees to lower operational risk and disproportionate costs in the event of their premature departure. The ones who stay also get their carrier development opportunities enhanced as they can take over new work areas, more demanding tasks or even leadership positions. All in all, the voluntary employee turnover at BAMC was 7% in 2017.

Acquiring and sharing knowledge and employee development is a major focus for BAMC. In 2017, this was seen through the contributions and participations at numerous industry forums, conferences and internal training events. Based on indicators which measure employee development and knowledge transfer, BAMC is ranked among companies in Slovenia which dedicate the most attention to these areas. On average in 2017 the BAMC employee attended 7,4 trainings or conferences, of these two thirds internal, summing up to 43 training hours per employee.

In 2017 a new KPI system with significantly more objectively measurable metrics for all organizational units was introduced at BAMC. These indicators have also supported the efforts to upgrade and improve the objectivity of employee performance management. As quality leadership is key to ensuring the employees' productivity, a systematic leadership competence development was launched for BAMC's management staff.

## INFORMATION TECHNOLOGY

After the merger of Factor banka and Probanka in 2016, when the new IT architecture was defined, the implementation of this architecture was the main issue – and it was finalized in 2017. In 2017, BAMC also became the owner of Avtotehna and the IT department took over the management of its IT services, such the e-mails, accounting solution and the IT archive system.

In terms of application management, BAMC continued the development of proprietary solutions in this way supporting and optimising its processes. The decision-making process application was thus upgraded to include the follow-up functionality, contract management support was implemented, and many other improvements were made. One important project was, and still is, the collateral project, in the context of which the collateral management application was developed. In this project the IT plays an important role not only in the application development phase, but also in the phase of entering the collateral data.

With the enactment of the Central Credit Register Act, BAMC also became obligated to join the SISBON system. In 2017, many organisational and IT activities were focused on this project and at the end of 2017 BAMC was prepared for certification by the Bank of Slovenia.

The area of IT infrastructure was focused on increasing the system security and reliability. The implementation of high-availability solutions for the firewall and internet access (BGP), the upgrade of the backup, and many other solutions have all contributed to increased security. From the perspective of organisational IT security, strong emphasis was placed on educating employees about IT security. Several workshops on IT security were organized, attended by the majority of BAMC employees.

## MARKETING, CORPORATE COMMUNICATIONS AND INVESTOR RELATIONS

The goal of Marketing, corporate communications and investor relations in BAMC is to provide communication support in the course of implementation of BAMC's strategic goals.

Marketing and investor relations activities aim to contact and nurture good relations with as many potential buyers and investors as possible in order to support the sales efforts of the company to sell each asset under the company's management in due time and for the highest possible price. In 2017 much was done to establish an effective infrastructure for successful investor relations: the Investor relations database was launched in order to be able to remember and the process to further nurture every new potential investor was defined, the advertising strategy for the real estate was established, effecting positive sale results (most notably for Celovški dvori and Nokturno), and regular communication with investment opportunities updates was established with the Ministry of Foreign Affairs.

The corporate communication activities focus on establishing and maintaining the positive image of BAMC among the broadest groups of stakeholders: the owner and decision makers, the professionals, experts and opinion makers, the media, the Slovenian citizens and BAMC's employees. This is done by promoting awareness about the company's mission and educating interested audiences about the processes involved in turning the non-performing assets into performing ones, by transparent and prompt media relations and continuous internal communication.

### Thought leadership of BAMC in the field of distressed assets

In 2017 great business results, increased visibility of BAMC among the potential investors and proactive communication strategies started building a reputation of BAMC as the knowledge centre for successful restructuring of non-performing assets. By both building and gaining the international reputation as an efficient and flexible business partner with the highest level of business integrity, BAMC actively stepped into the role of thought leadership on the topics of distressed asset management. In the whole year, BAMC executive directors and experts met with investors and peer professionals from all over the world at 23 high-level events focusing on the topics such as NPLs, real estate management, strategies to add value to the distressed assets, AMC set-up and organization.

BAMC was invited to speak at conferences presenting the most substantial investment opportunities in Slovenia, showcasing how a thought-out asset management strategy can add market value to any NPL. As speakers BAMC directors attended EU Investment Summit 2017 in Miami, NPL Spring 2017 and CDSP European NPL conference in London, CEE-SEE NPL conference in Prague, Bled Strategic Forum in Bled, Real estate development summit and the real estate investment opportunities conference in Ljubljana, NPL in CESEE summit in Vienna, Global Distressed Investment Forum in London, Global Debt Collection & NPL Portfolio Summit in Barcelona, China-CEEC SMEs Matchmaking in Budapest, Invest in Slovenia Conference and Capital Connection Summit in London.

BAMC was also frequently asked to share experience and knowledge with its peer institutions. In this regard, BAMC executive directors met on several intense bilateral workshops with other companies managing non-performing assets: Sareb, Nama and AA1. BAMC shared the most crucial lessons learned at the AMC Workshop organized by the European Banking Authority in London and responded to the invitation of Oesterreichische Nationalbank in Vienna. At each of those meetings BAMC experts were asked to present the different aspects of BAMC organization, asset management and sales process that contribute to the company's visible success and recognized thought leadership among similar AMCs.

In December 2017 Bank of Slovenia responded to a request of Supervisory board of European Central Bank and presented BAMC as a role model AMC. As a result, BAMC experts were hosted by the Central Bank of Cyprus to share the experiences in setting up a national AMC.

Confirming both the thought leadership role of BAMC in the field of NPLs and the company's actual contribution to the Slovenian economy, in the Country Report Slovenia 2018 (Published on 7 March 2018 as part of the European Semester Winter Package), the European Commission has found that Slovenia has made progress in 2017 in implementing the country-specific recommendations. Among the eleven recommendations, Slovenia has made substantial progress in two areas specifically related to BAMC's operations: sustainable resolution of non-performing loans and implementation of BAMC's strategy. The report can be found at:
https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-slovenia-en.pdf

## INTEGRITY AND ETHICS

BAMC is committed to observing applicable laws and regulations and employing highly ethical business practices. BAMC seeks to ensure that clear rules and guidance for ethical practices are in place and easily accessible to all its employees and subcontractors. All employees are expected to understand the rules and report any violations to the compliance officer or to the relevant authorities.

BAMC applies the zero tolerance principle to unlawful and unethical conduct of employees and business partners. The Anti-Corruption Compliance Program Certificate was obtained from the internationally-accredited ETHIC Intelligence Agency in 2015. In October 2017, following the implementation of an intensive program performed over several months by the same agency, BAMC obtained the Anti-Corruption Compliance System Certificate:
(http://www.ethic-intelligence.com/certification/anti-bribery-compliance-certification/21535-bank-assets-management-company-bamc-slovenia/), which is the highest level certificate to be awarded. BAMC is the only company in Slovenia with the aforementioned certificate, which is acquired only by companies with a high level of business integrity, transparency and prevention of conflict of interests at all levels of the company's operations.

BAMC continually strives to ensure compliance and eliminate corruption risks and places great emphasis on education of employees. In November 2017 the Board has adopted the updated Integrity plan of BAMC based on the Act on Integrity and Corruption Prevention (ZIntPK), a tool for establishing and verifying the integrity of the organization. The Integrity plan is published on BAMC website and on the intranet (http://www.dutb.eu/en/croporate_documents.aspx).

## ACCESS TO INFORMATION OF PUBLIC NATURE

In accordance with the Access to Public Information Act (ZDIJZ) BAMC publishes detailed information directly related to defaulters' loans as risk items administered as impairments in the balance sheets of a bank that were transferred to BAMC from the bank.

BAMC also publishes information of public nature in connection with donations, sponsorships, consultancy and other intellectual property services, and information of a public nature in connection with the statutory representatives of the business entity, the type of statutory representative and an indication of membership in corporate governance bodies, and details of their remuneration and related benefits on its website.

BAMC received 12 requests for access to information of public nature in 2017, which related mainly to individual sales of assets managed by BAMC and public procurement procedures. BAMC reviews each such request in detail and with the requisite expertise, and decides on the request in accordance with law.

## REPORTING ON SUSPICIONS OF CRIMINAL ACTIVITIES

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 notes the liability for possible irregularities in loans and investments, which BAMC manages from the merger of Factor banka and Probanka further. 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 29 additional irregularities in 2017 (including 13 irregularities detected at Probanka), bringing the total number of irregularities to 86 until end of 2017. 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 11 criminal incidents in 2017 (20 in total since inception), which were reported to the Criminal Police Directorate for further investigation.

Within BAMC a corporate security department is run with the main tasks of (i) investigating all irregularities or suspected criminal activities except those which are reported through "whistleblowing" and (ii) reinforcement of internal security of BAMC. Corporate security communicates with the police and other law enforcement bodies on all levels, provides and disseminates orders regarding (non-)participation in judicial (criminal) procedures and prepares formal criminal complaints to the authorities.

### Court of Audit cooperation

In 2016 the Court of Audit began its audit of BAMC's operations in 2014 and 2015, which continued in 2017. In order to facilitate easier and faster cooperation some of the Court of Audit employees were working directly at BAMC's premises and a standardised communication channel was agreed and established in 2016. In 2017 BAMC received seven additional information requests from the Court of Audit containing 342 questions and sub-questions, and has tried to be as prompt as possible in providing answers, explanations and documentation requested.

BAMC received the "Draft audit report on the regularity and efficiency of the operations of BAMC d.d. in 2014 and 2015" (hereinafter: the Draft) on 19 December 2017. A written response was prepared and sent to the Court of Audit on 10 January 2018, stating BAMC comments to the Court of Audit findings in the Draft. A clarification meeting was held in the premises of the Court of Audit on 15 January 2018 to clarify the disclosures in Draft. BAMC also expressed its views on the need, comprehensibility and feasibility of the corrective measures. After the clarification meeting additional documentation was sent to the Court of Audit to support BAMC comments. The Court of Audit reviewed the comments and the additional documentation and prepared the "Proposal audit report on the regularity and efficiency of the operations of BAMC d.d. in 2014 and 2015" (hereinafter: the Proposal), which was received by BAMC on 31 January 2018. BAMC prepared the objection to the Proposal and sent it to Court of Audit on 9 February 2018 for the Court of Audit Senate to review it. After deciding on the objection from BAMC, the Court of Audit shall publish the final version of the audit report on the regularity and efficiency of the operations of BAMC d.d. in 2014 and 2015.

BAMC received a new request from the Court of Audit in August 2017, which is not related to the upper audit. However, the Court of Audit may, before the introduction of an audit, require from BAMC all information and documentation that it deems necessary, for planning or conducting audits.

## BAMC SHARE

As at 31 December 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 31 December 2017.

There were no changes in the ownership structure in 2017.

# FINANCIAL STATEMENTS OF BAMC FOR THE PERIOD 1 JANUARY 2017 TO 31 DECEMBER 2017

TRANSLATION OF THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SLOVENIAN LANGUAGE.

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management hereby confirms that the financial statements, including all their 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 follows 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 31 December 2017.

The financial statements, together with the notes, have been prepared on an ongoing 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, 17 April 2018

| **Jože Jaklin** | **Andrej Prebil** | **Imre Balogh** |
|---|---|---|
| Executive director | Executive director | Chief executive officer |

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

KPMG Slovenija, podjetje za revidiranje, d.o.o.
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Internet: http://www.kpmg.si

## Independent Auditor's Report

## To the owners of DUTB, d.d.

## Report on the Audit of Financial Statements

### *Opinion*

We have audited the financial statements of DUTB, d.d. (»the Company«), which comprise the balance sheet as of 31 December 2017, the income statement, the statement of other comprehensive income, the statement of cash flows, and the statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements as at 31 December 2017 are prepared in all material respects, in accordance with the accounting requirements of the Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act – A (ZUKSB-A).

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs) and EU Regulation (EU) No 537/2014. Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of the matter*

We draw attention to the note 2.1 of the financial statements which describes the basis of accounting. The company was established and operates under the mandate provided by the ZUKSB-A. During December 2015 this legislation was amended to exempt the Company from consolidating entities over which it has control and that were acquired in terms of the asset transfer and restructuring process as envisaged by the ZUKSB-A Act. Consequently management has determined that the Company is not required to prepare and thus has not prepared consolidated financial statements in accordance with the exemption provided under the amended ZUKSB – A. Our opinion is not modified in respect of this matter.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Valuation of financial assets at fair value through profit or loss**

The carrying amount of financial assets at fair value through profit or loss as at 31 December 2017: EUR 759.242 thousand (2016: EUR 1.045.060 thousand); income from loans - net revaluation for 2017: EUR 54.208 thousand (2016: EUR -30.371 thousand): income from equity investments and bonds – net revaluation for 2017: EUR 1.035 thousand (2016: EUR 26.686 thousand).

We refer to the financial statements: note 3.1. Financial assets at fair value through profit or loss, note 4 A Methodology for valuation of loans and 4 B Methodology for valuation of equity investments (accounting policies); note 5 Financial assets at fair value through profit or loss – Loans, note 6 Financial assets at fair value through profit or loss - equity investments and bonds, note 16 Income from loans and note 17 Income from equity investments and bonds (disclosures).

| Key audit matter | Our response |
|---|---|
| The financial assets at fair value through profit or loss include loans and equity investments.<br><br>The loans portfolio represents 63% of the carrying value of the Company's total assets. The above mentioned loans are classified as financial assets at fair value through profit or loss, with their valuation based on the Binominal Option Pricing Model, which uses unobservable inputs. The inputs to which the valuations are most sensitive are disclosed in note 4 of the financial statements.<br><br>A key unobservable input in the valuation methodology is the estimation of the probability of realization. For each debtor two possible scenarios, restructuring and recovery, are considered and future cash flows are estimated accordingly.<br><br>The equity investments, including equity shares in unlisted companies, represent 9% of the carrying value of the Company's total assets. The majority of the portfolio requires significant management judgments in determining valuation inputs. The inputs with the most significant impact on these valuations are disclosed in note 4.<br><br>We identified the valuation of financial instruments at fair value through profit or loss as a key audit matter due to the significance of the balance to the financial statements, combined with significant judgment involved in determining fair value. | Our audit procedures included, among others:<br><br>• Assessing whether the valuation methodology is appropriate.<br><br>• Testing whether the valuation process is conducted in accordance with the methodology, covering key procedures and related controls.<br><br>• Testing design and implementation of controls over the input data used in the valuation model.<br><br><u>Loans</u><br><br>• Selecting a sample of loans which included the most significant loans and those with significant changes in fair values from the previous year. On a sample basis, independently challenging the appropriateness and reasonableness of estimated cash flows used as an input in the valuation model, and value of collateral.<br><br>• Challenging the discount rate used.<br><br>• Assisted by our own valuation specialists, assessing the appropriateness of the techniques and underling data used in valuation of equity investments held as collateral, which enters into the loan valuation model.<br><br>• Assisted by appraisal experts, engaged by us, assessing the appropriateness of the techniques used in the valuation of real estate held as collateral for loans.<br><br>• Testing the Company's sensitivity analysis of the valuations to changes in key model assumptions and assessed the appropriateness of the related disclosures. |

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| | |
|---|---|
| | Equity investments<br><br>On a sample of most significant non-listed equity investments and assisted by our own valuation specialists we:<br><br>• Assessed the appropriateness of the underlying data used in the valuations;<br><br>• challenged the reasonableness of key assumptions used in the valuations, such as growth rates, WACC, earnings multiples and performed analysis to confirm that these multiples were within an appropriate range with reference to other comparable company multiples. |

**Valuation of inventories of property and equipment**

The carrying value of inventories of property and equipment as at 31 December 2017: EUR 194.163 thousand (2016: EUR 197.677 thousand); income from inventories of property and equipment – net write-downs and reversal of write-downs in 2017: EUR -9.264 thousand (2016: EUR 2.594 thousand);

We refer to the financial statement: note 3.2 Inventories of property and equipment, note 4 C Methodology for valuation of real estate (accounting policies); note 7 Inventories of property and equipment, note 18 income from inventories of property and equipment (disclosures).

| Key audit matter | Our response |
|---|---|
| The inventories of property and equipment represent 18% of the carrying value of the Company's total assets.<br><br>The inventories are measured at lower of cost and net realizable value. The valuation of the majority of the portfolio requires significant management judgments in determining valuation inputs in estimating net realizable value.<br><br>We identified the valuation of inventories of property and equipment as representing a key audit matter due to the judgement associated with determining net realizable value. | Our audit procedures included, among others:<br><br>• Assessing whether the valuation methodology is appropriate. Testing whether the valuation process is conducted in accordance with methodology covering key procedures and controls with respect to the determination of net realizable value.<br><br>• Assisted by appraisal experts, engaged by us, assessing the appropriateness of the techniques used to determine net realizable value of the real estate portfolio. On a sample of the most significant items of real estate, our external appraisal specialist compared inputs used in determining net realizable value to market data and property-specific information to assess the appropriateness of these judgements and estimates. |

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### Other Information

Management is responsible for the other information. The other information comprises the Highlights and summary of 2017, Letter from the CEO, Report of the Board of directors for 2017, Presentation of BAMC, Status of NPLS in Slovenia and Business Report included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained other information before the date of issuance of the auditor's report, except for the Report of the Board of directors for 2017, which will be available after the date of the auditor's report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report, we considered whether the Business Report includes the disclosures required by the Company's Act (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, in our opinion:

- the information presented in the Business Report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the Business Report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

### Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the accounting requirements of the ZUKSB-A, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using of the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### Auditor's Responsibility for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and EU Regulation (EU) No 537/2014 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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## Report on Other Legal and Regulatory Requirements

We were appointed by the shareholder of DUTB, d.d. on shareholder's meeting dated November 2, 2016 to audit the financial statements of DUTB, d.d. for the year ended 31 December 2017. Our total uninterrupted period of engagement is 5 years, covering the periods ending 31 December 2013 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated April 23, 2018;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit;

In addition to the statutory audit, the audit firm did not rendered to the Company, to which the financial statements refer, other services that were not disclosed in the annual report.

On behalf of the auditing firm

**KPMG SLOVENIJA,**
**podjetje za revidiranje, d.o.o.**

Barbara Kunc
*Certified Auditor*
*Partner*

KPMG Slovenija, d.o.o.

Ljubljana, 23 April 2018

# FINANCIAL STATEMENTS

## BALANCE SHEET OF BAMC FOR YEAR ENDED AS AT 31 DECEMBER

| in € thousand | Note | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|---|
| Intangible assets | | 101 | 213 |
| Property, plant and equipment | | 99 | 139 |
| Financial assets at fair value through profit or loss | | 759.242 | 1.045.060 |
| Loans | 5 | 660.237 | 948.115 |
| Equity investments and bonds | 6 | 99.005 | 96.945 |
| Inventories of property and equipment | 7 | 194.163 | 197.677 |
| Trade and other operating receivables | 8 | 5.500 | 4.768 |
| Deferred costs | | 642 | 280 |
| Cash and cash equivalents | 9 | 90.636 | 122.261 |
| **Total assets** | | **1.050.383** | **1.370.398** |
| Total Equity | 10 | 146.429 | 79.443 |
| Share capital | | 104.118 | 104.118 |
| Capital reserves | | 0 | 154.117 |
| Accumulated losses | | 42.311 | -178.792 |
| Total liabilities | | 903.954 | 1.290.955 |
| Debt securities | 11 | 0 | 548.855 |
| Borrowings | 12 | 880.175 | 714.555 |
| Trade and other operating payables | 13 | 8.506 | 12.199 |
| Liabilities for current tax | 13 | 6.058 | 0 |
| Provisions | 14 | 6.084 | 12.824 |
| Other liabilities | 15 | 3.131 | 2.522 |
| **Total equity and liabilities** | | **1.050.383** | **1.370.398** |

The notes to the financial statements on pages 97-173are an integral part of the financial statements.

