DUTB | Creating Good with Excellence

BAMC Annual Report 2018

July 2019

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HIGHLIGHTS AND SUMMARY OF 2018

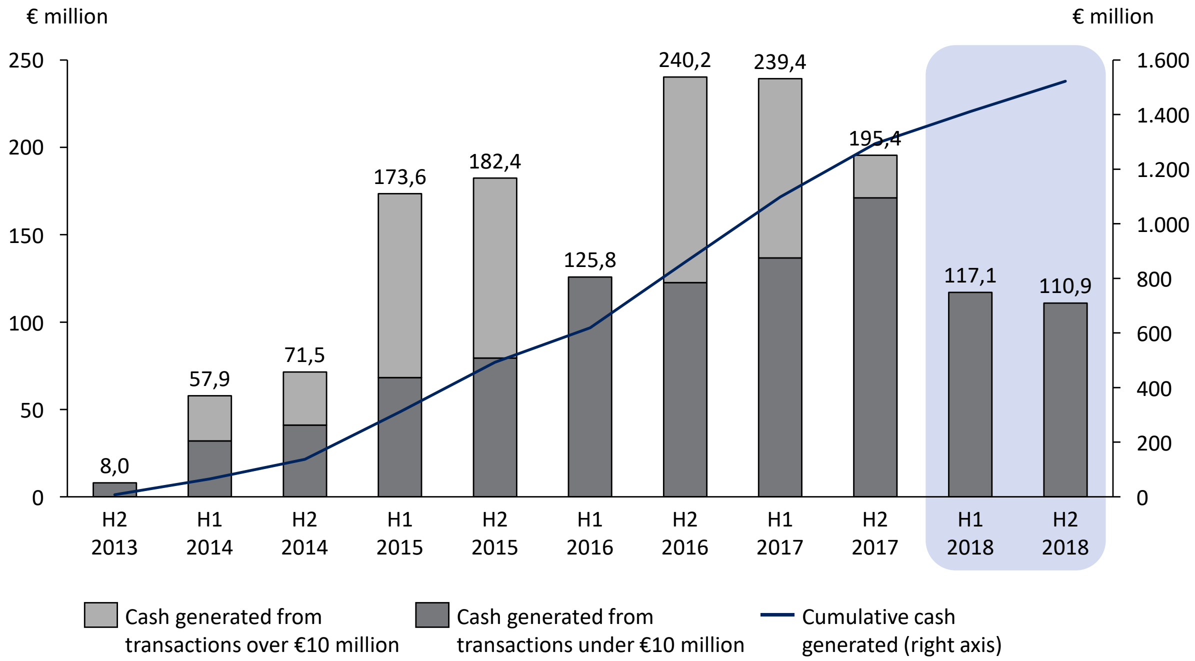
In 2018 BAMC continued its profitable and successful operations. With a net profit of €57,7 million and cash generation of €228,0 million it has both increased its economic return on equity (EROE) as well as surpassed the cash generation threshold, set as a key performance indicators in the Guidelines on the operations of BAMC (hereinafter: the Guidelines) by the Government of the Republic of Slovenia (hereinafter: the Government). With managing costs below planned BAMC also reached the cost efficiency indicator, despite the shrinking base combined with more complex assets and value extraction procedures in every further year of operations.

TABLE 1: BAMC KPIS FOR 2018

Key Performance Indicator	2018 target*	2018 result
Minimum cumulative cash generated (in € million)	877	1.522
Cash generated %	10,0%	11,1%
EROE	8,0%	28,9%
Cost efficiency	2,00%	1,99%

NOTE: *As defined in the Guidelines, last adopted by the Government on 16 December 2018.
Definitions and additional KPI data are presented in more detail in Table 6.

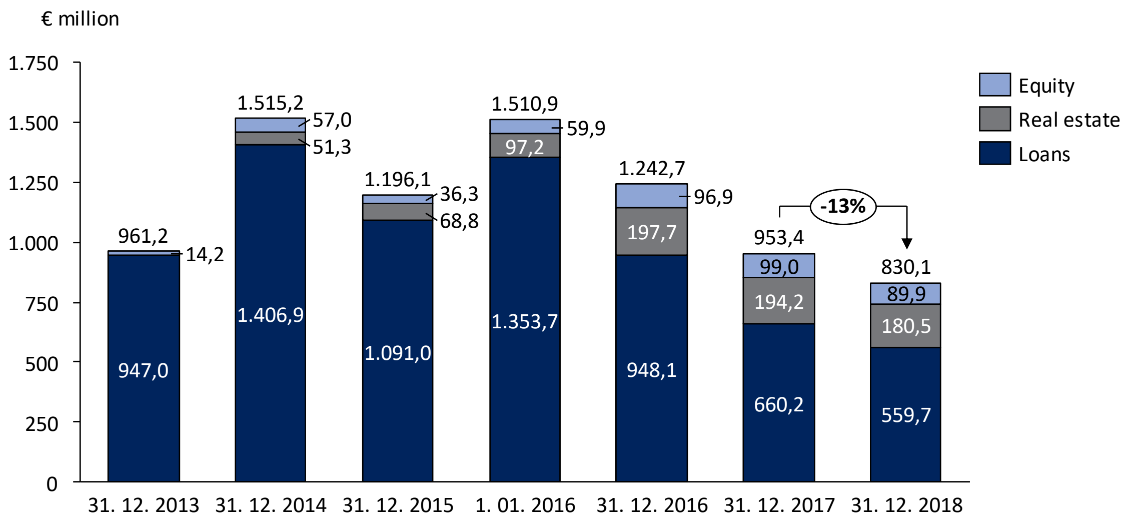
FIGURE 1: CASH GENERATED BY HALF-YEARS



€228,0 million of cash generated from the loan, real estate and equity portfolios represent 11,1% of cumulative asset transfer value (obtained in the course of measures to strengthen bank stability and the merger of Factor banka and Probanka.) and is distinctly above the 10% yearly statutory target. In the absence of larger transactions stable cash generation process was distributed relatively evenly throughout the year and cumulatively BAMC generated more than €1,5 billion of cash in five years since the first asset transfers in late 2013.

The balance sheet reduction of 13% corresponds with the liquidation of the portfolios, among which claims were reduced the most, followed by equity investments and real estate. The balance of the latter portfolio is also affected by additional repossessions done in the last year, the justification of which is supported by €14,7 million price difference realised in 2018 real estate sales.

Figure 2: Assets under management



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

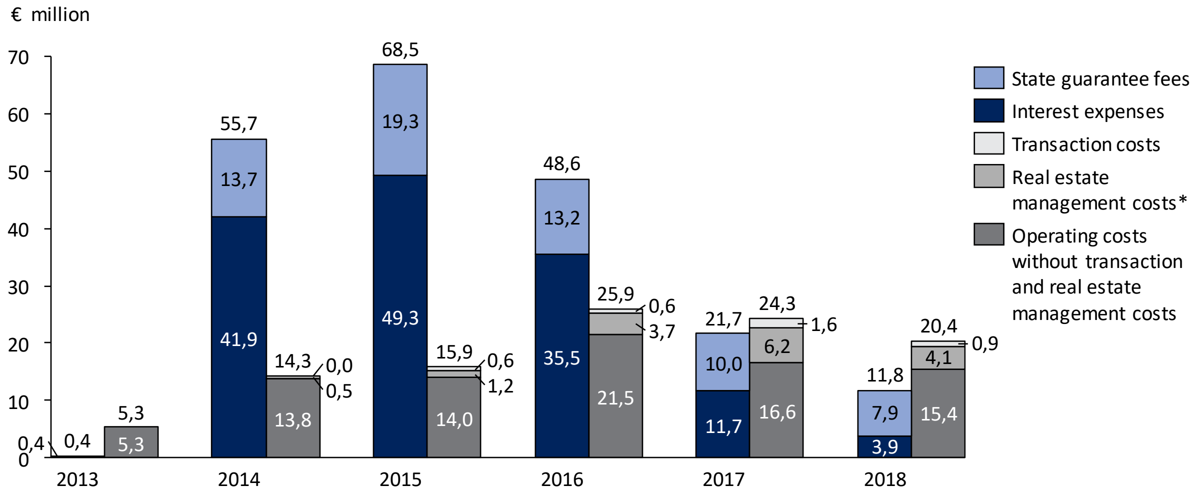
Table 2: Corrections to initially invested capital since inception

in € million	Effect on BAMC equity
Capital invested by the Republic of Slovenia in 2013	**203,6**
Cumulative capital returned to the owner in the 2013-2018 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) at year-end 2018	**56,2**

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

BAMC adjusted its capital by more than €200 million due to decisions of the owner (Republic of Slovenia) during its lifetime through various transactions as specified in the table above. Including the profit of 2018, the EROE indicator, which presents the average yearly return on equity, comparing current equity to the invested capital with corrections (€56,2 million), increased up to 28,8% while the statutory requirement is set at 8%.

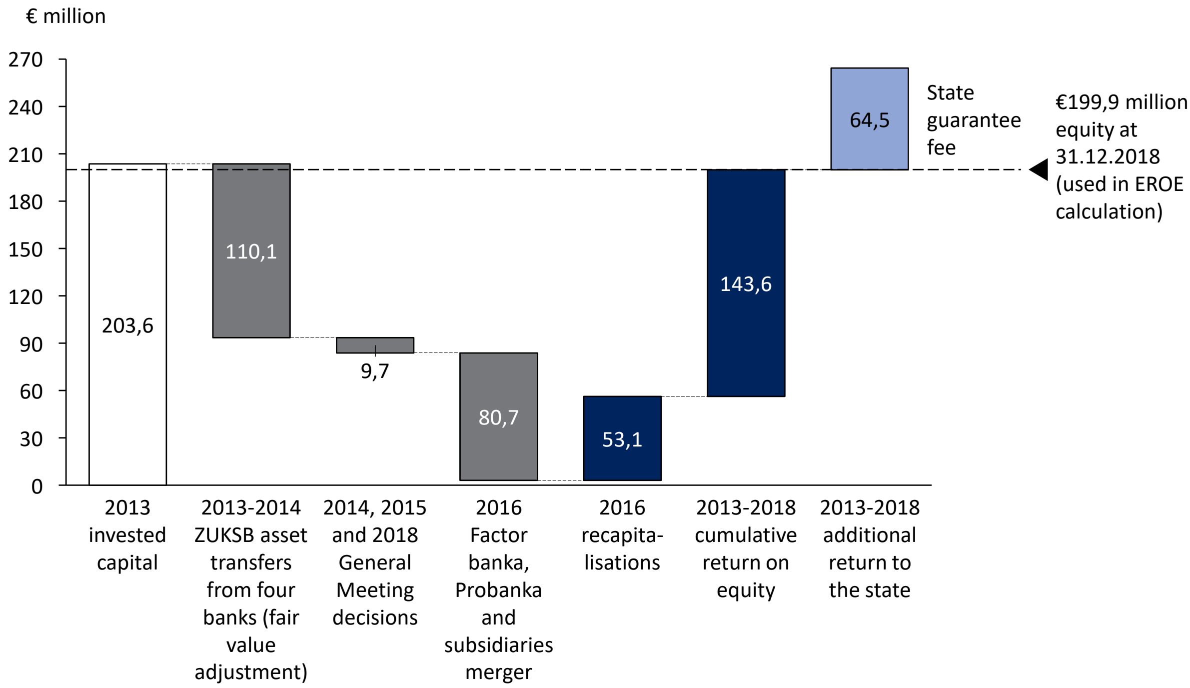
FIGURE 3: FINANCING AND OPERATING COSTS



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

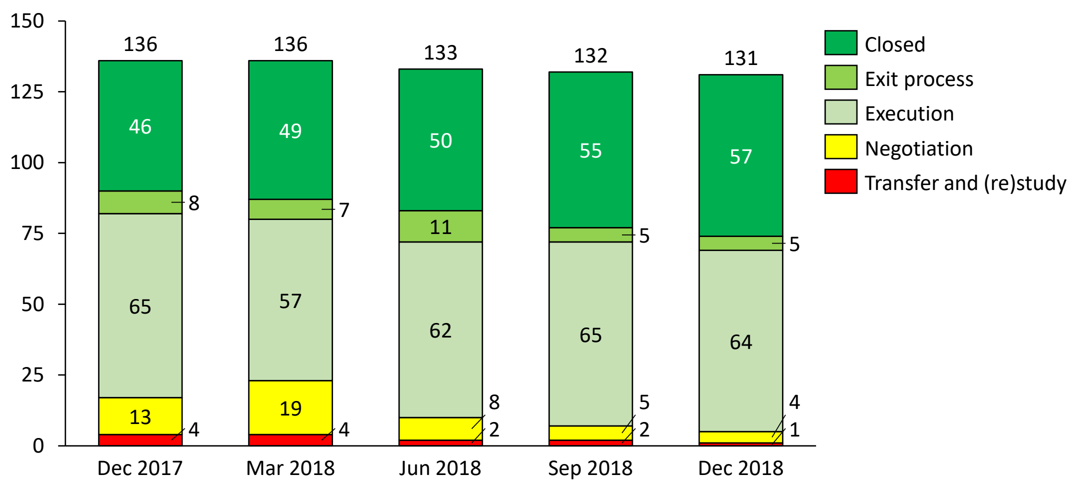
With operating costs below plan, considerably lower real estate management costs and halved financing costs reflecting favourable refinancing conditions and lowered debt level due to regular and early repayments of debt, BAMC is continuing the trend of efficient management of resources available. All three portfolios under management displayed strong profits, contributing to the bottom line result of €57,7 million, bringing the company's equity almost to the position of the initial investment by the owner.

Figure 4: Equity effects and additional return since inception



Progress in case management also continued as 11 more cases were closed in 2018 and five were in the final stages of closures, bringing the share of both to 47% of all restructuring cases.

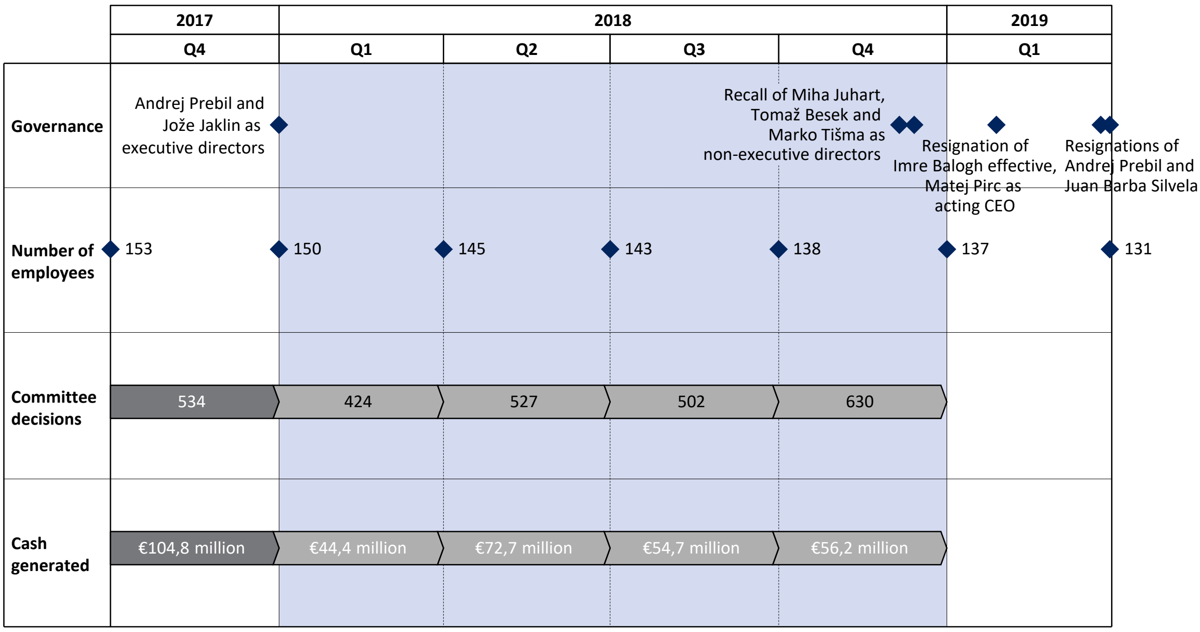
Figure 5: Progress in restructuring cases



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 occasional presence of cases in this category.

Changes among Board members were also introduced at the end of the year with two new non-executive directors assuming their positions and CEO resigning. BAMC had new fully operational management in place at the time of preparation of this report.

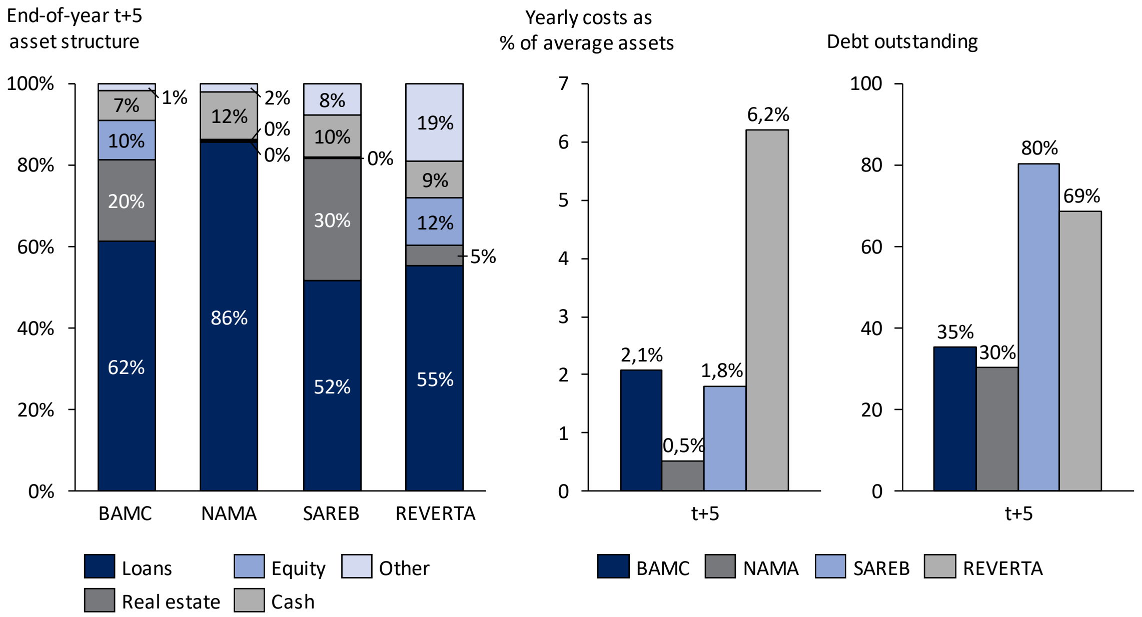
Figure 6: BAMC's overview of 2018



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

[1] As first assets were transferred to BAMC in December 2013, it if effectively in operation for five complete years making 2018 results the "t+5" input for benchmarking.

FIGURE 7: SELECTED BENCHMARKING DATA



NOTE: NAMA was established in December 2009, SAREB was established in November 2012 and REVERTA was established in May 2012. "t+5" relates to respective company's fifth year of operations.

For comparability with other institutions the cost efficiency calculation is simplified and thus differs from the reported BAMC KPI version as prescribed in the Guidelines (Table 6).Debt outstanding compares financial liabilities in the respective year of operations to the total debt issued to finance acquired assets.

SOURCE: Own calculations from companies' annual reports.

LETTER FROM THE CEO

If one were to look for the theme underlining BAMC's activities over the past year, it would soon become clear that 2018 was a time of change. There were many changes, both in the external regulatory and business environment, as well as internally. In this context, although the year was intense and full of activities, BAMC closed the year with more than satisfactory results, helping us to carry out our mission as BAMC nears the end of its lifetime with the closing of the year 2022.

In 2018 BAMC reached all of its key performance indicators set by the Government of the Republic of Slovenia. In the fifth year since BAMC's incorporation, we generated €228 million in inflows, which corresponds to 11% of the transfer value of the assets and is over the 10% statutory target. BAMC's sound business performance resulted in maintaining a profitable operating trend, all the while cutting financing and operational costs. The real earnings across the three portfolios helped BAMC achieve a high profit of just under €58 million. Another cause for goodwill is the record-level EROE, which climbed to 28,8% in 2018, high above the mandatory 8%.

Allow me to list a few more good financial indicators By the end of 2018, BAMC had repaid almost €1,3 billion of debt, bringing its debt just under €700 million. In 2018, BAMC's cost of interest amounted to €4 million, in addition to €8 million in state guarantee fees, while the total cost of financing was cut down almost by half, year-on-year. In 2018 we recorded almost €15 million in gross margins in real estate sales.

Another important note is the encouraging ratings BAMC received from international organizations. The European Commission gave an above-average rating for Slovenia's progress on resolving non-performing loans and implementation of BAMC's strategy in its European Semester: Winter Package publication (published March 2018). Of the eleven recommendations issued for Slovenia in 2017, Slovenia only received the highest rating for two, both in reference to BAMC's activities. These are sustainable resolution of non-performing loans and implementation of BAMC's strategy.

We were also faced with some challenges in 2018. In July we received the final Court of Audit report referring to BAMC's activities in the 2014-2015 period. The report gave BAMC six corrective measures and 11 recommendations in respect of its business operations. Over the past year, BAMC made great efforts to implement these corrective measures and recommendations. In cooperation with the Court of Audit, BAMC adopted a series of internal regulations, and since the end of the audited period it has addressed a substantial portion of the identified deficiencies and significantly improved its operations. It should be noted that BAMC is a much different organization than it was during the period of the audit which the Court of Audit Report covers.

In 2018, the media spotlight was focused on a number of real estate sales, casting doubt over the transparency of BAMC's operations, even though, under the circumstances of these highlighted cases, BAMC was in fact pursuing the optimal result. In order to investigate doubts about the compliance of internal procedures, BAMC's Board of Directors took initiative as a prudent manager, and launched an internal investigation and commissioned an independent external audit by Ernst & Young. Some issues and inconsistencies in BAMC's internal regulations were identified in the Audit Report. At the end of 2018, the Government of the Republic of Slovenia took certain active measures. These measures brought changes in BAMC's management structure, both on the non-executive and executive side, and procedural measures taken by the Board of Directors to improve the compliance, efficiency, effectiveness and transparency of BAMC's operations.

BAMC is candidly addressing these issues and taking the necessary measures, both procedural and practical HR measures, as we are aware that this is the only way to alleviate doubt and restore the stakeholders' trust in BAMC. This will allow us to rebuild the company from within, while increasing the external stakeholders' trust in our professionalism and transparency: both the owner, the taxpayers, and the investor and professional public. This is also how we understand our role in the context of the work of the Committee on investigation of abuse and inefficient conduct at BAMC.

Regardless of how intense BAMC's activities were in 2018, it should be noted that BAMC as an organization combines exceptional competencies from various fields of expertise, all dedicated to achieving our organization's ultimate goals. We should also not overlook BAMC's broader social impact. The quality of BAMC's work is reflected not only in its financial results, but also in the recognition of BAMC as a benchmark organization in the nascent NPL management industry. In recent years, BAMC representatives have been working with the most reputable European institutions to design a model for the European NPL management company. Slovenia set up an organization which now serves as an example to a number of other countries. The international professional public recognizes that despite having a highly complex task due to the extremely diverse nature of the transferred assets and the complex debtor structure, and despite being state-owned, BAMC is performing faster than most of its peer organizations from other countries. BAMC believes that we have made a significant contribution to the positive developments in the fields of banking operations, lending and corporate deleveraging in Slovenia.

I would also like to thank all our colleagues for their selfless dedication, as well as all current and former members of the Board of Directors for their valuable contributions to BAMC's success. I believe that the changes made will have a long-lasting effect on corporate governance and internal processes, and will contribute to BAMC's effectively realizing its goals and ultimately its broader social responsibility.

Matej Pirc
CEO

REPORT OF THE BOARD OF DIRECTORS FOR 2018

Under the second paragraph of Article 282 of the Companies Act (Official Gazette of the Republic of Slovenia No. 42/2006, as amended; hereinafter: ZGD-1), the Board of Directors of BAMC (hereinafter: the Board) hereby submits the report on the management of the company during the financial year 2018, the audit of the annual report for 2018, and its position on the auditor's report for 2018.

COMPOSITION OF THE BOARD OF THE BANK ASSETS MANAGEMENT COMPANY

ZUKSB[2] and the Articles of Association of BAMC stipulate that BAMC has a one-tier governance system, and that the Board consists of seven members, of which three are executive and four non-executive directors.

During 2018, BAMC did not operate with a full Board, until December, when two non-executive directors were appointed. As per the end of 2018 the structure of the Board was as follows:

- Tomaž Besek, non-executive director, Chairman of the Board,
- Mitja Križaj, non-executive director, Deputy Chairman of the Board,
- Marko Tišma, non-executive director,
- Juan Barba Silvela, non-executive director,
- Imre Balogh, CEO,
- Jože Jaklin, executive director,
- Andrej Prebil, executive director.

The functions of executive directors Janez Škrubej and Aleš Koršič and non-executive director Janez Širovnik ceased at the end of 2017. In order to appoint new executive directors, BAMC conducted an international selection process in 2017. On the basis of the procedure, the non-executive directors appointed Andrej Prebil as Executive Director of the Asset Management and Jože Jaklin as the Executive Director for Corporate Affairs. Their five-year term began on 1 January 2018.

On 7 December 2018, the Government, in the capacity of BAMC General Assembly, recalled dr. Miha Juhart in accordance with the fifth indent of the ninth paragraph of Article 8 of the ZUKSB. In December, the Government appointed two new non-executive directors, namely Tomaž Besek for the period from 8 December 2018 to 31 December 2022 and Marko Tišma for the period from 14 December 2018 to 31 December 2022.

On 19 December 2018, the Chief Executive Officer, Imre Balogh, announced his resignation to the Board of Directors, which took note of it on the same day. The non-executive directors concluded that the withdrawal would take effect on 27 January 2019. The non-executive directors appointed Matej Pirc as Acting Chief Executive Officer for a period of three months. On 25 April 2019, after an international selection process, the non-executive directors appointed Matej Pirc as the Chief Executive Officer of BAMC with the mandate from 29 April 2019 until 31 December 2022.

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

REPORT ON THE ACTIVITIES OF THE BOARD

In its activities, the Board was acting in accordance with the principles of transparency, adherence to the law and good professional conduct. The decisions of the Board contributed to the company's development in 2018, ensured the upgrading of basic business functions, regulated all areas of operations and oversaw the adoption of relevant policies.

During 2018 the Board held 12 regular meetings, one extraordinary and 24 per capsulam sessions and adopted 318 decisions. All Board members have proactively taken part in the decision-making process and monitored how Board decisions were being implemented, in accordance with the BAMC Board Rules of Procedure.

KEY MATTERS COVERED IN 2018

1) The Board spent a great deal of time on the preparation and review of the 2017 annual report. A final review of the annual report for 2017 and the auditor's report was undertaken by the Board at the meeting of the Board on 24 April 2018.

2) The Board took note of the status of the audit conducted by the Court of Audit, for which the decision with the objective to issue an opinion on regularity, economy and efficiency of BAMC's operations in years 2014 and 2015 was passed in January 2016. It was informed of the received draft, the course of the clarification meeting, proposal of the report and with the final report of the Court of Audit. The Board confirmed the objection to the draft report and the response report, which showed corrective measures in the light of the findings from the report of the Court of Audit. It also regularly monitored the activities of the working group established with the aim of preparing responses to the findings, corrective measures and recommendations of the Court of Audit.

3) The Board took note on 19 December 2018 that the Chief Executive Officer, Imre Balogh, announced his. On the same day at its 122th session, the Board appointed a Nomination Committee to oversee the process of selecting the new executive director. The committee was composed of the following members: Mr Tomaž Besek as chairman, Mr Mitja Križaj and Ms Irena Prijović, as members of the Nomination Committee, the latter being an independent expert, with the task of selecting the Chief Executive Officer of BAMC. The international selection process was conducted in a transparent, competitive, fair and confidential manner and in accordance with best business practice in the field of human resources.

4) The Board paid special attention to the case of the sale of real estate KLI Logatec. Members of the Board were acquainted with the findings of the investigation and the activities for improvements in internal controls. More on the case can be found in the significant events section (page 34).

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

- presentation of organizational units,
- monitoring of the course of audit of the Court of Audit,
- adoption of a Financial plan 2018-2022,
- reviewing of quarterly and half-year business reports,
- adoption of internal audit plan,
- strengthening of internal control system based on recommendations of internal audit, and
- reviewing and amending internal policies.

In May 2018 the Board performed a self-evaluation of its effectiveness. The average score of all answers combined was 3,41 on a four-level scale. With certain exceptions, the scoring was roughly unified among Board members, meaning that there were no significant discrepancies in individual assessments. This shows that the members had a good understanding of the questions and indicates a relatively unified scoring of the operations of the Board.

Work of the Board's Committees

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

Audit Committee

Audit Committee was in the following setting in 2018, except for the last meeting, Mitja Križaj as Chairman, dr. Miha Juhart as member and Tamara Jerman as an independent external member. After the recall, dr. Juhart as Chairman of the Board, the Audit Committee met at the last regular session of the year without him.

The Audit Committee met on 13 regular meetings and held two correspondent meetings in 2018.

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

- Monitoring of the accounting policies and assessments including any changes to them, especially implementation of financial reporting according to requirements of IFRS 9, monitoring of the financial reporting procedures, supervising of the integrity of BAMC financial information and evaluation of the information disclosed in the semi-annual and annual report.
- Monitoring of the statutory audit of financial statements and cooperation with the selected external auditor on the audit of the BAMC annual report, supervision of his independence through inquires to the audit team and obtaining and reviewing of their written statement on independence. In connection with this, the Audit Committee also adopted guidelines for the selection of the auditor of the financial statements at the regular June meeting, the supervision of its independence and the quality of the work performed.
- Regular reviews of all reporting to various external supervisory institutions (Commission for Prevention of Corruption, Ministry of Finance, various Parliamentary bodies of the RS, National

Investigations Bureau and others) as well as all other regulatory reporting requirements (Securities Market Agency, Financial Administration of the Republic of Slovenia and others).

- The updates and status reports about the audit of Court of Audit were presented regularly, for which the decision with the objective to issue an opinion on regularity, economy and efficiency of BAMC's operations in years 2014 and 2015. The Committee also took note of the draft, proposal and final report of the Court of Audit. It also regularly monitored the activities of the working group established with the aim of preparing responses to the findings and recommendations of the Court of Audit. The Committee with its comments and suggestions helped to improve prepared proposals for improvements in BAMC's internal processes and procedures.
- Regular reviews of the efficiency and effectiveness of BAMC's system of internal controls, compliance, internal auditing, risk management and corporate security, through regular meetings with responsible heads of mentioned functions and implementation and monitoring of their regular periodic reports on their activities and findings.
- Among other the Committee followed the progress of implementation of processes and procedures based on European »GDPR« regulations. In addition the Committee monitored the progress of preparation of reports n closed cases, development of the back office in the department of real-estate management, implementation of the »whistleblowing« line, separation of duties between the three function with direct reporting line to the Board of Directors and monitored the changes in key BAMC's internal regulations.

Following the Committee's initiative, BAMC renewed risk management policy and the system of risk management. Significant improvements and upgrades were introduced also to the risk register. The Committee, with its comments and suggestions, meaningfully contributed to the whole process.

After the outbreak of the affair related to the sale of real estate KLI Logatec, the Committee took note of the findings of the investigation. Following the induction of the working group with the task of preparing suggestions for improvements in the system of BAMC's internal controls, processes and procedures the Committee regularly monitored the progress of the working group and helped with its recommendations and suggestions.

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

In January 2019, the Audit Committee took note of the findings of the Special Audit on the Management of Individual Business of BAMC - Lot 3, which examined, in particular, the areas of independence, planning and reporting, and monitoring the internal audit recommendations.

ACCREDITATION COMMITTEE

In 2018 the Committee consisted of the following members Jože Jaklin, Andrej Prebil and Tomaž Besek as members and Sonja Šmuc as an independent external member, as vice chairman of the committee. Jože Jaklin and Andrej Prebil were appointed as members on 5 February 2018, dr. Miha Juhart on 22 March 2018. In April, the accreditation committee confirmed dr. Miha Juhart as Chairman. Dr. Miha Juhart ceased to be a member of the committee, when he was recalled as non-executive director in December. In January 2019, the Accreditation Commission approved Tomaž Besek as the Chairman.

The Accreditation Committee continued with its core activities in 2018. BAMC recruits possible candidates both among its employees and among professionals with previous proven experience in corporate governance and industry expertise.

The Accreditation Committee met on four regular meetings and one correspondent meeting in 2018 and approved as appropriate five candidates for the supervisory board positions in three different companies. The Board has approved all of the proposed candidates.

