DUTB | Creating Good with Excellence

BAMC Half-year Report 2018

September 2018

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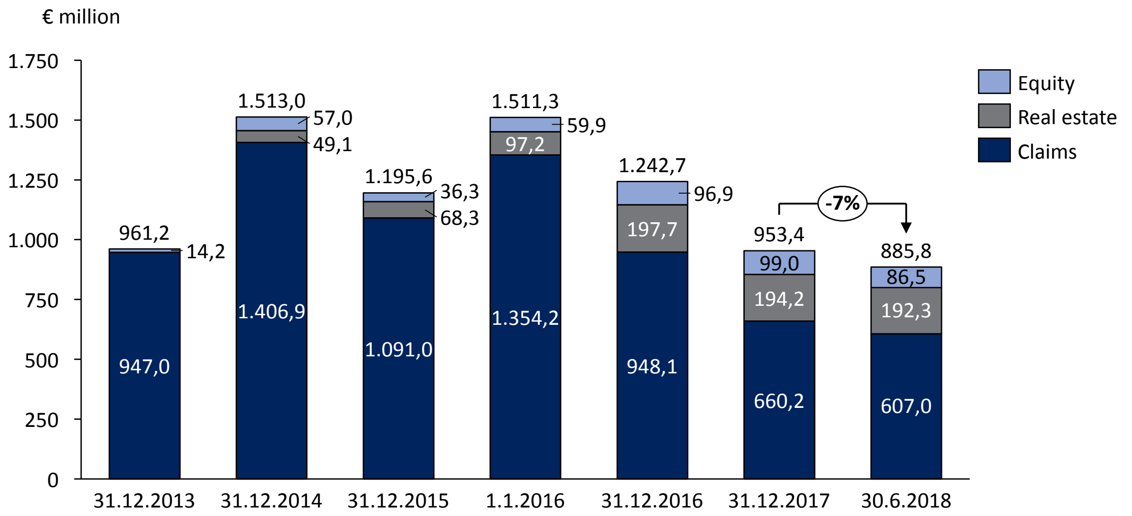
Highlights and summary of the first half of 2018

In H1 2018 BAMC retained the profitable operations momentum from 2017. Lower operating costs and almost halved financing costs on one side and strong profits from all three portfolios under management on the other side contributed to healthy half-year profit of €20,4 million that surpassed the one from the last half-year, even with the smaller scope of cash generated, the latter principally due to the absence of larger transactions. Assets under management were decreased by 7% in H1 2018, further reduction being partially offset by still sizeable real estate repossessions.

Figure 1: Assets under management

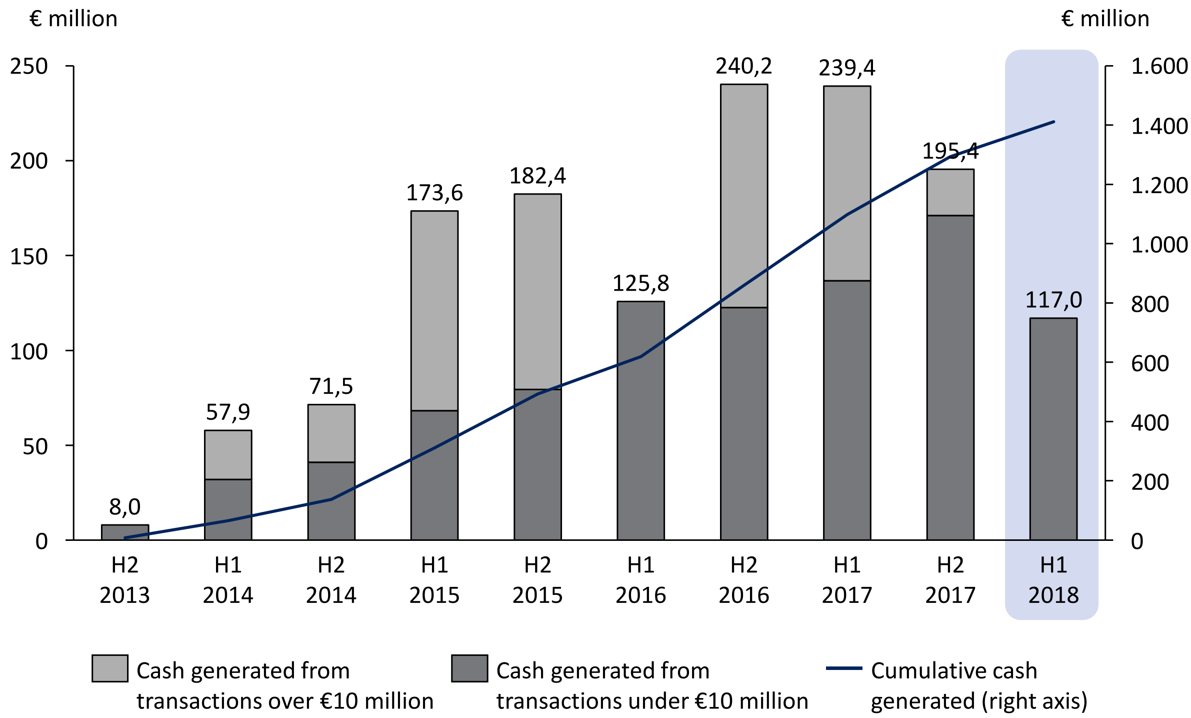


Note: 1 January 2016 displays the fair value of the portfolio at the merger of Factor banka and Probanka into BAMC. Since the merger BAMC also manages a minor leasing portfolio which is presented together with "Claims", which also include a minor trade receivables portfolio.

Cash generation[1] in H1 2018 reached €117,0 million, at 5,8% of assets' transfer value on track to meeting the 10% statutory target at the end of the year and was slightly above planned. While claims contributed more than half of cash generation if broken down by portfolio, the breakdown of cash generation by source of inflow displays real estate sales were behind more than half of the total amount as considerable real estate sales in bankruptcy proceedings fed into repayment of claims. Cumulative cash generated since inception reached €1.411,1 million by mid-year 2018, representing almost 70% of all assets' transfer value in the course of measures to strengthen bank stability and the merger of Factor banka and Probanka.

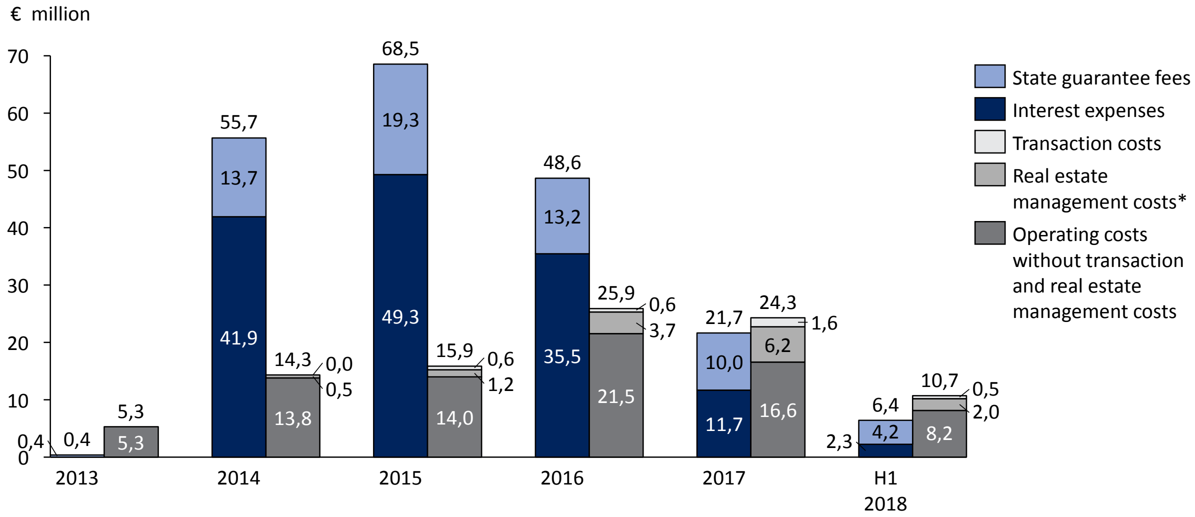
[1] Cash generated data presented here and elsewhere in the document is retrieved through "pure cash flow" principle which differs from accounting recognition of events in both timing and scope. Not all inflows may count as cash generated for the calculation of the statutory KPI.

FIGURE 2: CASH GENERATED BY HALF-YEARS



With operating costs below planned, considerably lower real estate management costs and financing costs reflecting favourable refinancing conditions and lowered debt level due to regular and early repayments of debt both in 2017 and H1 2018, BAMC is continuing the trend of efficient management of resources available.

FIGURE 3: 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.

With 30 June 2018 equity rise to €162,6 million and the effect of additional return of equity to the owner through General Meeting decision[2] the average yearly EROE (economic return on equity, calculated as the value of equity at 30 June 2018 over invested capital with corrections) stood at 26,6%, more than three times the 8% return required in the Guidelines on the operations of BAMC (hereinafter: the Guidelines).

Figure 4: Equity effects since inception

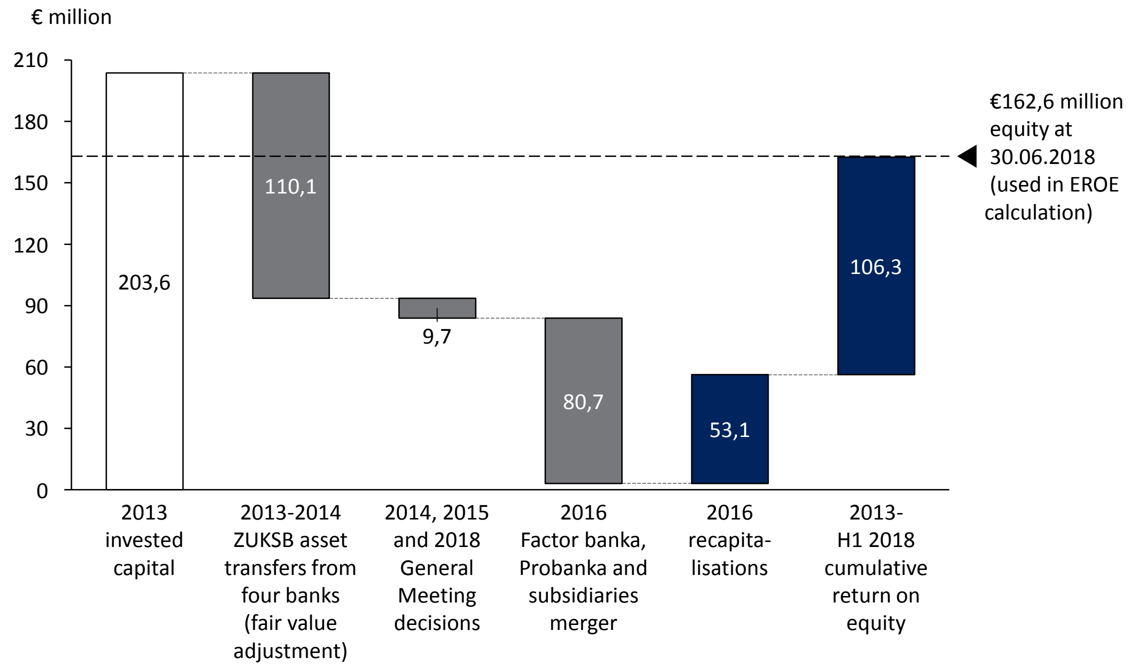


Table 1: Corrections to initially invested capital since inception

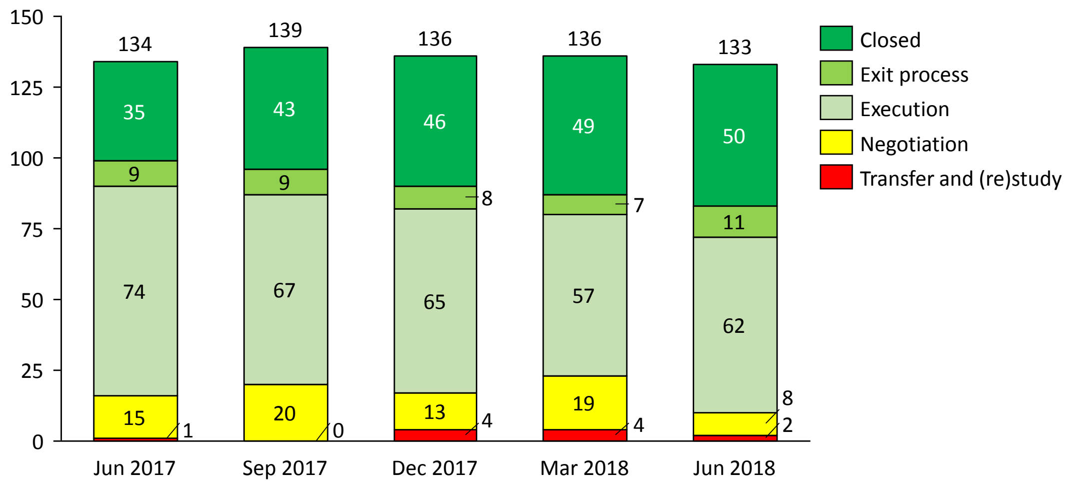
in € million	Effect on BAMC equity
Capital invested by the Republic of Slovenia in 2013	**203,6**
Cumulative capital returned to the owner in the 2013 – H1 2018 period	**-200,6**
Transfers of non-performing assets from NLB, NKBM, Abanka and Banka Celje in years 2013 and 2014	-110,1
Other transactions based on General Meeting decisions (in years 2014, 2015 and 2018)	-9,7
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
Recapitalisations	**53,1**
Recapitalisation in May 2016 (booked in July 2016)	*3,1
Recapitalisation in December 2016	50,0
Invested capital with corrections (returns to the owner and recapitalisations) by mid-year 2018	**56,1**

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

[2] The Government in the capacity of BAMC's General Meeting decided that BAMC's ownership stake in KOTO d.o.o. was to be transferred to Slovenian Sovereign Holding (hereinafter: SSH) at a transfer price which was different from BAMC's valuation. The difference was booked as a decrease of equity due to return of equity to the owner. See "Significant events" section and "Statement of changes in equity" for more details.

