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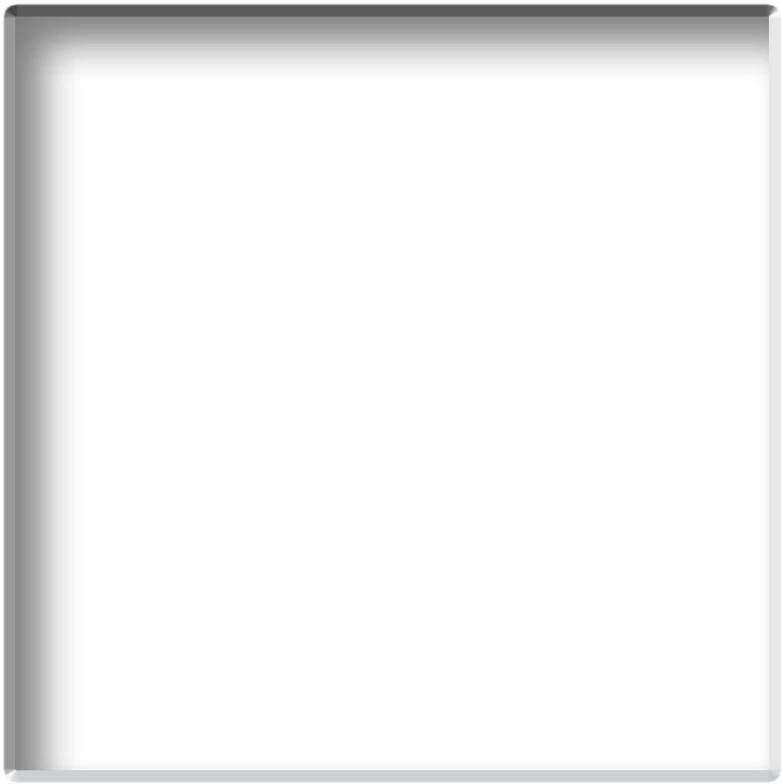


ANNUAL REPORT
2013

DUTB

FROM BAD TO GOOD

CONTENTS

INTRODUCTION

The Bank Assets Management Company (BAMC) was established in March 2013 as a state-owned company with the task of facilitating the restructuring of banks of systemic importance facing severe solvency and liquidity issues. By the end of 2013, the two largest banks – Nova Ljubljanska Banka d.d., Ljubljana (NLB) and Nova Kreditna Banka Maribor d.d., Maribor (NKBM) – had been recapitalized by the State and a substantial part of their non-performing assets had been transferred to the BAMC. They entered 2014 with strengthened balance sheets and sufficient capital and liquidity to start new lending operations and thus facilitate renewed economic growth in Slovenia.

Recapitalization of the banks would not have been possible without the transfer of assets to the BAMC. This was an important step forward in restoring credibility of the Slovenian banking sector both on the domestic and international levels. International markets responded by granting a substantial reduction in interest rates for Slovenian national debt.

The incorporation of the BAMC as a company, including setting up its organizational structure, business operations and preparing it for receiving the transferred assets, has been a success.

This success was no easy task, however. The BAMC had to overcome substantial challenges. Its activities and actions in 2013 should be considered in light of these challenges. The key challenges included:

- frequent and radical changes in the government's demands regarding the scope and timing of BAMC operations;
- dependence of the transfer process on the European Commission's decisions; and
- continuous lack of access to essential data on non-performing assets to be transferred to the BAMC.

The principal goal of the BAMC is to recover the highest possible value for the transferred assets and thus mitigate the bank restructuring costs to the Slovenian state budget. This will be achieved through restructuring and eventually selling off the transferred assets.

Our company motto, "From bad to good", guides us to look forward, not back. Even so, we are aware that the principles of marketability, accountability and sound corporate governance are something that Slovenians have experienced and practised throughout their history as a nation. Below you will find some more and some less serious insights into the historical heritage of Slovenian economic and entrepreneurial activities, which should serve both as evidence and as inspiration.

The Board of Directors 2013 (from left to right):
Carl-Johan Lindgren, Lars Nyberg, Arne Berggren, Mitja Mavko, Christopher Gwilliam, Janez Škrubej. Ales Koršič is missing in the picture.

Slovenian economy struggling with the consequences of centralist economic policy
Ilustrirani Slovenec newspaper, 1926

Kredit naj pridobiva denar, denar naj krije kredit. V šoli smo se učili, da pomeni kredit (latinsko creditum) to, kar se komu poveri, zaupa. Kredit je zaupanje, ki ga uživa tisti, ki so se mu vrednosti oddale, da bo obljubljeno protivrednost ali na pozneje določeno povračilo svoječasno izvršil. Kredit znači tudi **razmerje,** ki je iz tega zaupanja izšlo.

Za narodno gospodarstvo ima kredit ta pomen, da preide kapital v roke onih, ki ga znajo bolje izkoristiti in izrabiti, kakor njega dosedanji imejitelji. Kredit pospešuje tvorenje kapitala, omogoča, da se tudi oni stalno okoristijo iz kapitalij, ki jih sami niso zmožni izkoristiti. Kredit omogoča stalno napredovanje produkcije, trgovine, obvaruje včasih brezsredstvene delavne moči pred pomanjkanjem in poginom. Kredit pospešuje nravstveno dviganje ljudstva, ker navaja k štedenju, opominja k opreznosti, k zvestobi in točnosti, brez katerih lastnosti bi kredit ne imel podlage.

Credit to Acquire Money, and Money to Cover the Credit. We were taught in school that credit (lat. creditum) is something that is entrusted to someone. Credit is the trust placed into people who borrow a certain amount to reimburse the promised equivalent amount at a later date specified. Credit also stands for the relationship that emerges from this trust. In the scope of national economy, credit means that the capital goes into the hands of those that know how to put it to a better use than the former holders. Credit accelerates the formation of capital and makes it possible for the former holders to also benefit from the capital they were not able to make use of. Credit allows a continuous progress of production and trade, and protects hardworking labourers with no resources from poverty and death. Credit improves character by encouraging saving, vigilance, loyalty and punctuality – virtues that constitute the foundation for credit.

Article on credit and credit situation in Slovenia
Trgovski list newspaper, 1914

1. LETTER FROM THE CEO

The BAMC was incorporated in March 2013. During the first months following, the European Commission and the government of the Republic of Slovenia made numerous modifications to the method of transfer of non-performing assets. Consequently, the company strategy changed several times whilst it was being decided how the company would proceed. The main changes were whether the BAMC was to own the banks directly and operate as the shareholder or merely to buy the banks' claims. In parallel to setting up the structure of the business, the BAMC was required also to assess the urgent restructuring cases. This inevitably meant that great reliance had to be placed on temporary resources to provide the experience and skills necessary to start up a business of this type and the appropriate restructuring advice. At the same time, the company avoided unnecessary costs of hiring permanent staff whilst operations had not commenced although preparations in this regard were being made by the initiation of the proper selection procedures to find suitably qualified local and international personnel. This was mainly undertaken during the autumn of 2013.

The decision was finally made to start the transfer of assets in early December and, on 19 December 2013, with a EUR 1 billion bond issue, which was the transfer value of assets from the NLB and the NKBM approved by the European Commission's Directorate General for Competition ("EC DG Comp"), the business finally commenced with legal and bookkeeping transfer of non-performing assets. The actual physical transfer of assets' file records started on 13 January 2014. By this time the company staff level had risen to 20 employees.

Consequently, it can clearly be understood that the business really only started operations in 2014 as the transfers of the assets continued and more staff arrived to handle the cases. These initial transfers were completed by mid-May 2014. It was largely these timings and the uncertainty of the fair value of transferred assets that delayed the publication of the audited Annual Report for 2013. These uncertainties have now largely been resolved following the valuation of the portfolio before this report was completed, which has established the initial and fair value recognition, thus establishing a firm basis on which to go forward.