## INCOME STATEMENT OF BAMC FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER

| in € thousand | Note | 1 Jan to 31 Dec 2017 | 1 Jan to 31 Dec 2016 |
|---|---|---|---|
| Income from loans | 16 | 95.037 | 29.418 |
| Income from equity instruments and bonds | 17 | 10.226 | 29.991 |
| Income from inventories of property and equipment | 18 | 11.233 | 7.931 |
| Financial expenses | 19 | -22.144 | -48.634 |
| Other income | 20 | 3.553 | 272 |
| Cost of material | | -109 | -255 |
| Cost of services | 21 | -13.942 | -11.536 |
| Payroll costs | 22 | -8.522 | -10.750 |
| Depreciation | | -210 | -362 |
| Other expenses | 23 | -2.079 | -3.878 |
| **Profit / Loss before tax** | | **73.044** | **-7.803** |
| Income tax expense | 24 | -6.058 | 0 |
| **Net profit / loss for the period** | | **66.986** | **-7.803** |
| Attributable to owners | | 66.986 | -7.803 |
| Basic and diluted earnings per share | | 0,64 | -0,08 |

The notes to the financial statements on pages 97-173 are an integral part of the financial statements.

## Statement of other comprehensive income of BAMC for the period from 1 January to 31 December

| in € thousand | 1 Jan to 31 Dec 2017 | 1 Jan to 31 Dec 2016 |
|---|---|---|
| Net profit / loss for the period | **66.986** | **-7.803** |
| **Total comprehensive income for the period attributable to owners** | **66.986** | **-7.803** |

The notes to the financial statements on pages 97-173 are an integral part of the financial statements.

## Statement of changes in equity of BAMC for the period from 1 January to 31 December

| in € thousand | Note | Share Capital | Capital Reserves | Accumulated loss/ Retained earnings | Total Equity |
|---|---|---|---|---|---|
| **Balance as at 1 January 2017** | **10** | **104.118** | **154.117** | **-178.792** | **79.443** |
| Total comprehensive income for the reporting period | 10 | 0 | 0 | 66.986 | 66.986 |
| Net profit / loss for the period | | 0 | 0 | 66.986 | 66.986 |
| Transactions with owners | 10 | 0 | -154.117 | 154.117 | 0 |
| Offsetting loss against capital reserves | | 0 | -154.117 | 154.117 | 0 |
| **Balance as at 31 December 2017** | **10** | **104.118** | **0** | **42.311** | **146.429** |

| in € thousand | Note | Share Capital | Capital Reserves | Accumulated loss | Total Equity |
|---|---|---|---|---|---|
| **Balance as at 1 January 2016** | **10** | **203.625** | **0** | **-88.758** | **114.867** |
| Total comprehensive income for the reporting period | 10 | 0 | 0 | -7.803 | -7.803 |
| Net profit / loss for the period | | 0 | 0 | -7.803 | -7.803 |
| Transactions with owner | | -99.507 | 154.117 | -82.231 | -27.621 |
| Merger | 10 | 0 | 0 | -80.721 | -80.721 |
| In-kind contribution | 10 | 4.610 | 0 | -1.510 | 3.100 |
| Decrease in share capital | 10 | -104.117 | 104.117 | 0 | 0 |
| Contribution to capital reserves | 10 | 0 | 50.000 | 0 | 50.000 |
| **Balance as at 31 December 2016** | **10** | **104.118** | **154.117** | **-178.792** | **79.443** |

The notes to the financial statements on pages 97-173 are an integral part of the financial statements.

## STATEMENT OF CASH FLOWS OF BAMC FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER

| in € thousand | Note | 1 Jan to 31 Dec 2017 | 1 Jan to 31 Dec 2016 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net profit / Loss | | 66.986 | -7.803 |
| Adjustments for: | | | |
| Write off of property, plant and equipment and intangible assets | | 0 | 35 |
| Amortization and depreciation | | 210 | 362 |
| Write down / reversal of write down of inventories | 7 | 9.264 | -2.594 |
| Foreign exchange differences | 16 | 3.043 | -544 |
| Interest expense | 16 | 22.144 | 48.634 |
| | | **101.647** | **38.090** |
| Changes in: | | | |
| Loans and receivables | 5 | 284.835 | 379.995 |
| Equity investments | 6 | -2.060 | -36.762 |
| Available for sale financial assets | | 0 | 3.278 |
| Inventories of property and equipment | 7 | -5.750 | -68.580 |
| Trade and other operating receivables | 8 | -732 | 13.006 |
| Deferred costs | | -362 | 459 |
| Trade and other operating payables | 13 | 2.365 | 4.852 |
| Provisions | 14 | -6.740 | -948 |
| Other liabilities | 15 | 609 | -541 |
| **Net cash from operating activities** | | **373.812** | **332.849** |
| **Cash flow from investing activities** | | | |
| Purchase of equipment and intangible assets | | -58 | -107 |
| **Net cash flow from investing activities** | | **-58** | **-107** |
| **Cash flow from financing activities** | | | |
| Contribution to capital reserves | | 0 | 50.000 |
| Proceeds from borrowings | 12 | 728.000 | 505.000 |
| Repayment of borrowings | 12 | -562.380 | -406.211 |
| Redemption of debt securities | 11 | -548.855 | -503.200 |
| Interest paid | | -22.144 | -48.634 |
| **Net cash flow from financing activities** | | **-405.379** | **-403.045** |
| **Net decrease in cash and cash equivalents** | | **-31.625** | **-70.303** |
| **Cash and cash equivalents from merger** | | **0** | **26.432** |
| **Cash and cash equivalents at the beginning of year** | **9** | **122.261** | **166.132** |
| **Cash and cash equivalents at the end of year** | **9** | **90.636** | **122.261** |

The notes to the financial statements on pages 97-173 are an integral part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1: GENERAL INFORMATION

TABLE: BASIC COMPANY DATA ON 31 DECEMBER 2017

| | |
|---|---|
| Full company name | Družba za upravljanje terjatev, d.d.<br>Bank Assets Management Company |
| Short company name | DUTB, d.d.<br>BAMC |
| Registered office | Davčna ulica 1, 1000 Ljubljana |
| Telephone | +386 820 542 35 |
| Fax | +386 1 429 38 59 |
| 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 |
| Non-executive directors as at 31 December 2017 | Miha Juhart, Chairman of the Board of Directors<br>Janez Širovnik, Deputy Chairman of the Board of Directors<br>Mitja Križaj<br>Juan Barba Silvela |
| Executive directors as at 31 December 2017 | Imre Balogh, CEO<br>Janez Škrubej, CAM<br>Aleš Koršič, CAO |

The Act Regulating Measures of the Republic of Slovenia to Strengthen the Stability of Banks (ZUKSB), which entered into force at the end of 2012, provides the legal basis for BAMC's operations. The BAMC was established with a specific statutory mandate until the end of December 2017, extended until the end of 2022 by virtue of the amended ZUKSB

The Bank Assets Management Company (the "BAMC") was established by the Republic of Slovenia as the key institution to promote the stability of the Slovenian financial system and restore trust in its functioning. This was one of the measures the Republic of Slovenia government's implemented to strengthen financial capacity and sustainability of banking system, and consequently promote economic growth.

The first task of the BAMC was to relieve distressed banks by taking over the non-performing assets, predominantly non-performing loans (NPLs). These were mainly loans granted in the past by these banks that were not being serviced by the debtors due to the economic crisis and other reasons. As a consequence, the banks made impairments for expected losses, which eroded their respective capital bases. This was reflected in the lack of capital for normal operations. In accordance with the government's decision, in 2013 and 2014, BAMC acquired non-performing assets from four distressed banks (NLB, NKBM, Abanka, Banka Celje) in order to maximize the recovery value of the asset and exit from assets at the best achievable price. The ZUSKB requires BAMC to collect at least 10% of the transfer value of the transferred assets each year.

### *MERGER OF FACTOR BANKA AND PROBANKA*

On 19 February 2016, Factor banka d.d., Ljubljana and Probanka d.d., Maribor were merged into BAMC, the effective date was 1 January 2016. The transactions was accounted for as asset acquisitions in which the cost of acquisition was allocated between the individual identifiable assets and liabilities in the group based on their relative fair values at the date of acquisition. Consequently, BAMC re-measured all transferred assets and liabilities at their respective fair values. Hereinafter, the term "merger" is used for the transaction.

Both banks were in an orderly winding-down procedure since September 2013. By merging Factor banka and Probanka, BAMC effectively became the direct owner of five subsidiaries registered in Slovenia, as well. In May and June 2016, BAMC absorbed all five subsidiaries as of the effective date of 31 March 2016, effectively simplifying the process of managing the merged assets.

### *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.

In December 2017, BAMC refinanced and repaid its obligations stemming from the remaining bonds DUT03 and DUT04. As at 31 December 2017, BAMC therefore has no liabilities stemming from issued bonds.

## 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. The financial statements were approved by the Company's management on 17 April 2018.

In December 2015, the ZUKSB-A20 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 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 stakes acquired in terms of the 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 emphasise that the consolidation exemption described above, overrides the requirements for consolidation under IFRS 10.

Details of the Company's accounting policies, are included in notes 3.1. to 3.10. These policies have been applied consistently in all years presented, unless otherwise stated.

[20] In further text used ZUKSB

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.

According to the ZUKSB stipulations, the Government of Republic of Slovenia, as the only shareholder, represents the BAMC's General Assembly and in accordance with the ZGD-1 may accept or reject the annual report.

This financial statements are presented for the year starting 1 January 2017 and ending 31 December 2017.

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

### 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 required by ZUKSB-A1 or 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 (note 4 A and 4 B),
- net realizable value of inventories of property and equipment and potential write-down of inventories (note 4 C),
- provisions for obligations towards employees and provisions for liabilities arising from legal disputes (note 3.5),
- potential tax items (note 3.8),
- the value of financial assets and revenues generated from their sale will suffice to cover the repayment of financial liabilities maturing later, therefore the financial statements were prepared on a going concern basis (note 11 and 12),
- determination of current and non-current part of loans, due and not due (note 26)
- Conversions of loans and receivables into underlying collateral (see detailed description in note 3.1 C).

## 2.5 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS AS ADOPTED BY THE EU THAT ARE NOT YET EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON 1 JANUARY 2017

| **Standard/Interpretation**<br>*[IAS 8.31 (a), 8.31(c)]* | **Nature of impending change in accounting policy**<br>[IAS 8.31 (b)] | **Possible impact on financial statements**<br>*[IAS 8.30 (b); 31 (e)]* |
|---|---|---|
| IFRS 15 Revenue from Contracts with Customers<br>and<br>Clarifications to IFRS 15 Revenue from Contracts with Customers<br><br>(Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.) | The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:<br>• over time, in a manner that depicts the entity's performance; or<br>• at a point in time, when control of the goods or services is transferred to the customer.<br>IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.<br>The Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard.<br>The amendments clarify how to:<br>• identify a performance obligation - the promise to transfer a good or a service to a customer- in a contract;<br>• determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and | The timing and measurement of the BAMC's revenues are not expected to change under IFRS 15 because of the nature of the BAMC's operations and the types of revenues it earns. Net revenue comprising dividends and capital gains, is recognized when expected cash flows or inflow of the economic value are more than probable, while revenue from valuation of financial assets, recognized in accordance with valid valuation methodology, are determined twice a year and posted in profit or loss on an annual basis.<br>Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the BAMC's financial statements, management does not expect that the new Standard, when initially applied, will have a material impact on the |

| **Standard/Interpretation** *[IAS 8.31 (a), 8.31(c)]* | **Nature of impending change in accounting policy** [IAS 8.31 (b)] | **Possible impact on financial statements** *[IAS 8.30 (b); 31 (e)]* |
|---|---|---|
| | • determine whether the revenue from granting a license should be recognised at a point in time or over time.<br>The amendments also provide entities with two additional practical expedients:<br>• An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only);<br>• For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application). | Entity's financial statements |
| IFRS 9 Financial Instruments (2014)<br>(Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.) | This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting until the standard resulting from the IASB's project in macro hedge accounting is effective.<br>Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.<br>A financial asset is measured at amortized cost if the following two conditions are met:<br>• the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and<br>• its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.<br>Otherwise, e.g. in the case of equity instruments of other entities, a financial asset will be measured at fair value.<br>Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, other than assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets – such remeasurement gains and losses are recognized in OCI.<br>In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. | BAMC applied the new standard as well as the amendments on 1 January 2018. In 2017 and 2018 BAMC performed a thorough impact and gap analysis and consequently amended accounting policies in line with IFRS 9 requirements.<br><br>Transition to IFRS 9 had no significant impact on BAMC's retained earnings:<br>• Based on business model assessment all loans are measured at fair value through profit and loss (the same measurement in line with IAS 39 requirements).<br>• Cash and cash equivalents are short term (overnight) Expected credit losses are therefore immaterial in respect of financial statements as a whole.<br>• Based on business model assessment all equity instruments are measured at fair value through profit and loss (the same |

| **Standard/Interpretation**<br>*[IAS 8.31 (a), 8.31(c)]* | **Nature of impending change in accounting policy**<br>[IAS 8.31 (b)] | **Possible impact on financial statements**<br>*[IAS 8.30 (b); 31 (e)]* |
|---|---|---|
| | These are not reclassified to profit or loss under any circumstances.<br>For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.<br>The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking an 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.<br>Under IFRS 9, loss allowances will be measured on either of the following bases:<br>• 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and<br>• Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.<br>IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.<br>The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.<br>Extensive additional disclosures regarding an entity's risk management and hedging activities are required. | measurement in line with IAS 39 requirements).<br>• Accounting for financial liabilities remained the same in line with IAS 39 requirements.<br>• Trade receivables within the scope of IFRS 9 will be assessed on a case-by-case basis.<br>**Classification and measurement effects:**<br>In 2016 and 2017 BAMC measured loans, lease receivables, equity investments and bonds at fair value through profit and loss. New IFRS 9 requirements therefore have no effect on retained earnings at transition as at 1. January 2018.<br>**Impairment effect:**<br>BAMC measures its financial assets at fair value through profit at loss except for cash and cash equivalents. Fair value calculation model, developed in line with IFRS 13 requirements, has not been amended with transition to IFRS 9. New IFRS 9 requirements therefore have no material effect on retained earnings at transition as at 1. January 2018. |
| Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts<br>(Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively) | The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard. | BAMC expects that the amendments, when initially applied, will not have a material impact on the presentation of its financial statements because BAMC is not an insurance provider. |
| IFRS 16 Leases | IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most | BAMC does not expect that the new Standard, when |

| Standard/Interpretation<br>*[IAS 8.31 (a), 8.31(c)]* | Nature of impending change in accounting policy<br>[IAS 8.31 (b)] | Possible impact on financial statements<br>*[IAS 8.30 (b); 31 (e)]* |
|---|---|---|
| (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.) | leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.<br>Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.<br>The new Standard introduces a number of limited scope exceptions for lessees which include:<br>• leases with a lease term of 12 months or less and containing no purchase options, and<br>• leases where the underlying asset has a low value ('small-ticket' leases).<br>Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained. | initially applied, will have material impact on the financial statements because the Entity is party to one contractual arrangement that would be in the scope of IFRS 16.. |
| Annual Improvements to IFRS 2014-2016 Cycle<br>(Effective for annual periods beginning on or after 1 January 2018 except for the changes to IFRS 12 that shall be applied for annual periods beginning on or after 1 January 2017) | The Improvements to IFRSs (2014-2016) contains 3 amendments to standards. The main changes were to:<br>• delete short-term exemptions for first-time adopters (IFRS 1 First-time Adoption of International Financial Reporting Standards) relating, inter alia, to transition provisions of IFRS 7 Financial Instruments - Disclosures regarding comparative disclosures and transfers of financial assets, and of IAS 19 Employee Benefits; The exemptions were deleted due to the fact that these reliefs had been available to entities only for reporting periods that had passed;<br>• clarify that requirements of IFRS 12 Disclosure of Interest in Other Entities (with an exception of disclosure of summarized financial information in accordance with paragraphs B10-B16 of that standard) apply to entities that have an interest in subsidiaries, or joint arrangements, or associates, or unconsolidated structured entities, which are classified as held for sale or discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; and<br>clarify that election of exemption from applying the equity method per IAS 28 Investments in Associates and Joint Ventures shall be made separately for each associate or joint venture at initial recognition of the associate or joint venture. | None of these changes are expected to have a material impact on the financial statements of BAMC. |
| Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture | The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:<br>• a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which | BAMC does not expect that the amendments, when initially applied, will have material impact on its financial statements. |

| **Standard/Interpretation**<br>*[IAS 8.31 (a), 8.31(c)]* | **Nature of impending change in accounting policy**<br>[IAS 8.31 (b)] | **Possible impact on financial statements**<br>*[IAS 8.30 (b); 31 (e)]* |
|---|---|---|
| (The European Commission decided to defer the endorsement indefinitely.) | constitute a business (whether it is housed in a subsidiary or not), while<br>a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary. | |
| IFRS 17 Insurance Contracts<br>(Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.) | IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches.<br>IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost. | BAMC expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the entity because the Entity does not operate in the insurance industry. |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration<br>(Effective for annual periods beginning on or after 1 January 2018. Early application is permitted)<br>This interpretation is not yet endorsed by the EU. | IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance and clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. | BAMC expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements because BAMC initially recognizes non-monetary assets or liabilities at the exchange rate, valid at the day of the transaction. |
| IFRIC 23 Uncertainty over Income Tax Treatments<br>(Effective for annual periods beginning on or after 1 January 2019. Early application is permitted)<br>This interpretation is not yet endorsed by the EU. | IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information. | BAMC does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the BAMC does not operate in a complex multinational tax environment and does not have material uncertain tax positions. |
| Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions | The amendments clarify share-based payment accounting on the following areas:<br>• the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; | BAMC expects that the amendments, when initially applied, will not have a material impact on the presentation of its financial |

| **Standard/Interpretation** *[IAS 8.31 (a), 8.31(c)]* | **Nature of impending change in accounting policy** [IAS 8.31 (b)] | **Possible impact on financial statements** *[IAS 8.30 (b); 31 (e)]* |
|---|---|---|
| (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Earlier application is permitted). These amendments are not yet endorsed by the EU. | • share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled. | statements because BAMC does not enter into share-based payment transactions. |
| Amendments to IAS 40 Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018; Earlier application is permitted) These amendments are not yet endorsed by the EU. | The Amendments provide clarification on transfers to, or from, investment properties: • a transfer into, or out of investment property should be made only when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. | BAMC expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements because BAMC does not have investment property. |
| Amendments to IFRS 9: Prepayment Features with Negative Compensation (Effective for annual periods beginning on or after 1 January 2019) These amendments are not yet endorsed by the EU. | These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation. | BAMC does not expect that the amendments will have a material impact on the financial statements because BAMC does not have prepayable financial assets with negative compensation. |
| Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (Effective for annual periods beginning on or after 1 January 2019) These amendments are not yet endorsed by the EU. | The Amendments clarifies that companies account for investments in associates or joint ventures, for which equity method is not applied, in accordance with provisions of IFRS 9 Financial Instruments. | BAMC does not expect the Amendments to have a material impact on its financial statements when initially applied. |
| Annual Improvements to IFRS 2015-2017 Cycle (Effective for annual periods beginning on or after 1 January 2019) | The Improvements to IFRSs (2015-2017) contains four amendments to standards. The main changes were to: • clarify that the entity remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations; | None of these changes are expected to have a material impact on the financial statements of the BAMC. |

| Standard/Interpretation<br>*[IAS 8.31 (a), 8.31(c)]* | Nature of impending change in accounting policy<br>[IAS 8.31 (b)] | Possible impact on financial statements<br>*[IAS 8.30 (b); 31 (e)]* |
|---|---|---|
| These annual improvements are not yet endorsed by the EU. | • clarify that the entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 Joint Arrangements;<br>• clarify that the entity should always accounts for income tax consequences of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized past transactions or events that generated distributable profits; and<br>clarify that the entity should exclude from the funds that the entity borrows generally borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete as borrowings made specifically for the purpose of obtaining a qualifying asset should not apply to a borrowing originally made specifically to obtain a qualifying asset if that asset is ready for its intended use or sale. | |
| Amendments to IAS 19: Employee Benefits<br>(Effective for annual periods beginning on or after 1 January 2019)<br>These amendments are not yet endorsed by the EU. | The Amendments require that the Entity uses current and updated assumptions when a change to a plan, and amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. | BAMC does not expect the Amendments to have a material impact on its financial statements when initially applied. |

## NOTE 3: ACCOUNTING POLICIES OF SIGNIFICANT ACCOUNTANCY ITEMS

### *3.1 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 are subsequently carried at FVTPL according to second indent of the IAS 39 Fair value option.

