

BAMC BUSINESS STRATEGY 2019-2022

BUSINESS STRATEGY WAS ADOPTED BY BAMC BOARD IN FEBRUARY 2019 AND RECEIVED CONSENT FROM THE GOVERNMENT OF THE REPUBLIC OF SLOVENIA, ACTING AS THE BAMC GENERAL MEETING, IN APRIL 2019.

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PREAMBLE

Bank Assets Management Company (hereinafter: BAMC) submitted its Strategy and Business Plan for the period 2016-2022 on a stand-alone basis in autumn 2016, which was then approved by the Government of the Republic of Slovenia (hereinafter: the Government) as its General Assembly on 22 December 2016. In the coming years, BAMC has undergone significant changes that require the adjustment of the BAMC Business strategy.

In the first half of its lifetime (2013-2018), BAMC generated most of its inflows either from major (complex) transactions, or from simpler, minor inflows, whereas in the second half of its lifetime, the portfolio now contains more complex, lengthy and uncertain cases. Besides this, new information is now known, which BAMC takes into account in planning its ability to generate inflows, such as the state tourism strategy and other strategies, and specific aspects of certain equity transactions (Cinkarna Celje, Petrol, Mladinska knjiga, etc.).

As a result of the changed policy, BAMC began extensive foreclosures on pledged real estate in 2017, in order to generate more added value and more proceeds than would be possible in insolvency proceedings. The result was already evident at the end of 2017, when BAMC reached record inflows (and profits) from real estate sales. The increasing trend of real estate takeovers from insolvency proceedings brought against BAMC's debtors continued in 2018, in following with the higher internal valuations attributable to the recovery of the real estate market, and will end for the most part in 2019. Accordingly, BAMC was forced to adjust its qualifications and staff parameters, and strengthen its real estate management and sales department, with certain related activities still underway.

Due to changing portfolio turnover rates, more intensive corporate restructuring activity, active equity management activity, adding real estate value, insourcing services which were formerly outsourced and the related introduction of new jobs and assignments which were not anticipated in the original strategic document (buy rather come as a result of past board decisions), some differences have been noted in terms of the planned number of employees, since downsizing is proceeding at a slower pace than originally anticipated.

BAMC Business strategy includes financial plan, prepared in accordance with Article 38 of the Decree on the implementation of measures to strengthen the stability of banks. The financial plan includes new projections for the 2019-2022 period, plan of repayment of financial liabilities with free cash assets and a sensitivity analysis.

All of BAMC's activities are geared towards achieving strategic targets and adding value to the Republic of Slovenia and its taxpayers in a broad sense. Such value creation covers not only the achievement of financial targets laid in ZUKSB-A and the Guidelines on the operations of the Bank Assets Management Company (hereinafter: the Guidelines), but also the indirect positive impact of strengthening the fundamentals of the Slovenian economy through successful restructurings and corporate governance

improvements, and building up a knowledge base of distressed asset management which can be used beyond the boundaries of BAMC and even Slovenia.

SUMMARY

STRATEGIC GOALS OF BAMC ARE:

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

In the Guidelines the Government has set¹ Key Performance Indicator (hereinafter: KPI) targets under which BAMC is considered to operate in an economical, efficient and successful manner. These are presented below while a list of KPIs for the whole BAMC's lifespan and their definitions can be found at the end of Financial plan 2019-2022 chapter (page 52).

TABLE 1: GUIDELINES-SET KPIS

Key Performance Indicator	2019	2020	2021	2022
Minimum cumulative cash generated (in € million)	1.078	1.279	1.480	1.681
Cash generated %	10%	10%	10%	10%
EROE	8%	8%	8%	8%
Cost efficiency	2,0%*	2,0%*	2,0%*	2,0%*

NOTE: *Cost efficiency KPI may change in years noted if BAMC's portfolio changes considerably.

¹ Guidelines on the operations of BAMC, last version was adopted on 14 December 2018.

TABLE 2: KPIS FROM PREVIOUS AND CURRENT STRATEGY

Key Performance Indicator	2019	2020	2021	2022
BAMC BUSINESS STRATEGY 2016-2022				
Minimum cumulative cash generated (in € million)	1.930	2.078	2.159	2.229
Cash generated %	13,1%	7,4%	4,0%	3,5%
EROE	18,4%	16,3%	14,6%	13,0%
Cost efficiency	2,60%	3,12%	3,35%	2,87%
BAMC BUSINESS STRATEGY 2019-2022				
Minimum cumulative cash generated (in € million)	1.730	1.957	2.178	2.328
Cash generated %	10,3%	11,2%	10,9%	7,4%
EROE	19,8%	17,0%	15,2%	13,5%
Cost efficiency	2,60%	2,86%	3,02%	3,54%
Amended cost efficiency*	2,06%	2,38%	2,56%	3,19%

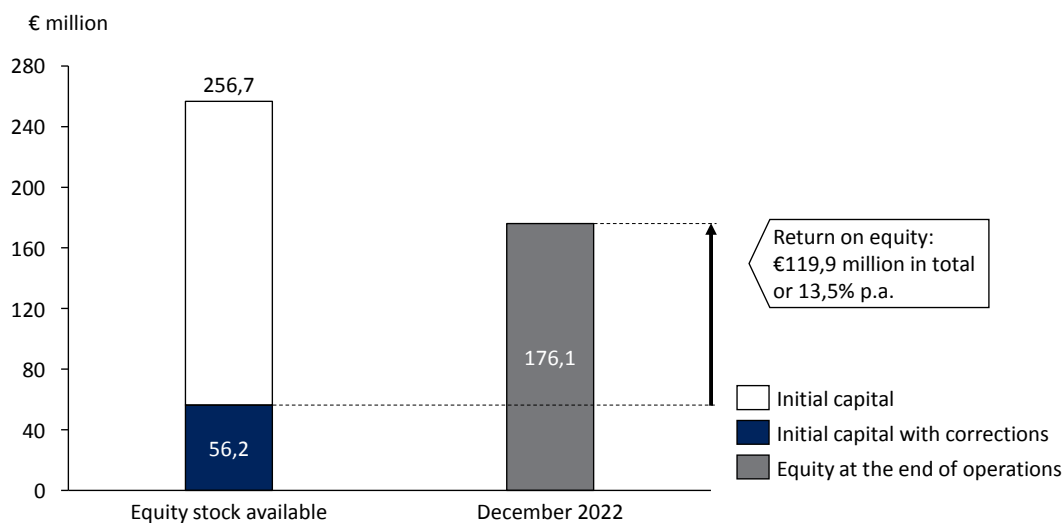
NOTE: * The proposal of new Guidelines provided by the Ministry of Finance introduces "cost efficiency no. 2" with a changed definition which is presented at the end of the document.

The main difference between the KPIS from the previous and current strategy is in generated inflows, which in 2017 and 2018 were cumulatively lower than planned in the previous strategy, as can be seen from the cumulative generated inflows. This deficit is caught-up over the next three years and BAMC exceeds past targets by the end of its lifetime. On the other hand, the cost efficiency KPI increases due to the increased size of the portfolio. The cost efficiency KPI currently still exceeds current targets set in the Guidelines, but it should be noted that these values were set with the knowledge of the cost efficiency KPI from the previous strategy, i.e. at values higher than currently planned. Recognizing sufficient changes in BAMC's portfolio and activity, the Ministry of Finance is drafting new Guidelines, which will also address the issue of cost efficiency by adding an additional KPI.

At the end of its lifespan, in 2022, BAMC projects to have equity in the amount of €178,9 million. Taking all corrections to invested capital into account, BAMC projects to generate a 13,7% average yearly ROE (termed EROE) in its lifespan on the residual equity.

Nevertheless, there are risk elements associated with achieving this target. BAMC financial leverage is high and future results depend on a number of important restructurings. Furthermore, the expected return on equity is sensitive to the amount and timing of planned exits from assets managed.

FIGURE 1: PLANNED FINANCIAL OUTCOME OF BAMC



NOTE: Corrections to initial capital include day-one losses and other revaluations related to acquisition of transferred assets, Factor banka and Probanka merger effects, other General Meeting decisions and recapitalisations. See Table 3 for details.

Namely, in 2013 the Republic of Slovenia invested €203,6 million worth of share capital into BAMC. As shown in the table below, by the end of 2018 BAMC realized a loss of €200,6 million through transactions where the transaction price was not negotiated but instructed by the decision of the owner – the Government. On the other hand, two recapitalisations in 2016 in the total amount of €53,1 million are increasing invested capital with corrections to €56,2 million, the level BAMC takes as a reference for its performance assessment.

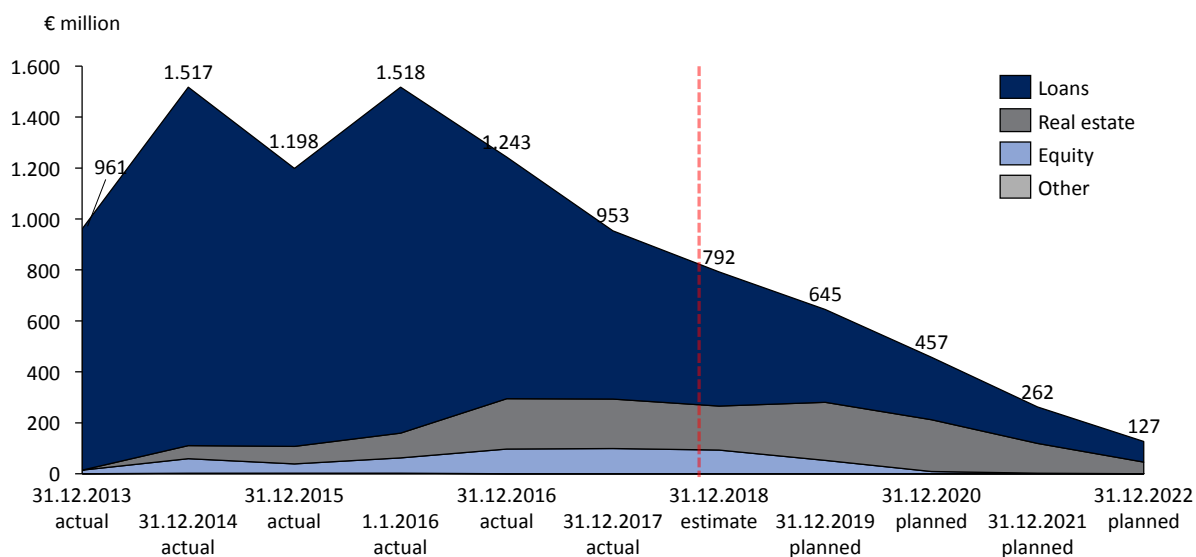
TABLE 3: CORRECTIONS TO INITIALLY INVESTED CAPITAL SINCE INCEPTION

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) by 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.

Loans will constitute the bulk of BAMC's assets throughout its lifespan. 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 will gain importance over time.

FIGURE 2: ACTUAL AND PLANNED PORTFOLIO DEVELOPMENT



NOTE: 1 January 2016 displays the portfolio at the merger of Factor banka and Probanka into BAMC.

BAMC's liquidity policy will follow the cash flows from managing its assets and will minimise financing costs on one hand, but also, given no additional refinancing envisaged in its lifespan, allow for enough liquidity for planned larger outflows (mostly debt repayments, planned real estate repossessions) as well as unexpected opportunities and/or needs that may arise (e.g., unplanned repossessions due to changed circumstances, consolidation of claims and ownerships of important holdings).

In accordance with the principle of recognition of assets at fair value, the BAMC balance sheets for each period reflect and include the expected yields from these assets, and therefore also the yields from expected transactions, which are manifested directly in the net result and therefore in equity. For this reason, past years' profits already factored in most of the positive effects, and are therefore comparatively lower as the end of BAMC's anticipated lifetime approaches. BAMC's task is to realize these expected transactions, which will be reflected in generated inflows.

