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### **BAMC Annual Report 2015**

Bank Assets Management Company (BAMC)/Družba za upravljanje terjatev bank, d.d. (DUTB)

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## BAMC ANNUAL REPORT 2015

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## HIGHLIGHTS AND SUMMARY OF 2015

After completing asset takeovers from banks undergoing measures to strengthen the stability of banks and concluding the organisation build-up in 2014, Bank Assets Management Company (hereinafter: BAMC) focused on managing the transferred assets in 2015. Considerable progress was achieved in all of BAMC's key strategic tasks, and all but one of the broad range of KPIs were achieved or even overfilled. The company excelled in cash generation, partially returned borrowed funds and significantly reduced the volume of outstanding state guarantees, and maintained high operational efficiency. The only target not reached was ROE requirement, due to special circumstances. However, taking into account the additional return to the public sector, BAMC have secured a decent total return to its owner the Republic of Slovenia.

Cash generated from asset management in 2015 amounted to €356,2 million representing 22,0% of asset transfer value and thus highly exceeded the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank (hereinafter: ZUKSB) requirement of yearly liquidation of at least 10% of assets. From inception BAMC thus generated €493,5 million of cash meaning that almost one third of transferred assets' value was cashed.

FIGURE 1: BAMC'S OVERVIEW OF 2015

	2014		2015				2016	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Important events	Abanka asset transfer	Banka Celje asset transfer	Sale of the stake in Pivovarna Laško	Sale of a package of claims (ACH etc.)	Repayment of DUT01 bond	Amended ZUKSB in force	Factor banka and Probanka merged into BAMC	Merger of four subsidiaries into BAMC
Governance		Changes among three non-executive directors effective		Recall of Lars Nyberg and Torbjörn Månsson	Marko Simoneti as Chairman of the Board and Imre Balogh as acting CEO		Juan Barba Silvela as non-executive director	
Core employees	75	81	86	90	100	102	208	179
Committee decisions	554	423	477	442	556	454	474	
Cash generated	€52,8 million	€36,4 million	€137,2 million	€33,3 million	€149,3 million	€71,0 million	€53,3 million	

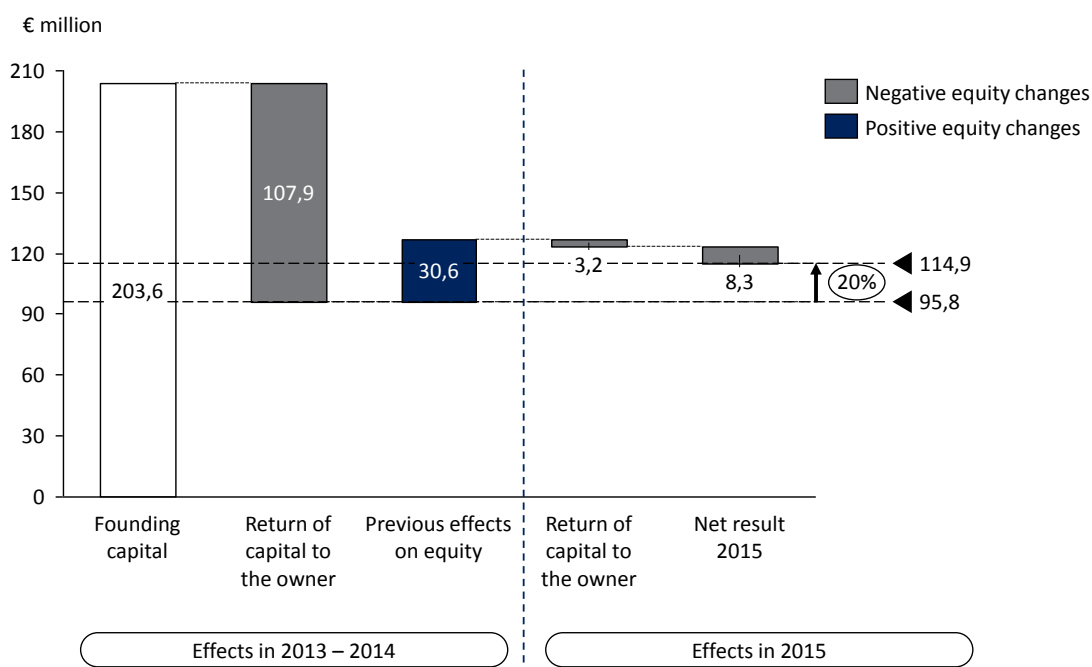
**NOTE:** Since 2016 the number of decisions is reported on an action plan (debtor) level, not counting multiple decisions within a single action plan.

Core business of BAMC is managing non-performing assets, predominantly non-performing loans, therefore BAMC's operating and financial expenses have to be covered by realised capital gains and revaluation income in order to generate profit. BAMC recorded a net loss of €8,3 million in 2015. Hence, BAMC has not achieved the requirement of 8% return on equity as required by the Guidelines on the operations of the Bank Assets Management Company (hereinafter: the Guidelines).

The loss was the result of revaluations, as income from the increase in the fair value of assets due to revaluation was insufficient to cover all financial expenses and operating costs, despite the positive result of transactions. While realised inflows were mostly in line with expectations, the main difference to previous valuations originated in the lower and more distant estimation of cash flows from the remaining portfolio in future years as a result of economic, investor sentiment and other related factors.

Regardless of the net loss and equity decline in 2015 BAMC has, since its inception, increased the equity value by 20% compared to equity fair value after the takeover of assets from the four state-owned banks which includes the return of capital to the owner in various forms.<sup>1</sup> The economic return on equity (EROE) indicator that takes into consideration also the return of capital to the owner, and therefore more appropriately and comprehensively measures BAMC’s performance, thus stands at an average yearly return on equity of 11,4% for the two years of operations.<sup>2</sup>

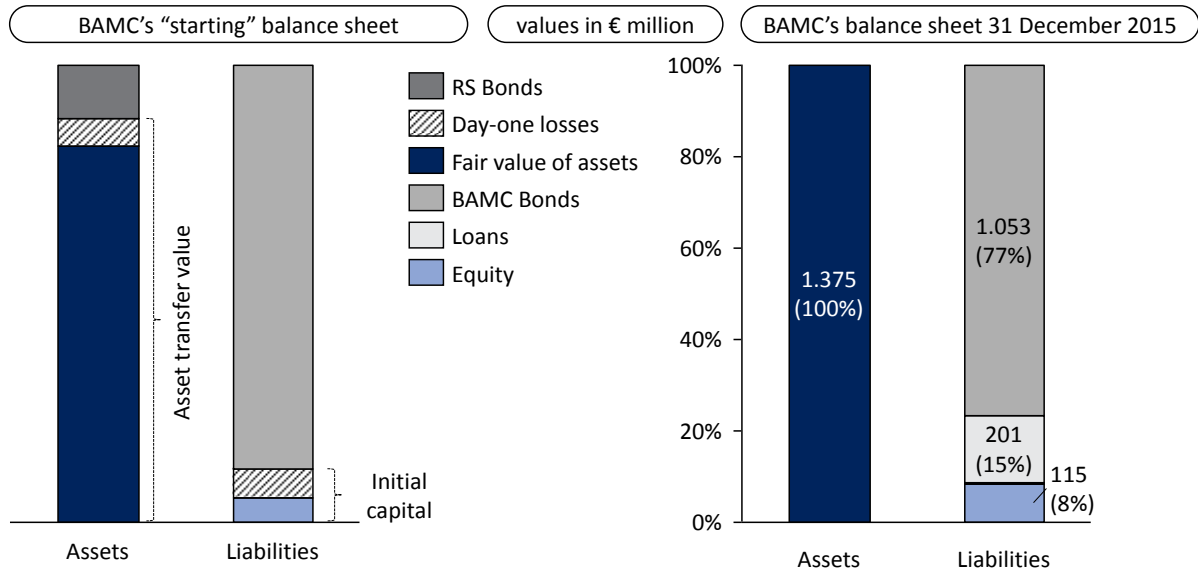
FIGURE 2: EQUITY EFFECTS



<sup>1</sup> The return of capital to the owner originates from the negative difference between fair value of assets and transaction price in cases where the decision on transaction price was made by the Government of the Republic of Slovenia in capacity of the General Meeting of BAMC.

<sup>2</sup> As first assets were transferred to BAMC in December 2013, it is effectively in operation for two complete years.

FIGURE 3: BAMC'S BALANCE SHEET STRUCTURE



**NOTE:** The left-hand BAMC “starting” balance sheet is generically constructed for illustrative purposes and includes day-one loss effects from assets transferred in both 2013 and 2014. Liabilities in the right-hand figure also include €6,0 million of other liabilities, which are not explicitly displayed due to their relative size.



In addition to the performance indicators specified by legislation and the Guidelines, BAMC developed a broader system of key performance indicators (KPIs) to better present its performance throughout the company's lifespan which are included in the Instructions for tracking the prescribed statutory goals for BAMC adopted by the Board of Directors.

TABLE 1: KEY PERFORMANCE INDICATORS

KPI	Definition	Cumulative (c) Average (a)	2015	2014
Cash generated %	Cash generated / NPAs transfer value	30,5% (c)	22,0%	11,5%
Cost efficiency	Operating costs / average total assets	0,92% (a)	1,01%	0,97%
<b>Profitability</b>				
ROE	Net income / average equity	14,0% (c)	-5,7%	21,9%
CROE	Comprehensive income / average equity	-55,7% (c)	-41,5%	10,3%
EROE	Equity / (invested capital - cumulative RCO) - 1	11,4% (a)	24,1%	82,8%
<b>Funds returned</b>				
Funds returned to RS	Payback / assets invested by RS	35,2% (c)	28,6%	4,3%
Gross funds returned to RS	Gross payback / assets invested by RS	43,1% (c)	33,4%	7,4%
Debt outstanding	Debt / initial debt		80,2%	99,7%
Guaranteed debt outstanding	Guaranteed debt / initial guaranteed debt		80,2%	99,7%
<b>Basic data</b> (in € million)				
Cash generated		494 (c)	356	129
Assets invested by RS	Invested capital + state-guaranteed bonds	1.767 (c)	1.767	1.767
Debt	Balance sheet debt value		1.254	1.558
Equity	Balance sheet equity value		115	175
Funding capital - cumulative RCO			93	96

**NOTE:** The following abbreviations are used in the table: NPAs = non-performing assets, ROE = return on equity, CROE = comprehensive return on equity, EROE = economic return on equity, RCO = return of capital to the owner (includes day-one losses and other returns of capital to the owner), RS = Republic of Slovenia.

Payback includes RCO, guaranteed debt redeemed, dividends and other extraordinary returns (e.g., guarantee scheme return in 2014). Gross payback includes payback, total taxes (income tax, net VAT, tax on financial services, compensation for use of building sites [Slo. *nadomestilo za uporabo stavbnega zemljišča*] and real estate transaction tax [Slo. *davek na promet nepremičnin*]), state guarantee fees paid and guaranteed-bonds' interest paid.

Cumulative/average column reports the cumulative or average value of the respective indicator since the inception of BAMC, dependent on the context. EROE and both debt outstanding indicators are cumulative already by definition.

In light of the return on equity (ROE) indicator it should be noted that BAMC is also providing a fixed return to the state in the form of paying the government guarantee fee on its issued bonds as well as paying a premium on the state costs of financing to the bondholders. Both of these considerably affect BAMC bottom line results and the additional return KPIs below are taking this into account.

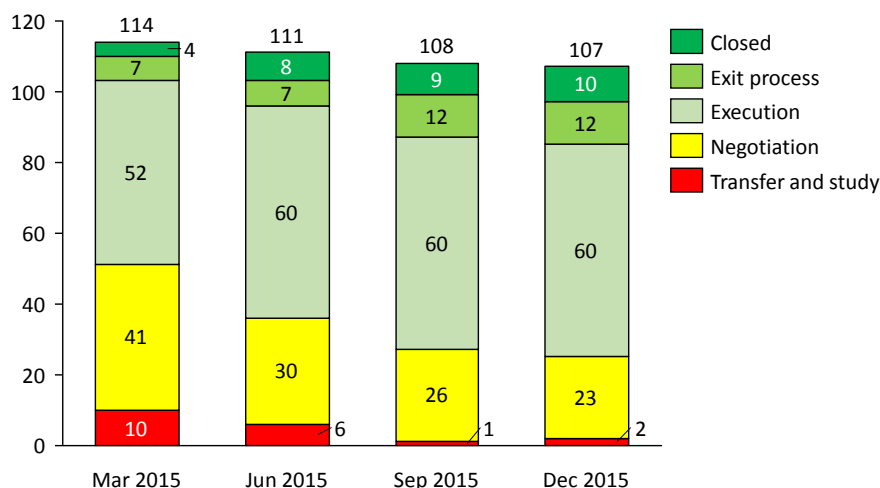
TABLE 2: ADDITIONAL RETURN TO THE REPUBLIC OF SLOVENIA

Corrected ROE	Definition	Cumulative (c) Average (a)	2015	2014
Corrected ROE <sub>v1</sub>	Net income / average equity (both corrected for state guarantee costs)	31,7% (c) 14,7% (a)	6,5%	28,9%
Corrected ROE <sub>v2</sub>	Net income / average equity (as above + corrected for cost of financing premium)	41,3% (c) 18,9% (a)	12,8%	33,2%

**NOTE:** ROE = return on equity. Cumulative ROE percentage (c) is comparing cumulative net income generated by BAMC since its inception with the average of initial and 2015 equity. (a) is the yearly geometric average from (c).

Considerable progress has been achieved in 2015 with relation to corporate restructurings. More than three quarters of restructurings pursued were at least in the execution phase by the end of the year while this share amounted to around a half at the beginning of the year.

FIGURE 4: PROGRESS IN RESTRUCTURINGS



**NOTE:** Case progress is estimated monthly by case managers. The number of cases in restructuring or recovery may vary due to changed circumstances in case management or a change in BAMC strategy pursued towards a specific debtor.

Full repayment of DUT01 bond issue in amount of €502,5 million in December 2015 represents an important step in the fulfilment of BAMC's mission, as defined by the ZUKSB. Through the repayment of the aforementioned bonds, BAMC reduced its debt, repaid invested funds and thus reduced the burden on the Republic of Slovenia and its taxpayers. Current debt thus stands 20% below initial debt and debt repayment together with various payback types already account for 35% of the assets invested by the Republic of Slovenia. In gross terms, i.e., including taxes, guarantee fees and interest paid, the state already received 43% of assets initially invested in BAMC (see Table 1 for reference).

BAMC's operational efficiency stands favorably in international comparison (see benchmarking section below). In 2015 BAMC continued to focus on increasing the process and cost effectiveness of its operations. The main activity in this area was the centralization of information system for managing claims. At the end of 2014 information on BAMC's claims was dispersed over four different information systems for claims management at banks subject to transfer of assets. In the first half of 2015 BAMC

performed a migration of claims data to a central system managed for BAMC by Probanka d.d., Maribor (hereinafter: Probanka).

Following on-site review of its operations in March 2015 BAMC obtained the Anti-corruption Compliance System Certificate by ETHIC Intelligence in August 2015. The certificate is awarded only after a comprehensive program has been successfully implemented and the BAMC program was designed to effectively take into account the recommendations of the Court of Audit and the Commission for the Prevention of Corruption.

At the end of 2015 the main focus on operational level was given to preparation for the merger of Factor banka d.d., Ljubljana (hereinafter: Factor banka) and Probanka, which were in the liquidation process from 2013, into BAMC. The Government of the Republic of Slovenia (hereinafter: the Government), which was the owner of Factor banka and Probanka as well, has decided that it would be the best solution for the Republic of Slovenia to merge both banks in liquidation into BAMC.

In December 2015 the National Assembly passed the amendments of and supplementations to the ZUKSB, which took effect in January 2016. The key changes and new additions brought by the new ZUKSB (hereinafter: ZUKSB-A)<sup>3</sup> relate to emphasizing BAMC's role in restructuring of debtors, broadening its powers and instruments to enhance efficiency in restructurings and asset recovery, additional powers to the Republic of Slovenia with regard to its supervising role, restricting the role of non-executive directors in managing of BAMC, implementing additional restrictions and control mechanisms with regard to the management of BAMC's assets, granting the possibility of merging banks undergoing winding-down procedures and extending BAMC's lifespan by the end of 2022.

Changes to the Board of Directors have occurred twice in 2015. Instead of Lars Nyberg, Carl-Johan Lindgren, Arne Berggren, Mitja Mavko and Torbjörn Månsson, who was the CEO, Marko Simoneti, Janez Širovnik and Imre Balogh were appointed, the latter firstly as non-executive director and later as acting CEO.

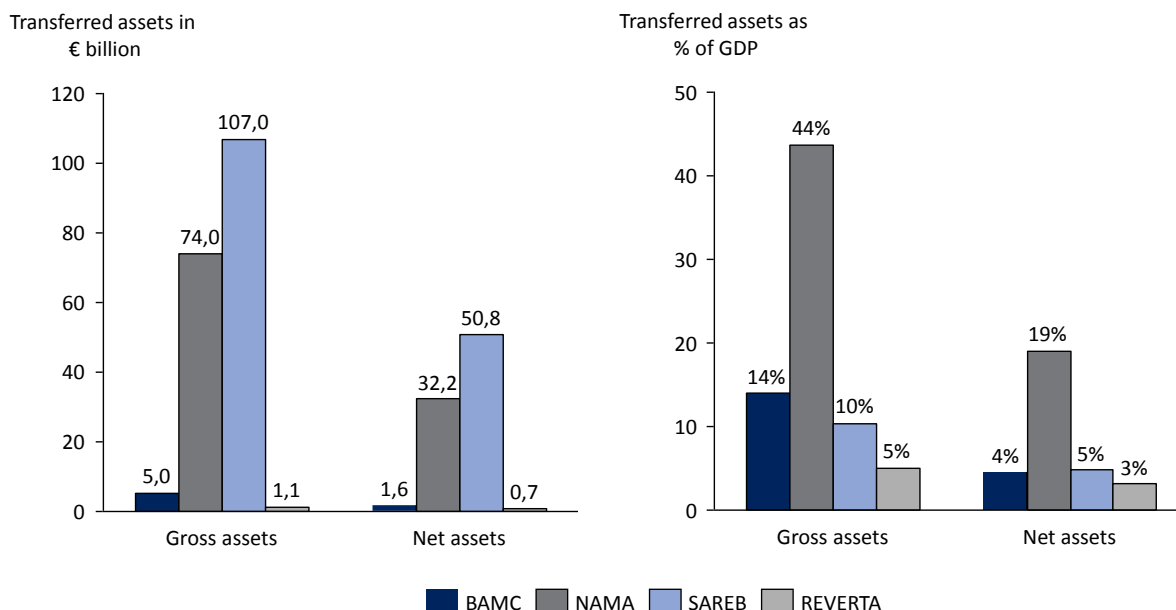
Several asset management companies were set up in the EU to contribute to the resolution of non-performing loans in the years after the start of the financial crisis. To internationally compare BAMC's performance, three peer organisations were selected for benchmarking: NAMA from Ireland, SAREB from Spain and REVERTA from Latvia. Benchmarking is done based on the relative time of operations, i.e., not comparing results of calendar years but of years after the set-up of the respective company.<sup>4</sup>

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<sup>3</sup> In this report a general ZUKSB abbreviation is used for the respective law, while ZUKSB-A specifically relates to the amended law and the changes it brought.

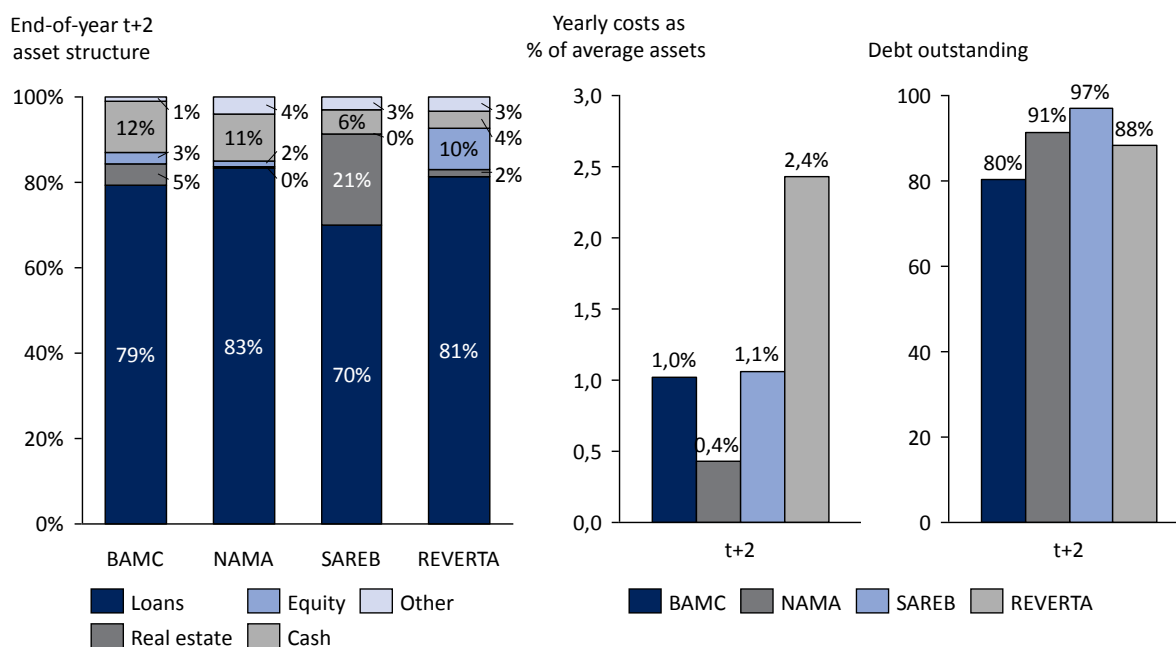
<sup>4</sup> As first assets were transferred to BAMC in December 2013, it is effectively in operation for two complete years making 2015 results the "t+2" input for benchmarking.

FIGURE 5: ASSET TRANSFER COMPARISON



**NOTE:** NAMA from Ireland, SAREB from Spain and REVERTA from Latvia were selected for comparison to BAMC. % of GDP figure compares the value of transferred assets to respective country’s GDP in the year of transfer. In BAMC’s case 2013 is taken as the base year.  
**SOURCE:** Own calculations from companies’ annual reports and Eurostat data.

FIGURE 6: SELECTED BENCHMARKING DATA



**NOTE:** NAMA from Ireland (established in December 2009), SAREB from Spain (established in November 2012) and REVERTA from Latvia (established in May 2012) were selected for comparison to BAMC. “t+2” relates to respective company’s second year of operations. Debt outstanding compares current financial liabilities to debt issued to finance acquired assets.  
**SOURCE:** Own calculations from companies’ annual reports.

## LETTER FROM THE CEO

### A YEAR OF CHALLENGE FOR BAMC

2015 was a year of mixed success, continuous change and formidable progress. Despite some turbulences, we strengthened the fundamentals that BAMC will build on to become even more efficient and successful in the years to come.

The mission of BAMC is clear. And as its tasks related to stabilizing the Slovenian financial sector and promoting confidence in it are completed, BAMC's current operations focus on maximizing the recovery value of assets acquired and on encouraging sustainable corporate restructuring in Slovenia. The responsibility BAMC carries is immense and the expectations of all the stakeholders are justifiably high.

In 2015, BAMC led several large ticket landmark transactions which attracted high attention and brought peaks in revenue and are quoted frequently. However, I regard equally important the strong underlying trend of hundreds of smaller sales transactions completed during the year. This continuous deal flow provides a sound foundation of regular cash flow BAMC is able to realize in its everyday operations.

As a result, BAMC has generated over €350 million of inflows from the management of its assets, more than doubling the regulatory demand of disposal of 10 percent of its assets annually. Overall, successful sales processes generated considerable interest amongst international and domestic investors and very positive outcomes for taxpayers that got their investment repaid to the highest extent possible.

Notable progress was made in the restructuring cases. In 2015, BAMC strengthened its position as the key restructuring agent in Slovenia by working intensely on improving the value of toxic assets and finding new owners for them. Restructuring agreements were signed in numerous important cases. The real estate portfolio activity also picked up and in addition to further repossessions, first sales were made along with renting other units, as well as accelerating sales of real estate pledged for BAMC loans both in court and out of court proceedings.

Also, in December BAMC fully repaid its first bond – the matured DUT01 bond in the amount of €502,5 million, plus interest from all four bond issues in the amount of €45,5 million. The nominal value of the DUT01 bond was €505,8 million. Repayment marks an important step towards fulfilling the mission of BAMC. By repaying the bond, BAMC decreased its indebtedness, repaid invested funds and effectively reduced the financial burden on the Republic of Slovenia and its taxpayers.

BAMC's financial results on one hand reflect that estimated values have been realized in general in the transactions completed in 2015, whereas, on the other hand, revaluation of expected future cash flows

resulted in downward adjustments in estimated fair values of remaining assets, due to changing circumstances and perspectives.

2015 was also a year of extensive continuous change. Most notable changes related to corporate governance and the operational fundamentals of BAMC. After I had taken over my current position, a comprehensive program consisting numerous actions were devised and implemented to improve the transparency of BAMC operations, increase compliance with internal processes and external rules, improve operational efficiency and effectiveness of controls and, last but not least, expand BAMC's cooperation with its stakeholders. All the changes had one objective only – to further strengthen sound operations of the company to be able to fulfil its mission, be more responsive to signals from the environment and transform BAMC into a constantly self-improving organisation.

Besides active management of our portfolio in 2015, we dealt with some hot cases that have put us under constant and intensive scrutiny of the owner, public and the media. Decisions about such highly sensitive cases are going to be taken this year as well, which means that also in the future high level of professionalism, transparency and even closer cooperation with all stakeholders will be needed.

In December 2015, the Government decision to merge Factor banka and Probanka into BAMC was adopted. The direct consequence of this decision is that our headcount temporarily almost doubled. Let us keep in mind that in 2015 BAMC already grew by one half while keeping costs at the same level as in the previous year by insourcing previously outsourced services. At year-end, BAMC had 121 employees and I have to say I feel extraordinarily privileged to work with such talented people. Thanks to them, BAMC can resolve a high number of complex business and regulatory issues, often under enormous pressure.

Everything that was done in past year and is continued to be implemented further on fills me with optimism that even more can be achieved in the future. With so much talent, drive and professionalism we have, we are destined for success.

Dr Imre Balogh, acting CEO

## REPORT OF THE BOARD OF DIRECTORS FOR 2015

Under the second paragraph of Article 282 of the Companies Act (Official Gazette of the Republic of Slovenia No. 42/2006, as amended; hereinafter: ZGD-1), the Board of Directors of BAMC hereby submits the report on the management of the company during the financial year 2015, the audit of the annual report for 2015, and its position on the auditor's report for 2015.

### COMPOSITION OF THE BOARD OF DIRECTORS OF THE BANK ASSETS MANAGEMENT COMPANY

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

In accordance with the amended ZUKSB<sup>5</sup>, all new Board members are appointed for a period of five years. The mandate of members of the Board who have been appointed to their position before ZUKSB amendments came into effect expires at the end of 2017.

As at 31 December 2015, the structure of the BAMC Board of Directors was as follows:

- Marko Simoneti, non-executive director, Chairman of the Board,
- Janez Širovnik, non-executive director, Deputy Chairman of the Board,
- Imre Balogh, acting CEO,
- Janez Škrubej, executive director,
- Aleš Koršič, executive director.

On 5 March 2015 the Government in the capacity of the General Meeting of BAMC terminated Carl-Johan Lindgren, Arne Berggren and Mitja Mavko, from their office of non-executive directors of BAMC, effective from 31 March 2015. The Government appointed Imre Balogh, Marko Simoneti and Janez Širovnik as the new non-executive directors.

On 6 October 2015, the Government decided and on 8 October 2015 in the capacity of the General Meeting of BAMC terminated Lars Nyberg from his position of non-executive director of BAMC and Torbjörn Månsson from his position of CEO of BAMC.

On 12 October 2015 the Board appointed Marko Simoneti as the new Chairman and Imre Balogh as the acting CEO of BAMC.

On 24 March 2016 the Government in the capacity of the General Meeting of BAMC appointed Juan Barba Silvela as non-executive director for the period of five years from the date of appointment.

On 7 September 2016 the non-executive directors appointed Imre Balogh as the CEO of BAMC with his five-year mandate beginning on 1 October 2016.

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<sup>5</sup> See chapter Amendments of ZUKSB.

## REPORT ON THE ACTIVITIES OF THE BAMC BOARD OF DIRECTORS

In its activities, the Board of Directors is bound by the principles of transparency, adherence to the law and good professional conduct. The decisions of the Board underpinned the successful business operations in 2015, contributed to the company's development, ensured the upgrading of basic business functions, regulated all areas of operations and oversaw the adoption of relevant policies.

During 2015 the Board held 13 regular meetings, one extraordinary meeting and eight per capsulam sessions. 38 Board credit committee meetings, 17 extraordinary Board credit committee meetings, 21 Board investment committee meetings and five extraordinary Board investment committee meetings were also held. All Board members have proactively taken part in the decision-making process and monitored how Board decisions were being implemented, in accordance with the BAMC Board Rules of Procedure.

Over the course of the year, activities of the Board of Directors included:

- preparing and executing restructuring, other value creating and exit activities relating to BAMC's assets under management,
- preparation of a business strategy and Business plan 2015-2022,
- preparation and adoption of the annual report for 2014,
- improvements in the organization and of company processes, including the decision-making processes with decision committees,
- refinement of an internal asset valuation system,
- strengthening of internal control system based on recommendations of Court of Audit and the external auditor,
- oversight to ensure that company's staffing needs are adequately met,
- implementation of policies to facilitate government income policy rules,
- preparation of proposed amendments to ZUKSB,
- measures to ensure that suspicious of criminal activities are detected and reported to law enforcement authorities,
- reviewing and amending of all internal policies,
- noting the response reports to the Court of Audit and supervising corrective measures taken,
- activities related to merger of Probanka and Factor banka into BAMC.

## WORK OF THE BOARD'S COMMITTEES

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

### AUDIT COMMITTEE

In 2015, the Audit Committee consisted of the following members: Arne Berggren as the Chairman until 31 March 2015, Mitja Mavko as member until 31 March 2015 and Tamara Jerman as an independent external member. From 1 April 2015 onwards Marko Simoneti and Imre Balogh joined



the committee and Marko Simoneti was appointed as Chairman of the Committee. Imre Balogh stayed on the committee until his appointment as acting CEO of the company. Janez Širovnik replaced him as a member from 16 October 2015 onwards. The Audit Committee met on 10 regular meetings and held two extraordinary meetings in 2015.

2015 was BAMC's second full year of operations, which was reflected in the activities of the Audit Committee which:

- monitored the financial reporting procedures, supervised the integrity of BAMC financial information and evaluated the information disclosed in the annual report,
- monitored the statutory audit of financial statements and cooperated with the auditor on the audit of the BAMC annual report, whereas the auditor for the financial year 2015 had already been selected in 2014,
- monitored the efficiency of BAMC's internal control system, internal audit and risk management systems.

#### *ACCREDITATION COMMITTEE*

In 2015 the Committee consisted of the following members: Carl-Johan Lindgren as Chairman until 31 March 2015, Janez Škrubej as member and Sonja Šmuc as an independent external member. Carl-Johan Lindgren was replaced by Imre Balogh until 15 December 2015 when Janez Širovnik replaced him as a member and was appointed as the Chairman of the Accreditation Committee.

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

The Accreditation Committee met on three regular meetings and two extraordinary meetings in 2015 and approved as appropriate six candidates for the supervisory board positions in four different companies out of which three have been employees of BAMC and the rest external candidates. The Board has approved all of the proposed candidates. Most of the selected candidates are already serving on the supervisory board of the respected companies.

#### *REMUNERATION COMMITTEE*

In 2015 the Committee consisted of the following members: Carl-Johan Lindgren as Chairman until 31 March 2015, Lars Nyberg as member until 8 October 2015 and Sergeja Slapničar as an independent external member. From 6 April 2015 onwards Janez Širovnik was appointed as the Chairman of the committee. From 8 October 2015 Lars Nyberg was no longer member of the committee and was replaced by Imre Balogh on 16 October 2015. On 15 December 2015 Marko Simoneti replaced Imre Balogh as member of the committee.

The essential goals of the Remuneration Committee are to seek and monitor that:

- BAMC's organization and staffing are appropriate for the effective and efficient operation of the company and for fulfilling its objectives,
- BAMC operates with the appropriate number of staff possessing the necessary skills to meet the company's goals,
- remuneration packages are sufficiently attractive to enable the company to attract and retain staff of high professional competence and integrity,
- staff remuneration levels are broadly aligned with the market,
- incentive structures contribute to efficient and target-driven results while maintaining the highest standards of professionalism and integrity.

The Remuneration Committee met on six occasions in 2015.

#### *BOARD CREDIT AND INVESTMENT COMMITTEE*

The most important credit and asset management decisions are made by the Board Credit and Investment Committees (BCC and BIC). Until 31 March 2015 both committees consisted of seven members and were chaired by Arne Berggren. Then both committees consisted of five Board members and were chaired by Lars Nyberg until his discharge in October 2015. On 16 October 2016 Marko Simoneti was appointed as the Chairman of the BCC and BIC. The Board Credit and Investment Committee met on a weekly basis and made 208 decisions in 2015.

#### *EVALUATION OF THE WORK OF THE BOARD OF DIRECTORS*

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

#### *REVIEW OF THE ANNUAL REPORT*

BAMC prepared financial statements for the financial year 2015 in April 2016 classifying itself as an investment entity like in the previous year, an approach then confirmed by the external auditor who gave an unqualified opinion. During the audit of the 2015 financial statements in April 2016, after internal consultation on the interpretation of the requirements of IFRS 10, the auditor concluded differently that BAMC does not meet the criteria for the application of the investment entities consolidation exception. As a result, BAMC was unable to obtain an unqualified auditor's opinion without preparing consolidated financial statements by consolidating all controlled entities in accordance with IFRS 10.

The Board of Directors assessed that preparation of the consolidated financial statements would require an unproportional input of resources, compared to the additional information the readers of

the financial statements would receive. The Board is of the opinion that consolidated financial statements compared to the unconsolidated financial statements would not give any additional useful information to the potential investors, creditors or other stakeholders of the company, which could be used for their investment or credit decisions. On the contrary, the consolidation would include assets and liabilities which are not reflecting BAMC's principal activity. The company has a limited lifespan and its operations are primarily focused on the temporary management of doubtful claims from various undertakings, with the objective to maximise their value and with their cashing-in or their sale. BAMC does not strive for a long-term control over its debtors or their assets and liabilities.

In order to make applicable the new provisions of the third paragraph of Article 4 of the ZUKSB-A, which stipulates that BAMC shall not include in its consolidated annual report the companies whose equity stakes or shares it had acquired by means of purchase/compensated acquisition of bank assets, or as part of corporate restructuring as per the first paragraph of Article 10a of said Act, the BAMC management decided to delist company bonds from the organized market (Ljubljana Stock Exchange) on 9 September 2016, before the final 2015 financial statements were prepared.

A final review of the annual report for 2015 and the auditor's report was undertaken by the Board at the meeting of the Board of Directors on 19 September 2016.

The Board has reviewed the BAMC annual report and concluded that it is in compliance with the company's Articles of Association, and the ZUKSB-A. The Board confirms that the financial statements, prepared in accordance with ZUKSB-A Article 4 (3) & (5), present fairly, in all material respects, the financial position of BAMC and of the outcomes of its operations for the period from 1 January 2015 to 31 December 2015.