The restructuring processes also continued at a steady pace with seven more cases being completed or near completion in H1 2018, bringing the total share of such restructurings to 46%.

FIGURE 5: 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.

Presentation of BAMC

Table 2: Basic company data on 25 September 2018

Full company name	Družba za upravljanje terjatev bank, d.d. Bank Assets Management Company
Short company name	DUTB, d.d. 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 25 September 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 25 September 2018	Imre Balogh, CEO	30 September 2021
	Andrej Prebil, CAM	31 December 2022
	Jože Jaklin, CAO	31 December 2022

Note: 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. 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 Management Committee[3] is supporting the work of the executive directors and this committee's reports are a standing item in BAMC's Board meetings. Organizational units 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 assets owned or managed by BAMC. The Board also established the Board Credit and Investment Committee in respect to just give consent to the decisions/proposals of Executive Credit and Investment Committee, if necessary. 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.

ORGANISATION

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

[3] In H1 2018 the previous Risk and Compliance Management Committee kept its risk tasks as the renamed Risk Management Committee and separated its compliance tasks to the already existing Corporate Security and Compliance Committee.

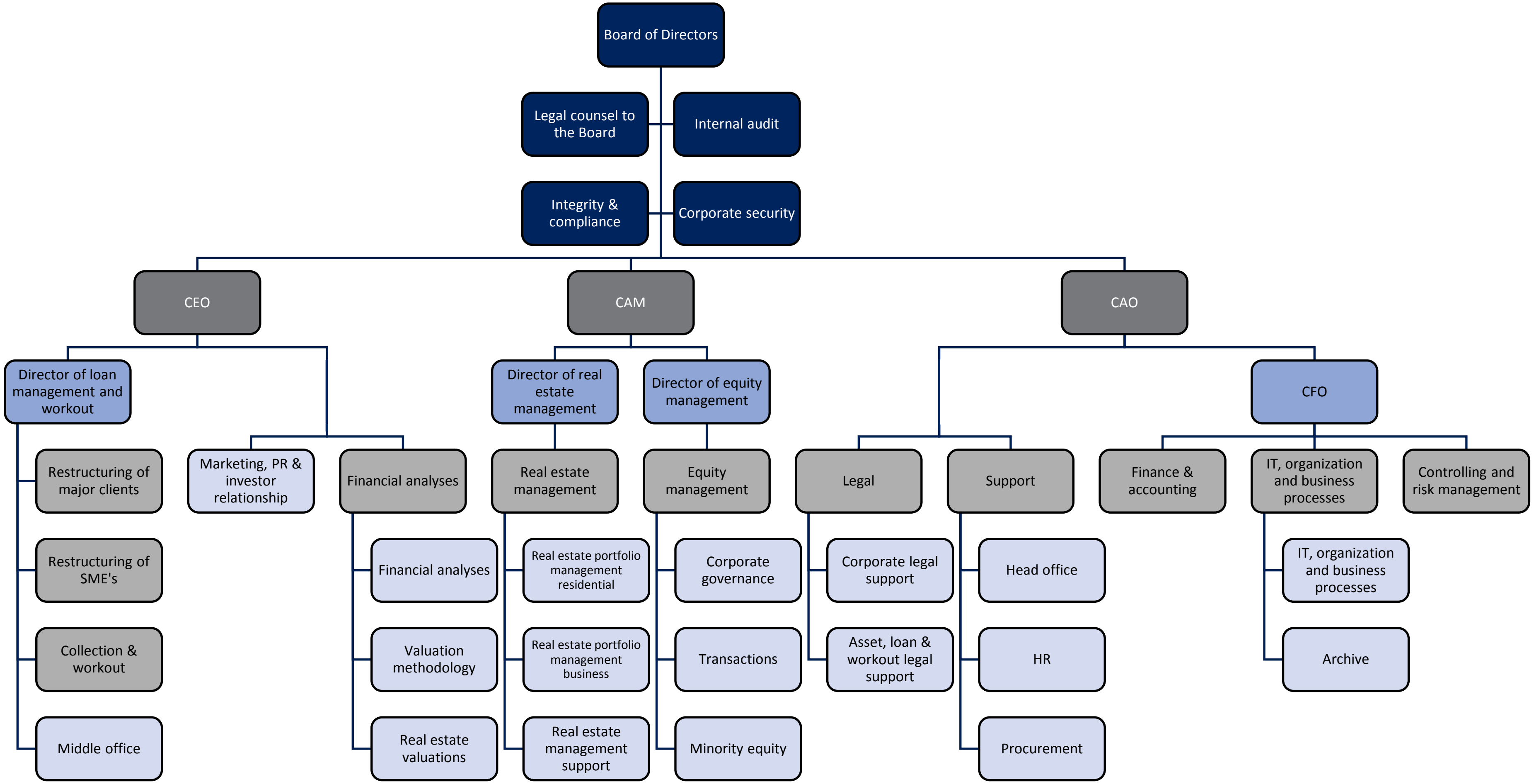
BAMC's total headcount decreased by 5% (7 employees) in H1 2018, while core headcount decreased by 1% (2 employees) compared to end-of-year 2017 level.

Table 3: Headcount by working area

Organizational unit	Core employees		Total employees	
	30 Jun 2018	**31 Dec 2017**	**30 Jun 2018**	**31 Dec 2017**
Credit management	30	34	33	38
Asset management	32	30	35	34
Analyses and legal support	17	23	18	24
General support and other	49	44	49	47
Top management	7	6	7	6
Unassigned	0	0	1	1
Total	**135**	**137**	**143**	**150**

Note: Core employees relate to staff not employed in temporary projects.

Figure 6: Organisational structure



Note: Organisational structure as at 30 June 2018.

BUSINESS REPORT

Significant events in the first half of 2018

After receiving the “Draft audit report on the regularity and efficiency of the operations of BAMC d.d. in 2014 and 2015” on 19 December 2017 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 by BAMC in January 2018 and commented upon in February 2018.

On 4 July 2018 the Court of Audit issued the final version of the Audit report on the regularity and efficiency of the operations of BAMC d.d. in 2014 and 2015. While the Draft report included 10 corrective measures with subsidiary measures and 22 recommendations, the Final report incorporated and reflected BAMC proactive approach with improvements already made and contained only six corrective measures with subsidiary measures (of these, BAMC has already partially implemented two) and 11 recommendations. Other measures, which will be adopted by BAMC to eliminate irregularities, will be reflected in the response report.

On 9 February 2018 BAMC made a partial early repayment of €28,3 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 15 March 2018 BAMC repaid €44,6 million of long-term loans according to the amortisation plans.

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 (hereinafter: KOTO), 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.

On 4 June 2018, the Government, acting in the capacity of the BAMC’s General Meeting, took another decision to nullify its previous decision, to re-establish the transfer price of KOTO to the Republic of Slovenia at €2,9 million and to give consent to the provisions in the draft contract between SSH and

BAMC entitling BAMC to an upside to transfer price up to €4,3 million, based on KOTO's future performance. Based on the Government's decision, BAMC signed a SPA with SSH in July 2018.

In March 2018, in accordance with the Central credit registry Act, BAMC became a member of the SISBON system. On the basis of the aforementioned BAMC is reporting exposures towards its debtors/guarantors of natural persons in the SISBON system.

On 25 April 2018 BAMC published its 2017 Annual report, receiving an unqualified auditor's opinion. The Government, acting in the capacity of the BAMC General Meeting, approved the BAMC 2017 Annual report on 8 August 2018.

On 15 June 2018 BAMC repaid €41,2 million of long-term loans according to the amortisation plans.

MANAGEMENT OF ASSETS

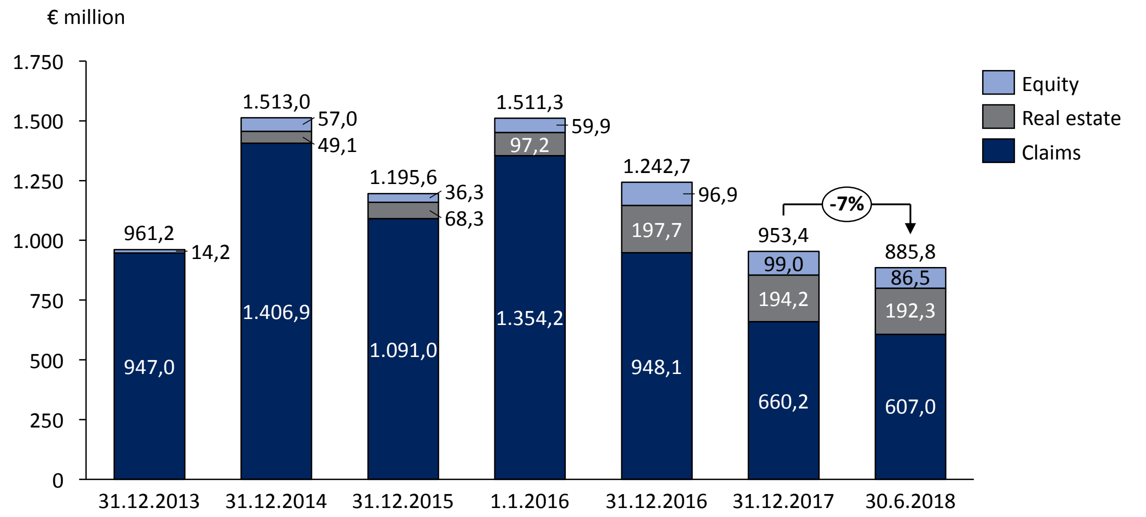
BAMC's assets are mostly managed individually, at the level of a claim towards a specific debtor, equity investment in a specific company or individual item of real estate. Where BAMC owns both claims and equity in the company, the maximization of enterprise value is targeted applying different strategies.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

ALL ASSETS ARE AVAILABLE FOR SALE

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

As at 30 June 2018 BAMC had almost €0,9 billion of assets under its management, a reduction of 7% compared to previous year-end. The majority (69%) was represented by claims (loans and minor leasing and trade receivables portfolios), followed by real estate (22%) and equity holdings (10%). The real estate portfolio did not change much compared to the end of 2017 due to additional repossessions, while the claims portfolio reduced by 8% and equity portfolio has reduced by 13% following successful liquidation of assets.

FIGURE 7: ASSETS UNDER MANAGEMENT



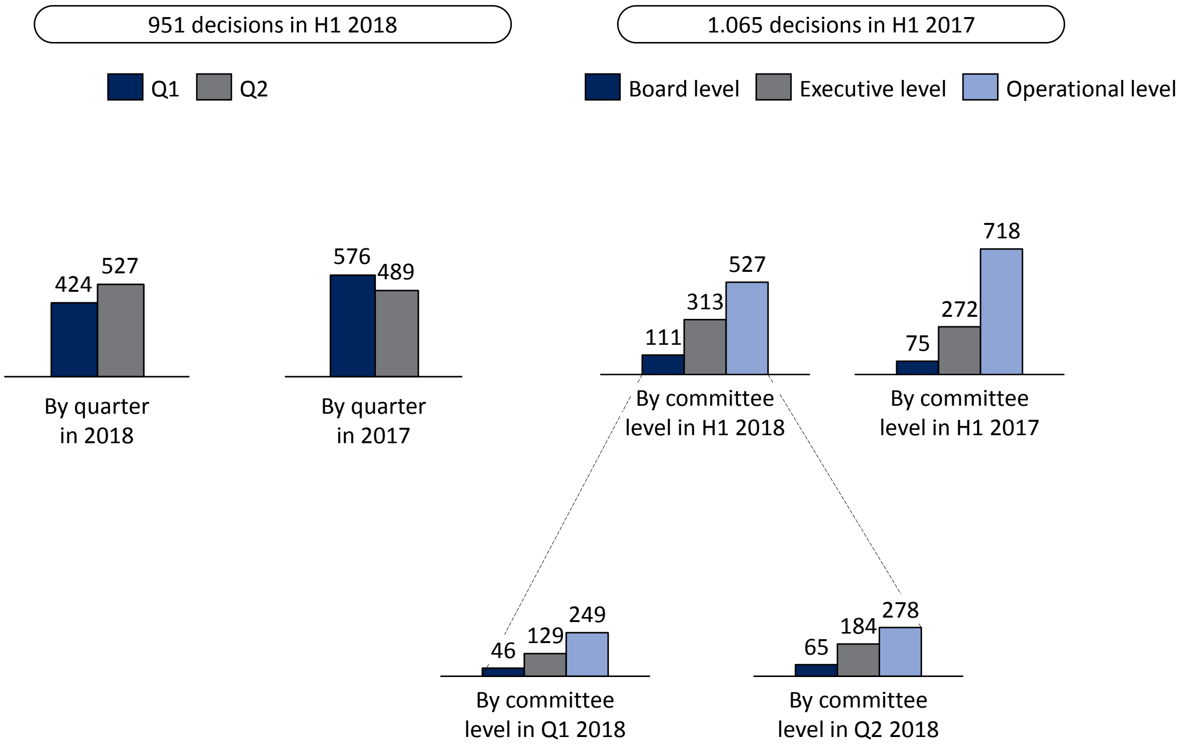
NOTE: 1 January 2016 displays the fair value of the portfolio at the merger of Factor banka and Probanka into BAMC. Since the merger BAMC also manages a minor leasing portfolio which is presented together with "Claims", which also include a minor trade receivables portfolio.