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. BAMC buys loans on the market only in order to round off its exposure vis-a-vis its existing debtors. The additional purchase constitutes one of the restructuring instruments, same as granting new loans.

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 effects are in income statement presented within line item income from loans. 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. . The effects are in income statement presented within line item income from equity instruments and bonds.

#### *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.

The value of the asset subject to conversion is measured in the amount corresponding to the converted loan, which stems from the debtor's final bankruptcy estate distribution plan. The difference between conversion value and carrying value of converted loan is recognized as income from loans or / and income from inventories of property in the income statement.

### *3.2 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 (see also note 3.1 c). 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.

### 3.3 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.

### 3.4 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.

### 3.5 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.

### 3.6 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 as described in Note 3.1 C), dividend receipts, gains and losses on the remeasurement of financial assets at fair value through profit or loss, and exchange rate differences.

### 3.7 Finance expenses

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

### 3.8 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 utilised. The Company regularly reviews the probability of the taxable income being available.

### 3.9 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 is not accounted for separately and is not a standalone key input of the BOPM model. 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 2,09% as at 31 December 2017 (WACC as at 31 December 2016 was 2,31%). The main reason for the decreasing WACC as at end of 2017 was lower borrowing cost due to partial refinancing of debt at lower interest rates.

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 with a Level 3 valuation in the fair value hierarchy 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 (eg 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.

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[21] 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

[21] For more detail on Inventories accounting policy see Note 3.4.

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 and adjusted market price of real estates, investment costs, liquidity discount (i.e. time to sell).

Regardless of the methodology stated above, the BAMC use the transaction value/price of assets as the fair value, in case the outcome of the sale transaction is 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.

When using the market comparison approach the adjusted market price of the appraised real estate is calculated by adjusting market prices of various real estate taken into the sample for factors such as: condition of property, size of property, age of property, location, etc. Then the average of those adjusted market prices is used as the value of appraised real estate.

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:

- Market conditions: the real estate values are adjusted through the use of a statistical index for various real estate types, which is published by GURS, semi-annually,
- Time to sell: Estimated time to sell is re-assessed and the present value of the real estate is adjusted accordingly.
- Costs: Average costs of managing different types of real estate in a one year period are calculated and comapred to the costs assumed in the valuation. In case of substantial differences, costs are adjusted.
- Change in discount rate: when larger changes in the general market conditions change, also the dicount rate reflecting the market sentiment changes.

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 recognised in financial statements on an annual basis.

## NOTES TO THE BALANCE SHEET

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

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Loans and receivables | | |
| restructuring | 282.461 | 434.064 |
| recovery | 366.708 | 498.664 |
| Other (collective valuation) | 11.068 | 13.219 |
| | **660.237** | **945.947** |
| Leasing | 0* | 2.168 |
| **Total** | **660.237** | **948.115** |

* Other financial leasing contracts were migrated to the unified contract back-office system on 31 October 2017 and are therefore not disclosed separately for 2017.

Movement in the loan balances from 1 Jan to 31 Dec

| in € thousand | 2017 | 2016* |
|---|---|---|
| **Opening balance 1 January** | **945.947** | **1.091.006** |
| Merger of two banks | 0 | 265.349 |
| Merger five subsidiaries | 0 | 902 |
| Exclusion of loans given to five subsidiaries | 0 | -34.514 |
| Import of leasing portfolio in the common system | 1.548 | 0 |
| Increase in loan portfolio | 9.368 | 18.414 |
| Repayments | -400.953 | -420.341 |
| Cash repayments | -303.250 | -253.138 |
| Conversion to real estate (Note 7) | -23.274 | -59.601 |
| Conversion to trade receivables | 0 | -67 |
| Loans sold | -70.765 | -81.513 |
| Conversion to equity | -3.664 | -26.022 |
| Increase/decrease on revaluation | 54.338 | -30.288 |
| Increase/decrease for capital gains/losses | 50.745 | 54.526 |
| Other | -755 | 894 |
| **Closing balance 31 December** | **660.237** | **945.947** |

* Movement in the loan balances does not include leasing contracts portfolio

The increase in loan portfolio represents new loans, granted by the BAMC, purchase from other banks, increases for recoverable court costs and guarantees paid. New loans are granted to existing borrowers and companies, in which the BAMC has a significant ownership stake. Granting new loans represent one of restructuring instruments under the ZUKSB.

In the table below presents the movement in loan balances with a separate analysis for debtors, which were classified as debtors with a restructuring strategy as at 1 January 2017.

MOVEMENT IN THE LOAN BALANCES FROM 1 JAN TO 31 DEC 2017

| in € thousand | **Restructuring debtors** | **Recovery Debtors and collective valuation** | **Total 2017** |
|---|---|---|---|
| **Opening balance 1 January** | **434.063** | **511.884** | **945.947** |
| Increase in loan portfolio – leasing contracts | 341 | 1.207 | 1.548 |
| Increase in loan portfolio | 6.714 | 2.654 | 9.368 |
| Repayments | -195.540 | -205.413 | -400.953 |
| Cash repayments | -142.929 | -160.321 | -303.250 |
| Conversion to real estate | -10.298 | -12.976 | -23.274 |
| Loans sold | -42.313 | -28.452 | -70.765 |
| Conversion to equity | 0 | -3.664 | -3.664 |
| Increase/decrease on revaluation | 33.894 | 20.444 | 54.338 |
| Increase/decrease for capital gains/losses | 3.079 | 47.667 | 50.746 |
| Other | -90 | -665 | -755 |
| **Closing balance 31 December** | **282.461** | **377.776** | **660.237** |

Closing balance as at 31 December 2017 in both columns differs from amounts in Note 26. The reason for difference is movement of debtors from restructuring to recovery strategy and vice-versa.

In the table below presents the movement in loan balances (Excluding leasing portfolio) with a separate analysis for debtors, which were classified as debtors with a restructuring strategy as at 31 December 2016.

MOVEMENT IN THE LOAN BALANCES (WITHOUT LEASING) FROM 1 JAN TO 31 DEC 2016

| in € thousand | Restructuring debtors | Recovery Debtors and collective valuation | Total 2016 |
|---|---|---|---|
| **Opening balance 1 January** | **398.101** | **692.905** | **1.091.006** |
| Merger of two banks | 66.580 | 198.769 | 265.349 |
| Merger of five subsidiaries | 0 | 902 | 902 |
| Exclusion of loans given to five subsidiaries | 0 | -34.514 | -34.514 |
| Increase in loan portfolio | 13.111 | 5.303 | 18.414 |
| Repayments | -46.300 | -374.041 | -420.341 |
| Cash repayments | -46.289 | -206.849 | -253.138 |
| Conversion to real estate | 0 | -59.601 | -59.601 |
| Conversion to trade receivables | 0 | -67 | -67 |
| Loans sold | -11 | -81.502 | -81.513 |
| Conversion to equity | 0 | -26.022 | -26.022 |
| Increase/decrease on revaluation | -12.238 | -18.050 | -30.288 |
| Increase/decrease for capital gains/losses | 15.499 | 39.027 | 54.526 |
| Other | -690 | 1.584 | 894 |
| **Closing balance 31 December** | **434.063** | **511.884** | **945.947** |

## NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – EQUITY INVESTMENTS AND BONDS

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Equity shares and bonds of listed companies | 33.958 | 34.504 |
| a) Shares | 33.958 | 31.747 |
| b) Bonds | 0 | 2.757 |
| Equity shares of unlisted companies | 65.047 | 62.441 |
| a) Shares | 36.855 | 52.068 |
| b) Ownership stake | 28.192 | 10.373 |
| **Total** | **99.005** | **96.945** |

MOVEMENT IN THE EQUITY INVESTMENTS AND BONDS FROM 1 JAN TO 31 DEC 2017

| in € thousand | Equity investments | Bonds | Total |
|---|---|---|---|
| **Opening balance 1 January 2017** | **94.188** | **2.757** | **96.945** |
| Acquisition | 1.321 | 0 | 1.321 |
| Debt to equity conversions | 3.664 | 0 | 3.664 |
| Revaluation | 941 | 94 | 1.035 |
| Maturity | - | -2.851 | -2.851 |
| Disposal | -1.109 | 0 | -1.109 |
| **Closing balance 31 December 2017** | **99.005** | **0** | **99.005** |

MOVEMENT IN THE EQUITY INVESTMENTS AND BONDS FROM 1 JAN TO 31 DEC 2016

| in € thousand | Equity investments | Bonds | Total |
|---|---|---|---|
| **Opening balance 1 January 2016** | **36.347** | **0** | **36.347** |
| Merger of Factor banka and Probanka | 16.533 | 7.072 | 23.605 |
| Merger of five subsidiaries | 231 | 0 | 231 |
| Acquisition | 691 | 0 | 691 |
| Debt to equity conversions | 26.022 | 0 | 26.022 |
| Interest accrued | 0 | 215 | 215 |
| Revaluation | 27.155 | -75 | 27.080 |
| Capital contributions | 952 | 0 | 952 |
| Maturity | - | -4.455 | -4.455 |
| Disposal | -13.743 | 0 | -13.743 |
| **Closing balance 31 December 2016** | **94.188** | **2.757** | **96.945** |

Capital contributions relate to equity contributions to two companies - NPL Port in amount of €942 thousand and DUTB Serbia, an SPV entity, in amount of €10 thousand.

DETAILED LIST OF THE BAMC EQUITY OWNERSHIPS AS AT 31 DECEMBER 2017:

| Name and registered office | Share capital | Net result 2016, 2017(*) | Industry | Country | Shareholding (in %) |
|---|---|---|---|---|---|
| ALPINA, tovarna obutve, d.o.o. Strojarska ulica 2, 4226 Žiri | 9.042.915 EUR | -7.489.411 EUR | Manufacturing | Slovenia | 100,00% |
| ARGOLINA d.o.o., Slovenska cesta 58, 1000 Ljubljana | 13.147.650 EUR | -911.837 EUR | Construction | Slovenia | 100,00% |
| AVTOTEHNA d.o.o. Litijska cesta 259, 1261 Ljubljana – Dobrunje | 10.000.000 EUR | 5.750.188 EUR | Wholesale and retail | Slovenia | 100,00% |
| CERTA d.d. Ličarjeva ulica 7, 5282 Cerkno | 9.432.582 EUR | 723.509 EUR | Professional activities | Slovenia | 21,45% |
| DRUŽBA ZA NEKRETNINE d.o.o. Šetalište Svetog Bernardina bb, Krk, Republika Hrvaška | 15.416.106 EUR | -1.205.214 EUR | | Croatia | 100,00% |
| DUP Pohorje d.o.o. Davčna ulica 1, 1000 Ljubljana | 10.000 EUR | 0 | Professional activities | Slovenia | 100,00% |
| DUP 1 d.d., Davčna ulica 1, 1000 Ljubljana | 25.000 EUR | -1.777 EUR* | Professional activities | Slovenia | 100,00% |

| Name and registered office | Share capital | Net result 2016, 2017(*) | Industry | Country | Shareholding (in %) |
|---|---|---|---|---|---|
| DUTB D.O.O. – Beograd Milutina Milankovića 7v, 11070 Beograd | 1.230.000 RSD | 7.565.000 RSD* | Real estate activities | Serbia | 100,00% |
| FACTOR BG EOD St. Tvardishki passage No23, Fl. 3, districz Triaditsa, 1404 Sofia, Bulgaria | 13.000 EUR | -15.000 EUR* | | Bulgaria | 100,00% |
| FACTOR PROJEKT d.o.o. Šetalište Svetog Bernardina bb, Krk, Republika Hrvaška | 11.168.158 EUR | -864.339 EUR | | Croatia | 100,00% |
| FARME IHAN d.d. Breznikova 89, 1230 Domžale | 25.000 EUR | -13.534 EUR | Agriculture | Slovenia | 100,00% |
| FUNDUS d.o.o., Beograd Milutina Milankovića 7v, 11070 Beograd | 40.245 RSD | 181.931 RSD* | | Serbia | 100,00% |
| ILLURIA HOLDINGS LIMITED Arch. Makariou III, 195, Neocleous house 195, 3032 Limassol | N/A** | N/A** | | Cyprus | 100,00% |
| KOTO d.o.o. Agrokombinatska cesta 80, 1000 Ljubljana | 2.695.522 EUR | 521.496 EUR | Manufacturing | Slovenia | 66,23% |
| Litostroj Jeklo d.o.o. Litostrojska cesta 44,1000 Ljubljana | 469.759 EUR | -2.660.118 EUR | Manufacturing | Slovenia | 79,49% |
| RAVNE PRESSES d.o.o., Koroška cesta 15, 2390 Ravne na Koroškem | 1.703.701 EUR | 298.676 EUR | Manufacturing | Slovenia | 88,67% |
| LIV KOLESA, d.o.o. Industrijska cesta 2, 6230 Postojna | 3.107.212 EUR | 101.503 EUR | Manufacturing | Slovenia | 100,00% |
| MENINA d.d., Trg padlih borcev 3, 1241 Kamnik | 3.562.196 EUR | 95.975 EUR | Manufacturing | Slovenia | 20,28% |
| MERKUR nepremičnine, d.d. Cesta na Okroglo7, 4202 Naklo | 25.609.000 EUR | 2.094.000 EUR | Real estate activities | Slovenia | 62,49% |
| MK Založba d.d. Slovenska cesta 29,1000 Ljubljana | 5.141.149 EUR | 68.460 EUR | Publishing | Slovenia | 51,23% |
| MLM d.d., Oreško obrežje 9, 2000 Maribor | 1.050.000 EUR | 3.742.285 EUR | Manufacturing | Slovenia | 67,24% |
| NIGRAD d.d. Zagrebška cesta 30,2000 Maribor | 3.679.235 EUR | -517.837 EUR | Public utilities | Slovenia | 24,91% |
| NPL PORT, d.o.o. Trg Leona Štuklja 12, 2000 Maribor | 25.000 EUR | 22.592 EUR* | Professional activities | Slovenia | 100,00% |
| PPS - PEKARNE PTUJ d.d.- v prisilni poravnavi Rogozniška cesta 2, 2250 Ptuj | 82.383 EUR | 82.203 EUR | Manufacturing | Slovenia | 100,00% |
| PY&CA d.o.o., Beograd Milutina Milankovića 7v, 11070 Beograd | 235.179.479 RSD | -135.231RSD* | | Serbia | 100,00% |
| RIOSI INŽENIRING d.o.o., Šlandrova ulica 10, 1231 Ljubljana- Črnuče | 304.624 EUR | 1.137 EUR | Professional activities | Slovenia | 39,18% |
| SOTTO VENTO d.o.o., Milutina Milankovića 7v, 11070 Beograd | 24.959 RSD | 689.978 RSD* | | Serbia | 100,00% |
| TERME DOBRNA d.d. Dobrna 50, 3204 Dobrna | 2.887.900 EUR | 394.018 EUR* | Tourism | Slovenia | 23,37% |
| THERMANA d.d. Zdraviliška cesta 6, 3270 Laško | 12.000.225 EUR | 952.859 EUR | Tourism | Slovenia | 100,00% |
| TINK d.o.o. Kosovelova 16, 3000 Celje | 1.720.000 EUR | -11.360 EUR | Wholesale and retail | Slovenia | 100,00% |
| ZLATA MONETA II, d.o.o., Trg Leona Štuklja 12, 2000 Maribor | 25.000 EUR | -156.676 EUR | Financial activities | Slovenia | 100,00% |

** N/A: Financial statements for 2017 and 2016 were not prepared

The table above presents equity investments in companies where the BAMC hold more than a 20% ownerships stake and the companies are not in bankruptcy procedure. With respect to all equity investments, the BAMC is only a temporary owner.