REMUNERATION COMMITTEE

In 2018 the Committee consisted of the following members: Mitja Križaj, Irena Prijović, and Juan Barba Silvela. Mitja Križaj was appointed to the commission on 22 March 2018. In spring 2018, Sergeja Slapničar resigned as a member of the commission. At its April 2018 session, the Board appointed a new member, Irena Prijović, who took part in his work in September 2018.

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

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

The Remuneration Committee met on nine regular meetings in 2018.

Board Credit and Investment Committee

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

Until December 2018 dr. Miha Juhart was the president of Board Credit and Investment Committee. The Board then appointed Tomaž Besek as the Chairman of the BCIC, since dr. Miha Juhart was recalled. Mitja Križaj was appointed as the Vice-chairman of the BCIC.

Board Credit and Investment Committee and Executive Credit and Investment Committee have met on a weekly basis in 2018 and have adopted 692 (ECIC) and given consent to 312 (BCIC) credit and investment decisions.

Evaluation of the work of the Board

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

Review of the annual report

Following the Audit Committee review, the Board discussed the proposed annual report during its sessions of 24 April 2019, 28 May 2019 and 12 July 2019. The certified auditor presented the audit observations during the Audit Committee meetings of 23 April 2019 and 24 May 2019, delivering the final report on 8 July 2019. The Audit Committee reviewed the annual report with the auditor's opinion on its session of 10 July 2019.

The Board has reviewed the BAMC annual report and concluded that it is in compliance with the company's Articles of Association, and the ZUKSB-A. The Board confirms that the financial statements, prepared in accordance with ZUKSB-A Article 4 (3) & (5), present fairly, in all material respects, the financial position of BAMC and of the outcomes of its operations for the period from 1 January 2018 to 31 December 2018.

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

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

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

Information on the certified auditor's report

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

The Board has taken note of the unqualified opinion from the certified auditor dated 8 July 2019 and established that the auditor's report confirms that the financial statements for the year ended 31 December 2018 are prepared, in all material respects, in accordance with the accounting requirements of ZUSKB-A.

PRESENTATION OF BAMC

TABLE 3: BASIC COMPANY DATA ON 4 JULY 2019

Full company name	Družba za upravljanje terjatev bank, d. d. (Eng. Bank Assets Management Company)
Short company name	DUTB, d. d. (Eng. 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 4 July 2019	Tomaž Besek, Chairman of the Board	31 December 2022
	Mitja Križaj, Deputy Chairman of the Board	28 January 2022
	Marko Tišma	31 December 2022
	Aleksander Lozej	31 December 2022
Executive directors as at 4 July 2019	Matej Pirc, CEO	31 December 2022
	Bojan Gantar	31 December 2022
	Andraž Grum	31 December 2022

NOTE: On 6 December 2018 the Government acting in the capacity of the BAMC General Meeting, recalled Miha Juhart from his position as non-executive director as at 7 December 2018 and appointed Tomaž Besek to the position of non-executive director with his term beginning on 8 December 2018.

On 13 December 2018 the Government, acting in the capacity of the BAMC General Meeting, appointed Marko Tišma to the position of non-executive director with his term beginning on 14 December 2018.

On 19 December 2018 Imre Balogh resigned as Chief Executive Officer with his resignation coming into effect on 27 January 2019. Matej Pirc was appointed as acting CEO from 28 January 2019 for a period of three months.

On 26 March 2019 Andrej Prebil resigned from his position as executive director, the resignation being effective on 31 March 2019.

On 31 March 2019 Juan Barba Silvela requested to be recalled as non-executive director. The Government, acting in the capacity of BAMC General Meeting, took note of the recall request on 20 June 2019 and recalled him from the position of non-executive director.

On 16 April 2019 the non-executive directors recalled Jože Jaklin from his position as executive director.

On 25 April 2019 the non-executive directors appointed Matej Pirc as the Chief Executive Officer of BAMC with the mandate from 29 April 2019 until 31 December 2022.

On 7 May 2019 the non-executive directors appointed Andraž Grum and Bojan Gantar as executive directors with their mandate lasting from 27 May 2019 until 31 December 2022.

On 20 June 2019 the Government, acting in the capacity of the BAMC General Meeting, appointed Aleksander Lozej to the position of non-executive director with his mandate lasting from 21 June 2019 to 31 December 2022.

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 five permanent committees: the Audit Committee, the Accreditation Committee, the Remuneration Committee, Committee on Corporate Security and Compliance and the Board Credit and Investment Committee. For the Audit, Remuneration and Accreditation committees, the committee members comprise of non-executive directors and one external member with the relevant professional experience in Slovenia. Board Credit and Investment Committee is composed of all members of the Board of Directors. Committee on Corporate Security and Compliance consists of Executive Directors, Non-Executive Director, Corporate Security Expert and Head of OU Compliance. 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 is supporting the work of the executive directors and this committee's reports are a standing item in each of BAMC's Board meetings. Organizational unit Compliance and Corporate Security are responsible for running the Corporate Security and Compliance Committee, which deals with issues related to the scope of activities of those units. The two units also report to the Board, ensuring independent oversight of the activities of BAMC over all operative levels.

The Board established the Executive Credit and Investment Committee and the Operative Credit and Investment Committee to decide on claims owned or managed by BAMC. The Board also established the Board Credit and Investment Committee in respect to just give consent to the decisions/proposals of Executive Credit and Investment Committee if necessary. With such a decision-making committee structure responsibilities are clear with more responsibility delegated to operative level while even strengthening the depth of decision-making and control on high volume/high impact cases on the executive level.

NON-EXECUTIVE DIRECTORS AS AT 31 DECEMBER 2018

Tomaž Besek, Chairman of the Board of Directors, began his position as non-executive director at the BAMC on 8 December 2018. He holds a bachelor's degree in electrical and computer engineering. He has more than 20 years of managerial experience at commercial organizations, where he developed in-depth knowledge and experience in the areas of strategic and operational management, finance and the formulation of business solutions. Mr Besek began his career as a lecturer at the Jožef Stefan Institute, and continued at the company Gambit Trade as department head, advisor and project manager. He also served as the company's deputy director for four years. He then served as assistant executive director at the company SRC.SI, where he was head of the commercial sector and primarily focused on the formulation of that sector's development strategy. In 2007, Mr Besek established a company for comprehensive information management, 360ECM, d. o. o., where he serves as director. His primary responsibilities are for the company's financial and legal operations, and consultancy services for large customers. Mr Besek is completing his master's studies at the Faculty of Economics in Ljubljana. In addition to his supervisory function at an educational institution, he serves as the chairman of the supervisory board of the company Velika Planina.

Mitja Križaj, Deputy Chairman of the Board of Directors, non-executive director since 28 January 2017, holds a bachelor's degree in economics and has over 22 years of managerial experience in banking and finance, real estate and asset management operations, as well as corporate management of companies dealing with restructuring and turnaround situations as well as banks and other financial organizations. He is currently employed in the consulting and investment company Fundament, d. o. o., which provides business and financial consultancy, real estate management, and investment consultancy. Prior to his current position, he served as a director of Hypo Leasing, d. o. o., later Heta Asset Resolution, d. o. o., who was directly responsible for restructuring and managing nonperforming and nonstrategic assets of Hypo Alpe Adria group in Slovenia. He was also the chairman of the management board of Triglav Nepremičnine, d. d., a member of Zavarovalnica Triglav, d. d., and in his early years he was professionally involved in Bank Austria Creditanstalt and Hypo Alpe Adria. He is currently a member of the supervisory board and chairman of the audit committee of Slovenske železnice, d. o. o and a member of the supervisory board of SIJ - Slovenska industrija jekla, d. d.

Juan Barba Silvela has over 20 years of experience in the field of real estate and finance. In September 2014 he was appointed partner & executive director of the real estate fund Meridia Capital. Prior to that, he was first Real Estate Director and later Head of Transactions in Spanish asset management company Sareb. He gained his professional and management experience in companies such as Doughty Hanson, Aareal Bank AG, Principal Financial Group and Arthur Andersen Real Estate. For the past 19 years he has been a professor of Real Estate Finance in the Real Estate Master Program of the Instituto de Empresa in Madrid. He holds a degree in business administration and a degree in law from the Pontificia Comillas University.

Marko Tišma holds a bachelor's degree in Economics and was appointed to the post of non-executive director on 14 December 2018. In his professional career of over 25 years, he has accumulated knowledge and experience in management and finance, mostly in top or middle management positions in different companies, either as chairman of the management board, managing director or department manager in various fields, where he managed the work process and teams, which sometimes consisted of over 200 employees. He began his career path in the company Zdravilišče Rogaška, d. d., where he soon joined the executive staff. He headed the business consultancy in the company Hosting, d. o. o. and worked in the area of equity management at KBM INFOND. He served as director of marketing and corporate communications at NKBM, and as the executive director of the company ČZP Večer, d. o. o.. As former liquidation and bankruptcy trustee and current member of the supervisory boards of Terme Olimia, d. d. and SID Banka, d. d., where he serves as vice chairman, he is very knowledgeable about all the corporate functions in various companies.

On 31 March 2019 Juan Barba Silvela requested to be recalled as non-executive director. The Government, acting in the capacity of BAMC General Meeting, took note of the recall request on 20 June 2019 and recalled him from the position of non-executive director.

On 20 June 2019 the Government, acting in the capacity of the BAMC General Meeting, appointed Aleksander Lozej to the position of non-executive director with his mandate lasting from 21 June 2019 to 31 December 2022.

Aleksander Lozej took office as non-executive director on 21 June 2019. He holds a Bachelor's degree in Laws and a Master's degree in General Management. He has served in executive positions in both the public and private sector, and his background is mostly in the banking sector, as he served nine years as a member of the management board of Intesa Sanpaolo, d. d. Prior to this, he served as advisor to the management board of Banka Koper, d. d., director of Finor, d. o. o., and the director of the Institute of Urban Planning, Housing and Construction Affairs at the Municipality of Izola. Over the course of his 30-year career, he has developed a wealth of knowledge in management, human resources and operational organization, risk management, corporate governance, financial transactions and change management. Aleksander Lozej is an expert member of the supervisory board with a license from the Association of Supervisory Board Members, and also served as both member and chairman of supervisory boards of different companies. He also passed the national bar exam.

EXECUTIVE DIRECTORS AS AT 31 DECEMBER 2018

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

Andrej Prebil, Executive Director for asset management, holds a bachelor's degree in economics. Prior to his arrival at BAMC, he spent 15 years working in tourism, 12 of which he served in executive positions, acquiring extensive professional knowledge and experience in strategic and operational management, finance and controlling, risk management and operational and financial restructuring. Most recently, he served as chairman of the management board of Hoteli Bernardin, d. d., and before that as chairman of the management board of Sava Turizem, d. d. (2011-2016) and director of Hotel

Lev (2004-2011). In the latter, he oversaw implementation of a complex crisis management process, as well as operational and financial restructuring. In 2008-2011, he was responsible for strategic finance and controlling within the tourism division of ACH. Prior to this, he served as the assistant to the director for finance and controlling at Grand Hotel Union, and he started his professional career as an analyst, planner and controller of financial operations at Grand Hotel Union. As member of supervisory boards he obtained in-depth knowledge in monitoring and supervising the management of equity, investments and real estate. He is currently the chairman of the supervisory board of Eles, d. o. o. He is also active in the tourism industry as the president of the Tourism and Hospitality Chamber of Slovenia and member of the STO council.

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

On 19 December 2018 Imre Balogh resigned as Chief Executive Officer with his resignation coming into effect on 27 January 2019. Matej Pirc was appointed as acting CEO from 28 January 2019 for a period of three months.

On 26 March 2019 Andrej Prebil resigned from his position as executive director, the resignation being effective on 31 March 2019.

On 16 April 2019 the non-executive directors recalled Jože Jaklin from his position as executive director.

On 25 April 2019 the non-executive directors appointed Matej Pirc as the Chief Executive Officer of BAMC with the mandate from 29 April 2019 until 31 December 2022.

On 7 May 2019 the non-executive directors appointed Andraž Grum and Bojan Gantar as executive directors with their mandate lasting from 27 May 2019 until 31 December 2022.

Matej Pirc took on the role of CEO of BAMC on 29 April 2019, after having served as acting CEO for three months and CFO for one-and-a-half years. He holds a bachelor's degree in economics and has over 10 years of experience in management positions, both in privately-owned and state-owned companies. He developed his qualifications in Finance & Accounting, Controlling, Investment, R&D, IT, HR, Legal, Liquidity and Financial Risk Management. He graduated from the University of Ljubljana, Faculty of Economics. He spent a number of years working in executive positions in Mercator Group, both in the principal company and its subsidiaries in Slovenia and abroad. He was a management board of Slovenska odškodninska družba, d. d. and later the Slovenian Sovereign Holding. In April 2014, he became the chairman of the management board of the Slovenian Sovereign Holding, where he was responsible for corporate restructuring, asset management, and finance. Prior to his employment at BAMC, he served as one of the directors at the international consulting firm A.T. Kearney, d. o. o., where he was responsible for corporate governance projects, for infrastructural projects and for M&A projects.

Bojan Gantar, responsible for credit and equity operations, took over as BAMC's executive director as of 27 May 2019. He has held a number of executive positions over the course of his 20-year career. He holds a bachelor's degree in engineering, as well as an MBA title. He began his career as a technology project manager in Hidria Rotomatika, d. o. o.. Over the course of his career serving in a number of companies, he has attained a wealth of expertise and experience, particularly in strategic planning and corporate governance, financial and operational restructuring and business process optimization. Over the course of his 16-year career with Hidria, he served as the head of technical engineering, director of the business unit and the CEO, followed by a 2-year term as a member of the management board of Trimo, d. o. o.. Prior to his appointment as BAMC's executive director, he served as the CEO of Alpina, d. o. o., where he managed and oversaw all key processes in Alpina Group and steered its financial and operational restructuring efforts.

Dr. **Andraž Grum**, executive director of BAMC, responsible for business analytics, legal matters, procurement, finance, accounting, controlling and IT, commenced his term on 27 May 2019. He has a 20-year executive background in various companies, mostly financial enterprises. He holds a PhD in Economic Science. Over the course of his career he has attained a wealth of experience and knowledge in financial analytics, asset valuation, corporate finance, distressed asset management, risk management, investment management and corporate governance. He began his career in Abanka's capital markets analysis and portfolio management function. At Triglav Funds, he was responsible for managing mutual fund assets. He continued his career in companies such as Vipa Holding, d. d., Deželna banka Slovenije, d. d. and DBS Nepremičnine, d. o. o.. He has also served as supervisory board member of a number of companies and financial institutions. He holds a stockbrokerage and asset manager license, as well as an insurance brokerage license.

NORMATIVE FRAMEWORK

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

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

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

Operations in individual areas are also defined by internal bylaws adopted or refined by the Board. In 2018 six new internal bylaws and 48 amendments to internal bylaws were approved by the Board. The most important among them were:

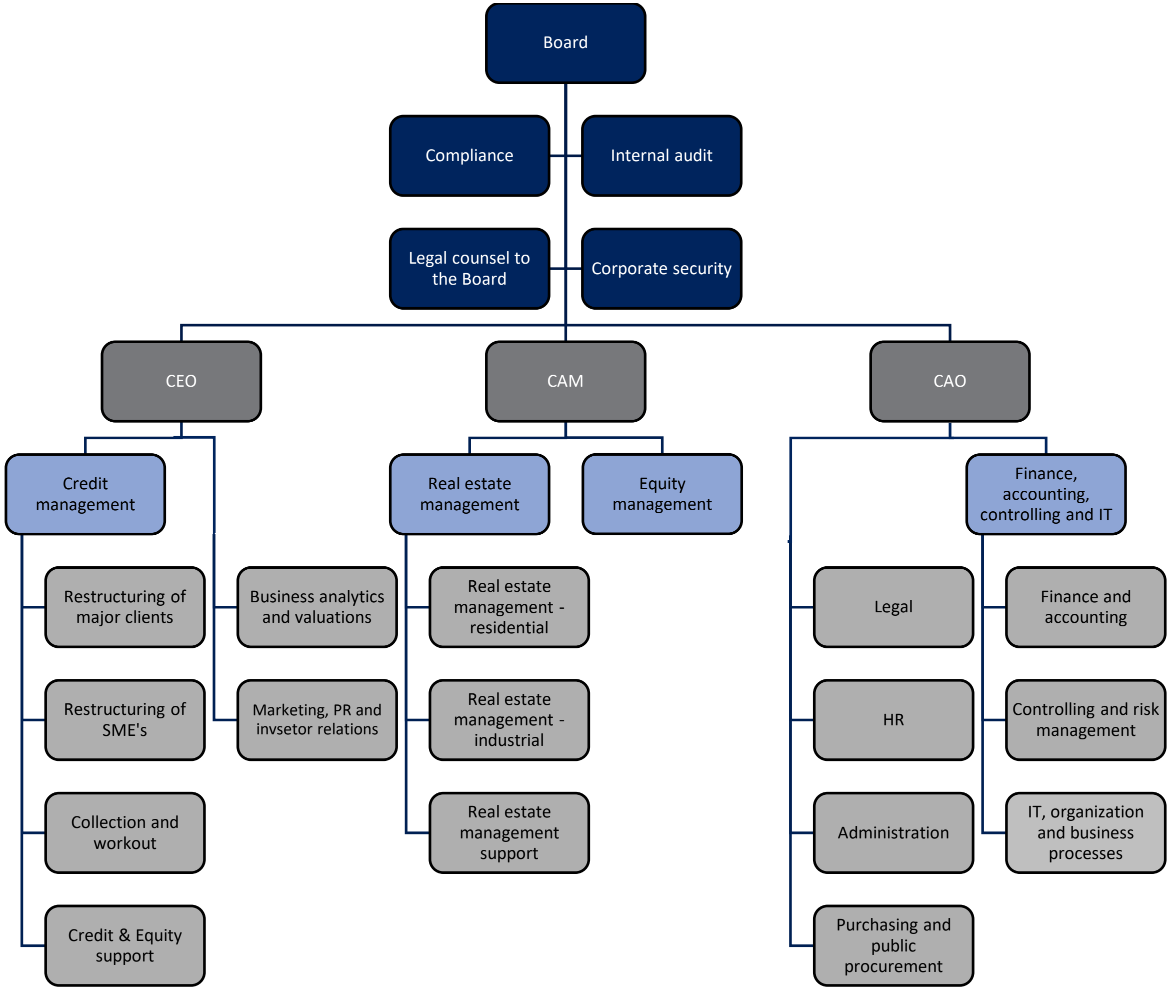
- Process and decision-making powers of the committees,
- Investment policy on the management of liquidity reserves,
- Sale of claims – rules and procedures,
- Remarketing of real estate – rules and procedures,
- Sale of equity – rules and procedures and
- Valuation Policy.

ORGANISATIONAL STRUCTURE

BAMC's portfolio structure has changed significantly with the merger of Factor banka and Probanka in 2016. Changes in internal organization were therefore crucial in order to manage assets in the most efficient and effective way, including horizontal controls built into the processes by a clear segregation of duties between case/real estate/equity management, financial analysis and valuation verification, mid-office and legal support.

Corporate defence lines were strengthened by enhanced functions of internal audit, compliance and anti-money laundering and corporate security, all reporting to the Board. The internal organization, also fully corresponds to the amendments of ZUKSB regarding restricted role of non-executive directors, distinction of functions, and powers of BAMC.

Figure 8: Organisational structure



Note: Organisational structure as at 31 December 2018.

ORIGIN OF ASSETS

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

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

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

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

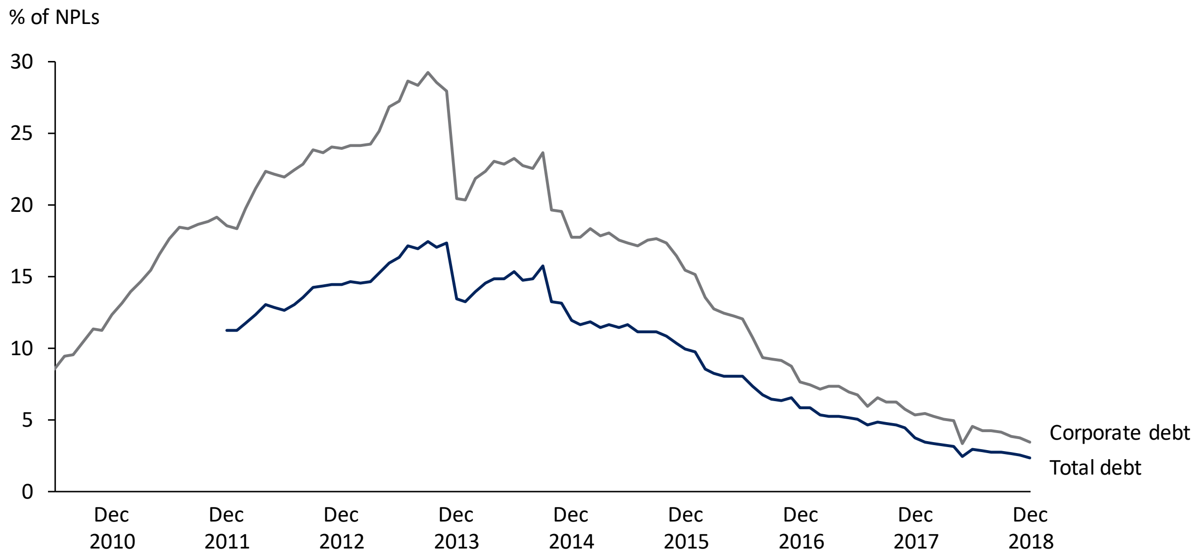
In order to complement its exposures to certain debtors, in 2014 BAMC purchased claims (loans) totalling €172,9 million from Factor banka and Probanka in the amount of €38,6 million in arm's length transactions at negotiated prices.

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

STATUS OF NPLS IN SLOVENIA

The share of NPLs in the Slovenian banking sector is continuously decreasing from its peak at 18,1% (28,0% for corporate debt) in late 2013, just before the transfers of first assets to BAMC. At the end of 2018 total claims over 90 days in arrears amounted to €0,8 billion (share of 2,3%) with NPLs' share in corporate debt (making up just over a half of total in value) at 3,4%. Industry-wise, the share of NPLs was still the highest in construction industry (13,7%), followed by financial intermediaries (10,5%). Apart from the latter, all other industries have undergone at least a 20% reduction in the share of NPLs during 2018.[3]

FIGURE 9: MOVEMENT OF THE SHARE OF NPLS IN THE SLOVENIAN BANKING SECTOR



NOTE: NPLs as claims overdue over 90 days.
SOURCE: Banka Slovenije: Mesečna informacija o poslovanju bank, August 2010 – March 2019. Total debt % data not available prior to December 2011.

[3] All data and calculations (except for 2013) from Mesečna informacija o poslovanju bank, March 2019.

BUSINESS REPORT

CORPORATE GOVERNANCE STATEMENT

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

STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The BAMC's Board of Directors hereby declares that it complied with the Corporate Governance Code, as amended on 27 October 2016, to the maximum extent possible in 2018, with the exception of specific provisions based on BAMC's unique status (its sole shareholder being the Slovenian government), provisions that are governed by the law (ZUKSB) and provisions that the company has otherwise adopted in its Articles of Association and bylaws, as well as provisions of the Code in cases where non-binding actions are not specified in its bylaws or where specific actions are not defined as legal obligations.

In 2018 BAMC also complied with the Corporate Governance Policy of BAMC adopted by the Board on 20 February 2015 and amended on 29 November 2016.

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

INFORMATION REGARDING THE FUNCTIONING AND KEY COMPETENCES OF THE COMPANY'S GENERAL MEETING AND DESCRIPTION OF SHAREHOLDER RIGHTS[4]

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

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

[4] Information regarding the functioning and key competences of the company's General Meeting and description of shareholder rights relate to ZUKSB and Articles of Association valid in 2018.

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

GENERAL MEETING

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

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

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

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

The General Meeting was convened nine times in 2018.

Information regarding the composition and activities of management or supervisory bodies and the committees thereof[5]

Board of Directors of BAMC

BAMC's Board comprises seven members, four of whom are non-executive directors[6] and three of whom are executive directors[7]. The non-executive directors are appointed and recalled by the Government, where three non-executive directors are proposed by the ministry responsible for finance and one is proposed by the ministry responsible for the economy. Executive directors are selected on the basis of a public call for applications. Executive directors are appointed and dismissed by the non-executive directors. With the recall of the executive director shall cease his/her membership in the Board. Each member of the Board is appointed individually. Members of the Board who are not executive directors, shall have the powers of the Supervisory Board according to the law governing commercial companies and shall not manage BAMC.

Some members of the Board are appointed for the period of five years and some until 31 December 2022. Executive directors serve on a full-time basis as employees of BAMC.

[5] Information regarding key competences of the Board relate to ZUKSB and Articles of Association valid in 2018.

[6] The term of office of the non-executive Director Janez Širovnik expired on 31 December 2017.

On 6 December 2018 the Government appointed Tomaž Besek as non-executive director for the period from 8 December 2018 to 31 December 2022, and on 13 December 2018, the Government appointed Marko Tišma, for the non-executive director for the period from 14 December 2018 to 31 December 2022.

On 31 March 2019 Juan Barba Silvela requested to be recalled as non-executive director. The Government, acting in the capacity of BAMC General Meeting, took note of the recall request on 20 June 2019 and recalled him from the position of non-executive director.

On 20 June 2019 the Government, acting in the capacity of the BAMC General Meeting, appointed Aleksander Lozej to the position of non-executive director with his mandate lasting from 21 June 2019 to 31 December 2022.

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

On 19 December 2018, the Chief Executive Officer, Imre Balogh, announced his resignation to the Board of Directors, which took note of it on the same day. The non-executive directors concluded that the withdrawal would take effect on 27 January 2019. The non-executive directors appointed Matej Pirc as Acting Chief Executive Officer for a period of three months.

On 26 March 2019 Andrej Prebil resigned from his position as executive director, the resignation being effective on 31 March 2019.

On 16 April 2019 the non-executive directors recalled Jože Jaklin from his position as executive director.

On 25 April 2019 the non-executive directors appointed Matej Pirc as the Chief Executive Officer of BAMC with the mandate from 29 April 2019 until 31 December 2022.

On 7 May 2019 the non-executive directors appointed Andraž Grum and Bojan Gantar as executive directors with their mandate lasting from 27 May 2019 until 31 December 2022.

The main competences of the Board include:

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

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

Executive directors are competent and responsible for the following:

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

BOARD COMMITTEES

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

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

AUDIT COMMITTEE

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

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

The Board mandated the AC to:

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

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

REMUNERATION COMMITTEE

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

The Committee has at least three members, appointed by the Board:

- two non-executive directors of BAMC, and
- external member(s), who is/are expert(s) in management performance evaluation and remuneration outside of BAMC.

ACCREDITATION COMMITTEE

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

The Committee has at least three members appointed by the Board.

COMMITTEE ON CORPORATE SECURITY AND COMPLIANCE

The Committee guarantees that the most important subjects and violations relating to Corporate security, Compliance and Human Resources, are evaluated in even closer detail. The Committee reviews and passes decisions on matters related to the Rules on the Employee Accountability in regards to Corporate Integrity Violations. It shall inform the Audit Committee and the Management Board of its findings and proposals.

The Committee shall have the following members:

- one non-executive director, appointed by decision of the Board,
- three executive directors,
- Corporate Security Expert and
- Compliance Officer.

THE BOARD CREDIT AND INVESTMENT COMMITTEES

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

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

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

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

Key features of the company's internal control and risk management systems in connection with the financial reporting process

Internal control mechanisms help the company achieve its objectives and are an integral part of the values and principles formulated by the management. They are applied in everyday operations in the form of policies, guidelines, processes, procedures and activities with the aim of managing risks within acceptable limits. All employees are involved in the internal control system, with specific groups of employees holding special roles and responsibilities. The Board promotes and monitors the functioning of the internal control system, while executive directors are responsible for developing and updating the internal control system. Operational managers formulate, implement and monitor internal controls in their areas of responsibility, while other employees carry out their responsibilities as agreed. A number of central registers for follow-up and reporting on functioning of specific controls are managed by compliance, internal audit and controlling and risk units. The internal control system is an integral part of all processes, while a transparent mechanism of control points facilitates regular reviews of processes and the assessment exposure to risks. The risk management and control mechanisms are presented in detail in the Risk management chapter (page 68).

External audit

BAMC's financial statements for 2018 were audited by KPMG Slovenija, d. o. o. As part of its audit of the financial statements, the external auditor reports its findings to the Board and the Audit Committee.

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

BAMC'S MISSION AND STRATEGIC GOALS

MISSION OF BAMC AS DEFINED IN THE GUIDELINES

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

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

BAMC BUSINESS STRATEGY 2019-2022

BAMC Business Strategy 2019-2022, adopted by the Board and approved by the Government in April 2019, is a key corporate document defining the following key objectives and strategic goals of BAMC:

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

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

Loans will constitute the bulk of BAMC's assets throughout its lifetime. However, as repayments and refinancing of debt of successfully restructured companies will reduce the share of restructuring cases in the portfolio, the active management of own (repossessed) and collateralised real estate gains importance over time. BAMC's own financing will closely follow the cash flows from managing its assets and will minimise financing costs through tight liquidity management. In accordance with ZUKSB the lifespan of BAMC is limited to the end of 2022.

For effective strategic planning, monitoring and reporting, the Government and BAMC have defined a set of Key Performance Indicators, i.e. KPIs, as presented in the financial overview section (page 59).

Significant events in 2018

After receiving the “Draft audit report on the regularity and efficiency of the operations of BAMC 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 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 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 and 11 recommendations.

BAMC submitted a response report in October 2018 on the elimination of disclosed irregularities or inefficiencies. The Court of Audit then tested the credibility of the response report and in March 2019 issued a post-audit report in which it found that all measures were not implemented satisfactorily, and therefore issued a call for action addressed to the Board of Directors. On the basis of the call BAMC prepared a report on the actions taken and submitted it to the Court of Audit. Therewith the respective audit of the Court of Audit is concluded.

In the autumn of 2017, BAMC sold a property formerly occupied by a KLI Logatec production facility to a real estate company SVET RE, d. o. o. After the first media report about the transaction was published in April 2018, BAMC immediately launched an internal inquiry in order to assess the situation in the sale process, and the case was presented at the Corporate security and compliance committee and the Board already in April 2018.

At its May 2018 meeting, the BAMC Board of Directors started procedures to obtain independent opinions on the criminal law implications, real estate valuation aspects, and a forensic investigation of the procedural aspects of the incident. Ernst & Young was contracted for the latter engagement. In November 2018, Ernst & Young delivered the forensic investigation report focusing on the sale of real estate in IC KLI Logatec. In the same month, the Board of Directors assembled a committee to properly address the findings from the report and to implement measures to be adopted by the Board of Directors. In the months to follow, the committee regularly reported to the Board of Directors.

Having reviewed the Ernst & Young report, the employees’ feedback on the report and several legal opinions, the committee determined that while BAMC employees were found in violation of employment obligations in a number of cases across the different stages of the process, having acted contrary to BAMC internal regulations, however these actions had no effect on the ultimate outcome of the sale. These violations involved departures from internal procedural regulations which had no effect on the final sale price. While BAMC could have enforced disciplinary sanctions against the employees involved, this was not possible due to the short statutes of limitations provided under the law. Disciplinary sanctions would only be possible if the actions of the employees involved were indicated in criminal activity, which was not the case in these incidents.

In terms of liability for damages, it was determined that the employees' actions affecting the price of the property and the sale process itself were carried out in accordance with BAMC's internal regulations. The outcome of the sale process was the sale of the entire IC KLI Logatec property to the companies SVET RE, d. o, o. and Hoedlmayr, d. o. o., at the price of €40/m^2, whereby BAMC achieved two goals: (i) the entire IC KLI Logatec property was sold; and (ii) the selling price was above BAMC's internal valuation. Based on the legal opinion, the committee decided that the BAMC employees involved are not liable for damages. Namely, even if they had followed the applicable internal rules regulating the sale process to the letter, it would not be possible to assume that the property would have received a higher valuation, or that it would have been sold at a higher price.

With the Board of Directors taking note of the committee's final report, the internal investigation of the KLI Logatec case was formally closed in May 2019. In case of further investigations of law enforcement institutions BAMC will actively cooperate with them also in the future.

BAMC adopted a number of measures based on the report delivered by Ernst & Young. It put particular emphasis on strengthening internal controls in the decision-making process as well as introducing additional checks prior to signing the sale contract. Mechanisms were put in place to allow for following-up on post-sales covenants, and proper audit trails were ensured for individual phases of the sales process, in addition to proper documentation archiving. Employees have been given clear instructions as to how to perform the KYC process in accordance with the Prevention of Money Laundering and Financing Of Terrorism Act (ZPPDFT-1), a decision was taken to review other procedures involving sales of land to intermediaries, and an independent review has been agreed, which will include a review of the design of internal controls and processes, and check for compliance with best practices and the COSO methodology in real estate.