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

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

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

#### INFORMATION ON THE CERTIFIED AUDITOR'S REPORT

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

The Board of Directors has taken note of the unqualified opinion from the certified auditor dated 16 September 2016 and established that the auditor's report confirms that the financial statements for the year ended 31 December 2015 are prepared, in all material respects, in accordance with the accounting requirements of ZUSKB-A.

## PRESENTATION OF BAMC

TABLE 3: BASIC COMPANY DATA ON 13 SEPTEMBER 2016

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	+386 820 542 35
Fax	+386 1 429 38 59
E-mail	info@dutb.eu
Website	www.dutb.eu
Core business	Activities of collection agencies and credit bureaus
Registration entry	2013/11708, District Court of Ljubljana
Company ID number	6339620000
Tax number	41251482
VAT number	SI41251482
Initial share capital	€208.235.000,00
Number of shares	104.117.500 ordinary no-par value shares
Non-executive directors as at 13 September 2016	Marko Simoneti, Chairman of the Board of Directors Janez Širovnik, Deputy Chairman of the Board of Directors Juan Barba Silvela
Executive directors as at 13 September 2016	Imre Balogh, acting CEO Janez Škrubej Aleš Koršič

**NOTE:** On 27 July 2016 initial share capital increase of €4,61 million (2.305.000 shares) was registered at court register.

On 5 March 2015 the Government in the capacity of the General Meeting of BAMC terminated Carl-Johan Lindgren, Arne Berggren and Mitja Mavko from their positions of non-executive directors of BAMC, effective from 31 March 2015. The Government appointed Imre Balogh, Marko Simoneti and Janez Širovnik as the new non-executive directors.

On 6 October 2015 the Government decided and on 8 October 2015 in the capacity of the General Meeting of BAMC terminated Lars Nyberg from his position of non-executive director of BAMC and Torbjörn Månsson from his position of CEO of BAMC.

On 12 October 2015 the Board appointed Marko Simoneti as the new Chairman and Imre Balogh as the acting CEO of BAMC.

On 24 March 2016 the Government in the capacity of the General Meeting of BAMC appointed Juan Barba Silvela as non-executive director for the period of five years from the date of appointment.

On 7 September 2016 the non-executive directors appointed Imre Balogh as the CEO of BAMC with his five-year mandate beginning on 1 October 2016.

## CORPORATE GOVERNANCE AND ORGANISATIONAL STRUCTURE

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 of Directors comprises four non-executive directors<sup>6</sup> and three executive directors. The Board of Directors has five committees: the Audit Committee, the Accreditation Committee, the Remuneration Committee, the Board Credit Committee and the Board 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 Credit and Investment Committees comprise of all Board members. The Board of Directors and its committees function in accordance with the relevant rules of procedure.

The ZUKSB amendments clarify that the non-executive directors are appointed and recalled by the Government and executive directors are appointed and recalled by the non-executive directors. Executive directors are responsible for BAMC's day-to-day operations and non-executive directors are not involved therein.

### NON-EXECUTIVE DIRECTORS AS AT 31 DECEMBER 2015

**Marko Simoneti**, Chairman of the Board of Directors, is PhD graduate in economics from Cornell University, USA and professor for finance at The Law School, University of Ljubljana. He has extensive professional and managerial experience: Managing Director of the Agency for Restructuring and Privatization, Slovenia (1990-1993), Executive Director of the CEEP (1993-2004) - an international intergovernmental organization supporting the economic transition in CEE countries, CEO of the Ljubljana Stock Exchange (2005-2009). At the beginning of the financial crisis he was appointed as the President of the Supervisory Board of NLB, the largest bank in Slovenia. In the last twenty-five years he served many times as an adviser to the Slovenian government on economic reforms and as a private sector development adviser of The World Bank, EBRD, OECD, and EU in most countries of the CEE region.

**Janez Širovnik**, the Deputy Chairman of the Board of Directors and Chairman of the Remuneration Committee is a member of the Board of Directors of the public limited company SIP Šempeter d.d., in charge of marketing, development and quality control. He began his career at the company Imgrad, following which he managed the foreign trade company Industriaimport. He was an executive sales manager in Riko Ribnica, followed by seven years managing the Dutch company Eurotechnik and later I.tr.a.s, providers of advisory, manufacturing and commerce-related services. He is also involved in providing advisory services as director of Holinvest, a subsidiary of the Dutch company SO.FI.CO, specializing in providing advisory services to production-oriented companies. He has specific and

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<sup>6</sup> From 8 October 2015 onwards, Board of Directors comprised only two non-executive directors since Lars Nyberg was called-off from his position of member of Board of Directors and non-executive member Imre Balogh temporarily stepped into the position of CEO due to discharge of Torbjörn Månsson from the position.

On 24 March 2016 the Government in the capacity of the General Meeting of BAMC appointed Juan Barba Silvela as non-executive director for the period of five years from the date of appointment.

organizational skills in the field of management and restructuring operations. He has a solid foundation in the engineering and manufacturing industry in the broader European area.

#### EXECUTIVE DIRECTORS AS AT 31 DECEMBER 2015

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

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

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

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On 5 March 2015 the Government in the capacity of the General Meeting of BAMC terminated Carl-Johan Lindgren, Arne Berggren and Mitja Mavko from their positions of non-executive directors of

BAMC, effective from 31 March 2015. The Government appointed Imre Balogh, Marko Simoneti and Janez Širovnik as the new non-executive directors.

On 6 October 2015 the Government decided and on 8 October 2015 in the capacity of the General Meeting of BAMC terminated Lars Nyberg from his position of non-executive director of BAMC and Torbjörn Månsson from his position of CEO of BAMC.

On 12 October 2015 the Board appointed Marko Simoneti as the new Chairman and Imre Balogh as the acting CEO of BAMC.

On 24 March 2016 the Government in the capacity of the General Meeting of BAMC appointed Juan Barba Silvela as non-executive director for the period of five years from the date of appointment.

On 7 September 2016 the non-executive directors appointed Imre Balogh as the CEO of BAMC with his five-year mandate beginning on 1 October 2016.



## 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 (hereinafter: the Decree)
- the Guidelines on the operations of the Bank Assets Management Company, which govern the operations of BAMC in detail,
- the Articles of Association of the Bank Assets Management Company, and
- the BAMC's Remuneration Policy.

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

Operations in individual areas are also defined by policies adopted or refined by the Board of Directors. In 2015 and by the end of March 2016, 17 new policy documents and seven amendments to policies were approved by the Board. The most important among them were:

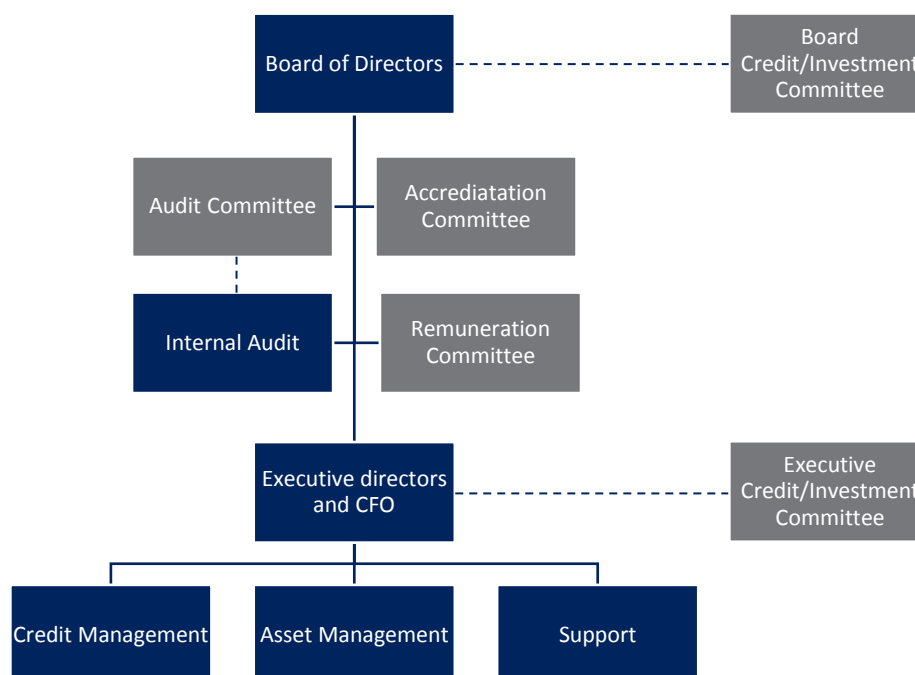
- Process and decision-making powers of the committees,
- Corporate governance policy of BAMC,
- Rules of procedure on the work of executive directors,
- Risk management policy, and
- Rules on valuation process and internal controls.

## FUNCTIONAL ORGANISATIONAL STRUCTURE

BAMC is organised to be effective in its mission, and in the achievement of the strategic objectives defined by the ZUKSB, the Government representing its owner and the Board of Directors. The functional organisational structure, as illustrated in the picture below, is supplemented by the process organisational structure.

BAMC's core processes are performed in the credit management division and the asset management division. The latter consists of a real estate management and an equity management unit. Credit and asset managers receive support both within their organisational units as well as from support functions (finance, accounting, controlling, compliance, HR, IT support etc.).

FIGURE 7: BAMC'S ORGANISATIONAL STRUCTURE



## DECISION-MAKING SYSTEM

BAMC's decision-making system covers several levels and is adapted to ensure rapid, factual and effective decision-making with the aim of maximising the value of the company's assets.

Decisions relating to corporate governance are made by the Board of Directors, taking into account the opinions and recommendations issued by the Board committees. The Board of Directors also makes strategic decisions that relate to the transfer of assets and the funding of BAMC.

Strategic decisions that relate to the management of the loans, equity and real estate portfolios are also made by the Board. The Board adopted the Process and decision-making powers of the committees document where the structure of the credit and investment committees is defined as well as rules and procedures governing the work of these committees. BAMC has three credit committees and three investment committees, one of each at the Board level, at the executive directors level and at the operational level. The Process and decision-making powers of the committees document also defines authorisations and the hierarchy in the decision-making process, as well as the principles of corporate governance, which include a four-eye principle. No decision can be made by a single individual.

The most important credit and investment decisions are made on the Board level at Board Credit Committee and Board Investment Committee. Prior to decision-making at the Board level all credit or investment decisions have to be discussed at the Executive Credit or Investment Committees where less important decisions, not decided upon by the Board, are also accepted. Credit and investment decisions with lower importance are discussed and accepted at the operational level by Operational

Credit and Investment Committees consisting of one of the executive directors and the operational head.

The appointment of directors at limited liability companies being restructured by BAMC is the responsibility of executive directors. Members of supervisory boards at companies being restructured by BAMC are proposed by the Accreditation Committee.

Executive directors and subordinated organisational units are fully responsible for the implementation of adopted Board decisions.

TABLE 4: OVERVIEW OF THE DECISION-MAKING PROCESS AT BAMC

Examples of key decisions adopted by BAMC	Board of Directors level					Executive and operational level						
	Audit Committee	Remuneration Committee	Accreditation Committee	Non-executive members of the Board of Directors	Board of Directors of BAMC	Executive management (CEO & EDs)	BCC/BIC	ECC/EIC	OCC/OIC	Line managers	Case managers	Members of working groups
Appointment of executive directors		R		D	A							
Acquisitions of assets					D	R, P	D, (A)			I	I	I
Credit or asset management decisions							D, (A)			I	R	I
Disposal of assets					A		D			I	R	I
Issuing of securities					D	R, P						
Appointment of supervisory boards and management boards				R, I	A	D					R	
Recruitment of staff		I			A	D				R		
Operational decisions						D, R, P				R, I, P		
Policies	R	R	R		D	R, D						I

**Note:** The following abbreviations are used in the table: ED = executive directors, BCC = Credit Committee at the level of the Board of Directors, BIC = Investment Committee at the level of the Board of Directors, ECC = Executive Credit Committee, EIC = Executive Investment Committee, OCC = Operational Credit Committee, and OIC = Operational Investment Committee. Abbreviations of roles in the decision-making process are in line with the RAPID framework. The RAPID framework is a registered trademark of Bain & Co.

**Recommendation:** Normally, the majority of work to prepare the decision is done by the recommender.

**Agree:** Has to agree and approve the decision, can also veto it.

**Perform:** Executes or implements the decision.

**Input:** Provides input (but has no other role).

**Decide:** Ultimate decision-maker, responsible and accountable.

## 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. (hereinafter: NKBM). The aforementioned banks transferred €3,3 billion in non-performing assets, primarily loans, to BAMC at a transfer value of €1.008,4 million in exchange for bonds issued by BAMC. BAMC's first step was to determine the initial fair value of acquired assets. The valuation process was completed in June 2014 and resulted in an 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 asset transfers from NKBM, Abanka and Banka Celje in BAMC estimated their initial fair values, following the valuation methodology used for first transfers as well. Fair value of assets taken over was €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

The European Commission estimated also the market value of the assets transferred under legislative directions, i.e. the price at which the banks could have sold the assets 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 price.

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.

## SIGNIFICANT EVENTS IN 2015

### CORPORATE GOVERNANCE AND REPORTING

On 20 February 2015, the Board reviewed the revised BAMC annual report 2013 and concluded that the financial statements and documents on which the financial statements for the year are based, and the pertaining annual report, were again reviewed by a certified auditor, who on 20 February 2015 issued a new unqualified opinion. The Government as the sole shareholder of BAMC endorsed the 2013 annual report on 5 March 2015.

On 3 March 2015, the Court of Audit issued its audit report “Establishment of the conditions for the functioning and operations of DUTB, d.d. in 2013”, no. 3262-1/2013/191. The Court of Audit found that BAMC performed without the requisite effectiveness and uneconomically, and the Court of Audit expressed an adverse opinion on the compliance of BAMC operations in 2013. The Court of Audit also instructed that, within 90 days of receiving the audit report, BAMC submits a response report outlining the corrective measures taken to adopt by laws, to put in place internal controls, and to set out targets and criteria for assessing the performance of executive directors and conditions for determining the variable portion of their remuneration. As of 4 March 2015, the Audit Report is accessible to the public on the official website of the Court of Audit. Confidential information and data classified as a trade secret have been redacted in the published report. Within the deadline provided, BAMC has submitted to the Court of Audit the response report on the 20 May 2015, demonstrating the corrective measures taken, as it was obligated to do to comply with the Court of Audit’s instructions. BAMC engaged in a series of activities to address the deficiencies identified by the Court of Audit.

On 5 March 2015, the Government decided to adopt the 2013 annual report, to take note on the Business plan of BAMC for 2014-2017 and instruct BAMC to prepare Business plan for 2014 - 2022, to adopt a new Remuneration policy and to note the Goals for BAMC for 2015.

On 5 March 2015 the Government in the capacity of the General Meeting of BAMC terminated Carl-Johan Lindgren, Arne Berggren and Mitja Mavko from their office of non-executive directors of BAMC, effective from 31 March 2015. The Government appointed Imre Balogh, Marko Simoneti, and Janez Širovnik as the new non-executive directors.

On 10 September 2015, the Government adopted the BAMC 2014 annual report.

On 6 October 2015, the Government decided and on 8 October 2015 in the capacity of the General Meeting of BAMC terminated Lars Nyberg from his position of non-executive director of BAMC and Torbjörn Månsson from his position of CEO of BAMC. On the former date the Government also adopted the BAMC business plan 2015-2022.

On 12 October 2015 the Board appointed Marko Simoneti as the new Chairman and Imre Balogh as the acting CEO of BAMC.

## ASSET MANAGEMENT

In February 2015 BAMC received considerable repayment from Hoteli Bernardin d.d., which deleveraged through a sale of its resort in Portorož.

Following the successful second public auction in March 2015, BAMC received a sizeable payment for Skupina Viator & Vektor d.d. (in bankruptcy) real estate collateral in Rudnik, Ljubljana in October 2015. The buyer is continuing the transport industry activity on the site.

In April 2015, BAMC signed an agreement to sell its 2,1 million shares in Pivovarna Laško d.d. to Heineken for a consideration of €25,56 per share. The deal was closed in October 2015.

In April 2015, BAMC closed a major transaction selling a portfolio of claims towards ACH group, Adria Airways d.d., Elan d.o.o., and Polzela d.d.

In April 2015 BAMC authorised the sale of 345 thousand shares of Radenska d.d. Radenci in the bankruptcy process of Center naložbe d.d. (in bankruptcy) thus realising a substantial repayment of its claim.

In May and June 2015 a vehicle complex in Škofja Loka owned by Viator & Vektor logistika d.o.o. (in bankruptcy) has been sold, repaying some of its claims towards BAMC.

On 10 August 2015, the Government in the authority of BAMC's General Assembly instructed BAMC to purchase claims and ownership share of Litostroj jeklo d.o.o. from Probanka at Probanka's book values even though BAMC was to incur an economic loss of €3,2 million with this transaction. The loss is recognised as return of equity to the owner in the stated amount.

In December 2015 Swatycomet d.o.o. has been sold to an American family-owned corporation, set to develop the company further as its European entry point. With this BAMC received considerable repayment of its claim towards Avtotehna d.d.

In December 2015, following two public tenders, BAMC's claims towards MPM engineering d.o.o. were sold to a German hotelier.

## FINANCING

On 15 December 2015, DUT01, the first series of the issued bonds, came due and BAMC fully repaid its outstanding nominal amount of €502,5 million together with accrued interest. BAMC partially refinanced DUT01 bond repayment by raising a €200,0 million long-term loan with no outright Government guarantee, with a maturity in December 2017 at NLB, selected as the best bidder in a transparent and competitive process.

## ORGANISATION AND PROCESSES

In January 2015 BAMC performed the migration of loan portfolio data to a central system managed for BAMC by Probanka. Previous to this, up to the end of 2014, NLB and NKBM performed information and accounting services on their IT systems for BAMC concerning loan portfolios that were transferred to BAMC at the end of 2013 – a temporary solution which was suboptimal in terms of data consolidation costs and operational efficiency. The process of transition to the uniform information system was completed by the end of May 2015, when the migration of Abanka's loan portfolio was finished. By transferring to a single loan management system BAMC considerably improved process efficiency, cost effectiveness and analytical support.

In the summer of 2015 preparatory activities have begun with the aim of obtaining additional information regarding the -at the time- potential merger of Factor banka and Probanka into BAMC. After being informed that the merger is in the interest of the owner of the three entities financial due diligence was performed at the two merging banks towards the end of the year as well as operational preparations for the actual merger started.

## EVENTS AFTER THE ACCOUNTING PERIOD

On 27 January 2016 the amended ZUKSB came into force, empowering BAMC with additional restructuring tools as well as re-establishing BAMC's framework of operations and its supervision. More detailed information on amendments of ZUKSB is presented in a special chapter on page 81.

On 28 January 2016 the Government of the Republic of Slovenia acting in the capacity of the BAMC General Meeting decided that BAMC is to transfer all claims against Sava d.d. and all Sava d.d. bonds in BAMC's possession to the Slovenian Sovereign Holding (SDH) and Kapitalska družba d.d. for a consideration, at the same transfer values as BAMC acquired them in the context of the implementation of measures to strengthen the stability of the banks, or at their fair values/book values as at 30 June 2015, if they are higher than the transfer value, increased by the cost of financing of 4,2% weighted average cost of capital for the duration of their holding. On 9 August 2016 the transfer was executed in line with the General Meeting decision.

Though the transfer of Sava d.d. assets is not causing an immediate financial loss for BAMC, taking an asset with significant appreciation potential out of the portfolio represents an opportunity loss for BAMC.



On 19 February 2016, BAMC merged Factor banka and Probanka through the simplified merger process. Based on Government incentive, the Board prepared a merger report which stated that the upside of merger will outweigh its possible negative effects under the following circumstances:

- DGCom approves the envisaged transaction,
- Ministry of Finance and BAMC reach an agreement regarding the restructuring of €369,0 million debt or a guarantee of the Republic of Slovenia is issued,
- the Republic of Slovenia issues a statement that it will reimburse BAMC for any payments made to the former bondholders or to the shareholders of both merging banks on the basis of legally binding decision within one month after the receipt of the written proof of the amounts paid to the former bondholders/shareholders of Factor banka and Probanka, and
- registered capital of BAMC is increased by up to €76 million in order to cover potential negative effect on BAMC's capital.

Based on the decision of the Government in the capacity of the General Assembly of BAMC as of 18 February 2016, the merger of Factor banka and Probanka into BAMC was registered at court register the next day, setting the cut-off date at 1 January 2016.

The merger of Factor banka and Probanka had some negative impact on BAMC's equity owing to the negative cumulative equity of the banks. Due to this and possible need for additional revaluation of merged assets to initial fair value, BAMC has initiated that the owner, the Republic of Slovenia, will ensure additional capital thus enhancing BAMC's capital structure when and in the amount needed.

With acquisition of the two banks, BAMC took over not only assets of acquired companies, but also over €361,5 million of obligations towards the Ministry of Finance from Factor banka and Probanka which originally matured in August and September 2016. On 8 April 2016, BAMC made an early repayment of €150,0 million of aforementioned obligations and extended the maturity of remaining obligations by December 2016 when DUT02 bond matures as well.

On 24 March 2016 the Government in the capacity of the General Meeting of BAMC appointed Juan Barba Silvela as non-executive director for the period of five years from the date of appointment.

On 5 May 2016 the Government in the capacity of the General Meeting of BAMC decided to increase BAMC's share capital by €4,61 million or 2.305.000 shares. The capital increase was made with in-kind transfer of Republic of Slovenia's claims towards companies in the Cimos group. Share capital increase was registered in court register on 27 July 2016.

On 23 May 2016 Factor-IN d.o.o., Ljubljana, Factor Projekt d.o.o., Ljubljana, Probanka Leasing d.o.o., Maribor and Probanka Nepremičnine d.o.o., Maribor, four former subsidiaries of Factor banka and Probanka, were merged into BAMC with the cut-off date set at 31 March 2016.

On 31 May 2016 BAMC published its 2015 operations report to the National Assembly (in Slovenian language).

On 13 June 2016 PV Naložbe d.o.o., Ljubljana, the last former subsidiary of Factor banka, was merged into BAMC with the cut-off date set at 31 March 2016.

On 16 June 2016 the Board has adopted the Integrity Plan based on the Integrity and Prevention of Corruption Act. A draft of the Integrity Plan had been reviewed beforehand by the Commission for the Prevention of Corruption which has assessed that, following its recommendations, the Integrity Plan corresponds to the standards set by the Integrity and prevention of Corruption Act.

On 1 July 2016 the new BAMC organisation became effective. Following the mergers of Factor banka and Probanka into BAMC the process of reorganisation was pursued with the aim of optimising employment structure and increasing cost efficiency.

On 23 August 2016 BAMC listed DUT03 and DUT04 bonds to the Third market at Vienna Stock Exchange. Following the decisions of bondholders' general meetings, Ljubljana Stock Exchange delisted DUT02 bond on 1 September 2016 and DUT03 and DUT04 bonds on 9 September 2016. By delisting all BAMC's financial instruments from organised market BAMC is, according to ZUKSB-A regulation, exempt from consolidating the companies whose equity stakes or shares it had acquired by means of purchase/compensated acquisition of bank assets, or as part of corporate restructuring.

On 24 August 2016 BAMC made an early repayment of €120,0 million of obligations towards the Ministry of Finance taken over with the merger of Factor banka and Probanka. The remaining obligations will be repaid by December 2016.

On 7 September 2016 the non-executive directors appointed Imre Balogh as the CEO of BAMC with his five-year mandate beginning on 1 October 2016.

## BUSINESS REPORT

### CORPORATE GOVERNANCE STATEMENT

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

#### *STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE*

The BAMC's Board of Directors hereby declares that it complied with the Corporate Governance Code, as amended on 8 December 2009, to the maximum extent possible in 2015, with the exception of specific provisions based on BAMC's unique status (its sole shareholder being the Slovenian government), provisions that are governed by the law (ZUKSB) and provisions that the company has otherwise adopted in its Articles of Association and bylaws, as well as provisions of the Code in cases where non-binding actions are not specified in its bylaws or where specific actions are not defined as legal obligations.

In 2015 BAMC also complied with the Corporate Governance Policy of BAMC adopted by the Board of Directors on 20 February 2015.

BAMC's goal is to establish a clear and transparent governance system that restores the trust of both domestic and international investors, employees and the general public in the Slovenian corporate governance system. The full text of the Code is available on the website of the Ljubljana Stock Exchange. Corporate Governance Policy of BAMC is available on the BAMC website.

#### *DEVIATIONS FROM THE CODE*

- Item 8.7. states that the Board of Directors Rules of procedure stipulate the Board's communicating with the public with respect to the decisions adopted at its meetings. In exceptional cases, the Board adopts a resolution making the passed resolutions either public or confidential, and defining the manner of the Board's communicating with the public. Such communication is done by the president of the Board of Directors, or as otherwise required by the Board of Directors resolution or exceptional circumstances. The inconsistency between corporate governance code and BAMC's current practice is of purely technical rather than substantive nature, since the Board of Directors' public communications are not defined in its rules of procedure but instead in the communications strategy adopted by the Board of Directors.

## INFORMATION REGARDING THE FUNCTIONING AND KEY COMPETENCES OF THE COMPANY'S GENERAL MEETING AND DESCRIPTION OF SHAREHOLDER RIGHTS<sup>7</sup>

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

On 27 January 2016 amendments to ZUKSB came into effect which changed some provisions regulating the role of Board of Directors, General Assembly and gave some additional powers to the Ministry of Finance.

### *GENERAL MEETING*

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

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

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

The General Meeting is convened by the Board of Directors by a simple majority vote. The General Meeting must also be convened at the shareholder's request. The convening of the General Meeting must be published a minimum of 30 days prior to the meeting. The shareholder duly entered in the central register of book-entry securities at the end of the fourth day prior to the scheduled date of the General Meeting is entitled to participate at the General Meeting and exercise voting rights. The General Meeting convened six times in 2015.

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<sup>7</sup> Information regarding the functioning and key competences of the company's General Meeting and description of shareholder rights relate to ZUKSB and Articles of Association valid in 2015.

INFORMATION REGARDING THE COMPOSITION AND ACTIVITIES OF MANAGEMENT OR SUPERVISORY BODIES AND THE COMMITTEES THEREOF<sup>8</sup>

*BOARD OF DIRECTORS*

The BAMC's Board of Directors comprises seven members, four of whom are non-executive directors<sup>9</sup> and three of whom are executive directors. The non-executive directors are appointed and dismissed by the Government at the recommendation of the ministry responsible for finance and the ministry responsible for the economy, where three members are proposed by the former and one member is proposed by the latter. Executive directors are selected on the basis of a public call for applications. Each member of the Board of Directors is appointed individually.

Members of the Board of Directors are appointed for the period of time that the company is envisaged to exist, but for a maximum of six years. Executive directors serve on a full-time basis as employees of BAMC.

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<sup>8</sup> Information regarding key competences of the Board of Directors relate to ZUKSB and Articles of Association valid in 2015.

<sup>9</sup> From 8 October 2015 on, Board of Directors comprised only two non-executive directors since Lars Nyberg was called-off from his position of member of Board of Directors and non-executive member Imre Balogh temporarily stepped into the position of CEO due to discharge of Torbjörn Månsson from the position.

On 24 March 2016 the Government in the capacity of the General Meeting of BAMC appointed Juan Barba Silvela as non-executive director for the period of five years from the date of appointment.

The main competences of the Board of Directors include:

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

Executive directors represent the company and act on its behalf.

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

Executive directors are competent and responsible for the following:

- managing the company's day-to-day operations,
- compiling the annual report,
- drawing up the investment strategy and policy,
- registering subscriptions and submitting documents to the court register,
- maintaining the books of account, and
- executing transactions in line with the Articles of Association and resolutions of the Board of Directors.

#### *BOARD'S COMMITTEES*

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

All Board members are as well members of the Board-level Credit and Investment Committees.

#### *AUDIT COMMITTEE*

The scope of work of the Committee is defined by its Rules of Procedure. The Committee shall act independently from executive management with the aim to ensure that the interests of the shareholders are properly protected in relation to financial reporting and internal control. Thus, the Committee assists the Board in fulfilling its supervisory responsibilities by monitoring the financial reporting process, the effectiveness of the internal control and risk management systems as well as the effectiveness of the Internal Audit function. The Committee shall ensure that important topics regarding financial reporting as well as financial and operational risks are analysed in more detail than what normally is possible in Board meetings. The Committee is also accountable for keeping itself informed about the activities of the compliance function, statutory audit of the annual accounts and monitoring the impartiality and independence of the statutory auditors. In addition, the Committee is accountable for guiding and evaluating the work of the Internal Audit function. The Committee is not responsible for reporting, conducting audits or determining that the financial statements are complete, accurate and in accordance with generally accepted accounting principles. These are the responsibilities of the executive management and the independent auditors. The Committee monitors the effectiveness of internal control and risk management system in their entirety and beyond the financial reporting process.

Audit Committee comprises of three members:

- two non-executive directors of BAMC, and
- external member, expert in accounting and internal audit area outside of BAMC.

#### *REMUNERATION COMMITTEE*

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

The Committee has at least three members:

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

#### *ACCREDITATION COMMITTEE*

The Accreditation Committee is an internal BAMC body which selects possible candidates for supervisory board membership in other companies. It is therefore not a committee as certain similar bodies envisaged by the Companies Act (e.g., the Audit Committee) whose function would be part of

corporate governance of BAMC itself. The Accreditation Committee selects suitable internal or external candidates, based on the internal criteria and conditions as well as the needs of the company's supervisory board, given the challenges the company is faced with.

The Committee has at least the following members:

- one executive director of BAMC who is also the Head of Asset Management,
- a non-executive director of BAMC,
- an external member, expert on corporate governance outside of BAMC.

In case one or more members are absent, the auxiliary members are the CEO of BAMC and the non-executive directors.

#### *THE BOARD CREDIT AND INVESTMENT COMMITTEES*

The Board of Directors of BAMC establishes the Board Credit Committee (BCC) in respect of matters related to claim exposures owned and managed by BAMC and the Board Investment Committee (BIC) in respect of matters related to equity shares, real estate and other assets as the Board level decision committee for the management of the transferred and acquired assets of BAMC.

The BCC and the BIC have the authority to delegate decisions to more junior committees on the executive and operative levels. This is to ensure effective and fact-based decision making within BAMC. The delegation and decision powers of BAMC's case committee structures are clearly defined in BAMC's policy Process and decision-making powers of the committees<sup>10</sup>. This policy is approved by BAMC's owner, the government of the Republic of Slovenia. BCC and BIC focus on taking the decisions which are complex, have significant value or policy impact, are precedential, strategic, high risk or have a high public sensitivity. Such decisions are firstly taken on the executive level and afterwards on the BCC/BIC level. Other decisions are normally taken in executive and operational level committees.

The BCC and BIC consist of all Board members of BAMC. The BCC and BIC have quorum when at least three members are present, out of whom one is a non-executive director.

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

Internal control mechanisms help the company achieve its objectives and are an integral part of the values and principles formulated by the management. They are applied in everyday operations in the form of policies, guidelines, processes, procedures and activities with the aim of managing risks within acceptable limits. All employees are involved in the internal control system, with specific groups of employees holding special roles and responsibilities. The Board of Directors promotes and monitors the functioning of the internal control system, while executive directors are responsible for developing and updating the internal control system. Operational managers formulate, implement and monitor

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<sup>10</sup> The policy is in force since February 2015. Prior to that, Credit and asset management policy document was regulating the decision-making at BAMC.



internal controls in their areas of responsibility, while other employees carry out their responsibilities as agreed. The internal control system is an integral part of all processes, while a transparent mechanism of control points facilitates regular reviews of processes and the assessment exposure to risks.

#### *INTERNAL AUDIT*

The internal audit by definition is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Following this definition, the objective of BAMC's internal audit function is to represent a value adding activity to the company and helping the company achieve its goals.

Internal audit in BAMC started in the last quarter of 2014, when an internal auditor was hired. Key activities in 2015 included preparation and acceptance of Charter of Internal Audit Function (hereinafter: IAF), start of internal audit assignments, following the approved IAF's plan for 2015 and preparation and issuance of first internal audit reports. During 2015 internal auditor was involved in numerous consulting activities, particularly in introduction and implementation of the wide operational guidelines framework. Activities of IAF were supported by development of general documents content and templates (reports for internal audit assignments and periodic IAF's reports, plans, ...). In December 2015 a new internal auditor joined BAMC's IAF and an external service provider was engaged, to prepare the IT risk assessment.

The work of internal audit function adheres to the mandatory guidance of The Institute of Internal Auditors and Slovenski inštitut za revizijo. The internal audit function is reporting directly to the Board of Directors, which approves its audit charter, audit plan as well as budget and resource plan.

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

#### *EXTERNAL AUDIT*

BAMC's financial statements for 2015 were audited by KPMG Slovenija, d.o.o. As part of its audit of the financial statements, the external auditor reports its findings to the Board of Directors and the Audit Committee.

Audit costs are disclosed in Note 30 to the financial statements.

## STRATEGIC PLANS OF BAMC AND THE MACROECONOMIC ENVIRONMENT

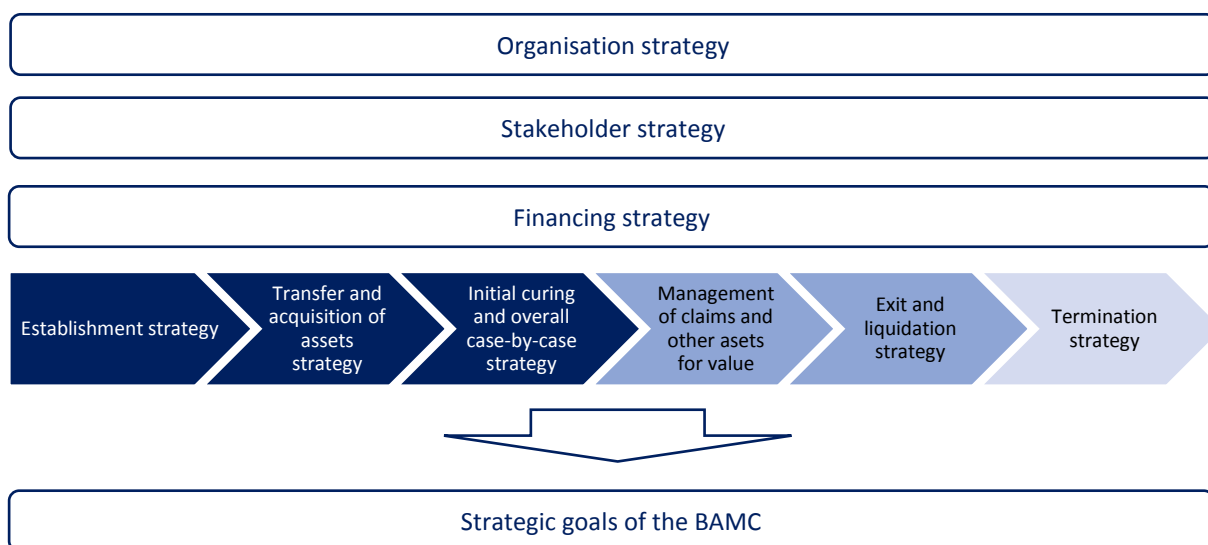
### STRATEGIC OBJECTIVES

BAMC's strategic objectives, as set out by its Board of Directors, are as follows:

- financial: (1) to redeem government-guaranteed bonds issued as consideration for transferred assets, and (2) to generate the expected return on the equity initially invested by the Slovenian government,
- to intensively manage and improve the quality of assets with the aim of optimising their commercial potential and increasing their recoverable value, and
- in line with the previous objectives, to restructure companies, when economically justifiable, and to contribute to a sustainable financial and economic recovery in Slovenia.