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 considered asset (claim, real estate or equity holding,), BAMC's pursued exit strategy towards it, 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 951 credit and investment decisions on operational, executive and board levels in H1 2018.

FIGURE 8: BREAKDOWN OF DECISIONS TAKEN

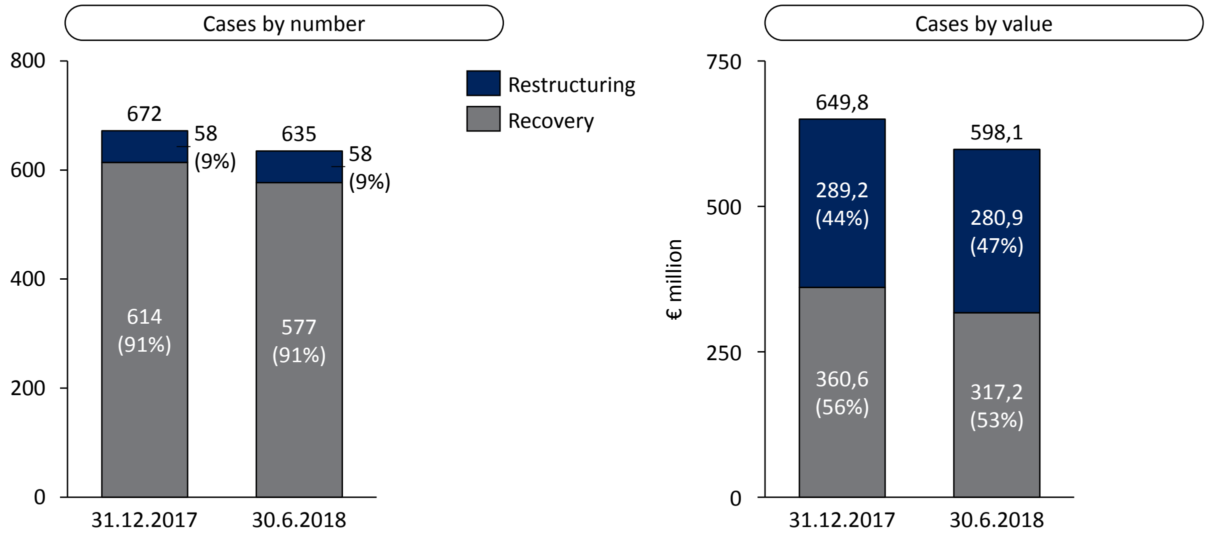


CLAIMS PORTFOLIO MANAGEMENT

BAMC manages debtors of various exposures in its claims portfolio (loans and minor leasing and trade receivables portfolios). 737 cases with smaller exposures were valued on a group level and 635 debtors were valued individually. These larger cases are presented in more detail.

Out of 635 individually valued claim cases at mid-2018, 58 were having a predominant restructuring strategy and 577 a recovery one for valuation purposes[4]. While the number of cases compared to the end of 2017 decreased by 6%, the value of the claim portfolio decreased by 8% continuing a trend of faster liquidation of larger cases while a number of smaller-value cases remain in BAMC's portfolio. The presented claims' estimated fair value of €598,1 million corresponds to 16% of the total gross exposure of almost €3,8 billion.[5]

FIGURE 9: INDIVIDUALLY VALUATED CASES BY STRATEGY



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

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

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

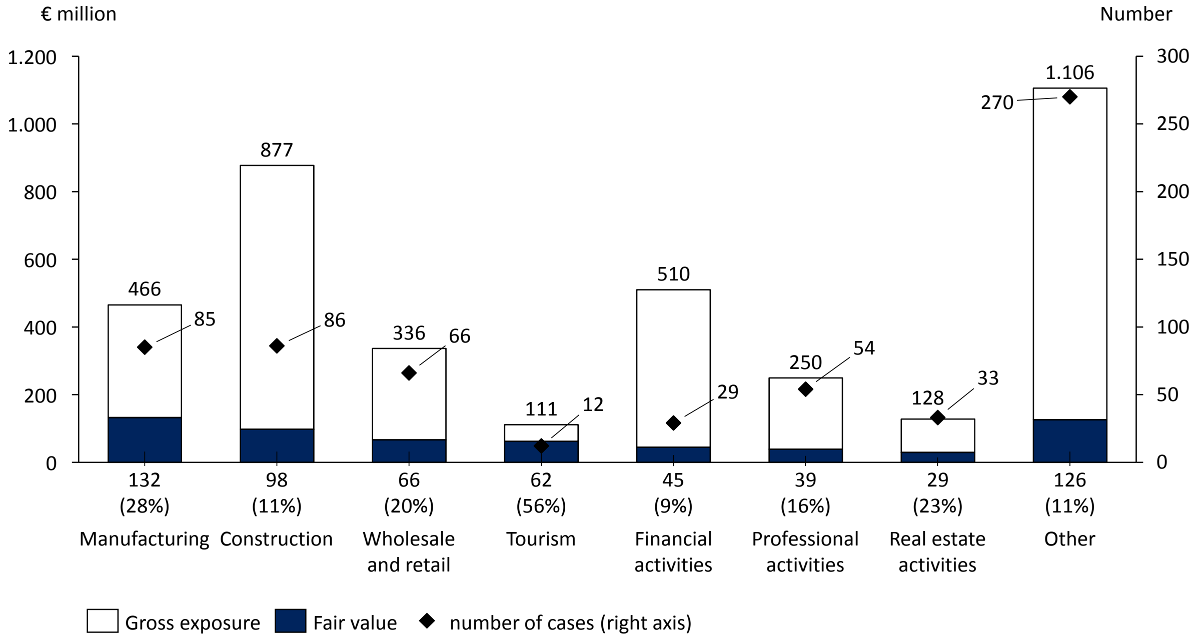
Note that BAMC may, conditioned on not worsening its creditor position, pursue a restructuring strategy also in cases termed as recovery for valuation purposes, see Progress in restructuring cases (page 4).

[5] It has to be noted that an important reason for the large difference of net to gross exposure on aggregated levels is also the 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 claims' gross exposure is related to the construction industry, but as this sector is providing below-average repayment prospects at 11% it is only second in terms of fair value, after manufacturing industry. The second highest share of total gross exposure stems from the financial activities industry which is characterised by a relatively low number of cases (resulting in the highest average gross exposure per case) which also provide the lowest average repayment prospects at 9%. On the other hand, the tourism industry is estimated to hold more than half of value compared to gross exposure in a small number of cases.

FIGURE 10: CLAIM 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 an important reason for the large difference of net to gross exposure on aggregated levels is also the 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 SHORT-TERM FINANCING

In H1 2018, following economically-sound analyses, optimising its exposure and creditor positions, BAMC acquired additional claims towards two debtors in the value of €3,6 million (€11,3 million gross) and provided justified short-term loan financing towards five companies in the value of €4,2 million.

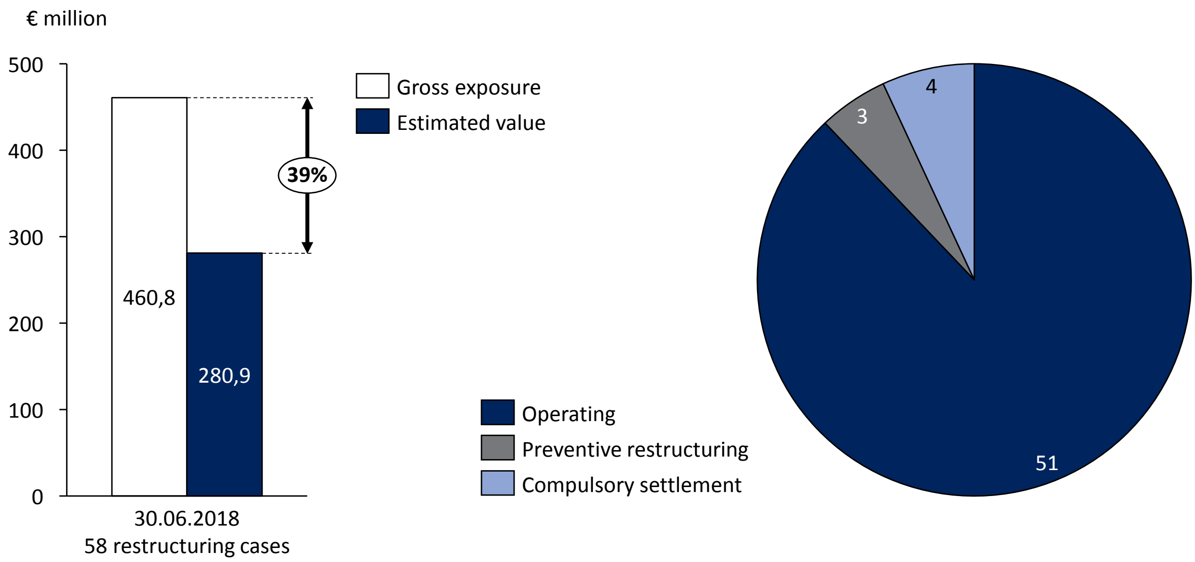
CORPORATE RESTRUCTURING

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 H1 2018, BAMC evaluated 58 companies as restructuring cases for valuation purposes. With an outstanding gross debt to BAMC in the amount of €460,8 million, the estimated fair value of the aforementioned claims was €280,9 million. Thus, a portfolio value difference to gross claims of 39% 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 90%).

FIGURE 11: RESTRUCTURING CASES OVERVIEW

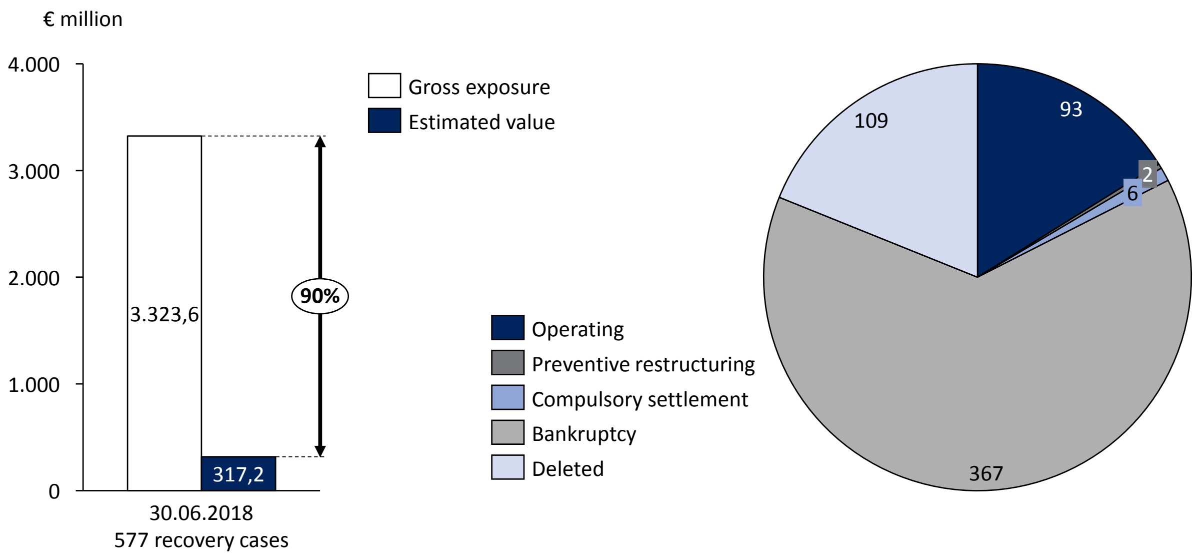


CLAIM MANAGEMENT USING THE RECOVERY STRATEGY

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 H1 2018, BAMC was valuing 577 claims as recovery cases, against which it held €3,3 billion in gross claims, the fair value of which was estimated at €317,2 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 10% of gross exposure while this estimate amounted to 61% of gross exposure in restructurings.

FIGURE 12: RECOVERY CASES OVERVIEW



NOTE: It has to be noted that an important reason for the large difference of net to gross exposure on aggregated levels is also the 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 ACHIEVEMENTS IN CLAIMS MANAGEMENT

LIV KOLESA

With the December 2013 transfer of exposures from NLB and NKBM, BAMC became the largest creditor of Liv Kolesa d.o.o, with claims in excess of €10 million. At the end of 2013, the company filed for compulsory settlement, which was confirmed with final and enforceable effect in August 2014. BAMC performed a partial D/E swap and became 100% owner of the company, whilst keeping the role of the principal financial creditor. Ordinary claims were reduced by 50% and the repayment due in 2018, while a standstill agreement was made for secured claims, due for repayment by 30 June 2019.