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. The transfer of asset was realised after receiving the payment in October 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.

In September 2018 BAMC repaid €26,2 million of long-term loans according to the amortisation plans.

On 6 December 2018 the Government acting in the capacity of the BAMC General Meeting, recalled Miha Juhart from his position as non-executive director as at 7 December 2018 and appointed Tomaž Besek to the position of non-executive director with his term beginning on 8 December 2018.

On 13 December 2018 the Government, acting in the capacity of the BAMC General Meeting, appointed Marko Tišma to the position of non-executive director with his term beginning on 14 December 2018.

On 14 December 2018, the Government, acting as the BAMC General Meeting, took the decision that it is essential for implementing the Strategy for Sustainable Growth of Slovenian Tourism 2017-2021 that, due to the ongoing sales process involving the shares of Istrabenz turizem, d d., which were pledged as collateral to secure the claims BAMC holds against Istrabenz Holding, d d., BAMC does not conduct any market sales process involving the claims it holds against Istrabenz Holding, d. d. before the final conclusion of the sale of Istrabenz turizem, d. d. shares, as having two concurrent sales processes running would not ensure optimizing the price and maximizing the value of the assets concerned. The Government also updated the Guidelines, stipulating that BAMC must manage its assets in such a way that it follows the key guidelines provided in the Strategy for the Sustainable Growth of Slovenian Tourism 2017-2021, and that it also takes those guidelines into account in the performance of its activities.

In December 2018 BAMC repaid €41,2 million of long-term loans according to the amortisation plans.

On 19 December 2018 Imre Balogh resigned as Chief Executive Officer with his resignation coming into effect on 27 January 2019. Matej Pirc was appointed as acting CEO from 28 January 2019 for a period of three months.

EVENTS AFTER THE ACCOUNTING PERIOD

On 14 February 2019 the Government, acting as the General Meeting of BAMC, decided that BAMC stops the sale process of the Istrabenz Turizem, d. d. shares, pledged as collateral to secure the claims of BAMC against Istrabenz Holding, d. d., in keeping with the Master Restructuring Agreement and in keeping with the Strategy for Sustainable Growth of Slovenian Tourism 2017-2021. As a result, BAMC is to liquidate the collateral, in the form of pledged shares of Istrabenz Turizem, d. d., through out-of-court foreclosure on pledged collateral. On 19 February 2019 BAMC sent its debtor and other MRA signatories a letter, in which BAMC terminated the MRA and called for immediate repayment due to an Event of Default.

The pledging member made the execution of the transfer of shares contingent on the consent of other creditors of Istrabenz Holding, d. d. All other creditors demanded that the claims secured by a pledge of Istrabenz Turizem, d. d. shares are purchased collectively rather than individually. The process continued with negotiations with the creditors and buyouts of their claims, which was carried out in March and April 2019. In the interim, a valuation of Istrabenz Turizem, d. d. shares was carried out by a consensually appointed certified valuator, in accordance with the Financial Collateral Agreement.

On 15 April 2019, after buying out the claims from other creditors, BAMC became the owner of 908.413 shares of Istrabenz Turizem, d. d., representing 100% ownership stake in the company.

On 15 March 2019 BAMC repaid €26,2 million of long-term loans according to the amortisation plans.

On 26 March 2019 Andrej Prebil resigned from his position as executive director, the resignation being effective on 31 March 2019.

On 31 March 2019 Juan Barba Silvela requested to be recalled as non-executive director. The Government, acting in the capacity of BAMC General Meeting, took note of the recall request on 20 June 2019 and recalled him from the position of non-executive director.

On 16 April 2019 the non-executive directors recalled Jože Jaklin from his position as executive director.

On 18 April 2019 the Government set new Guidelines on the operations of BAMC with changes in the reporting, notification and giving consent in decisions of strategic importance, further strengthening supervision and transparency of its operations. Also, the Government acting in the capacity of the BAMC General Meeting, gave consent to the BAMC Business strategy 2019-2022, which was adopted by the Board of Directors in February 2019.

On 25 April 2019 the non-executive directors appointed Matej Pirc as the Chief Executive Officer of BAMC with the mandate from 29 April 2019 until 31 December 2022.

On 7 May 2019 the non-executive directors appointed Andraž Grum and Bojan Gantar as executive directors with their mandate lasting from 27 May 2019 until 31 December 2022.

On 13 June 2019 the Government, acting in the capacity of the BAMC General Meeting, decided that it is essential from the perspective of implementing the Resolution on the National Housing Program 2015–2025 that BAMC transfers the most suitable real estate assets to the Housing Fund of the Republic of Slovenia (SSRS). The transfer shall be done at the estimated market value calculated by an independent real estate valuator in accordance with the International Valuation Standards. The valuator will be selected jointly by BAMC and SSRS.

On 17 June 2019 BAMC repaid €41,2 million of long-term loans according to the amortisation plans. Next to that it also made an additional €15,0 million early repayment of its debt.

On 20 June 2019 the Government, acting in the capacity of the BAMC General Meeting, appointed Aleksander Lozej to the position of non-executive director with his mandate lasting from 21 June 2019 to 31 December 2022.

MANAGEMENT OF ASSETS

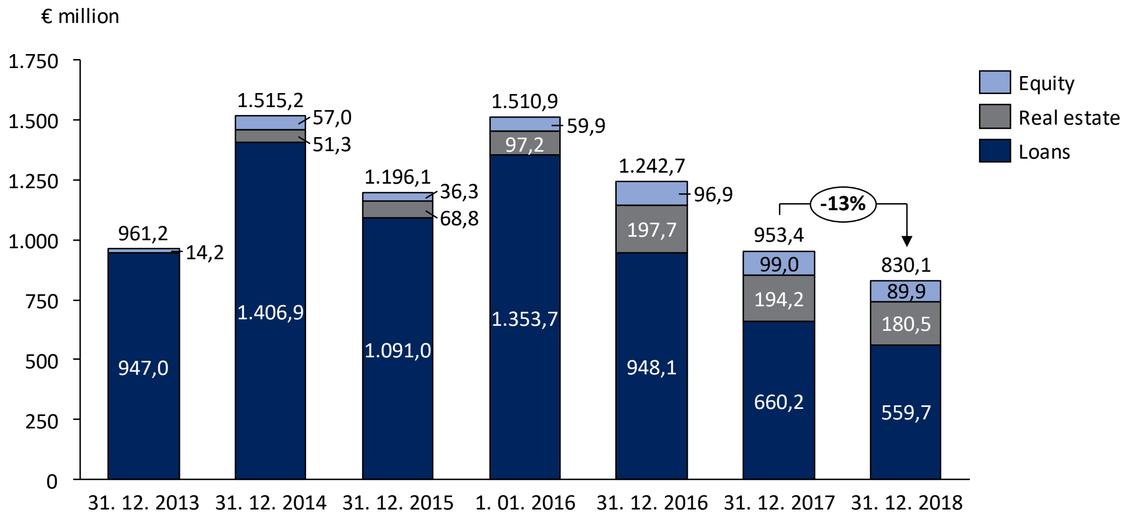
BAMC's assets are mostly managed individually, at the level of a claim towards a specific debtor, equity investment in a specific company or individual item of real estate. Where BAMC owns both claims and equity in the company, the maximization of enterprise value is targeted, applying different strategies.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

ALL ASSETS ARE AVAILABLE FOR SALE

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

As at 31 December 2018 BAMC had €830,1 million of assets at fair value under its management, a reduction of 13% compared to the previous year-end. The majority (67%) was represented by loan claims, followed by real estate (22%) and equity holdings (11%).

FIGURE 10: ASSETS UNDER MANAGEMENT



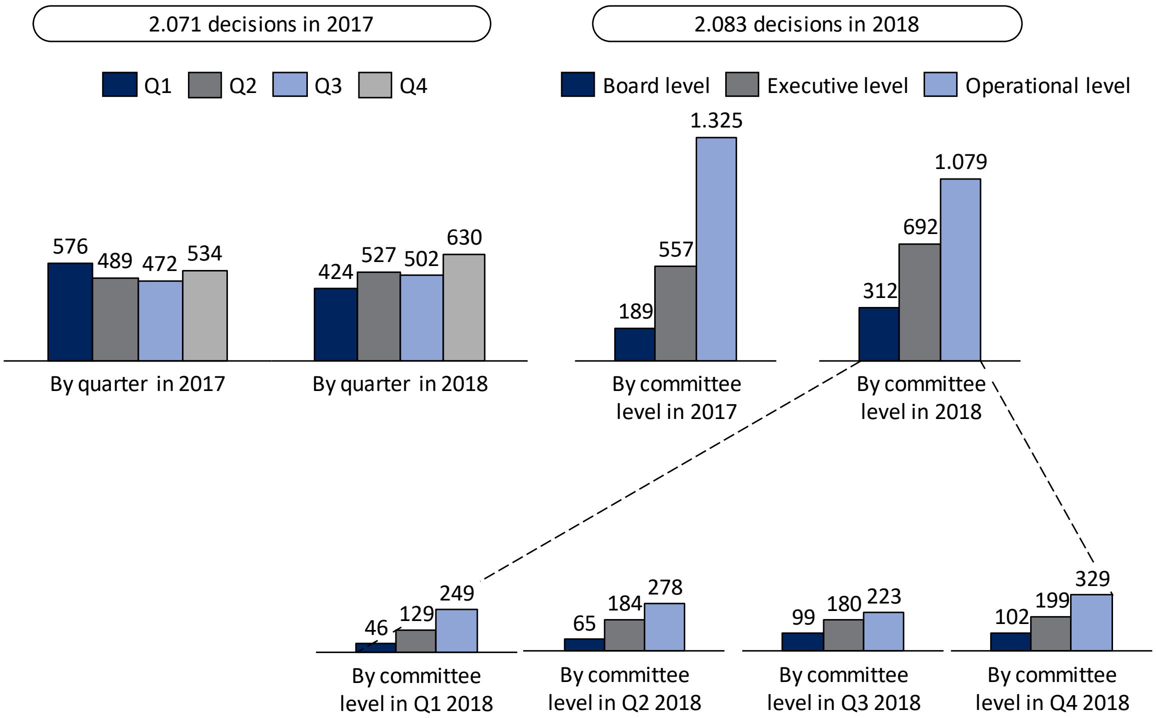
NOTE: 1 January 2016 displays the fair value of the portfolio at the merger of Factor banka and Probanka into BAMC. Since the merger BAMC also manages a minor leasing portfolio which is presented together with "Loans".

CREDIT AND INVESTMENT DECISIONS

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

Based on prepared action plans BAMC took 2.083 credit and investment decisions on operational, executive and board levels in 2018.

Figure 11: Breakdown of decisions taken

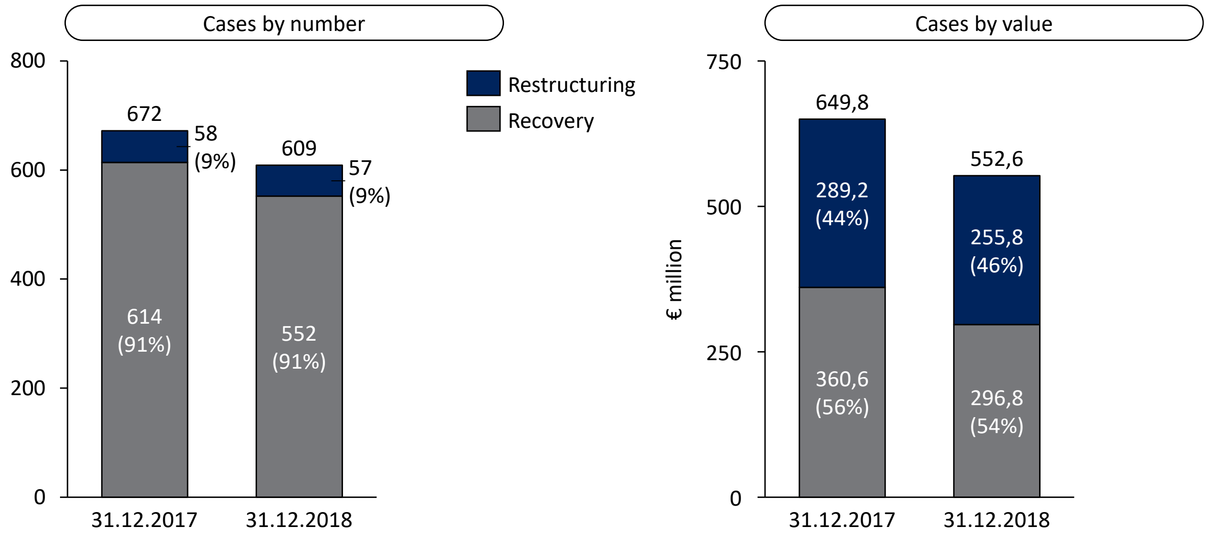


LOAN PORTFOLIO MANAGEMENT

BAMC manages debtors of various exposures in its loan portfolio. 516 cases with smaller exposures were valued on a group level and 609 debtors were valued individually. These larger cases are presented in more detail below.

Out of 609 individually valued claims at year-end 2018, 57 were having a predominant restructuring strategy and 552 cases a recovery one, for valuation purposes.[8] While the number of cases compared to the end of 2017 decreased by 9%, the value of the portfolio decreased by 15%, displaying a trend of faster liquidation of larger cases while a number of smaller-value cases remain in BAMC's portfolio. The presented loan cases' estimated fair value of €552,6 million corresponds to 15% of the total gross exposure of almost €3,7 billion.[9]

FIGURE 12: INDIVIDUALLY VALUATED CASES BY STRATEGY



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

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

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

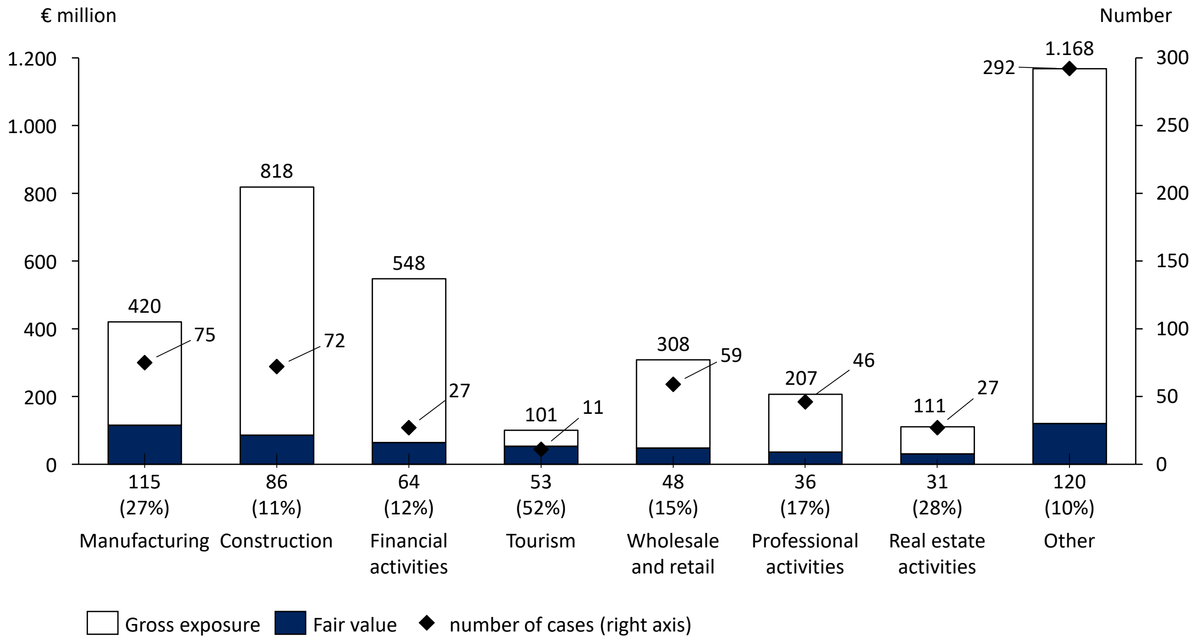
Note that BAMC may, conditioned on not worsening its creditor position, pursue a restructuring strategy also in cases termed as recovery for valuation purposes, see Progress in restructuring cases (page 4).

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

INDUSTRY CHARACTERISTICS

More than a fifth of all gross exposure is related to the construction industry, but in terms of fair value it is surpassed by the manufacturing industry with the latter accounting for more than a fifth of total loan portfolio fair value. The two are also represented with the highest number of debtors and are followed by financial activities and tourism with the latter estimated to hold more than 50% of value compared to gross exposure in a small number of cases.

FIGURE 13: LOAN GROSS EXPOSURE AND FAIR VALUE BY INDUSTRY



NOTE: Industry classification follows Standard Classification of Activities (2008). Industries are ranked by fair value. Those presenting a notable share in the portfolio are displayed separately while the remaining cases, including foreign ones, are grouped into the "Other" category.
It has to be noted that the main reason for the apparent deterioration in the ratio of net to gross exposure is BAMC's no partial write-off policy under which the whole remaining gross exposure of the case is being recorded until the end of all formal proceedings also in cases where there is no collateral or other repayment prospects left.

PURCHASES OF CLAIMS AND SHORT-TERM FINANCING

In 2018, following economically-sound analyses optimising its exposure and creditor positions, BAMC acquired additional claims towards three debtors in the value of €18,6 million (€60,3 million gross)[10] and provided justified shot-term loan financing towards seven companies in the value of €7,2 million.

[10] The majority of the value is related to the claims towards Istrabenz, d. d. which BAMC acquired in the process of consolidating its debtor position.

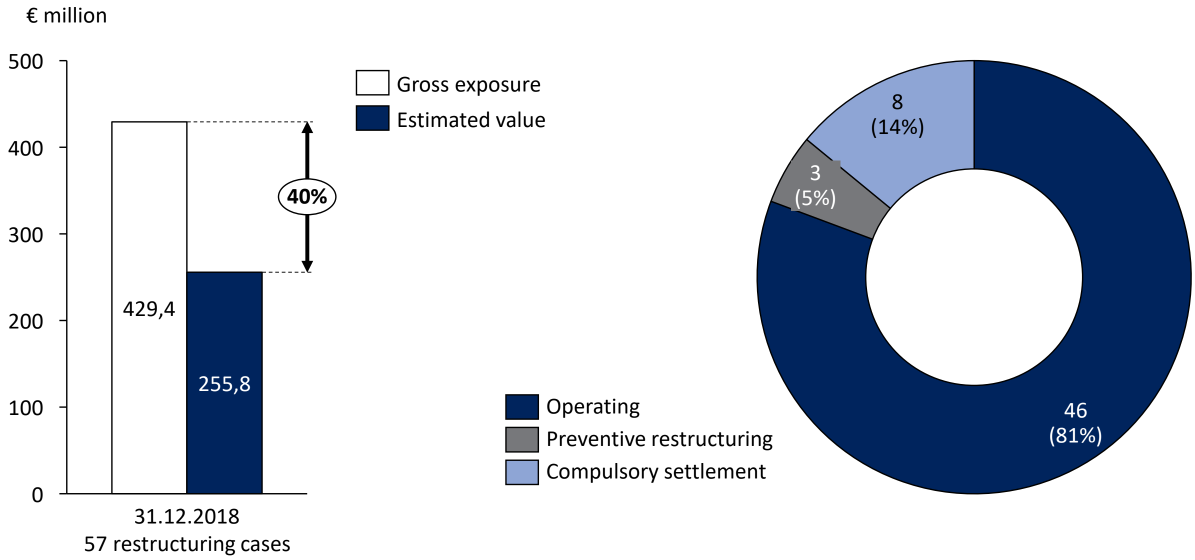
CORPORATE RESTRUCTURING

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 2018, BAMC evaluated 57 companies as restructuring cases for valuation purposes. With an outstanding gross debt to BAMC in the amount of €429,4 million, the estimated fair value of the aforementioned claims was €255,8 million. Thus, a portfolio value difference to gross claims of 40% 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 91%).

FIGURE 14: RESTRUCTURING CASES OVERVIEW

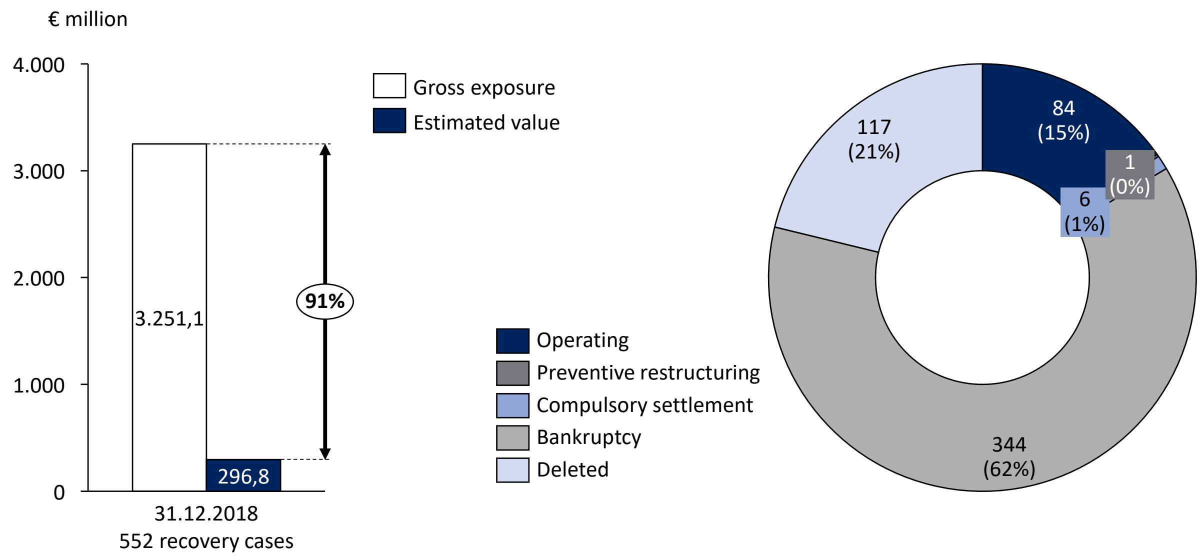


LOAN MANAGEMENT USING THE RECOVERY STRATEGY

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

At the end of 2018, BAMC was valuing 552 claims as recovery cases, against which it held €3,3 billion in gross claims, the fair value of which was estimated at €296,8 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 9% of gross exposure while this estimate amounted to 60% of gross exposure in restructurings.

FIGURE 15: RECOVERY CASES OVERVIEW



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

NOTABLE PROGRESS IN BOTH RESTRUCTURING AND RECOVERY CASES

Out of 131 cases with a pursued (effective) restructuring strategy, 57 (44%) were already closed by the end of 2018, 11 successfully completed in the last year (see Figure 5 for details). BAMC has also closed 44 recovery cases in 2018, bringing the total number of closed recovery cases to 122. Together with 138 cases in after-bankruptcy procedures (meaning that the bankruptcy proceedings of the original debtors have been completed) this represents 41% of all 630 individual recovery cases.

ISTRABENZ

The Istrabenz, d. d. (hereinafter: Istrabenz) exposures with a gross book value of €47,4 million were transferred from NLB, d. d, NKBM, d. d., Abanka Vipa, d. d. and Banka Celje, d. d., which made up 29,5% of all Istrabenz exposures. Under the MRA, Istrabenz's main task was to divest the remaining assets and repay their liabilities to the creditors. In 2015, in order to acquire a one-third share in the MRA which would give it greater influence in taking decisions, including in the context of consolidating the hospitality assets portfolio, BAMC began buying off claims from the other creditors. The goal was met with partial success, as BAMC successfully increased its share of claims to 42,9%, however the project of consolidating the hospitality assets portfolio was not successful. Namely, during the same period, BAML (Bank of America Merrill Lynch) was also buying off Istrabenz exposures and managed to acquire 34,2% of all exposures. At the time, the remaining minority creditors of Istrabenz refused to sell their exposures.

BAMC and the signatories of the MRA sought to maximize the repayment of liabilities by insisting on transparent divestment of the remaining assets of Istrabenz. The company failed to fulfil its MRA obligations at the end of 2017, when it was due to settle the €45,3 million instalment from Tranche A. At the request of most of the creditors, in 2017 the company began the process of selling its 100% share in the company Istrabenz turizem, d. d. (hereinafter: Istrabenz turizem), prompting most of the creditors to issue a waiver on the violation of financial liabilities and approved the extension of payment until 31 March 2018. In January 2018, SKB, d. d. began foreclosing on assets which were not pledged as security, therefore the debtor proposed a preventive restructuring process to be introduced, with support from the two largest creditors, BAMC and BAML. BAMC sent the remaining minority creditors an offer to buy off their claims in order to secure a controlling interest in the company Istrabenz turizem via the pledged shares. An agreement was reached and so BAMC was able to increase its share of exposures to 52,4%. At the same time, BAML purchased exposures from another creditor, increasing its own share of exposures to 41,4%.

Negotiations were underway with the company Istrabenz, which also introduced new milestones and the stipulation requiring a transparent divestment of the remaining assets with the final due date set at 31 December 2019, with support from all of the then-creditors except SKB, d. d. Over the course of the MRA negotiations process, BAMC received an offer from BAML to buy off all of its Istrabenz exposures, which was followed by further negotiations and a buy-off in August 2018. BAMC was thus able to acquire the controlling share of exposures in Istrabenz in 2018, after buying

9,4% of the exposures in H1 2018, effectively increasing its share of exposures to 52,4%, and in H2 2018, it purchased 41,4% of the BAML exposures, bringing the majority exposures position to 93,7%.

In December 2018, BAMC received a binding bid to purchase all Istrabenz exposures, however it did not even begin the process of selling the exposures, since the Government passed a decision on 14 December 2018, instructing BAMC to refrain from any sales of exposures due to an ongoing process involving the sale of Istrabenz turizem shares. Furthermore, the Government instructed BAMC on 14 February 2019 to follow the key guidelines provided in the Sustainable Growth Strategy for Slovenian Tourism 2017-2021, immediately withdraw its consent to Istrabenz to engage in subsequent sales of Istrabenz turizem, and terminate the sale process due to the claims having fallen due.

Before seizing shares in accordance with the financial collateral agreement, BAMC had to get consent from the other creditors, who refused and demanded that all Istrabenz exposures should be bought off. Negotiations ensued and after all claims were purchased, BAMC seized all Istrabenz turizem shares on 15 April 2019, becoming its sole shareholder with a 100% share of equity.

HOTELI BERNARDIN

After breaches in the previous MRA, which had not been waved by BAMC, a new MRA was negotiated and closed on 10 January 2017. At that time DUTB had €19 million of exposure towards Hoteli Bernardin, d. d., while the entire debt of the company amounted to €29 million.

The new MRA set strict divestment process timeline, and included a detailed investment plan, which enabled the company to launch a renovation of Grand Hotel Bernardin in December 2017. The investment was completed in June 2018, when refurbished capacities of the hotel were officially opened.

In November 2018, the sale of resort San Simon was successfully closed in line with the MRA. Assets (real-estate and movables) were sold, while the resort remains under the management of Hoteli Bernardin, d. d.. With this transaction Hoteli Bernardin, d. d. deleveraged for €9,5 million, out of this, DUTB was repaid by €7 million. Taking into account the company's current operations and the level of debt, Hoteli Bernardin, d. d. are now in a position to obtain refinancing of DUTB's exposure by commercial banks.

In addition to debt exposure, in October 2018 DUTB increased its ownership stake in Hoteli Bernardin, d. d. to 35,3%, as it received shares of Hoteli Bernardin, d. d. from NFD holding, d. d. - in bankruptcy (D/A swap). Based on Sava's take-over offer for Hoteli Bernardin, d. d., DUTB closed an agreement with Sava, d. d., which shall enable DUTB to exit its ownership position at pre-set conditions by 2020 at latest.

LIV KOLESA

BAMC became the owner of the company within compulsory settlement through D/E swap in 2014. In the 2014-2017 period, the company managed to increase net revenue from €7,4 million to €14,2 million, which was the level before compulsory settlement. In this period, BAMC provided the company with additional fresh funding for working capital 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 (approx. €7,7 million) vis-a-vis the company. 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).

In June 2018 the SPA was signed. 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 his existing knowledge and experience.

FOREIGN EXPOSURES

BAMC took over two land plots in Bulgaria in a total value of €6,3 million, both at the auctions in bankruptcy procedures. BAMC also bought Villa Operetta in Opatija, Croatia at the auction in bankruptcy procedure.

FURTHER REDUCTION OF SMALL EXPOSURES AND CLAIMS TOWARDS NATURAL PERSONS

Three portfolios of claims were successfully sold in 2018. Two portfolios of claims toward natural persons were sold in March and October, and a portfolio of corporate claims (small exposures) was sold in November 2018.

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 2018

(in € million) **Company**	**Nominal value of conversion into company's (debtor's) equity**	**Nominal value of conversion into other company's equity**
Alpina, d. o. o.	7,8	
MLM, d. d.	6,8	
Avto Celje, d. o. o.		0,0
Športni center Pohorje, d. o. o. – v stečaju		0,1
NFD holding, d. d. – v stečaju		5,7
Total	**14,6**	**5,8**

In 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 directors, supervisory board members and procurators;

- leading the procedure of the selection of the candidate for supervisory boards and management;
- 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.

It should be noted that in the second half of 2018 the department reorganized into the actual manager of all BAMC majority equity holdings (going concern cases). The transformation was based on the new reallocation of equity cases among responsible departments.

In 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.

TABLE 5: EQUITY PORTFOLIO CHARACTERISTICS AS AT 31 DECEMBER 2018

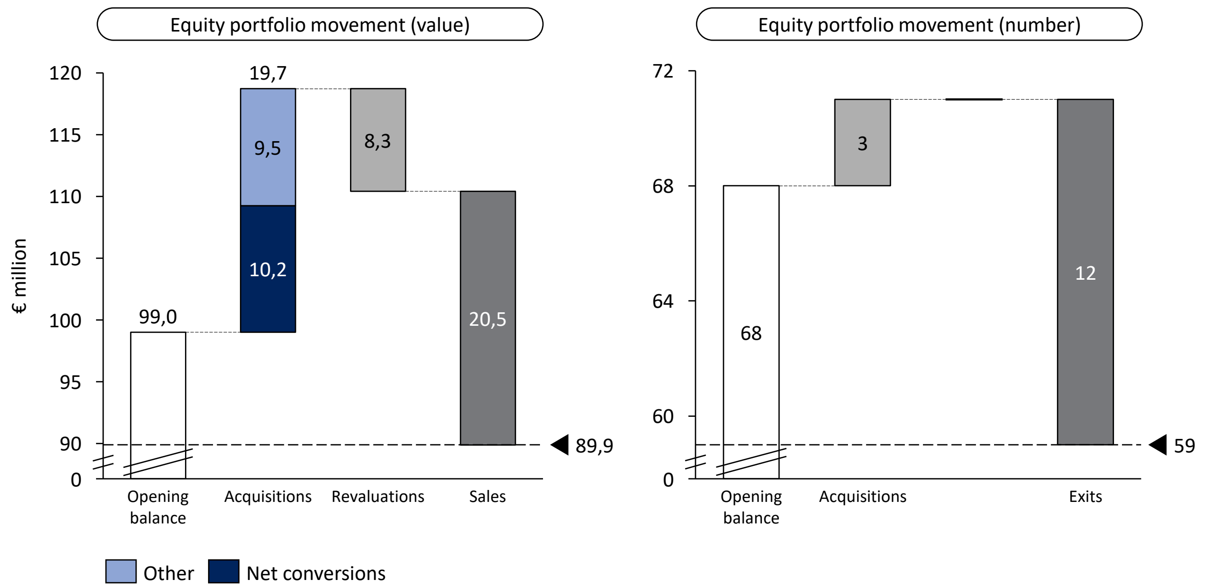
Ownership	Count	Type of holding	Count	Domestic/foreign	Count
Majority (over 50%)	22	Fund	1		
Important (over 20%)	5	Shares	22	Domestic	34
Minority (under 20%)	20	Ownership stake	24	Foreign	13
Total	**47**	**Total**	**47**	**Total**	**47**

NOTE: BAMC had equity stakes in 59 companies on 31 December 2018. 12 companies in bankruptcy procedures are excluded from the table.