All of BAMC's activities are aimed at maximizing profits and generating added value for the Republic of Slovenia and its taxpayers. BAMC's strategy to maximise the value of assets under management includes the following strategies.

FIGURE 8: BAMC'S STRATEGIC FRAMEWORK



## MACROECONOMIC OUTLOOK

### GLOBAL ECONOMY

In 2015, global economic activity remained subdued. Global growth is estimated at 3,1% in 2015, which is slightly lower than in 2014 (3,3%). Global growth for 2016 is projected at 3,4% and at 3,6% for the year thereafter. Main contributors to global growth in advanced economies are projected to remain low oil prices, stronger private consumption and accommodative financial conditions. Growth in emerging markets and developing economies in 2015 was the lowest since the 2008-09 financial crisis. Slow growth is expected to reflect weaker investment growth and in some cases geopolitical tensions.

### EUROPEAN ECONOMY

European recovery in the Eurozone is gradually strengthening mainly due to the rise of domestic demand. GDP in the Eurozone in Q3 2015 has increased by 0,3%, which shows that economic activity is successively growing for two and a half years. Newest short-term indicators show additional short-term growth, boosted with low oil prices and increased domestic demand. Despite positive economic activity the rate of unemployment remains high and is not expected to decrease to the pre-crisis levels in the upcoming years.

### SLOVENIAN ECONOMY

Growth in 2015 was slightly lower than in 2014, while the labour market has shown signs of recovery under positive influence of activities in Slovenia's main trading partners. Improved conditions in international markets and economical-political decisions in the last few years have favourably influenced the results in 2015. The rate of unemployment has fallen for the second year in the row and better conditions in the labour markets have led to slight growth of private consumption.

TABLE 5: SELECTED MACROECONOMIC INDICATORS FOR SLOVENIA

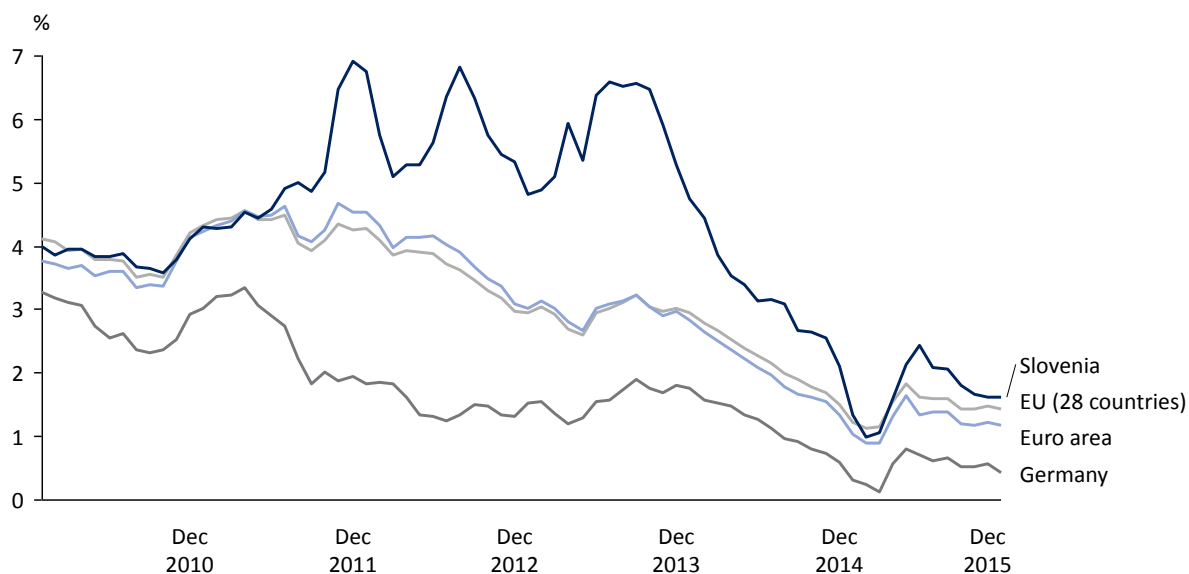
Indicator / Year	2012	2013	2014	2015	2016
GDP (current prices, in € million)	35.988	35.907	37.303	38.543	39.939*
GDP (real growth rate, in %)	-2,7	-1,1	3,0	2,9	2,3*
GDP per capita (current prices, in €)	17.498	17.435	18.093	18.680	19.247*
Work productivity (GDP per capita, in %)	-1,8	0,3	2,5	1,2*	1,2*
Rate of unemployment (registered, in %)	12,0	13,1	13,1	12,3*	11,8*
Rate of unemployment (survey, in %)	8,9	10,1	9,7	9,4*	8,9*
Inflation (end of the year, in %)	2,7	0,7	0,2	0,1*	1,2*
Inflation (average of the year, in %)	2,6	1,8	0,2	-0,4*	0,1*

NOTE: \*Expected.

SOURCE: Ekonomsko ogledalo, No. 1/2016. Ljubljana: Institute for macroeconomic analysis and development (Urad RS za makroekonomske analize in razvoj).

Required return on 10-year government bonds started to decline already in 2013 and has achieved the lowest level since entering the Euro area in end of 2014. In H1 2015 required returns of all presented government bonds received an instant correction upwards but returned to only slightly higher figures than before the correction at the end of 2015.

FIGURE 9: 10-YEAR GOVERNMENT BOND YIELDS



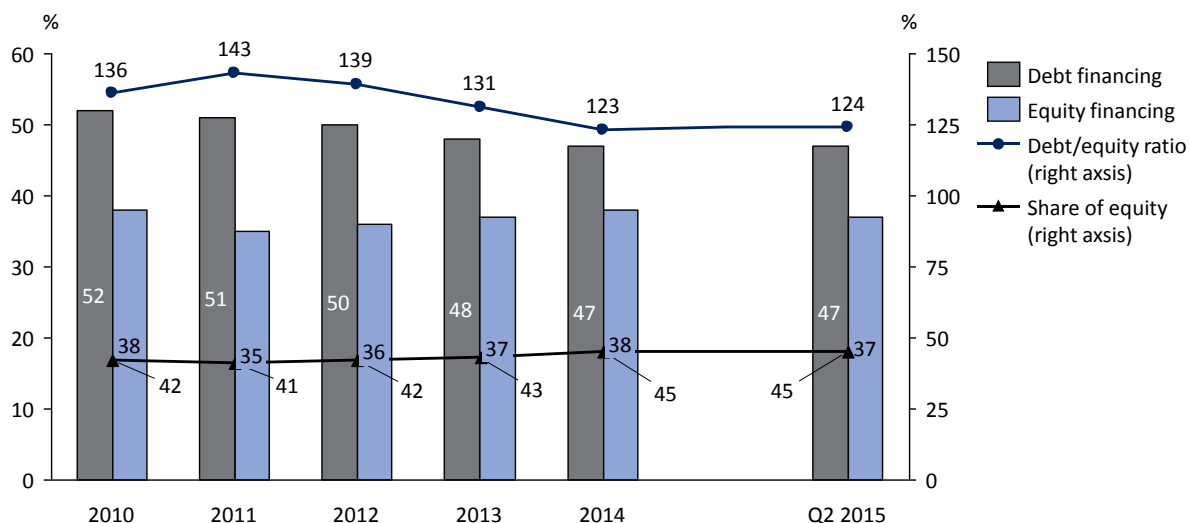
SOURCE: Eurostat, Long-term government bond yields.

*SLOVENIAN BANKING ENVIRONMENT*

Conditions in the Slovenian banking sector have improved in 2015 both due to the measures toward banks and macroeconomic stabilization. Key risk remains credit risk, which is slightly decreasing but still remains at very high levels. In Q3 2015 the share of nonperforming loans (NPLs, with delays over 90 days) decreased to 11,1% of all classified assets of banks. The most problematic part of portfolios are foreigners and small and medium enterprises (SME). Share of NPLs in SME segment is 26,7% and is significantly higher than in the corporate segment (10,3%). Share of NPLs in the corporate segment is lower than in previous years due to transfer of claims to BAMC and successful restructuring processes.

Banking loan activity reflects indicators that show beneficial dynamic. Together with economic growth corporate demand for loans is increasing. After several years of declining, demand for investment loans is increasing and demand for restructuring loans has decreased. In the segment of new loans granted, share of long-term loans is drastically growing.

FIGURE 10: INDEBTNESS OF NON-FINANCIAL COMPANIES IN SLOVENIA

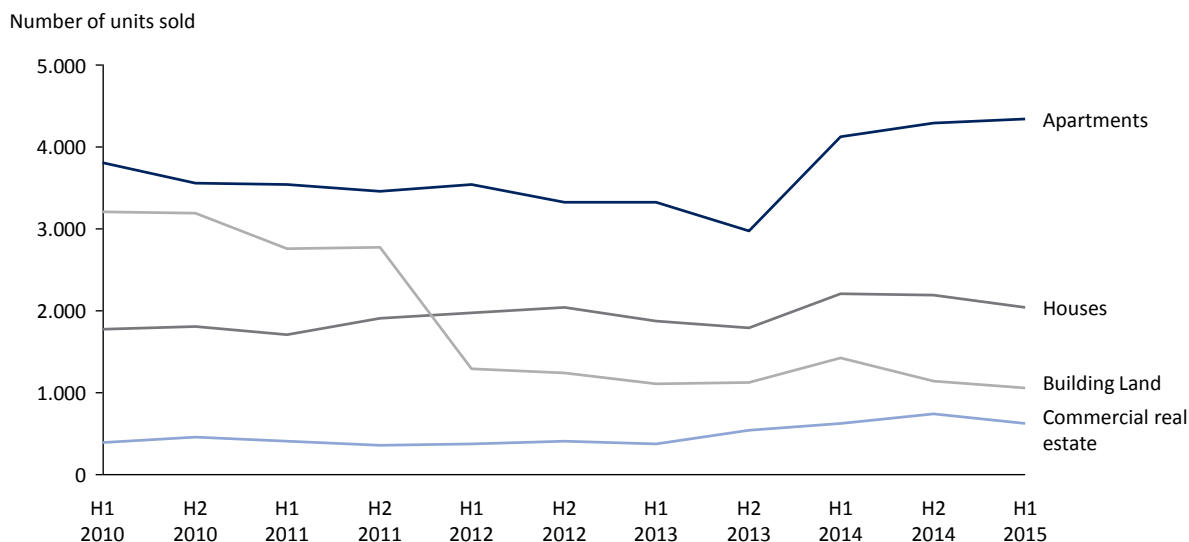


SOURCE: Poročilo o finančni stabilnosti, January 2016, Bank of Slovenia.

### SLOVENIAN REAL ESTATE ENVIRONMENT

Number of sold residential real estate in 2015 remained at the high levels achieved in 2014. After the first bottom of real estate crisis in 2009, a milder crisis in H1 2013 also passed. Since the second bottom of the crisis the number of sold apartments increased by 31% and the number of sold houses by 9%. There are several positive indicators that could influence the demand for real estate, such as economic growth, increase of employment, relatively low real estate prices and availability of real estate loans.

FIGURE 11: REAL ESTATE SALE IN SLOVENIA



SOURCE: Poročilo o slovenskem nepremičninskem trgu za leta 2014, 2013 in 2012, GURS.

## MANAGEMENT OF ASSETS

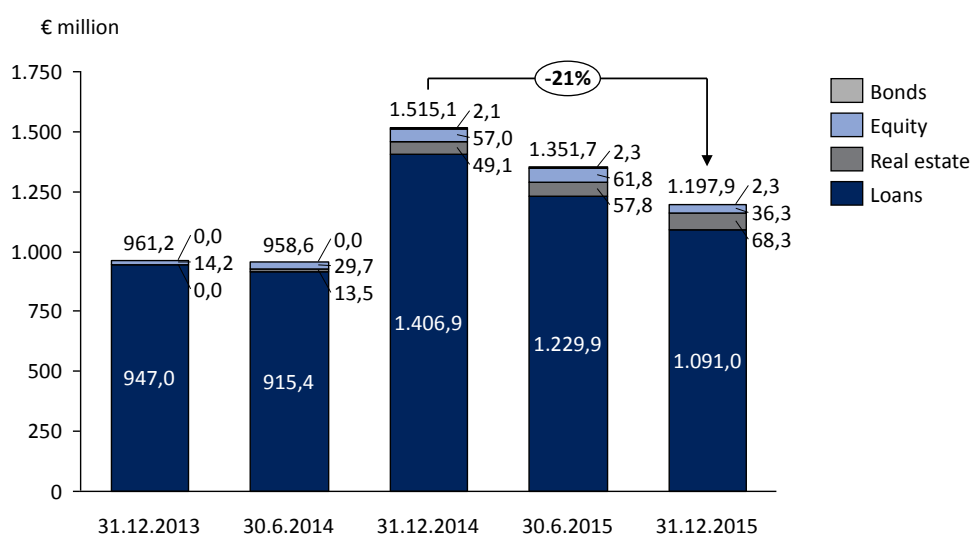
Following the transfer of non-performing assets from the banks in 2013 and 2014, BAMC began managing acquired assets with the aim of maximising their value. Assets are mostly managed individually, at the level of a claim or equity investment in a specific company or individual item of real estate. Where BAMC owns claims and equity in the individual company the maximization of enterprise value is targeted. In some cases, a group of companies is being managed as a whole, due to ownership or other significant intertwined characteristics.

### ALL ASSETS ARE AVAILABLE FOR SALE

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

BAMC was managing €1,2 billion worth of assets at year-end 2015, more than a fifth less in value terms compared to the beginning of the year due to significant exits from assets in 2015. The predominant part (91,1%) of these were loans, their share declining somewhat due to actual repayments, claim sales or repayments with real estate conversion, equity or other items. Real estate portfolio is second in size, increasing by almost 40% in the past year and representing 5,7% of assets under management. Most of the 2014 equity portfolio value was represented by the ownership stake in Pivovarna Laško d.d. which was sold in 2015. Still, the remaining equity portfolio increased in value considerably mainly due to BAMC's successful restructuring of Avtotehna d.d. and Thermana d.d. The change in the bond portfolio only follows valuation changes of the two already due corporate bonds held by BAMC.

FIGURE 12: ASSETS UNDER MANAGEMENT



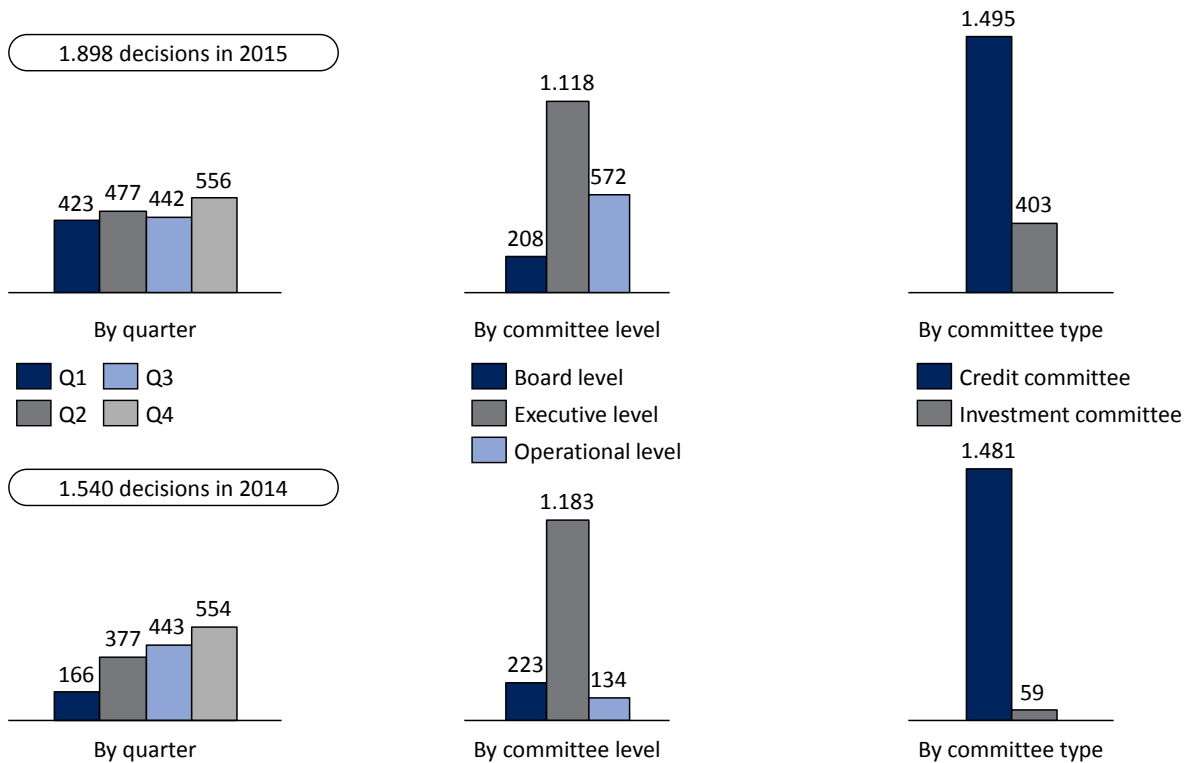
**NOTE:** Reported values for real estate and equity do not include advance payments because of which their balance sheet values may be somewhat higher.

### CREDIT AND INVESTMENT DECISIONS

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

Based on prepared action plans BAMC considered 1.898 credit and investment decisions on operational, executive and board levels in 2015.

FIGURE 13: BREAKDOWN OF DECISIONS TAKEN

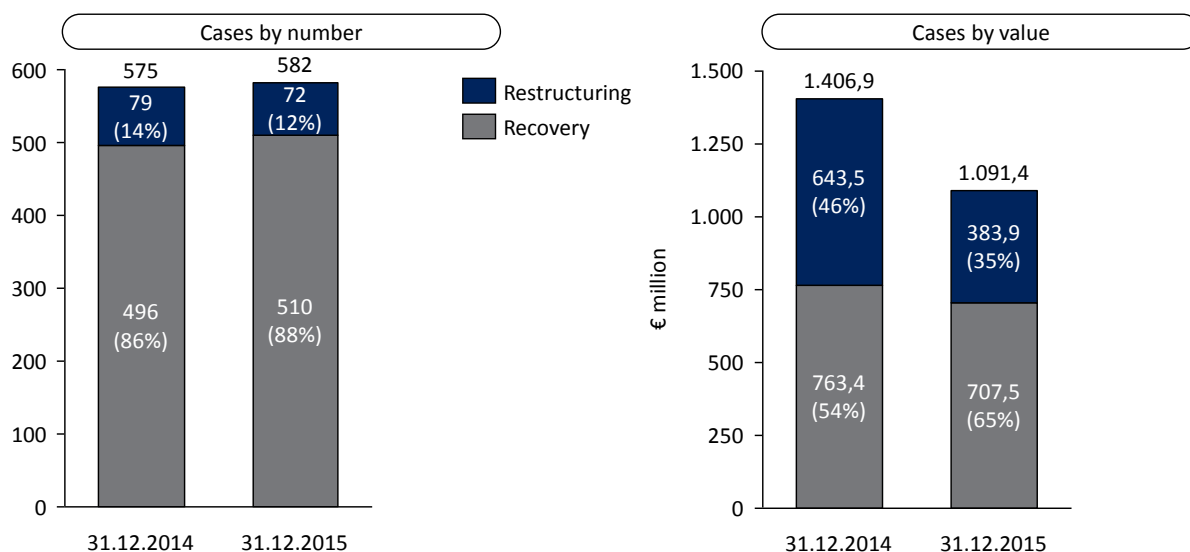


## LOAN PORTFOLIO MANAGEMENT

### STRATEGIES TOWARDS DEBTORS<sup>11</sup>

In valuation purposes, at the end of 2015, BAMC pursued a restructuring strategy in 72 debtors, seven less than the year before, and a recovery strategy in 510 cases, 14 more than in 2014 (please mind also the note to the figure below). The restructuring portfolio decreased both in value as in share mainly due to receipts from the sale of claims. Still, restructuring cases hold almost three times their share in value compared to their number share.

FIGURE 14: VALUATED CASES BY STRATEGY



**NOTE:** The number of cases reported differs between year-ends as claims to additional sureties or other companies were opened in the process of managing the primary debtors' claims. The value of cases reported differs from the loan value reported in Figure 12 as non-loan cases were valued as well (e.g., accounts receivable).

<sup>11</sup> For valuation purposes the strategies are defined as follows:

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

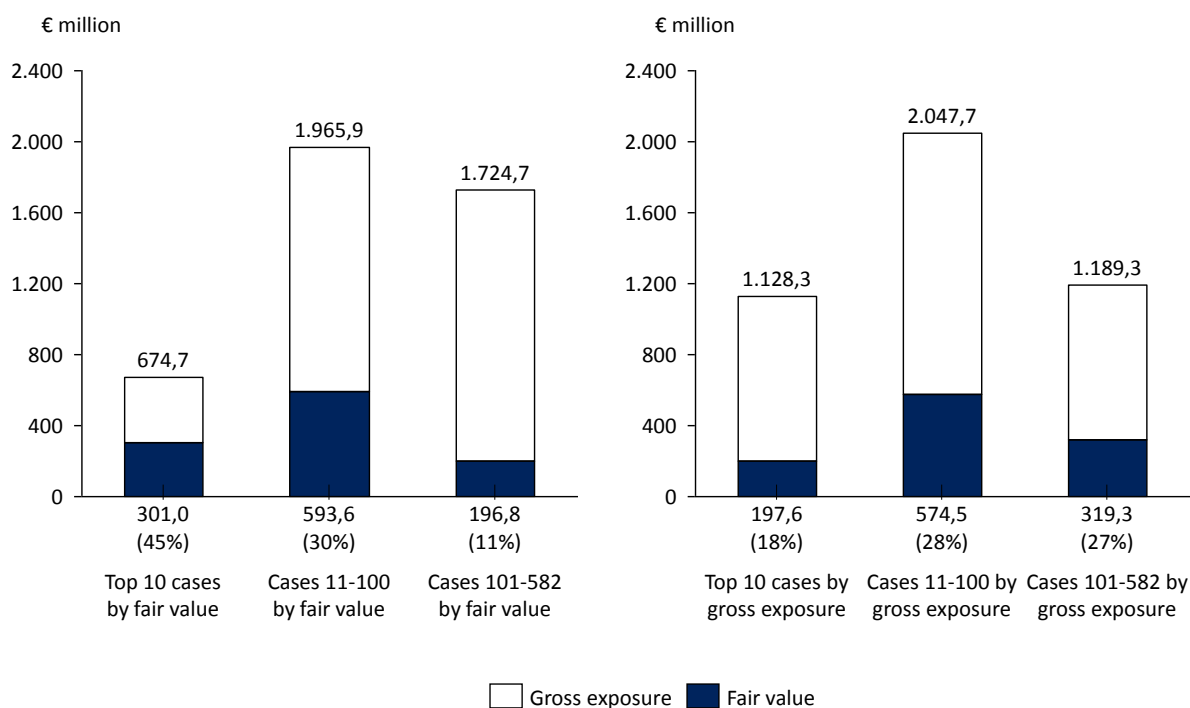
It has to be noted that BAMC may, conditioned on not worsening its creditor position, pursue a restructuring strategy also in cases termed as recovery for valuation purposes. As a consequence, at year-end 2015 BAMC has actively managed 107 restructuring cases (see page 5), from which, due to stricter standards, only 72 are considered as restructuring in valuation (the rest are considered as recovery cases).



## PORTFOLIO CHARACTERISTICS

BAMC is estimating its portfolio of 582 debtors to have a fair value of €1.091,4 million which represents 25% of the €4.365,3 million gross value of claims. The scope of cases in the portfolio ranges from a handful (21) of cases that are estimated to provide full gross exposure repayment to a multitude (147) of cases which are estimated to provide zero recovery value.

FIGURE 15: LOAN GROSS EXPOSURE AND FAIR VALUE BY CASE SIZE



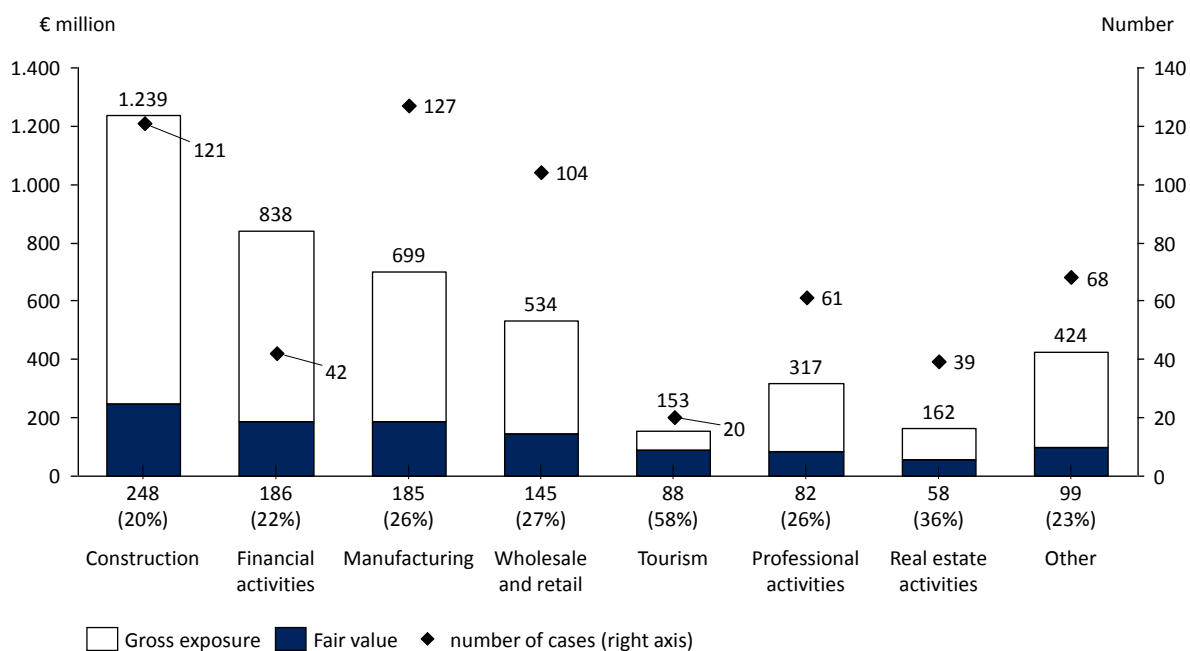
Sorted by fair value, the top 10 cases represent 15% of total portfolio gross exposure but account for almost 30% of total portfolio fair value as a result of almost half of gross exposure being estimated to be repaid. Cases in the next group, ranked 11-100 by fair value, are the biggest in total gross exposure terms and compared to somewhat smaller total gross exposure value of the remaining cases (ranked 101-582 by fair value) indicate almost three times larger repayment percentage than the latter. The share of repayment (fair value) is clearly falling in fair value size indicating that, with notable exceptions, on average the smaller cases in value allow for the smallest share of repayment.

The same approach from the gross exposure perspective reveals that the cases with the highest gross exposure contain the lowest percentage of fair value, less than a fifth. Both middle-sized and smaller gross exposure groups are estimated to provide more than quarterly repayment to gross exposure indicating that, following the gross exposure metric, on average smaller cases contain more value. The two seemingly contradictory findings clearly portray the case-specific treatment that is absolutely necessary at BAMC for successful value extraction from the cases managed.

Classifying BAMC portfolio by industry, almost 30% of all gross exposures are related to construction but this sector provides the lowest estimated average repayment at 20%. Manufacturing and

wholesale/retail sectors combined make up a comparable gross exposure to construction but are estimated to provide more than 30% (€80 million) higher repayment than the latter. Financial services, another sizeable industry, contains a relatively small number of cases and displays below-average fair value share in gross exposure, while tourism is on the other edge, being estimated to hold almost 60% of value compared to gross exposure.

FIGURE 16: LOAN GROSS EXPOSURE AND FAIR VALUE BY INDUSTRY



**NOTE:** Industry classification follows Statistical Office of the Republic of Slovenia standard classification of activities. Industries are ranked by absolute fair value. Those presenting a notable share in the portfolio are displayed separately while the remaining cases are grouped into the “Other” category.

## SALES OF CLAIMS

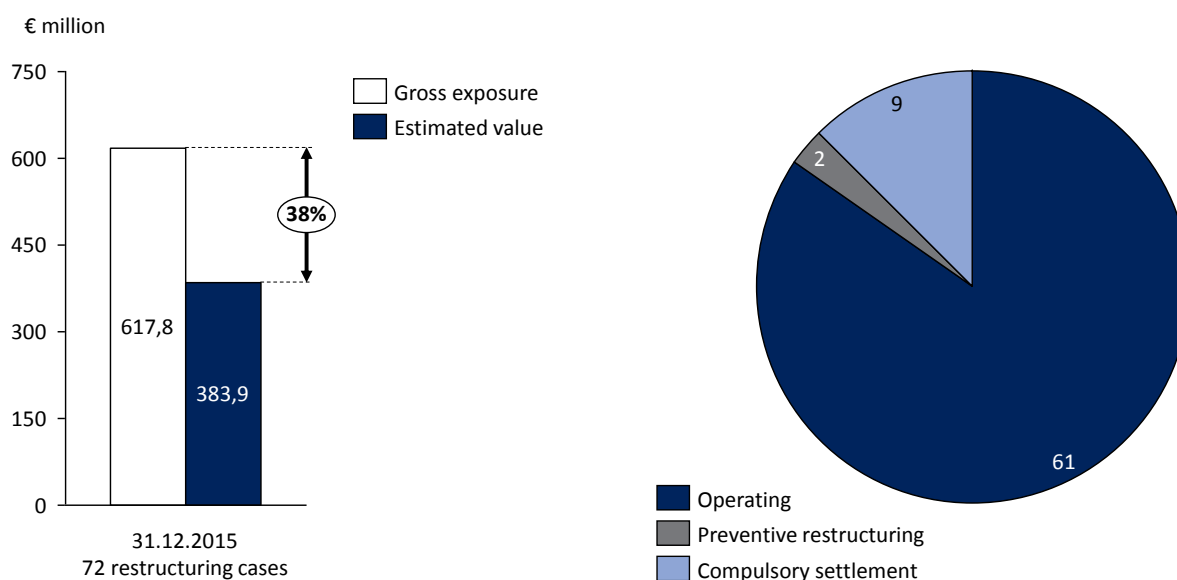
In 2015 BAMC started numerous sale procedures and in 18 cases brought them to a successful conclusion totalling €133,2 million of receipts.

## CORPORATE RESTRUCTURING

BAMC’s objective in the restructuring of companies is to ensure long-term efficiency and viability of the debtors’ operations and their competitiveness, and to maximise the repayment of debt with cash flows from operations.

In the end of 2015, BAMC implemented restructuring activities in 72 companies<sup>12</sup> with an outstanding debt to BAMC in the amount of €617,8 million. The estimated fair value of the aforementioned claims was €383,9 million. Thus, a portfolio value difference to gross claims of 38% suggests much more value can be extracted from the management of restructuring cases than from the recovery cases (which have an estimated portfolio value difference to gross claims of 81%).

FIGURE 17: RESTRUCTURING CASES OVERVIEW



BAMC implements financial restructuring measures in cooperation with other creditors. These measures include allowing debtors to extend deadlines for the repayment of liabilities, make (partial) debt repayments, improve their capital structure and secure additional liquidity.

The provisions of ZUKSB in 2015 provided BAMC with limited means to directly finance its debtors. Therefore BAMC in some cases helped them to secure liquidity through the partial withdrawal of liens in favour of banks that provide debtors with fresh financing and thus helped debtors maintain or increase the scope of their operations and implement operational restructuring measures via additional working capital or performance guarantees.

#### PURCHASES OF CLAIMS AND NEW LOANS GRANTED

In order to strengthen its position, in 2015 BAMC acquired additional exposures from other financial creditors towards 11 debtors for a total of €14,9 million. The position of the largest financial creditor required that BAMC shows additional responsibility in terms of achieving the maximum recovery of claims as well as broader social responsibility. BAMC consequently assumed a leading role in the

<sup>12</sup> BAMC may, conditioned on not worsening its creditor position, pursue a restructuring strategy also in cases termed as recovery for valuation purposes. As a consequence, at year-end 2015 BAMC has actively managed 107 restructuring cases, from which, due to stricter standards, only 72 are considered as restructuring in valuation (the rest are considered as recovery cases).

procedures of restructuring some of the biggest operations in Slovenia (Cimos d.d., Avtotehna d.d., DZS d.d., Sava d.d.). With the constructive cooperation of other financial creditors, other stakeholders and heads of companies, BAMC concluded financial restructurings in ACH d.d., Cimos d.d. and numerous smaller but no less important cases.

On 10 August 2015, the Government in the authority of BAMC's General Assembly instructed BAMC to purchase claims and ownership share of Litostroj jeklo d.o.o. from Probanka at Probanka's book values even though BAMC was to incur an economic loss of €3,2 million with this transaction. The loss is recognised as return of equity to the owner in the stated amount.

During 2015 BAMC provided additional liquidity necessary for restructurings to three debtors in the form of loans cumulating €3,2 million<sup>13</sup>.

#### MANAGEMENT OF EQUITY INVESTMENTS

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

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

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

In order to ensure capital adequacy and facilitate partial debt repayment by debtors, BAMC converted debt to equity in 13 cases in 2015. In nominal terms, €156,7 million of debt was converted into equity. In two cases BAMC injected €0,3 million of cash to increase their capital.

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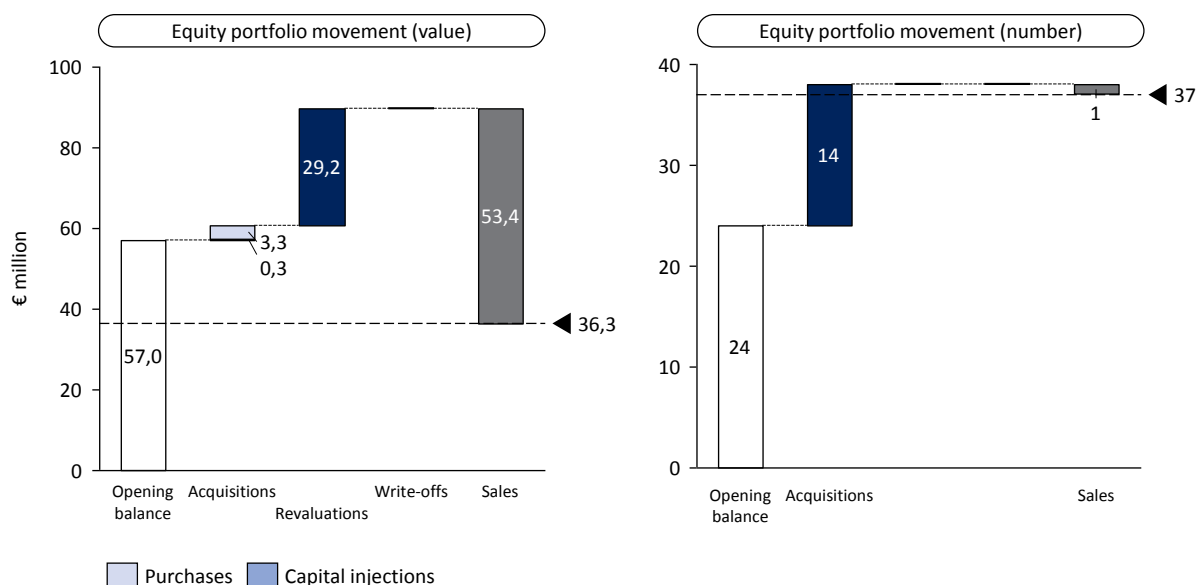
<sup>13</sup> The loan granted to DUP1 in amount of €13,0 million is excluded.