Immediately after becoming owner, BAMC started active corporate management activities in the company. In 2016, BAMC appointed a new director to oversee the complex operational restructuring, essential for the company's future development and appreciation. In the 2014-2017 period, the company managed to increase net revenue from €7,4 million to €14,2 million, meaning that it reached the level before compulsory settlement. In this period, BAMC provided the company with additional fresh funding for working capital (operational expenditure) and other needs, which contributed to optimization of operations.

At the end of June 2017, BAMC started a sales process to sell its 100% share and all claims vis-a-vis the company (approx. €7,7 million). BAMC conducted the sales process itself, this also being the first self-managed sales process of a majority equity stake of BAMC, without the assistance of an external financial advisor. The main reason for such a decision was the fact that BAMC, through ownership and management of the company, gained a sufficiently comprehensive insight into the company's operations, (i.e., its internal and external business environment, its stakeholders, and identified the company's key strengths, weaknesses, opportunities and threats).

On 14 June 2018, the SPA was signed, and the buyer paid almost the full amount of the purchase price within a week of signing the contract. Thus Liv Kolesa d.o.o got a new owner which will conduct additional operational restructuring of the company and add to the company's further development by contributing existing knowledge of the industry and experience, transfer part of its own production and existing orders and contribute know-how and experience in the field of organizing production and restructuring.

ALPINA

With the transfer of claims from Slovenian banks in 2013 and 2014, BAMC became the biggest creditor of Alpina d.o.o. with claims exceeding €27 million and later, through debt-to-equity swap, also the only owner of the Slovenian shoe maker. In 2017, the company continued with business restructuring and new financial restructuring was carried out, on the basis of which the debt of Alpina Group has decreased by €12,5 million, which will in future allow it to grow faster and increase investments in the development and marketing of new products.

Within the financial restructuring, BAMC consolidated the claims of several creditors and converted part of its claims towards the Alpina Group into Alpina's equity. As a consequence, BAMC now owns almost 87% of Alpina. The remaining loans in the amount of €17,5 million were extended until the end of 2026, resulting in a more favourable schedule of repayment of interest and principal. In addition, BAMC also provided financing of working capital, so the future of Alpina is bright.

REGIA GROUP

Regia Group (which consists of companies Regia Kritje, Avtohiša Real, Avtohiša Kranj, Remont, Avto Moste, Avtohiša Vič, DLC, iProjekt, and A1) signed a long-term MRA with the creditor banks in 2014, which was later, in 2016, shown to be unsustainable, since the group failed to generate sufficient cash flows to repay its financial liabilities. BAMC became the financial creditor of Regia Group with the merger of Probanka in 2016. In accordance with Slovenian restructuring principles, the banks immediately took a coordinated approach to the financial restructuring, where the independent business review was performed which confirmed the unsustainability of the existing agreement applicable at the time, and inadequate liquidity already in 2017.

The management of the Group actively took to resolving the situation. The creditor banks signed an agreement with the debtors, which stabilized the Group’s liquidity, and began setting up a plan for restructuring the entire Group. In order to ensure long-term operational and financial stability of the Group, the management presented a new business model.

The key purpose of the Group’s operational restructuring was cost optimization and increased operational efficiency, lessening the burden on the group’s core business. Through proactive collaboration of the top management of Regia Group and all creditors, BAMC was able to achieve an operational and financial restructuring, which will ensure the group’s long-term survival and core business development on a competitive market, whilst minimizing losses for creditors, i.e., achieving a sustainable level of risk and complete repayment of financial liabilities.

MIP

As the cooperation with the former bankruptcy trustee of MIP d.d.-in bankruptcy had been unsuccessful for many years, the creditors' committee proposed and the Court confirmed a replacement of the bankruptcy trustee. Following the change, an announcement of public auction for the entire MIP complex in Kromberk (real estate and movable assets) was published in the fall of 2017. The sale was mediated by a Dutch company experienced in such transactions, and has proven to be very effective. Soon, a contract was signed with the best bidder, and the bankruptcy trustee received the purchase price. The buyer launched production in the complex already in June 2018, brining several new workplaces to the region. Also in June 2018, the bankruptcy trustee drew up the plan for distribution of the special bankruptcy estate and BAMC is expecting the purchase price to be paid by the end of the year, and the remaining parts of the complex will be taken over in H1 2019.

Restructuring of Kovintrade

BAMC signed a new agreement with Kovintrade in H1 2018. Other banks also participated in the process of restructuring financial liabilities which enables the company to continue developing its business.

Sale of assets in bankruptcy procedures

Several sales of bankruptcy estates were concluded in the first half of 2018, among others: Motovoz in Platno Grosuplje - in bankruptcy, where BAMC received €2,3 million from the sale of commercial-industrial complex in Grosuplje; AERO Celje - in bankruptcy, where proceeds from the sale of an industrial complex in Šempeter and warehouse in Celje amounted to €3,2 million; Agroservis, where BAMC received €3,3 million proceeds from the sale of business complex (car showroom, warehouse, workshop, shop with the spare parts, car wash, buffet, office) in Murska Sobota; and in G Gradnje, BAMC received €1,5 million proceeds from the sale of building land in Ježica (Ljubljana).

Claims towards natural persons

In March 2018 the process of portfolio sale of claims towards several natural persons was successfully completed. Receivables have arisen from credit transactions or transactions on personal accounts. Receivables were completely in arrears and were subject to bankruptcy, enforcement or other recovery procedures. The exposures were in some cases partly secured, but the collaterals were not high enough to cover the total exposure. In addition the payment possibilities were time distanced and related with additional costs due to the problems in recovery procedures. In March 2018 a new process of portfolio sale of claims towards 121 natural persons was initiated and is in its final stage.

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 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 H1 2018

(in € million) **Company**	**Gross amount of conversion into company's (debtor's) equity**	**Gross amount of conversion into other company's equity**
Alpina d.o.o.	7,8	
Hyundai avto BG		0,0
MLM d.d	6,8	
Total	**14,5**	**0,0**

NOTE: The apparent difference in sum is due to rounding.

In H1 2018 BAMC's equity management department was engaged in the following activities regarding majority equity holdings:

- active monitoring of the business results and the execution of financial and business restructurings plans;
- assessing the quality and viability of business plans and the achievement of the predefined goals;
- monitoring corporate governance risk and implementing consequential reaction to the findings;
- assessment of work of supervisory boards, procurators and directors;
- implementation of the Act Governing the Remuneration of Managers in Companies with Majority Ownership held by the Republic of Slovenia regarding remuneration of management

and if needed implementation of amendments to the company's acts based on strategic guidelines and company's goals;
- preparing companies for the start of sales processes and executing activities in cases where the sale process has been started (M&A activities).

Activities regarding the management of minority ownership included monitoring of the business results of the companies, attending general meetings of shareholders, executing ownership rights in line with ZGD-1 etc. and the activity of proactive search for possible exit strategies and implementation of sales procedures. BAMC's equity management department also managed BAMC's equity holdings abroad, given the complexity of the foreign legal environment and the specifics of local environments.

In cases where BAMC, in addition to equity holdings, also has a credit exposure, the above mentioned activities have been carried out in cooperation with the credit department, and in cases of real estate SPV's companies with the real estate department.

TABLE 5: BAMC'S EQUITY PORTFOLIO CHARACTERISTICS AS AT 30 JUNE 2018

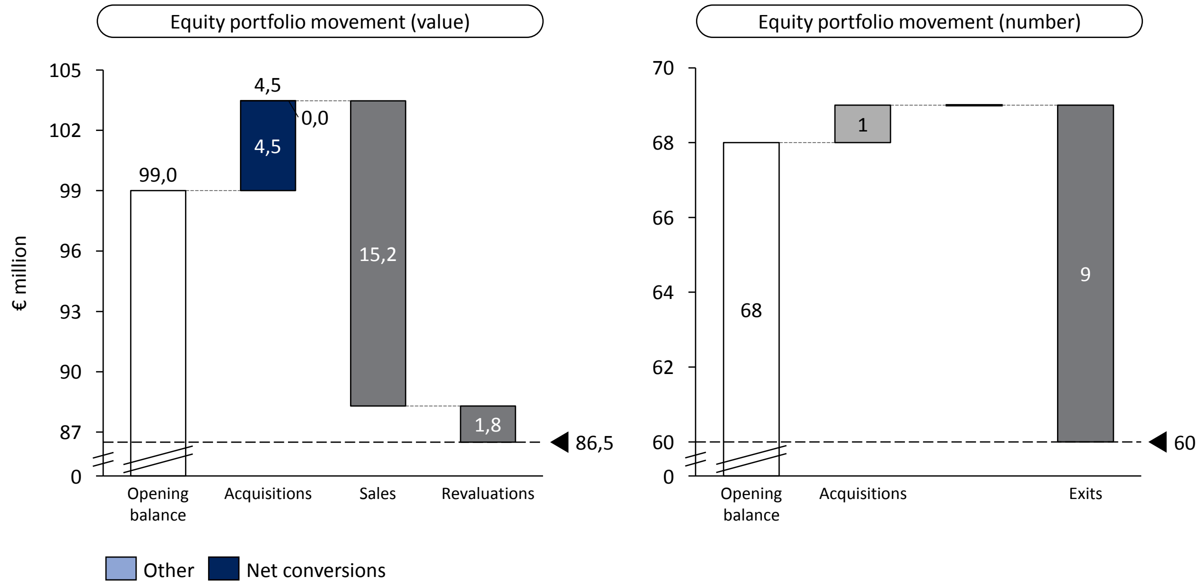
Ownership	Count	Type of holding	Count	Domestic/foreign	Count
Majority (over 50%)	22	Fund	2		
Important (over 20%)	5	Shares	22	Domestic	35
Minority (under 20%)	21	Ownership stake	24	Foreign	13
Total	**48**	**Total**	**48**	**Total**	**48**

NOTE: BAMC had equity stakes in 60 companies on 30 June 2018. 12 companies in bankruptcy procedures are excluded from the table.

In the second half of H1 2018, great emphasis was also placed on the introduction of up-to-date reporting models and good corporate governance practices in both, BAMC-owned companies as well as within-department procedures.

In the H1 2018 BAMC exited from several equity investments, whereby the sale of LIV Kolesa should be emphasized (in terms of enterprise value maximisation, i.e., equity and claims), as well as the sales of shares in Gorenjska banka, Certa and Terme Dobrna. In H1 2018 BAMC generated €16,7 million from the sale of equity holdings, received €2,8 million from dividends and at the half-year the value of its equity portfolio amounted to €86,5 million.

FIGURE 13: EQUITY PORTFOLIO MOVEMENT IN H1 2018



NOTE: "Other" category includes capital increases and additional purchases. The latter amounted to €224 in H1 2018.
"Sales" data reported in the figure represent the reduction of book value and are therefore equal or smaller than cash generated data.
Count 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).

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 PORTFOLIO

In H1 2018 BAMC acquired 32 real estate units in an aggregate value of €17,0 million. Larger real estate projects obtained include:

- EDA center Nova Gorica,
- buildable land plot in Domžale-Stobušak,
- Tržaška Maribor business/industrial complex,
- Trnovsko predmestje buildable land plots.

In H1 2018, BAMC real estate sales generated €29,9 million cash inflows with over 200 complete, or, for the most part, partial sales of real estate (where only an individual part of a real estate is sold). The larger portion of overall real estate sales was made in the residential segment, a substantial part of which was made up of apartments in the Nokturno complex. Some major sales from the industrial and commercial segment include the Iverka industrial complex, Hotel Ocean and Trgoavto business premises on Celovška, Ljubljana, for the overall value of approximately €2,4 million. Since the agency contract with Stoja Trade, d.o.o. and ABC nepremičnine d.o.o. expired in March 2018, BAMC has been selling the real estate assets by itself.

NOKTURNO

In the Nokturno residential project, BAMC attended the auction as a bidder and took over 215 apartments and two business premises with the appertaining storage units and parking spaces. After extensive investments and maintenance in 2016, BAMC signed 46 contracts of sale based on binding bids attracted in the first sale process, which took place in the open-door period, and after this 110 sales contracts were signed until the end of 2017 through classic sales methods. Additional 50 sales contracts were signed in H1 2018 (for a cumulative total of 206), whereas all apartments were fully paid-for as of the writing of this report (a total of €10,8 million cash flows were generated from sales in 2018, excluding VAT).

IVERKA INDUSTRIAL COMPLEX

With the 2016 merger of Factor banka, BAMC took over a warehouse with a floor area of 3.134 m^2, occupying a 3.447 m^2 land plot in the IOC Kromberk district (former Meblo facility) near Nova Gorica. The production hall was built in 1974 and partially renovated in 2008 (former Iverka building). The warehouse hall is 12 meters tall. It was leased to Chinese tenants in February 2016, providing BAMC with a regular rent income, since there no parties were interested in buying the premises. After almost two years of intensive efforts and negotiations to sell the premises, the warehouse hall was sold to a company affiliated with the tenant company, with Indonesian-Chinese owners.