In 2018 BAMC exited from several equity investments (majority and minority), whereby the sale of LIV Kolesa, d. o. o. should be emphasized (in terms of enterprise value maximisation, i.e., equity and claims), as well as the sales of shares in Gorenjska banka, d. d., Certa, d. d. and Terme Dobrna, d. d. Important cash flows were generated also from the sale of shares on the Ljubljana Stock Exchange, namely Petrol, d. d. and Cinkarna Celje, d. d. At the end of the year five sale procedures were opened for which an important financial impact is foreseen to materialize in the upcoming year. In addition, in 2018 the procedure for the acquisition of a number majority and minority holdings were started.

In 2018 BAMC generated €21,9 million from the sale of equity holdings (2017: €4,0 million), received €7,0 million from dividends (2017: €9,1 million) and at the end the year the value of its equity portfolio amounted to €89,9 million (2017: €99,0 million).

FIGURE 16: EQUITY PORTFOLIO MOVEMENT



NOTE: "Other" category includes capital increases and additional purchases. Of these the majority relates to the transfer of one item of real estate from BAMC ownership into the ownership of DUTB, d. o. o. Beograd (for easier management and sale of the said asset).
"Revaluation" category includes the effect of the sale of equity stake in KOTO, d. d. in line with Government decision, which was acknowledged directly in the BAMC's equity (and not through profit and loss statement).
"Sales" represent the book value reduction relating to sold assets and thus usually differs from cash generation data which represents actual sales figures.
The number data reported includes companies in bankruptcy and presents only complete transaction count (e.g., a partly sold holding is not counted as a sale in number terms).
"Exits" include sold, deleted or otherwise exited equity positions.

REAL ESTATE PORTFOLIO MANAGEMENT

Real estate accounts for by far the largest amount of collateral for claims transferred to BAMC. Because the quality of the claims transferred to BAMC was poor, and a recovery strategy is therefore the most rational approach for the majority of corporate debtors, the majority of the real estate collateral will also be subject to redemption on the market by official receivers and by the corporate debtors themselves. In such cases BAMC is repaid by means of the proceeds, less the costs of the sale procedures. Alternatively, BAMC may decide to take possession of the real estate and sell it later.

MANAGEMENT OF PLEDGED REAL ESTATE

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

TAKEOVER OF REAL ESTATE

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

BAMC'S REAL ESTATE SALES

Sales of BAMC proprietary real estate in 2018 generated €44,0 million, with over 300 complete or, in most cases, partial sales (where only part of a particular property is sold). The largest portion of overall real estate sales was made in the residential segment, a substantial part of which was made up of sale of apartments in the complex Nokturno. Major business-industrial portfolio sales include the following real estate projects: part of the KLI Logatec business complex, elementary school gym Radlje ob Dravi, restaurant Tavern and bowling in Portorož. BAMC conducts sales mostly by itself as contract with realtor selected in a public tender expanded in first quarter of 2018 and the tender was not renewed.

NOKTURNO

In the Nokturno residential project, BAMC attended an auction as a bidder and took over 215 apartments and two retail premises with the appertaining two storage units and parking spaces. After extensive investments and maintenance carried out in 2016, BAMC signed 46 contracts of sale based on binding bids received in the first sale process, which took place during the open house viewing period, and later it applied the traditional sales approach, resulting in an additional 110 contracts of sale sold until the end of 2017 with additional 56 sales contracts in the year 2018 (total of 212), whereby all the residential units were fully paid up to the time of preparation of this report (total €10,1 million of sales revenues in 2018, excluding VAT).

BAMC also successfully sold a few large land plots for residential projects in 2018. The most notable among these are the sales involving the "Kitajski zid" land plot measuring close to 7.000 m^2, land plot Pobrežje in Maribor of more than 37.000 m^2 and land plot in Lesce of 8.500 m^2.

TAVERN AND BOWLING

BAMC has taken over the property of the in the bankruptcy of Maksima Invest, d.d. The real estate consists of a non-operating restaurant Taverna with auxiliary and technical facilities (total of 1.493 m^2), a bowling field with residential units on the first floor (total of 1.088 m^2) and 60 parking spaces. It is located right by the sea shore, opposite the Marina Portorož. Real estate was sold within successful public tender, where BAMC achieved notable additional value.

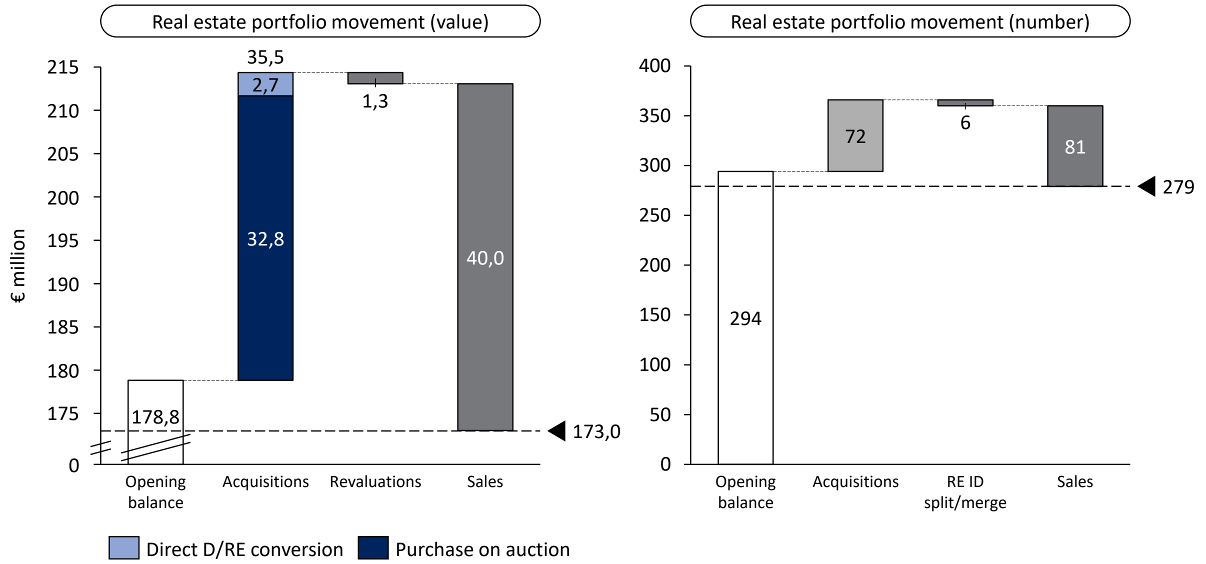
Other notable sales include a number of large industrial facilities, such as the complex Jezdarska Maribor, and the sale of large industrial complexes in Ljubljana and Maribor. There is also increasing demand for land plots with communal infrastructure, zoned for business/industrial use, where BAMC succeed to sale the second part of land plot in Logatec. The sale of some large business/office spaces were also successfully finalized, both in Ljubljana and Maribor (Trgoavto Celovška, business premises Letališča).

BAMC'S REAL ESTATE PORTFOLIO

In 2018, BAMC took over multiple real estate units through debt-to-asset swaps, worth a total of €35,5 million. Major real estate projects taken over comprise of:

- land plot Stolpniška, Ljubljana
- two business buildings Dunajski kristali, Ljubljana
- business building with parking spaces EDA center
- the building land plot Trnovsko predmestje.

FIGURE 17: REAL ESTATE PORTFOLIO MOVEMENT



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

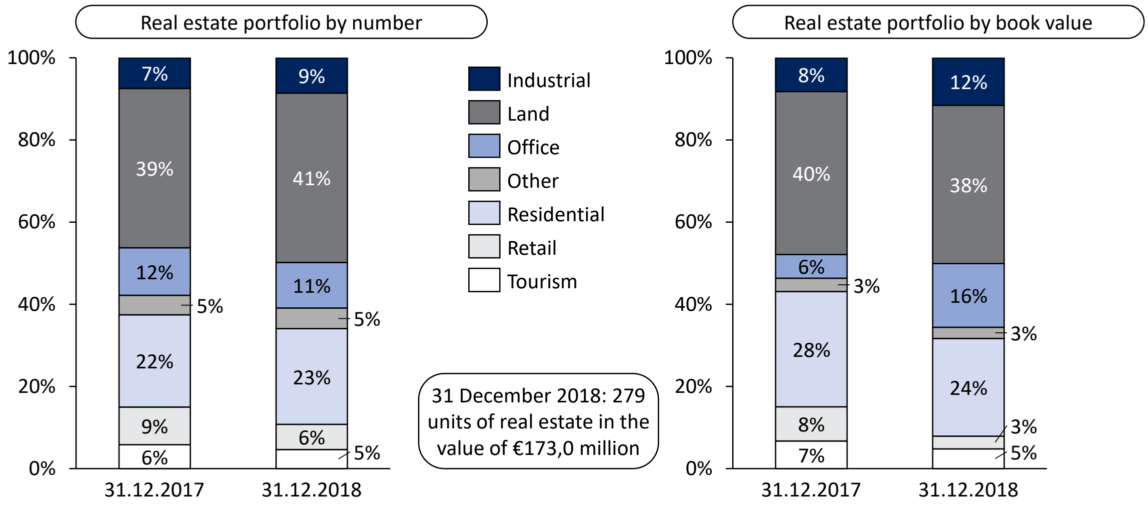
Only real estate that has been entirely taken over by BAMC is presented in this figure. The difference to the balance sheet real estate value of €180,5 million is in the latter including real estate in the process of repossession, advance payments and minor equipment assets.

"Sales" value in the figure realte to costs of invetories sold, i.e., the book value reduction of the real estate portfolio. Actual inflows received for these sales amounted to €44,0 million.

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

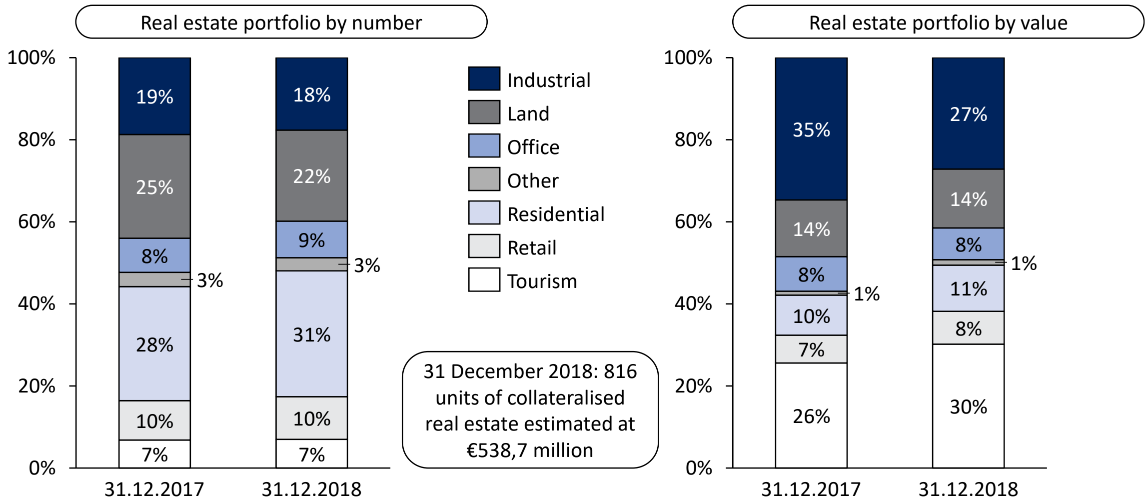
As of the end of 2018, BAMC owned 279 units of real estate with a total book value of €173,0 million. Most of BAMC-owned real estate by value consists of land plots and residential buildings, followed by business and industrial real estate. The land plots are mostly zoned for residential development, while industrial properties are most often not in use.

Figure 18: Real estate ownership portfolio structure



Note: Only real estate that has been entirely taken over by BAMC is presented in this figure. The difference to the balance sheet real estate value of €180,5 million is in the latter including real estate in the process of repossession, advance payments and minor equipment assets.

Figure 19: Real estate collateral portfolio structure



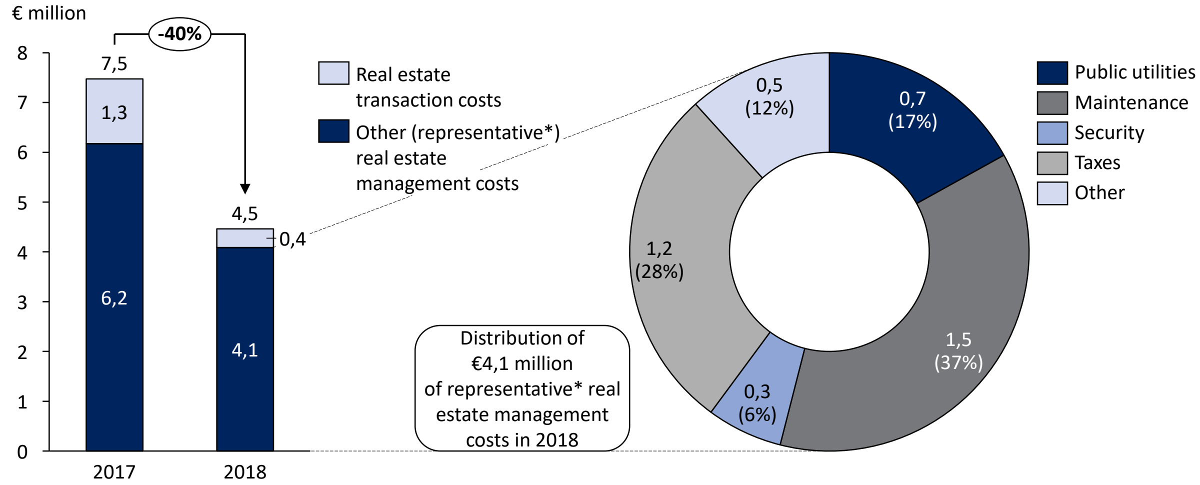
Real estate facility management

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

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

BAMC incurred real estate management costs of €4,5 million in 2018, mostly related to owned real estate and a minor part induced by collateralized real estate. The largest cost items were maintenance costs (which include various repairs) amounting to €1,5 million, followed by NUSZ - compensation for use of building sites - amounting to €1,2 million, and public utilities.

Figure 20: Real estate management costs



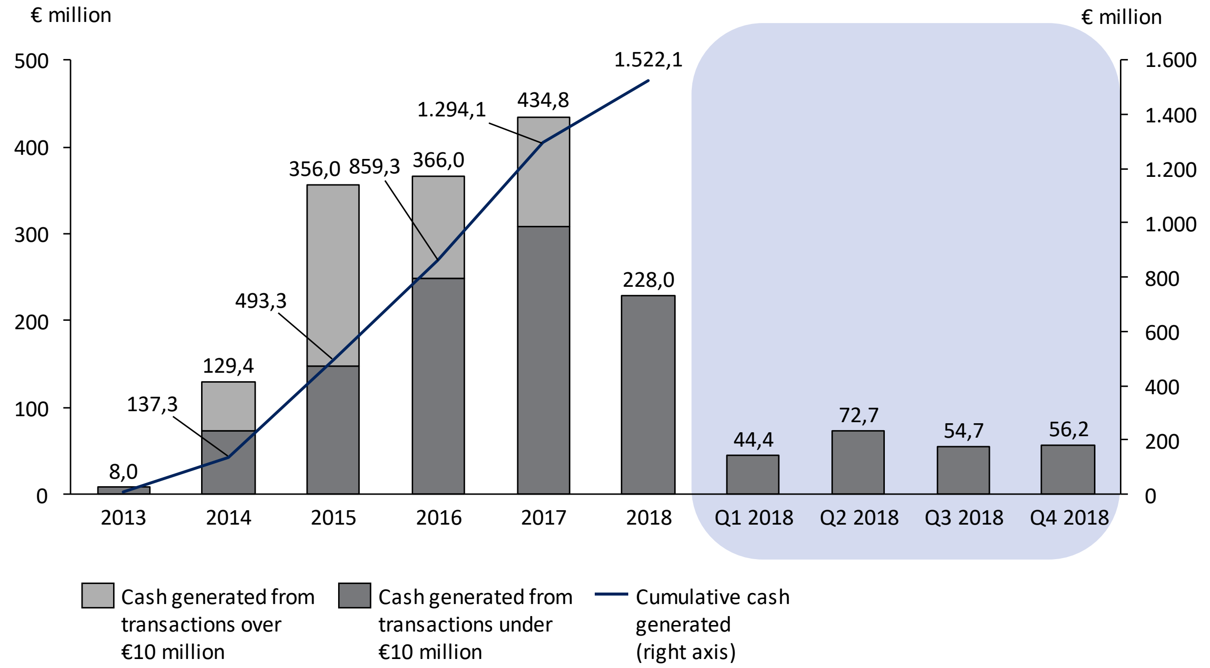
Note: *For additional information purposes the distribution of representative real estate management costs is presented, i.e., remaining costs without transaction costs.

FINANCIAL OVERVIEW OF 2018

CASH GENERATED[11]

BAMC generated €228,0 million of inflows in 2018 from the management of acquired assets, which represents 11,1% of the asset transfer value[12]. Since its inception until year-end 2018, BAMC generated €1.522,1 million in inflows from the management of acquired assets. BAMC ended the year with 74,1% of assets' transfer value cashed in five years.

FIGURE 21: CASH GENERATED



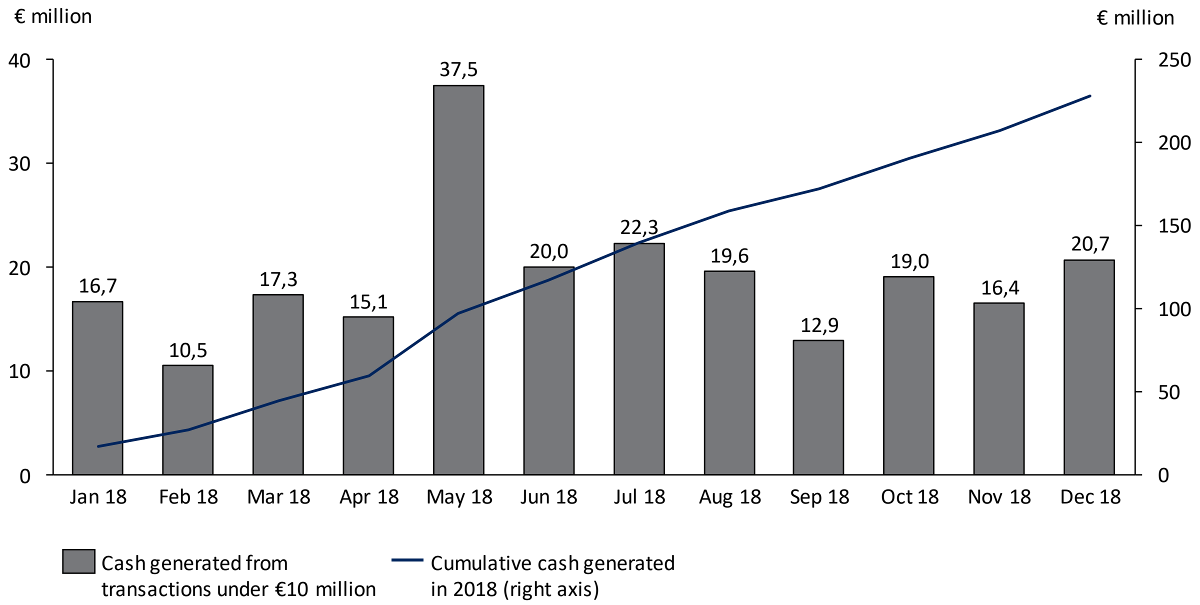
[11] Cash generated data presented here and elsewhere in the document is retrieved through "pure cash flow" principle which differs from accounting recognition of events in both timing and scope. Not all inflows may count as cash generated for the calculation of the statutory KPI.

[12] Cash generated in proportion to acquired assets KPI in the amount of 11,1% is calculated as the ratio of inflows generated to the time-weighted transfer value of the portfolio, where the date of transfer to BAMC is used as the weight. The same reasoning is applied to the purchases of additional exposures BAMC makes when such action is considered economically justifiable.

E.g., a hypothetical additional purchase of an exposure in the amount of €2,0 million on 30 June 2018 would be given a weight of 0,5 (effectively adding €1,0 million to the weighted value of the portfolio) for the 2018 denominator calculation as BAMC would only have half a year available for the liquidation of acquired assets (by 31 December 2018). In all subsequent years following the acquisition the transfers/purchases are included in the KPI denominator in their full value.

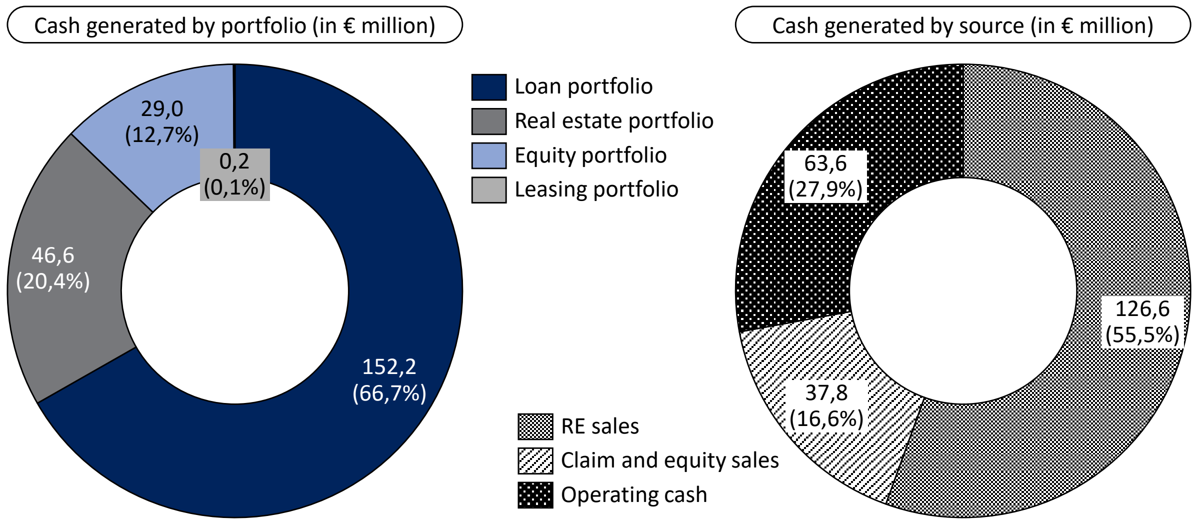
The last considerable increase of the denominator of the respective KPI was recorded in the beginning of 2016 with the merger of Factor Banka and Probanka into BAMC as the book values of merged claims, real estate and equity were taken as "transfer values" of additional assets acquired.

FIGURE 22: MONTHLY CASH GENERATED



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

FIGURE 23: CASH GENERATED BY PORTFOLIO AND SOURCE



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

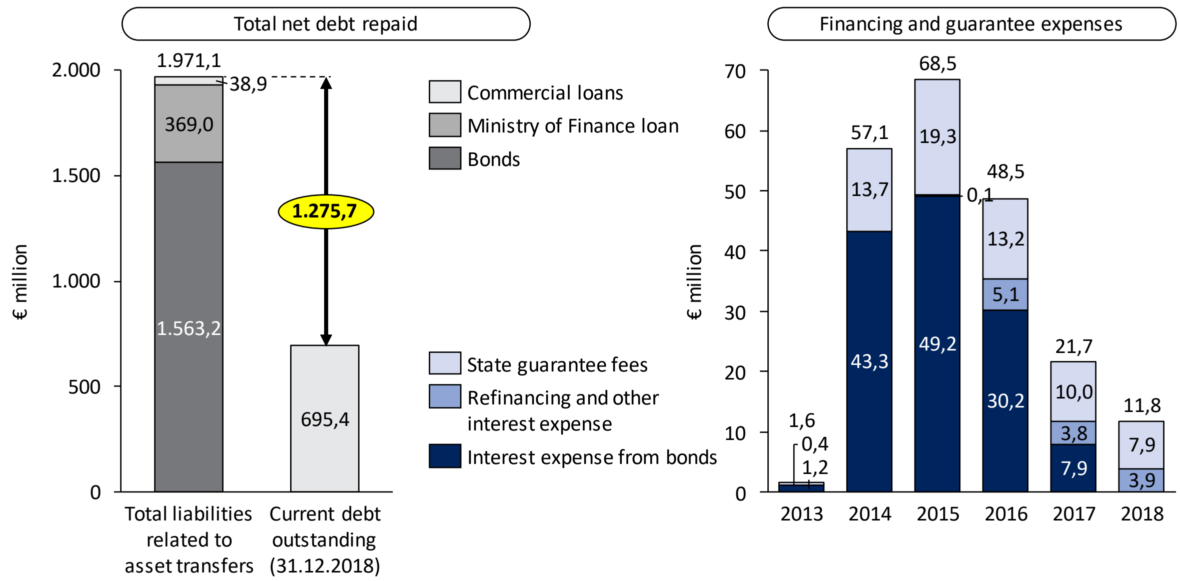
DEBT REPAYMENT

BAMC did not obtain any new loan in 2018. BAMC executed the last highly competitive bidding process in 2017, when it took out three long-term loans in a total amount of €710 million (€100 million from a commercial bank in Slovenia, €50 million from a commercial bank abroad, and €560 million from a syndicated loan). The loans are amortizing with a smaller balloon due in mid-December 2022. Early repayment option gives BAMC flexibility in managing its liquidity until the end of its lifetime. The loans are secured with a state guarantee, subject to a 1,0% guarantee fee payable to the Republic of Slovenia. The interest rates for the refinancing loans are significantly lower than the 1,5% and 1,375% interest rates on the matured DUT03 and DUT04 bonds, respectively. BAMC's cost of financing was thus reduced considerably and amounted to €11,8 million in 2018.

BAMC repaid €154 million in accordance with applicable loan repayment schedules, and also made an early repayment of an additional €28 million worth of loan principal for a total of €182 million debt repayment in 2018. Partial repayment of state-backed financial liabilities marks another important step in the fulfilment of BAMC's mission, as defined by the ZUKSB. BAMC thus reduced its future costs of financing, reduced its debt leverage and recovered invested funds, reducing the burden on the Republic of Slovenia and the taxpayers.

Since its inception, BAMC already repaid almost €1,3 billion of all liabilities related to asset transfers. BAMC also paid €144,7 million of interest on its debt since 2013 until year-end 2018, as well as €64,5 million of guarantee fees.

FIGURE 24: TOTAL NET DEBT REPAID AND FINANCING EXPENSES



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

KEY PERFORMANCE INDICATORS

The Guidelines, adopted by the Government in 2016 (and amended in the following years) 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 its performance throughout its lifespan.

TABLE 6: KEY PERFORMANCE INDICATORS

KPI	Definition	Since inception (by EOY 2018)		2018	2017
		Cumulative	Yearly average		
Guidelines-defined KPIs					
Cumulative cash generated	Absolute amount (in € million)	-	-	1.522	1.294
Cash generated %	Cash generated / NPAs transfer value	74,1%	14,8% (a)	11,1%	21,5%
EROE	Equity / invested capital with corrections - 1	255,3%	28,9% (g)	-	-
Cost efficiency	Operating costs / average total assets	-	1,53% (a)	1,99%	1,88%
Additional BAMC-followed KPIs					
ROE	Net income (loss) / average equity	71,7%	11,4% (g)	36,4%	59,3%
Funds returned to RS	Payback / RS invested assets	78,2%	-	1,7%	0,0%
Gross funds returned to RS	Gross payback / RS invested assets	109,5%	-	10,6%	3,7%
Debt outstanding	Debt / initial debt	-	-	35,3%	44,7%
Guaranteed debt outstanding	Guaranteed debt / initial guaranteed debt	-	-	36,0%	45,4%
Basic data (in € million)					
Cash generated		1.522	304	228	435
RS invested assets	Cumulative invested capital	-	-	258	258
Debt	Balance sheet debt value	-	-	697	880
Equity	Balance sheet equity value	-	-	200	146
Invested capital with corrections		-	-	56	61

General notes:

KPIs required by the Guidelines and presented in Table 1 are marked in grey.

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

As first assets were transferred to BAMC in December 2013, 2014 is considered the first year of actual operation for BAMC. Thus, the calculation of averages takes five full years of operation into account. (a) = arithmetic average, (g) = geometric average.

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

Notes to the KPIs' definitions:

- "Invested capital with corrections" is corrected for day-one losses and other corrections of capital due to the decisions of the owner as well as recapitalizations. See Table 2 for details.
- As defined in the Guidelines, operating costs used in the calculation of "cost efficiency" KPI exclude transaction costs, incurred in assets' sales processes. See Table 13 for details.
- "Payback" includes all corrections to invested capital. In 2018 the sale of equity stake in KOTO, d. d. in line with Government decision caused a direct negative booking on BAMC equity which is recorded as correction to invested capital.
- "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 liabilities towards commercial banks 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 to generate profit. In order to better present business operations BAMC is using a changed format of its income statement[13].

BAMC recorded a net profit of €57,7 million in 2018. The result is comparable to the result of 2017, despite a considerably lower volume of liquidated assets than last year as all three portfolios retained their profit-generating momentum while financing costs were almost halved and operating costs were also notably reduced.

TABLE 7: INCOME STATEMENT SUMMARY

in € thousand	1 Jan 2018 to 31 Dec 2018	1 Jan 2017 to 31 Dec 2017	Index 2018/2017
Result from loans	73.075	95.037	77
Result from equity instruments	5.838	10.227	57
Result from inventories	15.597	11.233	139
Other income	1.132	3.553	32
Financial expenses	-11.805	-22.144	53
Operating costs and other expenses	-20.736	-24.862	83
Net profit/loss before tax	63.101	73.044	86
Income tax expense	-5.401	-6.058	89
Net profit/loss after tax	**57.700**	**66.986**	**86**

INCOME STATEMENT BREAKDOWN

Result from managing loans was €73,1 million in 2018, roughly distributed between realised capital gains and revaluation effect. Net positive foreign exchange differences accounted for more than half of other income from loans.

TABLE 8: RESULT FROM LOANS

in € thousand	1 Jan 2018 to 31 Dec 2018	1 Jan 2017 to 31 Dec 2017	Index 2018/2017
Capital gains/losses	33.987	42.541	80
Net revaluation result	37.943	54.208	70
Other income from loans	1.145	-1.712	-67
Result from loans	**73.075**	**95.037**	**77**

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

Result from equity in 2018 amounted to €5,8 million with negative revaluation result (largely under the effect of stock market papers) outweighed by dividends and realised capital gains.

TABLE 9: RESULT FROM EQUITY INVESTMENTS

in € thousand	1 Jan 2018 to 31 Dec 2018	1 Jan 2017 to 31 Dec 2017	Index 2018/2017
Capital gains/losses	2.833	60	4.707
Net revaluation result	-4.040	1.035	-390
Dividends	7.045	9.080	78
Other income from equity investments	0	51	0
Result from equity investments	**5.838**	**10.227**	**57**

Income from inventories relates almost entirely to inventories of real estate. The sales income of €46,2 million (the carrying amount of which was €31,5 million), continues the positive result of successful sale of BAMC-owned real estate in 2018. BAMC also generated €2,2 million from temporary renting inventory of real estate and recorded €1,3 million of decrease in value of inventory of real estate due to revaluation. On the costs side, real estate operating costs were reduced by 40% to 4,5€ million in 2018, notably due to the absence of Celovški dvori and Nokutrno-related costs that BAMC incurred in 2017.

As at 31 December 2018 BAMC estimated a surplus in the expected net realizable value of inventory of real estate over the historical cost thereof in the amount of €28,7 million. In accordance with IFRS, this amount is not disclosed as revaluation income at the end of the year, but will be recognised as sales income when BAMC sells the real estate in question.

TABLE 10: RESULT FROM INVENTORIES WITH RELATED COSTS

in € thousand	1 Jan 2018 to 31 Dec 2018	1 Jan 2017 to 31 Dec 2017	Index 2018/2017
Income from rents	2.154	2.391	90
Income from inventories sold	46.222	95.810	48
Cost of inventories sold	-31.477	-77.703	41
Net revaluation result from inventories	-1.302	-9.264	14
Real estate management costs	-4.463	-7.473	60
of these real estate transaction costs	-375	-1.300	27
Result from managing inventories	**11.133**	**3.760**	**296**

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

BAMC's financial expenses for 2018 were €10,3 million lower than in 2017. The reduction follows the partial 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) for the period 2018-2022. Lower overall debt level also facilitated lower guarantee fee payments in the respective period.

TABLE 11: FINANCIAL EXPENSES

in € thousand	1 Jan 2018 to 31 Dec 2018	1 Jan 2017 to 31 Dec 2017	Index 2018/2017
Interest expenses from borrowings	-3.862	-11.676	33
Guarantee fees	-7.943	-9.992	79
Other financial expenses	0	-476	0
Total financial expenses	**-11.805**	**-22.144**	**53**

Overall, operating costs not related to real estate management costs (i.e., excluding other income in the table below) totalled €16,4 million in 2018 and were 6% (€1,0 million) lower than in the comparable period. Labour costs totalled €8,1 million in 2018 and were 5% lower than 2017 labour costs. Other expenses totalled €1,5 million in 2018, more than a third 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 €6,6 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 €1,4 million and costs of intellectual services, the majority of which were the costs of legal and notary services in the amount of €1,3 million.