PRESENTATION OF BAMC

TABLE 4: BASIC COMPANY DATA

Full company name	Družba za upravljanje terjatev bank, d.d. Bank Assets Management Company
Short company name	DUTB, d.d. BAMC
Registered office	Davčna ulica 1, 1000 Ljubljana
Telephone	+386 1 4293 877
Fax	+386 1 4293 859
E-mail	info@dutb.eu
Website	www.dutb.eu
Core business	Activities of collection agencies and credit bureaus
Registration entry	2013/11708, District Court of Ljubljana
Company ID number	6339620000
Tax number	41251482
VAT number	SI41251482
Initial share capital	€104.117.500,00
Number of shares	104.117.500 ordinary no-par value shares

Board of Directors		Term ending on
	Tomaž Besek, Chairman of the Board	31 December 2022
Non-executive directors as at 29 January 2019	Mitja Križaj, Deputy chairman of the Board	28 January 2022
	Juan Barba Silvela	24 March 2021
	Marko Tišma	31 December 2022
Executive directors as at 29 January 2019	Andrej Prebil, CAM	31 December 2022
	Jože Jaklin, CAO	31 December 2022

NOTE: On 19 December 2018 Imre Balogh resigned as Chief Executive Officer. By filling this site, the BAMC has two executive directors.

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 aforementioned regulations governing its activity.

The activities in individual areas are determined by internal acts, adopted or supplemented by the Board.

CORPORATE GOVERNANCE

BAMC has a one-tier system of corporate governance, where the highest decision-making body is the Board of Directors. Following the provisions of ZUKSB and the Articles of Association, the Board comprises four non-executive directors and three executive directors. The Board has four permanent committees: the Audit Committee, the Accreditation Committee, the Remuneration Committee and the Board Credit and Investment Committee. For the Audit, Remuneration and Accreditation committees, the committee members comprise of non-executive directors and one external member with the relevant professional experience in Slovenia. The Board and its committees function in accordance with the relevant rules of procedure. Non-executive directors have the powers equivalent to those of the Supervisory Board according to the law governing commercial companies and do not manage BAMC. They select executive directors, overview operations, decide on strategies and regulations but are not involved in operative decisions (apart from giving/denying consent as members of the Board Credit and Investment Committee).

BAMC has an internal audit function reporting directly to the Board of Directors. In addition, Risk and Compliance Management Committee is supporting the work of the executive directors and this committee's reports are a standing item in each of BAMC's Board meetings. Organizational unit Compliance and Corporate Security are responsible for running the Corporate Security and Compliance Committee, which deals with issues related to the scope of activities of those units. The two units also report to the Board, ensuring independent oversight of the activities of BAMC over all operative levels.

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

ORGANISATION

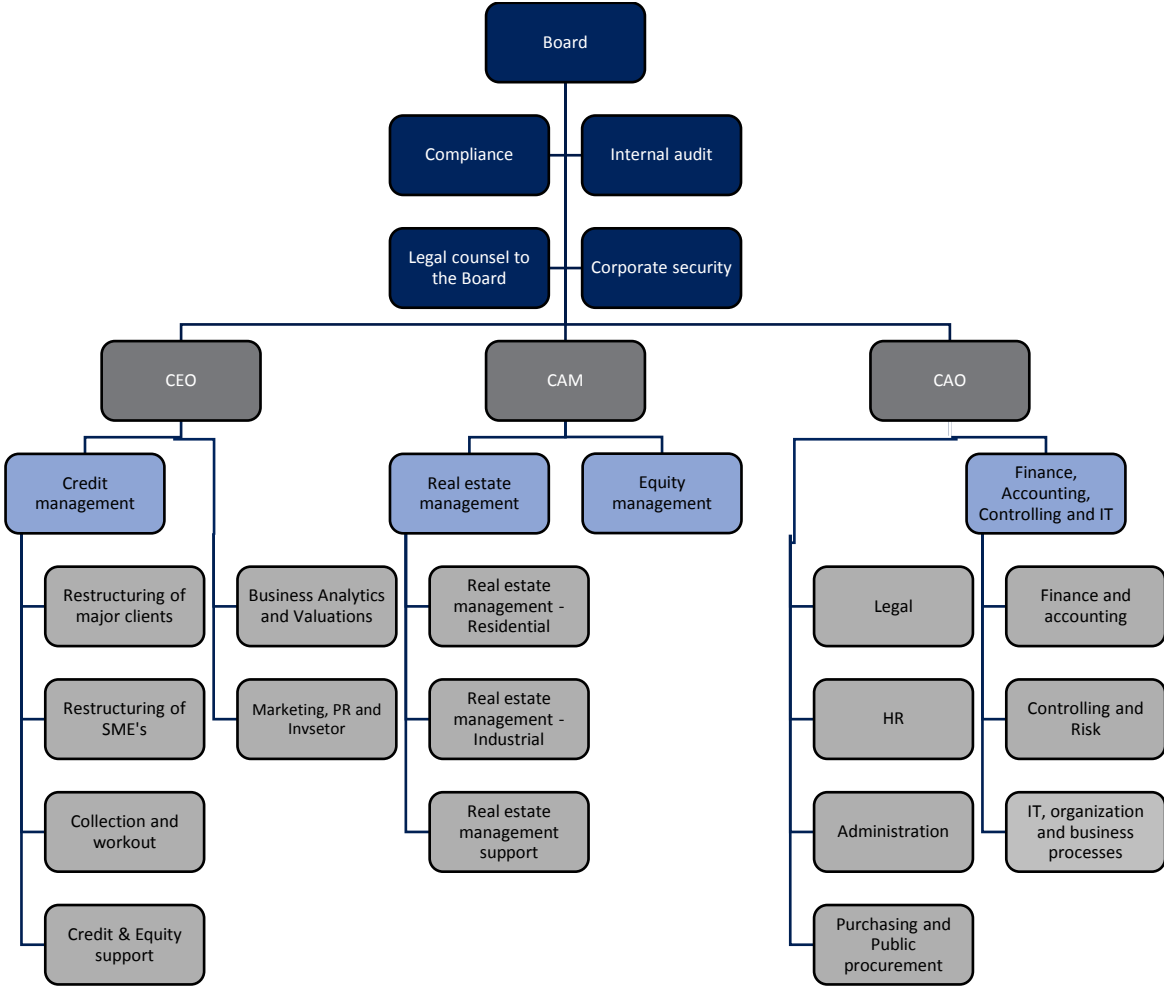
The organisational structure set up in the previous year allows BAMC to manage assets in the most efficient and effective way, including horizontal controls built into the processes by a clear segregation of duties between case, real estate and equity management, financial analysis and valuation verification,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

BAMC's core processes are performed in the loan management, equity management and real estate management division. Loan management division consists of units specialised in exposure, complexity and profile of the debtors and the latter consists of a real estate management and an equity management unit. Credit and asset managers receive support from financial analysts and valuation review, the legal unit and middle office (in 2019, the establishment of support for real estate



management within the existing department is planned). Units are separated and independent which is ensuring suitable process controls.

FIGURE 3: ORGANISATIONAL STRUCTURE



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 €1.006,8 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 from NKBM and in H2 2014 BAMC received additional non-performing assets from Abanka Vipava 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 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 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.

FUNDING STRUCTURE OF BAMC

The Republic of Slovenia paid in €208,3 million of share capital in three tranches in 2013 and one in 2016. Majority of the equity was paid in government bonds (RS68 and RS38) while recapitalization in 2016 was paid in claims towards Cimos d.d. in the amount of €4,61 million. Merger of Factor banka and Probanka into BAMC in February 2016 did not change share capital, the BAMC was then recapitalized by the Republic of Slovenia in December 2016 with €50,0 million.

BAMC financed its non-performing assets acquisition from four banks by issuing four bond issues in the total nominal amount of €1.563,2 million. With the merger of Factor banka and Probanka, BAMC also took on of their respective liabilities in the total amount of €407,9 million. After settling these obligations and partial refinancing of matured bonds, BAMC's remaining obligations to banks amounted to €695,4 million as of December 2018. These are amortized loans with a final due date in mid-December 2022, and BAMC also has the option of early repayment. BAMC is liable for its obligations with the entirety of its assets. Its obligations are also secured with a Republic of Slovenia state guarantee. BAMC is paying the Republic of Slovenia a 1,0% fee for the state guarantees provided.

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.

KEY OBJECTIVES AND STRATEGIC GOALS OF BAMC

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

- (1) redeem the state guaranteed bonds issued to pay for the transferred assets, and (2) in addition, generate the required return on the initially invested equity by the Republic of Slovenia.
- Manage assets intensively and invest in them so as to optimise their income-producing potential and disposal value.
- 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.

IMPLEMENTATION

Striking the fine balance between profitability and faster cash generation (especially sales) is the key in simultaneous achievement of often conflicting targets. In BAMC's field of operations, there are several major directions where profit and cash flow generation may even strengthen each other, and therefore should enjoy special attention in strategy implementation in addition to the traditional focus of activities:

- Making successfully restructured debtors bankable, ready for refinancing by banks.

- Sale of claims when reaching flattening curve of expected future results from restructuring.
- Applying new technics in a broader circle to accelerate repayments from improving operating cash flows of restructured debtors.
- Due to valuation specifics, accelerating real estate sales if the market can absorb them at reasonable prices.
- Introduce new ways of financing/debt instruments to tightly adjust liquidity to incoming cash flows in order to minimise interest and state guarantee costs.

STRATEGIES TO ADD VALUE TO MANAGED ASSETS

Overall imperatives	BAMC continues its operations as a non-performing asset manager of international standing
	Acceleration of restructuring and transformation from being predominantly a claim manager to becoming a predominantly real estate manager
	Value maximising, unbiased, fact-based case strategies and action planning and transparent, professional decision-making
	Asset management with the recognition of BAMC as only a temporary owner – ensuring BAMC’s assets are marketable at all the time
	Active use of additional means provided by ZUKSB
	Competitive, professional and transparent exiting processes
	Efficiency in operations
	Excellence in designing and executing BAMC’s internal processes
Management of restructuring and majority equity stakes	Zero tolerance towards corruptive and unlawful practices
	BAMC is maximizing enterprise value (meaning debt and equity together) of restructuring cases where this strategy is economically justified
	Maximisation of sales results
	BAMC aims to keep control over the debtor’s cash flow in cases where BAMC is the economic owner
	BAMC will maximize the value of its exposures in financial holdings by ensuring viable operations of their subsidiaries
	BAMC will provide liquidity to restructuring cases where it is commercially justifiable and will not constitute unauthorized state aid, and the debtor is not yet bankable
	BAMC will charge interest rates above market level thus incentivising owners of the debtors to refinance at least part of expensive debt with less expensive financing on the banking market
BAMC initiates, assists and monitors operating restructuring of debtors	
Management of recovery situations	BAMC will complement individual case strategies by bundling assets into portfolios
	In cases where BAMC determines that the debtor as a going concern is no longer viable, and where no commercially (and legally) acceptable offer for BAMC’s exposure is available, BAMC will initiate bankruptcy proceedings against the debtor
	BAMC will decide for the disposal of operating companies’ assets where taking control over the company is not prudent or even possible

	Pursuing recovery strategy for viable companies when restructuring is effectively not possible due to non-cooperation of the debtor
Management of performing loans toward individuals and micro companies	BAMC will create packages of loans and sell them to commercial banks or other interested investors
Management of leasing contracts	BAMC will create packages of leasing contracts and sell them to leasing companies or other interested investors
Management of minority non-strategic equity stakes	BAMC will execute a transparent and optimal exit for each directly owned minority shareholding
Management of real estate	BAMC will take over collateralised real estate where economically justifiable
	BAMC will ensure value protection and value enhancement through facility management
	BAMC will add value to its real estate through a wide range of marketing activities
	BAMC will use rental options to optimise the combined yield and exit value from real estate
	BAMC will not be a real estate developer but may invest in completion of almost finished projects
	If deemed advantageous, BAMC will create real estate portfolios with distinct risk and return profiles
	Selecting optimal selling technique and process in bankruptcy procedures
Competitive and transparent exiting process	
Termination exit strategy	

OVERALL IMPERATIVES

BAMC CONTINUES ITS OPERATIONS AS A NON-PERFORMING ASSET MANAGER OF INTERNATIONAL STANDING

BAMC has put in place an effective management mechanism not just for non-performing loans but also for other types of non-performing assets that were a burden on the banks' balance sheets. BAMC has:

- qualified expert managers of non-performing loans, equity and real estate,
- established processes for effective management of non-performing assets, and
- the necessary restructuring competences (financial and operational) to take on and successfully resolve complex case situations.