TABLE 6: DEBT TO EQUITY CONVERSIONS AND CAPITAL INCREASES IN 2015

Company	Converted gross value (in € million)	Capital increase (in € million)
Cimos d.d.	78,3	
Alpina d.o.o.	12,0	
Thermana d.d.	12,0	
Ihan d.d.	11,4	
Aha Emmi d.o.o.	10,0	
Avtotehna d.d.	10,0	
MLM d.d.	7,9	
Aha Plastik d.o.o.	6,2	
Eti elektroelement d.d.	4,0	
Litostroj Ravne d.o.o.	2,4	0,24
Tink d.o.o.	1,5	
Riosi inženiring d.o.o.	0,5	
Polzela d.d.	0,5	
Argolina d.o.o.		0,02
<b>Total</b>	<b>156,7</b>	<b>0,26</b>

Additionally to the above, BAMC established two special-purpose entities in 2015, DUP1 and DUP2, with the aim of separate management of selected asset segments. Both companies had only cash as assets at 31 December 2015.

FIGURE 18: EQUITY PORTFOLIO MOVEMENT



In 2015, BAMC's equity management focused on the performance improvement of companies in its majority ownership which was the result of financial restructurings with debt to equity conversions. As at the end of 2015 BAMC is a majority owner of 15 companies (Sistemska tehnika d.o.o. and Sistemska tehnika Armas d.o.o. have been sold in the meantime as a result of a competitive sales process). BAMC as a minority owner of 16 companies has actively executed its corporate governance

entitlements in line with ZGD-1. For one minority ownership the competitive sales procedure was successfully completed (Pivovarna Laško d.d. in October 2015) and in three minority owned companies BAMC is in a consortium with other owners to sell the majority stake.

TABLE 7: BAMC'S EQUITY PORTFOLIO AS AT 31 DECEMBER 2015

Company	BAMC ownership	Company	BAMC ownership
Aha Emmi d.o.o.	100,0%	Cimos d.d.	47,5%
Aha Plastik d.o.o.	100,0%	Riosi inženiring d.o.o.	39,2%
Alpina d.o.o.	100,0%	Polzela d.d.	37,7%
Argolina d.o.o.	100,0%	Nigrad d.d.	24,9%
Avtotehna d.d.	100,0%	Menina d.d.	20,3%
DUP1 d.d.	100,0%	Adria Airways d.d.	19,6%
DUP2 d.d.	100,0%	Hit d.d. (preferred shares )	19,1%
LIV kolesa d.o.o.	100,0%	Eti elektroelement d.d.	12,0%
Sistemska tehnika Armas d.o.o.	100,0%	Certa d.d.	8,8%
Thermana d.d.	99,9%	Istrabenz holding d.d.	5,0%
Ihan d.d.	95,0%	Gorenjska banka d.d.	4,4%
Sistemska tehnika d.o.o.	89,7%	Elektro Gorenjska d.d.	1,2%
Tink d.o.o.	89,3%	Elektro Primorska d.d.	0,4%
Litostroj Ravne d.o.o.	88,7%	Elektro Ljubljana d.d.	0,2%
MLM d.d.	67,2%	Elektro Celje d.d.	0,1%
Merkur nepremičnine d.d.	62,5%	Perutnina Ptuj d.d.	0,0%
Litostroj jeklo d.o.o.	55,2%		

NOTE: BAMC's ownership in Elektro Celje d.d. and Perutnina Ptuj d.d. amounts to 0,06% and 0,04% respectively.

#### SALE OF THE OWNERSHIP STAKE IN PIVOVARNA LAŠKO

The complex sales process of Pivovarna Laško d.d. was successfully concluded on 13 April 2015 when the sales agreement with Heineken was signed.

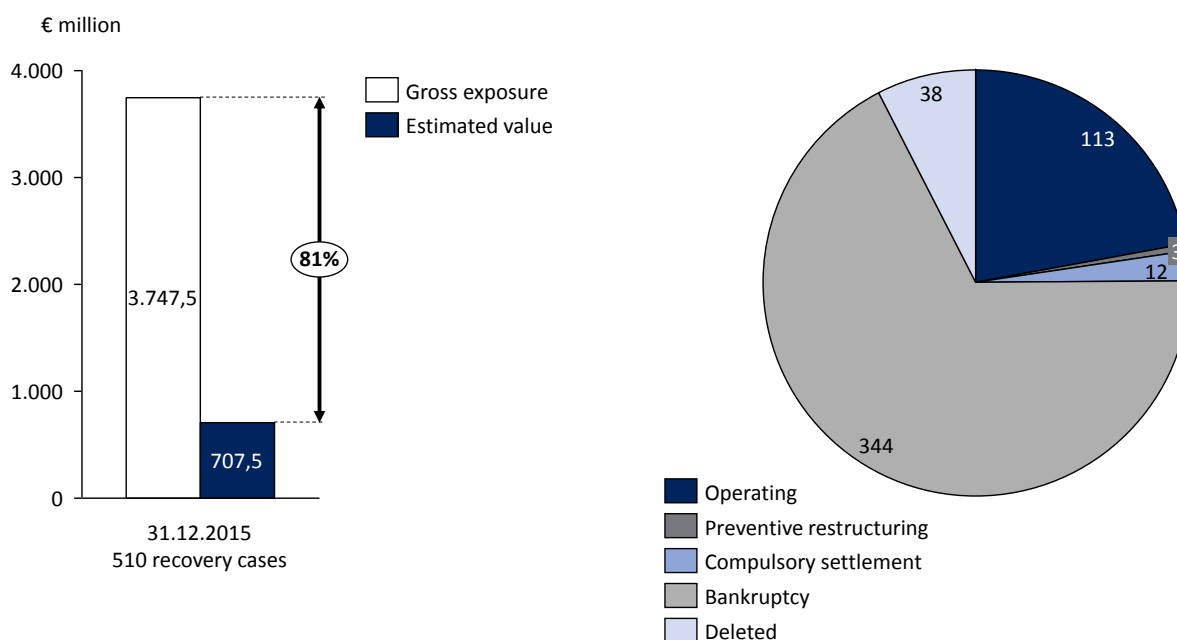
Together with the other major owners of the brewery company Pivovarna Laško d.d., BAMC successfully formed a consortium of sellers which, prior to signing the sales contract with Heineken, made up 51% of the company equity. Creation of the consortium significantly simplified the transaction for potential buyers wishing to acquire a controlling interest in the company. Originally the company's management board led a capital increase process, which would bring a buyer an interest of around 33%, and then the buyer would have to submit a takeover bid and assume the risk involved in attaining the desired controlling interest and avoiding ending up with a minority share. The inclusion of a consortium of owners in the capital increase process, which was then transformed into a sales process, removed that risk, for the potential buyer was assured of an interest greater than 50% at the very first step. The active involvement of BAMC (and other owners) in the capital increase process thus had a positive effect on the company sales price, for, in addition to the takeover premium, potential buyers were prepared to pay a higher price for the less risky structure of the transaction. After taking over its share at the 2013 market (stock exchange) price, BAMC succeeded in creating a €46,1 million (620%) increase of value. In October 2015, the deal was closed by receiving €53,7 million.

### LOAN MANAGEMENT USING THE RECOVERY STRATEGY

In case of negative cash flows-making companies against which BAMC holds claims, when it is clear that it would be impossible to create greater value 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.

At the end of 2015, BAMC was applying recovery strategy at 510 debtors, against which it held €3.747,5 million in gross claims, the fair value of which was estimated at €707,5 million. Compared with companies in restructuring, these companies as a group proved to have a substantially lower potential of repayment as the fair value of claims towards them was estimated at 19% of gross exposure while this estimate amounted to 62% of gross exposure in restructurings.

FIGURE 19: RECOVERY CASES OVERVIEW



In cases when an over-leveraged company is not viable, BAMC files a motion to initiate bankruptcy proceedings against the debtor, and in so doing acts with the aim of ensuring equal treatment for all creditors and preventing potential additional losses to creditors. BAMC filed 53 motions to initiate bankruptcy proceedings in 2015. Bankruptcy proceedings are conducted by an official receiver who monitors and oversees the procedures for selling collateral. Not least in the sense of choosing the method of sale and setting the selling price, BAMC actively participates in and guides creditor committees, diligently monitoring the administration of bankruptcy proceedings and the sale of the assets of debtors in bankruptcy. BAMC had representatives on 32 creditor committees in 2015.

## REAL ESTATE PORTFOLIO MANAGEMENT

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

### MANAGEMENT OF PLEDGED REAL ESTATE

BAMC actively supports selling processes of pledged real estate managed by bankruptcy trustees and other selling procedures of claims collateralized with real estate. Using its valuation methodology, BAMC determines a fair selling price for each real estate unit and approves each real estate sale where the selling price is close or above the calculated price. On its web site, BAMC announces all current court auctions of real estate pledged to BAMC being offered for sale in diverse insolvency proceedings. Around €50 million of pledged real estate has been sold in this way in H2 2015.

### TAKEOVER OF REAL ESTATE

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

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

### BAMC'S REAL ESTATE PORTFOLIO

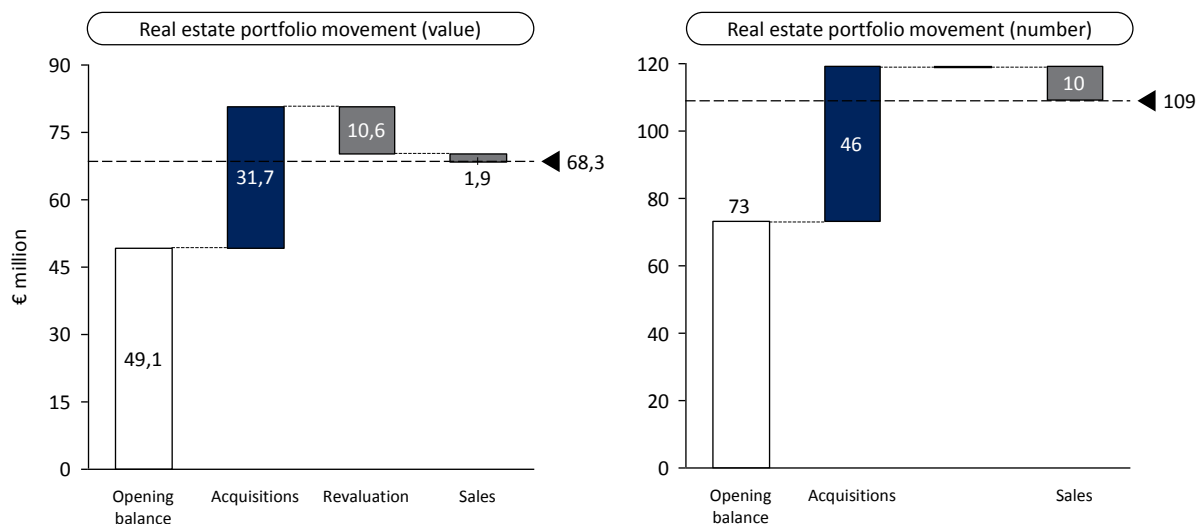
In 2015, BAMC acquired 46 items of real estate in value of €31,7 million. The largest repossessed real estate in 2015 were:

- Unfinished residential complex in Mengeš, consisting of 80 flats and retail units,
- Unfinished residential complex Kostanjevi cvetovi in Dol pri Ljubljani,
- Primorje office building in Ajdovščina,
- Unfinished nursery home in Vrtojba and
- An apartment block in Vojnik.



Despite intensive efforts, BAMC did not manage to take over the residential complex Celovški dvori. 10 BAMC-owned real estate units were sold in 2015, for a total outcome of €1,9 million.

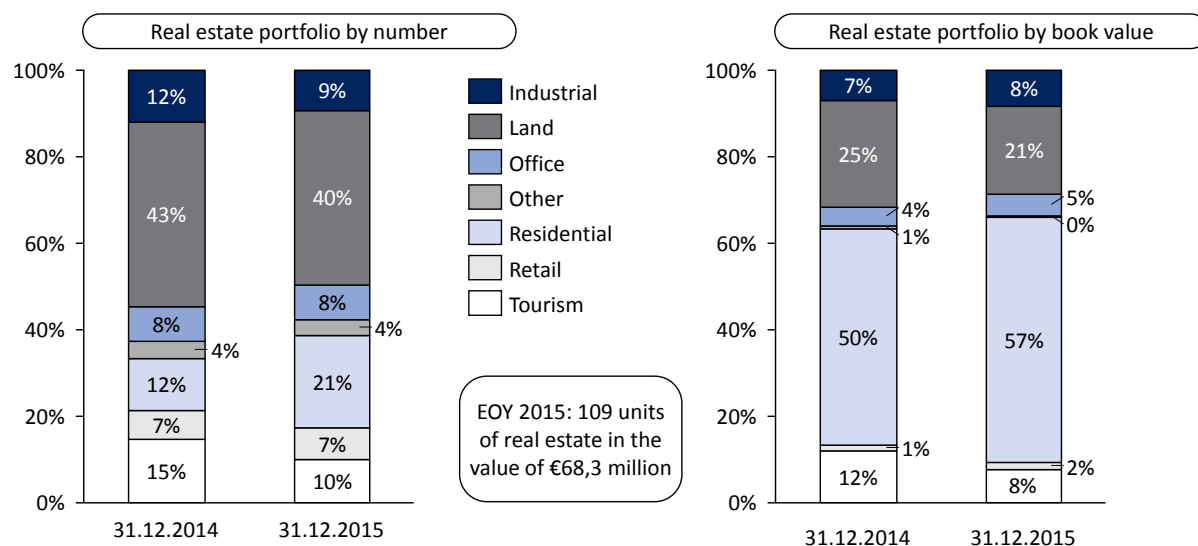
FIGURE 20: REAL ESTATE PORTFOLIO MOVEMENT



**NOTE:** Balance sheet real estate book value of €68,8 million additionally includes €0,5 million of advance payments for real estate acquisition.

Out of 109 real estate units owned by BAMC at year-end, two fifths in number are land plots, making up a good fifth of the portfolio value. On the other hand, residential units present less than a quarter of the portfolio count-wise, but contribute almost three fifths in value. The remaining fifth of value is made up of other real estate types, notably touristic and industrial units.

FIGURE 21: REAL ESTATE PORTFOLIO STRUCTURE



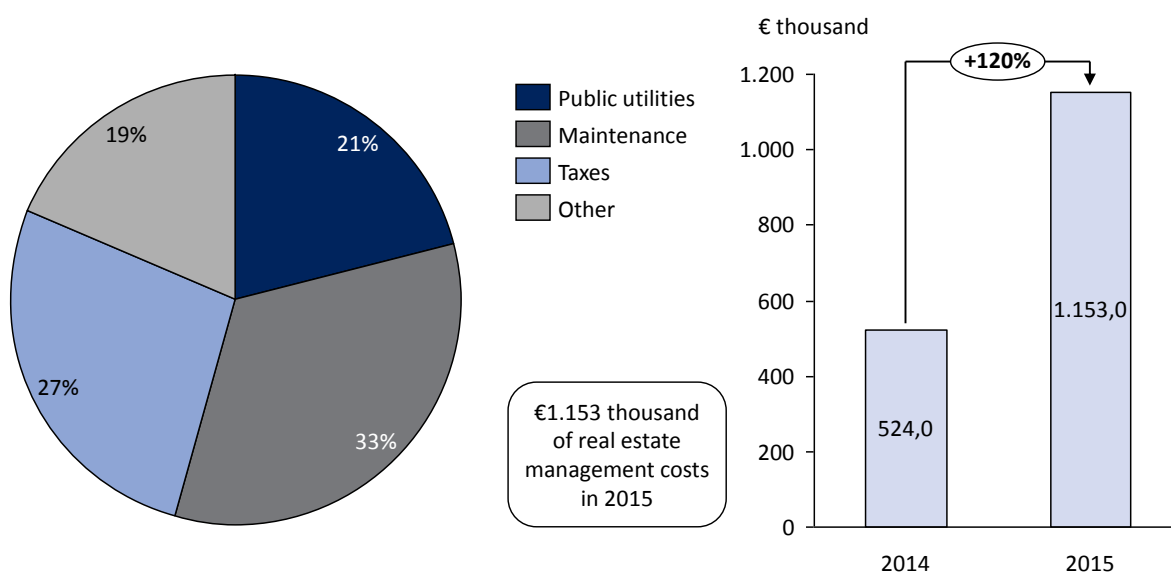
**NOTE:** Balance sheet real estate book value of €68,8 million additionally includes €0,5 million of advance payments for real estate acquisition.

### REAL ESTATE FACILITY MANAGEMENT

After taking over direct ownership of real estate, BAMC takes measures to ensure that the value of the acquired asset is maintained. In certain cases it is necessary to complete the construction, while in already completed projects it is, for instance, necessary to remedy technical and legal defects, take care of the treatment and removal of waste, insurance and security, and energy certification. It is also necessary to maintain the condition of acquired real estate and to attend to other activities in connection with the management of the real estate with the aim of preparing the properties for sale.

BAMC recorded real estate management costs of €1.153,0 thousand in 2015. The majority of these costs relate to maintenance and taxes (NUSZ - compensation for use of building sites). With owned real estate portfolio expected to increase also in 2016, these costs are also going to follow portfolio size in the years ahead.

FIGURE 22: REAL ESTATE MANAGEMENT COSTS



In 2015 BAMC successfully completed four public tenders where it selected and mandated one facility management company, one insurance company, one security agency and one provider of energy certificates for its real estate portfolio.

### MARKETING OF REAL ESTATE

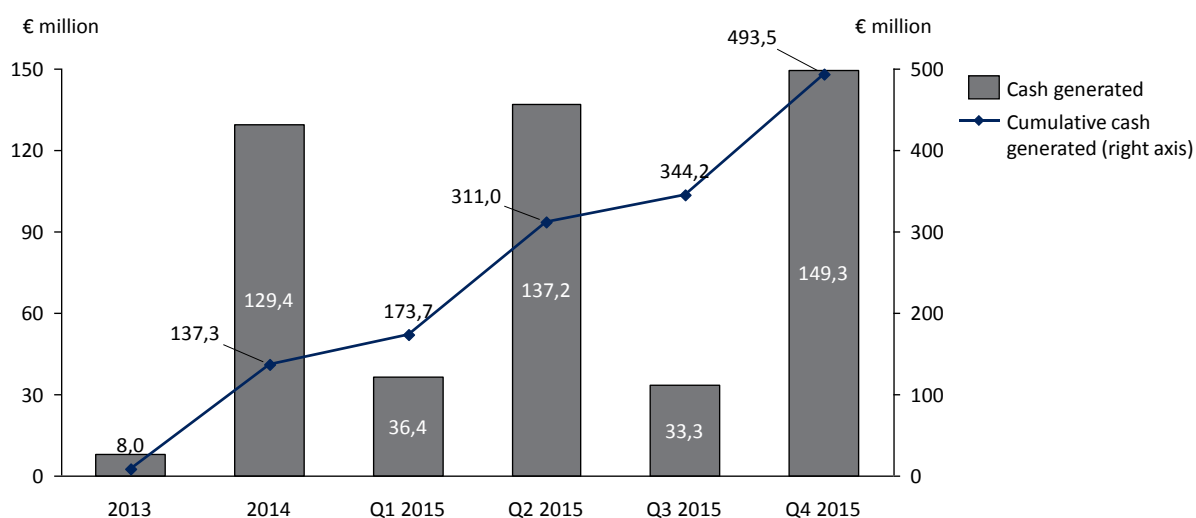
After launching real estate web portal, BAMC, via a public tender procedure, also mandated a real estate agent responsible for selling most of the real estate owned by BAMC. The contract was signed in March 2015 and the first real estate unit was sold shortly after. In 2015, 10 properties have been sold. The largest were a cooling facility in Maribor, a production facility in Mokronog and an unfinished residential project in Senožeti. If selling due to illiquid markets is not possible, renting is considered as an alternative option. BAMC also took a number of fit-for-sale actions to prepare diverse real estate for sale.

## FINANCIAL OVERVIEW 2015

### CASH GENERATED

BAMC generated €356,2 million of inflows in 2015 from the management of acquired assets<sup>14</sup>, which represents 22,0% of the asset portfolio transfer value. Since the end of 2013, when the first non-performing assets were transferred to it, BAMC generated €493,5 million in inflows from the management of acquired assets, representing a major achievement. Thus, in 2015 BAMC exceeded the legally prescribed objective to liquidate at least 10% of acquired assets annually.<sup>15</sup>

FIGURE 23: CASH GENERATED BY BAMC

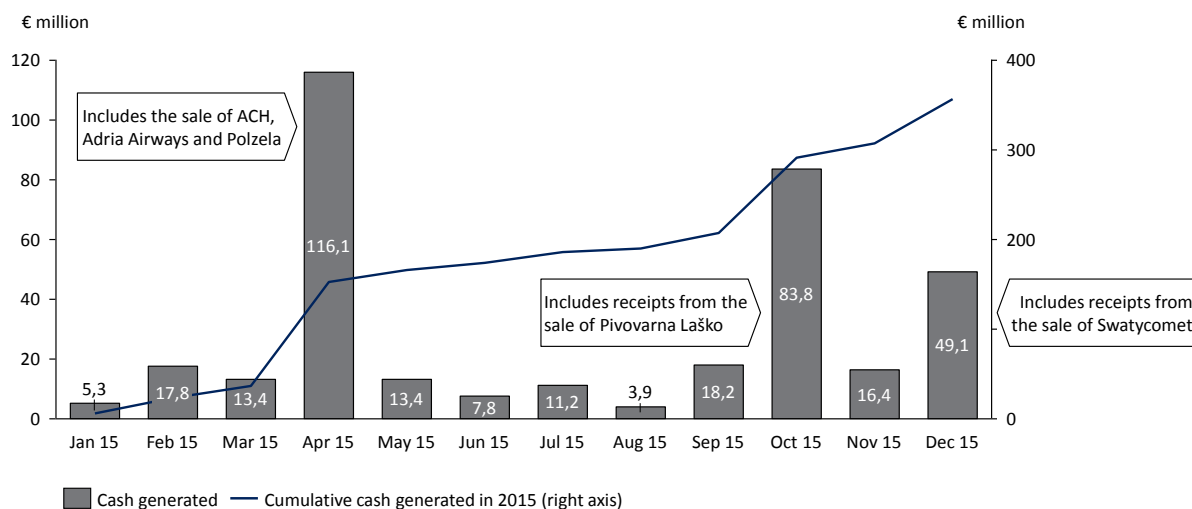


The largest inflows derived from portfolio sale of claims and participating interests (ACH Group, Elan d.o.o., Adria Airways d.d. and Polzela d.d.), sale of shares in Pivovarna Laško d.d. and sale of Avtotehna's equity collateral. Next to these and some other larger transactions BAMC is constantly generating cash inflows from the management of its assets at a monthly average of well above €10 million.

<sup>14</sup> The amount does not include inflows from the sale of RS38 bond which BAMC sold in October 2015.

<sup>15</sup> Cash generated in proportion of acquired assets in the amount of 22,0% is calculated as the ratio of inflows generated to the weighted value of the portfolio, where the date of transfer to BAMC is used as the weight. The same reasoning is applied to the purchase of additional exposures BAMC makes when such action is considered economically justifiable. E.g., a hypothetical additional purchase of exposure in the amount of €2,0 million on 30 June 2015 would be given a weight of 0,5 (effectively adding €1,0 million) for the 2015 denominator calculation as BAMC would only have half a year available for the liquidation of acquired assets.

FIGURE 24: MONTHLY CASH GENERATED IN 2015



Inflows presented under cash generated do not include inflows from the sale of Slovenian government bonds in the amount of €164,9 million, which BAMC used for the following:

- the repayment of a portion of maturing liabilities from DUT01 bonds,
- to ensure liquidity for the functioning of BAMC, and
- for liquidity reserves on account of the planned merging of liabilities of Factor banka and Probanka.

## REPAYMENT OF DUT01 BOND AND PARTIAL REFINANCING

On 15 December 2015 maturing DUT01 bonds were repaid in full in the amount of €502,5 million, together with interest from all four bond issues in the amount of €45,5 million. The nominal value of DUT01 bonds was €505,8 million of which €3,3 million of bonds were already held by BAMC. The repayment of DUT01 bonds represents an important step in the fulfilment of BAMC's mission, as defined by the ZUKSB. Through the repayment of the aforementioned bonds, BAMC reduced its debt, repaid invested funds and thus reduced the burden on the Republic of Slovenia and its taxpayers.

BAMC generated a great deal of funds required for the repayment of bonds through the active management of assets transferred to BAMC at the end of 2013 and during the second half of 2014 from NLB, NKBM, Abanka and Banka Celje in the scope of the implementation of measures to strengthen the stability of banks. Even before the repayment of DUT01 bonds, BAMC allocated a portion of the total €493,5 million generated from asset management for the repayment of interest and fees for bond guarantees issued by the Slovenian government.

BAMC also obtained a portion of the liquidity required for bond repayment through the sale of government RS38 bonds which the Republic Slovenia provided to BAMC in the scope of recapitalisations in 2013. BAMC opted to sell RS38 bonds to finance the repayment of debt due to the very low required yields to maturity on Slovenian government bonds of similar maturity. In October 2015 BAMC sold its entire remaining portfolio (1.490.087 lots) of RS38 bonds in a transparent and competitive process. The average weighted annual yield to maturity of all bids accepted was 0,36%. BAMC thus received €164,9 million in liquid assets. BAMC allocated the remaining funds from the sale of RS38 bonds as a liquidity reserve for the repayment of liabilities from the planned merger of Factor banka and Probanka.

BAMC raised a long-term loan at NLB to cover the remaining deficit in liquidity for the repayment of DUT01 bonds. In a transparent and competitive process, BAMC raised a long-term loan from NLB in the amount of €200,0 million with a maturity in the middle of December 2017. BAMC has an option for the early repayment of the loan in part or full, which increases its flexibility in terms of liquidity management. The aforementioned loan is not secured by an unconditional and irrevocable guarantee issued by the Slovenian government, as is the case for all bonds issued by BAMC. Rather, the Slovenian government bears subsidiary liability for BAMC's liabilities in accordance with Article 4 of the then valid ZUKSB.

BAMC had €167,1 million in cash and cash equivalents at its disposal at the end of 2015. This level of liquidity at the end of the year served as a liquidity reserve for the repayment of liabilities from the planned merger of Factor banka and Probanka.

## INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

Core business of BAMC is managing non-performing assets, predominantly non-performing loans, therefore BAMC's operating and financial expenses have to be covered by realised capital gains and revaluation income in order to generate profit. BAMC recorded a net loss of €8,3 million in 2015. Hence, BAMC has not achieved the requirement of 8% return on equity as required by the Guidelines.

The loss was the result of revaluations, as income from the increase in the fair value of assets due to revaluation was insufficient to cover all financial expenses and operating costs, despite the positive result of transactions. While realised inflows were mostly in line with expectations, the main difference to previous valuations originated in the lower and more distant estimation of cash flows from the remaining portfolio in future years as a result of economic, investor sentiment and other related factors.

TABLE 8: INCOME STATEMENT REVALUATION VIEW

in € million	2015	2014	Index 2015/2014
Non-revaluation result	11,4	16,2	70
Revaluation result	-19,8	26,5	-75
<b>Net income before tax</b>	<b>-8,3</b>	<b>42,7</b>	<b>-19</b>
Income tax	0,0	-6,3	0
<b>Net income after tax</b>	<b>-8,3</b>	<b>36,4</b>	<b>-23</b>

**NOTE:** Non-revaluation result includes all income statement items from Table 9 that are not related to revaluation and revaluation result includes the two revaluation-related items from the aforementioned table.

TABLE 9: INCOME STATEMENT DECOMPOSITION AND COMPREHENSIVE INCOME

in € million	2015	2014	Index 2015/2014
Operating result	-25,5	-31,0	82
Non-real estate income	0,3	0,2	110
Non-real estate costs	-14,7	-14,4	102
Real estate income	0,4	0,1	447
Real estate costs	-1,2	-0,3	350
Real estate capital gain / loss	0,3	0,0	-
Real estate revaluation	-10,6	-16,6	64
Financial result	17,1	73,8	23
Interest income / expense	-26,7	-15,0	178
Capital gain / loss	53,0	45,2	117
Revaluation	-9,1	43,1	-21
Other effects	0,0	0,4	-11
Other income result	0,1	-0,1	-113
Other income	0,1	0,0	4.647
Other expenses	0,0	-0,1	14
<b>Net income before tax</b>	<b>-8,3</b>	<b>42,7</b>	<b>-19</b>
Income tax	0,0	-6,3	0
<b>Net income after tax</b>	<b>-8,3</b>	<b>36,4</b>	<b>-23</b>
Change in value of available for sale financial assets	-51,9	-19,3	269
<b>Total comprehensive income / loss</b>	<b>-60,2</b>	<b>17,2</b>	<b>-351</b>

#### OPERATING INCOME, EXPENSES AND OPERATING RESULT

BAMC's primary activity is the management of non-performing loans and other associated assets. Effects from the management of loans, participating interests and other financial instruments, which represent the majority of BAMC's assets, are disclosed under financial income and expenses. Thus, operating income and costs primarily comprise income from the management and sale of inventory of real estate held for sale, revaluation expenses associated with inventory of real estate held for sale and other operating costs.

#### *OPERATING INCOME, EXPENSES AND THE COSTS OF MANAGING INVENTORY OF REAL ESTATE HELD FOR SALE*

Total sales income in 2015 amounted to €2,9 million, of which 95% relates to income associated with inventory of real estate held for sale. Sales income was significantly higher in 2015, as BAMC only started to acquire inventory of real estate in 2014.

The majority of income in the amount of €2,2 million relates to income from the sale of inventory of real estate held for sale, the carrying amount of which was €1,9 million. BAMC also generated €0,4 million from temporary renting inventory of real estate held for sale in 2015.

TABLE 10: INCOME AND EXPENSES OF THE REAL ESTATE SEGMENT

in € thousand	1 Jan 2015 to 31 Dec 2015	1 Jan 2014 to 31 Dec 2014	Index 2015/2014
Real estate operating result	-714	-232	308
Real estate operating income	448	100	447
<i>Rents</i>	366	100	366
<i>Invoiced costs</i>	82	0	-
Real estate operating costs (management costs)	-1.162	-332	350
Capital gain / loss from real estate	266	0	-
Realized capital gain of real estate	2.205	0	-
<i>Income from sale</i>	2.205	0	-
Realized capital loss of real estate	-1.939	0	-
<i>Loss from sale (release of book value at sale)</i>	-1.939	0	-
Operating revaluation result	-10.623	-16.642	64
Operating revaluation income	0	0	-
Operating revaluation expense	-10.623	-16.642	64
<i>Write-downs</i>	-10.623	-16.642	64
<b>Real estate segment result</b>	<b>-11.071</b>	<b>-16.874</b>	<b>66</b>

The costs of managing inventory of real estate held for sale totalled €1,2 million in 2015, and related primarily to the maintenance of real estate, taxes and energy costs.

The expenses of the revaluation of inventory of real estate held for sale to fair value totalled €10,6 million in 2015. The majority of the revaluation expenses in the amount of €8,3 million derive from the revaluation to fair value of real estate that BAMC acquired in 2015. Other revaluation expenses in the amount of €2,3 million derive from a reduction in the appraised fair value of existing real estate in 2015. As at 31 December 2015 BAMC also disclosed a surplus in the fair value of inventory of real estate held for sale over the historical cost thereof in the amount of €7,6 million. In accordance with the IFRS, that amount is not disclosed as revaluation income, but will be disclosed as sales income when BAMC sells the real estate in question.

#### *OPERATING COSTS NOT RELATED TO REAL ESTATE*

Operating costs not related to real estate management costs and the expenses of the revaluation of inventory of real estate held for sale totalled €14,7 million in 2015 and were 2% higher than the previous year, when the costs of establishing the organisational structure and the acquisition of assets were high.



TABLE 11: REAL-ESTATE-EXCLUDING OPERATING RESULT

in € thousand	2015 excluding real estate	2014 excluding real estate	Index 2015/2014
Net sales income	268	243	110
Operating costs	-14.689	-14.358	102
Costs of materials	-53	-46	117
Costs of services	-7.289	-8.190	89
Labour costs	-5.944	-4.868	122
Depreciation	-84	-47	180
Other operating costs	-1.319	-833	158
Operating revaluation expense	0	-373	0
<b>Operating result (excluding real estate)</b>	<b>-14.421</b>	<b>-14.114</b>	<b>102</b>

The largest part of costs are accounted for by the costs of services, which amounted to €7,3 million in 2015, excluding real estate management costs. The highest proportion of the cost of services is accounted by the costs of intellectual services, the majority of which were the costs of legal and notary services in the amount of €2,0 million. The latter were higher in 2015 primarily because, in some cases, the existing owners and management bodies of over-leveraged debtors do not wish to cede the management of those companies to BAMC or other creditors, and are thus employing all legal means to defend their positions. This resulted in high costs of legal services. The costs of consultancy services were reduced compared to the previous year to stand at €1,0 million, the difference primarily on account of the high costs to establish the organisational structure in 2014.

The costs of accounting and reporting services amounted to €1,7 million in 2015, an increase of 22% relative to the previous year. Analytical bookkeeping costs for the loan portfolio were higher due to the increased scope of assets under management relative to 2014. In 2015 BAMC shifted and consolidated the outsourced analytical bookkeeping services for the portfolio of loans from NLB, NKBM and Abanka to Probanka. Costs in the second half of the year 2015 thus fell below the level recorded in 2014.

Labour costs totalled €5,9 million in 2015, an increase of 22% relative to the previous year. Higher costs in 2015 were the result of an increase in the number of employees, as the monthly average number of employees at BAMC was 61 in 2014 compared to 96 in 2015.

Other operating costs totalled €1,3 million in 2015 where 95% of these costs are associated with judicial proceedings that are the result of intensive efforts to liquidate the assets of debtors in insolvency and judicial recovery proceedings.

## FINANCIAL INCOME AND FINANCIAL EXPENSES

Financial income and expenses derive from the management of the loan portfolio and the portfolio of equity investments and other financial instruments, and from financial liabilities which BAMC requires to finance the assets it manages. Net financial result of 2015 was €17,1 million which is €56,2 million lower compared to the previous year, mainly due to a decrease arising from lower revaluation income from loans.

TABLE 12: TOTAL FINANCIAL RESULT

in € million	1 Jan 2015 to 31 Dec 2015	1 Jan 2014 to 31 Dec 2014	Index 2015/2014
Interest income / expenses result	-26,7	-15,0	178
Interest income	41,6	42,1	99
Interest expense	-68,3	-57,1	120
Capital gain / loss result	53,0	45,2	117
Realized capital gain	71,1	50,2	142
Realized capital loss	-18,1	-5,0	362
Revaluation result	-9,1	43,1	-21
Financial revaluation income	26,2	70,2	37
Financial revaluation expense	-35,4	-27,1	130
<b>Total financial result</b>	<b>17,1</b>	<b>73,3</b>	<b>23</b>

### INTEREST INCOME AND INTEREST EXPENSES

BAMC incurred financial expenses from financial liabilities in the amount of €68,3 million in 2015 comprising interest expenses for issued bonds in the amount of €49,0 million, a loan raised in the amount of €0,1 million and fees for the guarantees issued by the Slovenian government in the amount of €19,3 million. The aforementioned expenses were up 20% on the previous year because BAMC issued two series of bonds at the end of 2014 to finance purchases of assets from Abanka and Banka Celje, resulting in an increase in its financial liabilities and consequently financial expenses.