We now look to the future, in developing our three core business lines – that is, restructuring, legal recovery and real estate. It is here that we expect to optimize value and make our essential contribution to the State in the future. Further asset acquisition (from Abanka, Probanka and Factor banka) is expected to be completed before the end of 2014. In the short to medium term, BAMC's main focus is on the restructuring of many complex corporate assets which the BAMC is responsible for. In the meantime, we also hope that the market will improve to enable us to release real estate assets to the market on a gradual basis so as to maintain value as much as possible. Market improvement should also stimulate investment interest in the other BAMC assets, especially as the effects of restructurings are realized.

Christopher Gwilliam

2. REPORT OF THE BOARD OF DIRECTORS FOR 2013

The Board of Directors ("Board") of the Družba za upravljanje terjatev bank, d.d. comprises 4 non-executive and 3 executive directors. In 2013 the Board of Directors comprised the following members:

- Lars Erik Nyberg (non-executive director, chairman of the Board of Directors from 14 September 2013, deputy chairman of the Board of Directors until then);
- Andrej Šircelj (non-executive director, chairman of the Board of Directors until 13 September 2013);
- Carl-Johan Lindgren (non-executive director, deputy chairman of the Board of Directors from 14 September 2013)
- Sten Arne Berggren (non-executive director);
- Anders Torbjörn Ingemar Månsson (executive director);
- Boštjan Gjerkeš (executive director);
- Aleš Koršič (executive director).

Initially, Andrej Šircelj was elected chairman and Lars Nyberg deputy chairman of the Board of Directors. In September 2013, the government of the Republic of Slovenia relieved Andrej Šircelj of duty. At the same time, Lars Nyberg was elected chairman and Carl Lindgren deputy chairman. During the period from September 2013 to the end of 2013, the Board had remained short one non-executive director.

In its activities, the Board is bound by the principles of transparency, the law and open communication. Its resolutions and decisions have contributed to transforming the BAMC, which, as a newly-formed company, needed basic business functionality, operative rules and other relevant documents. Furthermore, the Board of Directors has always obtained all necessary documents and information related to company operations, as well as the activities of its executive directors.

During the period from March 2013 to December 2013, the Board held 12 regular meetings, 1 extraordinary meeting and 2 correspondence meetings. The said meetings had 97% attendance. All Board members have actively taken part in the decision-making process and monitored how resolutions were being implemented, in accordance with the Rules of Procedure of the Board.

The Board focused on the following areas, in particular:

- starting up company operations and the procedures involved (preparing internal regulations, organizational structure, etc.);
- signing contracts with members of the Board of Directors, as well as other matters involving the adopted remuneration policy;
- establishing Board committees to provide expert support for the Board of Directors;
- establishing cooperation with outsourced consultants who provided assistance in the company start-up stages;
- recruitment efforts for, and appointment of, permanent executive directors and staff;
- preparing the first budgets and financial projections;
- establishing a framework for transferring non-performing loans (NPLs) from commercial banks;
- preparing the funding structure to pay for the claims to be transferred to the BAMC;
- engaging with the media to maintain an honest and transparent corporate image.

Work of the Board Committees

Established in April 2013, two committees assisted the Board in the formulation of its policies: the Audit Committee and the Remuneration Committee. These committees each had one professional external member.

Audit Committee

The Audit Committee comprised Andrej Šircelj, Arne Berggren and Tamara Jerman as an independent external member. The

Audit Committee met on 3 occasions in 2013, with no members absent.

Remuneration Committee

The members of the Remuneration Committee were Lars Nyberg, Carl Lindgren and Prof. Primož Klemen as an independent outside member. The Remuneration Committee met on three occasions in 2013.

Evaluation of the Work of the Board of Directors

In accordance with its mandate stipulated in BAMC's Articles of Association and the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability ("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 establishing BAMC's operational capacity, supervising its business operations with the assistance of its Board committees. Numerous changes in the scheduled timing of the transfer of assets from banks in the context of measures envisaged under the ZUKSB presented continuous and exceptional challenges for the BAMC Board of Directors at the start of its mandate. This notwithstanding, the Board successfully completed all required procedures for the start of operations and functioning of the company. The BAMC made the necessary preparations including the contractual and corporate frameworks required for the transfers of more than EUR 1 billion of non-performing assets. Those transfers were successfully accomplished at the end of 2013.

At the end of April 2014, the Board of Directors reviewed the unaudited annual report. Due to insufficient information available to the BAMC in the spring, there was a great deal of uncertainty regarding the fair value of transferred assets at the time when the anual report was being prepared. Consequently, the auditor was unable to undertake the audit of the company's financial statements in April 2014. An internal valuation was completed succesfully in June, and served as a basis for initial recognition of fair value of transferred assets, and made it possible to carry out the audit of the company's financial statements.

A review of the annual report and the auditor's report were undertaken by the Board on Meeting of the Board of Directors on 13 August 2014. The Board has reviewed the BAMC annual report and concluded that the annual report is in compliance with the company's Articles of Association, the Companies Act and International Financial Reporting Standards. 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, had been reviewed by a certified auditor, and an unqualified opinion was issued.

In light of the above, and with consideration to the facts 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 the BAMC, the Board of Directors has concluded that the annual report is satisfactory and has given its approval regarding its contents.

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, risk management, safe and secure business operations, internal controls, IT system quality and accuracy, and completeness of notices and reports. 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 certified auditor's unqualified opinion and considers the auditor's reports to accurately and honestly reflect the company's financial condition, has assessed it as adequate, and has no additional comments.

3. PRESENTATION AND ORGANIZATION OF BAMC

Full company name	**Družba za upravljanje terjatev bank, d.d.**
Short company name	**DUTB, d.d.**
Registered office	**Davčna ulica 1, 1000 Ljubljana, Slovenia**
Telephone	**+386 820 542 35**
Fax	**+386 1 429 38 59**
E-mail	**info@dutb.eu**
Website	**www.dutb.eu**
Core business	**Acquisition of claims and assessment of creditworthiness**
Registration entry	**2013/11708 District Court of Ljubljana**
Company ID number	**6339620000**
Tax number	**41251482**
VAT number	**SI41251482**
Share capital	**EUR 203.625.000,00**
Number of shares	**101.812.500 ordinary no-par value shares**
Non-executive directors as of 30 May 2014	**Lars Nyberg, chairman of the Board of Directors**
	Carl-Johan Lindgren, deputy chairman of the Board of Directors
	Arne Berggren
	Mitja Mavko
Executive directors as of 30 May 2014	**Christopher Gwilliam, CEO**
	Janez Škrubej
	Aleš Koršič

3.1 Board of Directors

Non-Executive directors as of 31 July 2014

Lars Nyberg, chairman of the Board of Directors, doctor of economics and long-term member of Swedish Financial Supervisory Authority, worked as executive vice president in two commercial banks in Sweden: Handelsbanken and Swedbank. As deputy CEO of the Föreningsbanken during the Swedish bank crisis between 1991 and 1993 he made an important contribution to the efforts for the bank's restructuring and recapitalization. He continued his professional career as deputy governor of the Central bank – Riksbanken, where worked for 13 years. He was a long-term president of the ECB Task Force for Crisis Management. As member of the De LaRoisere Group, founded by the European Commission, he took part in developing monitoring guidelines for the European banks in the wake of the 2008 economic crisis. At the same time, he served as president of the EFC High-Level Working Group that shaped the final guidelines for overcoming the economic crisis in the EU.

Carl-Johan Lindgren, deputy chairman of the Board, has over 20 years of experience worldwide in managing bank crises and restructuring banks. After more than 30 years of service in the IMF he retired in 2001 as deputy director of the department responsible for crisis management and bank restructuring. He led the IMF response to the banking crises in Thailand and other Asian countries in the late 1990s and in Turkey in 2000–01. He is one of the creators of the Financial Sector Assessment Program initiated by the IMF and the World Bank in 1999. For the past 10+ years he has acted as an independent consultant and financial policy advisor to central banks, banks, supervisory agencies and governments throughout the world. His work has focused on safeguarding financial sector stability and crisis prevention through macro- and microprudential policies and designing regulatory and institutional frameworks to deal with financial crisis and resolution.