The processes are easily scalable and supported effectively, partly by in-house and partly by outsourced solutions.

However, BAMC has the ambition to become an organisation with operations that have a value exceeding the value of its assets. This should provide the owner, the Government of the Republic of Slovenia, with the flexibility to utilise BAMC for further non-performing loan resolution.

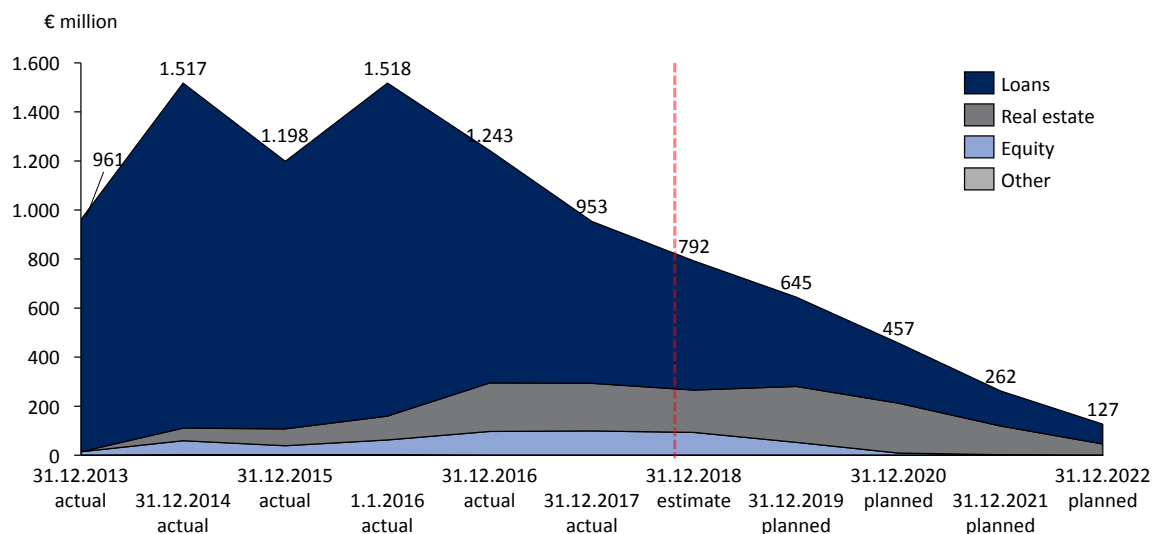
With a fully functioning organisation, robust management and decision processes, full understanding of its assets, clearly defined value creation strategies and a track record of solid results BAMC intends to be the best choice of manager (integrator) for the remaining synergistic, non-performing assets left in the balance sheets of the banks in the Republic of Slovenia and their subsidiaries in the Republic of Slovenia and abroad. Transferring additional non-performing assets to BAMC could in many cases create positive synergies. Furthermore, economies of scale could potentially improve the cost efficiency of the asset management process.

ACCELERATION OF RESTRUCTURING AND TRANSFORMATION FROM BEING PREDOMINANTLY A CLAIM MANAGER TO BECOMING A PREDOMINANTLY REAL ESTATE MANAGER

Current focus of BAMC is to ensure accelerated restructuring of its exposures in the corporations that are going-concerns and are deemed to be commercially viable if successfully restructured. A continued reorganisation of BAMC's cases, such as case manager specialisation and creation of portfolios of similar assets, is planned and will be executed on. This will ensure that necessary resources and focus are allocated to each restructuring case.

Loans will constitute the bulk of BAMC's assets throughout its lifespan. 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 collateral real estate will gain importance over time.

FIGURE 4: ACTUAL AND PLANNED PORTFOLIO DEVELOPMENT



NOTE: BAMC will perform debt to equity swaps in cases where it is economically justifiable. The fair value of gained equity through debt conversion in most cases equals to zero since the enterprise value of the company after the conversion mostly still does not exceed the debt level of the company.

The value of loan portfolio is heavily based on successful real estate collateral management.

1 January 2016 displays the portfolio at the merger of Factor banka and Probanka into BAMC.

VALUE MAXIMISING, UNBIASED, FACT-BASED CASE STRATEGIES AND ACTION PLANNING AND TRANSPARENT, PROFESSIONAL DECISION-MAKING

BAMC opts for a restructuring strategy whenever it assesses that financial and operational restructuring measures will improve a debtor's operations to such an extent that it will achieve a higher rate of repayment than if it recovered debt from the debtor through the liquidation of pledged collateral. BAMC's objective in the restructuring of a company is to ensure the long-term efficiency and viability of the debtor's operations and its competitiveness, and to maximise the repayment of debt with cash flows from operations. Therefore, financial restructuring is also linked to business or operational restructuring, which may involve the sale of the company's obsolete assets and/or lines of business.

In case of loss-making companies against which BAMC holds claims, when it is clear that it would be impossible to create greater value 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. It has to be noted that this was the case in a substantial number of companies transferred (more than half of recovery classified cases).

ASSET MANAGEMENT WITH THE RECOGNITION OF BAMC AS ONLY A TEMPORARY OWNER – ENSURING BAMC'S ASSETS ARE MARKETABLE AT ALL THE TIME

Based on its mission outlined in the ZUKSB, BAMC is a project company whose purpose is to ultimately sell all the assets that were transferred to it. According to the ZUKSB, BAMC is required to provide cash generation of at least 10% of transferred assets' appraised value every year.

BAMC is prepared to sell any asset as soon as it has received a substantiated bid from an eligible acquirer that is exceeding the estimated value of the asset that BAMC believes it can generate from continued ownership. Any sale will be executed in a competitive and transparent sale procedure. To support the decision-making, BAMC will perform regular valuations of all its assets using an internal valuation method, attested to and approved by external experts and auditors.

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 valuers, i.e. mainly income and market approach. The discount rates used in this context reflect the estimated cost of capital for an average market investor.

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

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

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

ACTIVE USE OF ADDITIONAL MEANS PROVIDED BY ZUKSB

ZUKSB changes that came into effect in January 2016 have, together with clarifying and increasing BAMC governing mechanisms exercised by the Government, vested additional formal powers to BAMC in order to better pursue and fulfil its mission. The most notable of these are:

- granting new loans towards existing debtors,
- purchase of additional claims towards existing debtors, and
- refinancing of restructured debtors by cooperating banks.

Although BAMC had legal grounds to act and perform the above mentioned actions already based on the existing other legislation and has in the interest of maximization of the value used them before, BAMC will continue to use these instruments where economically justifiable with the aim of increasing its expected return from the specific debtor.

COMPETITIVE, PROFESSIONAL AND TRANSPARENT EXIT PROCESSES

BAMC has developed clear policies on how to ensure that its exit processes are competitive, professional and transparent. The guiding key principles are to ensure that the optimal price is being achieved from an eligible acquirer. BAMC will also strive to enhance Slovenia's position as being an investor friendly environment by managing its exit processes professionally.

Credit management performs control of the exit process in order to comply with the restriction to avoid selling exposures back to the original debtors. BAMC's consideration of proposed exit terms will be on strict commercial grounds to avoid any potential illegal state aid provisions. BAMC is state-owned and as such any non-commercial consideration without prior consent of the relevant competition authority would likely be considered as illegal state aid.

BAMC is obliged to ensure the highest possible value of its assets, which is achieved by the consistent implementation of competitive, publicly disclosed standard internal procedures, while complying with all relevant legislation (including the implementation of anti-money laundering procedures and restrictions referred to in Article 13 in ZUKSB). All sales procedures that BAMC has defined in the internal rules, are designed to allow the greatest possible competition and thus maximization of value. BAMC checks the identification of customers in two phases, i.e. it checks all potential buyers already in the phase of collecting non-binding offers or even when an interest is shown. Prior to the conclusion of the business relationship (signed contract), the selected buyer is checked in accordance with the provisions of the Anti-Money Laundering and Terrorist Financing Act.

In internal rules, among the mandatory clauses that each sales contract must contain, stipulated a clause defining that the contract is void if any connection with the former owners is found (legal persons and the responsible persons of the former owners and related parties persons). An obligatory component of each contract is also an anti-corruption clause.

EFFICIENCY IN OPERATIONS

BAMC strives to ever improve the efficiency of its operations. Therefore it regularly follows the achievement of its strategy goals and thresholds set by the owner. Moreover, BAMC benchmarks itself to the most known European bad banks based on their published annual data.

EXCELLENCE IN DESIGNING AND EXECUTING BAMC'S INTERNAL PROCESSES

BAMC is constantly improving its internal processes, particularly in the fields of:

- legal procedures in managing cases,
- sales procedures,

-
- procurement procedures (in line with Law on public procurement),
 - employees,
 - compliance and
 - other internal processes with special focus on prevention of operational risks.

ZERO TOLERANCE TOWARDS CORRUPTIVE AND UNLAWFUL PRACTICES

BAMC employees are strictly monitoring and reporting all criminal suspicious or illegal activities of debtors or lenders which resulted in non-performing loans or a reduction of BAMC's exposure value. A separate internal investigation function has been established with the aim of strengthening this field ever further.

Zero tolerance will also be exercised in case of internal fraud, corruption, damages caused by intentional wrong-doing, gross negligence, unauthorized usage or disclosure of confidential information, or any other malpractices.

BAMC has a system for reporting irregularities. Anyone familiar with any form of irregularity in BAMC business companies in which BAMC is a shareholder, may report it by e-mail, in writing, in person. Reports can be submitted anonymously. Reports and notifications are carefully considered and according to the content, appropriate action is taken.

MANAGEMENT OF RESTRUCTURING CASES AND MAJORITY EQUITY STAKES

BAMC IS MAXIMIZING ENTERPRISE VALUE (MEANING DEBT AND EQUITY TOGETHER) OF RESTRUCTURING CASES WHERE THIS STRATEGY IS ECONOMICALLY JUSTIFIED

In the context of financial restructuring, BAMC ensures capital adequacy and solvency through debt-to-equity swaps, disposal of non-strategic real estate and other non-core assets, or write-offs. In cases where other creditors are present BAMC usually closely cooperates with these creditors in line with the general principles adopted by the Bank Association of Slovenia. In cases where it is the largest creditor, BAMC is taking a leadership role in creditor consortiums.

MAXIMISATION OF SALES RESULTS

BAMC is maximising sales proceeds via joint sales of equity and debt positions. In order to maximise the enterprise value, BAMC might also form joint ventures with interested investors in competitive processes or maintain minority equity stakes or other earn-out options for future upsides.

BAMC AIMS TO KEEP CONTROL OVER THE DEBTOR'S CASH FLOW IN CASES WHERE BAMC IS THE ECONOMIC OWNER

The free cash flow generated by the debtor is a key resource for debt servicing, repayment and generating residual debtor value. When BAMC decides to restructure the debtor, it is therefore essential that the debtor's management will:

- be able to maximize the debtor's free cash flows,
- act in the company's interest, i.e. in the interest of the debtor's economic owner (BAMC) and that it will not steer the free cash flows to fit the interests of other interest groups (e.g. the formal owners and the related parties).

BAMC wants to have its own trusted agent in companies subject to restructuring efforts, reducing the so-called agency costs. BAMC will therefore seek to lower agency costs in companies where it acts as the economic owner by appointing trustworthy professionals in the debtors' supervisory and management boards, or it will appoint a procurator in such companies.

BAMC will enter into the direct ownership of restructured companies via debt-to-equity swaps when:

- this will provide capital adequacy and sustainable debt to the debtor,
- this is the most efficient or the only way to lower agency costs,
- entering into the ownership structure will improve BAMC's options for maximizing the value of its investment in the debtor,
- the risks involved in entering into the ownership structure do not exceed the expected benefits.

BAMC WILL MAXIMIZE THE VALUE OF ITS EXPOSURES IN FINANCIAL HOLDINGS BY ENSURING VIABLE OPERATIONS OF THEIR SUBSIDIARIES

The value of the financial holdings lays in the value of their investments which are in many cases operative companies. Although BAMC has in general received the exposure only towards the financial holdings (suboptimal from the value maximization point of view and contrary to BAMC's preference)

rather than the whole group, including the daughter companies which are generating cash flows, it is in BAMC's interest that the operative companies are performing well and thus the possibility of repayment on the holding level is increased, which can be achieved through various legal means.