Interest income totalled €41,2 million and was almost at the previous year's level. Interest income from the loan portfolio was up to stand at €34,2 million. The increase of 9% was primarily the result of an increase in the number of loan contracts under management due to the transfer of the loan portfolios of Abanka and Banka Celje at the end of 2014. It should be noted that BAMC recognises interest income from loans only after receiving their payment.

In October 2015 BAMC sold all of its RS38 government bonds primarily for the purpose of obtaining the necessary liquidity to repay maturing DUT01 bonds. Interest income in 2015 from the aforementioned government bonds was thus down 39% on the previous year to stand at €6,4 million.

TABLE 13: INTEREST INCOME / EXPENSES RESULT

in € million	1 Jan 2015 to 31 Dec 2015	1 Jan 2014 to 31 Dec 2014	Index 2015/2014
Interest income, dividends and fees received	41,6	42,1	99
Interest income and dividends	41,2	42,0	98
<i>RS bonds</i>	6,4	10,4	61
<i>Loans</i>	34,2	31,3	109
<i>Dividends</i>	0,1	0,1	87
<i>Deposits</i>	0,6	0,2	382
Financial fees from lending	0,4	0,1	439
Interest expenses	-68,4	-57,1	120
Interest expense	-68,3	-57,1	120
<i>BAMC bonds</i>	-49,0	-43,3	113
<i>Republic of Slovenia guarantee provision</i>	-19,3	-13,7	140
<i>Borrowings</i>	-0,1	0,0	-
<b>Interest income / expenses result</b>	<b>-26,7</b>	<b>-15,0</b>	<b>178</b>

#### CAPITAL GAINS AND LOSSES

BAMC generated capital gains of €71,1 million in 2015 and capital losses of €18,1 million from the liquidation of loans and equity investments, resulting in net capital gains of €53,0 million.

In terms of the loan portfolio, net capital losses in the amount of €5,3 million (comprising of financial income of €12,9 million and financial expenses of €18,1 million) were generated from the sale of loans, amortization of loans and redemption of collateral, including repossessed real estate and equity investments. This amount was down €50,5 million on the previous year. The main reason for the net capital loss generated from loans was previous recognition of loans' fair value increase in the year 2014 through the revaluation income which materialised in 2015 through interest income and capital gains or losses.

BAMC generated capital gains in the amount of €45,6 million from the equity investments portfolio in 2015 as the result of the sale of Pivovarna Laško d.d. shares. The investment in shares of Pivovarna Laško d.d. was classified as available-for-sale. For this reason, previous increases in fair value were recognised in 2014 comprehensive income and consequently directly increased BAMC's 2014 equity value. With the sale of the aforementioned shares in 2015, the total difference between the purchase price and sales value was recognised as financial income and as a reduction of comprehensive income on the other side.

BAMC also generated capital gains in the amount of €12,7 million from the sale of RS38 government bonds. RS38 bonds were classified as available-for-sale financial assets. For this reason, the increase in fair value in the previous year was not recognised as financial income but in other comprehensive income which was released in financial income at the sale in 2015.

TABLE 14: CAPITAL GAIN / LOSS RESULT

in € million	1 Jan 2015 to 31 Dec 2015	1 Jan 2014 to 31 Dec 2014	Index 2015/2014
Realized capital gain	71,1	50,2	142
Loans	12,9	50,2	26
<i>Unwind of fair value to get to expected cash flows</i>	12,9	50,2	26
Equity	45,6	0,0	-
<i>Capital gain from sale</i>	45,6	0,0	-
RS bonds	12,7	0,0	-
<i>Capital gain from sale</i>	12,7	0,0	-
Realized capital loss	-18,1	-5,0	362
Loans	-18,1	-5,0	362
<i>Write offs</i>	-18,1	-5,0	362
Equity	0,0	0,0	0
<i>Write offs</i>	0,0	0,0	-
<b>Capital gain / loss result</b>	<b>53,0</b>	<b>45,2</b>	<b>117</b>

*FINANCIAL INCOME AND EXPENSES DUE TO REVALUATION*

BAMC values all of its financial investments at fair value. Given the size of financial assets managed by BAMC, their fair value estimation is a key assessment for the compilation of the financial statements.

**VALUATION OF ASSETS**

BAMC assesses the fair value of assets using an internal asset valuation methodology that was verified by external auditor.

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 instead of the discount rate. As the risk is accounted for separately, the discount rate in this context represents only the time value of money for BAMC.

BAMC discloses changes to the fair value of loans and other claims, real estate stock (according to IFRS, fair value surplus over acquisition price of real estate stock is recognised as financial income at the sale of real estate stock) and equity investments that are not listed on a regulated market through profit and loss as financial income (increase in value) or as financial expenses (revaluation), depending on whether the assessed fair value of the asset in question is higher or lower than the asset's carrying amount prior to valuation. The assessed fair values of assets represent one of the key quantitative information inputs that BAMC takes into account when adopting decisions.

In 2015 BAMC disclosed a negative result from revaluation of financial assets to fair value in the amount €9,1 million, which is €52,2 million lower compared to the previous year. Loans were impaired by €35,4 million while equity investments were revalued by €24,6 million. The reason for lower income from revaluation of the loan portfolio came from a change in planned inflows from loans, which are lower and shifted further into the future.

TABLE 15: REVALUATION RESULT

in € million	1 Jan 2015 to 31 Dec 2015	1 Jan 2014 to 31 Dec 2014	Index 2015/2014
Financial revaluation income	26,2	70,2	37
Revaluation income	24,8	69,9	35
<i>Loans</i>	0,0	69,9	0
<i>Non-performing Bonds</i>	0,2	0,0	1.069
<i>Equity</i>	24,6	0,0	-
Exchange difference - loans (net effect)	1,5	0,3	503
Financial revaluation expense	-35,4	-27,1	130
Revaluations	-35,4	-27,1	130
<i>Loans</i>	-35,4	0,0	-
<i>Non-performing Bonds</i>	0,0	0,0	-
<i>Equity</i>	0,0	-27,1	0
<b>Financial revaluation result</b>	<b>-9,1</b>	<b>43,1</b>	<b>-21</b>

#### NET PROFIT OR LOSS AND TOTAL COMPREHENSIVE INCOME

BAMC generated a net loss of €8,3 million in 2015 compared with a net profit of €36,4 million in 2014.

Total comprehensive loss amounted to €60,2 million in 2015 comprising of:

- net loss of €8,3 million,
- release of revaluation surplus associated with investments in shares of Pivovarna Laško d.d. and RS38 bonds in the amount of €48,7 million<sup>16</sup> due to the sale of the aforementioned investments and the transfer of effects to financial income, and
- in-substance distribution of capital to the owner based on the General Meeting resolution adopted by the Government in connection with the purchase of claims against Litostroj jeklo d.o.o. in the amount of €3,2 million.

<sup>16</sup> The revaluation surplus is given in net amount, i.e. gross changes less deferred taxes.

## BALANCE SHEET

TABLE 16: BALANCE SHEET SUMMARY

in € million	31 December 2015	31 December 2014	Index 2015/2014
<b>Assets</b>	<b>1.374,6</b>	<b>1.755,5</b>	<b>78</b>
Loans	1.091,0	1.406,9	78
Real estate	68,8	51,3	134
Equity investments	36,3	57,0	64
Non-performing bonds	2,3	2,1	108
Cash and equivalents	167,1	64,3	260
RS Bonds	0,0	171,8	0
Other	9,1	2,1	442
<b>Liabilities</b>	<b>1.259,7</b>	<b>1.580,4</b>	<b>80</b>
Debt securities	1.052,5	1.558,0	68
Borrowings	201,0	0,0	-
Other	6,2	22,4	28
<b>Equity</b>	<b>114,9</b>	<b>175,1</b>	<b>66</b>

### ASSETS

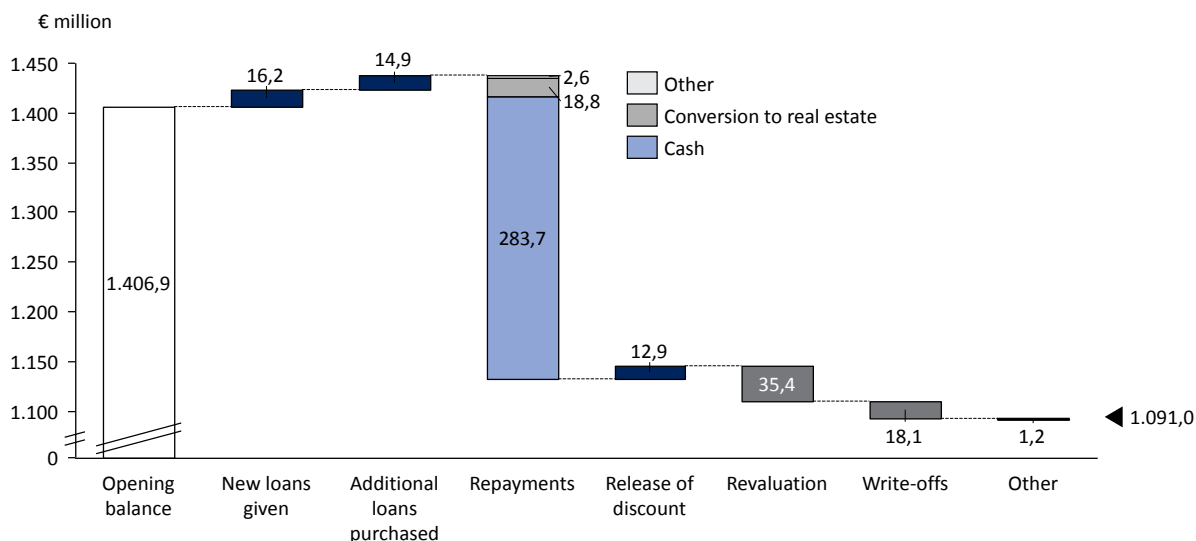
BAMC's total assets were down by 22% or €380,9 million in 2015 to stand at €1.374,6 million at the end of the year. Total assets were down in 2015 primarily on account of the liquidation and sale of loans, equity investments and government bonds, part of which BAMC used to repay DUT01 bonds at the end of the year, thus significantly reducing debt and Republic of Slovenia's exposure to BAMC.

### LOANS

Loans accounted for the highest proportion of BAMC's assets at the end of 2015. The value of loans totalled €1.091,0 million at year-end, a decrease of 22% relative to the balance at the end of the previous year.

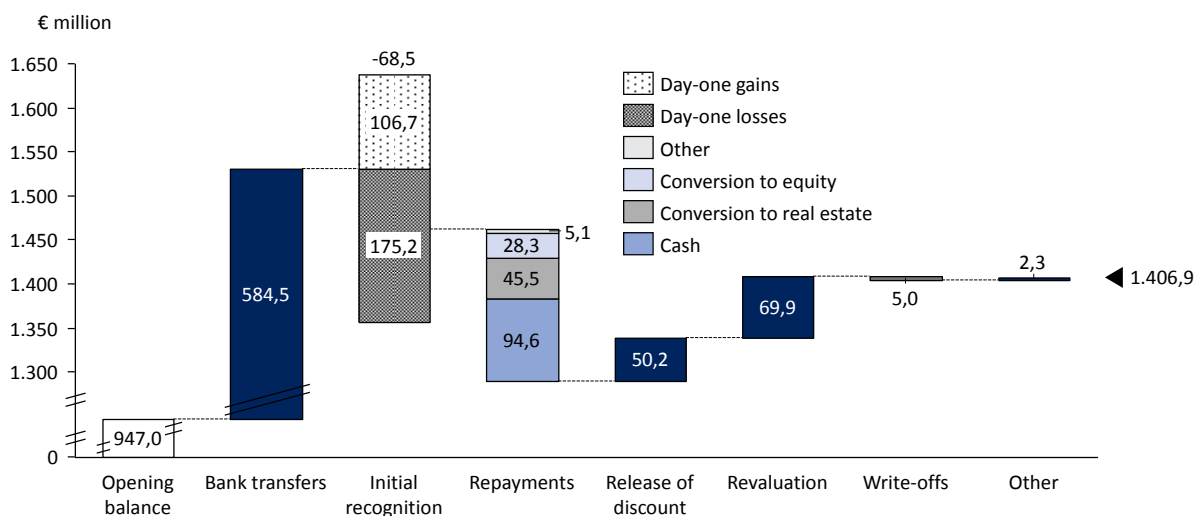
The value of loans decreased primarily due to the repayments of loans in amount of €339,3 million and €18,1 million of write-offs. Repayments of loans include cash repayments in amount of €317,9 million, €18,8 million of debt to real estate conversions and €2,6 million of other repayments. On the other hand, BAMC granted new loans in the amount of €16,2 million and purchased €14,9 million of loans from other creditors which increased the value of the loan portfolio. Besides that, interest income of €34,2 million and income from unwind of fair value to get to expected cash flows of €12,9 million increased the closing balance of loans as well.

FIGURE 25: LOAN MOVEMENT IN 2015



**NOTE:** Net cash repayment (already reduced for interest income in 2015) is displayed in the figure. Actual cash inflows and interest income amounted to €317,9 million and €34,2 million respectively.

FIGURE 26: LOAN MOVEMENT IN 2014



**NOTE:** Net cash repayment (already reduced for interest income in 2014) is displayed in the figure. Actual cash inflows and interest income amounted to €125,9 million and €31,3 million respectively.

### REAL ESTATE

BAMC discloses all real estate that it holds as inventory of real estate held for sale. In accordance with IFRS, the stock of real estate is disclosed at fair value for real estate the fair value of which is lower than its historical cost. In the opposite case, when the fair value of real estate exceeds its historical cost, that real estate is disclosed at the latter. At the end of 2015, BAMC disclosed a carrying amount of real estate stock of €68,8 million<sup>17</sup> while the fair value of all stock of real estate was €75,9 million.

<sup>17</sup> The carrying amount of real estate inventory held for sale of €68,8 million consists of €68,3 million of real estate stock and €0,5 million of advance payments for real estate stock.



The carrying amount of real estate was up €17,4 million in 2015 due to the acquisition of real estate pledged to BAMC as collateral by debtors, against whom BAMC has claims.

#### *EQUITY INVESTMENTS*

The fair value of equity investments in BAMC's ownership amounted to €36,3 million at the end of 2015. In the first half of 2015 BAMC sold its investment in Pivovarna Laško d.d. shares, for which it received proceeds in the amount of €53,7 million. On the other hand, the value of equity investments was up due to shares obtained from debt to equity swaps in companies where BAMC is implementing a restructuring strategy.

#### *TRADE AND OTHER OPERATING RECEIVABLES*

The majority of other assets are represented by trade and other receivables which amounted to €8,3 million, most of these relating to receivables from taxes toward state.

#### *LIQUIDITY MANAGEMENT*

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

BAMC had €167,1 million in cash and cash equivalents at its disposal at the end of 2015. This level of liquidity served as a liquidity reserve for the potential repayment of liabilities from the planned merger of Factor banka and Probanka.

#### *FUND FOR THE REPAYMENT OF BONDS*

In accordance with Article 46 of the Decree, BAMC opened a special cash account at the Bank of Slovenia in December 2014 where it manages funds used to repay principal and interest on issued securities. BAMC repaid the holders of DUT01 bonds principal in the amount of €502,5 million in 2015 from the aforementioned account, as well as interest in the amount of €49,6 million to the holders of bonds from all four issues.

#### *EQUITY AND LIABILITIES*

BAMC financed its assets at the end of 2015 mainly through debt sources, more precisely via equity in the amount of €114,9 million and liabilities in the amount of €1.259,7 million. The majority of liabilities are accounted for by issued bonds with Slovenian government guarantee that BAMC used to finance transfers of non-performing assets and a long-term loan for which the Republic of Slovenia bears subsidiary liability.

Non-current liabilities amounted to €748,2 million as at 31 December 2015 and relate to issued bonds in the amount of €548,2 million and borrowings from long term loan in the amount of €200,0 million. Current liabilities in the amount of €511,5 million similarly relate primarily to issued DUT02 bonds that mature in December 2016.

#### LIABILITIES FROM BONDS AND LOANS TAKEN

BAMC repaid DUT01 bonds in full in the amount of €502,5 million on 15 December 2015. Thus, at the end of 2015, BAMC had three outstanding bond issues in the amortised amount of €1.052,5 million.

In order to secure sufficient liquidity for the repayment of DUT01 bonds, BAMC raised a loan at NLB on 15 December 2015 in the amount of €200,0 million, with a maturity of two years and an early repayment option. The Slovenian government bears subsidiary liability for all liabilities arising from the aforementioned loan based on the provisions of the ZUKSB which applied at the time the loan was raised.

TABLE 17: OUTSTANDING FINANCIAL INSTRUMENTS AS PER 31 DECEMBER 2015

Financial instrument	Amount issued	Amount outstanding	Interest rate	Issued	Matures	Interest payment
	(nominal, in € million)					
DUT02 bond	505,8	503,2	4,50%	Dec 2013	Dec 2016	Annually
DUT03 bond	424,6	422,9	1,50%	Oct 2014	Dec 2017	Half-yearly
DUT04 bond	127,0	125,8	1,37%	Dec 2014	Dec 2017	Half-yearly
Commercial loan	200,0	200,0		Dec 2015	Dec 2017	Quarterly

NOTE: Interest rates on commercial loans are not individually disclosed.

#### EQUITY

BAMC's equity totalled €114,9 million at the end of 2015. The reason for the decrease in equity by €60,2 million relative to the previous year lies primarily in an insufficient increase in the fair value of the loan portfolio, which is reflected in lower financial income from the revaluation of assets to fair value compared to previous year (see page 65).

## RISK MANAGEMENT

### RISK MANAGEMENT SYSTEM

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

Risk management represents an important role in corporate governance. In 2015 the risk management function was established and institutionalized which has increased and empowered internal control systems, preventive measurements and mitigations regarding identified risks. In the context of the renewed process of integrated risk management the following objectives are pursued:

- minimizing risks to acceptable levels in the achievement of business objectives,
- providing prompt review of the most critical risks together with prepared and established controls for their minimisation,
- monitoring of key processes in order to define critical activities and to provide timely and appropriate measures,
- monitoring of loss events in order to identify main internal control issues and to prevent their reoccurrence,
- increasing risk awareness within all BAMC employees,
- developing a model of risk management which corresponds to business requirements to its maximum extend.

### RISK MANAGEMENT MODEL

Risk management model is established with the Risk management policy, where good practices are set as general guidelines.

### PARTICIPANTS IN RISK MANAGEMENT

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

## RISK IDENTIFICATION

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

## RISK ESTIMATION

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

## RISK CATALOGUE

Risk catalogue was reviewed and amended in 2015 with main identified risks together with their estimation, mitigation and monitoring of impact of risks over time. Risk catalogue represents identified risks based on estimation of heads of departments, identified loss events, performed surveys among employees and is reviewed on a monthly basis. Each identified risk has a determined risk mitigation, total estimation of risk is regularly monitored.

## LOSS EVENTS

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

## RISK AND COMPLIANCE MANAGEMENT COMMITTEE

Risk and compliance management committee was established with systematic approach to risk management in 2015. The committee on an executive level is held on a monthly basis and provides a prompt reaction to most important risk and compliance issues. Participants of the committee are risk owners of key business processes, which leads to maximal operability of the committee.

## INTERNAL CONTROL SYSTEM

Special attention of risk management was devoted to increased and empowered internal control system in 2015. Risk management department is involved in regular reporting system and has provided additional four-eye principle in key business processes, such as valuation of assets, and several risk reviews in decision-making process. Impact of internal controls is expected to be increased also in 2016.

## KEY RISKS AND THEIR MITIGATION

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

### STRATEGY RISKS

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

BAMC is pursuing the restructuring strategy in nearly 100 indebted companies. BAMC will opt for the restructuring strategy in cases where financial and operational restructuring would yield a higher value compared to the disposal value of the collateral. There is a risk, however, that the restructuring will not be successful and that the recovery strategy will have to be used instead, which would result in decreased revenue for BAMC. This risk can be realized either due to developments in the macroeconomic environment or due to failed financial, and in most cases strategic and operational restructuring of the debtors.

### OPERATIONAL RISKS

#### *RISK OF ERROR IN LEGAL PROCEEDINGS*

Particularly in debtor companies where BAMC is implementing the recovery strategy there is a risk that BAMC might miss the deadlines in judicial procedures involving foreclosure. BAMC may thus lose its rights to repayment through disposal of collateral.

### REPUTATIONAL RISK

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

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

## FINANCIAL RISKS

### *LIQUIDITY RISK*

Liquidity risk is the risk that BAMC will not be able to meet its financial obligations as they fall due. BAMC ensures maximum possible liquidity by always having sufficient liquid assets to meet its liabilities when due, under both normal and demanding conditions, without incurring unacceptable losses or risking damage to its reputation. The key liquidity risk for BAMC is the repayment of issued bonds. In December 2016, DUT02 bond matures in the amount of €503,2 million and BAMC is planning to repay part of its obligations with liquidity reserves and part with refinancing with Republic of Slovenia's guarantee.

## BAMC SHARE

As at 31 December 2015 BAMC had share capital in the amount of €203.625.000 recorded in the companies register, comprising 101.812.500 ordinary, freely transferable, no-par-value registered shares. Each no-par value share has the same holding, and the same corresponding amount in the share capital. All the issued shares were paid up in full.

TABLE 18: BASIC INFORMATION ON BAMC'S SHARE

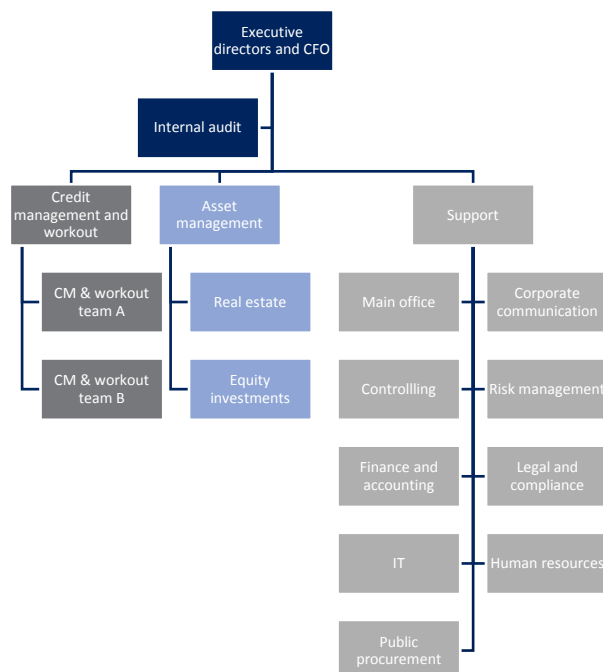
Ticker symbol	DUTR
Class	ordinary, freely transferable, no-par value registered shares
Exchange quotation	not quoted
Share capital	€203.625.000,00
Number of shares	101.812.500
Number of shareholders	1
Owner	Republic of Slovenia

NOTE: Data as at 31 December 2015.

There were no changes in the ownership structure in 2015.

## BAMC'S ORGANISATION AND SUPPORT ACTIVITIES

FIGURE 27: DETAILED ORGANISATIONAL STRUCTURE OF BAMC



### HUMAN RESOURCES

One of the objectives of the Board has been to establish a company with highly professional management and staff with high motivation, willingness to work hard and total integrity. The aim has been to assemble staff with relevant professional background and experience as well as willingness to take initiatives and think independently. In its recruitment efforts the Board and management of BAMC are conscious of the need to ensure high professionalism and high quality corporate governance in order to maximize overall value to the state.

BAMC staff is selected to comply with very high professional standards. All employees are highly experienced and motivated. Furthermore, BAMC seeks to employ, train and develop the best Slovenian team in all of its important functions. Teamwork, openness and aptitude to take action are critical to attracting, developing and retaining a highly motivated and professional team.

### RECRUITMENT

In 2015 BAMC continued with recruitment and placement of new staff where it was necessary. The headcount increased by 49% in one year, from 81 to 121. Of this total BAMC had 102 core and 19 non-core employees. On 31 December 2015, 32 employees were employed on temporary employment contracts due to temporary projects or maternity leave replacements (four employees).



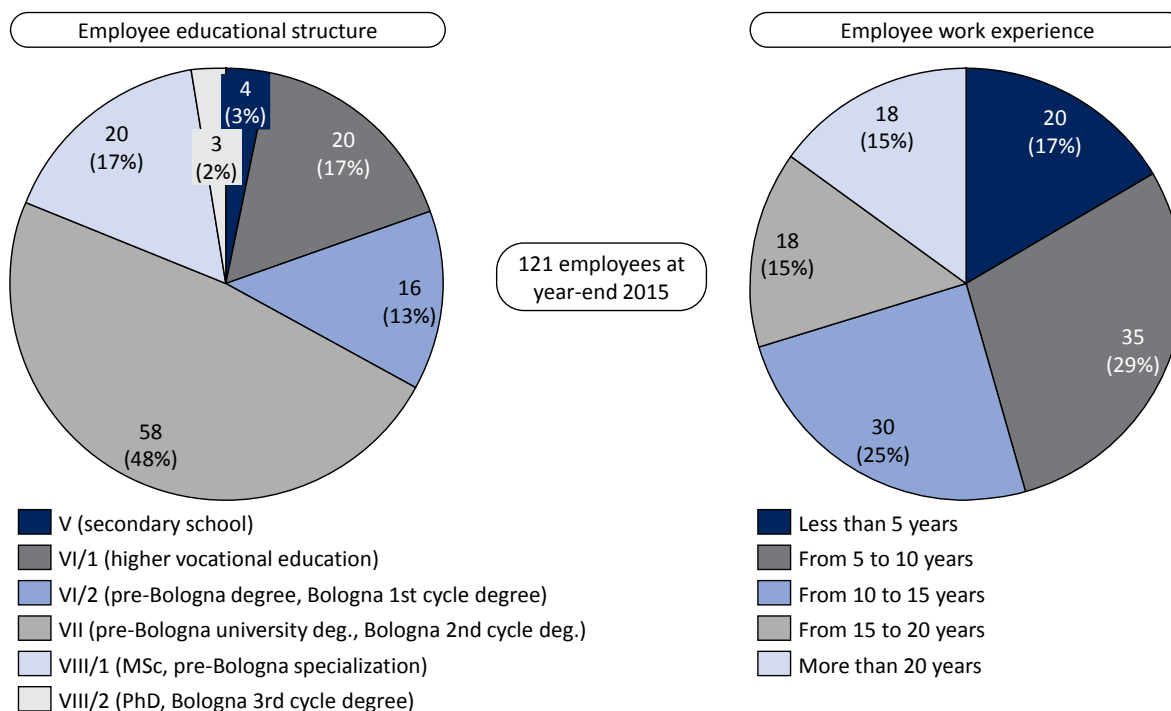
The largest headcount change took place in the real estate part of asset management department where 26 new employments were realised out of which 16 employments are on temporary basis for detailed real estate review project.

TABLE 19: HEADCOUNT BY ORGANISATIONAL UNIT

Organisational unit	31 December 2015	31 December 2014
Credit management and workout	55	47
Asset management	36	10
Support	24	19
Governance	6	5
<b>Total</b>	<b>121</b>	<b>81</b>

BAMC has a balanced team of 56% women and 44% men. 67% of its staff hold a university degree, out of these 19% with a master’s of science or a doctorate, which is a sound basis for decision-making based on expertise. The average age of the staff is 38, which is reflected in dynamism and responsiveness of the team. BAMC has a seasoned team, with an average of 12 years of working experience with maturity being a valued component as 15% of staff have more than 20 years of working experience. The information on staff breakdown is valid as at 31 December 2015.

FIGURE 28: EDUCATION AND WORK EXPERIENCE OF EMPLOYEES



In addition to recruitment, BAMC’s HR management activities in 2015 focused also on introduction of an HR information system, employees’ performance assessment and rewarding and best practices and knowledge sharing through internal conferences. In the last quarter of the year important part of resources were allocated to Factor banka and Probanka premerger activities.

## INTEGRITY AND ETHICS

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

BAMC has strict rules on confidentiality of information. Considerable efforts have been made to ensure that employees are aware of the confidential nature of the business, the need for secrecy, risk aversion, non-disclosure, ethical standards, including a need to be alert to corrupt practices, careful handling and storage of documents, and data protection. All employees have signed a declaration to this effect in addition to confidentiality clauses in their employment contracts.

In April 2014 BAMC adopted a code of conduct for employees of BAMC and in September 2015 an amended version of the code. This code outlines the rules for employees that incorporate a framework of professional ethics. Employees must perform their duties conscientiously and in good faith, and observe the highest standards of professional ethics irrespective of their own interests. Employees may not disclose confidential information received or learned of in the performance of their work to any unauthorized person and they need to protect information and adhere to BAMC rules.

Following on-site review of its operations in March 2015 BAMC obtained the Anti-corruption Compliance System Certificate by the French agency ETHIC Intelligence in August 2015. The certificate is awarded only after a comprehensive program has been successfully implemented and the BAMC program was designed to effectively take into account the recommendations of the Court of Audit and the Commission for the Prevention of Corruption. Through the involvement of an independent, international expert organization, BAMC sought to test the design and implementation of its compliance and corruption risk prevention program – which includes measures that were recommended by the Commission for the Prevention of Corruption and the Court of Audit but also measures originating from international good practices – and see how it compares to the highest international standards in the field.

## SUPPORT ACTIVITIES

### INFORMATION TECHNOLOGY

2015 was a very dynamic and intensive year in the area of information technology. Many new solutions in the infrastructure and application area were implemented and the development of own in-house solutions has started.

As planned, consolidation of the IT solution in the area of claims management was completed in the first half of 2015. With the transfer of loan analytical records from NLB and NKBM in January 2015 and the transfer from Abanka in May 2015 all data were merged in a centralised system managed by Probanka which has significantly simplified and quickened the reporting process. Similarly, a centralised solution for real estate data management was implemented.

The implementation of the SharePoint platform in Q1 2015 has given BAMC the possibility to develop its own solutions. Many solutions for credit management, accounting, equity management and other departments were developed. BAMC intranet portal has also been built and implemented on the same platform. All this allowed BAMC to start the creation of the centralised data warehouse which is the basis for the management reporting system.

Many improvements were done on the infrastructure as well. The entire hardware infrastructure was optimised to accommodate a higher number of users. A new backup solution was implemented in the end of 2015 which increases the security of the system.

In the last part of year the focus shifted to the preparation for the merger with Factor banka and Probanka. By introducing a single IT platform for the merged organization significant cost savings are expected after completing post-merger activities.

### PUBLIC RELATIONS

The goal of corporate communications in BAMC is to provide support in the course of implementation of BAMC's strategic goals. This is done by promoting awareness about the company's role and mission and educating interested audiences about the processes involved in turning distressed assets into profitable ones. In 2015, through regular, professional, transparent and consistent communications, BAMC has continued to maintain the positive image of a solution-oriented company.

From the operational perspective, BAMC has maintained and upgraded its basic communication tools, developed and implemented comprehensive communication programs to support its business processes, maintained regular, proactive and reactive, communications with key external audiences, upgraded internal audience relations and performed marketing activities to support BAMC's sales.

Communications were thus primarily focused on supporting BAMC's core business through presenting the results of its activities and explaining management processes in closed cases. This served to make communications with the media somewhat easier, their focus shifting from anticipating the

consequences of BAMC activities to evaluating specific results of activities. In 2015, BAMC intensified proactive communications and consistently reactively communicated with the media. In spite of this, in 2015 the media reports were generally negatively biased. Case management required comprehensive communicating with other key stakeholders as well: decision-makers, business audiences, investors, opinion-leaders, local communities and employees.

#### ACCESS TO INFORMATION OF PUBLIC NATURE

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

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

BAMC received a few requests for access to information of a public nature in 2015. BAMC reviews each such request in detail and with the requisite expertise, and decides on the request in accordance with law.

#### OUTSOURCED SERVICES

To meet the objectives imposed on BAMC by the ZUKSB, from the point of view of maximising the value to the Republic of Slovenia and its taxpayers, it is sometimes more economically justifiable to engage service providers in the market than to put in place in-house organisational units and staff for all the company's activities.

#### *IT, ACCOUNTING AND BACK OFFICE SUPPORT FOR THE LOAN PORTFOLIO*

Since February 2015 BAMC had all of its loan portfolios' back office support consolidated at Probanka analytical system except for the portfolio relating to Abanka, which was migrated in May 2015. With that the management of the loan portfolio became easier as all information is available in one place allowing for standardised loan management and reporting processes as well as improving time and cost efficiency of these activities. In 2015 BAMC paid to NLB, NKBM (for January 2015 and some delayed payments), Abanka and Probanka €1,4 million (including VAT) for IT, accounting and back office services related to loan portfolios.

#### *ACCOUNTING SERVICES*

During 2015 BAMC has outsourced accounting services to Unija računovodska hiša d.o.o. The costs of these services in 2015 amounted to €0,2 million (including VAT). BAMC will insource accounting services from the end of Q1 2016.

## ACTIVITIES OF REPORTING ON SUSPICIONS OF CRIMINAL ACTIVITIES

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

BAMC is making efforts to successfully and comprehensively collaborate with law enforcement bodies and therefore cooperates with the National Investigation Bureau (NPU) and the Specialized State Prosecutor's Office of the Republic of Slovenia. BAMC continues its exemplary collaboration with NPU and proceeds by forwarding brief descriptions of every new detected anomaly regarding any particular case, as soon as it is recorded by BAMC employees, to the investigators. BAMC has registered 44 irregularities so far. In accordance with the agreed and established way of communication, BAMC frequently requests additional information from NPU regarding the name of cases/matters where criminal investigation was already initiated. BAMC has prepared five criminal incidents, which were reported to the Criminal Police Directorate for further investigation.

## AMENDMENTS OF ZUKSB

In attaining its strategic goals, BAMC was confronted with limitations and inconsistencies set also by other legislation, particularly in the field of insolvency legislation and legislation limiting the remuneration in state-owned companies. The Ministry of Finance started preparing amendments to the ZUKSB in 2014. BAMC played an active role in preparing a number of proposed amendments to the ZUKSB in 2015, addressing the most pressing obstacles in the implementation of BAMC's mission and strategic goals.

On 18 December 2015, the National Assembly passed the amendments of and supplementations to the ZUKSB, which took effect on 27 January 2016.

The key changes and new additions brought by the new ZUKSB-A are as follows:

- the law grants more powers to the Republic of Slovenia as the owner with regard to managing and supervising the operations of BAMC,
- the law introduces a new way of appointment and dismissal of non-executive and executive directors,
- the law restricts the role of non-executive directors with regard to managing the affairs of BAMC to the supervisory role, as held by the members of supervisory boards,
- the law expands BAMC's role in restructuring of debtors,
- the law grants BAMC new tools in restructuring of debtors,
- the law introduces restrictions for BAMC's managing equity of companies which the Government has classified as strategic investments,
- the law introduces additional restrictions and control mechanisms with regard to the management of BAMC assets (e.g., limitations to sale of assets to debtor-related parties),
- consolidation of companies in which BAMC has acquired a majority equity stake in the context of restructuring is not required,
- the law eliminates certain unnecessary and redundant provisions and the previously valid act, e.g. forming a Bank Stability Fund,
- the law grants the possibility of merging banks undergoing winding-down procedures,
- the law limits the mandate of Board members, appointed to their position before ZUKSB-A amendments came into effect, to 31 December 2017, and
- the law extends BAMC's lifespan by the end of 2022.