Arne Berggren – during his 20-year career as advisor or chairman of the Board of Directors he was actively involved in issues of ownership, reconstruction and sale of companies and banks in Sweden and abroad. He served in both private and public sectors, as well as international organizations. During the financial crisis in Sweden and abroad, he was actively involved in the process of restructuring banks and company assets. At this moment he is a Board member at the Turkish Bank Asset Management Company LBT Varlik Yönetim and a member of the IMF "Troika" team in Spain, dealing with "bad banks" based in Spain and Serbia.

Mitja Mavko, MSc, is a state secretary at the Ministry of Finance. Between 2001 and 2008 he worked in the cabinet of the Minister of Finance and later in the international financial relations sector – in 2009 he became the head of this sector. His main obligations included relations with international financial institutions, coordination of EU affairs within the competence of the Ministry of Finance, coordination of international research cooperation within the competence of the Ministry of Finance, as well as bilateral and multilateral international relations within the competence of the Ministry of Finance, including questions of succession. In April 2013 Mr Mavko was also appointed deputy governor for Slovenia at the World Bank, EBRD and Inter-American Development Bank group and chairman of the Board of the Centre of Excellence in Finance.

Executive directors as of 31 July 2014

At the beginning of the year, CEO **Christopher Gwilliam** took over the job of chief executive officer. He came to the BAMC from Reverta, a Latvian company (former Parex bank), one of the leading asset management companies for non-performing assets in the Baltic market, which he managed between 2010 and 2013. Under Gwilliam's leadership the Reverta team achieved results better and quicker than planned, exceeding set goals and proving Reverta to be a very successful project. Christopher Gwilliam (diploma in Banking from the Institute of Financial Studies – IFS, formerly the Chartered Institute of Bankers, London – CIOB) has over 30 years of experience in financial services, with over 10 years in the region of Central and Eastern Europe (Hungary, Croatia, Serbia, Macedonia and Romania). He has a broad range of consulting experience in the fields of recovery, reconstruction and privatization of banks, company privatization and development of small and medium-sized enterprises on expanding markets.

Janez Škrubej, Master of Economic Sciences, (MBA from Drury University, USA), joined BAMC's management team in the beginning of December as Asset Management Director. Prior to that he worked in an international audit company Deloitte as head of financial consultancy service, thus gaining in-depth experience in the field of mergers and acquisitions, corporate marketing, corporate valuations, audits, due diligence and company restructuring in Slovenia and the wider region.

He worked as sales manager in Lek d.d., Novartis Group, from 2001 to 2005, where, in addition to sales management, he managed introduction and market entry of new products – from the completed development of the product to its launch on the market. Prior to that he managed the ITC Group d.o.o. – a company that managed the introduction of innovative business solutions for business partners such as AT&T/Lucent Technologies, US Robotics and others.

Aleš Koršič, Bachelor of Laws, is the Executive Director in charge of Corporate Affairs. Before being appointed to the function in the BAMC, he worked as a legal advisor in Cimos d.d. From 2003 to 2006 he was a member of the supervisory board of Livarna Vuzenica foundry and from 2005 to 2011 a member of the Board of Directors at the Kikinda Iron Foundry in Serbia. He acted as acquisitions coordinator in numerous projects in Slovenia and abroad, including post-acquisition integration activities. He also has experience in corporate restructuring and business reorganization.

3.2 BAMC organization and corporate governance

At the end of 2013, BAMC's organizational structure consisted of a Credit Management & Workout function and some support functions: PR & Communication; Legal & Compliance; Finance, Accounting and IT; and Human Resources (HR).

The BAMC is established as a company with a one-tier Board governance structure, where the ultimate decision-making powers are vested in its Board of Directors. The Board consists of four non-executive directors and three executive directors. There are two Board committees: an Audit Committee and a Remuneration Committee; each committee has one external member with the relevant professional background in Slovenia. There are written Rules of Procedure for the Board and for each of the Board committees. BAMC's day-to-day operations fall within the responsibilities of one of the executive directors.

Decisions relating to loans and other assets are made with an operational committee structure with mandates and competence clearly defined. These committees comprise two credit committees and two investment committees, two of each at the executive level and the Board level. These committees' rules and procedures are defined in a credit and asset management policy document which covers the decision-making mandates and hierarchy as well as governance procedures.

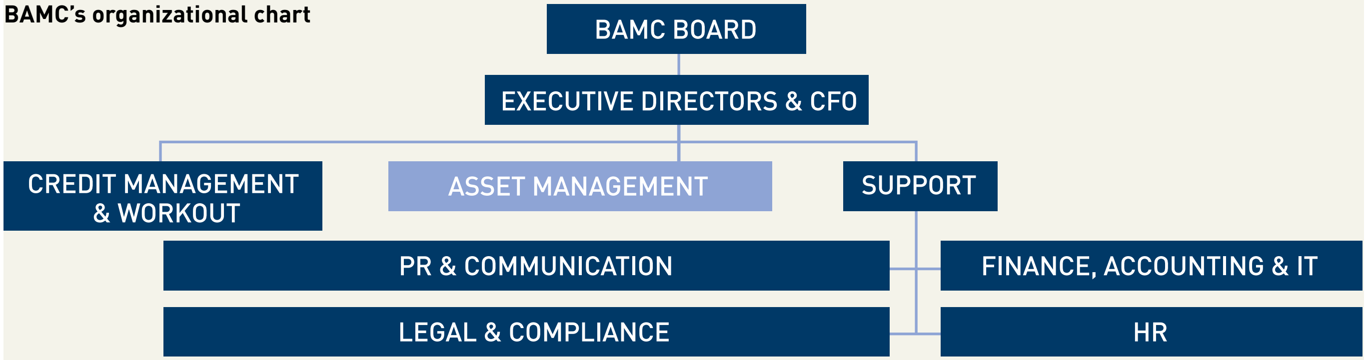
The Board has set up the organization and regulatory framework required in order to meet BAMC's needs under the ZUKSB and the Slovenian Company Act (ZGD-2). Internal rules and policies cover areas such as: accounting; public procurement; expenses; remuneration, rewards and promotions; job description; protection of employees' dignity and privacy; protection of business secrets and confidential information; credit case file transfers; and integrity. In addition, the Board has established the necessary compliance requirements and a remuneration policy and system.

Given that the BAMC was a start-up company with a very small number of employees, the Board and its committees have played an active role in supervising the work of temporary executive directors, consultants and the growing number of staff.

Looking forward, the key organizational functions of the BAMC are (i) credit management and work-out; (ii) asset management and (iii) support functions.

Each of these functions is headed by an executive director. In the work-out of acquired credit assets, case managers supported by analysts and lawyers propose action plans with an individual strategy for each NPL/customer exposure. Case managers are supervised by team leaders to ensure quality and consistency. Paralegals support the process with documentation and through information management. Action plans are approved by the credit or investment committees at executive or Board level. In asset management, asset managers supported by a team of specialists analyze the collateral and create a strategy for all types of collateral subject to recovery procedures. Subsequently, an asset management team manages the acquired collateral with the aim of improving their values by resolving potential legal, technical and financial issues and thus their cash flow. Eventually, the asset management team will divest the acquired security.

BAMC's organizational chart



4. OVERVIEW OF KEY EVENTS IN 2013

From a start-up with no staff or assets, the BAMC grew into a company with 12 staff and over EUR 1 billion in assets at year-end. But the road travelled was far from smooth; it was marked by external deadlines that were frequently changed, and a fundamental change of the scope of operations. Despite these difficulties, BAMC's Board persevered. The company was built and by the year-end, BAMC had become a fully-functioning asset management company. This chapter describes the twists and turns along the road travelled by the BAMC.

1. Establishment and first steps (late February–7 April)

The Bank Asset Management Company ("BAMC") was created by virtue of a new law, the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability ("ZUKSB"), passed in October 2012. In February 2013 the government appointed four non-executive directors to the Board of the BAMC, who in mid-March selected and appointed three temporary executive directors, one of which was a foreign consultant with extensive experience in the field of asset management. With a Board of seven directors in place, the BAMC was registered. Its initial capital (EUR 3,6 million) was paid by the state and the company started operations on 20 March, 2013.