BAMC WILL PROVIDE LIQUIDITY TO RESTRUCTURING CASES WHERE IT IS COMMERCIALY JUSTIFIABLE AND THE DEBTOR IS NOT YET BANKABLE

By definition, mainly non-performing assets were transferred to BAMC. At the time of the transfer, the debtors were over-indebted, usually insolvent and burdened with capital inadequacy. This is also the case for companies where BAMC pursues a restructuring strategy. In cases where BAMC opts for financial restructuring of the debtor, BAMC will aim at restructuring the debtor's financial liabilities so that the debtor will have sufficient capital adequacy and ability to meet its financial obligations. As a rule, this means that after the restructuring of cash flows has been arranged by signing a contract, the debtor will once again be able to acquire additional liquidity on the market to finance its operating capital and make urgent investments required to stay in business or restart its operations.

In some cases where BAMC pursues a restructuring strategy, the debtors may be unable to access bank financing to fund their immediate working capital needs or urgent capital expenditures. This is not unusual in cases where financial restructuring has not yet been agreed or the restructuring process has not yet commenced. Even in other cases banks may be insisting on BAMC participation. Inability to access credit may put the indebted company's survival at risk, and therefore also the execution of the restructuring strategy.

In such cases, BAMC can provide the debtor with the necessary liquidity in the form of a loan or additional capital, depending on which option proves to be more viable. Before doing that, BAMC must have:

- ascertained whether providing the necessary liquidity is indeed urgent and
- ensured control over the debtor's cash flows.

BAMC WILL CHARGE INTEREST RATES ABOVE MARKET LEVEL THUS INCENTIVISING OWNERS OF THE DEBTORS TO REFINANCE AT LEAST PART OF EXPENSIVE DEBT WITH LESS EXPENSIVE FINANCING ON THE BANKING MARKET

BAMC will manifest this pricing policy in cases where it is not the debtor's majority shareholder, namely:

- in restructuring existing debt (MRA);
- in providing new loans.

BAMC INITIATES, ASSISTS AND MONITORS OPERATING RESTRUCTURING OF DEBTORS

In addition to financial restructuring, most of the debtors undergoing a restructuring process also need operational restructuring. It is not enough to deleverage the debtor and adjust the financial outflows in the debt servicing options; it is also necessary to initiate changes to increase the cash flows from operations.

BAMC has a limited capacity of in-house industry specialists, who could assist the debtors' managements in the operational restructuring efforts. BAMC will provide assistance and advice in seeking out the best experts (domestic or international), who might assist the debtor's management staff in the execution of operational restructuring.

BAMC will always directly supervise the progress of operational restructuring and its effects. It will do so either by appointing procurators in the debtor companies, by appointing members in supervisory boards, or by directly tracking progress through the involvement of BAMC's case managers.

In all cases where BAMC is a major economic owner (through equity or debt) BAMC will exert decisive influence on the corporate governance of the debtor.

BAMC WILL COMPLEMENT INDIVIDUAL CASE STRATEGIES BY BUNDLING ASSETS INTO PORTFOLIOS

There is a high degree of uniqueness and complexity in most of the cases BAMC manages. To optimise the value for BAMC, strategies and exit options have to be developed, assessed and decided on in each case.

Portfolios may enable more effective value creation and will likely attract more interest from investors with targeted investment strategies or - which is common for international investors - with minimum sums to invest.

Creating portfolios that have a specific risk return profile may enhance value. Examples include portfolios in the fields of retail, parking, hospitality/hotels, residential real estate and commercial real estate.

Such portfolios can be formed inside BAMC or within a special legal entity ("SPV"). SPVs will be managed by the same principles and rules as BAMC and BAMC's credit and investment committees will be authorized to handle the SPVs' asset management decisions.

MANAGEMENT OF RECOVERY CASES

IN CASES WHERE BAMC DETERMINES THAT THE DEBTOR AS A GOING CONCERN IS NO LONGER VIABLE, AND WHERE NO COMMERCIALY (AND LEGALLY) ACCEPTABLE OFFER FOR BAMC'S EXPOSURE IS AVAILABLE, BAMC WILL INITIATE BANKRUPTCY PROCEEDINGS AGAINST THE DEBTOR

In bankruptcy proceedings, the bankruptcy trustee, who will monitor and supervise the selling process, is playing the most important role. BAMC will involve itself in, or lead, the creditors' committee, where it will keep close watch over the administration of bankruptcy proceedings and disposal of the bankrupt creditor's assets.

Where appropriate, BAMC will seek to actively support the activities set forward by the bankruptcy trustee, especially concerning assets collateralised to BAMC. When it is estimated that BAMC can add value to collateralised assets, and where BAMC has a legal and commercially justifiable ground to do so, BAMC will seek to take over the assets and sell them on its own.

BAMC WILL DECIDE FOR THE DISPOSAL OF OPERATING COMPANIES' ASSETS WHERE TAKING CONTROL OVER THE COMPANY IS NOT PRUDENT OR EVEN POSSIBLE

BAMC will opt for the disposal of pledged collateral and other assets in operating companies where cash flows from ongoing operations will not suffice for repayment, or in cases where the company management and/or shareholders are not willing to cooperate constructively in finding a solution for debt repayment. The manner of the sale and the procedure involved depend on the type of asset and the legal characteristics of the collateral. In disposing of collateral, BAMC will engage in necessary judicial recovery and other judicial proceedings, as well as out-of-court procedures. In some cases, BAMC may decide to purchase or acquire assets and thereby settle its claims, either partially or in full.

BAMC may find it advantageous to sell a claim along with the collateral to a third party, who will then continue the on-going recovery proceedings. In particular, BAMC will seek to sell promptly when it deems that immediate payment would be a preferable solution to the lengthy recovery process involving the disposal of assets through court and other proceedings.

PURSUING RECOVERY STRATEGY FOR VIABLE COMPANIES WHEN RESTRUCTURING IS EFFECTIVELY NOT POSSIBLE DUE TO NON-COOPERATION OF THE DEBTOR

There are situations where BAMC is the economic owner of the debtor, but the existing owner is preventing the execution of activities which would maximize the value of BAMC's repayment and court-related procedures also do not enable pursuit of maximal repayment. In such cases, BAMC may opt for immediate sales or initiating insolvency procedures/enforcement thereby maximizing the value of its claim and in many cases also the claims of other creditors.

MANAGEMENT OF PERFORMING LOANS TOWARD INDIVIDUALS AND MICRO COMPANIES

BAMC WILL CREATE PACKAGES OF LOANS AND SELL THEM TO COMMERCIAL BANKS OR OTHER INTERESTED INVESTORS

In the process of merging Factor banka and Probanka, BAMC has received a portfolio of retail loans towards micro companies and natural persons. As these are numerous and small exposures not in line with BAMC's purpose of operations, BAMC will bundle loans into offers interesting to banks or other investing entities.

MANAGEMENT OF LEASING CONTRACTS

BAMC WILL CREATE PACKAGES OF LEASING CONTRACTS AND SELL THEM TO LEASING COMPANIES OR OTHER INTERESTED INVESTORS

In the process of merging Factor banka and Probanka, BAMC has also received a performing leasing portfolio. As this is not BAMC's core business, BAMC will offer bundles of such contracts to leasing companies or other investing entities.

MANAGEMENT OF MINORITY NON-STRATEGIC EQUITY STAKES

BAMC WILL EXECUTE A TRANSPARENT AND OPTIMAL EXIT FOR EACH DIRECTLY OWNED MINORITY SHAREHOLDING

Minority ownership stakes were also transferred to BAMC with no credit exposure. In many of these cases the previous owners (banks) had been unsuccessful in finding acceptable exits.

Taking into account existing regulation (ZGD-1, Zpre-1) regarding corporate governance rights of minority shareholders, there are no fast and easy ways to exit minority ownership positions².

Different approaches will be considered, including:

- Proposing to the majority owners to acquire BAMC ownership share,
- Proposing to the majority owner and management of the company to form a treasury shares fund by the company itself,
- Searching for interested investors in cooperation with other owners,
- Improving the attractiveness by cooperating with other owners.

In equity investments which are important or strategic to the owner of BAMC, BAMC will offer these stakes in competitive sales processes to Slovenian Sovereign Holding (hereinafter: SDH) or the workers in accordance with ZUKSB.

² Except cases where majority shareholder owns more than 90% of the company.

MANAGEMENT OF REAL ESTATE

BAMC WILL TAKE OVER COLLATERALISED REAL ESTATE WHERE ECONOMICALLY JUSTIFIABLE

Internal valuations of pledged collateral serve as BAMC's basic price, based on which it can decide whether or not to accept a price proposed by a bankruptcy trustee. If BAMC finds that a proposed selling price is too low, it will actively intervene and acquire or take possession of the asset effectively settling its claim either partially or in full.

BAMC will acquire real estate from distressed/bankrupt companies in the following cases:

- real estate which the bankruptcy trustee is not able to sell (forced take over). In this case the real estate will be taken over only if the internally estimated value exceeds the charged bankruptcy cost.
- deteriorating real estate in bankruptcy procedures for which a further deterioration cannot be prevented due to a lack of funding (the same goes for unfinished projects),
- selected real estate, for which BAMC believes that fire sales should be avoided because the assets can be sold under better conditions in the future.
- specific types of real estate in order to bundle and sell them.
- to round off the property it already owns in part, with the aim of maintaining or increasing the economic value of the property (to avoid speculative purchases by third parties).

For each piece of real estate, an individual business plan will be prepared, containing the important elements for successful marketing. These business/action plans will be discussed and approved by the relevant Investment committee. Before the real estate is taken over it has to be visited by the respective BAMC real estate expert and, if needed, additional examinations are done in order to make sure there are no environmental or other issues with the property.

BAMC WILL ENSURE VALUE PROTECTION AND VALUE ENHANCEMENT THROUGH FACILITY MANAGEMENT

A large number of properties, for which BAMC will obtain ownership, will not be possible to be sold immediately. BAMC will therefore put in place a comprehensive and efficient facility management system. A limited number of external service providers/facility managers will be needed to accomplish this.

BAMC WILL ADD VALUE TO ITS REAL ESTATE THROUGH A WIDE RANGE OF MARKETING ACTIVITIES

An individual strategy for each real estate will be developed and approved by the relevant investment committee. When devising such a strategy, consideration will be given to whether the real estate might fit into a larger portfolio, which could be offered to international real estate investors. If so, BAMC will still try to market the real estate individually and in case an appropriate price is received, execute the transaction. At the same time such real estate will be "earmarked" for inclusion in a possible larger portfolio. BAMC will regularly investigate the interest of international real estate investors and potential buyers for larger real estate portfolios.

BAMC WILL USE RENTAL OPTIONS TO OPTIMISE THE COMBINED YIELD AND EXIT VALUE FROM REAL ESTATE

In cases where real estate will not be possible to sell immediately, BAMC will try to find temporary tenants. Generally, rented real estate is also easier to sell. For flats in residential complexes, BAMC may also use a “rent to buy” option. Interested buyers will be encouraged to rent the flats first before finally buying it. Part of the rent is normally recognized as purchase price.

BAMC WILL NOT BE A REAL ESTATE DEVELOPER BUT MAY INVEST IN COMPLETION OF ALMOST FINISHED PROJECTS

BAMC should not develop any project by itself. However, partnerships with sound local and international developers/investors are possible. Only companies with high credit rating and proven track record should be considered potential partners of BAMC.

BAMC may however develop real estate projects to a certain stage in order to facilitate the selling process. For example BAMC might develop a land plot by financing a new building plan, building infrastructure like roads and subdivide the plot.

On the other hand BAMC can and will invest in real estate projects which are almost finished and only some finishing and/or renovation works are needed. With such investments the value and saleability of the real estate can be increased substantially. Many times BAMC also has to remedy legal errors like obtaining missing documentation and permits or ensuring access to the property.