DETAILED LIST OF THE BAMC EQUITY OWNERSHIPS AS AT 31 DECEMBER 2016:

| Name | Industry | Country | Shareholding (in %) |
|---|---|---|---|
| ALPINA, tovarna obutve, d.o.o. | Manufacturing | Slovenia | 100,00% |
| ARGOLINA d.o.o. | Construction | Slovenia | 100,00% |
| AVTOTEHNA d.d. | Wholesale and retail | Slovenia | 100,00% |
| CIMOS d.d. | Manufacturing | Slovenia | 47,50% |
| DRUŽBA ZA NEKRETNINE D.O.O. | | Croatia | 100,00% |
| DUP1 d.d. | Professional activities | Slovenia | 100,00% |
| DUTB D.O.O. – Beograd | | Serbia | 100,00% |
| FACTOR BG EOD | | Bulgaria | 100,00% |
| FACTOR PROJEKT D.O.O. | | Croatia | 100,00% |
| FARME IHAN d.d. | Agriculture | Slovenia | 95,00% |
| FUNDUS d.o.o., Beograd | | Serbia | 100,00% |
| ILLURIA HOLDINGS LIMITED | | Cyprus | 100,00% |
| KOTO D.O.O. | Manufacturing | Slovenia | 66,23% |
| Litostroj Jeklo d.o.o. | Manufacturing | Slovenia | 79,49% |
| LITOSTROJ RAVNE d.o.o. | Manufacturing | Slovenia | 88,67% |
| LIV KOLESA, d.o.o. | Manufacturing | Slovenia | 100,00% |
| MENINA d.d. | Manufacturing | Slovenia | 20,28% |
| MERKUR nepremičnine, d.d. | Real estate activities | Slovenia | 62,49% |
| MK Založba d.d. | Publishing | Slovenia | 51,23% |
| MLM d.d. | Manufacturing | Slovenia | 67,24% |
| NIGRAD d.d. | Public utilities | Slovenia | 24,91% |
| NPL PORT, d.o.o. | Professional activities | Slovenia | 100,00% |
| PPS - PEKARNE PTUJ D.D.- V PRISILNI POR | Manufacturing | Slovenia | 100,00% |
| PY&CA d.o.o., Beograd | | Serbia | 100,00% |
| RIOSI INŽENIRING d.o.o. | Professional activities | Slovenia | 39,18% |
| SOTTO VENTO d.o.o., Beograd | | Serbia | 100,00% |
| THERMANA D.D. | Tourism | Slovenia | 100,00% |
| TINK d.o.o. | Wholesale and retail | Slovenia | 100,00% |
| ZLATA MONETA II, d.o.o. | Financial activities | Slovenia | 100,00% |

The table above presents equity investments in companies where the BAMC hold more than a 20% ownerships stake and the companies are not in bankruptcy procedure. With respect to all equity investments, the BAMC is only a temporary owner.

## NOTE 7: INVENTORIES OF PROPERTY AND EQUIPMENT

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Real estate | 178.825 | 192.386 |
| Equipment | 1.950 | 1.667 |
| Advance payments for inventories of property | 13.388 | 3.624 |
| **Total** | **194.163** | **197.677** |

The majority of inventories of property and equipment in the amount of €180.775 thousand were recognized as a result of debt to real estate conversions or purchases at auctions from the BAMC's debtors.

Of the total carrying amount of €178.825 thousand of real estate inventories, €104.061 thousand is valued at costs (31 December 2016 €125.111 thousand) and €74.764 thousand at net realizable value (31 December 2016 €67.275 thousand).

The estimated net realisable value of real estate inventories at year-end is €204.273 thousand (31 December 2016 €209.215 thousand).

Residential real estate and land presented the largest part of the real estate inventory by type of real estate.

NET REALISABLE VALUE OF REAL ESTATE INVENTORY BY TYPE OF REAL ESTATE

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Residential | 54.951 | 82.192 |
| Land | 74.097 | 51.241 |
| Industrial | 15.363 | 27.533 |
| Office | 16.757 | 16.850 |
| Retail | 18.050 | 16.485 |
| Tourism | 25.055 | 14.136 |
| Other | 0 | 776 |
| **Total** | **204.273** | **209.215** |

NET REALISABLE VALUE OF REAL ESTATE INVENTORY BY VALUATION METHOD

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Transaction value | 13.374 | 9.074 |
| Market approach | 127.774 | 46.436 |
| Income approach | 63.125 | 153.705 |
| **Total** | **204.273** | **209.215** |

MOVEMENT IN INVENTORIES OF PROPERTY AND EQUIPMENT (WITHOUT ADVANCE PAYMENTS) FROM 1 JAN 2017 TO 31 DEC 2017

| in € thousand | Real estate | Equipment | Total |
|---|---|---|---|
| **Opening balance 1 January 2017** | **192.383** | **1.669** | **194.053** |
| Partial settlement of debts (repossessions) | 23.050 | 225 | 23.275 |
| Acquisitions | 50.334 | 86 | 50.420 |
| Disposal | -77.678 | -30 | -77.708 |
| Reversals of net realizable value write-downs | -9.264 | 0 | -9.264 |
| **Closing balance 31 December 2017** | **178.825** | **1.950** | **180.775** |

MOVEMENT IN INVENTORIES OF PROPERTY AND EQUIPMENT (WITHOUT ADVANCE PAYMENTS) FROM 1 JAN 2016 TO 31 DEC 2016

| in € thousand | Real estate and equipment |
|---|---|
| **Opening balance 1 January 2016** | **68.254** |
| Merger of Factor banka and Probanka | 26.097 |
| Merger of five subsidiaries | 31.644 |
| Partial settlement of debts (repossessions) | 59.601 |
| Acquisitions | 20.820 |
| Disposal | -14.957 |
| Reversals of net realizable value write-downs | 2.594 |
| **Closing balance 31 December 2016** | **194.053** |

## NOTE 8: TRADE AND OTHER RECEIVABLES

CURRENT AND NON-CURRENT PORTIONS OF TRADE AND OTHER RECEIVABLES

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Current portion | 5.201 | 4.768 |
| Non-current portion | 299 | 0 |
| **Total** | **5.500** | **4.768** |

ANALYSIS OF TRADE AND OTHER RECEIVABLES

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Trade receivables from customers | 139 | 1.395 |
| Advance payments | 2.525 | 2.056 |
| Receivables from investment banking (from merged banks) | 481 | 246 |
| Trade receivables in relation to taxes | 890 | 107 |
| Claims for payments deposits with the notary public | 299 | 0 |
| Other receivables | 1.166 | 964 |
| **Total** | **5.500** | **4.768** |

## NOTE 9: CASH AND CASH EQUIVALENTS

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Cash in banks | 4.970 | 1.264 |
| Call deposits | 64.962 | 106.635 |
| Over-night deposits | 16.951 | 10.724 |
| Other deposits | 3.753 | 3.638 |
| **Total** | **90.636** | **122.261** |

The BAMC pledged deposits to banks as collateral for the bank guarantees issued to BAMC's debtors. The amount of pledged deposits as at 31 December 2017 amounts to €3.753 thousand (at 31 December 2016 €3.638 thousand).

## NOTE 10: EQUITY

The BAMC's share capital registered with the court and defined in its articles of association amounts to €104.118 thousand and is divided into 104.117.500 ordinary freely exchangeable no-par-value registered shares. Each no-par-value share has the same corresponding amount in share capital. All shares issued were fully paid.

The BAMC does not hold any treasury shares.

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Share capital | 104.118 | 104.118 |
| Capital reserves | 0 | 154.117 |
| Retained earnings / Accumulated loss | 42.311 | -178.792 |
| **Total** | **146.429** | **79.443** |

Based on the General Meeting decision dated 21 June 2017 part of the losses carried over from past periods were covered by capital reserves, namely in the amount of €154.117.

Movement of accumulated loss from 1 Jan to 31 Dec

| in € thousand | 2017 | 2016 |
|---|---|---|
| **Opening balance 1 January** | **-178.792** | **-88.758** |
| Transactions with owner | 0 | -82.231 |
| from loans transferred | 0 | -1.510 |
| from merger of two banks | 0 | -79.351 |
| From merger of five subsidiaries | 0 | -1.370 |
| Net profit / loss for the period | 66.986 | -7.803 |
| Offseting losses from capital reserves | 154.117 | 0 |
| **Closing balance 31 December** | **42.311** | **-178.792** |

The in-kind distribution to the owner in the amount of €1.510 thousand for 2016 relates to the recapitalization through the transfer of the Cimos loans.

As a result of the merger of two banks, the BAMC recognized €79.351 thousand as an in-kind distribution to the owner, arising from the negative total equity of the banks at the effective date of the merger.

As a result of the merger of five subsidiaries the BAMC recognized €1.370 thousand as an in-kind distribution to the owner arising from the negative total equity of the five subsidiaries at the effective date of the merger.

## Note 11: Debt securities issued

Current and non-current portions of issued debt securities

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Current portion | 0 | 548.855 |
| Non-current portion | 0 | 0 |
| **Total** | **0** | **548.855** |

In December 2017, BAMC settled the last of its obligations for DUT03 and DUT04 bonds.

All above listed bonds were guaranteed by explicit guarantee of the Republic of Slovenia.

BALANCES OF DEBT SECURITIES PER ISSUE

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| DUT03 – issued 20 October 2014 | 0 | 422.971 |
| DUT04 – issued 19 December 2014 | 0 | 125.880 |
| **Total** | **0** | **548.855** |

The BAMC fully redeemed all DUT02 bonds at their maturity in December 2016.

CHARACTERISTICS OF BOND ISSUES

| Bond | Nominal value of issue (in € million) | Coupon rate | Issued | Principal maturity | Coupon maturity |
|---|---|---|---|---|---|
| DUT03 | 424,6 | 1,50%* | October 2014 | December 2017 | Semi-annually (June and December) |
| DUT04 | 127,0 | 1,375%* | December 2014 | December 2017 | Semi-annually (June and December) |

**NOTE:** As some of the bonds were not sold at par value, their effective interest rate is somewhat higher. In particular, the DUT03 effective rate is 1,57% and DUT04 effective rate is 1,38%.

All bonds issued by the BAMC have €100.000 denominations.

## NOTE 12: BORROWINGS AND OTHER FINANCIAL LIABILITIES

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Loans from banks | 876.237 | 707.528 |
| Deposits received | 1.918 | 2.025 |
| Other financial liabilities | 2.020 | 5.002 |
| **Total** | **880.175** | **714.555** |

The BAMC obtained three new loans in total amount of €710 million at the end of 2017. A five year syndicated loan from Slovenian commercial banks, a five year loan from a foreign bank and a five year loan from a bank in Slovenia.

Other financial liabilities in the amount of €2.020 thousand relate to advance payments for sold loans and unallocated payments from loan debtors.

CURRENT AND NON-CURRENT PORTIONS OF BORROWINGS AND OTHER FINANCIAL LIABILITIES

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Current portion | 185.901 | 309.055 |
| Non-current portion | 694.274 | 405.500 |
| **Total** | **880.175** | **714.555** |

MOVEMENT IN LOANS FROM BANKS FROM 1 JAN TO 31 DEC

| in € thousand | 2017 | 2016 |
|---|---|---|
| **Opening balance 1 January** | **707.528** | **200.000** |
| Merger of two banks | 0 | 408.008 |
| Merger of five subsidiaries | 0 | 250 |
| New loans raised | 728.000 | 505.000 |
| Interest accrued | 3.715 | 4.922 |
| Repayments | -563.006 | -410.652 |
| **Closing balance 31 December** | **876.237** | **707.528** |

## NOTE 13: TRADE AND OTHER PAYABLES AND LIABILITIES FOR CURRENT TAX

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Trade payables | 1.753 | 5.715 |
| Advance payments and securities | 4.629 | 4.848 |
| Payables to employees | 771 | 754 |
| Payables to the state and other state institutions | 1.008 | 241 |
| Payables to others | 345 | 641 |
| **Total** | **8.506** | **12.199** |

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Liabilities for current tax | 6.058 | 0 |
| **Total** | **6.058** | **0** |

Trade payables in the amount of €1.753 thousand relate mainly to payables for the acquisition of assets in bankruptcy proceedings and for other costs.

The advance payments and security deposits amounting to €4.629 thousand reflect payments made under already-signed real estate sale contracts and the potential buyers' payments made in the bidding process involving the submission of binding bids on real estate, loans and equity investments.

Payables to employees represent the liability for salary for December 2017 paid out in January 2018.

## NOTE 14: PROVISIONS

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Provisions for lawsuits | 3.115 | 8.786 |
| Provisions for severance payments | 341 | 579 |
| Other provisions | 2.628 | 3.459 |
| **Total** | **6.084** | **12.824** |

### MOVEMENT IN PROVISIONS FROM 1 JAN TO 31 DEC 2017

| in € thousand | Provisions for severance payments | Provisions for lawsuits | Other provisions | Total |
|---|---|---|---|---|
| **Opening balance 1 January 2016** | **579** | **8.786** | **3.459** | **12.824** |
| Increase | 240 | 303 | 0 | 544 |
| Provisions used | -243 | -4.523 | -823 | -5.589 |
| Provisions released | -236 | -1.451 | -7 | -1.694 |
| **Closing balance 31 December 2016** | **341** | **3.115** | **2.628** | **6.084** |

### MOVEMENT IN PROVISIONS FROM 1 JAN TO 31 DEC 2016

| in € thousand | Provisions for severance payments | Provisions for lawsuits | Other provisions | Total |
|---|---|---|---|---|
| **Opening balance 1 January 2016** | **0** | **0** | **0** | **0** |
| Merger of two banks | 681 | 5.997 | 6.103 | 12.781 |
| Merger of five subsidiaries | 8 | 0 | 983 | 991 |
| Increase | 376 | 2.789 | 135 | 3.173 |
| Provisions used | -486 | 0 | 0 | -486 |
| Provisions released | 0 | 0 | -3.762 | -3.635 |
| **Closing balance 31 December 2016** | **579** | **8.786** | **3.459** | **12.824** |

### *A) PROVISIONS FOR LAWSUITS*

Several lawsuits were filed against the BAMC or the merged banks. The estimates and assumptions to raise provisions for lawsuits against the BAMC took into account the knowledge of individual proceeding, past court practice and other criteria. Nevertheless actual results of lawsuits might differ from the BAMC's assessments, for that reason all the estimates and assumptions are regularly reviewed and duly recognized in the financial statements.

For the lawsuits for which the probability of a negative outcome of the lawsuit was assessed as more than 50%, the provisions were raised in the total value of the currently estimated liability. The estimations of the result of lawsuit together with potential damages is prepared by management of the BAMC in cooperation with the legal department. In 2017, €303 thousand of provisions were raised for lawsuits, of which the majority originate from the merger with Probanka.

*B) Provisions for severance payments*

Provisions for termination benefits and other employees' earnings comprise termination benefits under the Slovenian Employment Law (ZDR-1), for termination of fixed term employment contracts (Article 79) and for termination of contracts by the employer (Article 108).

Actuarial calculation of provisions considers demographics, employees' fluctuations and nominal financial assumptions, taking into account salaries increases for promotions, valid internal regulations and salaries additions for years of service increases.

Provisions for termination benefits and other employees' earnings were raised and measured due to the limited life-span of the BAMC as stipulated by the ZUKSB. This is reflected in the Company's plans as a gradual decrease of its activities, as well as a gradual decrease of the number of employees.

The liabilities for long-term employee benefits are discounted and their present value at the end of 2017 amounts to €341 thousand.

*C) Other provisions*

Other provisions consist of provisions for issued bank guarantees in amount of €2.430 thousand and other provisions in amount of €198 thousand.

With the merger of Factor banka and Probanka in 2016, the BAMC took over the provisions for issued bank guarantees. The two banks raised the provisions for off-balance sheet items, e.g. issued guarantees and letters of credit, granted overdrafts and assets management related potential liabilities. The provisions were raised based on past experiences and in accordance with internal methodology.

In 2017, since the merger with the two banks, provisions for issued bank guarantees decreased to €2.430 thousand due to the release of provisions for expired guarantees.

The full amount of valid guarantees issued is presented as a contingent liability and disclosed in note 30.

Other provisions comprises provisions for potential damages inherited from the merged Probanka and an onerous contract. As at 31 December 2017 other provisions amount to €198 thousand.

## NOTE 15: OTHER LIABILITIES

BALANCE AT THE END OF THE YEAR

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Accrued costs | 1.294 | 1.464 |
| Deferred revenue | 833 | 1.058 |
| Other liabilities (VAT from advance payments for inventories) | 1.004 | 0 |
| **Total** | **3.131** | **2.522** |

## NOTES TO THE INCOME STATEMENT

### NOTE 16: INCOME FROM LOANS

| in € thousand | 2017 | 2016 |
|---|---|---|
| Capital gains/losses | 50.746 | 54.526 |
| Net revaluation | 54.208 | -30.371 |
| Other income /expense from loans | -10.107 | 5.263 |
| **Total** | **95.037** | **29.418** |

Capital gains/losses relate to differences between net carrying value according to last valuation and realized value at sale or conversion of loans to other asset classes or repayments which exceed previously recognized net carrying amount.

Other income from loans includes fees, release of provisions for guarantees, foreign exchange differences.

### NOTE 17: INCOME FROM EQUITY INVESTMENTS AND BONDS

| in € thousand | 2017 | 2016 |
|---|---|---|
| Capital gains/losses | 60 | 1.636 |
| Net revaluation | 1.035 | 26.686 |
| Dividends | 9.080 | 1.455 |
| Other income from equity investments and bonds | 52 | 214 |
| **Total** | **10.227** | **29.991** |

### NOTE 18: INCOME FROM INVENTORIES OF PROPERTY AND EQUIPMENT

| in € thousand | 2017 | 2016 |
|---|---|---|
| Income from rents | 2.395 | 2.076 |
| Income from inventories sold | 95.810 | 18.219 |
| Cost of inventories sold (Note 7) | -77.708 | -14.958 |
| Net write-downs and reversal of write-downs (Note 7) | -9.264 | 2.594 |
| **Total** | **11.233** | **7.931** |

In 2017 the BAMC recognized €9.264 thousand in write-downs of inventories.

In 2016 the BAMC recognized €9.790 thousand in write-downs of inventories and €12.384 thousand in reversals of write-downs. Net write-downs and reversals of write-downs of inventories amount to €2.594 thousand.

## Note 19: Financial expenses

| in € thousand | 2017 | 2016 |
|---|---|---|
| Interest expenses on debt securities and borrowings | -11.676 | -35.370 |
| Guarantee fees | -9.992 | -13.162 |
| Other | -476 | -102 |
| **Total** | **-22.144** | **-48.634** |

## Note 20: Other income

The bulk of other revenues totalling €3.553 thousand represents revenue from release of long-term provisions in the amount of €1.736 thousand, and the contractual penalty received (the potential buyer fails to pay the entire sum of the purchase price, the security deposit shall be retained by BAMC) in the amount of €1.122 thousand.

## Note 21: Cost of services

| in € thousand | 2017 | 2016 |
|---|---|---|
| Real estate management cost | -7.473 | -4.028 |
| Costs of professional services | -3.775 | -4.500 |
| Accounting and back office services | -1.609 | -1.180 |
| Legal, valuation and advisory services | -2.166 | -3.320 |
| Other services | -2.694 | -3.008 |
| **Total** | **-13.942** | **-11.536** |

## Note 22: Payroll costs

| in € thousand | 2017 | 2016 |
|---|---|---|
| Salaries (including bonuses) | -6.131 | -7.846 |
| Pension contributions | -543 | -667 |
| Health and social insurance | -430 | -591 |
| Other payroll costs | -1.418 | -1.646 |
| **Total** | **-8.522** | **-10.750** |

Lower labour costs for 2017 were the result of a decrease in the number of employees, as the monthly average number of employees of the BAMC was 181 in 2016 and reached 156 at the end of 2017.