BAMC's first weeks of operation were characterized by substantial uncertainty. The government changed and it was unclear as to what extent the new coalition would support the BAMC, as there had been opposition to the concept of the BAMC from some of the political parties within the new coalition in the past. Furthermore, the legislation and regulations were not clear in all respects and there were substantial uncertainties as to how the BAMC would work in practice.

At that point, the BAMC was a complete start-up. It had a Board of seven, three of whom were temporary executive directors, but no employees and not even the most rudimentary corporate infrastructure. The initial focus of the Board was to put basic corporate functions in place. This included a Board meeting schedule, the development and adoption of some key internal policies and the establishment of basic business infrastructure, such as office space and equipment, communications, banking and payment facilities, accounting and human resource functions.

To ensure alignment of objectives and strategies among its key stakeholders, the BAMC Board utilized the help of outside consultants to start planning for the next steps. A first forward-looking strategic roadmap was presented and discussed with the Minister of Finance in early April, 2013.

2. First strategic-planning exercise and the first change of the schedule (8 April–31 May)

As called for in the ZUKSB, the BAMC had two major tasks: (i) to recapitalize and take ownership of banks and (ii) to take over most of their non-performing loans (NPLs). The initial approach was to develop the BAMC in several stages. During the first stage, which was to take some 3 months, the focus was on establishing the basic organizational structure with the necessary staff resources. The plan was to build an organization that would be ready to review the first recapitalization applications from banks by the end of June 2013 and start the first bank restructuring operations in the fourth quarter of 2013. Preparations were made for a workshop on 9–10 April 2013 to discuss strategies with the key stakeholders (Ministries of Finance and Economy and the Bank of Slovenia) and to agree on the way forward.

On 8 April, in a meeting with the Minister of finance and the vice governor of the Bank of Slovenia responsible for banking supervision, the BAMC Board was informed that the timetable had changed and that the timeline for action was much shorter. The Board was instructed to be ready by 28 June to (i) recapitalize the first bank (NLB) and (ii) start transfers of NPLs and other NPAs from that bank. In addition, the BAMC was asked to give an opinion on the first corporate restructuring case, the company Cimos d.d., Koper. A successful implementation of these tasks and meeting the deadline were to be considered the utmost national priorities.

The strategic planning workshop was cancelled and the BAMC Board instead went into an intensive work session to map out necessary activities, estimate and plan financial and human resource requirements and ensure that the three executive directors (EDs) were given mandates to make the necessary decisions. Board auditing and remuneration committees were formed, the first internal policies were adopted, the first organizational guidelines were adopted, and a first draft of BAMC's operational guidelines was discussed.

3. Intense efforts to meet the 28 June deadline

The necessity of the BAMC to meet the end-June deadline, an external political commitment made by the government, was reiterated by the Bank of Slovenia and the Ministry of Finance on several occasions. Meeting the deadline was a formidable task since, as of the beginning of April, the BAMC had no employees or corporate infrastructure. In consultation with the Minister of Finance, the BAMC Board saw no other option but to rely on external consultants to help design and put in place the necessary policy framework and provide the human resources necessary for accomplishing the required actions by 28 June. The work was planned in four work streams: (i) design and build the organization of the BAMC; (ii) make preparations for the BAMC acquiring and/or issuing new equity as part of the recapitalization of Nova Ljubljanska Banka (NLB); (iii) prepare for the first transfers of assets from the NLB to the BAMC, and (iv) develop a recommendation on the role that the BAMC could play in the restructuring of the company Cimos.

The first set of activities was concentrated around building up the BAMC as a fully-operational company within all necessary legal, regulatory and corporate governance requirements. A basic corporate infrastructure was developed: internal policies as well as accounting, HR, payments, public relations and communications functions. A first organizational structure was adopted and the responsibilities of the temporary executive directors defined. Job profiles and requirements for permanent executive directors were also defined and an executive search was started on 9 May with an international head-hunting firm. In mid-May, the BAMC relocated into permanent office facilities.

The second focus of substantial work was on preparations for the recapitalization of banks. This included designing a process for managing bank applications for the BAMC support and developing contracts with the banks to ensure that the BAMC has access to relevant information. With its role defined in the ZUKSB, the BAMC would be investing large amounts of money into the NLB. Hence, there was a need for considerable preparatory work on how to value the bank's equity and assess the amount of new capital that would be required. There was also a need for information that would allow the BAMC to establish a basis for determining how its own costs would be repaid by the banks in accordance with the ZUKSB.

The third area of focus was the preparations for the first transfers of NPLs. The BAMC was doing its own pre-diligence work, including an initial review on a sample of non-performing loans in the NLB. Legal frameworks were reviewed, work on drafting necessary contracts was started and access to information about the NPLs (through a process of interviews with bank case managers) were negotiated and agreed upon with the NLB. Proposed transfer prices that had been calculated by the bank itself under the supervision of the Bank of Slovenia were compared with BAMC's first view on values that could be recovered through realization of the assets.

[1] At the time, Slovenia was under severe scrutiny from EC institutions and from the international sovereign debt investors as the National Reform Program was under review.

In addition, the BAMC completed a study of what contribution the BAMC could make to the restructuring of the company Cimos. No easy solution was identified. It was clear that Cimos already had been the subject of a long string of unsuccessful restructuring efforts driven by its owners and creditor banks. The Board concluded that very little could be done until the BAMC had an ownership position of equity or loan exposures in Cimos from which it could lead the restructuring and so informed the Minister of Finance.

On 16 May, the Inter-Ministerial Committee decided that the NLB would be eligible for support by the government under the ZUKSB. The BAMC engaged a transaction team of consultants, which started intensive preparations for the upcoming transactions.

4. A major change of focus and scope (31 May–28 June)

On 31 May, the Ministry of Finance informed the BAMC that the scope of BAMC's work would be changed substantially: the state would carry out all the recapitalization of banks directly – rather than through the BAMC. Consequently, the BAMC would not be investing in banks and would not become a bank owner; neither would the BAMC carry any responsibility (as had been envisaged in the ZUKSB) for ensuring that recapitalized banks would become well-governed, profitable and financially sustainable. The preparatory work for a BAMC ownership function, which had required substantial consultant resources during April and May, was abandoned.

Another consequence of the change in focus was that the financing of the BAMC had to be replanned. As envisaged in the ZUKSB, the state would capitalize the BAMC sufficiently to recapitalize the banks and to carry out the transfer of NPLs. With recapitalizations of the banks done directly by the state, the BAMC would have to be capitalized as a separate entity. The BAMC could issue bonds to pay for the NPLs, but additional equity was needed to provide sufficient solvency.

Based on the pre-due diligence work of the BAMC, it became clear that the transfer prices for NPLs calculated and suggested by the banks were substantially overvalued. The BAMC estimated that a more realistic recovery value would be less than one half of the values proposed by the banks. The BAMC informally shared these findings with the Ministry of Finance to indicate that the capital deficit in the NLB, and most likely in the entire banking sector, was substantially larger than estimated at the time.

5. EU demand for a renewed evaluation

By early June, the BAMC was preparing for the start of the first transfer of NPLs from the NLB. Final efforts included drafting necessary contracts with the bank and securing with the Ministry of Finance a financing solution to pay for the assets to be acquired. At a press conference on 18 June, the Board announced that the BAMC would be able to meet the end-June deadline. On the day of the press conference, however, in a subsequent meeting with EC institutions (EC DG Comp, EC Eco Fin and ECB), the BAMC was informed that the DG Comp would not allow any transactions to be executed at the proposed transfer prices. DG Comp was of the view that the proposed transfer prices were unrealistically inflated and thus would entail inappropriate – and illegal under EU rules – amount of state aid. DG Comp demanded that the valuation process be repeated and scheduled to be ready by the end of July. A decision regarding the transfers by the European Commission could be expected in September, at the earliest.

Nevertheless, DG Comp conceded that it was prepared to approve some pilot transfers of assets before end-June, provided that they were based on market prices. The BAMC held intense discussions with all stakeholders, seeking to identify a few pilot transfers that could be executed before end-June. Initially, the NLB submitted a short list of NPLs and NPAs to be considered but on 26 June, after negotiations with the BAMC and the Ministry of Finance, communicated that only one loan could be transferred at suggested prices. On 28 June, DG Comp announced that even the market price proposed by the BAMC would be too high (by some 5–10 percent) and that a further price reduction should be made in the market price estimates. The NLB concluded that it would not be able to execute any transactions at the price level required by DG Comp. On 28 June, the BAMC announced that there would be no immediate asset transfers.