IF DEEMED ADVANTAGEOUS, BAMC WILL CREATE REAL ESTATE PORTFOLIOS WITH DISTINCT RISK AND RETURN PROFILES

BAMC will consider forming real estate special purpose vehicles (“RSPV”) as subsidiary companies and sell the whole or part of it to the interested investors. The RSPV could be formed by the type of asset (residential, land, etc.) or by other criteria, which could be of interest to the investors. Listing such a RSPV on the stock exchange might be considered as an exit option.

SELECTING OPTIMAL SELLING TECHNIQUE AND PROCESS IN BANKRUPTCY PROCEDURES

In cases where BAMC finds that the sale process suggested by the bankruptcy trustee to be suboptimal, it will not give its consent to the sale and propose another approach, which it believes will provide the best way of settling of its claims.

BAMC will take an active role and support the bankruptcy trustee in the selling process, e.g. by using BAMC’s network to find potential investors, assigning real estate agents, etc. BAMC will further publish all actual real estate bankruptcy auctions on its own web site.

COMPETITIVE AND TRANSPARENT EXIT PROCESS

All real estate for sale or rent will be published on BAMC web site. Each advertisement will be published for a certain minimum time period (longer for larger real estate). In case of several interested buyers an auction/tender will be organized. BAMC may use external real estate agents. For more complex

residential real estate (e.g., Kopraska vrata and Eda center) special interactive web sites will be developed.

TERMINATION EXIT STRATEGY

Some real estate objects may be difficult to exit even in the long run. After BAMC ceases to exist, the remaining real estate can be transferred either to another public company or sold to a private real estate fund or other interested party.

The conceptual marketing strategies that may be applied to various types of real estate are summarized in the table below.

TABLE 5: CONCEPTUAL MARKETING STRATEGIES BY REAL ESTATE TYPE

	Residential complexes	Residential single units	Industrial	Building land	Undeveloped land	Office	Retail
Takeover priority	High, especially if unfinished and good location	Low	Low High, if large premises and good location	High, especially if the spatial plans allow the immediate construction start	Low	Low High, if large premises and good location	Low High, if large premises and good location
Fit-for-sale measures	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Finish projects and remedy defects	Yes	No	No			Yes, if large real estate	Yes
Project development				Yes	Generally no, limited in specific cases		
Appointing facility manger	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sale or rent?	Sale + rent to buy (alternative)	Sale + rent (termination of existing leasing contracts)	Sale + rent	Sale	Sale	Sale + rent	Sale + rent
Marketing strategy	Real estate agent, special approach (interactive web-site)	Own marketing activities	Own marketing activities	Own marketing activities	Own marketing activities	Own marketing activities, special approach (interactive web-site)	Own marketing activities, special approach (interactive web-site)
Target markets	Funds, individuals, major real estate investors	Individuals	Local, regional and international entrepreneurs and investors	Funds, individuals, major real estate investors	Local, regional and international entrepreneurs and investors	Local, regional and international entrepreneurs and investors	Local, regional and international entrepreneurs and investors (for larger real estate)
Market liquidity	High, especially if it has a good location	High	Low, especially for larger real estate	High for smaller plots, Low for larger plots	Low, especially for larger plots	Medium	Medium

FINANCING STRATEGY

- BAMC will continue to manage its cash reserves prudently and efficiently.
- BAMC will use the contractual possibility of early repayment of the financial debt in accordance with its capacity.
- Being 100% state-owned, BAMC recognizes that it is returning funds to the Republic of Slovenia also through the paid taxes and will therefore not pursue specific tax optimization.

BAMC's financial liabilities amounted to €695,4 million at the end of 2018. In accordance with the amortization plans of loans, the BAMC will repay all loans by the end of 2022. An early repayment of principal is regulated/allowed, which gives the BAMC flexibility in additional repayments in the cases when BAMC realized cash surpluses in relation to the planned values.

BAMC's ability to service its future financial liabilities is determined by current debt and BAMC's ability to effectively manage and exit the assets. Efficiency of asset management is shown through:

- Cash generated from asset management;
- Cash invested in upgrading asset quality and value maximization;
- Efficient management of BAMC's operating costs.

BAMC WILL CONTINUE TO MANAGE ITS CASH RESERVES PRUDENTLY AND EFFICIENTLY

BAMC will manage its available cash so that it is able at all times to meet the expected, and unexpected, payment obligations.

The outflows by the end of 2019 are mainly related to the repayment of principal and interest of loans and associated state guarantees. As a consequence, BAMC will have temporary cash surpluses in this period and will manage its liquidity in accordance with the adopted Investment policy for the management of liquidity reserves.

In handling its liquidity, BAMC will pursue the principles of prudence, liquidity and profitability, in the order stated. BAMC applies the prudence principle by investing available cash strictly in the following types of investment:

- Overnight bank deposits, deposits with up to 367-day maturity, on-call deposits with a credit institution based in the Republic of Slovenia, an EU Member State or an OECD member country,
- Debt securities issued by the Republic of Slovenia or another EU Member State, the European Central Bank, Bank of Slovenia or a central bank of another EU Member State,
- Debt securities other than subordinate securities issued by a bank based in the Republic of Slovenia or a credit institution based in another EU Member State.

BAMC will limit its maximum exposure to any individual credit institution according to the Investment policy for the management of liquidity reserves.

BAMC WILL SEEK REDEEMABLE FINANCIAL LIABILITIES

BAMC is generating relatively constant cash inflows from actively managed assets. On top of that, some larger transactions like sales of specific portfolios or individual large cases, will generate large inflows which cannot be accurately predicted timewise.

According to legislation, BAMC is allowed to invest only in fixed income low-risk instruments which provide almost no return at time being. Therefore, BAMC will seek redeemable financial liabilities in order to ensure flexibility and maximization of returns in cash management.

BAMC IS RETURNING FUNDS TO THE REPUBLIC OF SLOVENIA ALSO THROUGH TAXES

BAMC is 100% owned by the state and is returning funds to its owner also through paid taxes. BAMC will not involve in any tax optimization procedures that may appear as attempts of tax evasion.

ORGANISATIONAL STRATEGIES

- BAMC's organization and its organizational strategies are designed and chosen to effectively enable and support the execution of BAMC's core value-adding processes and achievement of BAMC's core strategic objectives.
- BAMC's structure and key decision processes will be continuously re-evaluated and adjusted to meet BAMC's changing priorities over its intended lifespan.
- Structure and processes are only effective with the right people having the right tools and systems to be successful. BAMC's HR and IT strategies are further elaborated upon below.
- BAMC's strategy vis-a-vis its people, its Human Resources strategy is geared to ensure that BAMC attracts, recruits, retains and develops its people so that: (i) BAMC needs are met, (ii) BAMC's people develop and require skills and experience that are valuable for the Slovenian economy post BAMC's end of existence
- BAMC's strategy vis-a-vis core systems and tools, its Information Technology strategy, will ensure that BAMC's information system provides accurate and on-time information to support BAMC's decision-making processes in a secure and confidential way.
- IT and technology solutions will be cost effective solutions taking special consideration of BAMC's limited lifespan and its changing strategic priorities over its lifespan and should provide the tools for efficient management of the transferred assets on a consolidated basis.

HR STRATEGY

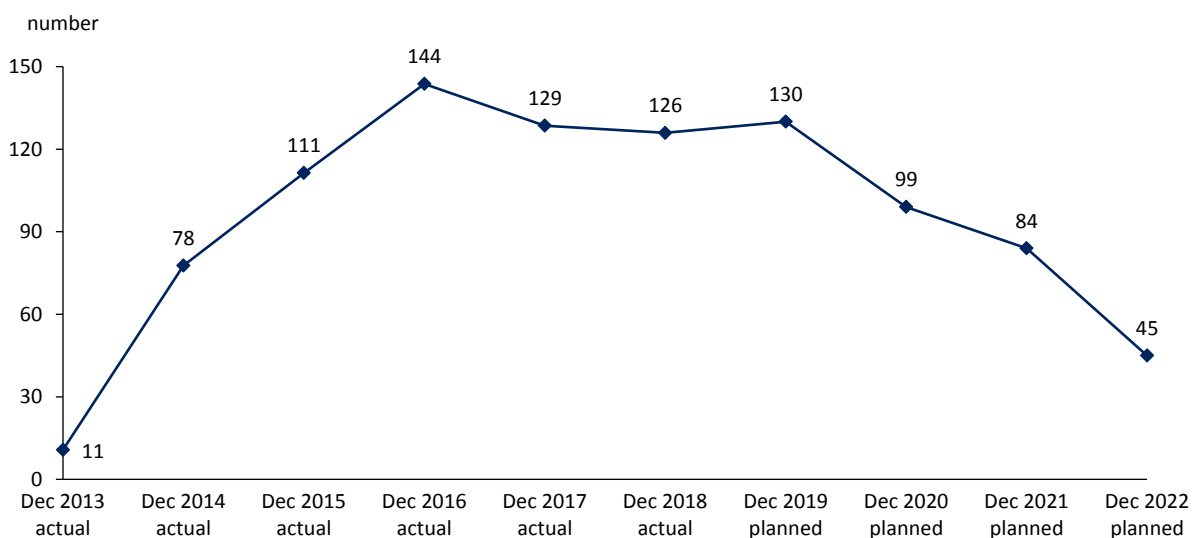
ORGANIZATION AND HEADCOUNT

At the end of 2018, BAMC had 137 employees, and 128 FTEs as of December. As at 31 December 2018, there were five vacancies at BAMC (where the recruitment process was either pending or ongoing). Due to this (unoccupied job positions) and the temporarily increased workload (work necessary to carry out real estate valuations, real estate management support and archiving), the planned number of employees at the end of 2019 is higher than at the start of the year.

BAMC's organization will meet the decreasing workload by downsizing its headcount. The number of organizational units will gradually decrease as the organization flattens, while the positions and existing employees will cover an increasingly broader area (greater work diversity). This will ensure greater adaptability and operational responsiveness.

Both the Rules of Job Position Systemization and the planned headcount will be reviewed and revised, as necessary.

FIGURE 5: PERMANENT HEADCOUNT PLAN



NOTE: Core FTEs are presented in the picture. Presented are the number of BAMC employees, without employees in NPL Port or other subsidiaries.

In case the proactive takeover of larger real estate from bankruptcy procedures under the assumption of more successful management and liquidation of these real estate proves justified, BAMC will adjust the number of employees in the real estate management unit correspondingly.

USE OF INTERNAL VS. EXTERNAL RESOURCES

BAMC will strive to perform its activities using internal resources, in order to ensure efficiency and develop employee skills.

Due to decreased workload, BAMC is anticipating an increase in the need for outsourcing (service providers, consultants, subcontractors etc.) BAMC will outsource when it cannot insource specific expertise, where outsourcing is cost-effective, and where insourcing cannot be done within the given time constraints, for temporary assignments, or when it is unable to attract employment candidates from the labour market.

CORPORATE CULTURE AND VALUES OF BAMC

The main features of BAMC's corporate culture entail collaboration, professionalism, good solutions and results, which matter more than the formal job title.

Besides experience, expert knowledge and integrity, it is essential for the company's successful operations that BAMC's employees have the motivation and capacity for:

- solving problems,
- quick learning,
- building and continuously improving the organization, team and procedures,
- working diligently and supporting fast decision-making in an environment operating with a significant number of unknowns.

Corporate culture is also fostering key values:

- having integrity,
- taking responsibility,
- being professional,
- acting solution-oriented,
- considering all views internally, but speaking externally with one voice.

RECRUITING

BAMC's uses a recruiting approach which ensures a fair, fact-based, competence-focused and thorough recruitment and screening process to attract and successfully recruit its personnel, fully in line with the Slovenian legislation and good practices. In cases where specific or international competences are required and sought after, the support of an HR agency may be used. The BAMC is proactively managing its recruitment process to avoid bias, e.g., in terms of gender, age, origin or nationality, associations or connections. Recruiting decisions are made following the "grandfather" principle, i.e., a manager never takes the final decision to recruit his or her own directly subordinated employee. The decision is taken or approved by the line manager's direct supervisor or similar level decision authority.