REMUNERATION OF BOARD MANAGEMENT MEMBERS IN 2017

| in € thousand<br>Name | Period | Position | Gross income | Fringe benefits | Other | Total |
|---|---|---|---|---|---|---|
| Simoneti Marko | 1.1. - 27.01.2017 | Non-executive director | 15 | 0 | 30 | **45** |
| Širovnik Janez | 1.1. - 31.12.2017 | Non-executive director | 60 | 0 | 0 | **60** |
| Barba Silvela Juan | 1.1. - 31.12.2017 | Non-executive director | 60 | 0 | 0 | **60** |
| Križaj Mitja | 28.1. - 31.12.2017 | Non-executive director | 50 | 0 | 0 | **50** |
| Juhart Miha | 28.1. - 31.12.2017 | Non-executive director | 59 | 0 | 0 | **59** |
| Koršič Aleš | 1.1. - 31.12.2017 | Executive director | 128 | 5 | 3 | **136** |
| Škrubej Janez | 1.1. - 31.12.2017 | Executive director | 148 | 7 | 4 | **158** |
| Balogh Imre | 1.1. - 31.12.2017 | Executive director | 209 | 7 | 50 | **265** |
| **Total** | | | **729** | **19** | **86** | **833** |

REMUNERATION OF COMMITTEE MEMBERS IN 2017

| in € thousand<br>Name | Period | Position | Gross income | Other | Total |
|---|---|---|---|---|---|
| Jerman Tamara | 1. 1. – 31. 12. 2017 | Member of Audit Committee | 6 | 0 | 6 |
| Slapničar Sergeja | 1. 1. – 31. 12. 2017 | Member of Remuneration committee | 3,5 | 0 | 3,5 |
| Šmuc Sonja | 1. 1. – 31. 12. 2017 | Member of Accreditation committee | 4,5 | 1,4 | 5,9 |
| **Total** | | | **14** | **1,4** | **15,4** |

## NOTE 23: OTHER EXPENSES

| in € thousand | 2017 | 2016 |
|---|---|---|
| Increase in provisions for lawsuits | -303 | -1.813 |
| Court costs related to loan collections | -1.009 | -809 |
| Operating expenses from revaluation | -508 | -459 |
| Other expenses | -260 | -797 |
| **Total** | **-2.079** | **-3.878** |

## NOTE 24: INCOME TAX EXPENSE

| in € thousand | 2017 | 2016 |
|---|---|---|
| Tax expense | 6.058 | 0 |
| Deferred tax | 0 | 0 |
| **Total** | **6.058** | **0** |

The BAMC did not recognize a deferred tax asset for unrecognized tax losses on 31 December 2017 due to the fact, that 2017 was the first year, when BAMC realised a profit, uncertainty of the market situation and future profits, limited lifetime of the company.

| in € thousand | 2017 | 2016 |
|---|---|---|
| **Accounting profit / loss** | **73.044** | **-7.803** |
| Income tax rate | 19% | 17% |
| Tax at the applicable tax rate | 13.878 | -1.327 |
| Tax effect of: | | |
| tax exempt income | -1.752 | -336 |
| not deductible expenses | 234 | 44 |
| Recognition of previously non-deductible expenses | 0 | -12.461 |
| Tax credits | -64 | 0 |
| Recognition of previously unrecognised tax losses | -6.238 | 0 |
| **Tax expense (current tax)** | **6.058** | **-14.080** |
| **Effective tax rate** | **8%** | **0%** |

The Accumulated tax losses of the BAMC as at 31 December 2017 amounts to €734.829 thousand (31 December 2016 amounts to €767.355 thousand). Of this amount, accumulated loss of €92.848 thousand represent tax losses of the BAMC and €679.451 thousand represent tax losses of the two merged banks and five subsidiaries. The tax loss of merged companies could be used by BAMC to offset future profits.

## NOTE 25: EARNINGS PER SHARE

| | 2017 | 2016 |
|---|---|---|
| Profit / loss for the year (in € thousand) | 66.986 | -7.803 |
| Number of ordinary shares issued at the end of the year | 104.118 | 104.118 |
| Weighted average number of ordinary shares | 104.118 | 102.804 |
| **Earnings per share and diluted earnings per share** (in €) | **643** | **0** |

## NOTE 26: FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT

Effective risk management is one of the key elements for sound and stabile business operations of BAMC. By following best practices and general standards, BAMC ensures the best possible response to identified risks. Both senior management and operational organizational units are actively involved in risk management processes. Function of risk management is strictly separated from business units. Strategic decisions and strategy together with correspondent policies of risk management are adopted by the Board of directors, which monitors efficiency and adequacy of risk management.

BAMC is exposed to several risks, which are generally categorised as compliance risks, credit risks, market risks, interest rate risks, FX risks, liquidity risks, operational risks, capital risks, business risks and reputational risks. Ability to manage these risks and their successful management have a direct impact on the stability and performance of BAMC. Therefore it is expected that more and more attention will be paid to risk management function in 2018 regarding risk recognition, measurement, mitigating, monitoring and reporting. Overall risk management system at the level of whole BAMC is expected to be revised and reformed by mid-2018 in a way that will provide stabile and sound risk management system in changed business environment and changed position in BAMC's lifespan. BAMC's mission in forthcoming years will be changed to prevent any fire-sale situations at the end of BAMC's mandate. Risk management system will be developed in a way that will be capable to support BAMC to exit all its assets and to terminate all its activities and operations in an orderly manner.

In 2017 risk management was transferred from single organizational unit and was merged with organizational unit controlling. Controlling and risk now provide comprehensive overview of risks that is BAMC exposed to, together with their measurement and mitigations. Additional organizational change was implemented in 2017 which transferred organizational unit of Real estate valuation from Real Estate Management to Business Analytics – this organizational unit now has a comprehensive overview over valuation of all types of assets (loans and receivables, equity and real estate), which ensures consistency and complementarity.

Risk management in 2017 continued with the already introduced and implemented risk management system. Activities were focused on improvement of key business processes and mitigation of identified loss events.

In 2017 BAMC adopted the Integrity plan together with risk catalogue which included main risk factors and their measure. Overall risk assessments (likelihood and consequences if such risk realize) and estimation of how these risk factors are managed was provided and presented in the Integrity plan.

Risk analysis was prepared in 2017 according to the provisions of Prevention of Money Laundering and Terrorist Financing Act. All relevant procedures regarding anti-money laundering were updated and presented to BAMC employees.

BAMC significantly strengthened corporate security in 2017 and adopted several internal bylaws, which lowered risks, whom BAMC is exposed to. Special Committee on Corporate Security and

Compliance was established that passes decisions related to the Rules on Employee Accountability in regards to Corporate Integrity Violations.

The risk, to which is BAMC most exposed to, is credit risk. BAMC measures its loans and receivables based on fair value through profit and loss, according to the future expected cash flows by borrowers. Great attention has been given to improvement of credit risk management process, both in the process of measuring creditworthiness of borrowers and approving their exposures and in process of monitoring, managing and collection of credit collateral. In 2017 BAMC started extensive project regarding comprehensive review and consolidation of collateral, submitted to credit exposures. A unified database for all types of collateral will be established which will facilitate everyday procedures with enforcement of collateral.

BAMC has continued with a conservative approach towards market risk. The preceding year was notable for a vibrant scene on real estate markets. Slovenia has in 2017 achieved positive economic growth, real growth of GDP on a yearly level was 5,0% (3,1% in 2016)[22]. Yield to maturity of 10-year Slovenian government bonds as at end of 2017 amounted to 1,157% (1,052% in 2016)[23]. Yearly change of SBI TOP was 12,4%, average daily turnover at Ljubljana stock exchange was €1,4 million (6,2% growth in comparison of year 2016), capitalisation of shares grew for 5,5%[24]. Market risk is expected to be fully addressed in the renewed risk management system in 2018.

Liquidity conditions in 2017 remained favourable for BAMC. Liquidity risk was significantly reduced in 2017 since BAMC fully repaid its obligations - bonds DUT03 (in amount of €422,9 million) and DUT04 (in amount of €125,8 million). Additionally, BAMC has in 2017 repaid loans from banks in total amount of €563,0 million (with interest). For repayment of these liabilities BAMC raised new loans in the total amount of €710 million. Liquidity risk is expected to be fully addressed in the renewed risk management system in 2018.

Regarding operational risks BAMC continued with regular preventive activities to reduce the likelihood of loss events. According to the database of loss events, most of the loss events in 2017 resulted as a consequence of human error, therefore BAMC paid greatest attention to causes of these most relevant operational risks.

[22] Source: Statistical office of the Republic of Slovenia

[23] Source: Bloomberg

[24] Source: Ljubljana Stock Exchange, Yearly Report – Year 2017, Trading Summary

### A CORPORATE GOVERNANCE AND ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

Process of risk management is determined by different scopes, which conclude successful management of these risks:

- identification and measures of risks, which enables BAMC to fully understand different types of risks, to measure potential effects and timely recognize potential trends, which could significantly impact the business environment of BAMC;
- risk mitigation, which includes strategic decisions regarding type and amount of risks, regarding risk appetites and strategies to mitigate risks (either to accept, transfer, reduce or avoid these risks);
- monitor of risk, once it is mitigated, which includes control and reporting to the relevant bodies of BAMC.

Following structures are included in the risk management process:

#### *COMMITTEES*

**Audit Committee** assists the Board of directors in fulfilling its supervisory responsibilities. The Committee acts independently from executive management with aim to unsure that the interests of the shareholders are properly protected in relation to financial reporting, internal controls, risk management, auditing, and compliance. The Committee is accountable for keeping itself informed about the statutory audit of the annual accounts and monitoring the impartiality and independence of the statutory auditors.

**Risk and Compliance Management Committee** is an advisory Committee on an executive level in the area of risk management and compliance. It consists of responsible and competent persons from field of risk management, compliance, internal audit and main business units. The Committee performs business activities of risk management and supports identifying, monitoring, assessment and mitigation of risks, within acceptable risk levels.

**Committee on Corporate Security and Compliance** is newly established Committee in 2017 and passes decisions related to the Rules on Employee Accountability with regards to Corporate Integrity violations. It ensures that most important subjects and violations relating to Corporate Security, compliance and human resources are evaluated in detail. Its findings and recommendations are reported to the Board of Directors.

**Credit and Investment Committees** are decision-making Committees and are established to decide on matters, related to credit and other exposures held or managed by the BAMC within their delegated authority from the Board. This includes the approval of debtor asset management, credit strategies, restructuring measures liquidation of collateral, decisions on initiating insolvency procedures. BAMC has established three levels of Credit and Investment Committees according the importance of managing credit or market risks and according the exposure of a group of borrowers or type of assets.

*ORGANIZATIONAL UNITS*

**Board of directors** defines and manages risks and implements the risk management system in a structured, consistent and coordinated way. Main competences of the Board include manage and control over the company's operations, giving consent to the decisions/proposals of credit and investment committees, approving financial plan, appointment of members of the Audit Committee and adoption of the business strategy and policy, among others.

**Controlling and risk** is a newly formed organization unit, which is combined from previously single organization units of risk management and controlling. It now provides comprehensive overview of all risk exposures (controlling, market, liquidity, operational, among other). Unit prepares regular reports for different parties, is custodian to Risk and Compliance Management Committee and prepares regular risk reports for Audit and Board Committees. Organizational unit includes risk management function, which is responsible for the risk management system as a whole, its management, mitigation and monitoring. An important priority of risk management function is raising the level of risk awareness in the Company.

**Treasury** has primary responsibility for managing liquidity and funding risks which are mitigated with regular monitoring of expected credit liabilities and planned incomes.

**Compliance** advises senior management on Compliance with laws, Compliance rules and standards and keeping them informed of developments in this area; informing employees of changes in the relevant legislation, in internal regulations and also in internal procedures, cooperating and reporting to several government bodies e.g.: Ministry of finance, Court of Audit, Commission for Prevention of Corruption, law enforcement agencies, Information Commissioner, Stock exchange, etc.; preparing an integrity plan and measures for identification and prevention of corruption and the risk of other wrongdoing or unethical conduct.

**Internal audit** ensures an independent, objective assurance and consulting activity, designed to add value and improve an organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Besides following the accepted plan of Internal Audit's work, the internal audit function is involved in day-to-day operations of the BAMC through open discussions with employees who are seeking advice, wish to discuss the internal control and risk management issues or trying to test their ideas with someone who can respond to informed questions and suggest workable solutions.

**Corporate Security** was appointed at the end of 2016 and became operational in 2017 to provide an orderly and systematically investigation of suspicious practises in BAMC. It identifies and effectively mitigates or manages, at an early stage, any developments that may threaten the resilience and continued operations of a corporation. A corporate security function oversees and manages the close coordination of all functions within the company that are concerned with security, continuity and safety.

### B Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

The majority of BAMC financial assets and liabilities are classified in Level 3 of the fair value hierarchy except listed equity investments and bonds, which are classified in Level 1 of the fair value hierarchy as at 31 December 2017. Additionally, equity investments for which there was a transaction price already agreed (concluded but not closed sale agreements), are also classified in Level 1.

There were no transfers between Levels 1 and 3 during the year, except for equity investment. The transfer between levels of equity investments is presented in the movement in Level 3 financial assets valued at fair value through profit or loss below. There are some equity investments that are listed in the stock exchange but BAMC still classifies them at Fair Value Level 3, when there is not enough liquidity on the market or the stock market is not functional.

In the table below, BAMC has disclosed the fair value of each class of financial assets and financial liabilities in a way that enables the information to be compared with the carrying amounts. In addition, it has reconciled the assets and liabilities to the different categories of financial instruments as defined in IAS 39 Financial instruments: Recognition and Measurement.

Accounting classifications and fair values as at 31 December 2017

| in € thousand | Carrying amount | | | Fair value | | | |
|---|---|---|---|---|---|---|---|
| | **Designated at fair value** | **Designated at amortised costs** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets measured at fair value** | **759.242** | **-** | **759.242** | **12.580** | **-** | **746.662** | **759.242** |
| Loans | 660.237 | - | 660.237 | - | - | 660.237 | 660.237 |
| Equity Investments and bonds | 99.005 | - | 99.005 | 12.580 | - | 86.425 | 99.005 |
| **Financial assets not measured at fair value** | **-** | **5.500** | **5.500** | **-** | **-** | **-** | **-** |
| Trade and other operating receivables | - | 5.500 | 5.500 | - | - | - | - |
| **Financial liabilities not measured at fair value** | **-** | **891.812** | **891.812** | **-** | **-** | **851.516** | **851.516** |
| Trade and other payables | - | 8.506 | 8.506 | - | - | - | - |
| Borrowings | - | 880.175 | 880.175 | - | - | 851.516 | 851.516 |
| Other liabilities | - | 3.131 | 3.131 | - | - | - | - |

Accounting classifications and fair values as at 31 December 2016

| in € thousand | Carrying amount | | | Fair value | | | |
|---|---|---|---|---|---|---|---|
| | Designated at fair value | Designated at amortised costs | Total | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets measured at fair value** | **1.045.060** | **-** | **1.045.060** | **36.577** | **-** | **1.008.483** | **1.045.060** |
| Loans | 948.115 | - | 948.115 | - | - | 948.115 | 948.115 |
| Equity Investments and bonds | 96.945 | - | 96.945 | 36.577 | - | 60.368 | 96.945 |
| **Financial assets not measured at fair value** | **-** | **4.768** | **4.768** | **-** | **-** | **-** | **-** |
| Trade and other operating receivables | - | 4.768 | 4.768 | - | - | - | - |
| **Financial liabilities not measured at fair value** | **-** | **1.277.131** | **1.277.131** | **-** | **-** | **-** | **-** |
| Borrowings | - | 714.555 | 714.555 | - | - | - | - |
| Debt securities | - | 548.855 | 548.855 | - | - | - | - |
| Trade and other payables | - | 12.199 | 12.199 | - | - | - | - |
| Other liabilities | - | 2.522 | 2.522 | - | - | - | - |

## C Measurement of fair values

### *C.1 Valuation techniques and significant unobservable inputs*

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values for financial instruments measured at fair value in the statement of financial position, as well as the significant unobservable inputs used. Related valuation processes are described in Note 4.

**Financial instruments measured at fair value**

SIGNIFICANT UNOBSERVABLE INPUTS

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|
| Loans | *Individual valuations: Discounted cash flows*, where future cash flows are estimated separately for restructuring and recovery scenario. Probability of each scenario is set by the use of DPS model. Cash flows of both scenarios are discounted with weighted average cost of capital (WACC).<br><br>*Collective valued exposures:* valuation estimated for a pool of borrowers (with exposures, lower than € 300 thousand), where segments are set according to the days in delay of each borrower. Probability of default is applied on a loss given default value (exposure, lowered for the collateral value). | *Individual valuations:*<br>- The probability of restructuring attached to each scenario (0% for recovery cases, 50%-100% for restructuring cases).<br>- Discounting factor: weighted average cost of capital (WACC). 2017: 2,09%; 2016:2,31%<br><br>*Collective valued exposures:*<br>- PD as determined in one of the bank, which assets were merged to BAMC in 2016, according to the days in delay (3,86%, if days in delay 0-30; 10,60%, if days in delay 31-90; 38,54%, if days in delay 91-180; 100%, if days in delay exceed 90)<br>- LGD: subtracting the collateral value form outstanding amount | The estimated fair value of loans increases (decreases), if:<br><br>*Individual valuations:*<br>- The estimated cash flows increase (decrease),<br>- The discount factor decreases (increases),<br>- The probability of restructuring scenario increases (decreases), condition to restructuring cash flows exceed (do not exceed) recovery cash flows<br><br>*Collective valued exposures*<br>- PD decreases (increases)<br>- LGD increases (decreases) |
| Equity investment and bonds | *Discounted cash flows*<br>*Net asset value*<br>*Multiples*<br>*Dividend discount model*<br><br>*Market price*<br>*Transaction price* | Inputs that affect free cash flow and subsequently the enterprise value, such as: projected revenue growth, gross profit margin, capex, working capital and the terminal growth in the FCFF. | The enterprise value increases when the revenues are growing and/or costs are increasing less, are fixed or decreasing, resulting in higher gross profit margin. Inversely, increases in the capex and negative cash flow from changes in working capital are decreasing the enterprise value. |

Although the BAMC believes that estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different estimates of such value. Key inputs used in the valuation model for the loan portfolio are the determination of the probability of restructuring and recovery scenario and the recovery value. Components of the recovery value are the value of the underlying collateral (mainly real estate and equity shares), restrictions and conditions derived from the legal position (mainly pledge ranking, pledge values and outstanding exposures of pledge holders). For more details see Note 4. Critical accounting estimates and judgments.

FAIR VALUE OF EQUITY INVESTMENTS AND BONDS AS AT 31 DECEMBER 2017 AND 2016

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| DCF | 60.907 | 32.631 |
| Net asset value | 18.020 | 21.108 |
| Multiples | 5.896 | 5.199 |
| Dividend discount model | 1.601 | 1.430 |
| **Level 3** | **86.425** | **60.368** |
| Market price | 12.580 | 33.573 |
| Transaction price | 0 | 3.004 |
| **Level 1** | **12.580** | **36.577** |
| **Total** | **99.005** | **96.945** |

### Financial instruments not measured at fair value

SIGNIFICANT UNOBSERVABLE INPUTS

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|
| Trade and other operating receivables | At amortised costs | Not applicable | Not applicable |
| Borrowings | At amortised costs | Credit margin, used as a discount factor for calculation of net present value of borrowings. BAMC used interest rate of 10-year government bond that was issued at the time that BAMC acquired loans: RS79 (1,25%) for loans, acquired in December 2016 and RS80 (1,00%) for loans, acquired in December 2017. | Fair value of borrowings increases (decreases), if discount factor (interest rate of government bonds) decreases (increases). |
| Trade and other payables | At amortised costs | Not applicable | Not applicable |
| Other liabilities | At amortised costs | Not applicable | Not applicable |

### C.2 TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

There were no transfers between Level 1 and Level 2 Fair value in 2017.