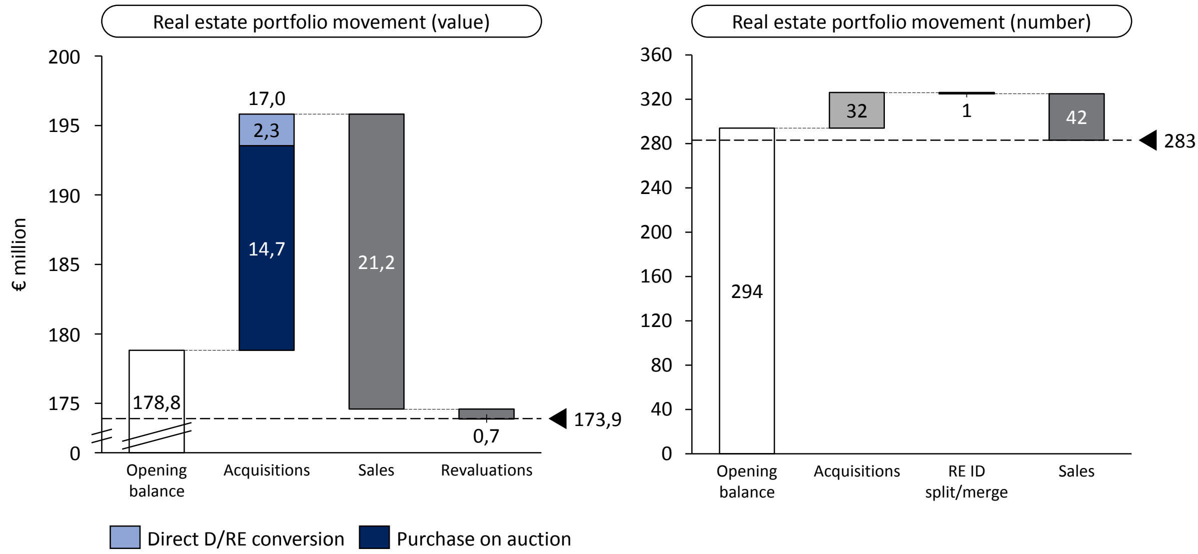
HOTEL OCEAN

The four-star boutique hotel is located in central Maribor. The Hotel Ocean saga began even before the takeover, as the owner was trying his best not to forfeit it to BAMC. After some initial difficulties, BAMC took over the ownership of real estate in September 2015. The takeover process itself proved to be quite a challenge. Nothing was functioning, and even the elevator was blocked. In order to be able to even begin selling the hotel, BAMC had to buy some additional furnishings and the entire basement level. When all the arrangements were finally made in May 2016 and the sales process begun, the debtor stopped the process by filing a lawsuit and the court issuing an interim injunction. One year in court was needed to overturn the lawsuit and sale ban. After BAMC announced the call for binding bids to sell the hotel in May 2017, two serious bidders submitted their bids, and negotiations were finished in September 2017. In October 2017 the sale was confirmed and the hotel will be used for study purposes. The entire purchase price was paid in May 2018, and BAMC was able to achieve a premium of more than a quarter on the overall purchase price.

In 2017, BAMC prepared the substantive conceptual framework and the legal documentation supporting the concept of joint venture real estate development. In terms of increasing recovery value of its assets, part of a land plot suitable for development was chosen for the pilot Podutik-Glince joint venture project, zoned for 1st phase residential development under the detailed municipal zoning plan. Thus, BAMC launched a public call for partners in March 2018, through establishment of an SPV company, which will be coordinating the project, construction and sale of approximately 48 apartment units. The partner selection process is in the final stages, so the next activities on the project will take place in the fall of 2018.

The increased real estate market activity in the business/industrial segment is confirmed by successful sales of some other large industrial facilities, mostly in central Slovenia, Nova Gorica and Maribor, where some land plots zoned for business use were also sold in the area. Some offices and retail premises were successfully sold in Celje, Ljubljana, Maribor and Nova Gorica. BAMC was able to come to an agreement with the Radlje ob Dravi municipality to sell the gym next to the elementary school, which will significantly benefit the town's development. Favorable economic indicators are also reflected in the tourism segment, where, in addition to the sale of Hotel Ocean mentioned above, seven apartments were sold in Mojstrana, and the sale of a large business/hospitality facility on the Slovenian coast was also successfully finalized.

FIGURE 14: REAL ESTATE PORTFOLIO MOVEMENT IN H1 2018



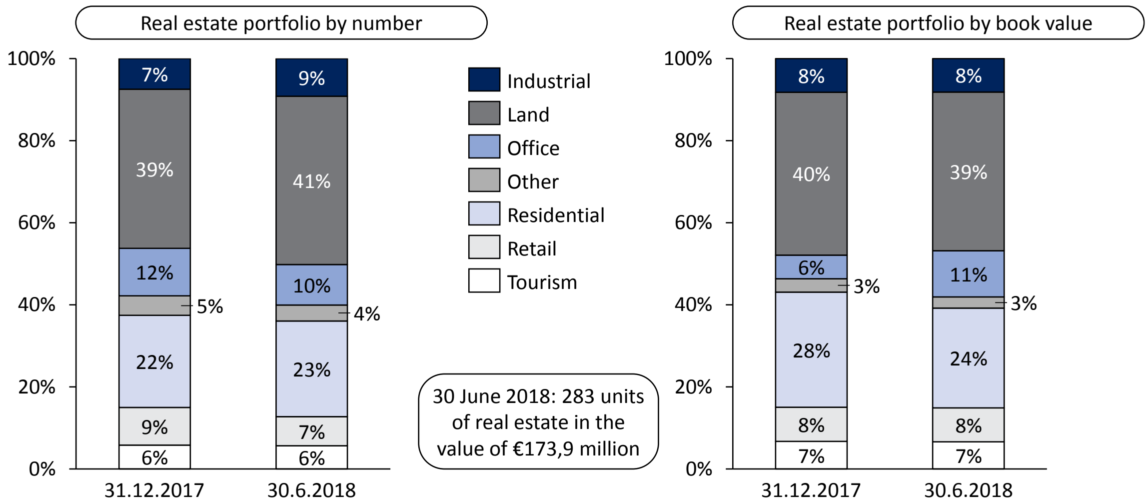
NOTE: "Revaluations" also include increase in value due to investments.

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 €192,3 million is in the latter including real estate in the process of repossession, advance payments and minor equipment assets.

"Sales" value in the figure relate to costs of inventories sold, i.e., the book value reduction of the real estate portfolio and is therefore equal or smaller than cash generated data.

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

FIGURE 15: 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 €192,3 million is in the latter including real estate in the process of repossession, advance payments and minor equipment assets.

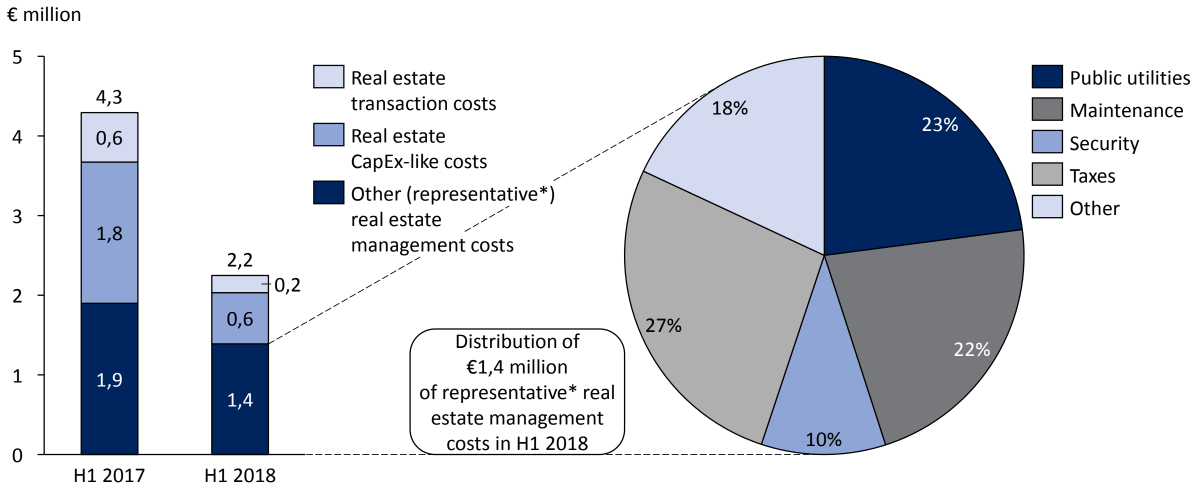
Real estate facility management

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: obtaining missing documentation and permits, solving disputes with neighbours and former subcontractors etc. In specific cases also investments are needed: finishing works, buying missing parts of the real estate and similar. All properties have to be prepared for sale.

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

BAMC incurred real estate management costs of €2,2 million in H1 2018, mostly related to owned real estate and a minor part induced by collateralized real estate. The largest cost items were taxes (which are entirely represented by NUSZ - compensation for use of building sites - amounting to €0,4 million in H1 2018), public utilities and maintenance costs (which include various repairs).

Figure 16: 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.

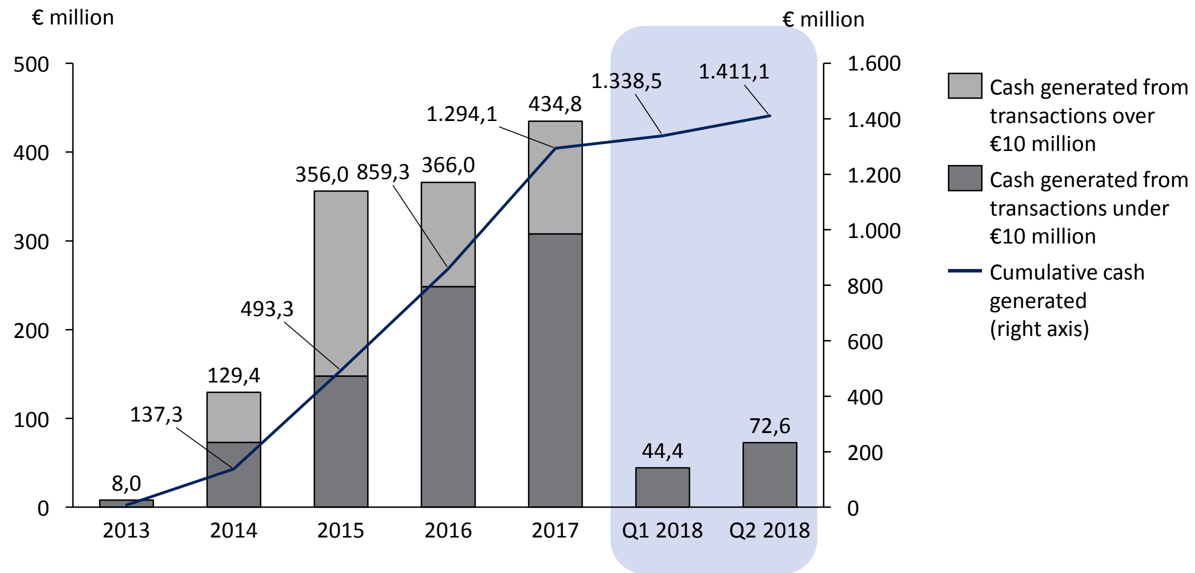
FINANCIAL OVERVIEW OF H1 2018

CASH GENERATED[6]

BAMC generated €117,0 million of inflows in H1 2018 from the management of acquired assets, which represents 5,8% of the asset transfer value[7]. The inflows consisted entirely from smaller (under €10 million) transactions for a strong and, stable monthly cash inflow.

Since its inception until mid-end 2018, BAMC generated €1.411,1 million in inflows from the management of acquired assets, representing 69,8% of assets' transfer value cashed in four years and a half.

FIGURE 17: CASH GENERATED



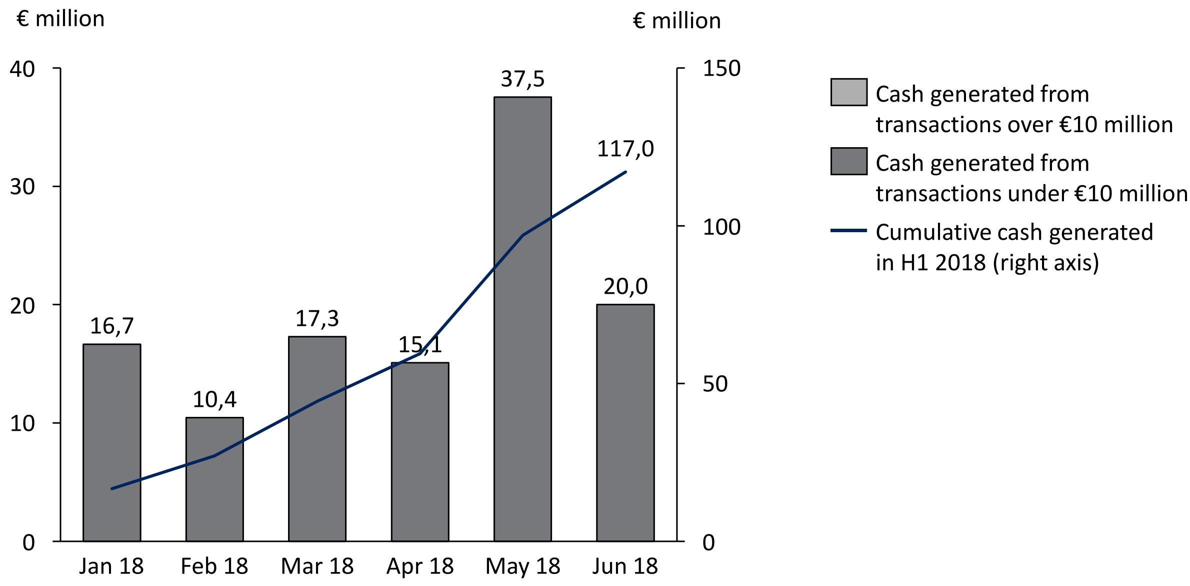
[6] Cash generated data presented here and elsewhere in the document is retrieved through "pure cash flow" principle which differs from accounting recognition of events in both timing and scope. Not all inflows may count as cash generated for the calculation of the statutory KPI.