6. Preparations for simultaneous transfer of assets from three banks and a new timeline (1 July–5 December)

Starting in July, discussions between the BAMC and key stakeholders in the NPL transfer process, i.e. the NLB, the Bank of Slovenia, the Ministry of Finance and the DG Comp, were held to find an acceptable solution. The DG Comp used its own resources to assess a sample of loans in the NLB and also commissioned a similar external assessment in the NKBM. The DG Comp informed that their assessment indicated that transfer prices suggested by the NLB were at least 30 percent higher than those which the DG Comp could approve. They insisted that the transfers would have to await the outcome of an Asset Quality Review (AQR) and Stress-Testing (ST) exercise to be undertaken for the ten largest Slovenian banks, including the three banks set up for state recapitalization.

[1] At the time, Slovenia was under severe scrutiny from EC institutions and from the international sovereign debt investors as the National Reform Program was under review.

The BAMC Board was deeply concerned about the delay, as it was clear that the financial situation in the banks was deteriorating and asset value destruction in the banks continued. The BAMC sent a letter to the DG Comp with a suggestion for how to proceed without delay, but received a negative response.

On 17 July, the BAMC was informed of the decision of the Inter-Ministerial Committee that the NKBM would be eligible for support through the measures defined in the ZUKSB. The eligibility decision for Abanka followed in late July. It became clear that the BAMC had to plan for a situation in which all three banks would be transferring assets simultaneously.

A new deadline was put forward by the government: the asset transfers were to start no later than by September 2013. It was envisaged that the discussions with the DG Comp would be finished by then, at least for the NLB. Again, preparatory work had to be changed to accommodate the new situation with modifications in planning and human resource commitments.

7. Logistical problems in banks and further delays

During the summer, the BAMC was working with the three banks to define what preparatory work they needed in order to be able to transfer the documentation for the assets to the BAMC. Checklists and guidelines were defined by the BAMC and issued to the banks. As part of BAMC's own investigative work, it became clear that the preparations within the banks for the upcoming transfers of files were not progressing at an adequate pace. The banks themselves considered that a realistic timeframe for when they would be able to properly complete the transfer of files to the BAMC would be within 6 months from the start of transfers.

In addition, there were indications that the banks were planning to withhold, instead of transfer, key well-performing loans in groups of companies with substantial NPLs earmarked for transfer to the BAMC. This would complicate effective company restructuring by the BAMC. Such cherry-picking of loans would be a way of distorting and undermining the valuation results of the AQR (and would most likely constitute concealed state aid to banks in violation of EU rules). The BAMC raised these concerns with the banks and with the Bank of Slovenia.

By late September, without any sign of approval of asset transfers by the DG Comp, it was once again very unclear when asset transfers could start.

In mid-October, the BAMC sought the support of the Bank of Slovenia to provide some principles that should rule the asset transfer process in the banks. The BAMC proposed that (i) the scope of transfers should be on equal terms for all three eligible banks (i.e.

if a group exposure was considered non-performing and transferred from one bank, it should also be considered non-performing and transferred from the other two banks); and (ii) the exposures with regard to a group of companies should be transferred to the BAMC as a whole (i.e. both performing and non-performing assets) in order to ensure that effective loan restructuring is possible, (i.e. cherry-picking of loans would not be allowed). The governor of the Bank of Slovenia supported these principles and indicated that the Bank of Slovenia would enforce the banks' compliance.

8. Final preparations to begin transfers

Despite the uncertainty surrounding the start date of the asset transfers, preparations were progressing well with the three banks. Sale-and-purchase contracts and service-level agreements were set up, specifying services to be provided by the banks during a temporary period post-transfer. The transfer concept developed was matching the timeline for transfers requested by the banks with a series of transactions grouped into tranches of assets over a 6-month period. It was assumed that the first transaction was to be executed before year-end and all tranches before the end of June 2014.

The BAMC was therefore well-prepared to begin transactions and the relevant transfers. The contracts were prepared and a synchronized plan for building up BAMC's organizational capacity to match the coming inflow of assets and associated workloads was in place. Discussions centered on the size of the first tranche, as the government and the Bank of Slovenia were of the view that the first tranche should be substantial in size. The banks were more cautious in what they believed they physically could transfer to the BAMC as part of the first tranche.

In late October, the BAMC received instructions from the government that 8–9 December were the new target dates for the start of the transfers, as AQR and ST results were slated for release at that time. It was expected that the DG Comp would approve the support measures for the banks promptly and that transfers could start immediately thereafter. On 27 November, the BAMC was informed of a further delay, namely that the approvals to start the transfers from the NLB and the NKBM were expected by 20 December, while the approval to transfer assets from Abanka would be delayed until March 2014 at the earliest.

9. A major last-minute change in strategy and execution of asset transfers (6-31 December)

On 6 December, the BAMC was informed by the Bank of Slovenia and the Ministry of Finance that the strategy had changed fundamentally and that a completely different type of transfer transaction was now required to enable the state to recapitalize the two banks. Until then, the transaction plan with fully prepared contract catalogues had consisted of a series of scheduled tranches of asset acquisitions over a 6-month period, as described above. The new situation required all non-performing assets earmarked for transfer to the BAMC to be legally transferred from the two banks to the BAMC before year-end 2013.

This created a major problem, as it was completely unrealistic that the banks would be able to physically transfer the documentation and managerial control of the assets to the BAMC before year-end, nor was the BAMC ready for, and capable of, receiving all the assets at once. The solution identified was that legal ownership of NPLs would be transferred to the BAMC before year-end but the credit files of the loans to be transferred would stay with the banks during a transition period similar to the originally scheduled 6-month period. The banks would act as BAMC's trustee or asset manager. This was deemed to be the only feasible solution under the circumstances. The BAMC once again instructed the banks as to what principles must be considered in determining what assets should be transferred, so as to ensure that equal criteria were respected for all banks and to prevent cherry-picking of assets. The principles were endorsed by the Bank of Slovenia, which instructed the banks to follow them.

A very intense period started with the preparation of new contract catalogues (i.e. contracts for actual asset acquisitions, contracts for asset management services to be provided by the bank during a transitional period, and contracts defining other services to be purchased from the banks by the BAMC) to be negotiated with the two banks. There were interactions and meetings on a daily basis between the BAMC, the two banks, the Bank of Slovenia and the Ministry of Finance. As required under the ZUKSB, on 10 December BAMC's Board issued its recommendation regarding the transactions to the Inter-Ministerial Committee and mandated the EDs to execute on the transactions.

On 12 December, the results of the Asset Quality Reviews and Stress Tests were made public by the Ministry of Finance and the Bank of Slovenia. After receiving the necessary approvals from the DG Comp on 17 December the government notified the BAMC which assets it was to acquire from the NLB and the NKBM and at what transfer prices. The transactions were completed on 20 December. The BAMC now owned assets with a transfer value of over EUR 1 billion and immediately had to start making decisions on some key exposures. However, such decisions had to be based on recommendations from the banks as no detailed asset documentation had been transferred to the BAMC.

BAMC's asset portfolio purchased in December 2013 is illustrated in Chapter 9.1.

5. EVENTS AFTER THE ACCOUNTING PERIOD

On 2 January the Ministry of Finance informed the BAMC that the bonds which the BAMC used to pay for the acquired assets were formally accepted as collateral by the Eurosystem.

On 8 January BAMC's Board elected its permanent executive directors: Christopher Gwilliam as CEO, as well as Aleš Koršič and Janez Škrubej.