### C.3 MOVEMENT IN LEVEL 3 FAIR VALUES

The following tables show movement in Level 3 fair values.

### MOVEMENT IN LEVEL 3 FINANCIAL ASSETS AT FAIR VALUE (LOANS) THROUGH PROFIT OR LOSS IN 2017

| in € thousand | **Loans** |
|---|---|
| **Opening balance 1 January 2017** | **945.947** |
| Acquisition | 0 |
| Increase in loan portfolio | 9.368 |
| Import of leasing portfolio in the common system | 1.548 |
| Capital contributions | 0 |
| Debt to equity swaps | -3.664 |
| Debt to real estate conversion | -23.274 |
| Loans sold | -70.765 |
| Repayments | -303.250 |
| Capital gains/losses | 50.746 |
| Revaluation | 54.338 |
| Other changes | -760 |
| **Closing balance 31 December 2017** | **660.237** |

### MOVEMENT IN LEVEL 3 FINANCIAL ASSETS AT FAIR VALUE (LOANS) THROUGH PROFIT OR LOSS IN 2016

| in € thousand | **Loans*** |
|---|---|
| **Opening balance 1 January 2016** | **1.091.006** |
| Merger of Probanka and Factor banka | 265.349 |
| Elimination of loans given to five subsidiaries | 902 |
| Merger of five subsidiaries | -34.514 |
| Acquisition | 0 |
| Loans granted | 18.414 |
| Capital contributions | 0 |
| Debt to equity swaps | -26.022 |
| Debt to real estate conversion | -59.601 |
| Disposal | -81.513 |
| Repayments | -253.138 |
| Capital gains/losses | 54.526 |
| Revaluation | -30.288 |
| Other changes | 827 |
| **Closing balance 31 December 2016** | **945.946*** |

* leasing portfolio merged from one subsidiary is not included

MOVEMENT IN LEVEL 3 FINANCIAL ASSETS AT FAIR VALUE (EQUITY INVESTMENT AND BONDS) THROUGH PROFIT OR LOSS IN 2017

| in € thousand | Equity investments and bonds |
|---|---|
| **Opening balance 1 January 2017** | **60.368** |
| Acquisition | 1.322 |
| Movement from Level 1 to Level 3 | 21.050 |
| Debt to equity conversions | 3.664 |
| Revaluation | 61 |
| Disposal | -40 |
| **Closing balance 31 December 2017** | **86.425** |

In 2017, BAMC reclassified equity investments and bonds in the total amount of €21.050 thousand from Level 1 to Level 3. These are equity investment in Cinkarna Celje, d.d., Elektro Celje, d.d., Elektro Gorenjska, d.d., Elektro Ljubljana, d.d., and Elektro Primorska, d.d. Transfer from Level 1 to Level 3 was performed due to inefficient stock market with low liquidity (for Cinkarna Celje, d.d.) and change of expected transfer activities (for shares of electro companies).

MOVEMENT IN LEVEL 3 FINANCIAL ASSETS AT FAIR VALUE (EQUITY INVESTMENT AND BONDS) THROUGH PROFIT OR LOSS IN 2016

| in € thousand | Equity investments and bonds |
|---|---|
| **Opening balance 1 January 2016** | **36.347** |
| Transfer from Level 3 to Level 1 | -765 |
| Merger of Factor banka and Probanka | 18.583 |
| Merger of five subsidiaries | 231 |
| Acquisition | 691 |
| Debt to equity conversions | 6.942 |
| Revaluation | 13.509 |
| Capital contributions | 952 |
| Disposal | -16.122 |
| **Closing balance 31 December 2016** | **60.368** |

Capital contributions relate to equity contributions to two companies – NPL Port in amount of €942 thousand and DUTB Serbia, an SPV entity, in amount of €10 thousand.

## D FINANCIAL RISK MANAGEMENT

BAMC has exposure to the following risks arising from financial instruments:

- credit risk,
- liquidity risk,
- market risk.

### *D.1 Risk management framework*

The board of directors of BAMC has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of directors has established The Risk and Compliance Management Committee, which is responsible for developing and monitoring BAMC's risk management policies. The Committee regularly reports to the Audit Committee and Board of directors on its activities.

Risk management policies of BAMC are established to identify and analyse the risks faced by the BAMC, to set appropriate internal controls and to monitor risks and adherence to these controls. Risk management policies and systems are regularly reviewed in the scope of risk management framework to reflect changes in market conditions and the BAMC's activities. In year, 2018 BAMC will present renewed risk management policy with increased focus on financial risks and their mitigations. BAMC, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with BAMC's risk management policies and procedures, and reviews the adequacy of risk management framework in relation to the risks, faced by the BAMC. The Audit Committee is assisted in its oversight role by internal audit and the risk management function. The risk management function undertakes both regular and ad hoc review of risk management controls and procedures, the results of which are reported to the Audit Committee.

### *D.2 Credit risk*

Credit risk is the risk of financial loss to the BAMC if a customer or counterparty to a financial instrument fails to meet its financial obligations in full or on time, and arises principally from the BAMC's loans and trade and other operating receivables. Credit risk is based on volume and business operations by BAMC most significant financial risk.

Credit exposure of BAMC as at 31 December 2017 amounted to €765.977 thousand (2016: €1.087.635 thousand).

Exposure of potential obligations (guarantees) is presented according to the net value (outstanding guarantee, less provisions raised).

BAMC does not have any other potential financial obligations that could increase the credit risk of off-balance exposures.

CREDIT EXPOSURE AS AT 31 DECEMBER 2017 AND 2016

| in € thousand | 31 Dec 17 | 31 Dec 16 |
|---|---|---|
| **Credit risk of on-balance exposures** | **756.373** | **1.075.144** |
| Financial assets at fair value through profit or loss | 660.237 | 948.115 |
| Loans and leasing | 660.237 | 948.115 |
| Trade and other operating receivables | 5.500 | 4.768 |
| Cash and cash equivalents | 90.636 | 122.261 |
| **Credit risk of off-balance exposures** | **9.604** | **12.491** |
| Contingent obligations (guarantees) | 9.604 | 12.491 |
| **Total exposure to credit risk** | **765.977** | **1.087.635** |

In the tables below type of borrower, “Republic Slovenia” includes mainly exposures per municipalities. Category “Private individuals” includes exposures per physical persons and entrepreneurs.

The carrying amount of financial assets represent the maximum credit exposure. Credit exposure is presented carrying value. Exposure to contingent obligations (guarantees) is presented according to the net value (outstanding guarantee, less provisions).

CREDIT EXPOSURE PER TYPE OF BORROWER AS AT 31 DECEMBER 2017

| in € thousand | Loans and leasing | Share | Guarantees | Share | Cash and cash equivalents | Share |
|---|---|---|---|---|---|---|
| Corporate | 636.683 | 96% | 9.604 | 100% | 0 | 0% |
| Private individuals | 18.780 | 3% | 0 | 0% | 0 | 0% |
| Republic Slovenia | 4.771 | 1% | 0 | 0% | 0 | 0% |
| Banks | 3 | 0% | 0 | 0% | 90.636 | 100% |
| **Total** | **660.237** | **100%** | **9.604** | **100%** | **90.636** | **100%** |

CREDIT EXPOSURE PER TYPE OF BORROWER AS AT 31 DECEMBER 2016

| in € thousand | Loans and leasing | Share | Guarantees | Share | Cash and cash equivalents | Share |
|---|---|---|---|---|---|---|
| Corporate | 916.703 | 97% | 12.491 | 100% | 0 | 0% |
| Private individuals | 26.228 | 3% | 0 | 0% | 0 | 0% |
| Republic Slovenia | 5.184 | 1% | 0 | 0% | 0 | 0% |
| Banks | 0 | 0% | 0 | 0% | 122.261 | 100% |
| **Total** | **948.115** | **100%** | **12.491** | **100%** | **122.261** | **100%** |

### Loans

Credit risk is presented according to the fair value of loans. Credit risk is calculated based on detailed credit analysis and analysis of underlying collateral which determines the strategy for each borrower.

Credit risk of the BAMC depends heavily on the characteristics of its main debtors. The BAMC manages loans, transferred from banks at debtor group levels. For each debtor a strategy is decided (restructuring or recovery). For more details see Note 4. Critical accounting estimates and judgements.

The BAMC has not developed its own rating system, since the loan portfolio consists of non-performing loans and the majority of loans are in default. All borrowers with group (or individual) exposure higher than €300 thousand are assigned to one of the two main strategies - restructuring and recovery and are valued individually. Borrowers with gross exposure lower than €300 thousand are valued collectively. The fair value of loans assigned to each of the strategies is presented below. See Note 4. Critical accounting estimates and judgements for more details on valuation methodology.

**CLASSIFICATION OF CREDIT EXPOSURE**

Volume of revaluations depend on expected future cash flows and value of collateral. Revaluations are calculated on an individual level or collectively.

Credit portfolio is categorised according to the two main strategies – restructuring or recovery for borrowers, where individual valuation is required. Discount factor for expected future cash flows is BAMC's weighted average cost of capital (WACC) in amount of 2,09% as at 31 December 2017 (2016: 2,31%).

In case of selected recovery strategy (strategy, which reflects the collateral value of loans), value is calculated solely based on the recovery scenario cash flows (on the value of the collateral). This most often applies for bankruptcy and enforcement procedures.

Restructuring strategy is determined according the scoring model (Default Probability Scorecard) classifying different business risk element in the 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 company-specific observations. According the assigned risk classes average risk profile of restructuring scenario is set and distributed linearly on the probability scale.

Collective revaluations are calculated according to the Expected loss model. 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. Expected loss is calculated as a product between the probability of default (predefined by the days in delay) and the loss given default, which is then used as an revaluation level of each loan. The book value of such loans is therefore calculated as the difference between the gross value of the loan and the expected loss. Additionally BAMC assesses loans with overdue in excess of 5 years with zero fair value regardless their formal collateralization.

Borrowers, collectively valued are presented in the category "Collective valued exposure".

EXPOSURE PER STRATEGY 31 DECEMBER 2017 AND 2016

| in € thousand | 31 Dec 2017 | | 31 Dec 2016 | |
|---|---|---|---|---|
| | **Fair value** | **Carrying (fair) value as % of gross exposure** | **Fair value** | **Carrying (fair) value as % of gross exposure** |
| Restructuring | 289.162 | 53% | 434.064 | 48% |
| Recovery | 360.008 | 11% | 498.664 | 13% |
| Collective valued exposure | 11.068 | 42% | 15.387 | 49% |
| **Total** | **660.237** | **17%** | **948.115** | **20%** |

**STRUCTURE OF LOANS**

**Maturity of expected cash flows**

For individually valued borrowers future expected cash flows are predicted on a case-by-case level. For borrowers where recovery strategy is selected, cash flows are predicted according to time and value of sale of collateral or loan itself. For borrowers where restructuring strategy is selected, cash flows are predicted according to time and value of both contractual cash flows and sale of collateral (and sale of loan itself in some cases). Each individual valuation is revised twice a year to ensure prompt valuations with all latest inputs included.

In the tables below, structure of loans is presented according to the maturity of future expected cash flows. Future cash flows are calculated according to the individual assessment for individual borrower, based on estimated time frame and value of either cashed collateral, sale of loans, refinancing of loans, or payments by the debtor itself. Contractual cash flows are included in time and value as specified in written agreements only in cases, where debtor has a valid restructuring plan and it was individually assessed that the borrower can follow such plan.

Contractual maturity of cash flows is often not relevant for majority of loans of BAMC. In recovery cases, for example, where majority of loans has already past due (and debt is collected in the enforcement proceedings), timing of cash flows represents period of expected cash flows from sale of underlying collateral. Current cash flows represent expected cash flows in 2018, non-current in years from 2019 on.

TIMING OF EXPECTED CASH FLOWS AS AT 31 DECEMBER 2017 AND 2016

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Current | 186.847 | 173.410 |
| Non-current | 473.390 | 774.705 |
| **Total** | **660.237** | **948.115** |

**Overdue portfolio**

In the table below fair value of loans is presented according to the days overdue. Days overdue are determined according to the current amortization plan. Large part of not due loans is the result of forbearance agreements.

OVERDUE PORTFOLIO AS AT 31 DECEMBER 2017 AND 2016

| in € thousand | 31 Dec 2017 | | 31 Dec 2016 | |
|---|---|---|---|---|
| | Fair value | Carrying (fair) value as % of gross exposure | Fair value | Carrying (fair) value as % of gross exposure |
| **Restructuring** | **289.162** | **53%** | **434.064** | **58%** |
| Not due | 194.386 | 83% | 376.191 | 70% |
| Overdue | 94.776 | 31% | 57.872 | 28% |
| Overdue up to 90 days | 7.279 | 70% | 1.373 | 100% |
| Overdue between 90 days and 1 year | 27.073 | 94% | 2.358 | 82% |
| Overdue between 1 and 3 years | 9.276 | 36% | 6.589 | 29% |
| Overdue over 3 years | 51.147 | 21% | 47.553 | 26% |
| **Recovery** | **360.008** | **11%** | **498.020** | **13%** |
| Not due | 39.474 | 35% | 57.099 | 21% |
| Overdue | 320.534 | 10% | 440.921 | 12% |
| Overdue up to 90 days | 3 | 48% | 483 | 94% |
| Overdue between 90 days and 1 year | 9.589 | 66% | 24.242 | 28% |
| Overdue between 1 and 3 years | 18.501 | 29% | 48.662 | 19% |
| Overdue over 3 years | 292.440 | 9% | 367.534 | 11% |
| **Collective valued exposure** | **11.068** | **42%** | **16.031** | **43%** |
| Not due | 5.259 | 99% | 10.970 | 83% |
| Overdue | 5.808 | 27% | 5.061 | 23% |
| Overdue up to 90 days | 1.296 | 99% | 61 | 24% |
| Overdue between 90 days and 1 year | 1.056 | 85% | 357 | 27% |
| Overdue between 1 and 3 years | 1.691 | 47% | 2.026 | 54% |
| Overdue over 3 years | 1.766 | 12% | 2.617 | 16% |
| **Total** | **660.237** | **17%** | **948.115** | **20%** |

**Sectoral analysis of loan portfolio**

The vast majority of loans were transferred or acquired through merger to the BAMC in terms of the respective law, without BAMC having the ability to select the respective loans. Sectoral analysis in the table below is presented according to the type of borrower. For corporate borrowers primary sector is defined according to the Standard Classification of Activities (SKD). BAMC manages concentration risk in terms of loans to a specific borrower or group of borrowers regardless the specific sectors in which borrower conducts its business.

In the tables below type of borrower "Republic Slovenia" includes mainly exposures per municipalities. Category "Private individuals" includes exposures per physical persons and entrepreneurs.

SECTORAL ANALYSIS AS AT 31 DECEMBER 2017 AND 2016

| in € thousand | 31 Dec 2017 | | 31 Dec 2016 | |
|---|---|---|---|---|
| | **Fair value** | **Carrying (fair) value as % of gross exposure** | **Fair value** | **Carrying (fair) value as % of gross exposure** |
| Corporate | 636.682 | 16% | 916.703 | 20% |
| Construction | 119.969 | 12% | 208.888 | 17% |
| Manufacturing | 152.276 | 30% | 148.377 | 26% |
| Wholesale and retail | 69.804 | 20% | 126.140 | 26% |
| Tourism | 64.477 | 54% | 67.603 | 56% |
| Professional activities | 44.762 | 17% | 59.735 | 21% |
| Financial activities | 50.294 | 8% | 41.665 | 7% |
| Real estate activities | 32.018 | 25% | 39.459 | 28% |
| Other | 79.946 | 10% | 199.068 | 20% |
| Foreign corporate | 23.137 | 20% | 25.770 | 26% |
| Private individuals and entrepreneurs | 18.780 | 22% | 26.228 | 25% |
| Republic of Slovenia | 4.771 | 36% | 5.184 | 38% |
| Banks | 4 | 75% | 0 | 0% |
| Total | 660.237 | 17% | 948.115 | 20% |

**Geographical analysis of loan portfolio**

The table below represents fair value of loans according to the location of headquarter of the borrower at 31 December 2017 and 2016 for corporate. Type of borrower, “Republic Slovenia” includes mainly exposures per municipalities. Category “Private individuals” includes exposures per physical persons and entrepreneurs.

GEOGRAPHICAL ANALYSIS OF LOAN PORTFOLIO AS AT 31 DECEMBER 2017 AND 2016

| in € thousand | 31 Dec 2017 | | 31 Dec 2016 | |
|---|---|---|---|---|
| | **Fair value** | **Carrying (fair) value as % of gross exposure** | **Fair value** | **Carrying (fair) value as % of gross exposure** |
| Corporate | 636.683 | 16% | 916.703 | 20% |
| Slovenia | 614.053 | 16% | 884.807 | 20% |
| EU countries | 16.939 | 15% | 20.751 | 20% |
| Other European countries | 5.691 | 15% | 11.145 | 24% |
| Non-European countries | 0 | 0% | 0 | 0% |
| Private individuals and entrepreneurs | 18.780 | 22% | 26.228 | 18% |
| Republic of Slovenia | 4.771 | 36% | 5.184 | 38% |
| Banks | 3 | 75% | 0 | 0% |
| **Total** | **660.237** | **17%** | **948.115** | **20%** |

**Collateral value of loan portfolio**

Loans are collateralized with one or more type of collateral or can be totally uncollateralised. Majority of collateral was transferred or acquired through merger to the BAMC in terms of the respective law, without BAMC having the ability to select the respective loans and collaterals. BAMC's role is more active in acquiring additional/new collateral is seen in case of financial restructuring when contractual obligations of BAMC's borrowers are redefined.

Fair value of loans, which are individually valued, are calculated as a discounted cash flows from restructuring and recovery scenario (weighted according to the probability of each scenario), where the recovery scenario includes value of collateral of specific borrower.

Expected value of collateral, used as an input for the recovery value of each valuation, is always an estimation, based on formal internal valuation and on individual assessment of the valuator of specific loan. Individual assessment of value of collateral can result in different value than it is in internal valuations, since it can include specifics of each loan. In example, proceeds expected from collateral can be different from value in internal valuations due to pre-lien mortgages, usage of haircuts (connected with cost to sell this collateral), exposure, collateralized with specific collateral, etc.

In the tables below, recovery value according to each scenario is presented. Recovery value in the tables below represents cash flows per each borrower (according to scenarios), discounted at weighted average cost of capital. Please note, that the fair value of loans is calculated as a weighted average of recovery value (recovery scenario) and restructuring value (restructuring scenario). These values can sometimes exceed the loan exposure (in case of over collateralization), therefore fair value is manually set not to exceed outstanding amount of all loans per borrower.

Collective valuation are calculated according to the value of collateral and according to the days overdue per specific borrower. Value of collateral is estimated according to the internal valuations, for purposes of performing collective valuation an additional hair-cut of 10% is applied. This hair-cut represents all costs, that could arise (and therefore lower payments from this collateral) when BAMC tries to collect and cash-in this collateral. The hair-cut was set based on professional experience in liquidation of this collateral and is consistent with hair-cuts used for such purposes in individual valuations.