EMPLOYEE DEVELOPMENT

People development is critical to the success of the BAMC. Extensive introduction, induction training is executed with all its employees. A significant part of the competence development comes from on-the-job training and internal experience sharing. This shared internal training process is supplemented through external training on an individually assessed and agreed basis. As part of BAMC's performance evaluation system, each employee at the BAMC will sit down with his or her direct line manager and agree on an individual development plan every 12 months.

BAMC's employee training and development system ranks BAMC at the top of Slovenian companies, both in terms of the budget and in terms of the number of training hours. On average, each BAMC employee attended 7.4 training courses or conferences in 2017, of which two-thirds were internal (for a total of 43 training hours per employee), while 98% of the employees attended at least one training event, and the average investment in employee training and development was 573 EUR per employee. According to the figures from the Planet GV and SOFOS Institute survey on the effectiveness of educational management in 2017, the top 10 corporate respondents participating in the survey dedicated an average of 24.60 training hours per employee, approximately 91% employees attended at least one training event, and these companies invested an average of 498 EUR per employee.

REMUNERATION, CAREER ADVANCEMENT AND INCENTIVES

The Government has defined the overall remuneration policy of BAMC's Board of Directors, i.e. the non-executive and executive directors of BAMC. Remuneration of other BAMC employees is defined by BAMC independently. Oversight of BAMC's remuneration policy is supported by the Remuneration

Committee that recommends policy decisions to the Board. The Board is the ultimate decision maker in matters of remuneration policy.

In order to attract highly-qualified employees to the BAMC with its time-limited lifespan, it has to offer competitive remuneration aligned with the job market conditions. Competitive salaries are defined based on the potential employee's other opportunities and not only upon a comparison with Slovenian public sector institutions or organizations.

BAMC has implemented a Management by Objectives system, as well as performance and career advancement incentives. The non-executive employee remuneration system entails variable portions of the salary based on the relevant position, the employee performance and the company performance, reinforcing BAMC's goal-oriented corporate culture. BAMC will perform salary analyses based on internal proportions and labour market conditions, and in case of any discrepancies, it will take measures to ensure employment at BAMC is done under competitive terms.

RETENTION AND EMPLOYEE EXIT PREPARATIONS

BAMC management is going to manage the operational risk of employee turnover through good coordination of work, good employee management and taking measures to decrease the uncertainty of employees associated with their employment in BAMC.

By expanding and enhancing the work environment, BAMC provides its employees with opportunities for career development and career challenges. One example is that employees are given vertical mobility opportunities with new responsibilities. These opportunities include managing or participating at projects; taking over management roles of team leads after their leaving the company (internal career advancement) or taking on membership on supervisory boards or management boards of BAMC-owned companies. The diminishing workload also brings additional development opportunities, where employees can (vertically) expand their scope of work by including more diverse tasks, rather than having a smaller number of specialized tasks, as was the case in the past.

At BAMC, we are constantly refining our workload standards, the performance evaluation system, and we are adapting the organization in line with the changes in the internal and external environment. The aforesaid activities ensure that the workload and the burden caused by departures of colleagues has a minimal effect on employees remaining in the company.

The employees will be put through an intensive career development program, which will prepare them for termination and increase their competitiveness on the labour market after they leave BAMC. The BAMC will actively look for ways to support its employees to find positions outside the BAMC where the acquired skills and experience from the BAMC can be used to further add value to Slovenian businesses and organizations.

INFORMATION SYSTEM STRATEGY

The main role of BAMC's information system is to provide accurate and on-time information in the decision-making process of BAMC as well as provide an audit trail of BAMC's decisions and activities. BAMC information technology strategy establishes the general outline for developing the IT systems over BAMC's lifespan, which is scheduled to end in 2022 and significantly influences the BAMC's IT strategy. The primary emphasis is on the development of a cost-effective and fully-functional IT system with short implementation time, which will cover the majority of BAMC's processes and provide the relevant information to those involved in the processes. Finding the optimal balance between business requirements, costs and quality of the IT service is an ongoing task.

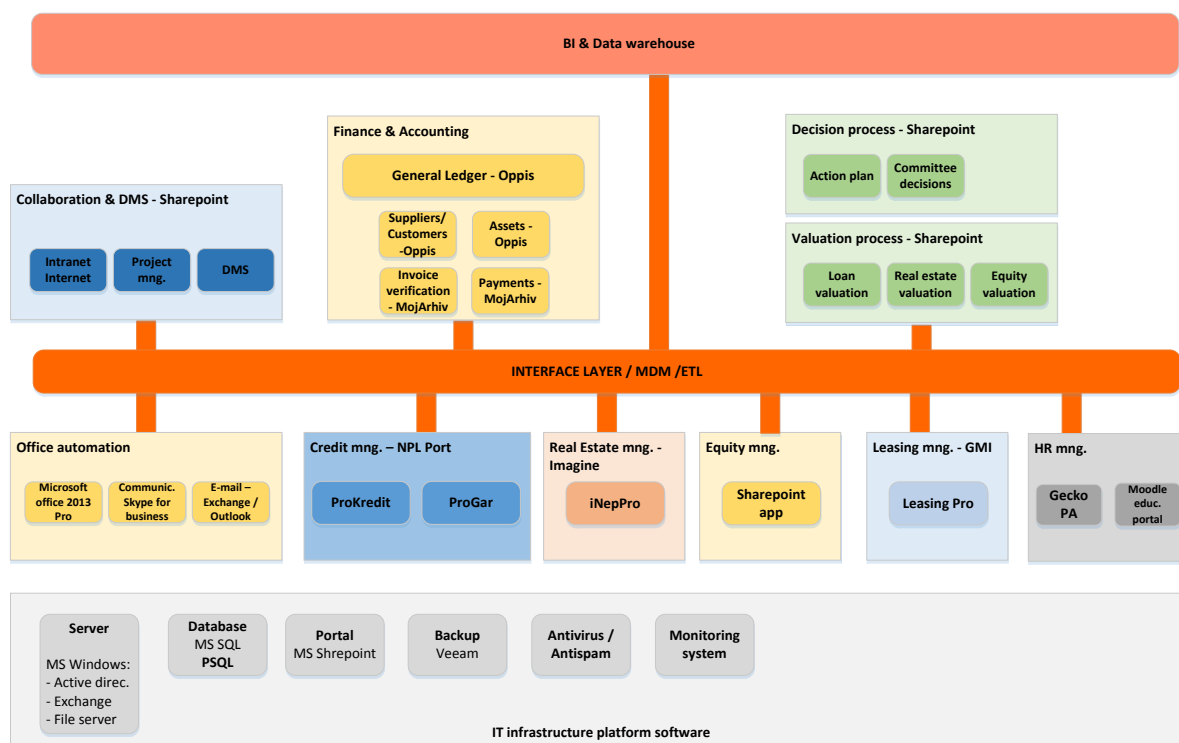
Since BAMC is managing different classes of assets which were transferred from different banks, the development of an integrated IT system while covering specific BAMC's processes was an issue. The current IT system architecture is the result of past portfolio migrations and merged companies. During the migration and merger process, optimal IT solutions were selected and implemented. Thus the target IT architecture is already in place and the strategy focuses more on the optimization, integration and improvement of this architecture and on the implementation of IT solutions for processes which are still manual. This will serve to reduce the likelihood of human mistakes and decrease the general risk to the company. Special emphasis should be also be put on master data management and data quality.

The strategy covers different IT areas: an application strategy, infrastructure strategy and IT management strategy.

APPLICATION STRATEGY

From the application point of view, the strategy should answer the question which type of software to use – either a standard software solution or a custom-made one. As a generic guidance, the first choice is to use standard software solutions parameterised to accommodate BAMC's processes. The use of a custom-made solution can be a choice in cases where the standard solutions do not fully cover the process or if there are no standard solutions available. The IT architecture of BAMC's applications is shown in the figure below.

FIGURE 6: APPLICATION SOLUTION MAP



Basically, BAMC's applications architecture consists of: core process solutions for credit, real estate and equity management, the collaboration and document management system, the accounting and human resource system and at the end the office automation system. The core process of credit management is supported with the IT solution provided by BAMC's subsidiary NPL Port. This solution incorporates the banking process know-how and as a result reduces the operational risk of BAMC.

Assuring long term data availability is becoming an important strategic issue for BAMC. This is particularly important after the merger of the two banks into BAMC, when many of IT systems have become archive systems. Active management of archive systems should be considered in a similar way as for systems in active use.

By the end of the lifespan of the DUTB, applications will move from the production (support of the running processes) to the archival phase. We will maintain archival systems on our infrastructure or where appropriate we will use a private or public cloud strategy in accordance with the infrastructure strategy.

In case of using the public cloud, the providers will be required to have the appropriate security of the infrastructure, which they provide with the appropriate certificates and insurance that even provider cannot access the sensitive data. The provider must ensure that all data is encrypted without the provider having access to the encryption keys.

INFRASTRUCTURE STRATEGY

The main goal of the infrastructure strategy is to have a secure and reliable infrastructure. On the infrastructure side, the strategy for productive systems is to use solutions from a single provider so that the integration of different services will be simplified. The core infrastructure solution is based on Microsoft solutions (MS Windows Server, Hyper-V virtualisation, MS SQL database, MS Active directory and MS Exchange) and consists of the core infrastructure: servers, storage, network, backup, operating system, and the database. The best practices for a secure and reliable infrastructure should be followed.

Due to the sensitivity of BAMC's data the usage of cloud services will be very restricted and conservative. To assure similar services to the users, a private cloud strategy will be developed. A similar approach will also be implemented for mobile devices. In case of using the public cloud, the providers will be required to have the appropriate security of the infrastructure, which they provide with the appropriate certificates and insurance that even provider cannot access the sensitive data. The provider must ensure that all data is encrypted without the provider having access to the encryption keys.

IT MANAGEMENT STRATEGY

The main goal of the IT management strategy is to build a lean IT organisation that is capable of managing development and maintenance tasks in combination with outsourced resources. With this strategy BAMC wants to keep a high level of IT knowledge, which will allow the management of outsourced services and projects to be more controlled. It is important to have highly trained staff with a broad knowledge of different IT areas.

Going forward, more attention will be placed on BAMC's business processes and applications to support them, as well as building the required IT team. Due to the specific nature of BAMC's processes, which are a mix of different industries, the accumulated know-how in terms of processes and IT solutions which supports these processes, could be very valuable, and could potentially be sold on the market after the end of BAMC's lifespan.

Assuring security and compliance is important to BAMC. Risk assessment should be performed on an ongoing basis, with clear and strong backup and security policies in place. A disaster recovery plan (DRP) should be prepared and periodically rehearsed.

PHYSICAL ARCHIVE STRATEGY

By the end of the lifespan of the DUTB (anticipated at the end of 2022), the activities of relocating archival material to the final archival sites, the classification of important archive material and review of classified not recorded archival material will be continuously carried out. In parallel, the activities of the elimination of the material with the elapsed retention period and the exclusion of permanent archives will be carried out. For the implementation of those activities, two scenarios will be prepared, namely the implementation of activities with internal resources (employees) and an outsourcing

strategy. In the case of the outsourcing strategy, the appropriate scenario - outsourcing of certain activities (partial outsourcing) or outsourcing of all activities including providing archival site and manipulating of materials (complete outsourcing) will be selected.

STAKEHOLDER STRATEGIES

COMPLIANCE AND LEGAL STRATEGY

BAMC shall be fully compliant with all relevant legislation and regulation and will also continue to cooperate with all government bodies and report to them in accordance with the established reporting system. BAMC will increase its role as a proactive proposer of better, improved, more rational and efficient operations.

In areas where the legal and regulatory frameworks are ambiguous, BAMC will seek clarification from the appropriate authorities or through testing cases in the court system in order to reduce uncertainty that reduces effectiveness.

In July 2018 BAMC received the Audit Report of the Court of Audit of the Republic of Slovenia (abbreviated: CoA) "The audit of regularity, efficiency and economy of the operations of Družba za upravljanje terjatev bank, d. d. in 2014 and 2015". Within the deadline provided by the CoA, BAMC submitted its response report, which demonstrated the corrective measures taken by BAMC. BAMC eliminated all irregularities and inconsistencies in the segment of the audit, which pertains to BAMC's operations in 2014 and 2015. The implementation of corrective measures was applied with maximum care to comply with the opinions and recommendations of the CoA.