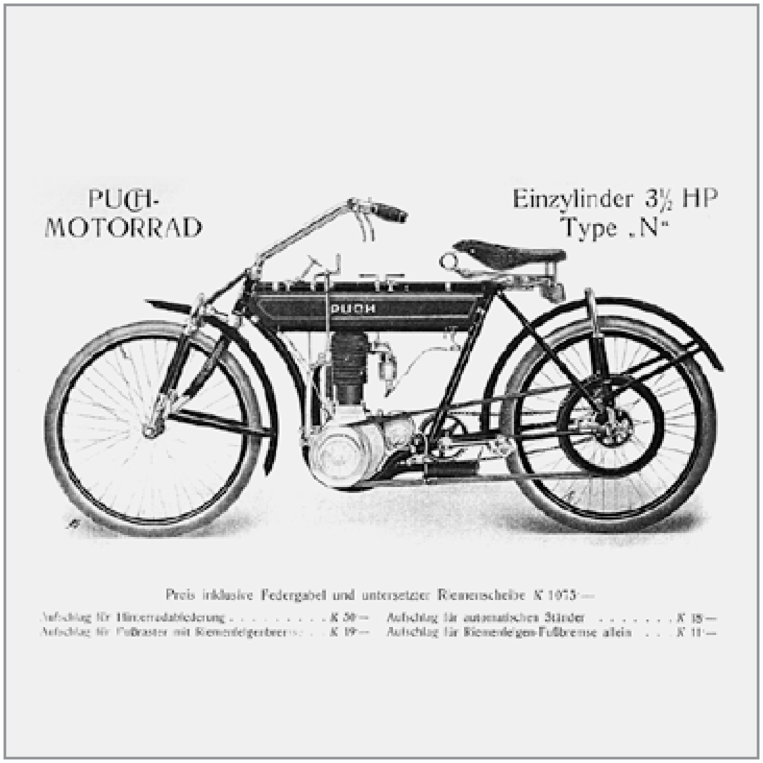
On 17 January the government of the Republic of Slovenia appointed Mitja Mavko, MSc, state secretary from the Ministry of Finance, as a non-executive director.

On 30 April the BAMC published the unaudited annual report for 2013. By the time the unaudited annual report was published, the BAMC had not received sufficient information about the valuation methodology used to determine the value of individual transferred cases, which would allow it to accurately carry out initial recognition of transferred assets.

On 16 May 2014 the BAMC purchased real estate from the NKBM worth a total of EUR 9,1 million plus VAT. Real estate prices were set by the European Commission.

On 10 June 2014 the BAMC published an announcement for the investor audience on its website and the Ljubljana Stock Exchange website, stating that based on new information received in May regarding the methodology used to determine the transfer prices, the BAMC decided to carry out an internal valuation of 80% of the entire portfolio of assets received in order to determine the fair value of these assets. Due to the process required for the valuation of transferred assets, the audit of the 2013 financial statements was completed after 30 June.

Christopher Gwilliam has agreed with the non-executive members of BAMC's Board to step down as chief executive director, effective 31 July 2014. Given the challenges facing the BAMC, the non-executive board members are of the view that different management skills are needed for the future management of the company. After reviewing the 2013 applications for the CEO position and conducting interviews with some possible candidates, the non-executive members of BAMC's Board have appointed Mr Torbjörn Månsson as Mr Gwilliam's successor as of 1 August 2014.



A motorcycle by Slovenian engineer Janez Puh (1862–1914)

Zgradimo trden temelj naši podjetnosti

— Izvajanja tehn. ravnatelja g. dr. ing. Klinarja o prilikah naše industrije ter o nujnih ukrepih za bodočnost.

Dne 28. oktobra se je vršil pod predsedstvom ravnatelja gosp. dr. ing. Klinarja sestanek s predstavniki vseh delavskih organizacij in s predstavništvom starešinstva delavskih zaupnikov.

da se v času, ko prevzema tehnično vodstvo podjetja, v polni meri zaveda odgovornosti, ki jo prevzema na eni strani napram gorenjskemu delavstvu in vsej pokrajini, ki je tako tesno povezana s prosperiteto podjetja, ter na drugi strani napram lastnikom.

Poudaril je znano činjenico, da se vsa zadnja leta niso izplačevale nikake dividende. Kot manj znano pa je omenil težko okolnost malenkostnega dobička, ki leži danes še v prodajni ceni, ki pa more pod pritiskom zunanjih vplivov morda že jutri splahniti na nič. Edini možni zaključek iz tega je: do skrajnosti poceniti produkcijo, da se tako izognemo večnim nevarnostim, delati v izgubo že pri malenkostnih zunanjih vplivih.

Let us Build a Solid Foundation for our Entrepreneurship

– Dr. Ing. Klinar, Technical Director, on our industry's opportunities and on urgent actions for the future. On 28 October, Dr. Eng. Klinar chaired a meeting with the representatives of all workers' organizations, and the representatives of workers' unions.
that while he is taking over the position of technical director of the company, he is fully aware of his responsibility toward both the workers of Upper Carniola (Gorenjska) and their region, which is closely related to the company's prosperity, and the company owners. He stressed the well-known fact that no dividends were paid out in the last few years. He also mentioned a less known fact, namely the difficult circumstances of slight profit, which is based on the selling price today, but might drop to zero under the pressure of external influences tomorrow. The only possible conclusion is the following: extreme reduction in production costs is required to avoid the eternal threat of operating at a loss due to even minor external influences.

Article on industry opportunities and urgent actions for the future
Tovarniški vestnik, a newspaper by Kranjska industrijska družba (the Industrial Society of Carniola), 1938

BUSINESS REPORT

6. STATEMENT REGARDING THE MANAGEMENT OF THE COMPANY

In accordance with the provisions of Article 70 of the Companies Act (ZGD-1) and the Corporate Governance Code for Joint Stock Companies ("Code"), Družba za upravljanje terjatev bank, d.d. ("BAMC") hereby issues the following statement regarding the management of the BAMC.

Declaration of compliance with the Corporate Governance Code for Joint Stock Companies

BAMC's Board of Directors hereby declares that it has complied with the Corporate Governance Code for Joint Stock Companies, as amended and supplemented on 8 December 2009, to the maximum extent possible, with the exception of specific provisions based on BAMC's unique status, owing to the fact that its sole shareholder is the State, and provisions which are governed by the law (Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability – ZUKSB), provisions which the company has otherwise adopted in its Articles of Association and internal company regulations, as well as provisions contained in the Code in cases where non-obligatory actions are not specified in its internal company regulations, or where specific actions are not defined as legal obligations.

BAMC's goal is to establish a clear and transparent governance system to restore the investors' trust (both domestic and international), as well as the employees' and general public's trust in the Slovenian governance system. The full text of the Code is available on the Ljubljana Stock Exchange website, http://www.ljse.si.

Inconsistencies with the Code:

a) Item 1. The company's bodies shall always act in accordance with the main goal defined in the ZUKSB and the Articles of Association. BAMC's aim is to ensure prudent use of public funds in the course of implementing the measures stipulated in the ZUKSB and to restore funds for the state budget, to facilitate the extension of loans to the non-financial sector, ensure the conditions necessary for disposal of capital investments in banks and determine responsibility for the loans and investments currently subject to impairment in the balance sheets of banks subject to restorative measures under the ZUKSB.

b) Item 2. The BAMC does not have a Corporate Governance Policy. The Board of Directors steers the company in accordance with applicable law, the Corporate Governance Code for Joint Stock Companies, and company values.

c) Item 8. As explained under a) above, the BAMC does not follow this guideline. While statements of independence signed by the members of the Board of Directors are not published on its website, they are available at BAMC headquarters.

d) Item 8.3. While there are no substantive inconsistencies with the guideline, the powers and responsibilities of executive directors are defined in the rules of procedure of the Board of Directors.

e) Item 8.7. The inconsistency is purely technical rather than substantive in nature, since the Board of Directors' communication with the public is not defined in its rules of procedure but instead in the communication strategy adopted by the Board of Directors.

f) Item 9. The Board of Directors shall present an assessment of its activities in the annual report of the Board of Directors.

g) Item 13.1. In addition to the Audit Committee, the BAMC also formed a remuneration committee but no nomination committee in 2013.

h) Item 19. In 2014, the BAMC will establish an efficient internal auditing system.