[7] Cash generated in proportion to acquired assets KPI in the amount of 5,8% 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 31 March 2018 would be given a weight of 0,25 (effectively adding €0,5 million to the weighted value of the portfolio) for the H1 2018 denominator calculation as BAMC would only have quarter of a year available for the liquidation of acquired assets (by 30 June 2018). In all subsequent years following the acquisition the transfers/purchases are included in the KPI denominator in their full value.

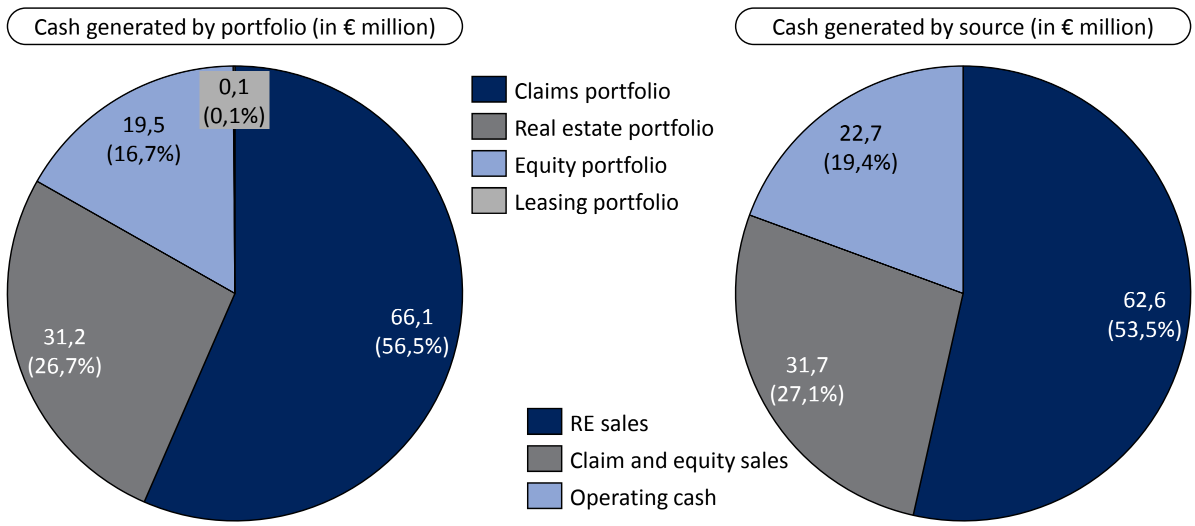
With the merger of Factor Banka and Probanka into BAMC in 2016 the denominator of the respective KPI increased considerably as the book values of merged claims, real estate and equity were taken as "transfer values" of additional assets acquired.

FIGURE 18: MONTHLY CASH GENERATED IN H1 2018



Portfolio-wise, more than half of inflows came from the claims portfolio, followed by the real estate and equity portfolios. As claims repayment included considerable sales of real estate and other assets in insolvency proceedings, the distribution by source shows that real estate sales accounted for more than a half of cash generated, with sales of claims and equity following and operating cash repayments at the end.

FIGURE 19: H1 2018 CASH GENERATED BY PORTFOLIO AND SOURCE



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

DEBT REPAYMENT

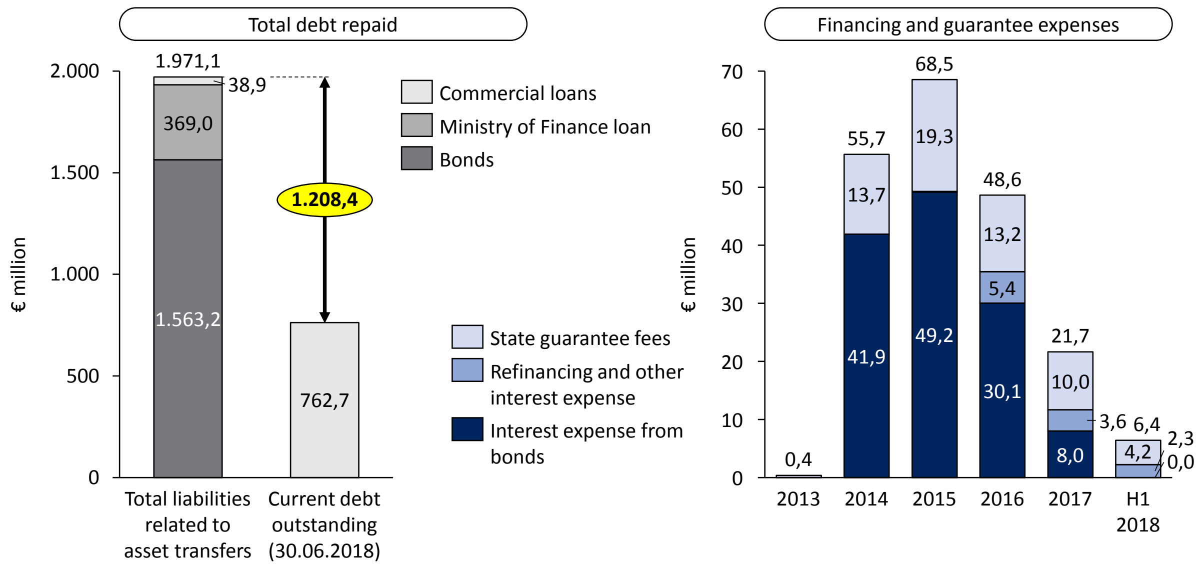
In December 2017, BAMC's last two bonds matured in a total amount of €551,6 million, as well as a bilateral €169,0 million loan borrowed from a Slovenian bank had to be repaid. BAMC refinanced these obligations on the market, since the inflows generated in 2017 were partly used for the repayment of existing 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 €710,0 million. 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 interest rates on the matured bonds. BAMC's cost of financing will thus be reduced by more than € nine million in 2018.

In H1 2018 BAMC repaid €86,4 million according to amortization plans and €28,3 million as additional early repayment of commercial loans, together amounting to €114,7 million debt repaid.

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

Since its inception, BAMC already repaid more than €1,2 billion of all liabilities related to asset transfers. BAMC also paid €140,6 million of interest on its debt since 2013 until mid-2018, as well as €60,7 million of guarantee fees.

FIGURE 20: TOTAL DEBT REPAID AND FINANCING EXPENSES



NOTE: Principal values without interest are reported.

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 and measure performance throughout its lifespan.

TABLE 6: KEY PERFORMANCE INDICATORS

KPI	Definition	Since inception (by mid 2018)		H1 2018	H1 2017
		Cumulative	Yearly average		
Guidelines-defined KPIs					
Cumulative cash generated	Absolute amount (in € million)	-	-	1.411	1.109
Cash generated %	Cash generated / NPAs transfer value	69,7%	15,5% (a)	5,8%	11,8%
EROE	Equity / invested capital with corrections - 1	189,0%	26,6% (g)	-	-
Cost efficiency	Operating costs / average total assets	-	1,49% (a)	1,02%	0,91%
Additional BAMC-followed KPIs					
ROE	Net income (loss) / average equity	55,7%	10,3% (g)	13,2%	19,4%
Funds returned to RS	Payback / RS invested assets	78,2%	-	1,7%	0,0%
Gross funds returned to RS	Gross payback / RS invested assets	107,2%	-	8,3%	3,3%
Debt outstanding	Debt / initial debt	-	-	38,8%	50,3%
Guaranteed debt outstanding	Guaranteed debt / initial guaranteed debt	-	-	39,4%	50,0%
Basic data (in € million)					
Cash generated		1.411	314	117	239
RS invested assets	Cumulative invested capital	-	-	258	258
Debt	Balance sheet debt value	-	-	766	991
Equity	Balance sheet equity value	-	-	163	97
Invested capital with corrections		-	-	56	61

General notes: KPIs required by the Guidelines 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 and a half 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 1 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. The additional amount in 2018 is the €4,3 million direct negative effect on equity following the Government decision on the transfer of KOTO equity share to SSH. The transaction is booked as return of capital to the owner.
- "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[8].

BAMC recorded a net profit of €20,4 million in H1 2018. The result is even better than the very successful H1 2017 as all three portfolios provided considerable profits, especially in the realised part, while financial expenses almost halved and operating costs were reduced by 10%.

TABLE 7: INCOME STATEMENT

in € thousand	1 Jan 2018 to 30 Jun 2018	1 Jan 2017 to 30 Jun 2017	Index H1 2018/H1 2017
Result from loans	17.880	36.946	48
Result from equity instruments	8.260	-343	-2.405
Result from inventories	11.076	3.628	305
Other income	559	1.176	48
Financial expenses	-6.416	-12.190	53
Operating costs	-10.960	-12.129	90
Net profit/loss	**20.399**	**17.086**	**119**

INCOME STATEMENT BREAKDOWN

Result from managing loans was €17,9 million in H1 2018, half the result of H1 2017. With revaluation contributing a minor part, the majority of profit stemmed from completed transactions, tripling on comparative period despite only half the volume of cash generated.

TABLE 8: RESULT FROM LOANS

in € thousand	1 Jan 2018 to 30 Jun 2018	1 Jan 2017 to 30 Jun 2017	Index H1 2018/H1 2017
Capital gains/losses	14.108	4.350	324
Net revaluation result	2.951	33.151	9
Other income from loans	821	-555	-148
Total result from loans	**17.880**	**36.946**	**48**

Result from equity in H1 2018 amounted to €8,3 million with almost equal distribution between capital gains, revaluation and dividends.

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

TABLE 9: RESULT FROM EQUITY

in € thousand	1 Jan 2018 to 30 Jun 2018	1 Jan 2017 to 30 Jun 2017	Index H1 2018/H1 2017
Capital gains/losses	2.961	60	4.914
Net revaluation result	2.470	-1.524	-162
Dividends	2.829	1.121	252
Other income from equity investments	0	0	-
Total result from equity investments	**8.260**	**-343**	**-2.405**

Income from inventories relates almost entirely to inventories of real estate. The sales income of €32,0 million (the carrying amount of which was €21,3 million), continues the positive result of successful sale of BAMC-owned real estate in H1 2018. BAMC also generated €1,1 million from temporary renting inventory of real estate and recorded €0,7 million of decrease in value of inventory of real estate due to revaluation. On the costs side, real estate operating costs were reduced by €2,0 million in H1 2018.

TABLE 10: RESULT FROM INVENTORIES WITH COSTS

in € thousand	1 Jan 2018 to 30 Jun 2018	1 Jan 2017 to 30 Jun 2017	Index H1 2018/H1 2017
Income from rents	1.110	1.168	95
Income from inventories sold	32.029	40.385	79
Cost of inventories sold	-21.345	-32.242	66
Net revaluation result from inventories	-718	-5.683	13
Real estate management costs	-2.249	-4.261	53
of these real estate transaction costs	-216	-623	35
of these capex-like real estate management costs	-644	-1.772	36
Result from inventories with costs	**8.827**	**-633**	**-1.394**

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

BAMC's financial expenses for H1 2018 were €5,8 million lower than in H1 2017. With the repayment of DUT03 and DUT04 bonds in December 2017 and their refinancing with much less expensive borrowing from the commercial market (backed by guarantee from the Republic of Slovenia) the costs of financing further reduced. Lower debt level also facilitated lower guarantee fee payments in the respective period.

TABLE 11: RESULT FROM FINANCIAL EXPENSES

in € thousand	1 Jan 2018 to 30 Jun 2018	1 Jan 2017 to 30 Jun 2017	Index H1 2018/H1 2017
Interest expenses from debt securities and borrowings	-2.252	-6.254	36
Guarantee fees	-4.164	-5.460	76
Other financial expenses	0	-476	0
Total financial expenses	**-6.416**	**-12.190**	**53**

Overall, operating costs not related to real estate management costs totalled €8,7 million in H1 2018 and were 11% higher than in the comparable period.