Following a review of its operations in August 2017, Ethic intelligence, an independent certification body, awarded BAMC with anti-corruption compliance program certificate in October 2017. In 2019, BAMC will repeat the certification process in order to review the current situation and to obtain the upgraded certificate.

BAMC will proactively work with, propose and implement effective processes to comply with the investigative needs of institutions such as CoA, Commission for the Prevention of Corruption (abbreviated: CPC) and the Information Commissioner, and incorporate their recommendations already in the investigation phase to the extent possible.

BAMC has a clear Integrity plan, aligned with the Commission for the Prevention of Corruption (hereinafter: CPC), plan and Measures for identification and prevention of corruption risks and the risk of other wrongdoing or unethical conduct. Integrity plan is a tool for establishing and verifying the integrity of BAMC. It is devoted to:

- identifying relevant corruption risks in different working fields of an individual organization,
- assessment, what danger corruption risks may pose to individual organization, and
- determining measures to reduce or eliminate corruption risks.

In the sense of implementation, the integrity plan is basically a systematic and documented process in which all employees are actively involved. They identify risks, analyse and evaluate them and propose appropriate measures, meanwhile they constantly debate and communicate with each other.

BAMC is implementing a protection program for whistle-blowers reporting wrongful or unethical conduct. The Compliance officer reports regularly on the meetings of the Board of Directors and Audit Committee.

BAMC is planning to perform additional trainings related to compliance issues for its employees.

Coordination between compliance, risk management and internal audit is established through regular meetings of the Committee for Compliance and risk management. This committee reports from this Committee are a standing item on the Board of BAMC's meeting agenda.

One of the key objectives of ZUKSB is to facilitate the identification of irregularities, which led to loans and investments, which were transferred to BAMC as risky items. In order to meet the objective, BAMC has set up a special investigation task force in 2016, i.e., a permanent investigation team to ensure that the process of investigation of criminal activities is brought to a successful conclusion and that all cases in the BAMC portfolio are systematically monitored regarding any suspicious activity.

Any identified suspicions based on internal investigations carried out by the special task force will be reported to the National Bureau of Investigation or BAMC will directly press charges. BAMC will investigate if it is appropriate to complement BAMC's organisation with some forensics capability to be able to more effectively assist the authorities in these cases.

BAMC will continue to follow the protocol for regular reporting of such suspicions to the appropriate authorities and to assist the relevant authorities in their further pursuit of such cases.

CORPORATE COMMUNICATION STRATEGY

INCREASING COMMUNICATIONS CAPACITIES AND PUBLIC RELATIONS

BAMC will continue improving relations with key audiences, with a view to improving its public image and reputation, both internally and externally. As the company has recently been subjected to a number of external reviews, it will proceed to build its reputation mainly through proactive and open communications with all key audiences. The means to achieve this will include updating company website, so as to give all audiences, and potential investors in particular, the opportunity to perform advanced searches through information about BAMC.

BAMC's communication strategy is mainly focused on:

- supporting BAMC's strategic goals by promoting the understanding of the role of the BAMC and benefits the BAMC brings for the Republic of Slovenia and the taxpayers, in key audiences,
- improving support of key audiences in implementation of measures, including by keeping track of their communication needs and responding to these needs,
- building the company's reputation and improving its public image,

- building “coalitions” with influential individuals/representatives of institutions in order to support company operations,
- improving internal relations,
- maintaining and upgrading media relations,
- achieving the “one company, one voice” communication effect, and
- proactive and reactive open communications with key audiences.

BAMC’s key audiences are:

- BAMC’s owner (with the Ministry of Finance and the Ministry of Economic Development and Technology representing the owner’s interests),
- decision-makers (Bank of Slovenia, National Assembly of the Republic of Slovenia, Committee on Finance and Monetary Policy, National Council of the Republic of Slovenia),
- expert audiences (Court of Audit of the Republic of Slovenia, Commission on the Prevention of Corruption, Information Commissioner, Slovenian Competition Protection Agency)
- Financial audiences (Slovenian audiences, BAMC’s debtors, their owners and managers, various Slovenian business associations)
- investors – buyers of claims, equity and real estate assets (funds and private equity companies, including international institutions such as the EBRD and IFC),
- opinion-makers (Bank Association of Slovenia, leading experts, academics, pundits, representatives of the managements of various institutions, media editors, EBA, IMF, ESM),
- domestic and international media,
- BAMC staff.

Communication is planned, directed and managed by BAMC’s marketing and corporate communications department, which reports directly to the CEO. Corporate communications is a “communication hub” where external and internal information is reviewed, coordinated, revised, updated and created in compliance with BAMC’s strategic, business and communication objectives.

TERMINATION STRATEGY

- BAMC’s termination strategy will seek to prevent any fire-sale situations at the end of BAMC’s mandate.
- BAMC will by the lifespan till 2022 be able to exit most of its assets and terminate all its activities and operations orderly.
- The winding-down strategy will put a significant focus on human resources required to ensure the company maintains orderly operations towards the final years of its lifetime.
- Detailed termination strategy and action planning will be determined in 2020.

The assets remaining in BAMC’s management at the end of 2022 are going to be, in accordance with Article 36 of ZUKSB, transferred to SDH or other institution as decided by the owner. BAMC projects to have €80,9 million of claims and €45,8 million of real estate at the end of its lifespan.

RISK MANAGEMENT

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

With the help of an efficient risk management system BAMC can assess, measure, monitor and control the identified risks. This will allow BAMC also in the future 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 will put a lot of effort into understanding, measuring and managing risks also in the future, since it has set up an effective risk management framework and a strong risk management culture.

BAMC's overall capacity to take risks is set out in the Risk management policy, which defines competences and responsibilities, risk management process, main risk categories and provides a tool for risk measurement with general treatment of each risk category.

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

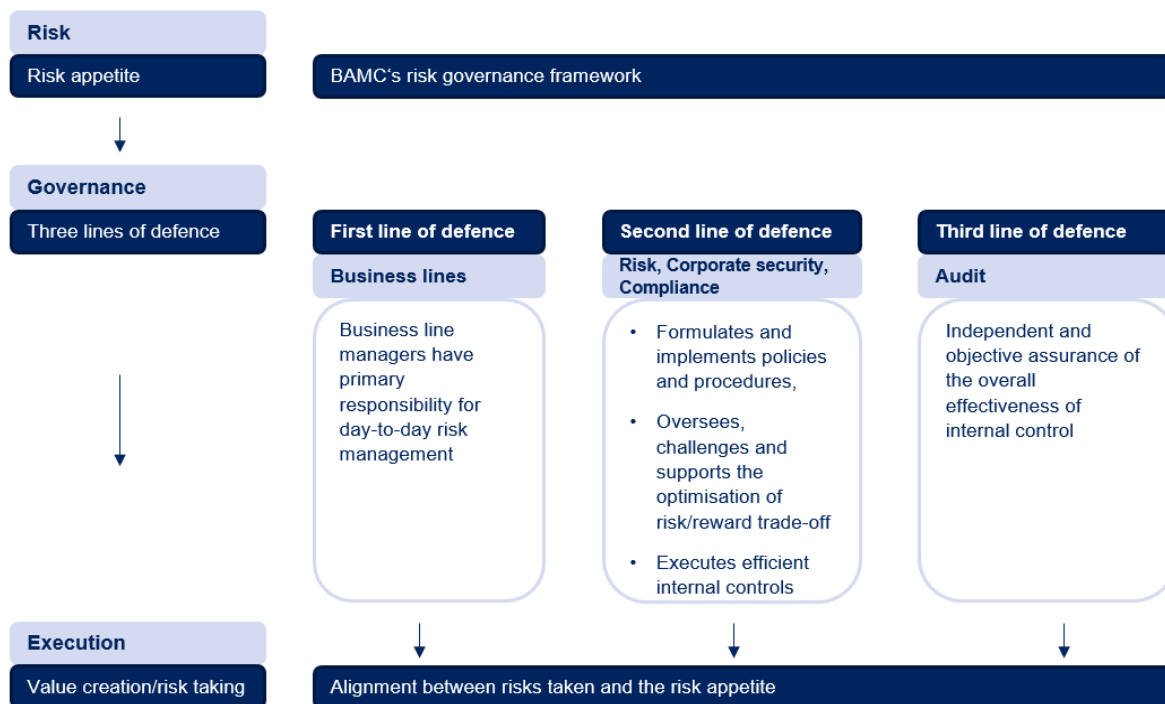
THREE LINES OF DEFENCE

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

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

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

FIGURE 7: THREE LINES OF DEFENCE



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

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

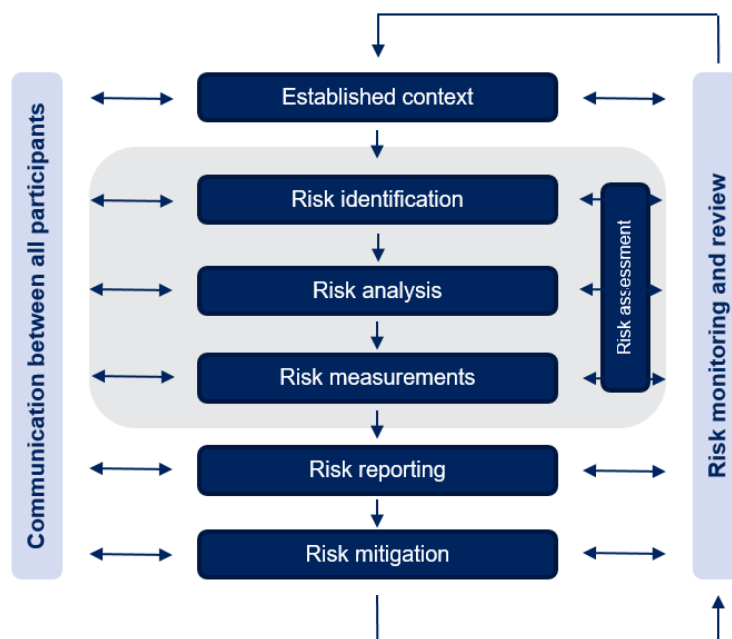
Organisation unit **Corporate security** orderly and systematically investigates suspicious practices in and outside BAMC. It identifies and effectively mitigates or manages, at an early stage, any developments that may threaten the resilience and continued operations of a corporation. A corporate function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

Internal audit is BAMC's third line of defence, which tests and evaluates the risk governance and management system as a whole, estimates the effectiveness of performed internal controls and revises the management of key risks.

RISK MANAGEMENT PROCESS

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

FIGURE 8: RISK MANAGEMENT PROCESS



ESTABLISHED CONTEXT

The risk management framework is established with adopted internal bylaws. Board of Directors of BAMC defines and manages risks and implements the risk management system in a structured, consistent and coordinated way. Audit Committee assists the Board of Directors in fulfilling its supervisory responsibilities. The Audit Committee is accountable for keeping itself informed about the statutory audit of the annual accounts and monitoring the impartiality of the statutory auditors. Risk Management Committee is an advisory committee on an executive level in the area of risk management and compliance and supports identifying, monitoring, assessment and mitigation of risks, within acceptable risk levels.

RISK ASSESSMENT

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

RISK IDENTIFICATION

All business units are and will be actively involved in identifying key risks for their scope of operations and BAMC as a whole. Main risk identification will be performed with risk reviews (comprehensive review of specific process or part of the process, supporting documentation or projects). In addition, the management of BAMC adopts a “risk appetite” and shows guidelines with adoption of strategic and business decisions both for controlling and risk management department and process owners (top-down approach). All identified risks are gathered in Risk Catalogue, which serves as a roadmap for risk management activities.

RISK ANALYSIS

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

RISK MEASUREMENT

Measurement of risks is important in order to provide relevant priority list of risks that should be addressed first. BAMC performs evaluation and classification of risks according to the probability for realisation of each risk and according to the impact that realisation of such risk would have on BAMC’s operations. Probability of occurrence is estimated based on historic data or frequency of such event to realize. Value of such risk is estimated according to the impact on BAMC operations, financial impact or any distress in business processes or to BAMC’s reputation. Both, probability and value of risk, are estimated on a four-point scale and the total estimation of risk is a product of probability estimation and value estimation. Such approach allows clear and objective measurement of risks. In that way, risks are mitigated and monitored as a result of an objective analysis and not as a subjective opinion.