Information about legislation governing acquisitions

In accordance with the law governing takeovers, the BAMC is not required to submit a compulsory takeover bid if the takeover threshold/additional takeover threshold or qualified holding in the target company would be reached through the acquisition of securities or a stake in the target company as a result of implementing measures based on the ZUKSB. In all other cases, the BAMC is bound by the law governing takeovers in accordance with the sixth paragraph of Article 70 of the ZGD-1. The provisions stipulated in ZGD-1 did not apply for the BAMC in 2013 since no circumstances warranted the application of the relevant provisions.

Information about the operation and key competencies of the company's General Meeting and description of shareholder rights

The BAMC has a two-tier corporate governance system with a General Meeting and Board of Directors. The company's governing bodies are the general meeting and the Board of Directors.

General Meeting

The responsibilities and competencies of the general meeting of the BAMC are vested in the government as the sole shareholder.

The General Meeting shall pass decisions on fundamental matters concerning the BAMC, in particular:

- adopting and approving amendments to the company's Articles of Association;
- adopting the annual report;
- passing decisions concerning allocation of distributable profits;
- passing decisions concerning the appointment and recall of members of the Board of Directors;
- passing decisions concerning granting a discharge for members of the management or supervisory bodies;
- passing decisions on measures to increase and reduce the capital;
- passing decisions regarding the appointment of the auditor.

The general meeting is convened by the Board of Directors by a simple majority vote. The general meeting shall also be convened at the shareholder's request. The notice of a general meeting must be published no less than 30 days prior to the meeting. The right to participate at the general meeting and exercising voting rights shall fall to the shareholder duly registered in the central register of securities at the closing of the fourth day prior to the scheduled date of the general meeting.

Information regarding the composition and activities of management or supervisory bodies and their corresponding committees

Board of Directors

BAMC's Board of Directors comprises seven members, of which three are executive directors. Members of the Board of Directors shall be appointed and recalled by the government at the recommendation of the ministry in charge of finance and the ministry in charge of the economy, where three members of the Board of Directors shall be proposed by the ministry in charge of finance and one shall be proposed by the ministry in charge of the economy. Each member of the Board of Directors shall be appointed individually.

Members of the Board of Directors shall be appointed for the period of time while the company exists, for a maximum of six years. Executive directors serving on the Board of Directors shall serve on a full-time basis as employees of the BAMC for a maximum of six years.

The Board of Directors shall have the following competencies, in particular the powers to:

- oversee company operations;
- appoint and recall the chairman and deputy chairman of the Board of Directors from among the ranks of the members of the Board of Directors;
- appoint and recall executive directors;
- represent the company in signing contracts with individual members of the Board of Directors and executive directors, in accordance with the resolution adopted by the general meeting;
- give its consent to the Rules of Procedure for Executive Directors;
- appoint the Audit Committee, Remuneration Committee and other committees established by the Board of Directors and its members;
- prepare a proposal for use of distributable profits;

- review the produced annual report and leave the approval of the annual report to the general meeting;
- prepare a report on the annual report review for the general meeting;
- convene the general meeting;
- present an auditor appointment proposal to the general meeting based on the Audit Committee's recommendation;
- appoint and recall the company procurator;
- adopt the investment strategy and policy in accordance with Article 10 of the ZUKSB;
- other powers in accordance with the laws, Articles of Association and resolutions passed by the general meeting.

Executive directors shall represent the company and act on its behalf.

Executive directors shall represent the company individually and without limitations for the relevant area or areas of responsibility assigned by the Board of Directors' resolution. The Board of Directors may pass a resolution to define specific legal transactions where executive directors must represent the company jointly.

The executive directors shall have the following powers and responsibilities:

- supervising the company's day-to-day operations;
- producing the annual report;
- preparing the investment strategy and policy;
- registering subscriptions and submitting documents to the registrar;
- keeping books of account;
- performing operations in line with the Articles of Association and resolutions of the Board of Directors.

Audit Committee, Remuneration Committee and other committees

The company's Board of Directors shall establish the Audit Committee, Remuneration Committee and other committees in accordance with the provisions of the law governing companies.

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

Internal control mechanisms help us reach our goals and are an integral part of our values and principles established by the management. They are applied in everyday operations in the form of policies, guidelines, processes, procedures and activities in order to keep risks within acceptable limits. All employees are involved in the internal control system, whereas specific groups of employees hold special roles and responsibilities. The Board of Directors encourages and monitors the operation of the internal control system, while executive directors are responsible for building and revising the internal control system. The operative managers conceptualize, implement and monitor existing internal controls in place within their scope 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 checkpoint mechanism allows for regular reviews of the processes and risk exposure assessment.

Internal auditing

The BAMC will introduce an internal auditing function in 2014.

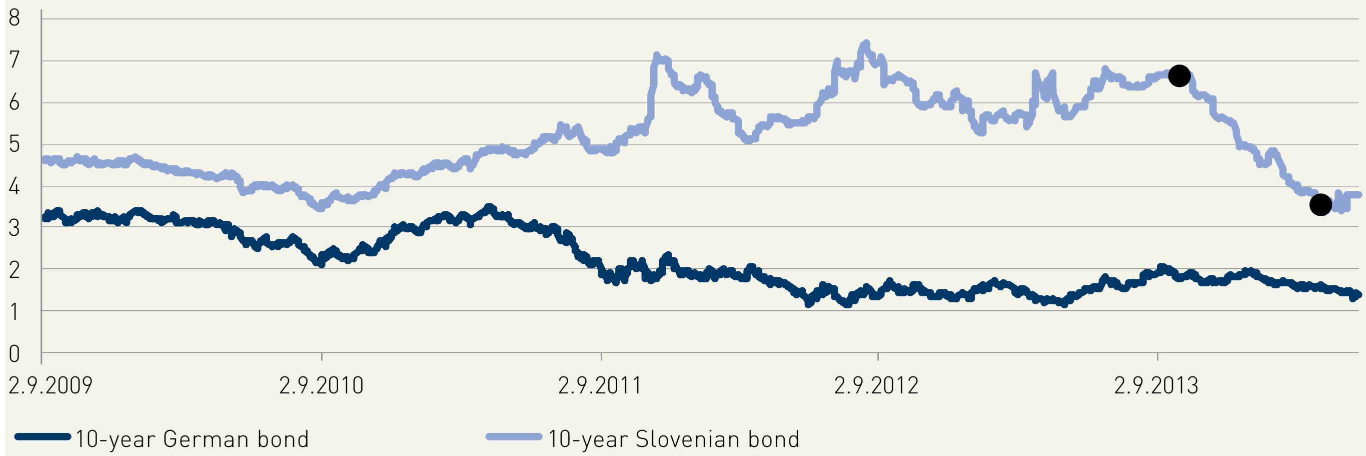
External audits

BAMC's financial statements have been audited by KPMG Slovenija d.o.o., Ljubljana, Slovenia. In the context of their audit of financial statements, the external auditor shall report their findings to the Board of Directors and the Audit Committee.

BAMC's transactions with KPMG Slovenija d.o.o., Ljubljana, are detailed in the notes to the financial statements under the heading "Transactions with the auditing firm".

7. ANTICIPATED MACROECONOMIC ENVIRONMENT FOR 2014

In 2013, the macroeconomic environment was strongly affected by developments in the Slovenian banking system. The start of controlled liquidation of two minor banks, recapitalization of the three largest banks and the transfer of assets to the BAMC are the milestones which mark the start of efforts to restore the Slovenian banking system.



Annual growth in %	2013	The Bank of Slovenia projections, April 2014		
		2014	2015	2016
Real GDP	–1,1	0,6	1,4	1,7
Harmonized Index of Consumer Prices (HICP)	1,9	0,5	1,1	1,3
Employment growth	–2,0	–1,1	–0,2	0,6
Exports of goods and services (real)	2,9	2,8	4,6	5,1
Imports of goods and services (real)	1,3	1,5	3,9	5,1
Gross fixed capital formation	0,2	0,6	1,7	2,9
Private spending	–2,7	–0,7	0,2	1,2
Government spending	–2,0	–1,3	–0,5	–0,3

Source: Bank of Slovenia, Macroeconomic Developments and Projections, April 2014

Table 1: Spring projection of economic developments 2014

International markets responded to the measures taken by the banking system by granting a substantial reduction in interest rates for Slovenian debt (see chart above), and the international credit rating agencies also improved their credit ratings. The returns on government bonds maturing in 2024 decreased from early December 2013 to mid-April 2014 from 5,6% to less than 3,4%. Another event which affected the price of Slovenian borrowing on international markets was the resignation of Prime Minister Alenka Bratušek and the consequent elections, which rekindled some uncertainty regarding the implementation of reforms in the Slovenian economy. While price volatility increased somewhat, so did the returns on the 10-year government bond, i.e. to 3,8%. However, the price and volatility subsided relatively quickly. Both events are marked on the chart with a blue dot.