TABLE 12: OTHER RESULT WITHOUT REAL ESTATE COSTS

in € thousand	1 Jan 2018 to 30 Jun 2018	1 Jan 2017 to 30 Jun 2017	Index H1 2018/H1 2017
Other income	559	1.176	48
Costs of material	-39	-61	63
Costs of services	-3.529	-3.218	110
Costs of outsourced back office and accounting services	-748	-809	92
Advisory fees	-1.404	-991	142
of these equity transaction costs	-299	-124	241
Other service costs	-1.377	-1.418	97
Depreciation	-68	-115	59
Labour costs	-4.103	-4.181	98
Other expenses	-972	-293	332
Other result	**-8.152**	**-6.692**	**122**
Other result without transaction costs	**-7.854**	**-6.568**	**120**

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

Labour costs totalled €4,1 million in H1 2018 and were on the level of H1 2017 labour costs. Other expenses totalled €1,0 million in H1 2018, more than half of them being related to a single lost lawsuit BAMC inherited from the merger of Probanka in 2016.The largest part of non-labour costs is accounted for by the costs of services, which amounted to €3,5 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., a company 100% owned by BAMC) in the amount of €0,7 million and costs of intellectual services, the majority of which were the costs of legal and notary services also in the amount of €0,7 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 €0,5 million in H1 2018 as presented in Table 13.

TABLE 13: TRANSACTION COSTS

in € thousand	1 Jan 2018 to 30 Jun 2018	1 Jan 2017 to 30 Jun 2017
Real estate transaction costs	216	623
Equity transaction costs	299	124
Total transaction costs	**515**	**747**

BALANCE SHEET

TABLE 14: BALANCE SHEET SUMMARY

in € million	30 Jun 2018	31 Dec 2017	Index 2018/2017
Assets	**943,9**	**1.050,4**	**90**
Loans	602,0	660,2	91
Real estate	192,3	194,2	99
Equity	86,5	99,0	87
Cash and equivalents	50,2	90,6	55
Other	12,9	6,3	203
Liabilities	**781,4**	**904,0**	**86**
Borrowings	765,6	880,2	87
Other	15,7	23,8	66
Equity	**162,6**	**146,4**	**111**

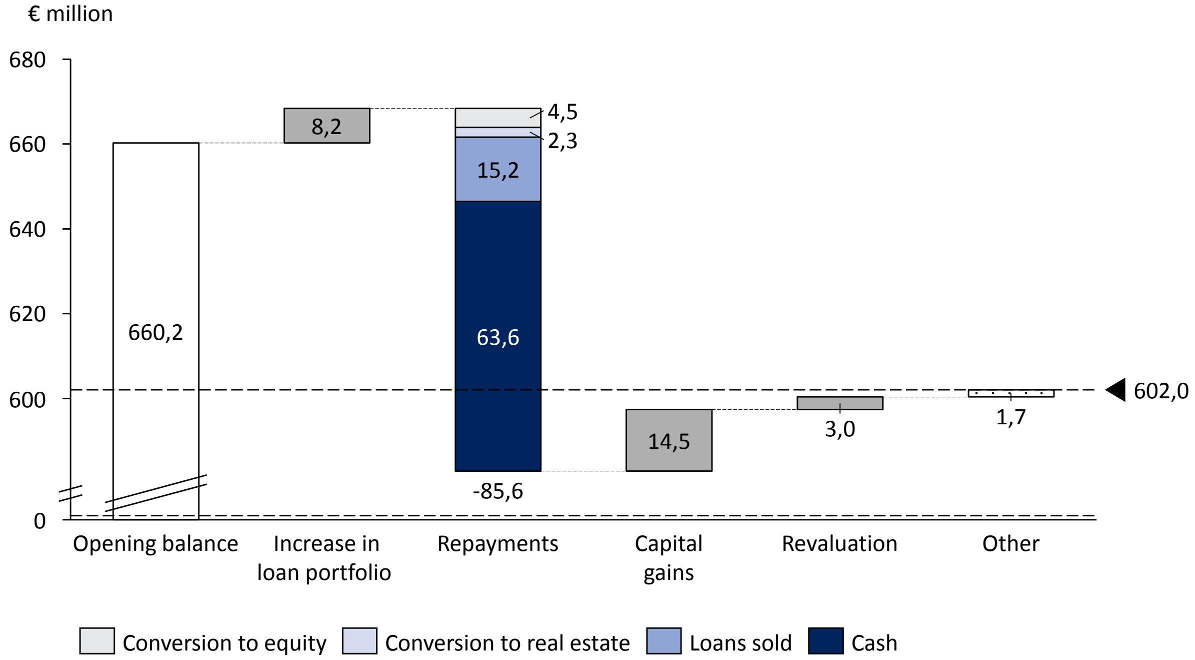
NOTE: “Loans” category also includes minor leasing holdings.

ASSETS

BAMC’s total assets decreased by €106,4 million (10%) in H1 2018 and stood at €943,9 million at the middle of the year, mainly driven by a reduction in the loan portfolio and liquidity position. Loans accounted for the highest proportion of BAMC’s assets as at 30 June 2018. The value of loans totalled €602,0 million at the middle of the year, a decrease of 9% relative to the balance at the end of the previous year.

Repayments of loans in H1 2018 amounted to €85,6 million and include cash repayments in the amount of €63,6 million, sales of loans in the amount of €15,2 million, €2,3 million of debt to real estate conversions and €4,5 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 €8,2 million. The revaluation effect increased the loan balance by €3,0 million.

FIGURE 21: LOAN MOVEMENT IN H1 2018



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. As at 30 June 2018, BAMC disclosed a carrying amount of real estate stock of €192,3 million while the estimated net realizable value of all inventory of real estate was €199,8 million. The carrying amount of real estate was down only €1,8 million in H1 2018 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 €86,5 million at 30 June 2018 and decreased by 13% compared to the end of 2017 due to several successfully concluded transactions and the effect of the Government decision on the KOTO stake transfer price.

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 €50,2 million in cash and cash equivalents at its disposal at mid-year 2018. Any surplus funds available in H1 2018 were used for reducing debt ahead of schedule.

LIABILITIES

BAMC financed its assets at 30 June 2018 mainly through debt sources, more precisely via borrowings in the amount of €765,6 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 €114,5 million in H1 2018.

TABLE 15: OUTSTANDING FINANCIAL OBLIGATIONS AS AT 30 JUNE 2018

Financial instrument (values in € million)	**Amount issued**	**Amount outstanding**	**Issued**	**Interest payment**	**Maturity**
Commercial loan	150,0	105,0	Dec 2016	Half-yearly	Dec 2021
Commercial loan	560,0	518,7	Dec 2017	Quarterly	Dec 2022
Commercial loan	50,0	46,3	Dec 2017	Quarterly	Dec 2022
Commercial loan	100,0	92,6	Dec 2017	Quarterly	Dec 2022

NOTE: Nominal amounts without accrued interest reported in the table.

Other liabilities and provisions amounted to €15,7 million at 30 June 2018. The balance from the end of 2017 decreased by 34% and included provisions for potential losses in lawsuits and issued guarantees in the amount of €6,6 million and received advanced and security payments in the amount of €2,4 million as the biggest items.

EQUITY

BAMC's equity totalled €162,6 million at 30 June 2018 which is €16,1 million more than at the end of 2017. The difference of change to net profit in the amount of €4,3 million is the effect of the Government decision on KOTO equity stake transfer which is recognised directly (in the statement of changes in equity).

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. This risk is accounted for separately, therefore 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, and equity investments 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 half-year 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 efficient 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.

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 Management Committee.

The Risk 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 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.

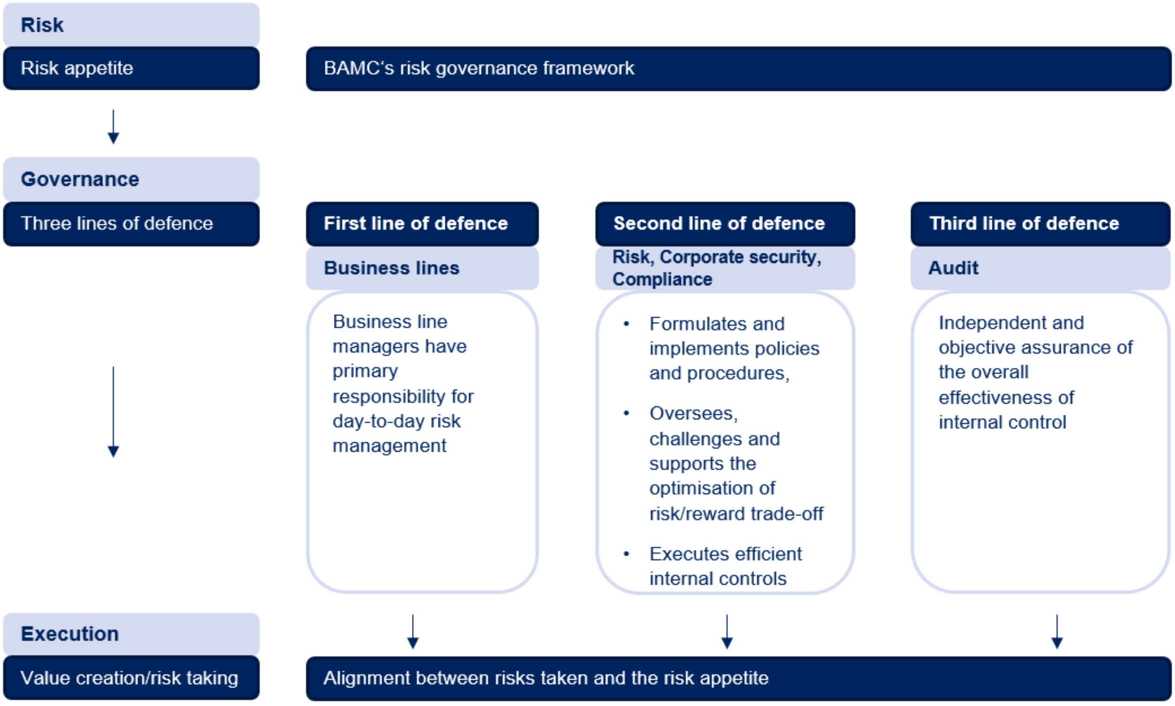
THREE LINES OF DEFENCE

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.

FIGURE 22: THREE LINES OF DEFENCE



Controlling and risk 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 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.

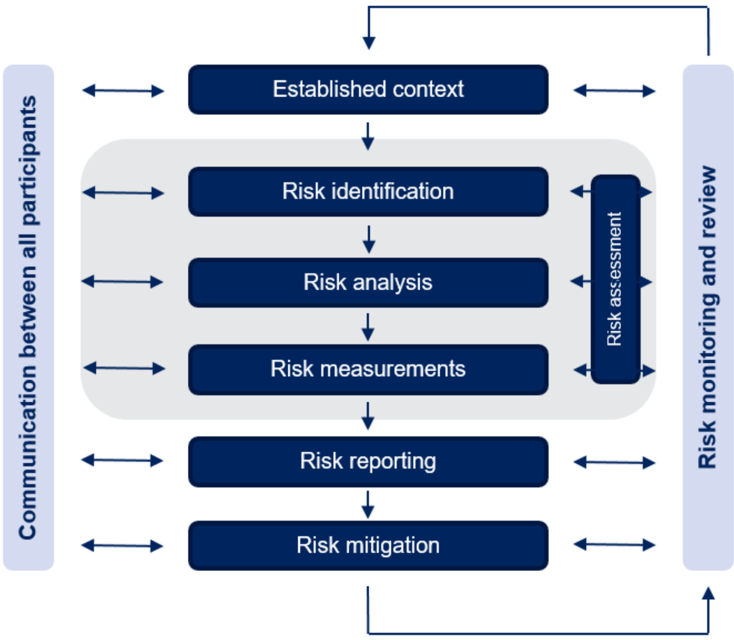
Organisation unit **Corporate security** orderly and systematically investigates suspicious practices in and outside BAMC. It identifies and effectively mitigates or manages, at an early stage, any developments that may threaten the resilience and continued operations of a corporation. A corporate function 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.

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 23: 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 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 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.

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). In addition, the management of BAMC adopts a “risk appetite” and shows guidelines with adoption of strategic and business decisions both for controlling and 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.

RISK REPORTING

Identified and assessed risks are presented to the Risk 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 Management Committee adopts a risk mitigation strategy for each case. Strategies to mitigate identified risks are as it follows: (i) risk acceptance, (ii) risk transfer, (iii) risk reduction and (iv) risk avoidance.

RISK MONITORING

Once the risk is identified, measured and introduced to the Risk 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.

KEY RISKS AND THEIR MITIGATION

RISK OF NON-COMPLIANCE WITH RELEVANT LEGISLATIVE REQUIREMENTS

Total estimation of risk			
Low	Moderate	High	Extremely high

Several legislative requirements came into force in H1 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 performed all necessary tasks, required by the GDPR by the date the regulation comes into force, i.e., 25 May 2018.

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. BAMC reported and discussed the cost efficiency KPI issue with the Ministry of finance several times in H1 2018.

Risks arising 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 ability 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.

Liquidity risk

Total estimation of risk			
Low	Moderate	High	Extremely high

Liquidity risk was reduced in 2017, since BAMC repaid all bonds issued, which represented the main liquidity risk in previous business years. 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.

BAMC SHARE

As at 30 June 2018 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 16: BASIC INFORMATION ON BAMC'S SHARE

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

NOTE: Data as at 30 June 2018.

There were no changes in the ownership structure in H1 2018.

SUSPICIONS OF CRIMINAL ACTIVITIES AND COURT OF AUDIT COOPERATION

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 two additional irregularities in H1 2018, bringing the total number of irregularities to 88. 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 one criminal incident in H1 2018 (21 in total since inception), which was 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.