TABLE 12: OTHER RESULT WITHOUT REAL ESTATE

in € thousand	1 Jan 2018 to 31 Dec 2018	1 Jan 2017 to 31 Dec 2017	Index 2018/2017
Other income	1.132	3.553	32
Costs of material	-89	-109	82
Costs of services	-6.534	-6.469	101
Costs of outsourced back office and accounting services	-1.299	-1.609	81
Advisory fees	-2.494	-2.165	115
of these equity transaction costs	-531	-264	202
Other service costs	-2.741	-2.694	102
Depreciation	-117	-210	56
Labour costs	-8.076	-8.522	95
Other expenses	-1.457	-2.079	70
Other result	**-15.141**	**-13.836**	**109**

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

In the process of liquidating its assets BAMC also incurs transaction costs related to sales and sale-consultancy success fees which are also included in the costs of services. These amounted to €0,9 million in 2018 as presented in Table 13.

TABLE 13: TRANSACTION COSTS

in € thousand	1 Jan 2018 to 31 Dec 2018	1 Jan 2017 to 31 Dec 2017	Index 2018/2017
Real estate transaction costs	375	1.300	29
Equity transaction costs	531	264	201
Total transaction costs	**906**	**1.564**	**58**

BALANCE SHEET

TABLE 14: BALANCE SHEET SUMMARY

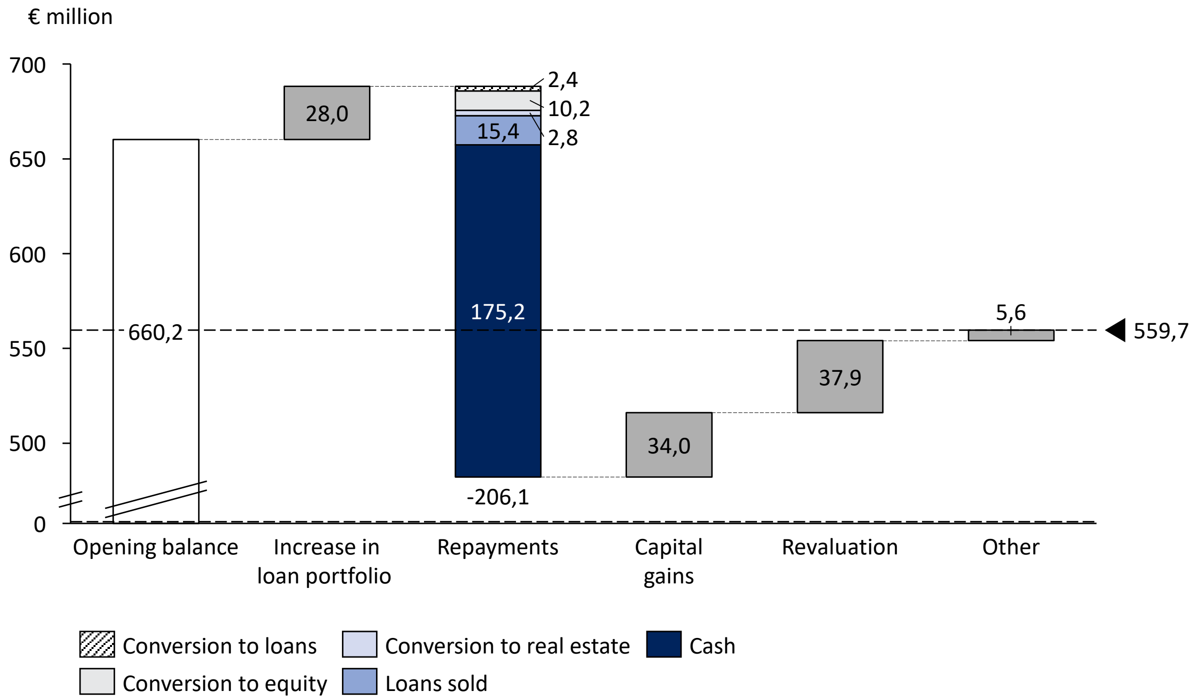
in € million	31 Dec 2018	31 Dec 2017	Index 2018/2017
Assets	**910,0**	**1.050,4**	**87**
Loans	559,7	660,2	85
Real estate	180,5	194,2	93
Equity	89,9	99,0	91
Cash and equivalents	66,7	90,6	74
Other	13,2	6,3	208
Liabilities	**710,1**	**904,0**	**79**
Borrowings	696,6	880,2	79
Other	13,5	23,8	57
Equity	**199,9**	**146,4**	**136**

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

BAMC's total assets decreased by €140,4 million (13%) in 2018 and stood at €910,0 million at the end 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 31 December 2018. The value of loans totalled €559,7 million at the end of the year, a decrease of 15% relative to the balance at the end of the previous year.

Repayments of loans in 2018 amounted to €206,1 million and included cash repayments in the amount of €175,2 million, sales of loans in the amount of €15,4 million, €2,8 million of debt to real estate conversions and €10,2 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 €28,0 million. The revaluation effect increased the portfolio balance by €37,9 million.

FIGURE 25: LOAN MOVEMENT



BAMC discloses all real estate that it holds, except fixed assets, as inventory of real estate, representing the predominant part of inventories. In accordance with IFRS, the stock of real estate is disclosed at the lower of net realisable value or its historical cost. As at 31 December 2018, BAMC disclosed a carrying amount of real estate stock of €180,5 million while the estimated net realizable value of all inventory of real estate was €209,2 million.

The fair value of equity investments in BAMC's ownership amounted to €89,9 million at 31 December 2018 and decreased by 9% compared to the end of 2017 due to several successfully concluded transactions and the effect of the Government decision on the KOTO, d. d. 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 €66,7 million in cash and cash equivalents at its disposal at the end of 2018. Surplus funds available in the beginning of 2018 were used for reducing debt ahead of schedule.

LIABILITIES

BAMC financed its assets at 31 December 2018 mainly through debt sources, more precisely via borrowings in the amount of €696,6 million. 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 €183,5 million in 2018.

Table 15: Financial obligations as at 31 December 2018

Financial instrument	Amount issued (in € million)	Amount outstanding	Issued	Interest payment	Maturity
Commercial loan	150,0	90,0	Dec 2016	Half-yearly	Dec 2021
Commercial loan	560,0	477,5	Dec 2017	Quarterly	Dec 2022
Commercial loan	50,0	42,6	Dec 2017	Quarterly	Dec 2022
Commercial loan	100,0	85,3	Dec 2017	Quarterly	Dec 2022

Note: Nominal amounts without accrued interest reported in the table. All financial obligations are guaranteed by the Republic of Slovenia.

Other liabilities and provisions amounted to €13,6 million at 31 December 2018. The balance from the end of 2017 decreased by 43% and included provisions for potential losses in lawsuits and issued guarantees in the amount of €6,0 million and short-term accounts payable in the amount of €1,8 million as the biggest items.

Equity

BAMC's equity totalled €199,9 million at 31 December 2018 which is €53,4 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, d. d. 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. As the risk is accounted for separately, the discount rate in this context represents only the time value of money for BAMC.

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

BAMC discloses changes to the fair value of loans and equity investments through profit and loss as revaluation. Changes in net realizable value of real estate stock and equipment are disclosed through profit and loss in cases, where the net realizable value does not exceed the cost. The assessed fair values of assets represent one of the key quantitative information inputs that BAMC takes into account when adopting decisions.

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

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

RISK MANAGEMENT

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

With the help of an effective risk management system BAMC can assess, measure, monitor and control the identified risks. This allows BAMC to lower and limit the impact of risks in order to fulfil its strategic goals. The risk management system is established on all levels of business management and decision-making processes. BAMC puts a lot of effort into understanding, measuring and managing risks, and has set up an effective risk management framework and a strong risk management culture.

In line with constant reaction of risk management to the changes in environment, legislature, processes or key projects, BAMC prepared an overall revision of the risk management system in 2018 with adopted renewed Risk management policy and Rules of the Procedure for the Risk Management Committee. In the coming years BAMC will also have to address the risk of any fire-sale situations at the end of its mandate. The main focus of renewed risk management system is on tackling these challenges in a way that will be capable to support BAMC to resolve all or the majority its assets and to terminate all its activities and operations in an orderly manner.

BAMC's overall capacity to take risks is set out in the Risk management policy, which defines competences and responsibilities, risk management process, main risk categories and provides a tool for risk measurement with general treatment of each risk category. All internal bylaws regarding risk management were reviewed as part of general revision of the Risk management system in 2018.

The Risk Management Committee is an advisory Committee on an executive level in the area of risk management. 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 identifying, monitoring, assessment and mitigation of risks, within acceptable risk levels.

The risk, to which BAMC is most exposed to, is credit risk. BAMC measures its loans and receivables based on fair value through profit and loss, according to the future expected cash flows by borrowers. Great attention has been given to improvement of credit risk management process, both in the process of measuring creditworthiness of borrowers and approving their exposures and in process of monitoring, managing and collection of credit collateral. In 2017 BAMC started and in 2018 finished an extensive project regarding comprehensive review and consolidation of collateral, submitted to credit exposures. A unified database for all types of collateral was established which will facilitate everyday procedures with enforcement of these collateral.

Regarding operational risks BAMC continued with regular preventive activities to reduce the likelihood of loss events. According to the database of loss events, most of the loss events in 2018 resulted as a consequence of human error, therefore BAMC paid greatest attention to causes of these most relevant operational risks.

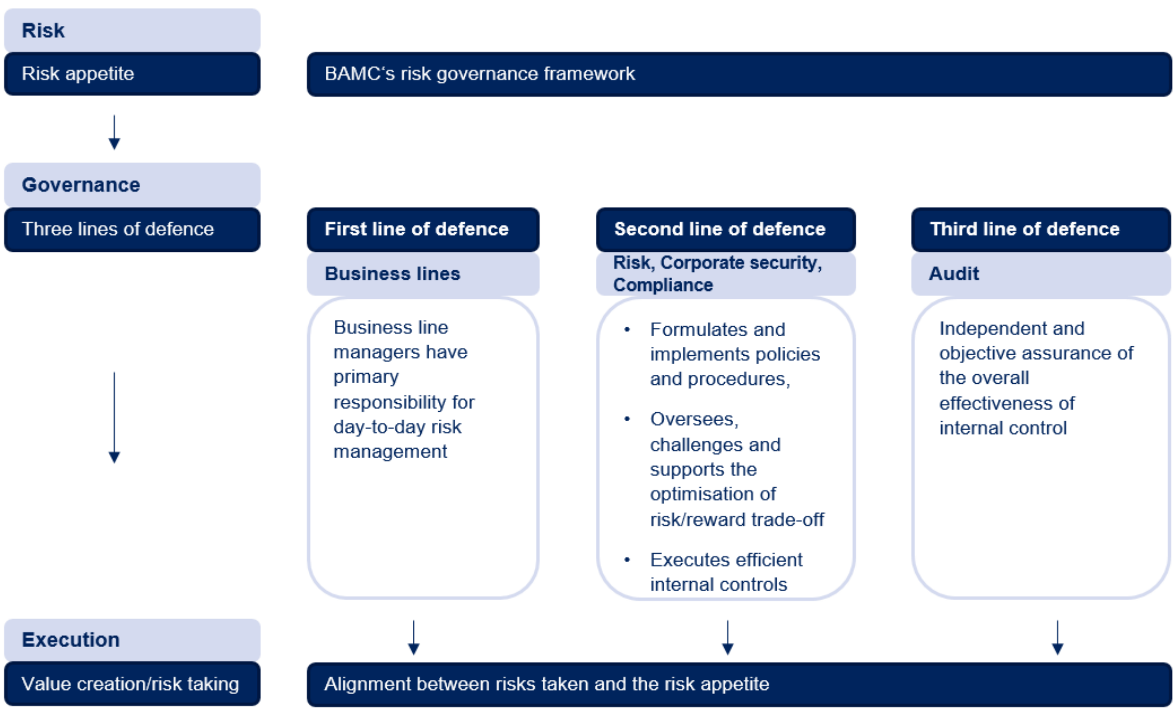
THREE LINES OF DEFENCE

BAMC follows the principle of three lines of defence to ensure 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 managing 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 identified by the BAMC.

FIGURE 26: THREE LINES OF DEFENCE



Controlling and risk provides a comprehensive overview of all risk exposures (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.

Organizational unit includes risk management function, which is responsible for the risk management system as a whole, its management, mitigation and monitoring. An important priority of risk management function is raising the level of risk awareness in the Company.

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

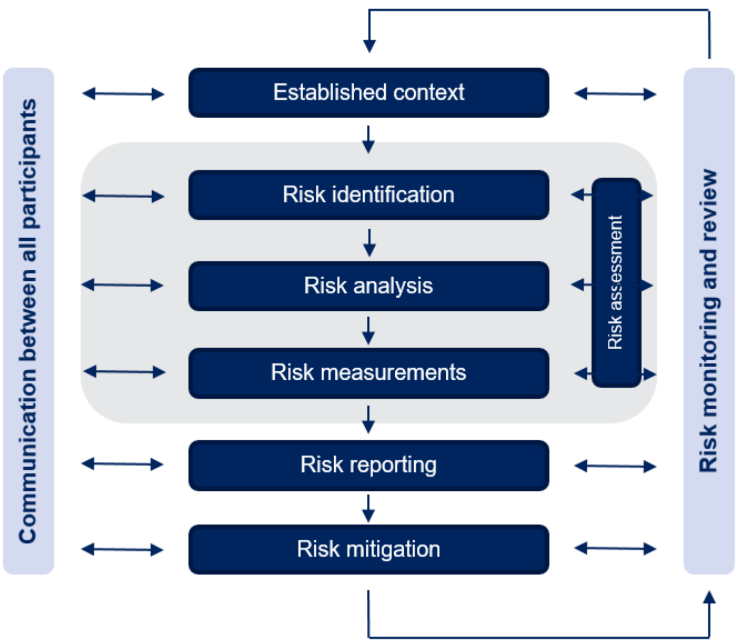
Organisation unit **Corporate security** orderly and systematically investigates suspicious practices in BAMC. It identifies and effectively mitigates or manages, at an early stage, any developments that may threaten the resilience and continued operations of a corporation. A corporate function oversees and manages the close coordination of all functions within the company that are concerned with security, continuity and safety.

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

RISK MANAGEMENT PROCESS

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

FIGURE 27: RISK MANAGEMENT PROCESS



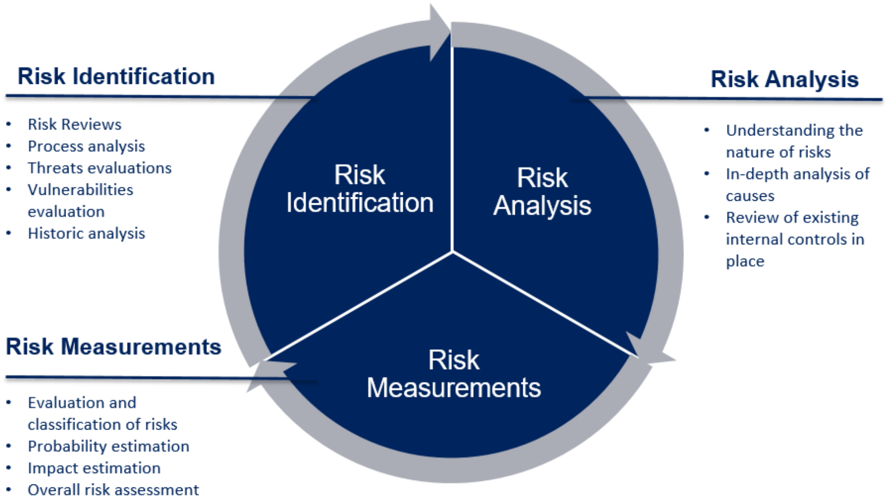
Established context

The risk management framework is established with adopted internal bylaws. Board of Directors of BAMC defines and manages risks and implements the risk management system in a structured, consistent and coordinated way. Audit Committee assists the Board of Directors in fulfilling its supervisory responsibilities. The Committee 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 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 risk assessment model.

Figure 28: Risk assessment process



Risk identification

All business units are actively involved in identifying key risks for their scope of operations and BAMC as a whole. Main risk identification is performed with risk reviews (comprehensive review of specific process or part of the process, supporting documentation or projects). Process of risk management is based on business processes, where risk owners and owners of business processes are actively involved in monitoring and estimation of risk (bottom-up approach). The role of risk management is to prepare a model and methodology and to associate all activities for risk mitigation with business owners. In addition, the management of BAMC adopts a "risk appetite" and shows guidelines with adoption of strategic and business decisions both for controlling and risk management department and process owners (top-down approach).

All identified risks are gathered in the Risk Catalogue, which serves as a roadmap for risk management activities. The Risk catalogue was renewed in 2018 as part of overall revision of Risk management System.

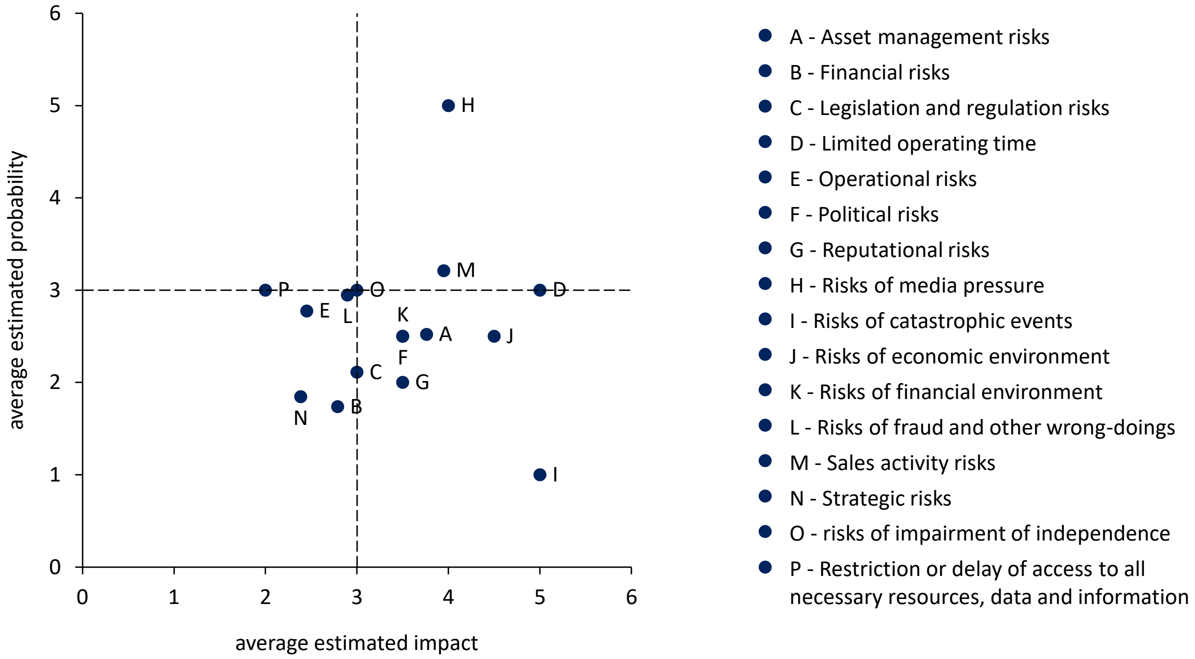
RISK ANALYSIS

Risk analysis is usually 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. 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 of 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 five-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.

FIGURE 29: IDENTIFIED RISK GROUPS



RISK REPORTING, MITIGATION AND MONITORING

Identified and assessed risks are presented to the Risk Management Committee, to the Audit Committee and to the Board of Directors at its 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.

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.

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.

INTERNAL CONTROL SYSTEM

Controlling and risk is involved in regular reporting system and has provided additional four-eye principle in key business processes, such as valuation of assets, and several risk reviews in decision-making process.

INTERNAL AUDIT

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

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

Internal audit function in BAMC exists and operates since the last quarter of 2014. In this time, the development of the formal framework of operations, including the Charter of Internal Audit Function, IAF Manual and development of internal IT application in support of audit recommendations follow-up run in parallel with first internal audit assignments.

The purpose of the first internal audit assignments was familiarization with cases‘ management process and review of the management of selected (recovery and restructuring) cases. Next on the list was familiarization with the process of real-estates management and review of the management of selected real-estate cases.

After the merger with the two banks and reorganization of BAMC in 2016, the IAF in years 2017 and 2018 operated in stable and not changed composition, i.e. Head of IAF and two internal auditors.

Adopted IAF plan of work for year 2018 anticipated review of certain processes that were not yet looked at, like management of equities' cases, »know your client« and »anti-money laundering« procedures as part of BAMC's sales processes, activities of the Collection & Workout unit and compliance with BAMC's basic legislature. While follow-up audits included an in-depth review of sub-processes in real-estate management and audit of the decision making process on the credit and investment committees. The adopted plan also anticipated support to external service provider of the audit in the area of IT technology and quality assessment of the IAF, as well as the support to external service provider hired, on the request of supervisory institutions in the role of BAMC supervisors, to perform selected agreed-upon procedures.

The adopted plan was in the second half of the year revised. The changes mostly presented the later starts of selected internal audit assignments, which were pushed to the last quarter of the year or to the year 2019. Reasons for the changes were delays in some planned activities and three extraordinary internal audit assignments.

Nevertheless, in 2018 altogether 12 internal audit assignments were completed, external service providers performed three of them and 10 reports were issued, three of those were prepared by the external service provider. Internal audit assignments reports included summaries with key findings and recommendations for improvements. Findings and recommendations from the reports are always presented to the Executive Directors, Audit Committee, Board of Directors and Ministry of Finance in their supervisory role. Internally developed IT solution supports gathering and monitoring of implementation of recommendations from the reports. The report on the status of implementation of the recommendations is integral part of the regular quarterly reports of the IAF's activities to the management of BAMC.

Public procurement procedure for a three-part special audit, which the Ministry of Finance published in the name and for the account of BAMC, included a special audit of evaluating selected IAF's activities, namely, IAF's independence, planning and reporting procedures and recommendations follow-up procedures. The scope of the special audit included the period between 1 January 2016 and 30 June 2018.

Special auditor assessment was that IAF's independence was not impaired. Further, the special auditor gave certain recommendations related to the planning of internal audit assignments and reporting of the IAF. At the end of the report, the special auditor stated that the activities of the IAF have improved constantly through the audited period and that they do not see any obstacles that full compliance with International Standards for the Professional Practice of Internal Auditing is achieved in minimal time. In January 2019, the IAF prepared the plan of activities in response to the findings in the report of special auditor. The prepared plan of activities was presented to the Executive Directors and Audit Committee and still in January adopted by the Board of Directors.

ORGANISATION AND ACCOMPANYING ACTIVITIES

HUMAN RESOURCE MANAGEMENT

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

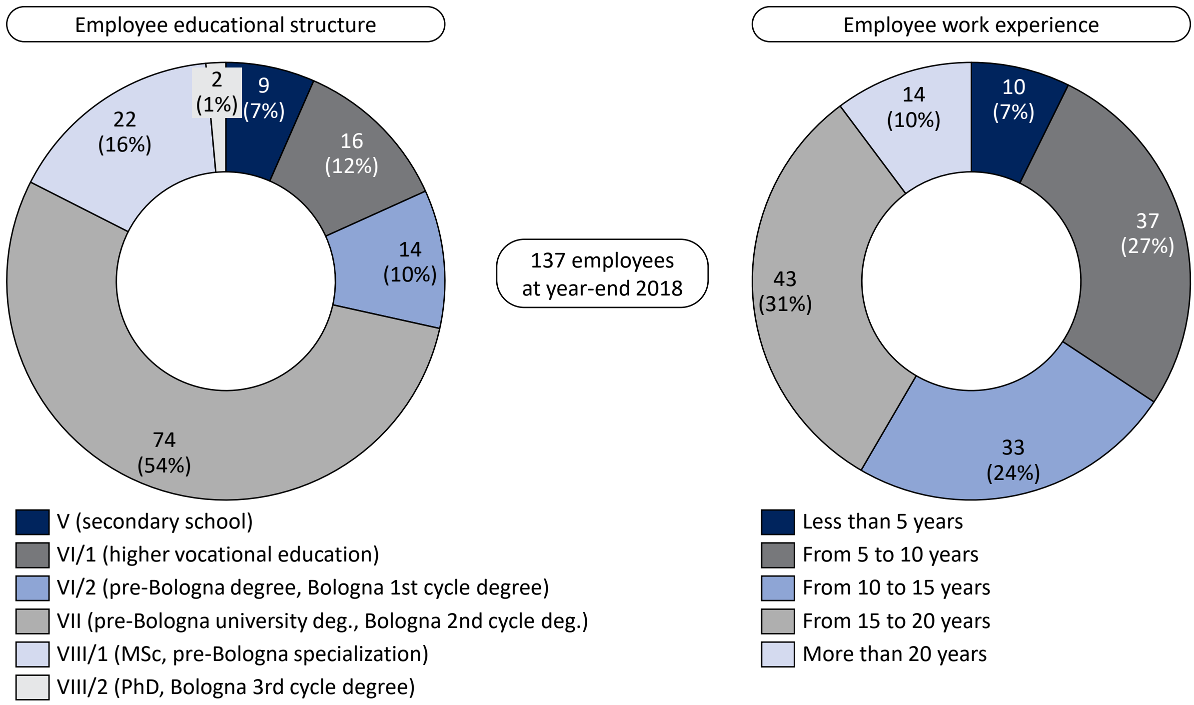
In accordance with the third paragraph of Article 70 of the ZGD-1, BAMC explicitly states that it does not have a diversity policy in place. Regardless of this, the share of women in management positions (directors and unit heads) is 43%.

TABLE 16: NUMBER OF EMPLOYEES

Working area	31 Dec 2018	31 Dec 2017
Credit management	25	30
Real estate & equity management	24	23
Asset management support	37	45
General support functions	48	49
Top management	3	3
Total	**137**	**150**

NOTE: Due to a difference in the aggregation of employees within working areas the 2017 data is different to the one reported in the previous annual report.

FIGURE 30: EDUCATION AND WORK EXPERIENCE OF EMPLOYEES



As BAMC is essentially a project-based company with winding-down planned in 2022 there is an ever-increasing risk of its employees being offered opportunities in the labour market and leaving the company. With the consideration of its temporary nature, the company implements different tools, within the limitations of strongly regulated framework, with the aim of retaining key employees to lower operational risk and disproportionate costs in the event of their premature departure. The ones who stay also get their carrier development opportunities enhanced as they can take over new work areas, more demanding tasks or even leadership positions. All in all, the voluntary employee turnover at BAMC was 7% in 2018 and stayed on the 2017 level.

Despite its young age and limited lifespan, BAMC's knowledge, experience and operational results are making it an increasingly recognized and important player in both the domestic and international professional community, restructuring and NPL management arena.

Acquiring and sharing knowledge and employee development is a major focus for BAMC. In 2018, this was seen through the contributions and participations at numerous industry forums, conferences and internal training events. Based on indicators which measure employee development and knowledge transfer, BAMC is ranked among companies in Slovenia which dedicate the most attention to these areas. As quality leadership is key to ensuring the employees' productivity, a systematic leadership competence development was implemented for BAMC's management staff.

INFORMATION TECHNOLOGY

After the merger of Factor banka and Probanka in 2016, when the new IT architecture was defined, the implementation of this architecture was the main issue – and it was finalized in 2017. In 2017, BAMC also became the owner of Avtotehna, d. d., and the IT department took over the management of its IT services, such the e-mails, accounting solution and the IT archive system. Optimisation and consolidation of IT systems continued in 2018.

In terms of application management, BAMC continued the development of proprietary solutions in this way supporting and optimising its processes. Solutions were upgraded with additional functionalities, and many other improvements were made for optimising processes with internal solution support. Additional solutions were also implemented for improved audit trails on various IT systems. One important project was and still is, the collateral project, in the context of which the collateral management application was developed. In this project, the IT plays an important role not only in the application development phase but also in the phase of entering the collateral data. Project was finished in 2018

With the enactment of the Central Credit Register Act, BAMC also became obligated to join the SISBON system. In 2017, many organisational and IT activities were focused on this project and at the end of 2017 BAMC was prepared for certification by the Bank of Slovenia. In 2018 SISBON was certified by Bank of Slovenia and additional activities for reporting were implemented.

According to GDRP project in BAMC, IT was involved to ensure IT systems and databases comply with GDPR.

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

CORPORATE COMMUNICATIONS AND MARKETING

The goal of corporate communications in BAMC is to provide support in the course of implementation of BAMC's strategic goals. By tracking its communication needs and responding to them, BAMC is maintaining good relations with key audiences in order to assist it in its mission. BAMC's communication activities in 2018 were primarily focused on building a realistic public image and strengthening the company's reputation, both internally and externally. BAMC, which is subject to regular external evaluations, has built its reputation on proactive and open communications, both vis-a-vis its owner, decision-makers, business partners, investors, experts, opinion leaders, the media and Slovenian taxpayers, and ultimately BAMC employees. It has achieved this by taking into consideration its role and mission, reporting its results, educating the public about the processes involved in the resolution of non-performing assets and through transparent and reactive relations with the media and open communication with the internal audience. 2018 has been a dynamic year for communications activities, of which most were associated with a number of high-profile cases and corporate governance structure changes.

In its investor relations and marketing activities, BAMC focused its communications on potential buyers and investors, assisting the company in achieving its sales targets. Through carefully thought-out marketing communications, BAMC took advantage of the synergies with other communication activities to target potential investors and provide them with information about assets available for purchase. BAMC's management and experts presented their experience and specialized skills at numerous local and international industry events. BAMC was often invited to share its experience and knowledge with other similar non-performing asset management companies from other countries, including those still in the process of being established.

INTEGRITY AND ETHICS

BAMC is committed to observing applicable laws and regulations and employing highly ethical business practices. BAMC seeks to ensure that clear rules and guidance for ethical practices are in place and easily accessible to all its employees and subcontractors. All employees are expected to understand the rules and report any violations. BAMC hired an external expert who examined the reporting lines and wrote a proposal for reporting and reporting violations. On the basis of the above, BAMC has adequately supplemented the internal acts.

BAMC applies the zero tolerance principle to unlawful and unethical conduct of employees and business partners, which is reflected in the provisions of internal acts and employment contracts.

BAMC continually strives to ensure compliance and eliminate corruption risks and places great emphasis on education of employees. BAMC has amended the rules governing the conflict of interests for decision makers in the internal act of Process and decision-making powers of the committees. In June 2018, the definition of the conflict of interests for employees in the Code of Conduct for Employee was amended, which prompted the employees to be called upon to meet again the Statement of Conflicts of Interest.

In order to raise awareness about the importance of the topic for decision-makers and other employees, in May 2018 BAMC organized a lecture on Ethics and Conflict of Interest. An expert specializing in corporate law and corporate governance has explained the latest guidelines for managing conflicts of interest in companies. In October, a representative from the CPC conducted a lecture on this topic.

Considering that the BAMC renewed internal acts in the field of managing conflicts of interest in 2018, this area was examined by an external expert in order to be in line with the recommendations of good practice and the highest business standards.

ACCESS TO INFORMATION OF PUBLIC NATURE

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

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

BAMC received four requests for access to information of public nature in 2018, which related mainly to individual sales of assets managed by BAMC. BAMC reviews each such request in detail and with the requisite expertise, and decides on the request in accordance with law.

Reporting on suspicions of criminal activities

In accordance with the ZUKSB and the Guidelines, BAMC is duty-bound to determine the liability for the creation of loans and investments that have been transferred from banks to BAMC as risk-bearing items, for the transfer of risk-bearing items offers BAMC an insight into the loan files of individual bank debtors. In addition, BAMC also notes the liability for possible irregularities in loans and investments, which BAMC manages from the merger of Factor banka and Probanka. 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 seven additional irregularities in 2018, bringing the total number of irregularities to 93 until end of 2018. 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 three criminal incidents in 2018 (23 in total since inception), which were reported to the Criminal Police Directorate for further investigation.

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

Court of Audit cooperation

In 2016 the Court of Audit began its audit of BAMC's operations in 2014 and 2015, which continued in 2017.

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 and 11 recommendations.

BAMC submitted a response report in October 2018 because irregularities or inefficiencies were identified that had not been resolved during the audit process. Response report consisted report on the elimination of disclosed irregularities or inefficiencies. The Court of Audit then tested the credibility of the response report, which means that it assessed whether the identified irregularities or inaccuracies were satisfactorily resolved.