In accordance with the new ZUKSB-A, the Government aligned and amended the Decree, Guidelines and Articles of Association with the new ZUKSB-A in March 2016.

# FINANCIAL STATEMENTS OF BAMC FOR THE PERIOD 1 JANUARY 2015 TO 31 DECEMBER 2015

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TRANSLATION OF THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SLOVENIAN LANGUAGE.

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

The management hereby confirms that the relevant accounting policies were consistently applied in the compilation of the financial statements. The accounting estimates were made according to the principle of prudence and the diligence of a good manager. The management confirms that the financial statements, prepared in accordance with ZUKSB-A Article 4 (3) & (5), present fairly, in all material respects, the financial position of BAMC and of the outcomes of its operations for the period from 1 January 2015 to 31 December 2015.

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

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

Ljubljana, 13 September 2016

Aleš Koršič  
Executive director



Janez Škrubej  
Executive director



Imre Balogh  
acting Chief executive officer





## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS



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### Independent Auditors' Report

To the shareholders of DUTB d.d.

#### *Report on the Financial Statements*

We have audited the accompanying financial statements of DUTB ("the Company"), which comprise the statement of financial position as at 31 December 2015, the statement of profit or loss, the statement of other comprehensive income, the statement of changes in equity and the cash flows statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements of the Company for the year ended 31 December 2015 are prepared, in all material respects, in accordance with the accounting requirements of the ZUKSB-A.



### ***Emphasis of Matter***

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


### ***Report on Other Legal and Regulatory Requirements***

Management is responsible for the preparation of the annual report in accordance with the Slovenian Companies Act ("ZGD-1"). The annual report comprises the business report and the financial statements and our auditor's report thereon.

Our responsibility is to read the business report and, in doing so, consider whether the information in the business report is materially inconsistent with the audited financial statements. Our procedures in connection with the business report are performed in accordance with International Standard on Auditing 720, and are restricted to assessing whether the information in the business report is materially inconsistent with the audited financial statements and do not include reviewing other information originated from non-audited financial records or sources. Based on the procedures performed over the information in the business report, we did not identify any material inconsistencies with the audited financial statements.

On behalf of the audit company

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

Boris Drobnič   
Certified Auditor  
Partner

**KPMG Slovenija, d.o.o.**

Ljubljana, 16. September 2016

## FINANCIAL STATEMENTS

### BALANCE SHEET

AT 31 DECEMBER

in € thousand	Note	2015	2014
<b>Non-current assets</b>		<b>892.118</b>	<b>1.280.824</b>
Intangible assets		22	8
Long-term deferred cost		14	9
Property, plant and equipment	4	156	179
Financial assets at fair value through profit or loss		890.962	1.059.572
<i>Equity investments held for sale</i>	5	36.347	8.627
<i>Loans held for sale</i>	7	854.615	1.050.945
Available for sale financial assets	6	964	221.056
<b>Current assets</b>		<b>482.468</b>	<b>474.676</b>
Inventory of real estate held for sale	8	68.762	51.339
Available for sale financial assets	6	2.314	2.149
Deferred costs	10	347	223
Financial assets at fair value through profit or loss		236.391	355.943
Loans held for sale	7	236.391	355.943
Trade and other operating receivables	9	8.522	1.632
Cash and cash equivalents	11	166.132	63.390
<b>Total assets</b>		<b>1.374.586</b>	<b>1.755.500</b>
<b>Total Equity</b>		<b>114.867</b>	<b>175.075</b>
Share capital	12	203.625	203.625
Retained earnings	12	-88.758	-77.217
Revaluation reserves	12	0	48.667
<b>Non-current liabilities</b>		<b>748.173</b>	<b>1.063.278</b>
Debt securities	13	548.173	1.053.309
Operating liabilities		0	1
Borrowings	14	200.000	0
Deferred tax liabilities	12	0	9.968
<b>Current liabilities</b>		<b>511.546</b>	<b>517.147</b>
Loans	14	990	5
Debt Securities	13	504.365	504.723
Trade and other operating payables	15	5.266	11.509
Other liabilities	16	925	910
<b>Total equity and liabilities</b>		<b>1.374.586</b>	<b>1.755.500</b>

The notes to the financial statements on pages 91-147 are an integral part of the financial statements.

## INCOME STATEMENT

For the year ended 31 December

in € thousand	Note	2015	2014
Operating profit / loss		-25.493	-30.988
Net sale revenue	18	2.920	343
Cost of materials	19	-54	-46
Cost of services	19	-8.450	-8.522
Labour costs	20	-5.944	-4.868
Depreciation	19	-84	-47
Operating revaluation expense	19	-12.562	-17.015
Other operating costs	19	-1.319	-833
Financial profit / loss		17.102	73.757
Financial income	21	-139.039	166.127
Financial costs	21	-121.937	-92.370
		0	0
Other revenues	21	83	2
Other costs	21	-10	-67
<b>Profit / Loss before tax</b>		<b>-8.318</b>	<b>42.704</b>
Income tax expense	22	0	-6.276
Deferred tax	11, 22	0	0
<b>Net profit / loss for the period</b>		<b>-8.318</b>	<b>36.428</b>
Attributable to owners	23	-8.318	36.428
Basic and diluted earnings per share	23	-0,07	0,40

The notes to the financial statements on pages 91-147 are an integral part of the financial statements.

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

in € thousand	Note	2015	2014
<b>Net profit / loss for the period</b>	21	<b>-8.318</b>	<b>36.428</b>
Items that may be subsequently reclassified to profit or loss	12	-48.667	48.737
In-substance distribution to owner	12	-3.221	-67.992
<b>Other comprehensive income for the period, net of tax</b>		<b>-51.888</b>	<b>-19.255</b>
<b>Total comprehensive gain / loss for the period attributable to owners</b>		<b>-60.206</b>	<b>17.173</b>

The notes to the financial statements on pages 91-147 are an integral part of the financial statements.

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

in € thousand	Note	Share Capital	Revaluation Reserves	Retained Earnings	Total Equity
<b>Balance as at 1 January 2015</b>	<b>12</b>	<b>203.625</b>	<b>48.667</b>	<b>-77.217</b>	<b>175.075</b>
Total comprehensive loss for the period after tax	12	0	-48.667	-11.539	-60.206
Net profit / loss for the period	12	0	0	-8.318	-8.318
Other comprehensive income	12	0	-48.667	0	-48.667
In-substance distribution to owner* (Note 3.1)	12	0	0	-3.221	-3.221
<b>Balance as at 31 December 2015</b>	<b>12</b>	<b>203.625</b>	<b>0</b>	<b>-88.758</b>	<b>114.867</b>
<b>Balance of distributable loss as at 31 December 2015</b>				<b>-88.758</b>	

For the year ended 31 December 2014

in € thousand	Share Capital	Revaluation Reserves	Retained Earnings	Total Equity
<b>Balance as at 1 January 2014</b>	<b>203.625</b>	<b>-70</b>	<b>-45.653</b>	<b>157.902</b>
Total comprehensive loss for the period after tax	0	48.737	36.428	85.165
Net profit / loss for the period	0	0	36.428	36.428
Other comprehensive income	0	48.737	0	48.737
In-substance distribution to owner (Note 3.1)	0	0	-67.992	-67.992
<b>Balance as at 31 December 2014</b>	<b>203.625</b>	<b>48.667</b>	<b>-77.217</b>	<b>175.075</b>
<b>Balance of distributable loss as at 31 December 2014</b>			<b>-77.217</b>	

The notes to the financial statements on pages 91-147 are an integral part of the financial statements.

## STATEMENT OF CASH FLOWS

For the year ended 31 December

in € thousand	2015	2014
<b>A) Cash flows from operating activities</b>	<b>-38.584</b>	<b>-63.907</b>
Operating receipts	21.955	24.705
Receipts from sales of services and advance payments	18.006	19.746
Other receipts	3.949	4.959
Operating expenditures	-60.539	-88.612
Expenditure for purchase of materials and services	-39.199	-68.091
Expenditure for wages of employees and other entitlements	-6.305	-3.754
Expenditure for various charges	-12.883	-1.683
Other operating expenditures	-2.152	-15.084
<b>B) Cash flows from investing activities</b>	<b>513.304</b>	<b>171.233</b>
Receipts from investment activities	530.242	175.339
Receipts from the disposal of equity investments	110	127
Receipts from the disposal of long-term financial investments	227.443	8.638
Receipts from the disposal of short-term financial investments	302.689	166.574
Expenditure in investments activities	-16.938	-4.106
Expenditure for the acquisition of intangible assets	0	-8
Expenditure for the acquisition of tangible fixed assets	-99	-117
Expenditure for the acquisition of long-term financial investments	-3.779	-1.248
Expenditure for the acquisition of short-term financial investments	-13.060	-2.733
<b>C) Cash flows from financing activities</b>	<b>-371.978</b>	<b>-49.488</b>
Receipts from financing activities	4.200	2.037
Receipts from increase in short-term liabilities	4.200	2.037
Expenditure from financing activities	-376.178	-51.525
Expenditure for the repayment of long-term financial liabilities	-19.315	-40.950
Expenditure for the repayment of short-term financial liabilities	-356.863	-10.575
Closing cash balance	166.132	63.390
<b>Net cash result for the period</b>	<b>102.742</b>	<b>57.838</b>
Opening cash balance	63.390	5.552

The notes to the financial statements on pages 91-147 are an integral part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1

#### 1.1 GENERAL INFORMATION

TABLE: BASIC COMPANY DATA ON 31 DECEMBER 2015

Full company name	Družba za upravljanje terjatev, d.d. Bank Assets Management Company
Short company name	DUTB, d.d. BAMC
Registered office	Davčna ulica 1, 1000 Ljubljana
Telephone	+386 820 542 35
Fax	+386 1 429 38 59
E-mail	info@dutb.eu
Website	www.dutb.eu
Core business	Activities of collection agencies and credit bureaus
Registration entry	2013/11708, District Court of Ljubljana
Company ID number	6339620000
Tax number	41251482
VAT number	SI41251482
Initial share capital	€203.625.000,00
Number of shares	101.812.500 ordinary no-par value shares
Non-executive directors as at 31 December 2015	Marko Simoneti Chairman of the Board of Directors Janez Širovnik, Deputy Chairman of the Board of Directors
Executive directors 31 December 2015	Imre Balogh, acting CEO Janez Škrubej Aleš Koršič

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

The BAMC was established with a specific statutory mandate until the end of December 2017, with amendments that ZUKSB-A brought, BAMC’s mandate was extended until the end of 2022.

The Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act (ZUKSB-A), which entered into force at the end of 2012, forms the legal foundation for the BAMC. The first task of the BAMC is to relieve distressed banks by taking over the problem assets and then manage those assets.

These were mainly loans granted in the past by these banks that were not being serviced by the borrowers due to the economic crisis and other reasons. As a consequence, the banks have made impairments for expected losses, which eroded their capital base. This was reflected in lack of capital for normal operations.



The main purpose of the BAMC was to acquire assets in the form of property-related loans from distressed credit institutions. With the takeover of the non-performing loans (hereinafter referred to as NPLs) BAMC started to manage these assets to preserve or restore their real value and sell them on the market.

#### *SHARE CAPITAL PAID IN*

As at 31 December 2015 BAMC had share capital in the amount of €203.625.000 recorded in the companies register, comprising 101.812.500 ordinary, freely transferable, no-par-value registered shares. Each no-par value share has the same holding, and the same corresponding amount in the share capital. All the issued shares were paid up in full.

#### *FINANCING OF ASSET ACQUISITION*

BAMC issued four series of state-backed bonds to pay for the NPLs transferred from banks and to repay a loan obtained from Nova Ljubljanska banka d.d. (hereinafter referred to as NLB). Further information on individual bond issues, their maturities and interest rates are included in Note 13.

In addition to the cost of bonds' coupons, the BAMC is on an annual basis paying the state guarantee costs in the amount of 125 basis points (b. p.) in accordance with the regulation of the Decree on the Implementation of Measures to Strengthen Bank Stability ("Decree"). The bonds, which were entirely used to pay for assets acquired from the banks (NLB, NKBM, Abanka, Banka Celje), were listed on the Ljubljana Stock Exchange at 31 December 2015 and were also accepted as collateral for the Eurosystem liquidity operations.

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

## **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### *2.1 BASIS OF PREPARATION*

The financial statements have been prepared in accordance with the ZUKSB-A and the Slovenian Companies Act. The financial statements were approved by the Company's management on 13 September 2016.

In December 2015, ZUKSB-A was amended to exempt BAMC from consolidating and accounting following equity method for all entities that were acquired in terms of the asset transfer and restructuring process as envisaged by ZUKSB-A (as described in note 1) and over which it has control (joint control or significant influence). Therefore, in line with ZUKSB-A consolidation exemption, BAMC has not prepared consolidated accounts and has not used the equity method for investments in associates.

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

Details of the Company's accounting policies, are included in notes 2.5 to 2.17. These policies have been applied consistently in all years presented, unless otherwise stated.

The financial statements were prepared on a going concern basis.

According to ZUKSB-A stipulations, the Government of Republic of Slovenia as the only shareholder represents the BAMC's General Assembly and in accordance with ZGD-2 may accept or reject the annual report.

This financial statements are presented for the year starting 1 January 2015 and ending 31 December 2015.

## **2.2** *BASIS OF MEASUREMENT*

The financial statements have been prepared at cost basis, except for financial assets and fair value, except for financial assets which are measured at fair value as described in note 2.10.

## **2.3** *FUNCTIONAL AND PRESENTATION CURRENCY*

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

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

## **2.4** *USE OF ESTIMATES AND JUDGMENTS*

In compiling financial statements the management makes estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, and in all future years affected by the revision.

Information about significant areas of estimations, uncertainty and critical judgments made by the management in the process of applying the accounting policies have the greatest impact on the following balances:

- inventory impairments (note 2.10);
- interest income recognition (note 2.15);
- deferred taxes recognition (note 2.16);
- fair values of loans, investments (note 2.18); and

Further information on key uncertainties, estimates and judgements included in the financial statements is described in Note 3.

## *2.5 NEW AND AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS IN 2015*

### *2.5.1 STANDARDS AND INTERPRETATIONS ISSUED BY IASB AND ADOPTED BY THE EU, VALID IN 2015*

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the BAMC has adopted.

**Amendments to IAS 19 – Defined Benefit Plans:** Employee Contributions (effective for annual periods beginning on or after 1 February 2015, the amendments apply retrospectively and earlier application is permitted) The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. Namely that they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered. BAMC does not expect the Amendment to have any impact on the financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

**IFRIC 21 Levies** (effective for annual periods beginning on or after 17 June 2014, to be applied retrospectively and earlier application is permitted) The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government.

- In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs.
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time.
- If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached.

The Interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period. The impact of the initial application of the Interpretation will depend on the specific levies imposed by government, applicable at the date of initial application. BAMC does not intend to adopt the Interpretation early; therefore it is not possible to estimate the impact adoption of the Interpretation will have on the Entity's financial statements.

**IFRS 3 Business Combinations** – The amendment to IFRS 3 Business Combinations (with consequential amendments to other standards) clarifies that when contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to IAS 32, rather than to any other standard. It also clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date. BAMC has no contingent consideration arrangement in its financial statements.

#### *2.5.2 STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BY IASB AND ADOPTED BY THE EU, THAT ARE NOT YET EFFECTIVE IN 2015*

The following new Standards and Interpretations are not yet effective for the annual financial reporting period ended 31 December 2015 and have not been applied in preparing these financial statements:

#### **Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations**

These Amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. The impact of the adoption of the Amendments can only be assessed in the year of initial application of the Amendments, as this will depend on the acquisition of joint operations that take place during that reporting period. BAMC does not intend to adopt the Amendments early; therefore it is not possible to estimate the impact adoption of the Amendments will have on the BAMC's financial statements.

#### **Amendments to IAS 1**

The Amendments to IAS 1 include five, narrow-focus improvements to the disclosure requirements contained in the standard.

The guidance on materiality in IAS 1 has been amended to clarify that:

- Immaterial information can detract from useful information.
- Materiality applies to the whole of the financial statements.
- Materiality applies to each disclosure requirement in an IFRS.

The guidance on the order of the notes (including the accounting policies) have been amended, to:

- Remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements.
- Clarify that entities have flexibility about where they disclose accounting policies in the financial statements.

The BAMC expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the BAMC.

**Amendments to IAS 16 and IAS 38:** Clarification of Acceptable Methods of Depreciation and Amortisation

**Revenue-based depreciation banned for property, plant and equipment**

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

**New restrictive test for intangible assets**

The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

It is expected that the Amendments, when initially applied, will not have material impact on the BAMC's financial statements as the BAMC does not apply revenue-based methods of amortisation/depreciation.

**Amendments to IAS 16 Property Plant and Equipment and IAS 41 Agriculture**

These amendments result in bearer plants being in the scope of IAS 16 Property, Plant and Equipment, instead of IAS 41 Agriculture, to reflect the fact that their operation is similar to that of manufacturing.

The BAMC does not expect that the amendments, when initially applied, will have material impact on the financial statements as the BAMC has no bearer plants.

**Amendments to IAS 27:** Equity method in the separate financial statements

The amendments to IAS 27 allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.

The BAMC does not expect that the amendments, when initially applied, will have material impact on the financial statements as the BAMC intends to continue to carry its investments in subsidiaries, associates or joint ventures at fair value.

**2.6 INTANGIBLE ASSETS**

Intangible assets are recognized at a historical cost, less accumulated depreciation and any accumulated impairment loss.

The historical cost includes costs directly attributable to the acquisition of the asset. The BAMC's intangible assets comprise license.

The gain or loss on disposal of an intangible asset is determined by comparing the proceeds from disposal with its carrying amount, and is recognized in profit or loss as other operating income/expenses.

Depreciation is charged on a straight-line basis over the useful life of each individual intangible asset.

The estimated useful life for license is 5 years.

The depreciation methods and useful lives are reviewed on each reporting date, and are revised as appropriate.

#### *2.7 PROPERTY, PLANT AND EQUIPMENT*

Property, plant and equipment are recognized at historical cost, less accumulated depreciation and any accumulated impairment loss.

The historical cost includes costs directly attributable to the acquisition of the asset. The purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. The BAMC's property, plant and equipment mostly comprise computer equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with its carrying amount, and is recognized in profit or loss as other operating income/expenses.

Depreciation is charged on a straight-line basis over the useful life of each individual (component) item of property, plant and equipment.

The estimated useful life for computer equipment is 3 to 4 years.

The depreciation methods and useful lives are reviewed on each reporting date, and are revised as appropriate.

#### *2.8 INVENTORY OF REAL ESTATE AND EQUIPMENT HELD FOR SALE*

Inventories are assets held for sale in the ordinary operations of the BAMC. Inventories represent properties, land and equipment.

Inventories are initially recognized at cost plus any directly attributable transaction costs. The recognized cost is equal to the acquisition price paid for the purchased inventory.

After initial recognition, these inventories are valued at the lower of cost plus any transaction cost and net realizable value.

When inventories are sold, the carrying amount is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as an increase in the amount of stock, from which the expense emerged, in the period in which the reversal occurred.

The BAMC assesses the value of inventories at each reporting date to determine whether there is any objective evidence of impairment. Inventory is considered to be impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flows deriving from that inventory.

BAMC is purchasing and taking over real estates in various insolvency proceedings, with an objective to sell these real estates and repay transferred NPLs. Because of this all bought and took-over real estates are included in inventories and held for further sale.

## 2.9 LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Business premises leased by the company and treated as an operating lease are not recognized in the BAMC's balance sheet. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

## 2.10 FINANCIAL ASSETS

The BAMC initially recognizes loans, receivables and deposits on the day that the cash is advanced to the counterparty. Other financial assets are initially recognized on the trade date, i.e. when the BAMC becomes a party to the contractual provisions of the instrument. The BAMC derecognizes a financial asset when the contractual rights to receive cash flows from the asset have expired, or it has transferred the contractual rights to receive cash flows from the asset on the basis of a transaction in which all the risks and rewards of ownership of the asset are transferred. Financial assets and liabilities are offset, and the net amount is disclosed in the statement of financial position, when and only when the BAMC has the legal right either to settle on a net basis or to realize the asset and settle the liability simultaneously.

### A) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As financial assets at fair value through profit or loss BAMC classifies investments in equity shares of companies and loans held for sale or recovery of their value in accordance with the BAMC's objectives.

#### *EQUITY INVESTMENTS*

As financial assets at fair value through profit or loss BAMC classifies investments in equity shares of companies.

They are initially recognized at fair value equal to the acquisition price paid for the transferred asset. After initial recognition, these investments are measured at fair value with changes in fair value being recognized in the income statement.

#### *LOANS*

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans acquired by the BAMC are treated as loans and receivables because the original contracts provided for payments were fixed or determinable. Depending on their maturity, they are classified as current financial assets (maturity of up to 12 months from the date of the balance sheet) or non-current financial assets (maturity of more than 12 months from the date of the balance sheet).

Loans are initially recognized at fair value (see Note 3.1) plus any directly attributable transaction costs. Due to the fact that the transfer of assets from banks to the BAMC in accordance with ZUKSB has been made by banks that are 100% state-owned and the state is also 100% owner of the BAMC, the aforementioned transaction is deemed to be a transaction between entities under common control and the transaction therefore treated as a transaction with the owner. All effects of this transfer have been recognized directly in equity as a transaction with the owner.

Transfer of NPLs to BAMC in accordance with ZUKSB, in 2013 and 2014, was in BAMC followed by (economical and legal) due diligence process of received loans and valuation of individual loans in accordance with BAMC's loan valuation methodology (see Note 3.1). Any positive or negative variances recognized on the day of the transfer are included in the statement of comprehensive income.

Subsequently, loans are further measured at fair value (see Note 3.1). Effects of all further measurements are included in income statement.

#### *B) CASH AND CASH EQUIVALENTS*

Cash and cash equivalents comprise cash balance, deposits with maturities of three months or less, and other current and highly liquid investments with original maturities of three months or less.

#### *C) AVAILABLE-FOR-SALE FINANCIAL ASSETS*

Available-for-sale financial assets are those non-derivative, listed financial assets that have been designated as available-for-sale. The BAMC's investments in equity securities and bonds are classified as available-for-sale financial assets. They are initially recognized at fair value equal to the acquisition price paid for the transferred asset.



After initial recognition, these investments are measured at fair value, changes in fair value being recognized in other comprehensive income or loss except for fair value changes which relate to impairment of these assets. If the fair value of the investments cannot be measured reliably, the BAMC measures the available for sale less impairments.

The BAMC assesses the value of financial assets at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows deriving from that asset. Objective evidence that financial assets are impaired includes default or delinquency by a debtor; restructuring of an amount granted its approval, indications that a debtor will enter bankruptcy, and the disappearance of an active market for an instrument. Furthermore, for an investment in an equity available for sale security, a significant (more than 20%) or prolonged (longer than 9 months) decline in its fair value below its costs is objective evidence of impairment.

Impairment losses are recognized in profit or loss. Upon de-recognition of the investments, the accumulated gain and losses recognized in other comprehensive income are transferred to profit or loss.

#### *2.11 FINANCIAL LIABILITIES*

Issued debt securities and subordinated liabilities are initially recognized on the day they arise. All other financial liabilities are initially recognized on the trade date, when the BAMC becomes a contractual party in relation to the instrument. The BAMC derecognizes a financial liability when the obligations specified in the contract have been discharged, have been cancelled or have expired. Financial assets and liabilities are offset, and the net amount is recognized in the statement of financial position, when and only when the BAMC has an official enforceable right to net settlement of the amounts, and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The BAMC recognizes loans and advances, bank overdrafts, other financial liabilities and trade payables as non-derivative financial liabilities. These financial liabilities are recognized initially at fair value less any directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

#### *2.12 DEBT INSTRUMENTS*

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual terms of the instruments. Instruments which do not carry a contractual obligation to deliver cash or another financial asset to another entity are classified as equity and are presented in share capital. Ordinary shares are classified as equity.

The bonds issued by the BAMC are classified as debt instruments as the securities carry a fixed coupon and the coupon payment is non-discretionary.

Debt securities in issue are initially measured at fair value (less any directly attributable transaction costs) and are subsequently measured at amortized cost using the effective interest method.

### *2.13 FINANCIAL INCOME AND FINANCIAL EXPENSES*

Interest income and expense for all interest-bearing financial instruments is recognized in interest income and interest expense in profit or loss using the effective interest rate (EIR) method on which a percentage of discount is applied representing the difference between the gross exposure and the transfer (purchase) value. When calculating EIR the company estimates cash flows based on the contractual conditions of the financial instrument and excludes future credit losses that exceed the losses already recognized in transfer value of the loans.

Financial income comprises interest income on investments (including available-for-sale financial assets), positive effects of fair value measurement of financial assets designated at fair value through profit or loss, dividend income, gains on the disposal of available-for-sale financial assets and foreign exchange gains that are recognized in profit or loss. Financial income from transferred loans are recognized in profit and loss when future cash flows are expected. Management estimates future cash flows using probability of their payment and excludes calculated interest income on doubtful loans until it is paid. Other financial income is recognized using the EIR method (note 3.2).

Income from capital gains represents received loan repayments that exceed the transfer value of the loan and de-recognition of initial variances between transfer and fair value of the loan recognized in statement of comprehensive income.

Financial expenses comprise negative effects of fair value measurement of financial assets designated at fair value through profit or loss, borrowing costs, foreign exchange losses and impairment losses on financial assets that are recognized in profit or loss. Borrowing costs are recognized in profit or loss using the EIR method.

### *2.14 INCOME TAX*

Income taxes have been recognized in the financial statements in accordance with legislation enacted at the end of the reporting period. The income tax on the profit or loss for the financial year comprises current tax and deferred tax. The income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the financial year, at the tax rates in effect at the end of the reporting period, allowing for any adjustment to tax payable in respect of previous financial years.

Deferred tax is determined by taking the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes into consideration. Deferred tax is recognized at the amount that is expected to be paid when the

temporary differences reverse, and income taxes are calculated based on the laws that have been enacted or substantially enacted at the end of the reporting period.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the tax asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax for carrying forward unused tax losses is recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. The BAMC using an ongoing basis approach considers the probability whether taxable profit will be available.

### *2.15 EARNINGS PER SHARE (EPS)*

The BAMC discloses the basic earnings per share and diluted earnings per share for ordinary shares.

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding in the financial year for the effects of all dilutive potential ordinary shares, which comprise convertible bonds and share options granted to employees.

### *2.16 DETERMINATION OF FAIR VALUE*

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

Fair values of financial assets and liabilities are determined on each reporting date.

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

- Level 1 - Fair value of financial assets measured at fair value (observable inputs, like quoted prices on active markets, for identical assets and liabilities);
- Level 2 - Fair value of financial assets not measured at fair value (available values other than observable inputs under Level 1 that are directly or indirectly observable for the asset or liability);
- Level 3 - Fair value of financial assets not measured at fair value (unobservable values for the asset or liability).

BAMC uses quoted prices as the basis for the fair value of financial instruments. If a financial instrument is not quoted on a regulated market or the market is considered inactive, the BAMC uses

inputs of Levels 2 and mostly Level 3 for determining the fair value of financial instrument. Where applicable, further information about assumptions made when determining fair values is disclosed in the notes specific to that asset or liability of the BAMC.

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

*A) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS*

*LOANS*

The fair value of receivables and loans are calculated as the present value of future cash flows, discounted at the market rate of interest at the end of the reporting period. The estimate takes into account the credit risk associated with these financial assets. For further information please see Note 3.1, 3.2 and 17.

*EQUITY INVESTMENTS*

The fair value of financial assets designated at fair value through profit or loss is determined using the valuation method on enterprise value level e.g. FCFF (free cash flows to firm). For further information please see Note 3.1, 3.3 and 17.

*B) AVAILABLE-FOR-SALE FINANCIAL ASSETS*

The fair value of available-for-sale financial assets is determined by reference to the above fair value hierarchy for financial instruments. If their fair value cannot be measured reliably because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, the BAMC measures the financial asset at cost. For further information please see Note 3.3 and 17.

*C) FINANCIAL LIABILITIES*

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

*2.17 SEGMENT REPORTING*

Operating segments are components of the BAMC's business activities about which separate financial information is available that is evaluated regularly by the BAMC Executive directors. They decide how to allocate assets and assess the performance.

Reportable segments comprise the operating sectors:

- Loans and Equity investments and
- Inventories.

Segment accounting policies are the same as the accounting policies applied for the company.

BAMC segment reporting reflects the organizational structure of BAMC where each segment is organised as a separate organization unit.

BAMC manages transferred non-performing assets with the aim of maximizing their value. Assets are mostly managed individually, at the level of a claim or equity investment in a specific company. Where BAMC owns claims and equity in the individual company the maximization of enterprise value is targeted. In some cases, a group of companies is being managed as a whole, due to ownership or other significant intertwined characteristics.

Because of the poor quality of the claims acquired by BAMC, a recovery strategy is the most rational approach for majority of corporate debtors in terms of numbers, where BAMC may decide to take possession of the real estate, improve its value, and sell it later. The BAMC takes over direct ownership of a collateralised asset if it assesses that direct ownership and management of real estate, which may also require further development, including repair of defects, will allow BAMC to recover more than the selling price achieved in the disposal procedure.

Segments represent balances of loans, equity investments and inventory of real estate held for sale in the balance sheet.

Loans and equity investments are generating financial income and expenses while inventory of real estate held for sale is generating operating income from renting and sale and maintenance costs of materials and services.

### NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

#### 3.1 VALUATION OF LOANS AND RECEIVABLES AT ACQUISITION

According to the Decree on the implementation of measures to strengthen the stability of banks (the Decree) the acquisition price was determined based on the evaluation carried out by the European Commission. The BAMC has not participated in the evaluation process. The BAMC was informed only that the transfer value (acquisition price) was determined according to the first bullet of paragraph one of Article 26 as set out in the Decree, where it states that the transfer value comprises the value of the assets as determined by the European Commission and that the result of the asset valuation

includes management and financing costs. The transfer of NPLs from banks to BAMC is a state-aid instrument of a value being the difference between BAMC's payment for transferred loans and their market value, as assessed by the European Commission, which approved the mentioned state-aid.

The BAMC follows the guidance of IAS 39 and IFRS 13 which requires for all financial assets (including loans and receivables) to be recognized initially at fair value.

#### *METHODOLOGY FOR LOANS*

Valuation of loans is based on the Binominal Option Pricing Model ("BOPM"). It uses the Level 3 fair value hierarchy and has features of unobservable inputs, which reflect assumptions using the best information available in the circumstances, and include the entity's own data, taking into account all information about market participant assumptions that is reasonably available. For each debtor two possible scenarios, restructuring and recovery, are considered and the cash flows forecasted.

Key unobservable input in the valuation process is the estimation of probability of realization: either restructuring or recovery scenario. If and when it is estimated that the recovery strategy is to prevail, then the recovery scenario, which reflects the collateral value, is assigned a 100% probability. In case the restructuring scenario is considered, BAMC uses the Default Probability Scorecard ("DPS") to establish probabilities of the restructuring and recovery scenarios. DPS probabilities can be overruled with a decision of the case manager and appropriate argumentation regarding different case-specific risk factors and real options provided. This approach enables compliance with IFRS 13 and International Valuation Standards regarding:

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

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

The probability of recovery scenario is calculated as  $(1 - \text{probability of restructuring scenario})$ .

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

- Probability of the restructuring scenario (determined with the use of the DPS model).

- Probability of the recovery scenario (determined with the use of the DPS model).
- Time to switch from restructuring to recovery scenario. BAMC assumes the switch to a lower value recovery scenario with immediate effect in order to recognise the prudence principle. The model considers the failure risk and does not allow this risk to be underestimated by means of postponing the failure. Furthermore, due to the early restructuring phase and turnaround nature of the restructuring projects, it is fair to assume that if a failure occurs at all, it occurs sooner than later.
- Value of cash flows according to each (restructuring and recovery) scenario. For the restructuring scenario, the debtor's cash flow forecast and debt servicing capability is taken into account. For the recovery scenario, the realistic outcome of realizing collateral is taken into account.
- The risk-free rate of return in the framework of the BOPM model is zero since it is already considered in the weighted average cost of capital (hereon WACC) of BAMC and therefore is part of the present values of forecasted cash flows in both scenarios.
- WACC of BAMC was calculated at the level of 3,5% as at 31 December 2015 (WACC as at 31 December 2014 was 4,9%).

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

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

Valuation methods at the enterprise value level e.g. FCFF (free cash flows to firm) for the discounted cash flow method and EV/EBITDA (Enterprise value/EBITDA for the comparative method) are preferred. Equity positions representing more than a 20% interest or book value above €5.000.000 are valued by the discounted cash flow method. For lower percentage shareholdings and lower book value, the comparative method of adjusted EV/EBITDA (normalized for all extraordinary events and impacts) multiple (with market median of EV/EBITDA from comparable European companies' dataset) is used. For minority holdings, the market traded price is used where available and sufficient transactions occur to ensure liquidity.

#### *METHODOLOGY FOR THE VALUATION OF REAL ESTATE*

In 2015 BAMC enhanced the valuation methodology for own and pledged real estate. The updated methodology is fully compliant with International Valuation Standards and is based on current market data. The valuation method also takes into account illiquidity of the real estate market. All real estate owned by BAMC and a large portion of pledged real estate has been revaluated according this updated methodology.

### 3.2 RECOGNITION OF THE INTEREST INCOME ON LOANS AND RECEIVABLES

The loans that BAMC bought are (in accordance with ZUKSB) non-performing. Based on these estimates the accounting policy for the recognition of interest income from loans and receivables disclosed in note 2.15 was set.