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 the 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.

Following the decision of the Senate on the BAMC's objection, the Court of Audit issued the final version of the audit report on the regularity and efficiency of the operations of BAMC d.d. in 2014 and 2015 (hereinafter: the Final report) on 4 July 2018. While the Draft included 10 corrective measures with subsidiary measures and 22 recommendations, the Final report incorporated and reflected BAMC proactive approach with improvements already made and contained only six corrective measures with subsidiary measures (of these, BAMC has already partially implemented two) and 11 recommendations. Other measures, which will be adopted by BAMC to eliminate irregularities, will be reflected in the response report.

Financial Statements of BAMC for the period 1 January 2018 to 30 June 2018

Translation of the original financial statements prepared in Slovenian language.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management hereby confirms that the condensed financial statements for the six months ended 30 June 2018, including all its components, have been prepared in accordance with the Companies Act and amendments of the Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act (ZUKSB-A).

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

The management hereby confirms that the relevant accounting policies were consistently applied in the compilation of the financial statements. The accounting estimates were made according to the principle of prudence and the diligence of a good manager. The management confirms that the financial statements, prepared in accordance with ZUKSB-A Article 4 (3)&(5), present fairly, in all material respects, the financial position of BAMC and of the outcomes of its operations for the period from 1 January 2018 to 30 June 2018.

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

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

Ljubljana, 25 September 2018

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

Financial statements

Balance sheet BAMC for the period ended as at 30 June

in € thousand	Note	30 Jun 2018	31 Dec 2017
Intangible assets		101	101
Property, plant and equipment		89	99
Financial assets at fair value through profit or loss		688.522	759.242
Loans	5	602.024	660.237
Equity investments	6	86.498	99.005
Inventories of property and equipment	7	192.314	194.163
Trade and other operating receivables		12.162	5.500
Deferred costs		526	642
Cash and cash equivalents		50.227	90.636
Total assets		**943.942**	**1.050.383**
Total Equity		162.560	146.429
Share capital		104.118	104.118
Retained earnings		58.442	42.311
Total liabilities		781.382	903.954
Borrowings	8	765.644	880.175
Trade and other operating payables		7.350	8.506
Liabilities for current tax		0	6.058
Provisions		6.578	6.084
Other liabilities		1.810	3.131
Total equity and liabilities		**943.942**	**1.050.383**

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

in € thousand	Note	1 Jan to 30 Jun 2018	1 Jan to 30 Jun 2017
Income from loans	9	17.880	36.946
Income from equity instruments	10	8.260	-343
Income from inventories of property and equipment	11	11.076	3.628
Financial expenses		-6.416	-12.190
Other income		559	1.176
Cost of material		-39	-61
Cost of services		-5.778	-7.512
Payroll costs		-4.103	-4.181
Depreciation		-68	-115
Other expenses		-972	-260
Profit before tax		**20.399**	**17.086**
Income tax expense		0	0
Net profit for the period		**20.399**	**17.086**
Attributable to owners		20.399	17.086

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

in € thousand	1 Jan to 30 Jun 2018	1 Jan to 30 Jun 2017
Net profit for the period	**20.399**	**17.086**
Total comprehensive income for the period attributable to owners	**20.399**	**17.086**

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

in € thousand	Share Capital	Capital Reserves	Retained earnings	Total Equity
Balance as at 1 January 2018	**104.118**	**0**	**42.311**	**146.429**
Transactions with owners	0	0	-4.268	-4.268
Effect of the sale of the asset in line with the government decision	0	0	-4.268	-4.268
Total comprehensive income for the period	0	0	20.399	20.399
Net profit	0	0	20.399	20.399
Balance as at 30 June 2018	**104.118**	**0**	**58.442**	**162.560**

in € thousand	Share Capital	Capital Reserves	Accumulated loss	Total Equity
Balance as at 1 January 2017	**104.118**	**154.117**	**-178.792**	**79.443**
Transactions with owners	0	-154.117	154.117	0
Offsetting loss against capital reserves	0	-154.117	154.117	0
Total comprehensive income for the period	0	0	17.086	17.086
Net profit	0	0	17.086	17.086
Balance as at 30 June 2017	**104.118**	**0**	**-7.589**	**96.529**

Statement of cash flows of BAMC for the period from 1 January to 30 June

in € thousand	1 Jan to 30 Jun 2018	1 Jan to 30 Jun 2017
Cash flow from operating activities		
Net profit	20.399	17.086
Adjustments for:		
Amortization and depreciation	68	115
Write down of inventories	718	5.683
Foreign exchange differences	-1.256	886
Interest expense	6.416	12.190
	26.345	**35.960**
Changes in:		
Loans and receivables	59.469	163.937
Equity investments	8.239	-1.081
Inventories of property and equipment	1.130	3.684
Trade and other operating receivables	-6.662	-7.948
Deferred costs	115	-382
Trade and other operating payables	-7.214	9.929
Provisions	493	-765
Other liabilities	-1.320	-139
Net cash from operating activities	**80.596**	**203.197**
Cash flow from investing activities		
Purchase of equipment and intangible assets	-58	-32
Net cash flow from investing activities	**-58**	**-32**
Cash flow from financing activities		
Proceeds from borrowings	0	18.000
Repayment of borrowings	-114.648	-291.011
Interest paid	-6.299	-11.511
Net cash flow from financing activities	**-120.947**	**-284.522**
Net increase (decrease) in cash and cash equivalents	**-40.409**	**-81.357**
Cash and cash equivalents at the beginning of year	**90.636**	**122.261**
Cash and cash equivalents at the end of year	**50.227**	**40.904**

Notes to the financial statements

Note 1: Introduction

Valuation of assets at initial recognition

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

Financing of asset acquisition

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

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

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

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-A[9] 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.

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 period starting 1 January 2018 and ending 30 June 2018.

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.

[9] In further text used ZUKSB.

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 3.1 A and 3.1 B),
- net realizable value of inventories of property and equipment and potential write-down of inventories (note 3.2),
- 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,
- determination of current and non-current part of loans,
- Conversions of loans and receivables into underlying collateral (see detailed description in note 3.1 C).

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

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.

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 2,45% as at 30 June 2018 (WACC as at 30 June 2017 was 2,39%). The main reason for the increasing WACC as at mid-year of 2018 was lower relative share of debt financing in the total financing structure, as a result of debt repayment.

In essence, the BAMC calculated the probability-weighted average of the present values of forecasted cash flows for both scenarios. Effectively this reduces 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), which are additionally confirmed by the business analyst 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 valuation experts, external valuators and/or the business analysis department.

The head of Business analysis 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, co-signed by the relevant business analyst and 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
- Attribution of cost factors to the relevant asset

Additional logical and technical controls are performed and documented by the Controlling and risk department.

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 Business analysis 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 (e.g. FCFF for discounted cash flow method and EV/EBITDA for comparative method) are always preferred to those at the equity level or those based on dividends or book values.

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.).
- If the own shares are considered,
- If the chosen industry reflects the company's operations,
- If the discounts are applied and commented correctly,

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 Controlling and risk department.

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

Key unobservable inputs in the valuation process are adjusted market rent 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.

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

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 Business Analysis and valuations 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 compared 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 discount rate reflecting the market sentiment changes.

Business Analysis and valuations Department is responsible for valuation of inventory of real estate and real estate collateral. The valuations are reviewed by the Head of Real Estate Management Support Department who 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 Controlling and risk department.

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	30 Jun 2018	31 Dec 2017
Long term	439.478	473.390
Short term	162.546	186.847
Total	**602.024**	**660.237**

MOVEMENT IN THE LOAN BALANCES FROM 1 JAN TO 30 JUN

in € thousand	1 Jan to 30 Jun 2018	1 Jan to 30 Jun 2017
Opening balance 1 January	**660.237**	**945.947**
Increase in loan portfolio	8.182	3.713
Repayments	-85.556	-214.872
Cash repayments	-63.640	-133.873
Conversion to real estate	-2.292	-9.241
Conversion to trade receivables	0	81
Loans sold	-15.155	-68.175
Conversion to equity	-4.469	-3.664
Increase/decrease on revaluation	2.951	33.311
Increase/decrease for capital gains/losses	14.106	11.736
Other	2.104	1.842
Closing balance 30 June	**602.024**	**781.676**

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

in € thousand	30 Jun 2018	31 Dec 2017
Equity shares of listed companies	29.898	33.958
a) Shares	29.898	33.958
Equity shares of unlisted companies	56.600	65.047
a) Shares	28.612	36.855
b) Ownership stake	27.988	28.192
Total	**86.498**	**99.005**

MOVEMENT IN THE EQUITY INVESTMENTS FROM 1 JAN TO 30 JUN 2018

in € thousand	Equity investments	Total
Opening balance 1 January 2018	**99.005**	**99.005**
Debt to equity conversions	4.469	4.469
Revaluation	-1.798	-1.798
Disposal	-15.178	15.178
Closing balance 31 June 2018	**86.498**	**86.498**

MOVEMENT IN THE EQUITY INVESTMENTS AND BONDS FROM 1 JAN TO 30 JUN 2017

in € thousand	Equity investments	Bonds	Total
Opening balance 1 January 2017	**94.188**	**2.757**	**96.945**
Acquisition	43	0	43
Debt to equity conversions	3.664	0	3.664
Revaluation	-1.618	94	-1.524
Disposal	-1.102	0	-1.102
Closing balance 31 June 2017	**95.175**	**2.851**	**98.026**

NOTE 7: INVENTORIES OF PROPERTY AND EQUIPMENT

in € thousand	30 Jun 2018	31 Dec 2017
Real estate	173.877	178.820
Equipment	1.975	1.954
Advance payments for inventories of property	16.462	13.388
Total	**192.314**	**194.163**

MOVEMENT IN INVENTORIES OF PROPERTY AND EQUIPMENT (WITHOUT ADVANCE PAYMENTS)
FROM 1 JAN TO 30 JUN 2018

in € thousand	Real estate	Equipment	Total
Opening balance 1 January 2018	**178.820**	**1.954**	**180.774**
Partial settlement of debts (repossessions)	2.268	24	2.292
Acquisitions	14.729	119	14.848
Disposal	-21.223	-122	-21.345
Reversals of net realizable value write-downs	-718	0	-718
Closing balance 31 June 2018	**173.877**	**1.975**	**175.852**

MOVEMENT IN INVENTORIES OF PROPERTY AND EQUIPMENT (WITHOUT ADVANCE PAYMENTS) FROM 1 JAN TO 30 JUN 2017

in € thousand	Real estate	Equipment	Total
Opening balance 1 January 2017	**192.384**	**1.669**	**194.053**
Partial settlement of debts (repossessions)	9.163	105	9.268
Acquisitions	11.563	56	11.619
Disposal	-32.239	-8	-32.247
Reversals of net realizable value write-downs	-5.683	0	-5.683
Closing balance 30 June 2017	**175.188**	**1.822**	**177.010**

NOTE 8: BORROWINGS AND OTHER FINANCIAL LIABILITIES

in € thousand	30 Jun 2018	31 Dec 2017
Loans from banks	762.139	876.237
Deposits received	1.796	1.918
Other financial liabilities	1.709	2.020
Total	**765.644**	**880.175**

NOTES TO THE INCOME STATEMENT

NOTE 9: INCOME FROM LOANS

in € thousand	1 Jan to 30 Jun 2018	1 Jan to 30 Jun 2017
Capital gains/losses	14.108	4.350
Net revaluation	2.951	33.151
Other income /expense from loans	821	-555
Total	**17.880**	**36.946**

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 10: INCOME FROM EQUITY INSTRUMENTS

in € thousand	1 Jan to 30 Jun 2018	1 Jan to 30 Jun 2017
Capital gains/losses	2.961	60
Net revaluation	2.470	-1.524
Dividends	2.829	1.121
Total	**8.260**	**-343**

NOTE 11: INCOME FROM INVENTORIES OF PROPERTY AND EQUIPMENT

in € thousand	1 Jan to 30 Jun 2018	1 Jan to 30 Jun 2017
Income from rents	1.110	1.168
Income from inventories sold	32.029	40.385
Cost of inventories sold	-21.345	-32.242
Net write-downs	-718	-5.683
Total	**11.076**	**3.628**

NOTE 12: RELATED PARTY TRANSACTIONS

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

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

FROM JANUARY TO JUNE 2018 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 2018	81.794	34.326	29.480
Increase	7.826	186	2.220
Decrease	-15.123	-24.625	-5.286
Closing balance 30 Jun 2018	74.497	9.887	26.414
Deposits			
Opening balance 1 Jan 2018	0	0	3.521
Closing balance 30 Jun 2018	0	0	3.521
Financial assets through profit and loss – Equity investments			
Opening balance 1 Jan 2018	25.019	6.445	0
Increase	4.654	0	0
Decrease	0	-3.309	0
Closing balance 30 Jun 2018	29.673	3.136	0
Borrowings			
Opening balance 1 Jan 2018	0	0	607.332
Decrease	0	0	-88.595
Closing balance 30 Jun 2018	0	0	518.737
Income from loans	1.563	140	1.443
Income from equity investments	53	0	3.519
Interest expense			
Interest expense from borrowings	0	0	1.718
Other expenses and costs			
Other costs	-709	0	-849
Other income	224	0	0

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

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

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