In March 2019, the Court of Audit issued a post-audit report in which it found that all measures were not implemented satisfactorily, and therefore issued a call for action addressed to the Board of Directors. On the basis of the call BAMC prepared a report on the actions taken and submitted it to the Court of Audit. Therewith the respective audit of the Court of Audit is concluded.

BAMC SHARE

As at 31 December 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 17: BASIC INFORMATION ON BAMC'S SHARE

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

NOTE: Data as at 31 December 2018.

There were no changes in the ownership structure in 2018.

FINANCIAL STATEMENTS OF BAMC FOR THE PERIOD 1 JANUARY 2018 TO 31 DECEMBER 2018

TRANSLATION OF THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SLOVENIAN LANGUAGE.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management hereby confirms that the financial statements, including all their components, have been prepared in accordance with the Companies Act and amendments of the Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act (ZUKSB-A). BAMC is, according to Article 4. (3) of ZUKSB-A, exempt from consolidating or equity accounting the companies whose assets were acquired by means of purchase / compensated acquisition of bank assets, or as part of corporate restructuring. Therefore consolidated financial statements were not prepared and equity accounting was not used for investments in associates. As per article 4. (5) of ZUKSB-A, BAMC in its financial accounting and reporting follows requirements of International Financial Reporting Standards.

The management hereby confirms that the relevant accounting policies were consistently applied in the compilation of the financial statements, except for changes of accounting standards (IFRS 9 and IFRS 15), which became effective as of 1 January 2018. 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 31 December 2018.

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

The tax authorities may audit the operations of BAMC at any time from the day of the tax declaration, 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, 4 July 2019

Bojan Gantar	**Andraž Grum**	**Matej Pirc**
Executive director	Executive director	Chief executive officer

DUTB

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

KPMG

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Independent Auditor's Report

To the owners of DUTB, d.d.

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of DUTB, d.d. (»the Company«), which comprise the balance sheet as of 31 December 2018, the income statement, the statement of other comprehensive income, the statement of cash flows, and the statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements as at 31 December 2018 are prepared in all material respects, in accordance with the accounting requirements of the Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act – A (ZUKSB-A).

Basis for Opinion

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

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

Emphasis of the matter

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

Key Audit Matters

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

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Valuation of financial assets at fair value through profit or loss	
The carrying amount of financial assets at fair value through profit or loss as at 31 December 2018: 649,589 EUR thousand (2017: 759,242 EUR thousand); income from loans - net revaluation for 2018: EUR 37,943 thousand (2017: EUR 54,208 thousand): income from equity investments and bonds – net revaluation for 2018: EUR -4.040 thousand (2017: EUR 1,035 thousand). We refer to the financial statements: note 3.1. Financial assets at fair value through profit or loss, note 4 A Methodology for valuation of loans and 4 B Methodology for valuation of equity investments (accounting policies); note 6 Financial assets at fair value through profit or loss – loans, note 7 Financial assets at fair value through profit or loss - equity investments, note 16 Income from loans and note 17 Income from equity investments (disclosures).	
Key audit matter	**Our response**
The financial assets at fair value through profit or loss include loans and equity investments. The loans portfolio represents 62% of the carrying value of the Company's total assets. The above mentioned loans are classified as financial assets at fair value through profit or loss, with their valuation based on the Binominal Option Pricing Model, which uses unobservable inputs. The inputs to which the valuations are most sensitive are disclosed in note 4 of the financial statements. A key unobservable input in the valuation methodology is the estimation of the probability of realization. For each debtor two possible scenarios, restructuring and recovery, are considered and future cash flows are estimated accordingly. The equity investments, including equity shares in unlisted companies, represent 10% of the carrying value of the Company's total assets. The majority of the portfolio requires significant management judgments in determining valuation inputs. The inputs with the most significant impact on these valuations are disclosed in note 4. We identified the valuation of financial instruments at fair value through profit or loss as a key audit matter due to the significance of the balance to the financial statements, combined with significant judgment involved in determining fair value.	Our audit procedures included, among others: • Assessing whether the valuation methodology is appropriate; • Assessing the accuracy of implementation of IFRS 9; • Testing whether the valuation process is conducted in accordance with the methodology, covering key procedures and related controls; • Testing design and implementation of controls over the input data used in the valuation model. <u>Loans</u> • Selecting a sample of loans which included the most significant loans and those with significant changes in fair values from the previous year. On a sample basis, independently challenging the appropriateness and reasonableness of estimated cash flows used as an input in the valuation model, and value of collateral; • Challenging the discount rate used; • Assisted by our own valuation specialists, assessing the appropriateness of the techniques and underling data used in valuation of equity investments held as collateral, which enters into the loan valuation model; • Assisted by appraisal experts, engaged by us, assessing the appropriateness of the techniques used in the valuation of real estate held as collateral for loans;

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

Valuation of inventories of property and equipment

The carrying value of inventories of property and equipment as at 31 December 2018: EUR 180,464 thousand (2017: EUR 194,163 thousand); income from inventories of property and equipment – net write-downs and reversal of write-downs in 2018: EUR -1,302 thousand (2017: EUR -9,264 thousand);

We refer to the financial statement: note 3.5 Inventories of property and equipment, note 4 C Methodology for valuation of real estate (accounting policies); note 8 Inventories of property and equipment, note 18 income from inventories of property and equipment (disclosures).

Key audit matter	Our response
The inventories of property and equipment represent 20% of the carrying value of the Company's total assets. The inventories are measured at lower of cost and net realizable value. The valuation of the majority of the portfolio requires significant management judgments in determining valuation inputs in estimating net realizable value. We identified the valuation of inventories of property and equipment as representing a key audit matter due to the judgement associated with determining net realizable value.	Our audit procedures included, among others: • Assessing whether the valuation methodology is appropriate. Testing whether the valuation process is conducted in accordance with methodology covering key procedures and controls with respect to the determination of net realizable value; • Assisted by appraisal experts, engaged by us, assessing the appropriateness of the techniques used to determine net realizable value of the real estate portfolio. On a sample of the most significant items of real estate, our external appraisal specialist compared inputs used in determining net realizable value to market data and property-specific information to assess the appropriateness of these judgements and estimates.

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Revenue recognition from selling inventories of property	
Income from inventories of property and equipment in 2018: EUR 15,597 thousand (2017: EUR 11,233 thousand). We refer to the financial statement: note 3.5 Inventories of property and equipment, note 4 C Methodology for valuation of real estate (accounting policies); note 8 Inventories of property and equipment, note 18 income from inventories of property and equipment (disclosures).	
Key audit matter	**Our response**
We identified fraud risk related to revenue recognition on selling of inventories of property which could result in fraudulent financial reporting as a key audit matter. During 2018 the BAMC became aware of alleged irregularities that had occurred in relation to a property that was sold by BAMC in 2017, in relation to the price achieved by the broker in a subsequent transaction in relation to that property. As a consequence of these alleged irregularities, we reassessed our audit approach and the risk related to fraud and in particular fraudulent financial reporting, and revenue recognition. We placed increased focus on internal selling processes, procedures and controls and compliance with internal rules in relation to the sale of inventories of property and equipment.	Our audit procedures included, among others: • engaging our forensic specialists to support our risk assessment, development of an appropriate audit approach and program, recommending sampling criteria and review of selected work performed by the audit team; • discussing audit approach, nature, extent and timing of audit procedures with the Audit Committee; • process testing in relation to a sample of property sales (industrial and commercial properties) during 2017 and 2018; • detailed substantive testing of transactions, on a sample basis of property disposals during 2017 and 2018; • assisted by appraisal experts, engaged by us, assessing the appropriateness of the techniques used to determine selling price. On a sample of the most significant items of inventory, our external appraisal expert compared inputs used in determining net realizable value to market data and property-specific information to assess the appropriateness of judgements and estimates; • obtaining an understanding of the transaction in relation to which alleged irregularities occurred by inspecting underlying documentation of the transaction, independent reports the BAMC's management ordered after it became aware of the information on the subsequent arm of the transaction entered into by the broker (e.g. forensic report, valuation reports, legal opinions), internal reports prepared for the BAMC Board of Directors and owners and by performing interviews with selected BAMC management and personnel;

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	• obtaining an understanding of the BAMC's management response to the alleged irregularities by inspecting minutes of the Board of Directors, the action plan prepared by the management and consideration of its implementation by means of critically assessing among others: o internal reports on implementation of the action plan, amongst others, final reports of the Committee for the Legal Assessment of Liability on the alleged irregular transaction and working group for implementation of recommendations from forensic report; o internal rules related to sales of properties, focusing on changes introduced after the alleged irregularities were identified; o changes of internal organization, processes, policies and controls related to sale of properties and assessing whether the associated changes made address the risks identified and recommendations given primarily in an independent forensic report and internal reports regarding the alleged irregularities; o testing whether changes of internal rules and controls adopted have been implemented effectively in relation to a sample of property sales transactions in the second half of 2018 and first quarter of 2019.

Other Information

Management is responsible for the other information. The other information comprises the Highlights and summary of 2018, Letter from the CEO, Report of the Board of directors for 2018, Presentation of BAMC, Status of NPLS in Slovenia and Business Report included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained other information before the date of issuance of the auditor's report, except for the Report of the Board of directors for 2018, which will be available after the date of the auditor's report.

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

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

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

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

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

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

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

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

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

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

Auditor's Responsibility for the Audit of Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

We were appointed by the shareholder of DUTB, d.d. on shareholder's meeting dated 29 November 2018 to audit the financial statements of DUTB, d.d. for the year ended 31 December 2018. Our total uninterrupted period of engagement is 6 years, covering the periods ending 31 December 2013 to 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 8 July, 2019;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit;

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

On behalf of the audit company

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Katarina Gašperin
Certified Auditor

Barbara Kunc
Certified Auditor
Partner

Ljubljana, 8 July 2019

KPMG Slovenija, d.o.o.
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FINANCIAL STATEMENTS

Balance sheet of BAMC for year ended as at 31 December

in € thousand	Note	31 Dec 2018	31 Dec 2017
Intangible assets		63	101
Property, plant and equipment		98	99
Bank deposits	5	3.521	0
Financial assets measured at fair value through profit or loss		649.589	759.242
Loans	6	559.715	660.237
Equity investments	7	89.874	99.005
Inventories of property and equipment	8	180.464	194.163
Trade and other operating receivables	9	8.826	5.500
Receivables for current income tax	9	243	0
Deferred costs		449	642
Cash and cash equivalents	10	66.739	90.636
Total assets		**909.991**	**1.050.383**
Total Equity	11	199.860	146.429
Share capital	11	104.118	104.118
Retained earnings	11	95.742	42.311
Total liabilities		710.131	903.954
Financial liabilities measured at amortised costs	12	696.646	880.175
Trade and other operating payables	13	6.222	8.506
Liabilities for current income tax	13	0	6.058
Provisions	14	6.042	6.084
Other liabilities	15	1.221	3.131
Total equity and liabilities		**909.991**	**1.050.383**

The notes to the financial statements on pages 97-175 are an integral part of the financial statements.

Income statement of BAMC for the period from 1 January to 31 December

in € thousand	Note	1 Jan to 31 Dec 2018	1 Jan to 31 Dec 2017
Income from loans	16	73.075	95.037
Income from equity instruments and bonds	17	5.838	10.226
Income from inventories of property and equipment	18	15.597	11.233
Financial expenses	19	-11.805	-22.144
Other income	20	1.132	3.553
Cost of material		-89	-109
Cost of services	21	-10.998	-13.942
Payroll costs	22	-8.076	-8.522
Depreciation		-117	-210
Other expenses	23	-1.457	-2.079
Profit / Loss before tax		**63.101**	**73.044**
Income tax expense	24	-5.401	-6.058
Net profit / loss for the period		**57.700**	**66.986**
Attributable to owners		57.700	66.986
Basic and diluted earnings per share		0,55	0,64

The notes to the financial statements on pages 97-175 are an integral part of the financial statements.

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

in € thousand	1 Jan to 31 Dec 2018	1 Jan to 31 Dec 2017
Net profit / loss for the period	57.700	66.986
Total comprehensive income for the period attributable to owners	**57.700**	**66.986**

The notes to the financial statements on pages 97-175 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY OF BAMC FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER

in € thousand	Note	Share Capital	Accumulated loss/ Retained earnings	Total Equity
Balance as at 1 January 2018	**11**	**104.118**	**42.311**	**146.429**
Impact of adopting IFRS 9		0	0	0
Restated opening balance under IFRS 9 as at 1 January 2018		**104.118**	**42.311**	**146.429**
Net profit / loss for the period	11	0	57.700	57.700
Other changes in comprehensive income for the period	11	0	0	0
Total comprehensive income for the period	11	0	57.700	57.700
Transactions with owners	11	0	-4.268	-4.268
Disposal of equity investment	11	0	-4.268	-4.268
Balance as at 31 December 2018	**11**	**104.118**	**95.742**	**199.860**

in € thousand	Note	Share Capital	Capital Reserves	Accumulated loss/ Retained earnings	Total Equity
Balance as at 1 January 2017	**11**	**104.118**	**154.117**	**-178.792**	**79.443**
Net profit / loss for the period	11	0	0	66.986	66.986
Other changes in comprehensive income for the period	11	0	0	0	0
Total comprehensive income for the period	11	0	0	66.986	66.986
Transactions with owners	11	0	-154.117	154.117	0
Offsetting loss against capital reserves	11	0	-154.117	154.117	0
Balance as at 31 December 2017	**11**	**104.118**	**0**	**42.311**	**146.429**

The notes to the financial statements on pages 97-175 are an integral part of the financial statements.

DUTB

Statement of cash flows of BAMC for the period from 1 January to 31 December

in € thousand	Note	1 Jan to 31 Dec 2018	1 Jan to 31 Dec 2017
Cash flow from operating activities			
Net profit / Loss		57.700	66.986
Adjustments for:			
Amortization and depreciation		117	210
Write down / reversal of write down of inventories		1.302	9.264
Foreign exchange differences		-1.866	3.043
Interest expense		3.862	22.144
		61.115	**101.647**
Changes in:			
Loans and receivables	6	102.388	284.835
Equity investments	7	4.863	-2.060
Inventories of property and equipment	8	12.397	-5.750
Trade and other operating receivables	9	-3.326	-732
Receivables for current income tax	9	-243	0
Deferred costs		193	-362
Trade and other operating payables	13	-2.284	2.365
Liabilities for current income tax	13	-6.058	0
Provisions	14	-42	-6.740
Other liabilities	15	-1.911	609
Net cash from operating activities		**167.091**	**373.812**
Cash flow from investing activities			
Purchase of equipment and intangible assets		-77	-58
Net cash flow from investing activities		**-77**	**-58**
Cash flow from financing activities			
Proceeds from borrowings		0	728.000
Bank deposits	5	-3.521	0
Repayment of borrowings	12	-184.292	-562.380
Redemption of debt securities		0	-548.855
Interest paid	12	-3.099	-22.144
Net cash flow from financing activities		**-190.912**	**-405.379**
Net decrease in cash and cash equivalents		**-23.897**	**-31.625**
Cash and cash equivalents at the beginning of year	**10**	**90.636**	**122.261**
Cash and cash equivalents at the end of year	**10**	**66.739**	**90.636**

The notes to the financial statements on pages 97-175 are an integral part of the financial statements.

Notes to the financial statements

Note 1: General information

Table: Basic company data on 31 December 2018

Full company name	Družba za upravljanje terjatev, d. d. Bank Assets Management Company
Short company name	DUTB, d.d. BAMC
Registered office	Davčna ulica 1, 1000 Ljubljana
Telephone	+386 820 542 35
Fax	+386 1 429 38 59
E-mail	info@dutb.eu
Website	www.dutb.eu
Core business	Activities of collection agencies and credit bureaus
Registration entry	2013/11708, District Court of Ljubljana
Company ID number	6339620000
Tax number	41251482
VAT number	SI41251482
Share capital	€104.117.500,00
Number of shares	104.117.500 ordinary no-par value shares
Non-executive directors as at 31 December 2018	Tomaž Besek, Chairman of the Board of Directors Mitja Križaj, Deputy Chairman of the Board of Directors Marko Tišma Juan Barba Silvela
Executive directors as at 31 December 2018	Imre Balogh, CEO in resignation Andrej Prebil, CAM Jože Jaklin, CAO

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

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

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

Merger of Factor banka and Probanka

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

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

Valuation of assets at initial recognition

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

Financing of asset acquisition

BAMC issued four series of state-guaranteed bonds for each exchange of the NPLs transferred from banks (NLB, NKBM, Abanka, Banka Celje) in 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 4 July 2019.

In December 2015, the ZUKSB-A[14] 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 same accounting policies were used for 2018 as for 2017, except for changes of accounting standards, which became effective as of 1 January 2018.

[14] In further text used: ZUKSB

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

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

This financial statements are presented for the year starting 1 January 2018 and ending 31 December 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.

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 judgements are especially present in the following considerations:

- fair value of loans and equity investments (note 4A and 4B),
- net realizable value of inventories of property and equipment and potential write-down of inventories (note 4C),
- provisions for obligations towards employees and provisions for liabilities arising from legal disputes (note 3.6.),
- estimated future tax effects (note 3.9.),
- the value of financial assets and revenues generated from their sale will suffice to cover the repayment of financial liabilities maturing later, therefore the financial statements were prepared on a going concern basis (Note 12),
- determination of current and non-current part of loans, due and not due (note 26)
- Conversions of loans and receivables into underlying collateral (see detailed description in note 3.1.C).

2.5 NEW STANDARDS, EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON 1 JANUARY 2018

In these financial statements, BAMC has applied IFRS 9 and IFRS 15, effective for annual periods beginning on or after 1 January 2018, for the first time. BAMC has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

2.5.1 IFRS 9 – FINANCIAL INSTRUMENTS

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. BAMC has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9.

The comparative information for 2017 is reported under IAS 39 and is comparable to the information presented for 2018, since there were no differences arising from the adoption of IFRS 9 to be recognized directly in retained earnings as of 1 January 2018.

In € thousand	IAS 39 Measurement	Remeasurement	IFRS 9 Measurement
Financial assets at fair value through profit or loss	759.242	0	759.242
Loans	660.237	0	660.237
Equity investments	99.005	0	99.005
Cash and cash equivalents	90.636	0	90.636
Total Equity	146.429	0	146.429
Share capital	104.118	0	104.118
Retained earnings	42.311	0	42.311
Borrowings	880.175	0	880.175

Changes to classification and measurement

IFRS 9 replaces existing requirements by IAS 39 and adopts a new approach for classification of financial assets.

An Entity classifies financial instruments based on:

a) the contractual cash flow characteristics of the financial asset (**SPPI test** – solely payments of principal and interest on the principal amount outstanding)
b) the entity's business model for managing the financial assets (**business model test).**

According to IFRS 9 an entity shall classify financial assets in one of the following measurement categories:

a) measured at amortised cost,
b) measured at fair value through other comprehensive income, or
c) measured at fair value through profit or loss.

The accounting for financial liabilities according to IFRS 9 remains largely the same as it was under IAS 39.

BAMC's classification of its financial assets and liabilities is explained in Note 3. Accounting policies of significant accounting items.

2.5.2 IFRS 15 – Revenue from Contracts with Customers

BAMC first applied IFRS 15 on 1 January 2018, and did not take advantage of the option of early adoption of standard. The standard applies to all revenue from contracts with customers. An entity only recognizes the contract with customers if the counterparty is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. The core principle is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

BAMC applies IFRS 15 in the sale of inventories (real estate assets and equipment) to buyers, where it has only one key fulfilment obligation. BAMC recognizes revenues under IFRS 15 in the period where all criteria are met cumulatively, including the right of possession and use of real estate assets and movable assets held in its inventory.

2.6 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS AS ADOPTED BY THE EU THAT ARE NOT YET EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON 1 JANUARY 2018

Standard/Interpretation *[IAS 8.31 (a), 8.31(c)]*	**Nature of impending change in accounting policy** [IAS 8.31 (b)]	**Possible impact on financial statements** *[IAS 8.30 (b); 31 (e)]*
IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.)	IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals. The new Standard introduces a number of limited scope exceptions for lessees which include: ▪ leases with a lease term of 12 months or less and containing no purchase options, and ▪ leases where the underlying asset has a low value (‘small-ticket’ leases). Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.	It is expected that the new Standard, when initially applied, will have an insignificant impact on the financial statements, since it will require BAMC to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Entity acts as a lessee. BAMC will recognise new assets and liabilities for its operating leases of (offices, cars). The nature and expenses related to those leases will now change because BAMC will recognise a depreciation charge for right-of-use assets and interest expense on the lease liabilities. Previously, BAMC recognised operating lease expenses on a straight-line basis. Instead, BAMC will include payments due under the lease in lease liability. Based on the calculation made, the Entity estimates that it will recognise additional lease liability of €1.406 thousand as at 1 January 2019. BAMC does not expect the adoption of IFRS 16 to impact its ability to repay its financial obligations.
IFRIC 23 Uncertainty over Income Tax Treatments (Effective for annual periods beginning on or after 1 January 2019. Early application is permitted)	IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity’s chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in	BAMC does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the BAMC does not operate in a complex multinational tax environment and does not

Standard/Interpretation *[IAS 8.31 (a), 8.31(c)]*	**Nature of impending change in accounting policy** [IAS 8.31 (b)]	**Possible impact on financial statements** *[IAS 8.30 (b); 31 (e)]*
	measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.	have material uncertain tax positions.
Amendments to IFRS 9: Prepayment Features with Negative Compensation (Effective for annual periods beginning on or after 1 January 2019)	These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.	BAMC does not expect that the amendments will have a material impact on the financial statements because BAMC does not have prepayable financial assets with negative compensation.
Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The European Commission decided to defer the endorsement indefinitely.)	The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that: ▪ a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.	BAMC does not expect that the amendments, when initially applied, will have material impact on its financial statements.
IFRS 17 Insurance Contracts (Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. Early application is permitted.)	IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values, instead of historical cost.	BAMC expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the entity because the Entity does not operate in the insurance industry.
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	The Amendments clarifies that companies account for investments in associates or joint ventures, for which the equity method is not applied, in accordance with the provisions of IFRS 9 Financial Instruments.	BAMC does not expect the Amendments to have a material impact on its financial statements when initially applied.

Standard/Interpretation *[IAS 8.31 (a), 8.31(c)]*	Nature of impending change in accounting policy [IAS 8.31 (b)]	Possible impact on financial statements *[IAS 8.30 (b); 31 (e)]*
(Effective for annual periods beginning on or after 1 January 2019) These amendments are not yet endorsed by the EU.		
Annual Improvements to IFRS 2015-2017 Cycle (Effective for annual periods beginning on or after 1 January 2019) These annual improvements are not yet endorsed by the EU.	The Improvements to IFRSs (2015-2017) contains four amendments to standards. The main changes were to: ▪ clarify that the entity remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations; ▪ clarify that the entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 Joint Arrangements; ▪ clarify that the entity should always accounts for income tax consequences of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized past transactions or events that generated distributable profits; and ▪ clarify that the entity should exclude from the funds that the entity borrows generally borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete as borrowings made specifically for the purpose of obtaining a qualifying asset should not apply to a borrowing originally made specifically to obtain a qualifying asset if that asset is ready for its intended use or sale.	None of these changes are expected to have a material impact on the financial statements of the BAMC.
Amendments to IAS 19: Employee Benefits (Effective for annual periods beginning on or after 1 January 2019) These amendments are not yet endorsed by the EU.	The Amendments require that the Entity uses current and updated assumptions when a change to a plan, and amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.	BAMC does not expect the Amendments to have a material impact on its financial statements when initially applied.
Amendments to IFRS 3 Business Combinations (Effective for annual periods beginning on or after 1 January 2020) These amendments are not yet endorsed by the EU.	The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.	BAMC does not expect the Amendments to have a material impact on its financial statements when initially applied.

Standard/Interpretation *[IAS 8.31 (a), 8.31(c)]*	**Nature of impending change in accounting policy** [IAS 8.31 (b)]	**Possible impact on financial statements** *[IAS 8.30 (b); 31 (e)]*
Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Effective for annual periods beginning on or after 1 January 2020) These amendments are not yet endorsed by the EU.	The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.	BAMC does not expect the Amendments to have a material impact on its financial statements when initially applied.

NOTE 3: ACCOUNTING POLICIES OF SIGNIFICANT ACCOUNTING ITEMS

3.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Measurement of categories of financial assets
From 1 January 2018, BAMC classifies all of its financial assets, except cash and cash equivalents at fair value through profit or loss, based on the business model for managing the assets and the asset's contractual terms.

Before 1 January 2018, BAMC classified its' financial assets as financial assets at fair value through profit or loss as well.

Business model assessment
BAMC determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. BAMC's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors, namely:

- limited life-span of BAMC and minimal required cash flow
- portfolio overview as at 31 December 2017
- regulatory requirements on asset management,
- assessment of remuneration policy of BAMC, d.d.,
- strategy of managing of portfolio of financial assets,
- risk management and
- historic movements of portfolios, measured at fair value.

The first assessment which BAMC made for the purpose of assessing the effects of the transition to IFRS 9 showed that BAMC uses model 3 of IFRS 9, which requires valuation at fair value through profit or loss.

SPPI test
As a second step of its classification process BAMC assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

BAMC simulates the results of SPPI test on portfolio segments, which are defined according to the characteristics of financial assets. The SPPI is not performed on an individual contract basis, since all financial assets are valued at fair value through profit or loss (either as a result of failed SPPI test or as a result of business model test).

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 classified 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).

Initial recognition:
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 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 BAMC. For this reason the aforementioned transaction was regarded as a transaction between undertakings under common control. All the effects of this transfer are recognised directly in equity as a transaction with the 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 BAMC in the absorption of the portfolios of loans and receivables of the two banks under 100% government ownership. Loans were measured at fair value in line with the valuation policy, and differences between the transfer value and estimated fair values were recognised in retained earnings as transactions with the owner.

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

Subsequent measurement:
Loans are valued at least once 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. The effects are presented within line item income from loans in the income statement. 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 4A for further explanations.

Derecognition:
BAMC 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

Initial recognition:

Investments are measured at cost value 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 4B.

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.

Subsequent measurement:

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’s holding, another method and/or discounting may be used, with appropriate arguments.

The effects of valuation are assessed at least once 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 presented within line item income from equity instruments in the income statement.

Derecognition:

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.

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 Trade receivables

The Company considers trade receivables attributable to sold loans/equity/real estate assets, receivables for advance deposits in real estate asset purchases, receivables from paid security deposits for participation at auctions, receivables for rent, claims against the state and other minor receivables.

The company categorizes has trade receivables as financial assets, within the category measured at amortized cost. In terms of essence, this includes receivables, which are set to be repaid sooner than within one year. From the perspective of assessment of impairment, receivables are considered individually, and the amount of the impairment is recognized in the income statement, as a revaluation expense.

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. Since cash and cash equivalents are held with "investment grade" financial institutions and taking into account the materiality, BAMC does not recognise Expected Credit Losses's ("ECL's") for cash and cash equivalents.

3.4 Financial liabilities

Initial recognition:

The Company recognises loans as non-derivative financial liabilities. Such financial liabilities are originally recognised at fair value, plus all directly attributable transaction costs.

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

Subsequent measurement:

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.

Derecognition:

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 O.K. if and only if the company has a legally enforceable right to net the recognised amounts, or intends to redeem the asset and simultaneously settle the liability.

3.5 Inventories of property and equipment

Initial recognition:

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 are measured at cost at initial recognition.

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 estate, presented in Note 4C.

Subsequent measurement:
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.

At least once 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.

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.

Derecognition:
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.

3.6 PROVISIONS

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

3.7 INCOME

Income includes capital gains on surpluses of payments received in excess of the carrying amount of non-performing loans, and gains and losses on conversion of assets as described in Note 3), dividend receipts, gains and losses on the remeasurement of financial assets at fair value through profit or loss, and exchange rate differences.

3.8 FINANCE EXPENSES

Finance expenses include borrowing costs (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.

3.9 CORPORATE INCOME TAX

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

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

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

3.10 DETERMINATION OF FAIR VALUE

In numerous cases 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. 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, 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 BAMC.

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 judgements 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, 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 of the valuer, 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.

DPS 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 DPS the lender is 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 DPS),
- Probability of the recovery scenario (determined with the use of DPS),
- 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 2,62% as at 31 December 2018 (WACC as at 31 December 2017 was 2,09%). The main reason for the increasing WACC as at the 2018 was lower relative share of debt financing in the total financing structure, as a result of debt repayment.

In essence, 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 to 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 at 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 on the collateral valuations performed by the internal real estate valuation experts, external valuers and/or the business analysis department.

The head of the Business analysis and valuation department is responsible for monitoring the valuation process and reviews 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
- Potential adjustment of cash flows and argumentation
- 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”) is acquainted with 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 of 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

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

The Head of the Business analysis and valuation 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 is acquainted with the valuation effects subject to additional consent from the BCIC.

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

B) METHODOLOGY FOR VALUATION OF EQUITY INVESTMENTS

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

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

The valuation methods on enterprise value level (eg FCFF for discounted cash flow method and EV/EBITDA for comparative method) are always preferred to those at the equity level or those based on dividend 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 in primary quotation, the market price is used where available and sufficient transactions occur to ensure liquidity.

Valuation process and controls applied

BAMC performs valuations of equity investments as at 31 December every year.

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

The Head of the Business analysis and valuations department 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.).
- whether treasury shares are considered,
- whether the chosen industry reflects the company's operations,
- whether 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 is acquainted with 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[15] 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.

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

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

Regardless of the methodology stated above, 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 real estate taken into the sample for factors such as: condition of property, size of property, age of property, location, etc. Then the average of those adjusted market prices is used as the value of appraised real estate.

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

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

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

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

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

Discount rates used in valuations of real estate
For the calculation of the discount rates, the build-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, BAMC performs a valuation of real estate once per year, namely, as at 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. 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 occur, also the dicount rate reflecting the market sentiment also 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 the Real Estate Management Support Department who reviews the valuations from a logical and technical point of view.

The valuation report is signed by the valuer and reviewer.

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

The ECIC is acquainted with the valuations subject to additional consent from the BCIC.

The effects of the valuation, if any, are recognised in the financial statements on an annual basis.

NOTES TO THE BALANCE SHEET

NOTE 5: BANK DEPOSITS

BAMC pledged deposits to banks as collateral for the bank guarantees issued to BAMC's debtors. The amount of pledged deposits as at 31 December 2018 amounts to €3.521 thousand and are due in November 2019.

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

in € thousand	31 Dec 2018	31 Dec 2017
Loans and receivables	552.500	649.169
restructuring	255.816	282.461
recovery	296.684	366.708
Other (collective valuation)	7.215	11.068
Total	**559.715**	**660.237**

MOVEMENT IN THE LOAN BALANCES FROM 1 JAN TO 31 DEC 2018

in € thousand	2018	2017
Opening balance 1 January	**660.237**	**945.947**
Import of leasing portfolio in the common system	0	1.548
Increase in loan portfolio	28.004	9.368
Repayments	-206.076	-400.953
Cash repayments	-175.175	-303.250
Conversion to real estate (Note 8)*	-2.820	-23.274
Conversion to trade receivables	-2.400	0
Loans sold	-15.434	-70.765
Conversion to equity (Note 7)	-10.247	-3.664
Increase/decrease on revaluation (Note 16)	37.943	54.338
Increase/decrease for capital gains/losses (Note 16)	33.987	50.745
Other	5.620	-755
Closing balance 31 December	**559.715**	**660.237**

* From the total amount €2.820 thousand is as D/RE conversion recognised amount of €2.729 thousand, difference in amount of €91 thousand is recognised as advance payment for inventories of property.

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

The table below presents the movement in loan balances with a separate analysis for debtors, which were classified as debtors with a restructuring strategy as at 1 January 2018.

MOVEMENT IN THE LOAN BALANCES FROM 1 JAN TO 31 DEC 2018

in € thousand	**Restructuring debtors**	**Recovery Debtors and collective valuation**	**Total 2018**
Opening balance 1 January	**282.461**	**377.776**	**660.237**
Movement between both strategies	**17.899**	**-17.899**	**0**
Increase in loan portfolio	8.114	19.890	28.004
Repayments	-71.169	-134.907	-206.076
Cash repayments	-59.400	-115.775	-175.175
Conversion to real estate	0	-2.820	-2.820
Conversion to trade receivables	-2.400	0	-2.400
Loans sold	-4.900	-10.534	-15.434
Conversion to equity	-4.469	-5.778	-10.247
Increase/decrease on revaluation	11.545	26.398	37.943
Increase/decrease for capital gains/losses	6.376	27.611	33.987
Other	590	5.030	5.620
Closing balance 31 December	**255.816**	**303.899**	**559.715**

The table below presents the movement in loan balances with a separate analysis for debtors, which were classified as debtors with a restructuring strategy as at 31 December 2017.