RISK REPORTING

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

RISK MITIGATION

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

MONITORING AND RISK OVERVIEW

After perceiving, measuring and presenting the risk to the Risk Management Committee, after the risk is assessed and the risk management strategies adopted, BAMC continuously monitors and reviews the risk exposure. The follow-up is focused on assessing whether the measures taken successfully contribute to the desired goal (risk reduction). The reassessment is intended to review the emergence of potential new risks.

NEXT STEPS IN THE PROCESS OF RISK MITIGATION

In 2019 the key risks will be again sent to the heads of organizational units for the purpose of:

- longer description / understanding of the risk
- description of already performed activities (mitigations)
- future mitigations
- possible reassessment of the probability and impact of the key risk and the impact that the risk realization would have on BAMC's operations

Risks with final estimated probability, impact or both "high" or "extremely high" are mitigated on a Board level, non-crucial risk with estimated probability, impact, or both "extremely low", "low" or "moderate" are mitigated on an Executive level. Progress on mitigation of key risks will be monitored quarterly and will be presented to the Audit Committee and to the Board of Directors on a semi-annual basis on an individual risk level. Progress on mitigation of non-crucial risks will be monitored on a semi-annual basis and will be presented to the Risk Management Committee on a semi-annual basis on an individual risk level, to the Audit Committee and to the Board of Directors will be presented on an annual basis on an aggregate level.

PORTFOLIO MANAGEMENT IN 2019

LOAN PORTFOLIO

RESTRUCTURING CASES

In cases undergoing restructuring, BAMC will carefully monitor their observance of MRAs. In cases where BAMC is also the owner besides being the majority lender, it will use corporate governance leverage to set up optimistic business plans, then monitor improvements thereto, all with a view to optimizing the company value and making it fit for later sale and with the goal of BAMC's final exit from its role as owner and creditor.

In successful restructuring cases, as identified through a portfolio review of financial indicators of going concerns following the submission of final accounts, BAMC will make efforts to secure debt refinancing from commercial banks in all cases where the companies meet the criteria commercial banks require to approve financing.

Emphasis will be placed on portfolio-level sales of similar types of assets, applying due care and diligence to ensure transparency and competitiveness in the:

- Sale of claims secured with marketable real estate collateral,
- Sale of retail credit claims from various portfolios,
- Sale of the leasing portfolio,
- Sale of individual marketable claims.

RECOVERY CASES

In bankruptcy cases, BAMC will continue to work proactively with bankruptcy trustees, so that the guidelines for sale are set, and make decisions on takeover of assets where sale attempts are taking too long, with a view to reduce the duration of bankruptcy proceedings, minimizing bankruptcy costs and optimizing the recouping of claims for BAMC.

BAMC will focus on accelerated closure of small value cases to improve efficiency and clean its profile through:

- Closure of individual cases (former large exposures with low residual value),
- Bundling small exposures into package sales,
- Accelerate insolvency procedures where possible.

An important segment will be claim enforcement procedures in cases where debtors had settled their obligations to subcontractors via real estate compensation transactions, where such properties remained encumbered with mortgages. Planned activities in other claim enforcement procedures pursue the goal of maximum repayment of claims, through use of cost-effective claim enforcement activities, rationally and economically justified and otherwise maximally optimized business processes and optimal use of human and other resources.

REAL ESTATE PORTFOLIO

Key envisaged investments aimed at increasing the market value of BAMC's real estate portfolio in 2019 will involve (spread over numerous locations in Slovenia):

- Renovation and refreshment of apartments for final sale per partes,
- Finalization of unfinished residential building,
- Legalization of buildings and reconstruction of existing developments,
- Development of spatial planning documents and adoption of the Municipal Detailed Zoning Plan (OPPN),
- Construction of the communal infrastructure, parcellation, demolitions, purchase of missing plots in order to assemble functional units.

The total investment cost is difficult to estimate (rough estimation at approximately €9,9 million ceiling), since usually all proprietary BAMC real estate is constantly available for sale on the market across all stages of the real estate development. As a result, certain properties will be sold before the improvements are actually done. Some investments are set to only begin in 2019, and their timeline and cost plan will be pushed to the coming 2020/2021 period.

In 2019 BAMC anticipates quite a few takeovers from insolvency proceedings. Due to relatively unpredictable insolvency procedures and the large number of "minor" real estate units in BAMC's secured portfolio, it is very difficult to project an exact list of real estate to be taken over in the future. The results will also vary depending on the other auction participants.

The business real estate portfolio comprises offices and retail facilities, industrial facilities, warehouses and hospitality facilities, land plots for industrial or business/residential mixed use and other agricultural land plots, which includes forests. In addition, the portfolio also includes other specific-use commercial properties, e.g. parking garages. The most commercially attractive properties in the coming years include an office building in Belgrade, two towers of the Dunajski Kristali office development in Ljubljana, and the Eda shopping center/office building in Nova Gorica. Other properties of interest include the NOVA center in Velenje and the retail section of the building located at Vetrinjska ulica, Maribor. Interest has also been expressed in tourism capacities in the Pohorje region.

Over the next years, BAMC is planning to invest some funds in finishing-up and marketing the office premises at the office development in Nova Gorica, prepare for partial sale of the former Probanka building in central Maribor, and for the sale of the former Pomurka complex in Murska Sobota, where the real estate is expected to be transferred into BAMC's possession in 2019. Some investments will also be necessary on smaller projects, in terms of registering condominium, legalization and fit-for-sale preparations, as well as building the communal infrastructure for the land plots, allocation of land plots or demolition of buildings and clearance of debris. Once planned investments are approved, additional human resources will also be necessary.

EQUITY PORTFOLIO

BAMC's equity management operations will continue proactively, transparently pursuing the exit strategy for majority and minority holdings, with a view to maximizing the realized sales proceeds. BAMC will exercise its ownership rights associated with individual equity holdings in accordance with applicable law, in line with the specific nature of each equity investment. The management strategy for companies in which BAMC holds a majority stake will focus on active and well-rounded corporate governance and supporting the management in pursuing operational and financial restructuring measures. In this context, BAMC will pursue the goal of maximizing the economic value of individual investments, it will prepare the companies for sale and pursue the goal of maximizing realized proceeds from the sale.

The companies' performance will be comprehensively monitored throughout the year, not just from the financial perspective and in terms of achieving set KPIs, but also in terms of establishing a risk control system and corporate governance bodies performance tracking. In companies where BAMC is the majority shareholder, BAMC also constantly strives to improve the corporate governance standards which the companies committed to by adopting the tenets of the BAMC Corporate Governance Code, as stipulated in the Companies Act (ZGD-1). BAMC realizes the high expectations various stakeholders have of the companies of which BAMC is the majority shareholder, and will continue making maximum efforts to further improve their operations and increase their competitive ability.

In 2019 we are planning to wind down the operations of Avtotehna, where the choice of the actual approach will be the one that ensures optimal utilization of funds and time. Among the key highlights for 2019, we are also planning to sell the corporate entity registered abroad, whose main value lies in its real estate. When it comes to shares of equity of power distribution companies, we will endeavor to transfer ownership of these companies to the Republic of Slovenia in 2019, as instructed by way of a formal government decision. As for other minority holdings, we have prepared two exit strategies; under the first scenario, we will sell the minority holdings individually, while under the second scenario we will seek to form consortia with other minority shareholders in an effort to maximize proceeds (Cinkarna case).

For companies in which we hold a majority equity position, we will continue implementing the restructuring strategy, in order to gradually sell the assets within the deadline set in 2022. As for companies which are successfully finalizing restructuring, we will begin fit-for-sale preparations in 2019, so that they are ready to commence the relevant procedures, which should for the most part take place over the next two years (Alpina case). An exception in this regard will be the company MKZ, where it will first be necessary to finalize the comprehensive operational restructuring, and adopt the development strategy in order to ensure long-term viability and stop the decline of the company value, or even reverse the trend.

In companies involved in the hospitality business, we will continue to carry out restructuring plans, and at the same time we will endeavor to make all the arrangements to ensure the best exit strategy for all stakeholders involved.

At the moment, efforts are being made to acquire three minority holdings and procedures to assess the option of potentially acquiring some majority stakes via D/E swaps, meaning no additional financial investment will be necessary. During this year, we are expecting to successfully close at least five sales processes which began in 2018. Furthermore, other sales processes are expected to launch in 2019, where a number of minority equity holdings and some majority holdings will be put on sale, and significant financial impacts are expected to follow from this.

BUSINESS PLAN 2019-2022 SUMMARY

- Planned BAMC equity of €176,1 million at the end of 2022
- Taking returns of capital to the owner (as well as recapitalisations) into account this stands for an average yearly EROE of 13,5%.
- Operating costs in the 2019-2022 period are planned to amount to €61,7 million.
- Net profit in the 2019-2022 period is planned to total €15,2 million³.
- Cash flows of €435,5 million from loan portfolio, €274,8 million from real estate portfolio and €96,6 million from equity portfolio to support these results.
- €16,3 million of state guarantee fees and 6,2 million of interest costs from 2019 to 2022.

³ In accordance with the principle of recognition of assets at fair value, the BAMC balance sheets for each period reflect and include the expected yields from these assets, and therefore also the yields from expected transactions, which are manifested directly in the net result and therefore in equity. For this reason, past years' profits already factored in most of the positive effects, and are therefore comparatively lower as the end of BAMC's anticipated lifetime approaches. BAMC's task is to realize these expected transactions, which will be reflected in generated inflows.

KEY PERFORMANCE INDICATORS

Key performance indicator	Definition	2014 actual	2015 actual	2016 actual	2017 actual	2018 estimate	2019 planned	2020 planned	2021 planned	2022 planned
Cumulative cash generated	Absolute amount (in € million)	137	494	863	1.294	1.521	1.730	1.957	2.178	2.328
Cash generated %	Cash generated / NPAs transfer value	11,5%	22,0%	18,3%	21,5%	11,2%	10,3%	11,2%	10,9%	7,4%
EROE (cumulative, yearly average)	Equity / invested capital with corrections - 1	91,6%	14,2%	9,5%	24,7%	***	19,8%	17,0%	15,2%	13,5%
Cost efficiency	Operating costs* / average total assets	0,97%	0,97%	1,84%	1,88%	***	2,60%	2,86%	3,02%	3,54%
Amended cost efficiency	Operating costs** / average total assets	-	-	-	-	-	2,06%	2,38%	2,56%	3,19%

GENERAL NOTES:

- It has to be noted that towards the end of BAMC's lifespan yearly cash generation of 10% will not be possible anymore, mainly because realisation in the preceding years has substantially surpassed this threshold. Nevertheless, BAMC will exceed the cumulative cash generated performance indicator in all years of its operations.
- As first assets were transferred to BAMC in December 2013, 2014 is considered the first year of actual operation for BAMC and used as such in respective calculations.
- The following abbreviations are used in the table: NPAs = non-performing assets, EROE = economic return on equity.
- ***At the time of the preparation of the document, data for a relatively reliable estimation of the indicator were not yet available.

NOTES TO THE KPIs' DEFINITIONS:

- »Cash generated %« denominator, »NPAs transfer value«, has increased substantially in 2016 due to the merger of Factor banka and Probanka into BAMC, raising the statutory 10% yearly goal in absolute terms compared to previous years.
- "Invested capital with corrections" is corrected for day-one losses and other returns of capital to the owner as well as recapitalizations. See Table 3 for details.
- *As defined in the Guidelines, operating costs used in the calculation of »cost efficiency« exclude transaction costs, incurred in assets' sales processes. Direct transactional costs are costs directly related to sales of equity, real estate or claims and are recorded on separate accounts by BAMC.
- **As defined in the proposed changes to Guidelines, operating costs in the calculation of »amended cost efficiency« (cost efficiency no. 2) exclude transaction costs, incurred in assets' sales processes, litigation costs and therewith related provisions, other extraordinary costs and real estate management costs. Concerned costs are recorded on separate accounts by BAMC.