RECOVERY VALUE AS AT 31 DECEMBER 2017

| in € thousand | **Fair value 31 Dec 2017** | **Carrying (fair) value as % of gross exposure** | **Recovery value 31 Dec 2017** | **Share of recovery value in fair value** |
|---|---|---|---|---|
| Restructuring | 289.162 | 53% | 264.915 | 92% |
| Recovery | 360.008 | 11% | 365.164 | 101% |
| Collectively valued exposure | 11.068 | 42% | 11.189 | 101% |
| **Total** | **660.237** | **17%** | **641.268** | **97%** |

RECOVERY VALUE AS AT 31 DECEMBER 2016

| in € thousand | **Fair value 31 Dec 16** | **Carrying (fair) value as % of gross exposure** | **Recovery value 31 Dec 2016** | **Share of recovery value in fair value** |
|---|---|---|---|---|
| Restructuring | 434.064 | 58% | 405.217 | 93% |
| Recovery | 498.664 | 13% | 507.257 | 102% |
| Collectively valued exposure | 15.387 | 49% | 14.105 | 92% |
| **Total** | **948.115** | **20%** | **926.579** | **97%** |

**LOAN PORTFOLIO RISKS**

**Risk of change of DPS**

Default probability scorecard (DPS) is a scoring model classifying different business risk elements in the 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 company-specific observations, using the operational guidelines regarding assessing the individual risk grades. According the assigned risk classes average risk profile of restructuring scenario is set and distributed linearly on the probability scale, where 0 represents 100% restructuring probability and 7 represents 0% restructuring probability.

Although DPS measures business risk of each individual company, its change has a direct impact on the fair value of loans of borrowers and has therefore a direct impact on the exposure of credit risk. In the tables below, exposure is presented according to the classes of DPS probability. All recovery exposure has a DPS probability 0%, for collectively valued exposure, DPS on an individual level is not calculated.

DPS CLASSES AS AT 31 DECEMBER 2017 AND 2016

| in € thousand | 31 Dec 2017 | | 31 Dec 2016 | |
|---|---|---|---|---|
| | **Fair value** | **Share in total fair value** | **Fair value** | **Share in total fair value** |
| Restructuring | 289.162 | 44% | 434.064 | 46% |
| P(restructuring) 100% | 34.061 | 5% | 119.869 | 13% |
| P(restructuring) 90-99% | 1.801 | 0% | 8.039 | 1% |
| P(restructuring) 80-89% | 0 | 0% | 37.177 | 4% |
| P(restructuring) 70-79% | 52.147 | 8% | 32.530 | 3% |
| P(restructuring) 60-69% | 96.316 | 15% | 78.354 | 8% |
| P(restructuring) 50-59% | 104.837 | 16% | 158.094 | 17% |
| Recovery | 360.008 | 55% | 498.664 | 53% |
| Collectively valued exposures | 11.068 | 2% | 15.387 | 2% |
| **Total** | **660.237** | **100%** | **948.115** | **100%** |

In 2017 BAMC witnessed some significant movements between different DPS classes. The share of carrying value in the highest DPS classes (100% and 90-99%) amounted to 13% in 2016, and the fair value of loans in these two DPS classes decreased to 5% in 2017. Such movement is the result of active collection of loans during 2017 on one hand and repayments from liquidation of collateral.

**Sensitivity analysis of DPS changes**

Since DPS change has a direct impact on exposure to credit risk, sensitivity analysis of DPS change for 10 percentage points (thereinafter p.p.) and 5 p.p. were performed. Such changes are selected based on the analysis of restructuring exposures as at 31 December 2016 and comparing their DPS probabilities with DPS probabilities as at 31 December 2017. Arithmetic average DPS probabilities in 2017 amounted to 63,4% (basically unchanged compared to 2016: 62,6%), therefore BAMC estimates that such changes (10 percentage points and 5 percentage points) are sufficient to perform sensitivity analysis of DPS changes. Please note that such calculations are strictly for statistical purposes and do not reflect risks on restructuring portfolio, since DPS is a business risk model, which may only be calculated for a specific company. The purpose of the DPS model was never to expand its use for the entire portfolio, since not all the companies in the credit portfolio face the same business risks, measured by the DPS.

**Impact of parallel change of DPS**

In the tables below, fair value of loans is presented according to the parallel change of DPS, if all other circumstances remain unchanged, ceteris paribus. Collective valued exposures do not reflect risk of changed DPS, since DPS is not an input for revaluation of these exposures. The portfolio, classified as recovery, cannot have an impact of increased DPS, since such cases do not include restructuring value into the calculation of value (since most often, these are cases, where BAMC collects debt through enforcement proceedings). On the other hand, decrease of DPS means that some exposures with low DPS probabilities fall under the recovery category, therefore recovery portfolio gains in value in such cases. The impact is therefore not linear.

DPS SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2017

| in € thousand | Fair value of loans | Impact of parallel change of DPS for 10 percentage points on fair value of loans | | Impact of parallel change of DPS for 5 percentage points on fair value of loans | |
|---|---|---|---|---|---|
| | | Increase | Decrease | Increase | Decrease |
| Restructuring | 289.162 | 10.761 | -110.542 | 5.381 | -74.469 |
| Recovery | 360.008 | 0 | 76.636 | 0 | 48.703 |
| Collective valued exposures | 11.068 | 0 | 0 | 0 | 0 |
| **Total** | **660.237** | **10.761** | **-33.906** | **5.381** | **-25.766** |

DPS SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2016

| in € thousand | Fair value of loans | Impact of parallel change of DPS for 10 percentage points on fair value of loans | | Impact of parallel change of DPS for 5 percentage points on fair value of loans | |
|---|---|---|---|---|---|
| | | Increase | Decrease | Increase | Decrease |
| Restructuring | 434.064 | 14.094 | -168.842 | 7.352 | -118.498 |
| Recovery | 498.664 | 0 | 111.520 | 0 | 76.524 |
| Collective valued exposures | 15.387 | 0 | 0 | 0 | 0 |
| **Total** | **948.115** | **14.094** | **-57.322** | **7.352** | **-41.974** |

The change in the fair value of loans due to changes of DPS probability would have additional impact on profit or loss. Higher fair values of loans would lead to increase of revaluation and would lead to increase of profit or loss before tax (hereinafter PL before tax).

DPS SENSITIVITY ANALYSIS - IMPACT ON PROFIT OR LOSS AS AT 31 DECEMBER 2017 AND 2016

| in € thousand | Result | PL before tax, if DPS changes for 10 p.p. | | PL before tax, if DPS changes for 5 p.p. | |
|---|---|---|---|---|---|
| | PL before tax | Increase | Decrease | Increase | Decrease |
| 31 December 2017 | 73.044 | 83.805 | 39.138 | 78.425 | 47.278 |
| 31 December 2016 | -7.803 | 6.291 | -65.125 | -451 | -49.777 |

The ultimate risk of change of DPS presents risk of deterioration in the financial position of borrowers, which is defined as risk that all restructuring exposures fail at once, and is presented below.

**Risk of deterioration in the financial position of borrowers**

One of the most important elements of credit risks, identified by the BAMC, is the risk of deterioration of the financial position of debtors and consequently a change of strategy from restructuring to recovery. Cash flows would then depend only on the realization of collateral and the BAMC would lose access to cash flows from regular operations which are potentially higher than amounts that can be realized from the sale of collateral.

The table below presents the difference in the carrying amount of loans assuming the entire portfolio was assigned to the recovery strategy. Loans, valued collectively are not presented in the table.

If all borrowers, to whom restructuring strategy was assigned, deteriorated and therefore only collateral could be liquidated, the fair value of loans would decrease by €69.403 thousand. This risk is significantly lower in 2017 than in 2016, when it amounted to €139.492 thousand.

RISK OF DETERIORATION IN THE FINANCIAL POSITION AS AT 31 DECEMBER 2017

| in € thousand<br>**Strategy** | **Fair value of loans** | **Recovery fair value of loans, if all restructurings fail** | **Difference** |
|---|---|---|---|
| Restructuring | 289.162 | 219.759 | -69.403 |
| Recovery | 360.008 | 360.008 | 0 |
| **Total** | **649.170** | **579.767** | **-69.403** |

RISK OF DETERIORATION IN THE FINANCIAL POSITION AS AT 31 DECEMBER 2016

| in € thousand<br>**Strategy** | **Fair value of loans** | **Recovery fair value of loans, if all restructurings fail** | **Difference** |
|---|---|---|---|
| Restructuring | 434.064 | 294.572 | -139.492 |
| Recovery | 498.664 | 498.664 | 0 |
| **Total** | **932.728** | **793.236** | **-139.492** |

IMPACT ON PROFIT OR LOSS AS AT 31 DECEMBER 2017 AND 2016

| in € thousand | **PL before tax** | **PL before tax, if all restructurings fail** | **Difference** |
|---|---|---|---|
| 31 December 2017 | 73.044 | 3.641 | -69.403 |
| 31 December 2016 | -7.803 | -147.295 | -139.492 |

### Risk of change of WACC

Fair value of BAMC's loans represents expected future cash flows, discounted with interest rate, which is determined based on the BAMC's weighted average cost of capital (WACC). As at 31 December 2017 WACC amounted to 2,09% (as at 31 December 2016 2,31%). Changed discount factor would have direct impact on fair value of loans, under all other conditions unchanged, *ceteris paribu*s, and would have direct impact on income from loans and therefore on profit/ loss before tax.

Sensitivity analysis of changed WACC was performed for change of WACC for 0,5 percentage point (hereinafter p.p.).Change in WACC in 2017 according to 2016 amounted to 0,22 p.p., therefore BAMC estimates that such changes are sufficient to present potential impact.

Collective valued loans are not sensitive to changes in WACC.

WACC SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2017

| in € thousand<br>**Strategy** | **Fair value of loans** | **Impact of change of WACC of 0,5 p.p. on fair value of loans** | |
|---|---|---|---|
| | | **Increase** | **Decrease** |
| Restructuring | 289.162 | -3.967 | 4.030 |
| Recovery | 360.008 | -3.123 | 3.180 |
| Collective valued exposures | 11.068 | 0 | 0 |
| **Total** | **660.237** | **-7.090** | **7.210** |

WACC SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2016

| in € thousand<br>**Strategy** | **Fair value of loans** | **Impact of change of WACC of 0,5 p.p. on fair value of loans** | |
|---|---|---|---|
| | | **Increase** | **Decrease** |
| Restructuring | 434.064 | -4.037 | 3.569 |
| Recovery | 498.664 | -5.230 | 5.170 |
| Collective valued exposures | 15.387 | 0 | 0 |
| **Total** | **948.115** | **-9.267** | **8.739** |

### Trade and other operating receivables

CURRENT AND NON-CURRENT PORTIONS OF TRADE AND OTHER RECEIVABLES

| in € thousand | **31 Dec 2017** | **31 Dec 2016** |
|---|---|---|
| Current portion | 5.201 | 4.768 |
| Non-current portion | 299 | 0 |
| **Total** | **5.500** | **4.768** |

### Cash and cash equivalents

The major principle of BAMC liquidity reserves management investment decisions is a risk averse attitude. Cash and cash equivalents are managed according to the Investment policy on the management of liquidity reserves and are permitted to be invested with a credit institution based in the Republic of Slovenia, an EU Member State or an OECD member country.

BAMC held cash and cash equivalents of €90.636 thousand at 31 December 2017 (2016: €122.261 thousand). BAMC estimates credit risk of cash and cash equivalents as a relatively low.

**Off-balance exposures (guarantees)**

BAMC received off-balance exposures (guarantees) with the merger of Factor banka, d.d. and Probanka, d.d. in 2016. BAMC manages these exposures and monitors guarantees according to their maturities. The decision to extend the individual guarantee is a business decision and is subject to assessment on a case-by-case basis, depending on the status of the applicant, existing collateral, or options for acquiring additional collateral.

OFF-BALANCE EXPOSURE AS AT 31 DECEMBER 2017 AND 2016

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Outstanding amounts of contingent obligations (guarantees) | 12.034 | 15.742 |
| Provisions | - 2.430 | - 3.251 |
| **Credit risk of off-balance exposures** | **9.604** | **12.491** |

In the tables below, maturity of guarantees is presented as at 31 December 2017 and 2016.

MATURITY OF OFF-BALANCE EXPOSURES AS AT 31 DECEMBER 2017 AND 2016

| in € thousand | 31 Dec 17 | 31 Dec 16 |
|---|---|---|
| Guarantees, expected to expire in 1 year | 4.420 | 3.929 |
| Expected to expire in Q1 of the following year | 1.849 | 2.141 |
| Expected to expire in Q2 of the following year | 387 | 275 |
| Expected to expire in Q3 of the following year | 1.656 | 181 |
| Expected to expire in Q4 of the following year | 528 | 1.332 |
| Expected to expire in 2 to 5 years | 6.222 | 6.679 |
| Expected to expire in more than 5 years | 1.392 | 5.133 |
| **Outstanding amounts of contingent obligations (guarantees)** | **12.034** | **15.742** |

### *D.3 LIQUIDITY RISK*

The liquidity risk is defined as the risk of losing earnings and capital due to inability to meet obligations in a timely manner when they become due. BAMC manages liquidity risks according to the Investment policy on the management of liquidity reserves. The general principle of BAMC liquidity reserves management is prudency together with risk aversion, liquidity and profitability. BAMC prepares weekly projections of cash flows and maintains adequate liquidity reserves at all time.

Liquidity risk was significantly reduced in 2017 since BAMC fully repaid its obligations - bonds DUT03 (in amount of €422,9 million) and DUT04 (in amount of €125,8 million). Additionally, BAMC has in 2017 repaid loans from banks in total amount of €563,0 million (with interests). For repayment of these liabilities BAMC raised new loans in the total amount of €710 million. Liquidity risk is expected to be fully addressed in the renewed risk management system in 2018.

In the tables below the maturity of liabilities as at 31 December 2017 and 2016 is presented. Contractual undiscounted cash flows for borrowings and other financial liabilities include information only for loans, that had BAMC acquired as at 31 December 2017 and 2016.

MATURITY OF BAMC LIABILITIES AS AT 31 DECEMBER 2017

| in € thousand | Carrying amount | Contractual undiscounted Cash flows | up to 12 months | 1 to 2 years | 2 to 5 years |
|---|---|---|---|---|---|
| **Liabilities with contractual undiscounted cash flows** | **893.932** | **895.027** | **199.659** | **269.263** | **426.105** |
| Loans from banks | 876.237 | 877.332 | 181.964 | 269.263 | 426.105 |
| Trade and other operating payables and liabilities for current tax | 14.564 | 14.564 | 14.564 | 0 | 0 |
| Accrued expenses | 3.131 | 3.131 | 3.131 | 0 | 0 |
| **Liabilities without contractual undiscounted cash flows** | **3.938** | **-** | **-** | **-** | **-** |
| Deposits received | 1.918 | - | - | - | - |
| Other financial liabilities | 2.020 | - | - | - | - |
| **Total** | **897.870** | **-** | **-** | **-** | **-** |

MATURITY OF BAMC LIABILITIES AS AT 31 DECEMBER 2016

| in € thousand | Carrying amount | Contractual undiscounted Cash flows | up to 12 months | 1 to 2 years | 2 to 5 years |
|---|---|---|---|---|---|
| **Liabilities with contractual undiscounted cash flows** | **1.271.104** | **1.296.069** | **885.107** | **207.169** | **203.793** |
| Loans from banks | 707.528 | 724.554 | 313.592 | 207.169 | 203.793 |
| Debt Securities | 548.855 | 556.794 | 556.794 | 0 | 0 |
| Trade and other operating payables and liabilities for current tax | 12.199 | 12.199 | 12.199 | 0 | 0 |
| Accrued expenses | 2.522 | 2.522 | 2.522 | 0 | 0 |
| **Liabilities without contractual undiscounted cash flows** | **7.027** | **-** | **-** | **-** | **-** |
| Deposits received | 2.025 | - | - | - | - |
| Other financial liabilities | 5.002 | - | - | - | - |
| **Total** | **1.278.131** | **-** | **-** | **-** | **-** |

### *D.4 MARKET RISK*

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the BAMC's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and monitor market risk exposures. BAMC is exposed to market risk with respect to financial assets, measured at fair value through profit or loss, both the loan portfolio and portfolio of equity investments and bonds and with respect to financial liabilities – borrowings and other financial liabilities due to interest rate risk.

**Currency risk**
Currency risk is the financial risk of an investment's value changing due to the changes in currency exchange rates. BAMC is exposed to currency risk in a small portion of loans denominated in foreign currencies, as were acquired in the transfer from banks and the merger with two banks.

All BAMC's financial liabilities are denominated in EUR.

Only 0,4% of BAMC's loans (€2.481 thousand out of €660.237 thousand) is denominated in foreign currency, therefore BAMC estimates currency risk as very low and does not make any sensitivity analysis of change of currency risk on profit or loss statement.

The table below summaries exposure of the BAMC to the exchange rate risk as at 31 December 2017 and 2016.

EXPOSURE TO CURRENCY RISK AS AT 31 DECEMBER 2017

| in € thousand | EUR | CHF | USD | RSD | RUB | JPY | Total |
|---|---|---|---|---|---|---|---|
| **Total** | **753.892** | **2.147** | **83** | **0** | **224** | **27** | **756.373** |
| Loans | 657.756 | 2.147 | 83 | 0 | 224 | 27 | 660.237 |
| Trade and other operating receivables | 5.500 | 0 | 0 | 0 | 0 | 0 | 5.500 |
| Cash and cash equivalents | 90.636 | 0 | 0 | 0 | 0 | 0 | 90.636 |
| **Total** | **897.870** | **0** | **0** | **0** | **0** | **0** | **897.870** |
| Trade and other operating payables and liabilities for current tax | 14.564 | 0 | 0 | 0 | 0 | 0 | 14.564 |
| Borrowings and other financial liabilities | 880.175 | 0 | 0 | 0 | 0 | 0 | 880.175 |
| Other liabilities | 3.131 | 0 | 0 | 0 | 0 | 0 | 3.131 |
| **Net Exposure** | **143.978** | **-2.147** | **-83** | **0** | **-224** | **-27** | **141.497** |

EXPOSURE TO CURRENCY RISK AS AT 31 DECEMBER 2016

| in € thousand | EUR | CHF | USD | RSD | RUB | JPY | TOTAL |
|---|---|---|---|---|---|---|---|
| **Total** | **1.158.818** | **10.220** | **156** | **3** | **688** | **35** | **1.169.919** |
| Loans | 934.844 | 10.220 | 156 | 3 | 688 | 35 | 945.946 |
| Trade and other operating receivables | 4.768 | 0 | 0 | 0 | 0 | 0 | 4.768 |
| Cash and cash equivalents | 122.261 | 0 | 0 | 0 | 0 | 0 | 122.261 |
| **Total** | **1.278.132** | **0** | **0** | **0** | **0** | **0** | **1.278.132** |
| Trade and other operating payables and liabilities for current tax | 12.199 | 0 | 0 | 0 | 0 | 0 | 12.199 |
| Borrowings and other financial liabilities | 714.555 | 0 | 0 | 0 | 0 | 0 | 714.555 |
| Debt securities | 548.856 | 0 | 0 | 0 | 0 | 0 | 548.856 |
| Other liabilities | 2.522 | 0 | 0 | 0 | 0 | 0 | 2.522 |
| **Net Exposure** | **119.314** | **-10.220** | **-156** | **-3** | **-688** | **-35** | **108.213** |

**Interest rate risk**

Interest rate risk is a risk of loss as a consequence of changed interest rates in the market. In the table below the financial assets and financial liabilities breakdown by fixed and variable rate are presented. All variable interest rates are set as a Euribor or Libor + mark-up. Acquired fixed and variable rate loans, which present a major part of financial assets, are almost entirely non-performing and already due as presented in the Credit risks section above. The key risk is that the BAMC will not fully recover loans due to the low creditworthiness of the debtors and insufficient collateral and not due to changed interest rates. Thus the BAMC estimates interest rate risk as very low and does not make any sensitivity analysis of change of interest rate risk on profit or loss for financial assets.