Movement in the loan balances from 1 Jan to 31 Dec 2017

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

Note 7: Financial assets at fair value through profit or loss – equity investments

in € thousand	31 Dec 2018	31 Dec 2017
Equity shares and bonds of listed companies	24.475	33.958
a) Shares	24.475	33.958
Equity shares of unlisted companies	65.399	65.047
a) Shares	35.845	36.855
b) Ownership stake	29.554	28.192
Total	**89.874**	**99.005**

Movement in the equity investments and bonds from 1 Jan to 31 Dec 2018

in € thousand	Equity investments
Opening balance 1 January 2018	**99.005**
Acquisition	9.468
Debt to equity conversions (Note 6)	10.247
Revaluation * (Note 17)	-8.308
Disposal	-20.538
Closing balance 31 December 2018	**89.874**

* Revaluation effect in amount of €4.268 thousand was recognised in equity as a transaction with owner, €4.040 thousand in income statement as revaluation result.

DETAILED LIST OF BAMC EQUITY OWNERSHIPS AS AT 31 DECEMBER 2018:

Naziv in sedež	**Share capital**	**Net result 2017, 2018(*)**	**Industry**	**Country**	**Shareholding (v %)**
ALPINA, tovarna obutve, d. o. o. Strojarska ulica 2, 4226 Žiri	9.042.915 EUR	2.051.075 EUR	Manufacturing	Slovenia	86,88%
ARGOLINA, d. o. o. Slovenska cesta 58, 1000 Ljubljana	13.147.650 EUR	-587.769 EUR	Construction	Slovenia	100,00%
AVTOTEHNA, d. o. o. Litijska cesta 259, 1261 Ljubljana – Dobrunje	10.000.000 EUR	93.214 EUR	Wholesale and retail	Slovenia	100,00%
HYUNDAY AVTO BG Milutina Milankovića 7V, 11000 Beograd	1.395.046 EUR	-6.102,EUR*	Wholesale and retail	Serbia	46,00%
DRUŽBA ZA NEKRETNINE, d. o. o. Šetalište Svetog Bernardina bb, Krk, Republika Hrvaška	146.000 HRK	-6.577.970 HRK*	Real estate activities	Croatia	100,00%
DUP Pohorje, d. o. o. Davčna ulica 1, 1000 Ljubljana	10.000 EUR	0	Professional activities	Slovenia	100,00%
DUP 1, d. d. Davčna ulica 1, 1000 Ljubljana	24.919 EUR	-1.777 EUR	Professional activities	Slovenia	100,00%
DUTB, d. o. o. – Beograd Milutina Milankovića 7v, 11070 Beograd	10.802.913 EUR	258.751 EUR*		Serbia	100,00%
DUP SARAJEVO, d. o. o. Ul. Vrazova broj 3, Sarajevo	1.124.602 KM	-526 KM*	Real estate activities	Bosnia	100,00%
FACTOR PROJEKT, d. o. o. Šetalište Svetog Bernardina bb, Krk, Republika Hrvaška	11.168.100 HRK	-875.135 HRK		Croatia	100,00%
BR89, d. o. o. (prej FARME IHAN, d. d.) Breznikova 89, 1230 Domžale	25.000 EUR	-189.178 EUR	Agriculture	Slovenia	100,00%
FUNDUS, d. o. o. Beograd Milutina Milankovića 7v, 11070 Beograd	340 EUR	-7.750 EUR*		Serbia	100,00%
RAVNE PRESSES, d. o. o. Koroška cesta 15, 2390 Ravne na Koroškem	1.703.701 EUR	47.929 EUR	Manufacturing	Slovenia	88,67%
HOTELI Bernardin, d. d. Portorož	66.962.736 EUR	892.272 EUR	Tourism	Slovenia	35,30%
MENINA, d. d. Trg padlih borcev 3, 1241 Kamnik	3.562.195 EUR	143.751 EUR	Manufacturing	Slovenia	20,28%
MERKUR nepremičnine, d. d. Cesta na Okroglo7, 4202 Naklo	25.609.000 EUR	2.322.000 EUR	Real estate activities	Slovenia	62,76%
MK Založba, d. d. Slovenska cesta 29,1000 Ljubljana	5.141.149 EUR	52.750 EUR	Publishing	Slovenia	51,23%
MLM, d. d. Oreško obrežje 9, 2000 Maribor	3.035.740 EUR	-3.956.719 EUR	Manufacturing	Slovenia	100,00%
NIGRAD, d. d. Zagrebška cesta 30,2000 Maribor	3.679.235 EUR	32.559 EUR	Public utilities	Slovenia	24,91%
NPL PORT, d. o. o. Trg Leona Štuklja 12, 2000 Maribor	25.000 EUR	43.559 EUR*	Professional activities	Slovenia	100,00%
PPS - PEKARNE PTUJ, d. d.- v prisilni poravnavi Rogozniška cesta 2, 2250 Ptuj	82.383 EUR	83.623 EUR	Manufacturing	Slovenia	100,00%
PY&CA, d. o. o., Beograd Milutina Milankovića 7v, 11070 Beograd	2.040.095 EUR	-4.408 EUR*		Serbia	100,00%
RIOSI INŽENIRING, d. o. o. Šlandrova ulica 10, 1231 Ljubljana- Črnuče	304.624 EUR	-196.744 EUR	Professional activities	Slovenia	39,18%
THERMANA, d. d. Zdraviliška cesta 6, 3270 Laško	12.000.225 EUR	1.166.512 EUR	Tourism	Slovenia	100,00%
TINK, d. o. o. Kosovelova 16, 3000 Celje	1.720.000 EUR	-382.305 EUR	Wholesale and retail	Slovenia	100,00%

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

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

in € thousand	Equity investments	Bonds	Total
Opening balance 1 January 2017	**94.188**	**2.757**	**96.945**
Acquisition	1.321	0	1.321
Debt to equity conversions	3.664	0	3.664
Revaluation (Note 17)	941	94	1.035
Maturity	-	-2.851	-2.851
Disposal	-1.109	0	-1.109
Closing balance 31 December 2017	**99.005**	**0**	**99.005**

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

Name and registered office	Share capital	Net result 2016, 2017(*)	Industry	Country	Shareholding (in %)
ALPINA, tovarna obutve, d. o. o. Strojarska ulica 2, 4226 Žiri	9.042.915 EUR	-7.489.411 EUR	Manufacturing	Slovenia	100,00%
ARGOLINA, d. o. o. Slovenska cesta 58, 1000 Ljubljana	13.147.650 EUR	-911.837 EUR	Construction	Slovenia	100,00%
AVTOTEHNA, d. o. o. Litijska cesta 259, 1261 Ljubljana – Dobrunje	10.000.000 EUR	5.750.188 EUR	Wholesale and retail	Slovenia	100,00%
CERTA, d. d. Ličarjeva ulica 7, 5282 Cerkno	9.432.582 EUR	723.509 EUR	Professional activities	Slovenia	21,45%
DRUŽBA ZA NEKRETNINE, d. o. o. Šetalište Svetog Bernardina bb, Krk, Republika Hrvaška	15.416.106 EUR	-1.205.214 EUR		Croatia	100,00%
DUP Pohorje, d. o. o. Davčna ulica 1, 1000 Ljubljana	10.000 EUR	0	Professional activities	Slovenia	100,00%
DUP 1, d. d. Davčna ulica 1, 1000 Ljubljana	25.000 EUR	-1.777 EUR*	Professional activities	Slovenia	100,00%
DUTB, d. o. o.– Beograd Milutina Milankovića 7v, 11070 Beograd	1.230.000 RSD	7.565.000 RSD*	Real estate activities	Serbia	100,00%
FACTOR BG EOD St. Tvardishki passage No23, Fl. 3, districz Triaditsa, 1404 Sofia, Bulgaria	13.000 EUR	-15.000 EUR*		Bulgaria	100,00%
FACTOR PROJEKT, d. o. o. Šetalište Svetog Bernardina bb, Krk, Republika Hrvaška	11.168.158 EUR	-864.339 EUR		Croatia	100,00%
FARME IHAN, d. d. Breznikova 89, 1230 Domžale	25.000 EUR	-13.534 EUR	Agriculture	Slovenia	100,00%
FUNDUS, d. o. o. Beograd Milutina Milankovića 7v, 11070 Beograd	40.245 RSD	181.931 RSD*		Serbia	100,00%
ILLURIA HOLDINGS LIMITED Arch. Makariou III, 195, Neocleous house 195, 3032 Limassol	N/A**	N/A**		Cyprus	100,00%
KOTO, d. o. o. Agrokombinatska cesta 80, 1000 Ljubljana	2.695.522 EUR	521.496 EUR	Manufacturing	Slovenia	66,23%

Name and registered office	Share capital	Net result 2016, 2017(*)	Industry	Country	Shareholding (in %)
Litostroj Jeklo, d. o. o. Litostrojska cesta 44,1000 Ljubljana	469.759 EUR	-2.660.118 EUR	Manufacturing	Slovenia	79,49%
RAVNE PRESSES, d. o. o. Koroška cesta 15, 2390 Ravne na Koroškem	1.703.701 EUR	298.676 EUR	Manufacturing	Slovenia	88,67%
LIV KOLESA, d. o. o. Industrijska cesta 2, 6230 Postojna	3.107.212 EUR	101.503 EUR	Manufacturing	Slovenia	100,00%
MENINA, d. d. Trg padlih borcev 3, 1241 Kamnik	3.562.196 EUR	95.975 EUR	Manufacturing	Slovenia	20,28%
MERKUR nepremičnine, d. d. Cesta na Okroglo7, 4202 Naklo	25.609.000 EUR	2.094.000 EUR	Real estate activities	Slovenia	62,49%
MK Založba, d. d. Slovenska cesta 29,1000 Ljubljana	5.141.149 EUR	68.460 EUR	Publishing	Slovenia	51,23%
MLM, d. d. Oreško obrežje 9, 2000 Maribor	1.050.000 EUR	3.742.285 EUR	Manufacturing	Slovenia	67,24%
NIGRAD, d. d. Zagrebška cesta 30,2000 Maribor	3.679.235 EUR	-517.837 EUR	Public utilities	Slovenia	24,91%
NPL PORT, d. o. o. Trg Leona Štuklja 12, 2000 Maribor	25.000 EUR	22.592 EUR*	Professional activities	Slovenia	100,00%
PPS - PEKARNE PTUJ, d. d.- v prisilni poravnavi Rogozniška cesta 2, 2250 Ptuj	82.383 EUR	82.203 EUR	Manufacturing	Slovenia	100,00%
PY&CA, d. o. o. Beograd Milutina Milankovića 7v, 11070 Beograd	235.179.479 RSD	-135.231RSD*		Serbia	100,00%
RIOSI INŽENIRING, d. o. o. Šlandrova ulica 10, 1231 Ljubljana- Črnuče	304.624 EUR	1.137 EUR	Professional activities	Slovenia	39,18%
SOTTO VENTO, d. o. o. Milutina Milankovića 7v, 11070 Beograd	24.959 RSD	689.978 RSD*		Serbia	100,00%
TERME DOBRNA, d. d. Dobrna 50, 3204 Dobrna	2.887.900 EUR	394.018 EUR*	Tourism	Slovenia	23,37%
THERMANA, d. d. Zdraviliška cesta 6, 3270 Laško	12.000.225 EUR	952.859 EUR	Tourism	Slovenia	100,00%
TINK, d. o. o. Kosovelova 16, 3000 Celje	1.720.000 EUR	-11.360 EUR	Wholesale and retail	Slovenia	100,00%
ZLATA MONETA II, d. o. o. Trg Leona Štuklja 12, 2000 Maribor	25.000 EUR	-156.676 EUR	Financial activities	Slovenia	100,00%

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

The table above presents equity investments in companies where the BAMC hold more than a 20% ownerships stake and the companies are not in bankruptcy procedure.

NOTE 8: INVENTORIES OF PROPERTY AND EQUIPMENT

in € thousand	31 Dec 2018	31 Dec 2017
Real estate	173.041	178.825
Equipment	2.042	1.950
Advance payments for inventories of property	5.381	13.388
Total	**180.464**	**194.163**

The majority of inventories of property and equipment in the amount of €175.083 thousand were recognized as a result of debt to real estate conversions or purchases at auctions from the BAMC's debtors.

Of the total carrying amount of €173.041 thousand of real estate inventories, €98.086 thousand is valued at costs (31 December 2017 €104.061 thousand) and €74.955 thousand at net realizable value (31 December 2017 €74.764 thousand).

The estimated net realisable value of real estate inventories at year-end is €209.242 thousand (31 December 2017 €204.273 thousand).

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

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

in € thousand	**31 Dec 2018**	**31 Dec 2017**
Residential	46.938	54.951
Land	82.126	74.097
Industrial	21.419	15.363
Office	33.916	16.757
Retail	6.898	18.050
Tourism	17.945	25.055
Total	**209.242**	**204.273**

NET REALISABLE VALUE OF REAL ESTATE INVENTORY BY VALUATION METHOD

in € thousand	**31 Dec 2018**	**31 Dec 2017**
Transaction value	6.015	13.374
Market approach	140.955	127.774
Income approach	62.272	63.125
Total	**209.242**	**204.273**

NET REALISABLE VALUE OF REAL ESTATE INVENTORY BY LOCATION OF THE REAL ESTATE

in € thousand	31 Dec 2018	31 Dec 2017
Gorenjska	15.656	13.640
Goriška	19.952	9.990
Jugovzhodna Slovenija	1.749	1.812
Koroška	721	1.646
Obalno-kraška	43.066	54.808
Osrednjeslovenska	72.876	54.714
Podravska	36.096	38.559
Pomurska	1.863	651
Primorsko-notranjska	53	81
Savinjska	9.520	10.194
Spodnjeposavska	1.339	1.454
Zasavska	8	9
Hrvaška	5.391	4.791
Srbija	295	10.949
Bolgarija	657	973
Total	**209.242**	**204.273**

MOVEMENT IN INVENTORIES OF PROPERTY AND EQUIPMENT (WITHOUT ADVANCE PAYMENTS) FROM 1 JAN 2018 TO 31 DEC 2018

in € thousand	Real estate	Equipment	Total
Opening balance 1 January 2018	**178.825**	**1.950**	**180.775**
Partial settlement of debts (repossessions) (Note 6)*	2.695	34	2.729
Acquisitions	32.842	329	33.171
Disposal (Note 18)	-31.207	-271	-31.478
Disposal (contribution in-kind DUTB Beograd)	-8.812	0	-8.812
Write-down to net realizable value and reversals write-downs (Note 18)	-1.302	0	-1.302
Closing balance 31 December 2018	**173.041**	**2.042**	**175.083**

* From the total amount €2.820 thousand is as D/RE conversion recognised amount of €2.729 thousand, difference in amount of €91 thousand is recognised as advance payment for inventories of property.

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

in € thousand	Real estate	Equipment	Total
Opening balance 1 January 2017	**192.383**	**1.669**	**194.052**
Partial settlement of debts (repossessions)	23.050	225	23.275
Acquisitions	50.334	86	50.420
Disposal (Note 18)	-77.678	-30	-77.708
Reversals of net realizable value or write-downs (Note 18)	-9.264	0	-9.264
Closing balance 31 December 2017	**178.825**	**1.950**	**180.775**

Note 9: Trade and other receivables

Current and non-current portions of trade and other receivables

in € thousand	31 Dec 2018	31 Dec 2017
Current portion	6.985	5.201
Non-current portion	2.084	299
Total	**9.069**	**5.500**

Analysis of trade and other receivables

in € thousand	31 Dec 2018	31 Dec 2017
Trade receivables from customers	3.491	139
Advance payments	2.238	2.525
Receivables from investment banking (from merged banks)	0	481
Receivables for other taxes	298	890
Receivables for current income tax	243	0
Claims for payment deposits with the notary public	388	299
Other receivables	2.410	1.166
Total	**9.069**	**5.500**

Note 10: Cash and cash equivalents

in € thousand	31 Dec 2018	31 Dec 2017
Cash in banks	536	4.970
Call deposits	18.299	64.962
Over-night deposits	21.862	16.951
Short-term deposits	26.001	0
Other deposits	41	3.753
Total	**66.739**	**90.636**

BAMC pledged deposits to banks as collateral for the bank guarantees issued to BAMC's debtors. The amount of pledged deposits as at 31 December 2018 amounts to €41 thousand (at 31 December 2017 €3.753 thousand).

Note 11: Equity

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

The BAMC does not hold any treasury shares.

in € thousand	31 Dec 2018	31 Dec 2017
Share capital	104.118	104.118
Retained earnings / Accumulated loss	95.742	42.311
Total	**199.860**	**146.429**

MOVEMENT OF ACCUMULATED LOSS / RETAINED EARNINGS FROM 1 JAN TO 31 DEC

in € thousand	2018	2017
Opening balance 1 January	**42.311**	**-178.792**
Transactions with owner	-4.268	0
Loans disposal	-4.268	0
Net profit / loss for the period	57.700	66.986
Offsetting losses from capital reserves	0	154.117
Closing balance 31 December	**95.742**	**42.311**

Based on General Meeting decision dated 21 March 2018 the total negative effect amounting to €4.268 thousand from disposal of an equity investment was recognised as a transaction with the owner.

NOTE 12: BORROWINGS AND OTHER FINANCIAL LIABILITIES

in € thousand	31 Dec 2018	31 Dec 2017
Loans from banks	695.017	876.237
Deposits received	1.620	1.918
Other financial liabilities	9	2.020
Total	**696.646**	**880.175**

BAMC did not obtain any new loan in 2018.

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

in € thousand	31 Dec 2018	31 Dec 2017
Current portion	136.261	185.901
Non-current portion	560.385	694.274
Total	**696.646**	**880.175**

Movement in loans from banks from 1 Jan to 31 Dec

in € thousand	2018	2017
Opening balance 1 January	**876.237**	**707.528**
New loans raised	0	728.000
Interest accrued	3.862	3.715
Repayments	-185.082	-563.006
Closing balance 31 December	**695.017**	**876.237**

Note 13: Trade and other payables and liabilities for current tax

in € thousand	31 Dec 2018	31 Dec 2017
Trade payables	1.935	1.753
Advance payments and securities	1.872	4.629
Payables to employees	568	771
Payables to the state and other state institutions	605	1.008
Payables to others	1.242	345
Total	**6.222**	**8.506**

in € thousand	31 Dec 2018	31 Dec 2017
Liabilities for current tax	0	6.058
Total	**0**	**6.058**

Trade payables in the amount of €1.935 thousand relate mainly to payables for the acquisition of assets in bankruptcy proceedings and for other costs.

The advance payments and security deposits amounting to €1.872 thousand reflect payments made under already-signed real estate sale contracts and the potential buyers' payments made in the bidding process involving the submission of binding bids on real estate, loans and equity investments.

Payables to employees represent the liability for salary for December 2018 paid out in January 2019.

Note 14: Provisions

in € thousand	31 Dec 2018	31 Dec 2017
Provisions for lawsuits	3.165	3.115
Provisions for severance payments	415	341
Provisions for guarantees on sold apartments	229	0
Other provisions	2.233	2.628
Total	**6.042**	**6.084**

MOVEMENT IN PROVISIONS FROM 1 JAN TO 31 DEC 2018

in € thousand	Provisions for severance payments	Provisions for lawsuits	Provisions for guarantees on sold apartments	Other provisions	Total
Opening balance 1 January 2018	**341**	**3.115**	**0**	**2.628**	**6.084**
Increase	171	142	229	0	541
Provisions used	-55	-9	0	-628	-692
Provisions released	-42	-83	0	233	109
Closing balance 31 December 2018	**415**	**3.165**	**229**	**2.233**	**6.042**

MOVEMENT IN PROVISIONS FROM 1 JAN TO 31 DEC 2017

in € thousand	Provisions for severance payments	Provisions for lawsuits	Other provisions	Total
Opening balance 1 January 2017	**579**	**8.786**	**3.459**	**12.824**
Increase	240	303	0	544
Provisions used	-243	-4.523	-823	-5.589
Provisions released	-236	-1.451	-7	-1.694
Closing balance 31 December 2017	**341**	**3.115**	**2.628**	**6.084**

A) PROVISIONS FOR LAWSUITS

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

For the lawsuits for which the probability of a negative outcome of the lawsuit was assessed as more than 50%, the provisions were raised in the total value of the currently estimated liability. The estimations of the result of lawsuit together with potential damages is prepared by management of the BAMC in cooperation with the legal department. In 2018, €142 thousand of provisions were raised for lawsuits.

B) PROVISIONS FOR SEVERANCE PAYMENTS

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

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

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

The liabilities for long-term employee benefits are discounted and their present value at the end of 2018 amounts to €415 thousand.

SENSITIVITY ANALYSIS OF ACTUARIAL ASSUMPTIONS

Actuarial assumption	0,5 percentage point adjustment of the assumption	Change of current obligation (in € thousand) 31 Dec 2018	31 Dec 2017
Profitability	increase	-7	-5
	reduction	2	2
Salary growth	increase	7	5
	reduction	-7	-5
Fluctuation	increase	-8	-6
	reduction	8	6

C) PROVISIONS FOR GUARANTEES ON SOLD APARTMENTS

In 2018, BAMC formed provisions under the Protection of Buyers of Apartments and Single Occupancy Buildings Act (ZVKSES), under which the seller is liable for latent defects which could not be detected at the time of acceptance of the real estate, for defects which become manifest within two years from acceptance of the real estate.

The provisions are scaled based on past experience, depending on the number of apartments which still constitute a liability for BAMC as the seller.

D) OTHER PROVISIONS

Other provisions consist of provisions for issued bank guarantees in amount of €2.036 thousand and other provisions in amount of €198 thousand.

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

In 2018, since the merger with the two banks, provisions for issued bank guarantees decreased to €2.036 thousand due to the release of provisions for expired guarantees.

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

Other provisions comprises provisions for potential damages inherited from the merged Probanka and an onerous contract. As at 31 December 2018 other provisions amount to €198 thousand.

NOTE 15: OTHER LIABILITIES

in € thousand	31 Dec 2018	31 Dec 2017
Accrued costs	1.093	1.294
Deferred revenue	122	833
Other liabilities (VAT from advance payments for inventories)	6	1.004
Total	**1.221**	**3.131**

Notes to the income statement

Note 16: Income from loans

in € thousand	2018	2017
Capital gains/losses (Note 6)	33.987	50.746
Net revaluation (Note 6)	37.943	54.208
Other income /expense from loans	1.145	-10.107
Total	**73.075**	**95.037**

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

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

Note 17: Income from equity investments

in € thousand	2018	2017
Capital gains/losses	2.833	60
Net revaluation (Note 7)*	-4.040	1.035
Dividends	7.045	9.080
Other income from equity investments	0	51
Total	**5.838**	**10.226**

*Revaluation effect in amount of €4.268 thousand was recognised in equity as a transaction with owner, €4.040 thousand in income statement as revaluation result.

Note 18: Income from inventories of property and equipment

in € thousand	2018	2017
Income from rents	2.154	2.395
Income from inventories sold	46.222	95.810
Cost of inventories sold (Note 8)	-31.477	-77.708
Net write-downs and reversal of write-downs (Note 8)	-1.302	-9.264
Total	**15.597**	**11.233**

In 2018 BAMC recognized €1.302 thousand of write-downs of inventories, in 2017 €9.264 thousand.

Note 19: Financial expenses

in € thousand	2018	2017
Interest expenses on borrowings	-3.862	-11.676
Guarantee fees	-7.943	-9.992
Other	0	-476
Total	**-11.805**	**-22.144**

Note 20: Other income

The bulk of other revenues totalling €1.132 thousand represents revenue from release of long-term provisions and the contractual penalty received (when a potential buyer fails to pay the entire sum of the purchase price, the security deposit shall be retained by BAMC).

Note 21: Cost of services

in € thousand	2018	2017
Real estate management cost	-4.463	-7.473
Costs of professional services	-3.794	-3.775
Accounting and back office services	-1.300	-1.609
Legal, valuation and advisory services	-2.494	-2.166
Other services	-2.741	-2.694
Total	**-10.998**	**-13.942**

Note 22: Payroll costs

in € thousand	2018	2017
Salaries (including bonuses)	-5.946	-6.131
Pension contributions	-526	-543
Health and social insurance	-415	-430
Other payroll costs	-1.189	-1.418
Total	**-8.076**	**-8.522**

Remuneration of Board Management members in 2018

in € thousand Name	Period	Position	Gross income	Fringe benefits	Other	Total
Miha Juhart	1.1. – 7.12.2018	Non-executive director	72	0	0	**72**
Mitja Križaj	1.1. – 31.12.2018	Non-executive director	60	0	0	**60**
Janez Širovnik	1.1. – 31.12.2017	Non-executive director	5	0	30*	**35**
Juan Barba Silvela	1.1. – 31.12.2018	Non-executive director	60	0	0	**60**
Marko Tišma	14.12. – 31.12.2018	Non-executive director	0	0	0	**0**
Tomaž Besek	8.12. – 31.12.2018	Non-executive director	0	0	0	**0**
Janez Škrubej**	1.1. – 1.1.2018	Executive director	12	1	127*	**140**
Aleš Koršič**	1.1. – 1.1.2018	Executive director	11	0	65*	**76**
Andrej Prebil	1.1. – 31.12.2018	Executive director	131	8	6	**144**
Jože Jaklin	1.1. – 31.12.2018	Executive director	130	6	4	**139**
Imre Balogh	1.1. – 31.12.2018	Executive director	214	6	49	**269**
Total			**694**	**21**	**280**	**995**

* the amount paid in compensation for respecting non-competition clause

** the mandate terminated on 31 December 2017

Non-executive directors are not salaried but are compensated through a management agreement.

Remuneration of Committee members in 2018

in € thousand Name	Period	Position	Gross income	Other	Total
Jerman Tamara	1. 1. – 31.12.2018	Member of Audit Committee	7	0	7
Slapničar Sergeja	1.1. – 31.8.2018	Member of Remuneration committee	3,5	0	3,5
Prijović Irena	1.9. – 31.12.2018	Member of Remuneration committee	1,5	0	1,5
Šmuc Sonja	1.1. – 31.12.2018	Member of Accreditation committee	3	0	3
Total			**15**	**0**	**15**

Note 23: Other expenses

in € thousand	2018	2017
Increase in provisions	-371	-303
Court costs related to loan collections	-742	-1.009
Operating expenses from revaluation	-44	-508
Other expenses	-300	-260
Total	**-1.457**	**-2.079**

NOTE 24: INCOME TAX EXPENSE

in € thousand	2018	2017
Tax expense	5.401	6.058
Deferred tax	0	0
Total	**5.401**	**6.058**

The BAMC did not recognize a deferred tax asset for unrecognized tax losses on 31 December 2018 due to uncertainty of the market situation and future profits and limited lifetime of the company.

in € thousand	2018	2017
Accounting profit / loss	**63.101**	**73.044**
Income tax rate	19%	19%
Tax at the applicable tax rate	11.990	13.878
Tax effect of:		
tax exempt income	-1.390	-1.752
not deductible expenses	225	234
Recognition of previously non-deductible expenses	0	0
Tax credits	-33	-64
Recognition of previously unrecognised tax losses	-5.391	-6.238
Tax expense (current tax)	**5.401**	**6.058**
Effective tax rate	**9%**	**8%**

The Accumulated tax losses of the BAMC as at 31 December 2018 amounts to €706.167 thousand (31 December 2017 amounts to €734.829 thousand). Accumulated loss represents tax losses of BAMC, of the two merged banks and five subsidiaries. The tax loss of merged companies could be used by BAMC to offset future profits.

NOTE 25: EARNINGS PER SHARE

	2018	2017
Profit / loss for the year (in € thousand)	57.700	66.986
Number of ordinary shares issued at the end of the year	104.118	104.118
Weighted average number of ordinary shares	104.118	104.118
Earnings per share and diluted earnings per share (in €)	**0,554**	**0,643**

NOTE 26: FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT

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

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

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

Risk management in 2018 continued with the already introduced and implemented risk management system. Activities were focused on improvement of key business processes and mitigation of identified loss events.

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

The risk to which is BAMC most exposed to, is credit risk. BAMC measures its loans and receivables based on fair value through profit and loss, according to the future expected cash flows by borrowers. Great attention has been given to improvement of credit risk management process, both in the process of measuring creditworthiness of borrowers and approving their exposures and in process of monitoring, managing and collection of credit collateral. In 2017 BAMC started and in 2018 terminated an extensive project regarding comprehensive review and consolidation of collateral, submitted to credit exposures. A unified database for all types of collateral is established which facilitates everyday procedures with enforcement of collateral.

BAMC has continued with a conservative approach towards market risk. The preceding year was notable for a vibrant scene on real estate markets. Slovenia has in 2018 achieved positive economic growth, real growth of GDP on a yearly level was 4,5% (5,0% in 2017)[16]. Yield to maturity of 10-year Slovenian government bonds as at end of 2018 amounted to 0,993% (1,157% in 2017)[17]. Yearly change of SBI TOP was -0,2%, average daily turnover at Ljubljana stock exchange was €1,4 million (3% decrease in comparison to year 2017), capitalisation of shares grew for 20,4%[18].

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

A CORPORATE GOVERNANCE AND ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

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

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

Following structures are included in the risk management process:

COMMITTEES

Audit Committee assists the Board of Directors in fulfilling its supervisory responsibilities. The Committee acts independently from executive management with aim to unsure that the interests of the shareholders are properly protected in relation to financial reporting, internal controls, risk management, auditing, and compliance. The Committee is accountable for keeping itself informed

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

[17] Source: Bloomberg

[18] Source: Ljubljana Stock Exchange, Yearly Report – Year 2018, Trading Summary

about the statutory audit of the annual accounts and monitoring the impartiality and independence of the statutory auditors.

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

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

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

Organizational units

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

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

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

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

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

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

B ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

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

The majority of BAMC financial assets and liabilities are classified in Level 3 of the fair value hierarchy except part of Petrol shares, which is classified in Level 1 of the fair value hierarchy as at 31 December 2018. The other part of shares is classified in Level 3.

There were no transfers between Levels 1 and 3 during the year, except for equity investment. The transfer between levels of equity investments is presented in the movement in Level 3 financial assets valued at fair value through profit or loss below. There are some equity investments that are listed in the stock exchange but BAMC still classifies them at Fair Value Level 3, when there is not enough liquidity on the market or the stock market is not functional.
In the table below, BAMC has disclosed the fair value of each class of financial assets and financial liabilities in a way that enables the information to be compared with the carrying amounts. In addition,

it has reconciled the assets and liabilities to the different categories of financial instruments as defined in IAS 39 Financial instruments: Recognition and Measurement.

ACCOUNTING CLASSIFICATIONS AND FAIR VALUES AS AT 31 DECEMBER 2018

in € thousand	Carrying amount			Fair value			
	Designated at fair value	**Designated at amortised costs**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value	**649.589**	**-**	**649.589**	**1.754**	**-**	**647.835**	**649.589**
Loans	559.715	-	559.715	-	-	559.715	559.715
Equity Investments and bonds	89.874	-	89.874	1.754	-	88.120	89.874
Financial assets not measured at fair value	**-**	**9.069**	**9.069**	**-**	**-**	**-**	**-**
Trade and other operating receivables	-	9.069	9.069	-	-	-	-
Financial liabilities not measured at fair value	**-**	**704.089**	**704.089**	**-**	**-**	**851.516**	**851.516**
Trade and other payables	-	6.222	6.222	-	-	-	-
Borrowings	-	696.646	696.646	-	-	677.712	677.712
Other liabilities	-	1.221	1.221	-	-	-	-

Accounting classifications and fair values as at 31 December 2017

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

C Measurement of fair values

C.1 Valuation techniques and significant unobservable inputs

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

Financial instruments measured at fair value

SIGNIFICANT UNOBSERVABLE INPUTS

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Loans	*Individual valuations: Discounted cash flows*, where future cash flows are estimated separately for restructuring and recovery scenario. Probability of each scenario is set by the use of DPS model. Cash flows of both scenarios are discounted with weighted average cost of capital (WACC). *Collective valued exposures:* valuation estimated for a pool of borrowers (with exposures, lower than € 300 thousand), where segments are set according to the days in delay of each borrower. Probability of default is applied on a loss given default value (exposure, lowered for the collateral value).	*Individual valuations:* - The probability of restructuring attached to each scenario (0% for recovery cases, 50%-100% for restructuring cases). - Discounting factor: weighted average cost of capital (WACC). 2018: 2,62%; 2017:2,09% *Collective valued exposures:* - PD as determined in one of the bank, which assets were merged to BAMC in 2016, according to the days in delay (3,86%, if days in delay 0-30; 10,60%, if days in delay 31-90; 38,54%, if days in delay 91-180; 100%, if days in delay exceed 90) - LGD: subtracting the collateral value form outstanding amount	The estimated fair value of loans increases (decreases), if: *Individual valuations:* - The estimated cash flows increase (decrease), - The discount factor decreases (increases), - The probability of restructuring scenario increases (decreases), condition to restructuring cash flows exceed (do not exceed) recovery cash flows *Collective valued exposures* - PD decreases (increases) - LGD increases (decreases)
Equity investment and bonds	*Discounted cash flows* *Net asset value* *Multiples* *Dividend discount model* *Market price* *Transaction price*	Inputs that affect free cash flow and subsequently the enterprise value, such as: projected revenue growth, gross profit margin, capex, working capital and the terminal growth in the FCFF.	The enterprise value increases when the revenues are growing and/or costs are increasing less, are fixed or decreasing, resulting in higher gross profit margin. Inversely, increases in the capex and negative cash flow from changes in working capital are decreasing the enterprise value.