### 3.3 DETAILED LIST OF EQUITY OWNERSHIPS

BAMC HOLDS AS AT 31 DECEMBER 2015:

Name	Industry	Country	Share holding (in %)
Aero d.d. *	Manufacturing	Slovenia	62,64%
AHA EMMI d.o.o.	Manufacturing	Slovenia	100,00%
Aha Plastik d.o.o.	Manufacturing	Slovenia	100,00%
Alpina d.o.o.	Manufacturing	Slovenia	100,00%
Argolina d.o.o.	Construction	Slovenia	100,00%
AVTOTEHNA d.d.	Manufacturing	Slovenia	100,00%
Cimos d.d.	Manufacturing	Slovenia	47,50%
DUP1 d.d.	Finance	Slovenia	100,00%
DUP2 d.d.	Finance	Slovenia	100,00%
IHAN d.d.	Manufacturing	Slovenia	95,00%
Litostroj jeklo d.o.o.	Manufacturing	Slovenia	55,18%
Litostroj Ravne d.o.o.	Manufacturing	Slovenia	88,70%
LIV Kolesa d.o.o.	Manufacturing	Slovenia	100,00%
Menina d.d.	Manufacturing	Slovenia	20,28%
Merkur nepremičnine d.d.	Real estate	Slovenia	62,49%
MLM d.d.	Industrial enterprise	Slovenia	67,24%
Nigrad d.d.	Utility company	Slovenia	24,91%
Polzela d.d.	Manufacturing	Slovenia	37,71%
Riosi inženiring d.o.o.		Slovenia	39,18%
SISTEMSKA TEHNIKA Armas d.o.o.	Manufacturing	Slovenia	100,00%
SISTEMSKA TEHNIKA d.o.o.	Manufacturing	Slovenia	89,73%
ŠC Pohorje d.o.o.*	Tourism	Slovenia	97,31%
Thermana d.d.	Medical and tourism	Slovenia	99,99%
TINK d.o.o.		Slovenia	89,26%

NOTE: \*In bankruptcy



BAMC HELD AS AT 31 DECEMBER 2014:

Name	Industry	Country	Share holding (in %)
Pivovarna Laško d.d.	Brewery	Slovenia	23,51%
Thermana d.d.	Medical and tourism	Slovenia	21,20%
Nigrad d.d.	Utility company	Slovenia	24,91%
MLM d.d.	Industrial enterprise	Slovenia	99,61%
ŠC Pohorje d.o.o.*	Tourism	Slovenia	97,31%
LIV Kolesa d.o.o.	Manufacturing	Slovenia	100%
Argolina d.o.o.	Construction	Slovenia	100%
Litostroj jeklo d.o.o.	Manufacturing	Slovenia	51,51%
Litostroj Ravne d.o.o.	Manufacturing	Slovenia	65,43%
AERO d.d.*	Manufacturing	Slovenia	62,64%
Menina d.d.	Manufacturing	Slovenia	20,28%
Merkur nepremičnine d.d.	Real estate	Slovenia	62,49%

NOTE: \*In bankruptcy.

BAMC has also smaller ownerships which are presented in the business part of the report for 2015. In all companies where it holds a stake, BAMC is only a temporary owner.

The main purpose of the BAMC is to cash in the receivables obtained from commercial banks and not to exercise control over the investees. In the case of debt to equity swaps the BAMC acquires stakes to take-over control in the company just to perform restructuring to allow an exit from the investment. The BAMC will only be a temporary owner and will enter into ownership only for temporary control reasons. Based on the aforementioned, these investments are not consolidated nor accounted according to equity method as investments in associates but classified as financial assets available-for-sale.

The valuation methods for equity investments on enterprise value level have been described at Note 3.1 Methodology for equity investments.

## NOTES TO THE BALANCE SHEET

### NOTE 4: PROPERTY PLANT AND EQUIPMENT

#### BALANCE AT THE END OF THE YEAR

in € thousand	2015	2014
IT equipment	144	157
Furniture	12	22
<b>Total</b>	<b>156</b>	<b>179</b>

#### MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT IN 2015 – NET

in € thousand	IT Equipment	Furniture	Total
<b>Opening balance 1 January 2015</b>	<b>162</b>	<b>17</b>	<b>179</b>
Acquisition	101	3	104
Depreciation	-119	-8	-127
Write off			0
<b>Closing balance 31 December 2015</b>	<b>144</b>	<b>12</b>	<b>156</b>

#### MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT IN 2015 - GROSS

in € thousand	IT Equipment		Furniture		Total
	Acquisition	Depreciation	Acquisition	Depreciation	
<b>Opening balance 1 January 2015</b>	<b>209</b>	<b>-47</b>	<b>20</b>	<b>-3</b>	<b>179</b>
Acquisition	101	0	3	0	104
Depreciation	0	-119	0	-8	-127
<b>Closing balance 31 December 2015</b>	<b>310</b>	<b>-166</b>	<b>23</b>	<b>-11</b>	<b>156</b>

The BAMC does not have any property, plant and equipment acquired by means of a finance lease nor that are pledged.

#### MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT IN 2014

in € thousand	IT Equipment		Furniture		Total
	Acquisition	Depreciation	Acquisition	Depreciation	
<b>Opening balance 1 January 2014</b>	<b>80</b>	<b>-3</b>	<b>0</b>	<b>0</b>	<b>77</b>
Acquisition	126	0	25	0	151
Depreciation	0	-44	0	-3	-47
Write off	-2	0	0	0	-2
<b>Closing balance 31 December 2014</b>	<b>204</b>	<b>-47</b>	<b>25</b>	<b>-3</b>	<b>179</b>

**NOTE 5: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – EQUITY INVESTMENTS**

**BALANCE AT THE END OF THE YEAR**

in € thousand	2015	2014
Equity shares in non-listed companies	36.347	8.627
<b>Total</b>	<b>36.347</b>	<b>8.627</b>

**MOVEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS IN 2015**

in € thousand	2015
<b>Opening balance (stock not quoted on stock exchange)</b>	<b>8.627</b>
<b>1 January 2015</b>	
Acquisition	2.783
Capital injection	263
Paid not registered capital	48
Conversion from loan*	0
Revaluations	24.626
<b>Closing balance (stock not quoted on stock exchange)</b>	<b>36.347</b>
<b>31. December 2015</b>	

NOTE: \*At debt to equity swaps are shown effects of netted underlying transactions on portfolio level for comparable data from 2014.

**MOVEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS IN 2014**

in € thousand	2014	2014*
<b>Opening balance (stock not quoted on stock exchange)</b>	<b>5.938</b>	5.938
<b>1 January 2014</b>		
Acquisition	348	348
Transfer from banks	2.936	2.936
Conversion from loan*	28.275	0
Negative variances upon initial recognition	-927	-927
Revaluations	-27.109	1.166
Return and replacement of Interevropa shares for DUT01 bonds	-834	-834
<b>Closing balance (stock not quoted on stock exchange)</b>	<b>8.627</b>	<b>8.627</b>
<b>31 December 2014</b>		

The fair value at initial recognition was challenged in 2014 for the transfers from Abanka and Banka Celje. The net negative variance recognized in 2014 in the amount of €927 thousand for transferred shares and participating interests has been treated as an in-substance distribution to the owner (Republic of Slovenia) as it arose on a common-control transaction on non-commercial terms (Note 3.1).

## NOTE 6: AVAILABLE FOR SALE FINANCIAL ASSETS

### BALANCE AT THE END OF THE YEAR

in € thousand	2015	2014
Bonds	2.314	173.972
Shares and participating interests	0	48.333
Quoted on stock exchange	0	48.333
Deposit	964	900
Advance payment	0	0
<b>Total</b>	<b>3.278</b>	<b>223.205</b>

### SHORT-AND LONG-TERM PORTIONS OF AVAILABLE FOR SALE FINANCIAL ASSETS

#### BALANCE AT THE END OF THE YEAR

in € thousand	2015	2014
Short term investments	2.314	2.149
Bonds	2.314	2.149
Long term investments	964	221.056
Bonds	0	171.823
Shares quoted on stock exchange	0	48.333
Deposit	964	900
<b>Total</b>	<b>3.278</b>	<b>223.205</b>

The €2.314 thousand value of the bonds refers to:

- bonds issued by Sava d.d.:
  - SA38 with the nominal value of €9.281 thousand. The BAMC holds 9.281 denomination of €1.000. The bond already matured on 30 November 2014.
- bonds issued by Cimos d.d.:
  - CIM2 with the nominal value of €1.000 thousand. The BAMC holds 1.000 denomination of €1.000. The bond already matured on 1 August 2014.

Long term investment in amount of €964 thousand relates to paid deposit to Abanka for issued bank guarantee for a BAMC's debtor, with maturity in 2017.

MOVEMENT OF AVAILABLE FOR SALE FINANCIAL ASSETS IN 2015

in € thousand	2015
<b>Opening balance 1 January 2015</b>	<b>223.205</b>
<b>A) Bonds</b>	
Opening balance	173.972
RS bonds	171.823
Received payment of coupon interests RS68, RS38	-8.389
Accrued interests RS68, RS38	6.378
Sale of RS68 bond of the Republic of Slovenia	-164.900
Income from selling RS68	12.691
Change in fair value equity reserve	-17.603
Closing balance	0
Other bonds	2.149
Revaluation	165
Closing balance	2.314
<b>B) Shares and participating interests</b>	
Opening balance of shares quoted on stock exchange	48.333
Change in fair value equity reserve	4.556
Purchase of shares	512
Sale of shares	-53.401
Closing balance	0
<b>C) Deposits</b>	
Opening balance	900
Increase	64
Closing balance	964
<b>D) Advance payments</b>	
Opening balance	0
Increase	48
Closing balance	48
<b>Closing balance 31 December 2015</b>	<b>3.278</b>

In 2015 BAMC sold all 1.490.087 lots of RS38 bonds denominated at €100 which fair value at end of 2014 was €171.823 thousand. BAMC also sold all 2,1 million shares of Pivovarna Laško d.d. (symbol PILR), quoted on the stock exchange.

MOVEMENT OF AVAILABLE FOR SALE FINANCIAL ASSETS IN 2014

in € thousand	For the period from 1 January 2014 to 31 December 2014
<b>Opening balance 1 January 2014</b>	<b>214.432</b>
<b>A) Bonds</b>	
Opening balance	206.184
RS bonds	
Pay out for accrued interests in purchased RS bonds	6.501
Received payment of coupon interests RS68, RS38	-9.551
Accrued interests RS68, RS38	10.443
Sale of RS68 bond of the Republic of Slovenia	-53.706
Income from RS68 sale	749
Change in fair value equity reserve	11.203
Other bonds	
Transfer from banks (Sava d.d., Cimos d.d.)	736
Positive variances upon initial recognition (see Note 3.3)	1.413
<b>B) Shares and participating interests</b>	
Opening balance of shares quoted on stock exchange	8.248
Change in fair value equity reserve	40.086
<b>C) Deposits</b>	
Opening balance	0
Increase	900
<b>Closing balance 31 December 2014</b>	<b>223.206</b>

**NOTE 7: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – LOANS**

In 2014, last two transfers of NPLs were completed in accordance with ZUKSB provisions where transfer prices were determined by the European Commission: on 13 October 2014 from Abanka and on 18 December 2014 from Banka Celje. The BAMC challenged the fair value at initial recognition of acquired NPLs, of all transfers in 2014. The net negative variance recognized in 2014 in the amount of €68.480 thousand was treated as an in-substance distribution to the owner (Republic of Slovenia) as it arose on a common-control transaction on non-commercial terms.

In 2015 BAMC was instructed by the owner to acquire a NPL from Probanka. BAMC recognized a negative variances of €3.221 thousand at initial recognition of the loan transferred from Probanka on that transaction. For further information please see note 3.1.

At the end of 2015 BAMC valued all its assets to fair value. For the period from January till December 2015 negative valuations in amount of €35.375 thousand were recognized.

LOAN VALUATION VARIANCES

in € thousand	2015	2014
Loans before valuation	1.129.602	1.413.771
Negative variances upon initial recognition (see Note 3.1)	-3.221	-68.480
Valuations as at 31 December	-35.375	61.597
<b>Total</b>	<b>1.091.006</b>	<b>1.406.888</b>

In 2015 current and non-current portions of loans are presented in accordance with the BAMC loan valuation policy and estimated cash flows.

CURRENT AND NON-CURRENT PORTIONS OF LOANS

BALANCE AT THE END OF THE YEAR

in € thousand	2015	2014
Non-current loans	854.615	1.050.546
Current loans	236.391	356.342
<b>Total</b>	<b>1.091.006</b>	<b>1.406.888</b>

MOVEMENT IN THE LOAN BALANCES IN 2015

in € thousand	
<b>Opening balance 1 January 2015</b>	<b>1.406.888</b>
New loans granted by the BAMC	16.180
Purchases from other banks	14.915
Negative variances upon initial recognition (see Note 3.1)	-3.221
Court costs	55
Repayments	-339.317
Cash repayments	-317.909
Conversion to real estate	-18.794
Sell back (paid with BAMC bonds)	-2.452
Conversion to trade receivables	-162
Increase for paid interests	34.164
Increase for paid fees	391
Increase for foreign exchange differences	1.453
Increase of capital gains	12.866
Decrease for revaluations	-35.375
Write offs	-18.142
Other	149
<b>Closing balance 31 December 2015</b>	<b>1.091.006</b>

Most of the new loans granted by the BAMC and are additionally disclosed in Note 27. The comparative information within the disclosure below was adjusted to reflect net effects of underlying debt to equity swaps. The adjustment has no effect on 2014 closing balance.

MOVEMENT IN THE LOAN BALANCES IN 2014

in € thousand		Net*
<b>Opening balance 1 January 2014</b>	<b>946.986</b>	<b>946.986</b>
Transfer of loans from Probanka	27.834	27.834
Transfer of loans from Factor banka	10.796	10.796
Transfer of loans from Abanka	421.816	421.816
Transfer of loans from Banka Celje	124.019	124.019
Negative variances upon initial recognition (see Note 3.1)	-175.178	-175.178
Positive variances upon initial recognition (see Note 3.1)	106.698	106.698
Court costs	1.786	1.786
<b>Repayments</b>	<b>-204.774</b>	<b>-176.498</b>
Cash repayments	-125.912	-125.912
Sell back	-1.159	-1.159
Conversion to real estate	-45.481	-45.481
Conversion to equity investments	-28.275	0
Sell back paid with BAMC bonds	-3.746	-3.746
Conversion to trade receivables	-200	-200
<b>Loan interest income</b>	<b>31.272</b>	<b>31.272</b>
Loan provision and other income	96	96
Foreign exchange differences	288	288
Capital gain	50.240	50.240
Revaluations	69.905	41.630
Write offs	-5.007	-5.007
Other	110	110
<b>Closing balance 31 December 2014</b>	<b>1.406.888</b>	<b>1.406.888</b>



## NOTE 8: INVENTORY OF REAL ESTATE HELD FOR SALE

### BALANCE AT THE END OF THE YEAR

in € thousand	2015	2014
<b>Property</b>	<b>53.990</b>	<b>37.148</b>
Acquisition	22.326	49.299
Write downs	-3.315	-12.151
Sale	-1.847	0
<b>Land</b>	<b>14.264</b>	<b>11.974</b>
Acquisition	9.368	16.464
Write downs	-7.308	-4.490
Sale	-92	0
<b>Inventories</b>	<b>68.254</b>	<b>49.122</b>
Advance payments	508	2.217
<b>Total</b>	<b>68.762</b>	<b>51.339</b>

All inventories held for sale in amount of €68.762 thousand were recognised as a result of the real conversion of loans into property or buying at auctions from our debtors. All inventories on stock are recognised as held for sale.

Estimated net realisable value on year-end of all inventories on stock is €75.886 thousand.

For the period from January till December 2015 impairment was recognized in income statement in the amount of €10.623 thousand. Real estate valuation methodology is described in Note 3.1.

The BAMC has already made advance payments in amount of €508 thousand for new real estate which was recognised in 2016.

### MOVEMENT IN DIFFERENT CATEGORIES OF INVENTORY HELD FOR SALE IN 2015

in € thousand	Property	Land	Advance payments
<b>Opening balance 1 January 2015</b>	<b>36.826</b>	<b>12.296</b>	<b>2.217</b>
Purchases	22.326	9.368	0
Release of carrying value at sale	-1.847	-92	0
Release of advance payment	0	0	-10.429
New advance payments	0	0	8.720
Write downs	-3.315	-7.308	0
<b>Closing balance at 31 December 2015</b>	<b>53.990</b>	<b>14.264</b>	<b>508</b>

MOVEMENT IN DIFFERENT CATEGORIES OF INVENTORY HELD FOR SALE IN 2014

in € thousand	Property	Land
<b>Opening balance 1 January 2014</b>	<b>0</b>	<b>0</b>
Purchase	49.299	16.464
Sales	0	0
Write downs	-12.151	-4.490
<b>Closing balance at 31 December 2014</b>	<b>37.148</b>	<b>11.974</b>

NOTE 9: TRADE AND OTHER OPERATING RECEIVABLES

BALANCE AT THE END OF THE YEAR

in € thousand	2015	2014
Trade receivables from customers	117	337
Trade receivables from others	8.405	1.295
<b>Total</b>	<b>8.522</b>	<b>1.632</b>

MOVEMENTS OF TRADE RECEIVABLES TO OTHER IN 2015, 2014

in € thousand	2015	2014
Opening balance on 1 January	1.295	0
Increase due to swap of loan to trade receivables	446	200
Increase of other receivables	0	208
Revaluation of trade receivables relating to collateral	-131	-371
Tax refunds	6.795	1.258
<b>Closing balance on 31 December</b>	<b>8.405</b>	<b>1.295</b>

Tax refunds comprise €1.995 thousand of VAT related receivable and €5.753 thousand of income tax related receivable in 2015, since BAMC has realized loss in 2015.

NOTE 10: DEFERRED COSTS AND ACCRUED INCOME

BALANCE AT THE END OF THE YEAR

in € thousand	2015	2014
Deferred costs	330	190
Accrued rent income	12	33
Advances VAT	5	0
<b>Total</b>	<b>347</b>	<b>223</b>

Short-term deferred costs mostly relate to paid insurance premiums for D&O liability insurance.

## NOTE 11: CASH AND CASH EQUIVALENTS

### BALANCE AT THE END OF THE YEAR

in € thousand	2015	2014
Cash in banks	1.390	1.385
Call deposits	160.860	61.194
Over-night deposits	3.882	811
<b>Total</b>	<b>166.132</b>	<b>63.390</b>

On 31 December 2015 deposits are held at BKS, Sberbank, Unicredit bank and NLB.

## NOTE 12: EQUITY

The BAMC's share capital registered with the court and defined in its articles of association amounts to €203.625 thousand and is divided into 101.812.500 ordinary freely exchangeable no-par-value registered shares. Each no-par-value share has the same corresponding amount in the share capital. All shares issued were fully paid.

The BAMC does not hold any treasury shares.

### BALANCE AT THE END OF THE YEAR

in € thousand	2015	2014
Share capital	203.625	203.625
Retained earnings	-88.758	-77.217
Fair value reserve	0	48.667
<b>Total</b>	<b>114.867</b>	<b>175.075</b>

The release of the fair value reserve was recognized in financial income on completion of the sale of Pivovarna Laško d.d. shares and RS bonds.

### MOVEMENT OF RETAINED EARNINGS

in € thousand	2015	2014
<b>Opening balance</b>	<b>-77.217</b>	<b>-45.653</b>
Net profit / loss for the period	-8.318	36.428
In-substance distribution to owner (Note 3.1, 3.3)	-3.221	-67.994
from loans	-3.221	-68.480
from equity investments	0	-927
from bonds	0	1.413
Other	-2	2
<b>Total</b>	<b>-88.758</b>	<b>-77.217</b>

**NOTE:** \*The difference between the fair value and transfer value of acquired assets in the amount of €3.221 thousand is recognized as a deduction in equity. Since the transaction was non-commercial and has been done between companies under

common control (owner of both banks as well as the BAMC is the state) the transaction is considered as a transaction with owners and all the effects of such transactions are recognized in equity.

In-substance distribution to owner in the amount of €3.221 thousand relates to acquisition of a loan from Probanka based on the decision of the owner.

#### NOTE 13: DEBT SECURITIES ISSUED

##### BALANCE AT THE END OF THE YEAR

in € thousand	2015	2014
Debt securities issued	1.052.538	1.558.032
Short-term portion	548.173	1.053.309
Long-term portion	504.365	504.723
<b>Total</b>	<b>1.052.538</b>	<b>1.558.032</b>

The amount of €1.052.538 thousand of debt securities issued by BAMC consist of three issues of bonds with official designations of DUT02, DUT03 and DUT04. Debt securities in issue are initially measured at fair value and are subsequently measured at amortized cost.

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

##### BALANCES OF DEBT SECURITIES PER ISSUE

in € thousand	2015	2014
Amortised cost - Issued bonds	1.052.538	1.558.032
DUT01 – issued 20 December 2013	0	503.268
DUT02 – issued 20 December 2013	503.996	504.759
DUT03 – issued 20 October 2014	422.673	424.103
DUT04 – issued 19 December 2014	125.869	125.902
Liability for government guarantee of bonds issued	0	52
<b>Total</b>	<b>1.052.538</b>	<b>1.558.084</b>

The BAMC fully redeemed all DUT01 bonds at maturity in December 2015.

CHARACTERISTICS OF BOND ISSUES

BALANCE AT THE END OF THE YEAR 2015

Bond	Value of issue (in € million)	Coupon rate	Issued	Principal maturity	Coupon maturity
DUT02	505,8	4,50%	December 2013	December 2016	Annually (December)
DUT03	424,6	1,50%*	October 2014	December 2017	Semi-annually (June and December)
DUT04	127,0	1,375%*	December 2014	December 2017	Semi-annually (June and December)

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

All bonds issued by The BAMC have €100.000 denominations.

BALANCE OF TREASURY BONDS AT THE END OF THE YEAR

Bond	2015	2014
DUT02	26	19
DUT03	17	0
DUT04	12	12

The BAMC bought back bonds DUT02 and DUT03 in exchange for transferred loans.

**NOTE 14: BORROWINGS**

BALANCE AT THE END OF THE YEAR

in € thousand	2015	2014
Borrowings from banks (loans)	200.000	0
<b>Total</b>	<b>200.000</b>	<b>0</b>

The BAMC obtained a loan from NLB in 2015 in the amount of €200.000 thousand with maturity in December 2017. Other borrowings in the amount of €991 thousand relate to advance payments for sold loans and unallocated payments of loan debtors.

CURRENT AND NON-CURRENT BORROWINGS MOVEMENT IN 2015

in € thousand	Non-current borrowing
<b>Opening balance 1 January 2015</b>	<b>0</b>
Increases	200.000
Decreases	0
<b>Closing balance 31 December 2015</b>	<b>200.000</b>

#### NOTE 15: TRADE AND OTHER OPERATING PAYABLES

##### BALANCE AT THE END OF THE YEAR

in € thousand	2015	2014
Trade payables	452	1.444
Payables to employees	508	423
Payables to state and other state institutions	0	6.440
Payables to others	4.306	3.202
<b>Total</b>	<b>5.266</b>	<b>11.509</b>

Trade payables relate mostly to the payables for the acquisition of assets from bankruptcy in the amount of €424 thousand and for other costs.

Payables to employees represent the liability for salary for December 2015 paid out in January 2016.

Payables to other in the amount of €4.100 thousand represent an obligation to Probanka for the purchased loan.

#### NOTE 16: OTHER LIABILITIES

##### BALANCE AT THE END OF THE YEAR

in € thousand	2015	2014
Other liabilities	925	910
<b>Total</b>	<b>925</b>	<b>910</b>

Other liabilities comprises €49 thousand that relate to audit services for 2015, the amount of €487 thousand represents liabilities for work performance in 2015 and unused holidays, while the amount of €236 thousand relate to not invoiced services in December 2015.

#### NOTE 17: FAIR VALUE

The BAMC recognize all assets at fair value except Inventories which are valued at the lower of cost plus transaction cost and net realizable value.

All BAMC assets and liabilities are classified in Level 3 in the fair value hierarchy except issued BAMC bonds which are as at 31 December 2015 measured at fair value in Level 1. There were no transfers between levels 1 and 3 during the year.

FAIR VALUE AS AT 31 DECEMBER 2015

in € thousand	Note	Level 1	Level 3	Total fair value	Total book value
<b>Assets</b>		166.132	1.130.631	1.296.763	1.296.763
Financial assets designated at fair value through profit or loss		0	1.127.353	1.127.353	1.127.353
<i>Equity Investments</i>	3.1, 5	0	36.347	36.347	36.347
<i>Loans</i>	3.1, 7	0	1.091.006	1.091.006	1.091.006
Available-for-sale financial assets	3.3, 6	0	3.278	3.278	3.278
Cash and cash equivalents	11	166.132	0	166.132	166.132
<b>Liabilities</b>		1.058.795	200.118	1.258.913	1.258.795
Borrowings	14	0	200.118	200.118	200.000
Trade and other operating payables	15	6.257	0	6.257	6.257
Debt securities issued	13	1.052.538	0	1.052.538	1.052.538

FAIR VALUE AS AT 31 DECEMBER 2014

in € thousand	Note	Level 1	Level 3	Total fair value	Total book value
<b>Assets</b>		284.446	1.417.664	1.701.110	1.702.110
Financial assets designated at fair value through profit or loss		0	1.415.515	1.415.515	1.415.515
<i>Equity Investments</i>	3.1, 5	0	8.627	8.627	8.627
<i>Loans</i>	3.1, 7	0	1.406.888	1.406.888	1.406.888
Available-for-sale financial assets	3.3, 6	221.056	2.149	223.205	223.205
Cash and cash equivalents	11	63.390	0	63.390	63.390
<b>Liabilities</b>		1.569.546	0	1.569.546	1.569.546
Trade and other operating payables	15	11.514	0	11.514	11.514
Debt securities issued	13	1.558.032	0	1.558.032	1.558.032

FINANCIAL INSTRUMENTS IN LEVEL 3

MOVEMENT OF LEVEL 3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS IN 2015

in € thousand	Equity investments	Loans
<b>Opening balance 1 January 2015</b>	<b>8.627</b>	<b>1.406.888</b>
Acquisition	2.783	14.970
Capital injection	311	0
Loans given	0	16.180
Negative variances upon initial recognition (see Note 3.3, 3.1)	0	-3.221
Settlements (see Note 7)	0	-339.317
Gains and losses recognised in profit or loss	24.626	-4.494
<b>Closing balance 31 December 2015</b>	<b>36.347</b>	<b>1.091.006</b>

MOVEMENT OF LEVEL 3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS IN 2014

in € thousand	Equity investments	Loans
<b>Opening balance 1 January 2014</b>	<b>5.938</b>	<b>946.986</b>
Acquisition	31.559	586.251
Negative variances upon initial recognition(see Note 3.3, 3.1)	-927	-68.480
Settlements	-834	-176.498
Gains and losses recognised in profit or loss	-27.109	118.519
Other	0	110
<b>Closing balance 31 December 2014</b>	<b>8.627</b>	<b>1.406.888</b>

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



## NOTES TO THE INCOME STATEMENT

### NOTE 18: OPERATING INCOME

in € thousand	2015	2014
<b>Operating income</b>		
services related to loans	113	229
rents	448	100
sale of inventories	2.205	0
other	155	14
<b>Total</b>	<b>2.920</b>	<b>343</b>

### NOTE 19: OPERATING COSTS EXCLUDING PAYROLL COSTS

in € thousand	2015	2014
<b>Material costs</b>	<b>54</b>	<b>46</b>
<b>Cost of services</b>	<b>8.450</b>	<b>8.522</b>
Maintenance costs	1.419	653
Rents	312	206
Costs of professional services	5.219	4.974
Accounting and back office services	1.714	1.402
Legal, valuation and advisory services	3.505	3.572
Insurance costs	336	165
Other services	1.164	2.524
<b>Depreciation of fixed assets</b>	<b>84</b>	<b>47</b>
<b>Operating revaluation expense</b>	<b>12.562</b>	<b>17.015</b>
Write down of inventory	10.623	16.642
Cost of sold inventories	1.939	2
Impairment of trade receivables	1	371
<b>Other operating costs</b>	<b>1.319</b>	<b>833</b>
<b>Total</b>	<b>22.469</b>	<b>26.463</b>

## NOTE 20: PAYROLL COSTS

in € thousand	2015	2014
Salaries (including bonuses)	4.718	4.109
Pension contributions	331	262
Health and social insurance	381	233
Other payroll costs	514	264
<b>Total</b>	<b>5.944</b>	<b>4.868</b>

Other costs relates primarily to allowance for transport to and from work, meal allowance, holiday allowance and fringe benefits (accommodation, taxi costs and meal expenses).

## REMUNERATION OF BOARD MANAGEMENT MEMBERS IN 2015

in € thousand	Period	Position	Gross income	Fringe benefits	Severance pay	Total
Berggren Sten Arne	1.1. - 31.3.2015	Non-executive director	41	2	0	43
Lindgren Carl Johan Nils Viktor	1.1. - 31.3.2015	Non-executive director	41	3	0	44
Mavko Mitja	1.1. - 31.3.2015	Non-executive director	24	1	0	26
Nyberg Lars Erik	1.1. - 6.10.2015	Non-executive director	91	6	0	97
Balogh Imre	1.4. - 12.10.2015	Non-executive director	32	0	0	32
Širovnik Janez	1.4. - 31.12.2015	Non-executive director	40	0	0	40
Simoneti Marko	1.4. - 31.12.2015	Non-executive director	40	0	0	40
Koršič Aleš	1.1. - 31.12.2015	Acting executive director	139	9	0	148
Månsson Torbjörn Ingemar Anders	1.1. - 26.11.2015	Acting executive director	443	1	48	491
Škrubej Janez	1.1. - 31.12.2015	Acting executive director	185	3	0	188
Balogh Imre	13.10. - 31.12.2015	Acting executive director	25	0	0	25
<b>Total</b>			<b>1.101</b>	<b>25</b>	<b>48</b>	<b>1.174</b>

## REMUNERATION OF COMMITTEES' MEMBERS IN 2015

Name	Period	Position	Gross income
in € thousand			
Jerman Tamara	1. 1. – 31. 12. 2015	Member of Audit Committee	5
Slapničar Sergeja	1. 1. – 31. 12. 2015	Member of Remuneration committee	2
Šmuc Sonja	1. 1. – 31. 12. 2015	Member of Accreditation committee	1
<b>Total</b>			<b>8</b>

NOTE 21: FINANCIAL INCOME AND EXPENSES

in € thousand	2015	2014
<b>Financial income</b>	<b>139.039</b>	<b>163.003</b>
Interest income	41.649	42.121
Deposits, avista	575	150
Bonds	6.378	10.476
Acquired loans	34.164	31.272
Loan provision and other cost income	422	96
Dividends	110	127
<b>Financial income from dividend and capital gains</b>	<b>71.145</b>	<b>50.240</b>
Unwind of fair value discount to get to expected cash flows	12.866	50.240
Capital gain from sale of stocks	45.588	0
Capital gain from sale of bonds	12.691	0
<b>Financial income from revaluations</b>	<b>26.245</b>	<b>70.642</b>
Revaluation income	24.792	69.905
Foreign exchange differences	1.453	277
Other financial income	0	460
<b>Financial expenses</b>	<b>-121.937</b>	<b>-89.246</b>
Interests expenses	-68.389	-57.108
Issued bonds	-48.981	-43.324
Guarantee fees	-19.263	-13.744
Borrowings	-98	0
Penalty interests	-47	-40
<b>Financial expenses from capital losses</b>	<b>-18.142</b>	<b>-5.007</b>
Write-offs of loans and equity investments	-18.142	-5.007
<b>Financial expenses from revaluations</b>	<b>-35.406</b>	<b>-27.131</b>
Impairments of loans	-35.375	0
Impairments of equity investments	0	-27.109
Other financial expenses	-31	-22
<b>Profit / loss from financing</b>	<b>17.102</b>	<b>73.757</b>

Interest income comprises interest on loans in the amount of €34.164 thousand (2014: €31.272 thousand) recognized as explained in the Note 7. The income of €575 thousand (2014: €150 thousand) relates to interest income from short-term and over-night deposits and income of €6.378 thousand (2014: €10.476 thousand) relates to interest on bonds.

Financial income from dividends amounts €110 thousand (2014: €127 thousand). The largest single capital gain realized in 2015 relates to sale of 2,1 million of Pivovarna Laško d.d. shares from €45.588 thousand (2014: €0 thousand). From sale of government bonds RS39 BAMC realized

€12.691 thousand (2014: €0 thousand) of capital gains while €12.866 thousand (2014: €50.240 thousand) relate to unwind of fair value discount to get to expected cash flows.

Financial income from revaluation in amount €26.245 thousand (2014: €70.642 thousand) relates to net positive revaluation of equity investments in amount €24.626 thousand (2014: €0 thousand) and €166 thousand (2014: €0 thousand) from positive revaluation of bonds, revaluation income of loans in 2014 amounted €69.905 thousand. All BAMC assets are evaluated on fair price twice per year and presented on net basis using portfolio approach.

Foreign exchange differences in amount €1.453 thousand are presented on net basis, netting positive and negative differences. Comparable amount of €277 thousand was recognized in 2014.

Financial expenses amounts €121.937 thousand (2014: €89.246 thousand) and comprise of financial expenses for issued bonds in amount €48.981 thousand (2014: €43.324 thousand) and related guarantee fees charged from Republic of Slovenia as a guarantor in amount €19.263 thousand (2014: €13.744 thousand).

Write-offs in amount €18.142 thousand (2014: €5.007 thousand) relates to write-offs of loans as a result of loans conversion into equity investment in insolvency proceedings.

Financial expenses from revaluations comprise net impairments of loans to fair value using portfolio approach in amount €35.375 thousand (2014: €0 thousand), there were no impairments of equity investments in 2015 (2014: €27.131 thousand).

#### NOTE 22: INCOME TAX EXPENSE

in € thousand	2015	2014
<b>Profit / loss before tax</b>	<b>-8.318</b>	<b>42.704</b>
Non-tax-deductible expenses	200	242
Tax losses from previous years used	0	-5.777
Non-taxable income	-110	-127
Tax relief for investment	-127	-84
Tax relief for additional pension insurance	-136	-37
<b>Tax base</b>	<b>-8.491</b>	<b>36.921</b>
Statutory tax rate	17%	17%
Income tax at statutory tax rate, prior to changes in taxable base	0	6.276
Tax effects of tax loss for which no deferred tax asset was recognised	0	0
Deferred tax liability	0	9.968
<b>Current and deferred income tax</b>	<b>0</b>	<b>16.244</b>
<b>Effective tax rate</b>	<b>0%</b>	<b>38%</b>

BAMC did not recognize a deferred tax asset in value of €1.444 thousand, due the uncertainty of future profits.

#### NOTE 23: EARNINGS PER SHARE

in € thousand	2015	2014
Profit / loss for the year	-8.318	36.428
Number of shares issued at the end of the year	101.813	101.813
Weighted average number of ordinary shares	101.813	101.813
<b>Earnings per share and diluted earnings per share</b>	<b>-0,08</b>	<b>0,36</b>

#### NOTE 24: STATEMENT OF CASH FLOWS

BAMC is preparing cash flow statements using indirect method.

Cash flow from operating activities in value of €38.584 thousand consist of the following significant balances:

- proceeds from the sale of inventory and services and received advance payments in amount of €18.006 thousand, which represents change in balance of current trade receivables and current trade and other operating payables (received advance payments);
- expenditure for purchasing materials and services in amount of €39.199 thousand, which represents change in current trade receivables and current operating and other liabilities;
- Expenditure for contributions in amount of €12.883 thousand represent expenses for paid taxes.

Cash flow from investing activities in amount of €513.304 thousand mostly represent receipts from disposal of current financial investments in amount of €227.443 thousand and receipts from disposal of non-current financial investments at fair value through profit and loss (loans) in amount of €302.689 thousand. The most significant item of expenditure in investing represents expenditure for acquisition of non-current financial investment at fair value through profit and loss (loans).

Cash flow from financing in amount of €371.978 thousand mainly represent expenditure for repayment of financial liabilities arising from debt securities at maturity, where the amount of €200.000 thousand was offset with received loan.