On the other hand, BAMC has raised several loans at the end of 2017, which all carry a variable interest rate, namely Euribor + mark-up. A change in Euribor would have an impact on the book value of borrowings, which are measured at amortised costs.

In the tables below, exposure to interest rate risk as at 31 December 2017 and 2016 is presented.

EXPOSURE TO INTEREST RATE RISK AS AT 31 DECEMBER 2017

| in € thousand | **Fixed interest rate** | **Variable interest rate** | **Total** |
|---|---|---|---|
| **Financial assets** | **516.266** | **234.608** | **750.874** |
| Loans | 425.630 | 234.608 | 660.238 |
| Restructuring | 167.684 | 121.478 | 289.162 |
| Recovery | 254.264 | 105.744 | 360.008 |
| Collective valuation | 3.682 | 7.386 | 11.068 |
| Cash and cash equivalents | 90.636 | 0 | 90.636 |
| **Financial liabilities** | **0** | **880.175** | **880.175** |
| Borrowings and other financial liabilities | 0 | 880.175 | 880.175 |

EXPOSURE TO INTEREST RATE RISK AS AT 31 DECEMBER 2016

| in € thousand | **Fixed interest rate** | **Variable interest rate** | **Total** |
|---|---|---|---|
| Financial assets | 709.541 | 363.591 | 1.073.132 |
| Loans | 584.523 | 363.591 | 948.114 |
| Restructuring | 230.968 | 203.096 | 434.064 |
| Recovery | 348.916 | 149.748 | 498.664 |
| Collective valuation | 3.757 | 9.461 | 13.218 |
| Leasing | 882 | 1.286 | 2.168 |
| Bonds | 2.757 | 0 | 2.757 |
| Cash and cash equivalents | 122.261 | 0 | 122.261 |
| **Financial liabilities** | **548.855** | **707.528** | **1.256.383** |
| Debt securities | 548.855 | 0 | 548.855 |
| Loans from banks | 0 | 707.528 | 707.528 |

The BAMC obtained three new loans in total amount of €710 million at the end of 2017. A 5 year syndicated loan from Slovenian commercial banks, a 5 year loan from a foreign bank and a 5 year loan from a bank in Slovenia.

All obtained loans are denominated with variable interest rate (Euribor + mark-up). Change of Euribor would have an impact on interests that BAMC is paying and would therefore effect the profit or loss of BAMC.

In the tables below, sensitivity analysis of changes of Euribor for loans raised as at 31 December 2017 and 2016 are presented as an impact on interest expenses.

Effect on interest expense as at 31 December 2017

| in € thousand | Effect on interests expenses in case of changed interest rate on borrowings | |
|---|---|---|
| | **Increase** | **Decrease** |
| 100 b.p. change | 5.965 | 0 |
| 50 b.p. change | 1.578 | 0 |
| 10 b.p. change | 0 | 0 |

Effect on interest expense as at 31 December 2016

| in € thousand | Effect on interests expenses in case of changed interest rate on borrowings | |
|---|---|---|
| | **Increase** | **Decrease** |
| 100 b.p. change | 4.970 | 0 |
| 50 b.p. change | 1.431 | 0 |
| 10 b.p. change | 0 | 0 |

The borrowings are not sensitive on decrease of interest since the loan agreements contain a zero floor clause.

### *Elasticity of collateral value due to market changes*

**Value of real estate, provided as a collateral for loans – sensitivity analysis of loans**

Real estate, provided as underlying collateral has an important role in determining the fair value of loans. The methodology for valuation of real estates is described in Note 4.C and also applies to the valuation of real estate collateral.

Changes in underlying real estate valuations could have an impact on the value of loans, thus a sensitivity analysis as at 31 December 2016 and 2017 is presented below.

Sensitivity analysis of Real estate collateral as at 31 December 2017

| in € thousand<br>**Strategy** | **Fair value of loans** | **Impact on fair value of loans if value of real estate changes by 10%** | | **Impact on fair value of loans if value of real estate changes by 10% (in %)** | | **Fair value of loans if value of real estate changes by 10%** | |
|---|---|---|---|---|---|---|---|
| | | **Increase** | **Decrease** | **Increase** | **Decrease** | **Increase** | **Decrease** |
| Restructuring | 289.162 | 2.965 | -3.146 | 1,0% | -1,1% | 292.127 | 286.016 |
| Recovery | 360.008 | 26.389 | -26.711 | 7,3% | -7,4% | 386.397 | 333.297 |
| Collective valued exposures | 11.068 | 131 | -144 | 1,0% | -1,0% | 11.199 | 10.924 |
| **Total** | **660.237** | **29.485** | **-30.001** | **4,5%** | **-4,5%** | **689.723** | **630.237** |

SENSITIVITY ANALYSIS OF REAL ESTATE COLLATERAL AS AT 31 DECEMBER 2016

| in € thousand **Strategy** | **Fair value of loans** | **Impact on fair value of loans if value of real estate changes by 10%** | | **Impact on fair value of loans if value of real estate changes by 10% (in %)** | | **Fair value of loans if value of real estate changes by 10%** | |
|---|---|---|---|---|---|---|---|
| | | **Increase** | **Decrease** | **Increase** | **Decrease** | **Increase** | **Decrease** |
| Restructuring | 434.064 | 3.471 | -4.116 | 1% | -1% | 437.535 | 429.948 |
| Recovery | 498.664 | 38.403 | -37.745 | 8% | -8% | 537.067 | 460.919 |
| Collective valued exposures | 15.387 | 169 | -198 | 1% | -1% | 15.556 | 15.189 |
| **Total** | **948.115** | **42.043** | **-42.059** | **4%** | **-4%** | **990.158** | **906.056** |

IMPACT ON PROFIT OR LOSS OF CHANGES IN THE VALUE OF REAL ESTATE BY 10% AS AT 31 DECEMBER 2017 AND 2016

| in € thousand | **Profit /Loss before tax** | **PL before tax, if value of real estate increases by 10 %** | **PL before tax, if value of real estate decreases by 10 %** |
|---|---|---|---|
| 31 December 2017 | 73.044 | 102.529 | 43.043 |
| 31 December 2016 | -7.803 | 34.240 | -49.862 |

Recovery cases are significantly more sensitive to a change in the value of real estate collateral than restructuring cases since the fair value of restructuring cases is derived mainly from expected cash flows from operations.

**Value of equity investments, provided as collateral for loans – sensitivity analysis of loans**

Equity investments, provided as an underlying collateral for loans have an important impact in determining the fair value of loans. The methodology for valuation of equity investments is described in item 4. B and also applies to the valuation of equity collateral (shares and ownership interests pledged as collateral for loans). The sensitivity analysis as at 31 December 2016 and 2017 is presented below.

The elasticity of the fair value of loans is not proportional due to different rankings, legal circumstances and other known facts in underlying equity collateral.

Sensitivity analysis of Equity collateral as at 31 December 2017

| in € thousand | Fair value of loans | Impact on fair value of loans if value of equity investment collateral changes by 10% | | Impact on fair value of loans if value of equity collateral changes by 10% (in %) | | Fair value of loans if value of equity investment collateral changes by 10% | |
|---|---|---|---|---|---|---|---|
| | | **Increase** | **Decrease** | **Increase** | **Decrease** | **Increase** | **Decrease** |
| Restructuring | 289.162 | 672 | -673 | 0% | 0% | 289.834 | 288.489 |
| Recovery | 360.008 | 4.240 | -4.246 | 1% | -1% | 364.248 | 355.762 |
| Collective impaired exposures | 11.068 | 0 | 0 | 0% | 0% | 11.068 | 11.068 |
| **Total** | **660.237** | **4.912** | **-4.919** | **1%** | **-1%** | **665.150** | **655.319** |

Sensitivity analysis of Equity collateral as at 31 December 2016

| in € thousand | Fair value of loans | Impact on fair value of loans if value of equity investment collateral changes by 10% | | Impact on fair value of loans if value of equity collateral changes by 10% (in %) | | Fair value of loans if value of equity investment collateral changes by 10% | |
|---|---|---|---|---|---|---|---|
| | | **Increase** | **Decrease** | **Increase** | **Decrease** | **Increase** | **Decrease** |
| Restructuring | 434.064 | 348 | -352 | 0% | 0% | 434.412 | 433.712 |
| Recovery | 498.664 | 2.979 | -2.441 | 1% | 0% | 501.643 | 496.223 |
| Collective valued exposures | 15.387 | 0 | 0 | 0% | 0% | 15.387 | 15.387 |
| **Total** | **948.115** | **3.327** | **-2.793** | **0%** | **0%** | **951.442** | **945.322** |

Impact on Profit and loss of change of Equity by 10% as at 31 December 2017 and 2016

| in € thousand | Profit /Loss before tax | PL before tax, if equity increases for 10 % | PL before tax, if equity decreases for 10 % |
|---|---|---|---|
| 31 December 2017 | 73.044 | 77.956 | 68.125 |
| 31 December 2016 | -7.803 | -4.476 | -10.596 |

Fair value of recovery cases is more sensitive to changes in the equity collateral value than in restructuring cases. However, sensitivity to changes in the equity collateral values is much lower than the sensitivity to change in real estate collateral value.

**Value of equity instruments, owned by the BAMC – sensitivity analysis**

BAMC measures its equity investments at fair value through profit or loss. Equity investment are subject to market risk only, where fair value of equity investments determined according to the market prices.

As presented in the tables below, BAMC lowered its exposure towards risk of changes in market prices of equity. Sensitivity analysis showed lower relative impact of changes in market prices of equity on fair value of equity (impact is lowered for 2 percentage points, compared to the 3 December 2016).

SENSITIVITY ANALYSIS OF CHANGES IN MARKET PRICES OF EQUITY AS AT 31 DECEMBER 2017

| in € thousand<br>**Strategy** | **Fair value of equity** | **Impact on fair value of equity if market price changes by 10%** | | **Impact on fair value of equity if market price changes by 10% (in %)** | | **Fair value of equity if market price changes by 10%** | |
|---|---|---|---|---|---|---|---|
| | | **Increase** | **Decrease** | **Increase** | **Decrease** | **Increase** | **Decrease** |
| Equity with valuation based on market price | 12.580 | 1.258 | -1.258 | 10% | -10% | 13.838 | 11.322 |
| Other equity | 86.425 | 0 | 0 | 0% | 0% | 86.425 | 86.425 |
| **Total equity** | **99.005** | **1.258** | **-1.258** | **1%** | **-1%** | **100.263** | **97.747** |

SENSITIVITY ANALYSIS OF CHANGES IN MARKET PRICES OF EQUITY AS AT 31 DECEMBER 2016

| in € thousand<br>**Strategy** | **Fair value of equity** | **Impact on fair value of equity if market price changes by 10%** | | **Impact on fair value of equity if market price changes by 10% (in %)** | | **Fair value of equity if market price changes by 10%** | |
|---|---|---|---|---|---|---|---|
| | | **Increase** | **Decrease** | **Increase** | **Decrease** | **Increase** | **Decrease** |
| Equity with valuation based on market price | 33.573 | 3.357 | -3.357 | 10% | -10% | 36.930 | 30.216 |
| Other equity | 63.372 | 0 | 0 | 0% | 0% | 63.372 | 63.372 |
| **Total equity** | **96.945** | **3.357** | **-3.357** | **3%** | **-3%** | **100.302** | **93.588** |

IMPACT ON PROFIT AND LOSS OF CHANGES IN MARKET PRICES OF EQUITY BY 10% AS AT 31 DECEMBER 2017 AND 2016

| in € thousand | **Profit /Loss before tax** | **PL before tax, if market prices of equity increase by 10 %** | **PL before tax, if market prices of equity decrease by 10 %** |
|---|---|---|---|
| 31 December 2017 | 73.044 | 74.302 | 71.786 |
| 31 December 2016 | -7.803 | -4.446 | -11.160 |

## NOTE 27: EVENTS AFTER THE REPORTING PERIOD

On 9 February 2018 BAMC made a partial early repayment of €28,5 million of syndicated long-term loan.

On 7 March 2018, as part of the European Semester Winter Package, the European Commission published the Country Report Slovenia 2018 in which it found that Slovenia has made substantial progress in country-specific recommendations in two areas specifically related to BAMC's operations:

sustainable resolution of non-performing loans and implementation of BAMC's strategy. The report can be found at:
https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-slovenia-en.pdf

On 21 March 2018, the Government, acting in the capacity of the BAMC's General meeting, passed a decision instructing BAMC to execute a compensated transfer of ownership of its equity stake in KOTO d.o.o., Ljubljana, to the Republic of Slovenia. The purchase price for the equity stake was set at €1,6 million and is increased by an additional €1,3 million, subject to the suspensive condition regarding the waiver of the contractual obligation to reach the target net debt/EBITDA for 2017. In BAMC's judgement the above purchase price does not reflect the market value of the company and thus substantially deviates from the carrying value of the equity stake as at 31 December 2017.

## NOTE 28: RELATED PARTY TRANSACTIONS

The ownership structure as at 31 December 2017 is presented in Note 6 Determination of the significant influence over other entities.

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.

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FROM JANUARY TO DECEMBER 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 | 76.301 | 25.308 | 29.114 |
| Increase | 22.941 | 23.857 | 3.387 |
| Decrease | -17.448 | -14.839 | -3.020 |
| Closing balance 31 Dec 2017 | 81.794 | 34.326 | 29.480 |
| **Deposits** | | | |
| Opening balance 1 Jan 2016 | 0 | 0 | 3.521 |
| Closing balance 31 Dec 2016 | 0 | 0 | 3.521 |
| **Financial assets through profit and loss – Equity investments** | | | |
| Opening balance 1 Jan 2017 | 25.009 | 2.356 | 0 |
| Increase | 10 | 4.089 | 0 |
| Decrease | 0 | 0 | 0 |
| Closing balance 31 Dec 2017 | 25.019 | 6.445 | 0 |
| **Borrowings** | | | |
| Opening balance 1 Jan 2017 | 0 | 0 | 557.728 |
| Increase | 18.000 | 0 | 560.000 |
| Decrease | -18.000 | 0 | -510.396 |
| Closing balance 31 Dec 2017 | 0 | 0 | 607.332 |
| **Debt securities** | | | |
| Opening balance 1 Jan 2017 | 0 | 0 | 556.794 |
| Bonds redemption | 0 | 0 | -556.794 |
| Closing balance 31 Dec 2017 | 0 | 0 | 0 |
| **Income from loans** | 1.614 | 466 | 2.097 |
| **Income from equity investments** | 6.866 | 67 | 0 |
| **Interest** | | | |
| Interest income from deposits | 0 | 0 | 1 |
| Interest expense from borrowings | -16 | 0 | -6.739 |
| Interests from debt securities | 0 | 0 | -4.048 |
| **Other expenses and costs** | | | |
| Other expenses | 0 | 0 | -5 |
| Other costs | -1.609 | 0 | -1.173 |
| Other income | 1.821 | 0 | 0 |

FROM JANUARY TO DECEMBER 2016 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 2016 | 148.190 | 25.308 | 107.012 |
| Increase | 5.286 | 0 | 0 |
| Decrease | -77.175 | 0 | -77.898 |
| Closing balance 31 Dec 2016 | 76.301 | 25.308 | 29.114 |
| **Deposits** | | | |
| Opening balance 1 Jan 2016 | 0 | 0 | 4.475 |
| Decrease | 0 | 0 | -954 |
| Closing balance 31 Dec 2016 | 0 | 0 | 3.521 |
| **Financial assets at fair value through profit or loss (equity investments)** | | | |
| Opening balance 1 Jan 2016 | 25.734 | 2.356 | 0 |
| Increase | 8.071 | 0 | 0 |
| Decrease | -8.796 | 0 | 0 |
| Closing balance 31 Dec 2016 | 25.009 | 2.356 | 0 |
| **Borrowings** | | | |
| Opening balance 1 Jan 2016 | 0 | 0 | 200.000 |
| Merger on 1 January 2016 | 0 | 0 | 379.376 |
| Increase | 0 | 0 | 355.250 |
| Decrease | 0 | 0 | -376.899 |
| Closing balance 31 Dec 2016 | 0 | 0 | 557.728 |
| **Debt securities** | | | |
| Opening balance 1 Jan 2016 | 0 | 0 | 1.090.711 |
| Bonds redemption | 0 | 0 | -533.917 |
| Closing balance 31 Dec 2016 | 0 | 0 | 556.794 |
| **Income from loans** | 4.531 | 0 | 14.687 |
| **Income from equity investments** | 1.101 | 21 | 0 |
| **Interest** | | | |
| Interest income from deposits | 0 | 0 | 16 |
| Interest expense from borrowings | 0 | 0 | -4.959 |
| Interests from debt securities | 0 | 0 | -43.176 |
| **Other expenses and costs** | | | |
| Other expenses | -868 | 0 | -994 |
| Other income | 54 | 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.

## NOTE 29: AUDIT COST

The cost of the audit of the financial statements for the financial year 2017 is €72.375 plus VAT.

The cost of the audit and similar services charged by KPMG in subsidiaries and associates for the financial year 2017 is €15.300 plus VAT.

Cost of other non-audit services charged by KPMG for financial year 2017 in BAMC is €3.000 plus VAT, in subsidiaries and associates €36.377 plus VAT.

## NOTE 30: CONTINGENT LIABILITIES

MAXIMUM CONTINGENT LIABILITIES OF THE BAMC FOR GUARANTEES ISSUED WERE AS FOLLOWS:

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Factor banka | 3.916 | 5.759 |
| Probanka | 8.118 | 9.983 |
| **Total** | **12.034** | **15.742** |

The table shows contingent liabilities with respect to approved but yet unredeemed or unexpired guarantees. All outstanding guarantees were assumed in the merger with Factor banka and Probanka.

CURRENT AND NON-CURRENT PORTIONS OF CONTINGENT LIABILITIES

| in € thousand | 31 Dec 2017 | 31 Dec 2016 |
|---|---|---|
| Current portion | 4.420 | 4.833 |
| Non-current portion | 7.614 | 10.909 |
| **Total** | **12.034** | **15.742** |

The amount of €2.430 thousand of provisions recognised for guarantees is based on past experiences and is in accordance with internal methodology (see note 14).