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

FAIR VALUE OF EQUITY INVESTMENTS AND BONDS AS AT 31 DECEMBER 2018 AND 2017

in € thousand	31 Dec 2018	31 Dec 2017
DCF	71.539	60.907
Net asset value	14.963	18.020
Multiples	86	5.896
Indicative auction price	49	
Dividend discount model	1.483	1.601
Level 3	**88.120**	**86.425**
Market price	1.754	12.580
Transaction price	0	0
Level 1	**1.754**	**12.580**
Total	**89.874**	**99.005**

Financial instruments not measured at fair value

SIGNIFICANT UNOBSERVABLE INPUTS

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

C.2 TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

There were no transfers between Level 1 and Level 2 Fair value in 2018.

C.3 MOVEMENT IN LEVEL 3 FAIR VALUES

The following tables show movement in Level 3 fair values.

MOVEMENT IN LEVEL 3 FINANCIAL ASSETS AT FAIR VALUE (LOANS) THROUGH PROFIT OR LOSS IN 2018

in € thousand	Loans
Opening balance 1 January 2018	**660.237**
Increase in loan portfolio	28.004
Debt to equity swaps	-10.247
Debt to real estate conversion	-2.820
Debt to debt swap	-2.400
Loans sold	-15.434
Repayments	-175. 175
Capital gains/losses	33.943
Revaluation	37.943
Other changes	5.620
Closing balance 31 December 2018	**559.715**

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

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

MOVEMENT IN LEVEL 3 FINANCIAL ASSETS AT FAIR VALUE (EQUITY INVESTMENT AND BONDS) THROUGH PROFIT OR LOSS IN 2018

in € thousand	Equity investments
Opening balance 1 January 2018	**86.425**
Acquisition	9.468
Movement from Level 1 to Level 3	7.318
Debt to equity conversions	10.247
Revaluation	-8.308
Disposal	-17.030
Closing balance 31 December 2018	**88.120**

In 2018, BAMC reclassified equity investments and bonds in the total amount of €6.708 thousand from Level 1 to Level 3. This reclassification relates to part of Petrol shares. Transfer from Level 1 to Level 3 was performed due to the valuation of Petrol shares, part of them is valued at contract value and part of them at official stock exchange rate.

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

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

D FINANCIAL RISK MANAGEMENT

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

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

D.1 RISK MANAGEMENT FRAMEWORK

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

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

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

D.2 Credit risk

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

Credit exposure of BAMC as at 31 December 2018 amounted to €644.744 thousand (2017: €765.977 thousand).

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

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

CREDIT EXPOSURE AS AT 31 DECEMBER 2018 AND 2017

in € thousand	31 Dec 18	31 Dec 17
Credit risk of on-balance exposures	**639.044**	**756.373**
Financial assets at fair value through profit or loss	559.715	660.237
Loans and leasing	559.715	660.237
Trade and other operating receivables	9.069	5.500
Cash and cash equivalents	66.739	90.636
Bank deposits	3.521	0
Credit risk of off-balance exposures	**5.700**	**9.604**
Contingent obligations (guarantees)	5.700	9.604
Total exposure to credit risk	**644.744**	**765.977**

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

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

CREDIT EXPOSURE PER TYPE OF BORROWER AS AT 31 DECEMBER 2018

in € thousand	Loans and leasing	Share	Guarantees	Share	Cash and cash equivalents	Share
Corporate	541.273	97%	5.700	100%	0	0%
Private individuals	14.120	3%	0	0%	0	0%
Republic Slovenia	4.320	1%	0	0%	0	0%
Banks	3	0%	0	0%	66.739	100%
Total	**559.715**	**100%**	**5.700**	**100%**	**66.739**	**100%**

CREDIT EXPOSURE PER TYPE OF BORROWER AS AT 31 DECEMBER 2017

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

Loans

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

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

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

CLASSIFICATION OF CREDIT EXPOSURE

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

Credit portfolio is categorised according to the two main strategies – restructuring or recovery for borrowers, where individual valuation is required. The discount factor for expected future cash flows is BAMC's weighted average cost of capital (WACC) of 2,62% as at 31 December 2018 (2017: 2,09%).

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

Restructuring strategy is determined according to the scoring model (Default Probability Scorecard) classifying different business risk element in the 7-point scale from low to high risk. If some elements include higher risk, the probability of the restructuring scenario decreases. The risk factors are determined according to company-specific observations. According the assigned risk classes average risk profile of restructuring scenario is set and distributed linearly on the probability scale.

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

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

EXPOSURE PER STRATEGY 31 DECEMBER 2018 AND 2017

in € thousand	31 Dec 2018		31 Dec 2017	
	Fair value	**Carrying (fair) value as % of gross exposure**	**Fair value**	**Carrying (fair) value as % of gross exposure**
Restructuring	255.816	60%	289.162	53%
Recovery	296.684	9%	360.008	11%
Collective valued exposure	7.215	34%	11.068	42%
Total	**559.715**	**15%**	**660.237**	**17%**

STRUCTURE OF LOANS

Maturity of expected cash flows

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

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

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

TIMING OF EXPECTED CASH FLOWS AS AT 31 DECEMBER 2018 AND 2017

in € thousand	**31 Dec 2018**	**31 Dec 2017**
Current	159.654	186.847
Non-current	400.061	473.390
Total	**559.715**	**660.237**

Overdue portfolio

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

OVERDUE PORTFOLIO AS AT 31 DECEMBER 2018 AND 2017

in € thousand	31 Dec 2018		31 Dec 2017	
	Fair value	**Carrying (fair) value as % of gross exposure**	**Fair value**	**Carrying (fair) value as % of gross exposure**
Restructuring	**255.816**	**60%**	**289.162**	**53%**
Not due	174.674	80%	194.386	83%
Overdue	81.143	38%	94.776	31%
Overdue up to 90 days	13.479	79%	7.279	70%
Overdue between 90 days and 1 year	23.912	94%	27.073	94%
Overdue between 1 and 3 years	4.123	84%	9.276	36%
Overdue over 3 years	39.628	24%	51.147	21%
Recovery	**296.684**	**9%**	**360.008**	**11%**
Not due	63.475	43%	39.474	35%
Overdue	233.209	8%	320.534	10%
Overdue up to 90 days	163	96%	3	48%
Overdue between 90 days and 1 year	2.039	23%	9.589	66%
Overdue between 1 and 3 years	11.432	54%	18.501	29%
Overdue over 3 years	219.575	7%	292.440	9%
Collective valued exposure	**7.215**	**34%**	**11.068**	**42%**
Not due	3.758	99%	5.259	99%
Overdue	3.458	20%	5.808	27%
Overdue up to 90 days	1.022	97%	1.296	99%
Overdue between 90 days and 1 year	547	78%	1.056	85%
Overdue between 1 and 3 years	691	33%	1.691	47%
Overdue over 3 years	1.197	9%	1.766	12%
Total	**559.715**	**15%**	**660.237**	**17%**

Sectoral analysis of loan portfolio

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

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

SECTORAL ANALYSIS AS AT 31 DECEMBER 2018 AND 2017

in € thousand	31 Dec 2018		31 Dec 2017	
	Fair value	**Carrying (fair) value as % of gross exposure**	**Fair value**	**Carrying (fair) value as % of gross exposure**
Corporate	**541.273**	**15%**	**636.682**	**16%**
Construction	87.563	10%	119.969	12%
Manufacturing	116.213	26%	152.276	30%
Wholesale and retail	51.262	16%	69.804	20%
Tourism	51.594	48%	64.477	54%
Professional activities	37.797	15%	44.762	17%
Financial activities	64.934	10%	50.294	8%
Real estate activities	31.614	25%	32.018	25%
Other	73.941	11%	79.946	10%
Foreign corporate	26.355	16%	23.137	20%
Private individuals and entrepreneurs	14.120	17%	18.780	22%
Republic of Slovenia	4.320	34%	4.771	36%
Banks	3	77%	4	75%
Total	**559.715**	**15%**	**660.237**	**17%**

Geographical analysis of loan portfolio

The table below represents the fair value of loans according to the location of the headquarter of the borrower at 31 December 2018 and 2017 for corporate. Type of borrower, “Republic Slovenia” includes mainly exposures to municipalities. The Category “Private individuals” includes exposures to physical persons and entrepreneurs.

GEOGRAPHICAL ANALYSIS OF LOAN PORTFOLIO AS AT 31 DECEMBER 2018 AND 2017

in € thousand	31 Dec 2018		31 Dec 2017	
	Fair value	**Carrying (fair) value as % of gross exposure**	**Fair value**	**Carrying (fair) value as % of gross exposure**
Corporate	**541.273**	**15%**	**636.683**	**16%**
Slovenia	*515.012*	*15%*	614.053	16%
EU countries	*21.051*	*17%*	16.939	15%
Other European countries	*4.282*	*82%*	5.691	15%
Non-European countries	*928*	*2%*	0	0%
Private individuals and entrepreneurs	14.120	17%	18.780	22%
Republic of Slovenia	4.320	34%	4.771	36%
Banks	3	77%	3	75%
Total	**559.715**	**15%**	**660.237**	**17%**

Collateral value of loan portfolio

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

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

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

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

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

RECOVERY VALUE AS AT 31 DECEMBER 2018

in € thousand	**Fair value 31 Dec 2018**	**Carrying (fair) value as % of gross exposure**	**Recovery value 31 Dec 2018**	**Share of recovery value in fair value**
Restructuring	255.816	60%	256.201	100%
Recovery	296.684	9%	299.499	101%
Collectively valued exposure	7.215	34%	24.115	334%
Total	**559.715**	**15%**	**579.814**	**104%**

RECOVERY VALUE AS AT 31 DECEMBER 2017

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

LOAN PORTFOLIO RISKS

Risk of change of DPS

Default probability scorecard (DPS) is a scoring model classifying different business risk elements in the 7-point scale from low to high risk. If some elements include higher risk, the probability of the restructuring scenario decreases. The risk factors are determined according to the company-specific observations, using the operational guidelines regarding assessing the individual risk grades. According the assigned risk classes average risk profile of restructuring scenario is set and distributed linearly on the probability scale, where 0 represents 100% restructuring probability and 7 represents 0% restructuring probability.

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

DPS CLASSES AS AT 31 DECEMBER 2018 AND 2017

in € thousand	31 Dec 2018		31 Dec 2017	
	Fair value	**Share in total fair value**	**Fair value**	**Share in total fair value**
Restructuring	255.816	46%	289.162	44%
P(restructuring) 100%	55.508	10%	34.061	5%
P(restructuring) 90-99%	0	0%	1.801	0%
P(restructuring) 80-89%	0	0%	0	0%
P(restructuring) 70-79%	43.934	8%	52.147	8%
P(restructuring) 60-69%	56.316	10%	96.316	15%
P(restructuring) 50-59%	100.057	18%	104.837	16%
Recovery	296.684	53%	360.008	55%
Collectively valued exposures	7.215	1%	11.068	2%
Total	**559.715**	**100%**	**660.237**	**100%**

In 2018 BAMC witnessed some significant movements between different DPS classes. The share of carrying value in the highest DPS class (100%) amounted to 5% in 2017, and the fair value of loans in this DPS class increased to 10% in 2018. The share of carrying value in the DPS class 60-69% amounted to 15% in 2017, the fair value of loans in this DPS class decreased to 10% in 2018.

Sensitivity analysis of DPS changes

Since DPS change has a direct impact on exposure to credit risk, sensitivity analysis of DPS change for 10 percentage points (thereinafter p.p.) and 5 p.p. were performed. Such changes are selected based on the analysis of restructuring exposures as at 31 December 2017 and comparing their DPS probabilities with DPS probabilities as at 31 December 2018. Arithmetic average DPS probabilities in 2018 amounted to 67,5% (in 2017: 63,4%), therefore BAMC estimates that such changes (10 percentage points and 5 percentage points) are sufficient to perform sensitivity analysis of DPS changes. Please note that such calculations are strictly for statistical purposes and do not reflect risks on restructuring portfolio, since DPS is a business risk model, which may only be calculated for a specific company. The purpose of the DPS model was never to expand its use for the entire portfolio, since not all the companies in the credit portfolio face the same business risks, measured by the DPS.

Impact of parallel change of DPS

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

DPS SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2018

in € thousand	Fair value of loans	Impact of parallel change of DPS for 10 percentage points on fair value of loans		Impact of parallel change of DPS for 5 percentage points on fair value of loans	
		Increase	Decrease	Increase	Decrease
Restructuring	255.816	8.638	-102.589	4.319	-88.767
Recovery	296.684	0	94.450	0	85.120
Collective valued exposures	7.215	0	0	0	0
Total	**559.715**	**8.638**	**-8.139**	**4.319**	**-3.648**

DPS SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2017

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

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

DPS SENSITIVITY ANALYSIS - IMPACT ON PROFIT OR LOSS AS AT 31 DECEMBER 2018 AND 2017

in € thousand	Result	PL before tax, if DPS changes for 10 p.p.		PL before tax, if DPS changes for 5 p.p.	
	PL before tax	Increase	Decrease	Increase	Decrease
31 December 2018	63.006	71.644	54.867	67.325	59.358
31 December 2017	73.044	83.805	39.138	78.425	47.278

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

Risk of deterioration in the financial position of borrowers

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

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

If all borrowers, to whom restructuring strategy was assigned, deteriorated and therefore only collateral could be liquidated, the fair value of loans would decrease by €52.959 thousand. This risk is lower in 2018 than in 2017, when it amounted to €69.403 thousand.

Risk of deterioration in the financial position as at 31 December 2018

in € thousand **Strategy**	**Fair value of loans**	**Recovery fair value of loans, if all restructurings fail**	**Difference**
Restructuring	255.816	202.858	-52.959
Recovery	296.684	296.684	0
Total	**552.500**	**499.541**	**-52.959**

Risk of deterioration in the financial position as at 31 December 2017

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

Impact on Profit or loss as at 31 December 2018 and 2017

in € thousand	**PL before tax**	**PL before tax, if all restructurings fail**	**Difference**
31 December 2018	63.006	10.047	-52.959
31 December 2017	73.044	3.641	-69.403

Risk of change of WACC

Fair value of BAMC's loans represents expected future cash flows, discounted with interest rate, which is determined based on the BAMC's weighted average cost of capital (WACC). As at 31 December 2018 WACC amounted to 2,62% (as at 31 December 2017 2,09%). A changed discount factor would have a direct impact on the fair value of loans, under all other conditions unchanged, *ceteris paribu*s, and would have a direct impact on income from loans and therefore on profit/ loss before tax.

Sensitivity analysis of changed WACC was performed for change of WACC by 0,5 percentage point (hereinafter p.p.). Change in WACC in 2018 according to 2017 amounted to 0,53 p.p., therefore BAMC estimates that such changes are sufficient to present potential impact.

Collective valued loans are not sensitive to changes in WACC.

WACC SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2018

in € thousand **Strategy**	**Fair value of loans**	**Impact of change of WACC of 0,5 p.p. on fair value of loans**	
		Increase	**Decrease**
Restructuring	255.816	-3.589	3.625
Recovery	296.684	-2.888	2.948
Collective valued exposures	7.215	0	0
Total	**559.716**	**-6.478**	**6.573**

WACC SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2017

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

Trade and other operating receivables

CURRENT AND NON-CURRENT PORTIONS OF TRADE AND OTHER RECEIVABLES

in € thousand	**31 Dec 2018**	**31 Dec 2017**
Current portion	6.985	5.201
Non-current portion	2.084	299
Total	**9.069**	**5.500**

Cash and cash equivalents

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

BAMC held cash and cash equivalents of €66.739 thousand at 31 December 2018 (2017: €90.636 thousand). BAMC estimates credit risk of cash and cash equivalents as relatively low.

Off-balance exposures (guarantees)

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

OFF-BALANCE EXPOSURE AS AT 31 DECEMBER 2018 AND 2017

in € thousand	**31 Dec 2018**	**31 Dec 2017**
Outstanding amounts of contingent obligations (guarantees)	7.735	12.034
Provisions	-2.035	- 2.430
Credit risk of off-balance exposures	**5.700**	**9.604**

In the tables below, maturity of guarantees is presented as at 31 December 2018 and 2017.

MATURITY OF OFF-BALANCE EXPOSURES AS AT 31 DECEMBER 2018 AND 2017

in € thousand	**31 Dec 18**	**31 Dec 17**
Guarantees, expected to expire in 1 year	1.126	4.420
Expected to expire in Q1 of the following year	36	1.849
Expected to expire in Q2 of the following year	184	387
Expected to expire in Q3 of the following year	467	1.656
Expected to expire in Q4 of the following year	439	528
Expected to expire in 2 to 5 years	5.189	6.222
Expected to expire in more than 5 years	1.251	1.392
Outstanding amounts of contingent obligations (guarantees)	**7.566**	**12.034**

D.3 LIQUIDITY RISK

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

BAMC has in 2018 repaid loans from banks in the total amount of €182,0 million (with interest).

In the tables below the maturity of liabilities as at 31 December 2018 and 2017 is presented. Contractual undiscounted cash flows for borrowings and other financial liabilities include information only for loan, that BAMC had outstanding as at 31 December 2018 and 2017.

Maturity of BAMC liabilities as at 31 December 2018

in € thousand	Carrying amount	Contractual undiscounted Cash flows	up to 12 months	1 to 2 years	2 to 5 years
Liabilities with contractual undiscounted cash flows	**702.460**				
Loans from banks	695.017	695.368	134.632	269.263	291.474
Trade and other operating payables and liabilities for current tax	6.222	6.222	6.222	0	0
Accrued expenses	1.221	1.221	1.221	0	0
Liabilities without contractual undiscounted cash flows	**933**	**-**	**-**	**-**	**-**
Deposits received	839	-	-	-	-
Other financial liabilities	93	-	-	-	-
Total	**703.393**	**-**	**-**	**-**	**-**

Maturity of BAMC liabilities as at 31 December 2017

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

D.4 Market risk

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

Currency risk

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

All BAMC's financial liabilities are denominated in EUR.

Only 4,7% of BAMC's loans (€26.523 thousand out of €559.715 thousand) is denominated in foreign currency, therefore BAMC estimates currency risk as low and does not make any sensitivity analysis of change of currency risk on profit or loss statement.

The table below summaries exposure of the BAMC to the exchange rate risk as at 31 December 2018 and 2017.

EXPOSURE TO CURRENCY RISK AS AT 31 DECEMBER 2018

in € thousand	EUR	CHF	USD	RSD	RUB	JPY	Total
Total	**608.454**	**26.523**	**2.342**	**16**	**3**	**1.707**	**639.045**
Loans	529.125	26.523	2.342	16	3	1.707	559.715
Bank deposits	3.521	0	0	0	0	0	3.521
Trade and other operating receivables	9.069	0	0	0	0	0	9.069
Cash and cash equivalents	66.739	0	0	0	0	0	66.739
Total	**704.089**	**0**	**0**	**0**	**0**	**0**	**704.089**
Trade and other operating payables and liabilities for current tax	6.222	0	0	0	0	0	6.222
Borrowings and other financial liabilities	696.646	0	0	0	0	0	696.646
Other liabilities	1.221	0	0	0	0	0	1.221
Net Exposure	**95.635**	**-26.523**	**-2.342**	**-16**	**-3**	**-1.707**	**65.044**

EXPOSURE TO CURRENCY RISK AS AT 31 DECEMBER 2017

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

Interest rate risk

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

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

In the tables below, exposure to interest rate risk as at 31 December 2018 and 2017 is presented.

EXPOSURE TO INTEREST RATE RISK AS AT 31 DECEMBER 2018

in € thousand	Fixed interest rate	Variable interest rate	Total
Financial assets	**469.164**	**160.811**	**629.975**
Loans	398.904	160.811	559.715
Restructuring	145.115	110.701	255.816
Recovery	251.958	44.726	296.684
Collective valuation	1.831	5.384	7.215
Cash and cash equivalents	66.739	0	66.739
Bank deposits	3.521	0	3.521
Financial liabilities	**0**	**696.646**	**696.646**
Borrowings and other financial liabilities	0	696.646	696.646

EXPOSURE TO INTEREST RATE RISK AS AT 31 DECEMBER 2017

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

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

In the tables below, sensitivity analysis of changes of Euribor for loans raised as at 31 December 2018 and 2017 are presented as an impact on interest expenses.

EFFECT ON INTEREST EXPENSE AS AT 31 DECEMBER 2018

in € thousand	**Effect on interests expenses in case of changed interest rate on borrowings**	
	Increase	**Decrease**
100 b.p. change	4.870	0
50 b.p. change	1.393	0
10 b.p. change	0	0

EFFECT ON INTEREST EXPENSE AS AT 31 DECEMBER 2017

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

The borrowings are not sensitive to decreases of interest rates since the loan agreements contain a zero floor clause.

ELASTICITY OF COLLATERAL VALUE DUE TO MARKET CHANGES

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

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

Changes in underlying real estate valuations could have an impact on the value of loans, thus a sensitivity analysis as at 31 December 2018 and 2017 is presented below.

SENSITIVITY ANALYSIS OF REAL ESTATE COLLATERAL AS AT 31 DECEMBER 2018

in € thousand **Strategy**	**Fair value of loans**	**Impact on fair value of loans if value of real estate changes by 10%**		**Impact on fair value of loans if value of real estate changes by 10% (in %)**		**Fair value of loans if value of real estate changes by 10%**	
		Increase	**Decrease**	**Increase**	**Decrease**	**Increase**	**Decrease**
Restructuring	255.816	2.713	-2.738	1,06%	-1,07%	258.529	253.078
Recovery	296.684	13.579	-13.615	4,58%	-4,59%	310.263	283.069
Collective valued exposures	7.215	153	15	2,12%	0,21%	7.368	7.230
Total	**559.715**	**16.445**	**-16.338**	**2,94%**	**-2,92%**	**576.160**	**543.377**

SENSITIVITY ANALYSIS OF REAL ESTATE COLLATERAL AS AT 31 DECEMBER 2017

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

IMPACT ON PROFIT OR LOSS OF CHANGES IN THE VALUE OF REAL ESTATE AS AT 31 DECEMBER 2018 AND 2017

in € thousand	**Profit /Loss before tax**	**PL before tax, if value of real estate increases by 10 %**	**PL before tax, if value of real estate decreases by 10 %**
31 December 2018	63.006	79.451	46.668
31 December 2017	73.044	102.529	43.043

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

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

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

SENSITIVITY ANALYSIS OF EQUITY COLLATERAL AS AT 31 DECEMBER 2018

in € thousand	Fair value of loans	Impact on fair value of loans if value of equity investment collateral changes by 10%		Impact on fair value of loans if value of equity collateral changes by 10% (in %)		Fair value of loans if value of equity investment collateral changes by 10%	
		Increase	Decrease	Increase	Decrease	Increase	Decrease
Restructuring	255.816	756	-756	0%	0%	256.572	255.060
Recovery	296.684	5.037	-4.669	2%	-2%	301.721	292.015
Collective impaired exposures	7.215	0	0	0%	0%	7.215	7.215
Total	**559.715**	**5.793**	**-5.425**	**1%**	**-1%**	**565.508**	**554.290**

SENSITIVITY ANALYSIS OF EQUITY COLLATERAL AS AT 31 DECEMBER 2017

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

IMPACT ON PROFIT AND LOSS OF CHANGE OF EQUITY AS AT 31 DECEMBER 2018 AND 2017

in € thousand	Profit /Loss before tax	PL before tax, if equity increases for 10 %	PL before tax, if equity decreases for 10 %
31 December 2018	63.006	68.799	57.581
31 December 2017	73.044	77.956	68.125

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

Value of equity instruments, owned by BAMC – sensitivity analysis

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

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

SENSITIVITY ANALYSIS OF CHANGES IN MARKET PRICES OF EQUITY AS AT 31 DECEMBER 2018

in € thousand **Strategy**	**Fair value of equity**	**Impact on fair value of equity if market price changes by 10%**		**Impact on fair value of equity if market price changes by 10% (in %)**		**Fair value of equity if market price changes by 10%**	
		Increase	**Decrease**	**Increase**	**Decrease**	**Increase**	**Decrease**
Equity with valuation based on market price	1.754	175	-175	10%	-10%	1.929	1.579
Other equity	88.120	0	0	0%	0%	88.120	88.120
Total equity	**89.874**	**175**	**-175**	**1%**	**-1%**	**91.132**	**88.616**

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

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

IMPACT ON PROFIT AND LOSS OF CHANGES IN MARKET PRICES OF EQUITY BY 10% AS AT 31 DECEMBER 2018 AND 2017

in € thousand	**Profit /Loss before tax**	**PL before tax, if market prices of equity increase by 10 %**	**PL before tax, if market prices of equity decrease by 10 %**
31 December 2018	63.006	63.181	62.831
31 December 2017	73.044	74.302	71.786

NOTE 27: EVENTS AFTER THE REPORTING PERIOD

On 14 February 2019 the Government, acting as the General Meeting of BAMC, decided that BAMC stops the sale process of the Istrabenz Turizem, d. d. shares, pledged as collateral to secure the claims of BAMC against Istrabenz Holding, d. d., in keeping with the Master Restructuring Agreement and in keeping with the Strategy for Sustainable Growth of Slovenian Tourism 2017-2021. As a result, BAMC is to liquidate the collateral, in the form of pledged shares of Istrabenz Turizem, d. d., through out-of-court foreclosure on pledged collateral. On 19 February 2019 BAMC sent its debtor and other MRA signatories a letter, in which BAMC terminated the MRA and called for immediate repayment due to an Event of Default.

The pledging member made the execution of the transfer of shares contingent on the consent of other creditors of Istrabenz Holding, d. d. All other creditors demanded that the claims secured by a pledge of Istrabenz Turizem, d. d. shares are purchased collectively rather than individually. The process continued with negotiations with the creditors and buyouts of their claims, which was carried out in March and April 2019. In the interim, a valuation of Istrabenz Turizem, d. d. shares was carried out by a consensually appointed certified valuator, in accordance with the Financial Collateral Agreement.

On 15 April 2019, after buying out the claims from other creditors, BAMC became the owner of 908.413 shares of Istrabenz Turizem, d. d., representing 100% ownership stake in the company.

On 15 March 2019 BAMC repaid €26,2 million of long-term loans according to the amortisation plans.

On 26 March 2019 Andrej Prebil resigned from his position as executive director, the resignation being effective on 31 March 2019.

On 31 March 2019 Juan Barba Silvela requested to be recalled as non-executive director. The Government, acting in the capacity of BAMC General Meeting, took note of the recall request on 20 June 2019 and recalled him from the position of non-executive director.

On 16 April 2019 the non-executive directors recalled Jože Jaklin from his position as executive director.

On 18 April 2019 the Government set new Guidelines on the operations of BAMC with changes in the reporting, notification and giving consent in decisions of strategic importance, further strengthening supervision and transparency of its operations. Also, the Government acting in the capacity of the BAMC General Meeting, gave consent to the BAMC Business strategy 2019-2022, which was adopted by the Board of Directors in February 2019.

On 25 April 2019 the non-executive directors appointed Matej Pirc as the Chief Executive Officer of BAMC with the mandate from 29 April 2019 until 31 December 2022.

On 7 May 2019 the non-executive directors appointed Andraž Grum and Bojan Gantar as executive directors with their mandate lasting from 27 May 2019 until 31 December 2022.

On 13 June 2019 the Government, acting in the capacity of the BAMC General Meeting, decided that it is essential from the perspective of implementing the Resolution on the National Housing Program 2015–2025 that BAMC transfers the most suitable real estate assets to the Housing Fund of the Republic of Slovenia (SSRS). The transfer shall be done at the estimated market value calculated by an independent real estate valuator in accordance with the International Valuation Standards. The valuator will be selected jointly by BAMC and SSRS.

On 17 June 2019 BAMC repaid €41,2 million of long-term loans according to the amortisation plans. Next to that it also made an additional €15,0 million early repayment of its debt.

On 20 June 2019 the Government, acting in the capacity of the BAMC General Meeting, appointed Aleksander Lozej to the position of non-executive director with his mandate lasting from 21 June 2019 to 31 December 2022.

NOTE 28: RELATED PARTY TRANSACTIONS

The ownership structure as at 31 December 2018 is presented in Note 7 Detailed list of BAMC equity ownership.

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 DECEMBER 2018 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	29.614
Increase	12.384	19.365	3.134
Decrease	-25.570	- 42.463	-14.627
Closing balance 31 Dec 2018	68.608	11.228	18.121
Deposits			
Opening balance 1 Jan 2018	0	0	3.521
Closing balance 31 Dec 2018	0	0	3.521
Financial assets through profit and loss – Equity investments			
Opening balance 1 Jan 2018	25.019	6.445	0
Increase	8.502	0	0
Decrease	0	-4.089	0
Closing balance 31 Dec 2018	33.521	2.356	0
Borrowings			
Opening balance 1 Jan 2018	0	0	607.332
Decrease	0	0	-129.858
Closing balance 31 Dec 2018	0	0	477.474
Income from loans	2.531	839	3.721
Income from equity investments	3.694	16	6.147
Interests			
Interest expense from borrowings	0	0	-10.692
Other expenses and costs			
Other costs	-1.111	0	-587
Other income	50	0	0

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

in € thousand	Subsidiaries	Associates	Companies associated with the owner (RS)
Financial assets at fair value through profit or loss (loans)			
Opening balance 1 Jan 2017	76.301	25.308	29.114
Increase	22.941	23.857	3.387
Decrease	-17.448	-14.839	-3.020
Closing balance 31 Dec 2017	81.794	34.326	29.480
Deposits			
Opening balance 1 Jan 2017	0	0	3.521
Closing balance 31 Dec 2017	0	0	3.521
Financial assets through profit and loss – Equity investments			
Opening balance 1 Jan 2017	25.009	2.356	0
Increase	10	4.089	0
Decrease	0	0	0
Closing balance 31 Dec 2017	25.019	6.445	0
Borrowings			
Opening balance 1 Jan 2017	0	0	557.728
Increase	18.000	0	560.000
Decrease	-18.000	0	-510.396
Closing balance 31 Dec 2017	0	0	607.332
Debt securities			
Opening balance 1 Jan 2017	0	0	556.794
Bonds redemption	0	0	-556.794
Closing balance 31 Dec 2017	0	0	0
Income from loans	1.614	466	2.097
Income from equity investments	6.866	67	0
Interest			
Interest income from deposits	0	0	1
Interest expense from borrowings	-16	0	-6.739
Interests from debt securities	0	0	-4.048
Other expenses and costs			
Other expenses	0	0	-5
Other costs	-1.609	0	-1.173
Other income	1.821	0	0

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

Note 29: Audit cost

The cost of the audit of the financial statements for the financial year 2018 is €81.015 plus VAT (for 2017 €72.375 plus VAT).

The cost of the audit and similar services charged by KPMG in subsidiaries and associates for the financial year 2018 is €16.300 plus VAT (for 2017 €15.300 plus VAT).

Cost of other non-audit services charged by KPMG for financial year 2018 in BAMC is €18.600 plus VAT, in subsidiaries and associates €0 plus VAT.

Note 30: Contingent liabilities

Maximum contingent liabilities of the BAMC for guarantees issued were as follows:

in € thousand	31 Dec 2018	31 Dec 2017
From the merger of Factor banka	2.895	3.916
From the merger of Probanka	4.619	8.066
Other	52	52
Total	**7.566**	**12.034**

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

Current and non-current portions of contingent liabilities

in € thousand	31 Dec 2018	31 Dec 2017
Current portion	1.126	4.420
Non-current portion	6.440	7.614
Total	**7.566**	**12.034**

The amount of €2.035 thousand of provisions recognised for guarantees is based on past experiences and is in accordance with internal methodology (see note 14).