NOTE 25: SEGMENT REPORTING

FINANCIAL RESULT FOR LOAN & EQUITY INVESTMENT SEGMENT REPORTING		
in € thousand	2015	2014
<b>A1) Financial income</b>	<b>34.696</b>	<b>31.485</b>
<b>Interest income</b>	<b>34.274</b>	<b>31.399</b>
Loans	34.164	31.272
Dividends	110	127
<b>Financial provision (fee)- loans</b>	<b>422</b>	<b>96</b>
<b>A2) Interest expense</b>	<b>-31</b>	<b>0</b>
<b>Tax from Loan provisions</b>	<b>-31</b>	<b>0</b>
<b>Financial income result (A1+A2)</b>	<b>34.665</b>	<b>31.485</b>
<b>B1) Realized gain</b>	<b>58.454</b>	<b>50.240</b>
Loans	12.866	50.240
Equity	45.588	0
<b>B2) Realized loss</b>	<b>-18.142</b>	<b>-5.014</b>
Loans	-18.142	-5.014
Equity	0	0
<b>Realized gain/loss result (B1+B2)</b>	<b>40.312</b>	<b>45.226</b>
<b>C1) Revaluation gain</b>	<b>26.245</b>	<b>70.209</b>
<b>Revaluation gain</b>	<b>24.792</b>	<b>69.921</b>
Loans	0	69.905
Non-performing Bonds	166	15
Equity inv.	24.626	0
<b>Exchange difference - loans (net effect)</b>	<b>1.453</b>	<b>289</b>
<b>C1) Financial revaluation loss</b>	<b>-35.375</b>	<b>-27.109</b>
<b>Impairments and revaluation losses</b>	<b>-35.375</b>	<b>-27.109</b>
Loans	-35.375	0
Equity inv.	0	-27.109
<b>Revaluation result (C1+C2)</b>	<b>-9.130</b>	<b>43.100</b>
<b>Financial result</b>	<b>65.847</b>	<b>119.811</b>

FINANCIAL RESULT FOR INVENTORIES SEGMENT REPORTING

in € thousand	2015	2014
<b>A1) Operating income</b>	<b>448</b>	<b>100</b>
Rents	366	100
Invoiced costs	82	0
<b>A2) Operating expenses</b>	<b>-1.162</b>	<b>-332</b>
Management costs (tax, elect...)	-1.162	-332
<b>Operating income result (A1-A2)</b>	<b>-714</b>	<b>-232</b>
<b>B1) Realized gain</b>	<b>2.205</b>	<b>0</b>
Income from sale	2.205	0
Real estate	2.201	0
Equipment	4	0
<b>B2) Realized loss</b>	<b>-1.939</b>	<b>0</b>
Cost of sales (release of book value at sale)	-1.939	0
<b>Realized gain/loss result (B1+B2)</b>	<b>266</b>	<b>0</b>
<b>C1) Operating revaluation expense</b>	<b>-10.623</b>	<b>-16.642</b>
Impairments	-10.623	-16.642
<b>Operating revaluation result (C1-C2)</b>	<b>-10.623</b>	<b>-16.642</b>
<b>Operating result</b>	<b>-11.071</b>	<b>-16.874</b>

BALANCE AT THE END OF THE YEAR

in € thousand	2015	2014
<b>Loans and equity investments</b>	<b>1.129.667</b>	<b>1.589.487</b>
Financial assets at fair value through profit or loss	36.347	8.627
Financial assets available for sale	2.314	173.972
Non-current loans	854.615	1.050.546
Current loans	236.391	356.342
<b>Inventory of RE held for sale</b>	<b>68.254</b>	<b>49.122</b>
Real estate	53.990	37.148
Land	14.264	11.974

NOTE 26: FINANCIAL INSTRUMENTS AND RISK EXPOSURE

The Bank Asset Management Company is exposed to several financial risks, which include credit risks, liquidity risks, exchange rate risks, interest rate risks and market risks.

In 2015 the BAMC has significantly improved the risk management system with adoption of general Risk Management Policy, Operational Risk Management Framework and establishing the Risk and Compliance Management Committee.

Exposure to each type of risks and their mitigation is performed based on the financial effects for the BAMC. The main goals are risk management and minimizing financial loss resulting from such risks. The most significant financial risks with disclosed specifics are presented below.

#### *26.1 RISK OVERSIGHT AND GOVERNANCE RISK AND COMPLIANCE MANAGEMENT COMMITTEE*

The Risk and Compliance Management Committee was established in 2015 as an advisory board on an executive level in the area of risk management and compliance. The Risk and Compliance Management Committee has specific responsibilities that include, but are not limited to:

- oversight of risk appetite and risk tolerance,
- monitoring of compliance with the Company's risks limit structure and policies and procedures relating to risk management governance, practices and risk controls across the enterprise,
- effective and timely implementation of corrective actions to address risk management deficiencies,
- integration of risk management and control objectives in management goals.

#### *AUDIT COMMITTEE*

Audit committee consist of two members of the Board of directors and an independent external member. It is responsible for oversight of the financial reporting process and receipt of audit results both internal and external. The committee's role is to provide advices and recommendations to the Board of directors within the scope of compliance, financial reporting, the internal control system, the risk management system, the internal audit function and external auditors.

#### *CREDIT / INVESTMENT COMMITTEES*

Credit / Investment Committees are established to decide on matters related to credit exposures held or managed by the BAMC within their delegated authority from the Board. This includes the approval of debtor asset management, credit strategies, and liquidation of collateral, deciding about initiating insolvency procedures and enforcement procedures and deciding about standstills and restructuring measurements.

#### *INTERNAL AUDIT FUNCTION*

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management and internal controls as well as the quality of performance carrying out assigned responsibilities to achieve the organization's stated goals and objectives.



### *TREASURY MANAGEMENT*

The Treasury unit has primary responsibility for managing liquidity risks and funding risks.

### *RISK MANAGEMENT*

Risk management is responsible for the risk management system as a whole, for its management, for monitoring and updating the risk catalogue and reporting. Responsibility for collecting and monitoring the implementation of measurements and implementation of control activities is one of the unit's priorities as well as the collection all relevant documentation regarding risk management and raising the level of risk awareness in the Company.

### *COMPLIANCE*

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

### *26.2 CREDIT RISKS*

Credit risk is a risk of loss as a consequence of a debtor's inability to fulfil, on time or completely, its obligations toward the BAMC, due to any possible reasons. Credit risk also includes concentration risk (in a single industry, region or assets). Credit risk is present where the BAMC has decided on a restructuring strategy. In these cases, there is always a possibility that debtors will end in insolvency procedures and will discontinue of business operations, therefore the BAMC will lose planned cash flows from debtor's regular operations. Risks, originated from cash and cash-equivalents are relatively low, since the BAMC has strict rules on where to invest surplus; in addition, short term deposits are dispersed among two well-established banks.

In the table below maximum credit risk exposure is presented.

(For the years ended December 31, 2015 and 2014)

in € '000	2015	2014
Available for sale financial assets	3.278	223.205
Loans held for sale	1.091.006	1.406.888
Trade and other operating receivables	8.522	1.632
Cash and cash equivalents	166.132	63.390
Equity investments held for sale	36.347	8.627

Total exposure to credit risks arising from available for sale financial assets has decreased significantly in 2015 due to the sale of RS38 bond and the sale of shares of Pivovarna Laško (PILR).

*A) THE CREDITWORTHINESS OF DEBTORS*

Credit risk of the BAMC depends heavily on the characteristics of its main debtors. The BAMC manages loans, transferred from banks at debtor' group levels. For each debtor a strategy is decided (restructuring or recovery). Details about these strategies are presented in Note 3.1.

The BAMC has not developed its own rating system, since the loan portfolio consists of non-performing loans and a major part of loans is already in default. Therefore the BAMC categorises all debtors among two main strategies – restructuring or recovery. Fair value of loans held for sale according to the strategies is presented below.

(For the years ended December 31, 2015 and 2014)

in € '000	2015	2014
Restructuring	383.870	643.451
Recovery	707.136	763.437
<b>Total</b>	<b>1.091.006</b>	<b>1.406.888</b>

(For the years ended December 31, 2015 and 2014)

exposure in € '000	2015		2014	
	Number of debtors	Average fair value per debtor	Number of debtors	Average fair value per debtor
Restructuring	69	5.563	79	8.145
Recovery	493	1.434	496	1.539
<b>Total</b>	<b>562</b>	<b>1.941</b>	<b>575</b>	<b>2.447</b>

*RISK OF DETERIORATION IN THE FINANCIAL POSITION OF DEBTORS*

One of the most important credit risks, identified by BAMC, is risk of deterioration in the financial position of debtors and consequently change of strategy from restructuring to recovery. Predicted cash flows would then depend only on the collateral value and BAMC would lose cash flows from regular operations.

In the table below difference in carrying amount of loans held for sale is presented according to the simulation of the entire portfolio has designated recovery strategy.

(For the year ended December 31, 2015)

Strategy in € '000	Fair value of loans	Fair value of loans, if all Restructurings fail	Difference
Restructuring	383.870	0	-383.870
Recovery	707.136	983.717	276.581
<b>Total</b>	<b>1.091.006</b>	<b>983.717</b>	<b>-107.289</b>

(For the year ended December 31, 2014)

Strategy in € '000	Fair value of loans	Fair value of loans, if all Restructurings fail	Difference
Restructuring	643.451	0	-643.451
Recovery	763.437	1.302.278	538.841
<b>Total</b>	<b>1.406.888</b>	<b>1.302.278</b>	<b>-104.610</b>

*B) SENSITIVITY ANALYSIS ACCORDING TO THE DISCOUNT RATE*

BAMC values loans held for sale according to the fair value, where discount rate in the amount of weighted average cost of capital (WACC). As at 31. December 2015 WACC was 3,53%. Sensitivity analysis in change of WACC for one percentage points (and thus amounted 2,53%, or 4,53%) is presented below.

Change of discount rate impacts only on future cash flows from restructuring scenario, so the effects of changed discount rate are only visible in this part.

(For the year ended December 31, 2015)

Strategy, in € '000	Fair value of loans (WACC 3,53%)	Impact of change of WACC for one percentage point	
		Decrease	Increase
Restructuring	383.870	-10.043	8.966
Recovery	707.136	0	0
<b>Total</b>	<b>1.091.006</b>	<b>-10.043</b>	<b>8.966</b>

Fair value of loans held for sale would increase for € 8,966 thousand (decrease for € 10.043 thousand) if discount rate, used for valuing loans held for sale would decrease (increase) for one percentage point.

*C) STRUCTURE OF LOANS HELD FOR SALE*

Main credit risks origin in loans held for sale and majority of credit risk has been realized at transfer of these loans to the BAMC (in most cases non-performing loans were transferred). In the table below structure of loans held for sale is presented according to the maturity of expected cash flows.

(For the years ended December 31, 2015 and 2014)

in € '000	2015	2014
Current Loans held for sale	236.391	356.342
Non-current Loans held for sale	854.615	1.050.546
<b>Total</b>	<b>1.091.006</b>	<b>1.406.888</b>

In the table below fair value of loans held for sale is presented according to the days in delay. Days in delay are determined according to the current amortization plan. Performed financial restructurings reflect in higher exposure with no delay in repayment according to the amortization plan of repayments.

(For the years ended December 31, 2015 and 2014)

in € '000	2015	2014
Current	414.438	261.410
Overdue	676.568	1.145.478
Overdue up to 90 days	26.183	246.643
Overdue between 90 days and 1 year	38.633	159.945
Overdue between 1 and 3 years	375.191	488.662
Overdue over 3 years	236.561	250.228
<b>Total</b>	<b>1.091.006</b>	<b>1.406.888</b>

In the table below, net exposure of loans is presented according to the maturity (based on current amortization plan).

(For the years ended December 31, 2015 and 2014)

in € '000	Due loans	Outstanding loans	Total	Share of due loans
2015	616.341	474.665	1.091.006	56%
2014	694.780	712.108	1.406.888	49%

#### *D) EXPOSURE TO CONCENTRATION RISKS*

The loans were transferred to the BAMC in terms of the respective law, without BAMC having the ability to select the respective loans. In the tables below structure of loans according to the main sector of debtors is presented. Main sector is defined according to the Standard Classification of Activities (SKD).

(For the year ended December 31, 2015)

Sector, exposure in € '000	Fair value of loans	No. of debtors
Construction	247.360	118
Financial activities	186.536	42
Manufacturing	184.971	118
Wholesale and retail	166.646	101
Tourism	88.473	19
Professional activities	81.924	60
Real estate activities	35.938	37
Other	99.158	67
<b>Total</b>	<b>1.091.006</b>	<b>562</b>

(For the year ended December 31, 2014)

Sector, exposure in € '000	Fair value of loans	No. of debtors
Construction	293.284	120
Financial activities	296.691	45
Manufacturing	248.638	129
Wholesale and retail	220.400	106
Tourism	101.710	20
Professional activities	84.197	63
Real estate activities	41.444	40
Other	120.524	52
<b>Total</b>	<b>1.406.888</b>	<b>575</b>

Claims that were purchased by the BAMC and loans that were granted to the debtors represent only 2% of total fair value and have therefore no major impact on the concentration risk.

The BAMC manages concentration risk in terms of managing loans regardless the specific sector where debtors conduct their business in.

### 26.3 LIQUIDITY RISKS

Liquidity risk is a risk of loss of the event that the BAMC is not able to meet all its obligation when due or in the event the BAMC should require additional liquidity at higher interest rate than current market rates.

The key liquidity risk for the BAMC presents the repayment of its bonds with the state guarantee at the end of years 2016 and 2017.

In the tables below an exposure to liquidity risk is presented.

(For the year ended December 31, 2015)

in € '000	Carrying amount	Contractual undiscounted Cash flows	Up to 12 months	1 to 2 years	2 to 5 years
Debt Securities	1.052.538	1.096.392	548.173	504.365	0
Trade and other operating payables	6.257	6.257	6.257	0	0
Borrowings	200.000	204.000	2.000	202.000	0
<b>Total</b>	<b>1.258.795</b>	<b>1.306.649</b>	<b>556.430</b>	<b>706.365</b>	<b>0</b>

(For the year ended December 31, 2014)

in € '000	Carrying amount	Contractual undiscounted Cash flows	Up to 12 months	1 to 2 years	2 to 5 years
Debt Securities	1.558.032	1.652.014	555.622	536.676	559.715
Trade and other operating payables	11.514	11.514	11.514	0	0
Borrowings	5	5	0	0	5
<b>Total</b>	<b>1.569.551</b>	<b>1.663.533</b>	<b>567.136</b>	536.676	<b>559.720</b>

The BAMC manages liquidity risks with constant coordination of obligations and due assets. Payment of principle of bond DUT02 will past due at the end of the year 2016 in total amount of € 503,2 million, which represents high liquidity risk. The BAMC will partially use its liquidity reserves and partly refinance liabilities with Republic of Slovenia's guarantee to repay the obligation.

#### 26.4 MARKET RISK

Market risk is a risk of a loss arising from changes in interest rates, exchange rates and other market prices. It arises from open positions in interest rates and currency products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices. BAMC is exposed to market risk on its loans held for sale and in change of a market prices of assets, given as collateral.

##### A) INTEREST RATE RISK

Interest rate risk is a risk of loss as a consequence of changed interest rates in the market. BAMC acquired fixed and variable rate loans, major part of them was non-performing and already due as presented in the Credit risks section above.

Interest rate risk exposure is presented in the tables below.

(For the year ended December 31, 2015)

in € '000	Fixed interest rate	Variable interest rate	Total
Financial assets	635.160	459.124	1.094.284
Loans held for sale	631.882	459.124	1.091.006
Available for sale financial assets	3.278	0	3.278
Financial liabilities	1.252.538	0	1.252.538
Debt securities	1.052.538	0	1.052.538
Borrowings	200.000	0	200.000

(For the year ended December 31, 2014)

in € '000	Fixed interest rate	Variable interest rate	Total
Financial assets	1.010.146	619.946	1.630.093
Loans held for sale	786.941	619.946	1.406.888
Available for sale financial assets	223.205	0	223.205
Financial liabilities	1.558.037	0	1.558.037
Debt securities	1.558.032	0	1.558.032
Borrowings	5	0	5

There is a high risk that the BAMC will not be fully repaid due to low creditworthiness of the debtors and insufficient collateral and not due to changed interest rates, therefore is interest rate risk estimated as relatively low risk.

In addition, in the table below gross exposure (total exposure of debtor according to the amortization plan) and fair value of loans as at 31 December 2015 and 2014 are shown according to the maturity and type of interest rate (fixed/variable). Gross exposure is presented due to presentation of sensitivity analysis later on.

(For the year ended December 31, 2015)

in € '000	Fixed interest rate	Variable interest rate	Total
<b>Gross Exposure</b>	<b>2.861.204</b>	<b>1.502.976</b>	<b>4.364.180</b>
There of due Gross exposure	394.308	444.907	839.215
There of outstanding Gross Exposure	2.466.896	1.058.069	3.524.965
<b>Fair value of loans</b>	<b>631.882</b>	<b>459.124</b>	<b>1.091.006</b>
There of due Net Exposure	194.705	280.626	475.331
There of outstanding Net Exposure	437.177	178.498	615.675

(For the year ended December 31, 2014)

in € '000	Fixed interest rate	Variable interest rate	Total
<b>Gross Exposure</b>	<b>3.098.870</b>	<b>1.831.425</b>	<b>4.930.295</b>
There of outstanding Gross exposure	635.865	711.050	1.346.915
There of due Gross exposure	2.463.005	1.120.375	3.583.380
<b>Fair value of loans</b>	<b>786.941</b>	<b>619.946</b>	<b>1.406.888</b>
There of outstanding Net Exposure	312.182	399.925	712.108
There of due Net Exposure	474.759	220.021	694.780

#### INTEREST RATE RISK – SENSITIVITY ANALYSIS

BAMC has transferred loans from the banks with fixed and variable interest rates, in addition bonds with fixed interest rates were issued. Almost all loans with variable interest rates are combined as EURIBOR + mark-up (and are therefore denominated in euro). As at 31 December 2015 these loans represented 98% of all loans with variable interest rate.

The outstanding part of gross exposure (without discounts) with variable interest rates presents only 10,2% of total gross exposure.

In the table below, sensitivity analysis and effects on outstanding gross exposure with variable interest rates according to the change in basis points (b. p.) are shown. Change in interest rates effects only the outstanding part of gross exposure (for due loans fixed, penalty interest are calculated). Change in interest rates effects only loans with variable interest rate therefore an effect on total gross exposure is relatively low. Sensitivity analysis with respect to the fair value of the loans cannot be directly presented since fair value is based on future expected cash flows (including recovery cash flows) and not always on the amortization plan with assigned interest rate.

It is emphasized that risk that BAMC's debtors will not be able to repay their obligations origin from debtors' inability to repay their obligations on time and not from interest rate changes. Regardless the changes in gross exposure, according to the BAMC's methodology fair value of loans depends on expected cash flows so the change in gross exposure is not linear to the change in net exposure.

(For the year ended December 31, 2015)

in € '000	Effect on outstanding gross exposure with variable interest rate	
	Increase	Decrease
100 b.p. change	4.491	-4.491
50 b.p. change	2.246	-2.246
10 b.p. change	449	-449

(For the year ended December 31, 2014)

in € '000	Effect on outstanding gross exposure with variable interest rate	
	Increase	Decrease
100 b.p. change	7.111	-7.111
50 b.p. change	3.555	-3.555
10 b.p. change	711	-711

#### *B) EXCHANGE RATE RISK*

BAMC also acquired loans and receivables denominated in foreign currencies during the transfer from banks. As a result, BAMC is exposed to foreign exchange risk and to effect of fluctuations in foreign currency exchange rates. BAMC regularly monitors a foreign exchange risk in accordance with Risk Management Policy and prepares adequate mitigations.

Table below summaries exposure of the BAMC to the exchange rate risk as at 31. December 2015 and 2014.



(For the year ended December 31, 2015)

in € '000	EUR	CHF	USD	RSD	RUB	JPY	TOTAL
<b>Total</b>	<b>1.256.849</b>	<b>11.603</b>	<b>277</b>	<b>2</b>	<b>138</b>	<b>69</b>	<b>1.268.938</b>
Loans held for sale	1.078.917	11.603	277	2	138	69	1.091.006
Available-for-sale financial assets	3.278	0	0	0	0	0	3.278
Trade and other operating receivables	8.522	0	0	0	0	0	8.522
Cash and cash equivalents	166.132	0	0	0	0	0	166.132
<b>Total</b>	<b>1.258.795</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1.258.795</b>
Trade and other operating payables	6.257	0	0	0	0	0	6.257
Borrowings	200.000	0	0	0	0	0	200.000
Debt securities	1.052.538	0	0	0	0	0	1.052.538
<b>Net Exposure</b>	<b>-1.946</b>	<b>11.603</b>	<b>277</b>	<b>2</b>	<b>138</b>	<b>69</b>	<b>10.143</b>

(For the year ended December 31, 2014)

in € '000	EUR	CHF	USD	RSD	RUB	JPY	TOTAL
<b>Total</b>	<b>1.683.092</b>	<b>11.449</b>	<b>426</b>	<b>1</b>	<b>59</b>	<b>87</b>	<b>1.695.115</b>
Loans held for sale	1.394.865	11.449	426	1	59	87	1.406.888
Available-for-sale financial assets	223.205	0	0	0	0	0	223.205
Trade and other operating receivables	1.632	0	0	0	0	0	1.632
Cash and cash equivalents	63.390	0	0	0	0	0	63.390
<b>Total</b>	<b>1.569.551</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1.569.551</b>
Trade and other operating payables	11.514	0	0	0	0	0	11.514
Borrowings	5	0	0	0	0	0	5
Debt securities	1.558.032	0	0	0	0	0	1.558.032
<b>Net Exposure</b>	<b>113.541</b>	<b>11.449</b>	<b>426</b>	<b>1</b>	<b>59</b>	<b>87</b>	<b>125.564</b>

#### FOREIGN EXCHANGE RISK – SENSITIVITY ANALYSIS

Strengthening or weakening of the euro against the following currencies as at 31 December 2015 would have different impact on assets and liabilities by the amounts set out below.

Sensitivity analysis was made according to the scenarios of 20 % and 10% changes of EUR against CHF and USD. Impact of change of EUR against USD is relatively low due to small amount of loans in USD. On the other hand, 20% change of EUR against CHF and USD together will change the net exposure for 3,1 or -1,7 percentage points respectively as at 31 December 2015.

(For the year ended December 31, 2015)

in percentage points, 2015	Weakening	Strengthening
20% change of EUR against CHF	6,4 o.t.	-3,3 o.t.
10% change of EUR against CHF	3,0 o.t.	-1,6 o.t.
20% change of EUR against USD	0,5 o.t.	0,3 o.t.
10% change of EUR against USD	0,5 o.t.	0,3 o.t.
20% change of EUR against CHF and USD	6,6 o.t.	-3,4 o.t.
10% change of EUR against CHF and USD	3,1 o.t.	-1,7 o.t.

(For the year ended December 31, 2014)

In percentage points, 2014	Weakening	Strengthening
20% change of EUR against CHF	1,62 p.p.	-1,68 p.p.
10% change of EUR against CHF	0,82 p.p.	-0,83 p.p.
20% change of EUR against USD	0,06 p.p.	-0,06 p.p.
10% change of EUR against USD	0,03 p.p.	-0,03 p.p.
20% change of EUR against CHF and USD	1,68 p.p.	-1,74 p.p.
10% change of EUR against CHF and USD	0,85 p.p.	-0,8 p.p.

Sensitivity analysis with respect to the fair value of the loans cannot be directly presented since fair value is based on future expected cash flows (including recovery cash flows). Each change of fair value of loans due to change in exchange rates will be corrected to the fair value of loans held for sale at each evaluation.

### C) ELASTICITY OF LOANS ACCORDING TO THE COLLATERAL

#### VALUE OF REAL ESTATE, SUBMITTED AS A COLLATERAL FOR LOANS – SENSITIVITY ANALYSIS OF LOANS HELD FOR SALE

Real estate, submitted as an underlying collateral have an important role in determining fair value of loans. Changes in underlying real estate valuations could have an impact on value of loans, sensitivity analysis as at 31 December 2015 is presented below.

(For the year ended December 31, 2015)

Strategy in € '000	Fair value of loans	Fair value of loans if value of collateral increases for 10%	Change	Change in %
Restructuring	383.870	387.573	3.703	0,96%
Recovery	707.136	726.174	19.038	2,69%
<b>Total</b>	<b>1.091.006</b>	<b>1.113.747</b>	<b>22.741</b>	<b>2,08%</b>

(For the year ended December 31, 2015)

Strategy in € '000	Fair value of loans	Fair value of loans if value of collateral decreases for 10%	Change	Change in %
Restructuring	383.870	380.166	-3.704	-0,96%
Recovery	707.136	639.396	-67.740	-9,58%
<b>Total</b>	<b>1.091.006</b>	<b>1.019.562</b>	<b>-71.444</b>	<b>-6,55%</b>

In case of increase of estimated value of underlying real estate collateral for 10%, value of loans would increase for 2,08 %. Recovery cases would increase for 2,69 %, restructuring cases for 0,96 %. Elasticity

of impact is not proportional due to taking into the account potential rankings, legal circumstances or any other known facts regarding underlying collateral real estate.

*VALUE OF EQUITY INVESTMENTS, SUBMITTED AS A COLLATERAL FOR LOANS – SENSITIVITY ANALYSIS OF LOANS HELD FOR SALE*

Equity, submitted as an underlying collateral have an important role in determining fair value of loans. Changes in underlying equity valuations could have an impact on value of loans, sensitivity analysis as at 31 December 2015 is presented below.

(For the year ended December 31, 2015)

Strategy in € '000	Fair value of loans	Fair value of loans if value of collateral increases for 10%	Change	Change in %
Restructuring	383.870	384.560	690	0,18%
Recovery	707.136	720.319	13.183	1,86%
<b>Total</b>	<b>1.091.006</b>	<b>1.104.879</b>	<b>13.873</b>	<b>1,27%</b>

(For the year ended December 31, 2015)

Strategy in € '000	Fair value of loans	Fair value of loans if value of collateral decreases for 10%	Change	Change in %
Restructuring	383.870	383.137	-733	-0,19%
Recovery	707.136	692.948	-14.188	-2,01%
<b>Total</b>	<b>1.091.006</b>	<b>1.076.085</b>	<b>-14.921</b>	<b>-1,37%</b>

In case of increase of underlying collateral for 10%, value of loans would increase for 1,27%. Recovery cases would increase for 1,86%, restructuring cases for 0,18%. Elasticity of impact is not proportional due to taking into the account potential rankings, legal circumstances or any other known facts regarding underlying collateral equity.

*D) EQUITY INVESTMENTS HELD FOR SALE*

BAMC has in ownership shares and stocks of companies that were transferred to BAMC from Slovenian banks, (where stock of Pivovarna Laško represented the largest investment) or were gained as a debt to equity conversion in the context of financial restructuring of BAMC's Debtors. Stocks of Pivovarna Laško, d.d. were sold in 2015.

Equity investments held for sale are valued at fair value and are presented in the tables below.

(For the years ended December 31, 2015 and 2014)

in € '000	Total Fair Value
2015	36.347
2014	8.627

*EQUITY INVESTMENTS HELD FOR SALE – SENSITIVITY ANALYSIS*

Sensitivity analysis was prepared according to the change in terminal growth rate and change in discount rate, used for evaluation, as presented below.

Change in terminal growth rate for one percentage point would increase the fair value of portfolio of equity investments held for sale for € 6.601 thousand (in case of higher terminal growth rate), or would decrease the fair value of portfolio for € 4.817 thousand (in case of lower terminal growth rate).

(For the year ended December 31, 2015)

in € '000	Change in terminal growth rate for one percentage point	
	Increase	Decrease
Equity investments held for sale		
36.347	6.601	-4.817

(For the year ended December 31, 2014)

in € '000	Change in terminal growth rate for one percentage point	
	Increase	Decrease
Equity investments held for sale		
8.627	1.296	-958

Change in discount rate for one percentage point would increase the fair value of portfolio of equity investments held for sale for € 8.107 thousand (in case of lower discount rate), or would decrease the fair value of portfolio for € 5.131 thousand (in case of higher discount rate).

(For the year ended December 31, 2015)

in € '000	Change in discount rate for one percentage point	
	Increase	Decrease
Equity investments held for sale		
36.347	8.107	-5.131

(For the year ended December 31, 2014)

in € '000	Change in discount rate for one percentage point	
	Increase	Decrease
Equity investments held for sale		
8.627	1.775	-1.215

#### NOTE 27: EVENTS AFTER THE REPORTING PERIOD

On 27 January 2016, the amended ZUKSB came into force, empowering BAMC with additional restructuring tools as well as re-establishing the BAMC's framework of operations and its supervision. More detailed information on amendments of ZUKSB is presented in a special chapter in the business report.

On 28 January 2016 the Government of the Republic of Slovenia acting in the capacity of the BAMC General Meeting decided that BAMC is to transfer all claims against Sava d.d. and all Sava d.d. bonds in BAMC's possession to the Slovenian Sovereign Holding (SDH) and Kapitalska družba d.d. for a consideration, at the same transfer values as BAMC acquired them in the context of the implementation of measures to strengthen the stability of the banks, or at their fair values/book values as at 30 June 2015, if they are higher than the transfer value, increased by the cost of financing of 4,2% weighted average cost of capital for the duration of their holding. On 9 August 2016 the transfer was executed in line with the General Meeting decision.

Though the transfer of Sava d.d. assets is not causing an immediate financial loss for BAMC, taking an asset with significant appreciation potential out of the portfolio represents an opportunity loss for BAMC.

On 19 February 2016, BAMC merged Factor banka and Probanka through the simplified merger process. BAMC's Board prepared the merger report which stated that the favourable effects of the merger will outweigh its possible negative effects if the following conditions are met:

- DG Com approves the envisaged transaction,
- The Ministry of Finance and the BAMC reach an agreement regarding the restructuring of 369,0 million EUR debt or a guarantee of the Republic of Slovenia is issued,
- The Republic of Slovenia issues a statement that it will reimburse BAMC for any payments made to the former bondholders or to the shareholders of both merging banks on the basis of a legally binding decision within 1 month after the receipt of the written proof of the amounts paid to the former bondholders/shareholders of FB and PB, and
- registered capital of BAMC is increased by up to €76 million in order to cover potential negative effect on BAMC's capital.

Based on the decision of the Government in the capacity of the General Assembly of BAMC as of 18 February 2016, the merger of Factor banka and Probanka into BAMC was registered at court register the next day, setting the cut-off date at 1 January 2016.

The merger of Factor banka and Probanka had some negative impact on BAMC's equity owing to the negative cumulative equity of the banks. Due to this and possible need for additional impairment of merged assets, BAMC has initiated that the owner, the Republic of Slovenia, will ensure additional capital thus enhancing BAMC's capital structure when and in the amount needed.

With acquisition of the two banks, BAMC took over not only assets of acquired companies, but also over €361,5 million of obligations towards the Ministry of Finance from Factor banka and Probanka which originally matured in August and September 2016. On 8 April 2016, BAMC made an early repayment of €150,0 million of aforementioned obligations and extended the maturity of remaining obligations by December 2016 when DUT02 bond matures as well.

A simplified merger procedure was carried out, with the accounting merger date set at 1 January 2016. As Factor banka and Probanka were under 100-percent ownership of the Republic of Slovenia, the transaction was classified as a transaction between companies under common management. The merger was thus performed at book values, while the valuation of transferred assets to fair value in accordance with BAMC's existing accounting policies had not yet been completed by the time of this report. The merger was performed without issuing new shares and without cash payments to the owner of the merged entities.

On 5 May 2016 the Government in the capacity of the General Meeting of BAMC decided to increase BAMC's share capital by €4,61 million or 2.305.000 shares. The capital increase was made with in-kind

transfer of Republic of Slovenia's claims towards companies in the Cimos group. Share capital increase was registered in court register on 27 July 2016.

On 23 May 2016 Factor-IN d.o.o., Ljubljana, Factor Projekt d.o.o., Ljubljana, Probanka Leasing d.o.o., Maribor and Probanka Nepremičnine d.o.o., Maribor, four former subsidiaries of Factor banka and Probanka, were merged to BAMC with the cut-off date set at 31 March 2016.

On 31 May 2016 BAMC published its 2015 operations report to the National Assembly (in Slovenian language).

On 13 June 2016 PV-Naložbe d.o.o., Ljubljana, the last former subsidiary of Factor banka, was merged to BAMC with the cut-off date set at 31 March 2016.

On 16 June 2016 the Board has adopted the Integrity Plan based on the Integrity and Prevention of Corruption Act. A draft of the Integrity Plan had been reviewed beforehand by the Commission for the Prevention of Corruption which has assessed that, following its recommendations, the Integrity Plan corresponds to the standards set by the Integrity and prevention of Corruption Act.

On 1 July 2016 the new BAMC organisational structure became effective. Following the mergers of Factor banka and Probanka to BAMC the process of reorganisation was pursued with the aim of optimising employment structure and increasing cost efficiency.

On 23 August 2016 BAMC listed DUT03 and DUT04 bonds to the Third market at Vienna Stock Exchange. Following the decisions of bondholders' general meetings, Ljubljana Stock Exchange delisted DUT02 bond on 1 September 2016 and DUT03 and DUT04 bonds on 9 September 2016. By delisting all BAMC's financial instruments from organised market BAMC is, according to ZUKSB-A regulation, exempt from consolidating the companies whose equity stakes or shares it had acquired by means of purchase/compensated acquisition of bank assets, or as part of corporate restructuring.

On 24 August 2016 BAMC made an early repayment of €120,0 million of obligations towards the Ministry of Finance taken over with the merger of Factor banka and Probanka. The remaining obligations will be repaid by December 2016.

On 7 September 2016 the non-executive directors appointed Imre Balogh as the CEO of BAMC with his five-year mandate beginning on 1 October 2016.

#### NOTE 28: RELATED PARTY TRANSACTIONS

The ownership structure as at 31 December 2015 is presented in note 3.3 Determination of the significant influence over other entities.

In compliance with the IAS 24, related parties are, in addition to the government of the Republic of Slovenia as a 100% owner, deemed to be the following companies:

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

FROM JANUARY TO DECEMBER 2015 THE BAMC DID BUSINESS WITH RELATED PARTIES

	Subsidiaries	Associates	Companies associated with owner (RS)
	2015	2015	2015
<b>Financial assets at fair value through profit or loss (loans)</b>			
Opening balance	196.386	3.338	
Increase	16.180		
Decrease	63.642	3.338	
<b>Closing balance</b>	<b>148.924</b>	<b>0</b>	
Financial income	7.615	93	
Financial expense	272	213	
<b>Deposits</b>			
Opening balance			901
Decrease			3.574
<b>Closing balance</b>			<b>4.475</b>
Interest income			22
<b>Financial assets at fair value through profit or loss (equity investments)</b>			
Opening balance	0	50.131	171.823
Increase	25.734	512	0
Decrease	0	48.287	171.823
<b>Closing balance</b>	<b>25.734</b>	<b>2.356</b>	<b>0</b>
Financial income	0	45.699	12.691
<b>Borrowings</b>			
Opening balance			0
Increase			200.120
Decrease			120
<b>Closing balance</b>			<b>200.000</b>
Interest expense			93
<b>Debt securities</b>			
Payouts			547.819
Obligations			1.052.538
Financial expense			68.244
Other expenses			1.369
Other costs			1.488

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

Remunerations of Board members are disclosed in Note 20.

**NOTE 29: CONTINGENT LIABILITIES**

The list of court proceedings in which the BAMC acts as defendant party shows that there are no proceedings against the BAMC in which the plaintiff would demand payment from the BAMC, for that reason no accruals are made in the balance sheet of BAMC.

**NOTE 30: AUDIT COST**

The cost of the audit of financial statements for the financial year 2015 is €48.743 plus VAT.