In its publication Macroeconomic Developments and Projections published in April 2014, the Bank of Slovenia projects a 0,6% real increase in GDP for the year. They consider the difference to be due to improved conditions in the external environment and the gradual recovery of domestic demand. Increased economic growth in the external environment should also carry over as solid growth of the exports sector, which is supported by improved cost efficiency.

With the projected speeding up of the recovery of economic activity in the international environment, further remediation efforts in the banking system and consolidation of public finance, and the start of the process of restructuring of companies, GDP growth in 2015 and 2016 should gradually pick up speed.

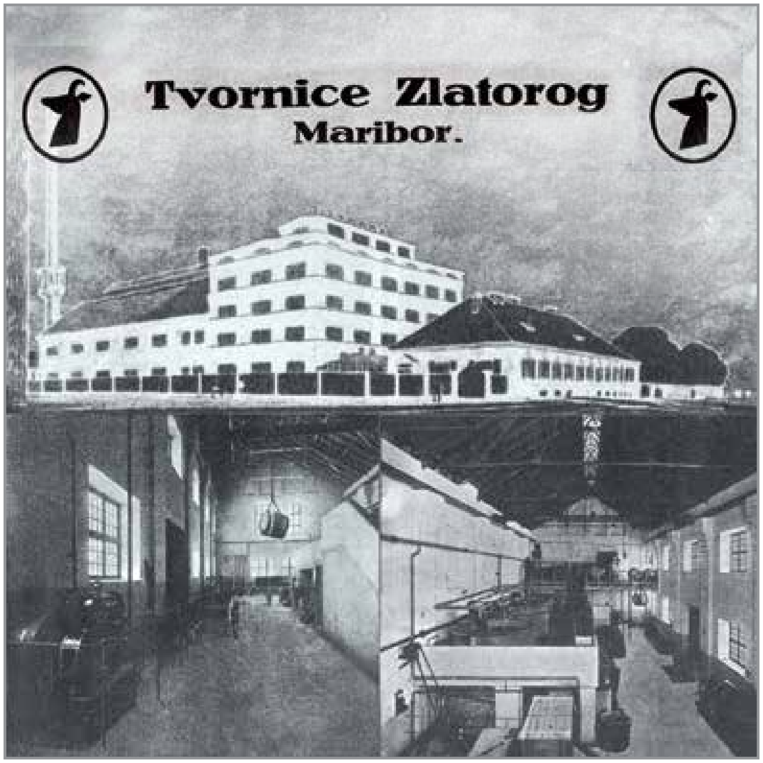
Although the rate of registered unemployment in the beginning of 2014 increased to about 130.000, the trend of increasing unemployment stopped. By the end of 2016, employment growth should increase by slightly over half of one percent.

With continued implementation of restrictive policies in the area of employment and salaries, state spending should continue to decrease.

No increase in investment activities is expected in 2014, as sources of financing for the relatively indebted corporate sector will continue to be limited. The fact that investments are expected to remain on a similar level to last year's was probably positively affected by public investments linked to utilization of EU funding.

Under favorable conditions with export sector growth and deleveraging of the economy, the current account surplus is reflected in high private sector net savings. With further decreases in indebtedness and weak investment activity, enterprises are seeking sources of funding alternative to bank loans. The volume of liabilities of companies related to bank loans has decreased in 2013. The decrease in banks' total assets was the result of decreasing indebtedness of banks to foreign entities and liabilities related to debt securities and write-offs of subordinated financial instruments in the bank recapitalization process. Due to measures aimed at stabilizing the banking sector, the state was the only sector with increased financial deficit last year.

Factors which could significantly influence further increases in economic growth in 2014 and beyond are mainly related to BAMC's activities in company restructuring and increased corporate borrowing which would increase domestic investment more than anticipated.



Advertisement for the company Tovarna Zlatorog Maribor
Ilustrirani Slovenec newspaper, 1925

Rabat nadrobnim odjemalcem.

V razni strokovnih časopisih večkrat beremo, da ta in ta trgovec dovoljuje članom tega in tega uradniškega itd. društva pri nakupu po 2, 3, 4 ali celo do 10% popusta.

Kaj pa drugi odjemalci? Zakaj pa mora plačevati polne cene večina trgovčevih odjemalcev, kateri se mora trgovec zahvaliti za svoj obstanek? Od samih uradnikov ne bo živel noben trgovec. Večina odjemalcev mora plačevati ne samo polne cene, ampak tudi to, kar trgovec izgubi pri uradnikih vsled dajanja rabata. Trgovec ne daruje uradnikom ničesar iz svojega, tako daleč ne sega njegova ljubezen. Uradnik sicer služi državi, se ubija zanjo in dobiva za to neprimerno plačo, a to še ni noben povod, da bi moral delati trgovec razliko med uradniškimi in drugimi odjemalci. Sicer je to dajanje rabata uradniškim društvom res le nekako lovsko sredstvo za odjemalce, ali je kaj neprimerno. Vsak pameten človek, ki bere tak oglas in ni član tega ali onega društva, se bode izogibal takšne trgovine, koje gospodar dela razliko med svojimi odjemalci.

Vsak trgovec, kateri misli na ta način pritegniti na sebe kot odjemalce člane raznih uradniških itd. društev, ravna nespametno, ker s tem odganja od sebe in zapostavlja večino svojih odjemalcev.

Dajanje rabata je trgovski običaj, ki je upravičen v mnogih slučajih, ali kdor ga

Discount for Retail Clients

Professional journals often write that some tradesmen give members of certain associations (e.g. civil servants' associations) 2, 3, 4 or even 10% discount. What about other customers? Why does the majority have to pay the full price, which is only way for tradesmen to stay in business? No trader can make a living off civil servants only. The majority of customers not only has to pay the full price, but also needs to make up for the deficiency caused by the discount given to civil servants. Tradesmen do not give away anything for free, for this exceeds the boundaries of their kindness. Though civil servants work and die for the state, while being underpaid, this does not mean that a tradesman should treat them differently than other customers. Giving discount to civil servants' associations is a means to attract buyers, yet an inappropriate one. Any sane person who is not part of such and such an association will avoid a shop in which the proprietor treats some customers differently than the others. Shopkeepers that try to attract customers from various associations, such as civil servants' associations, act unwisely because this will drive away most other customers, who will feel neglected. Offering discounts is common practice in trading, which may well be justified in many cases...

Traders' controversial discount policies
Trgovski list newspaper, 1914

8. STRATEGY

8.1 The Mission

BAMC's mission is to:

- stabilize the Slovenian financial sector by abiding by the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability (ZUKSB) in such a manner that the non-performing assets from strategically important banks are bought;
- promote trust in the financial system and act in line with the highest international standards of corporate governance;
- reach the highest possible selling value of acquired assets to recover the taxpayers' money;
- enable and encourage long-term restructuring of the Slovenian economy.

8.2 General Principles

The BAMC conducts all its tasks according to the following principles:

- it conducts its activities with the goal of increasing the value of assets;
- it acts in accordance with the legislation and rules of the Republic of Slovenia and the European Union;
- in the course of its activities, the BAMC must abide by the principles of responsible, diligent and prudent management in keeping with the principles of transparency, effectiveness, cost-effectiveness, and good performance;
- the BAMC undertakes the audit of the legislative principles, economic reasoning and effectiveness of the credit committee and asset approval process, as well as the utilization of assets of the loans that are denoted as write-offs in the balance sheets. Any potential irregularities must be reported to the competent authorities immediately.

8.3 BAMC Strategy

In May 2014, the Board of Directors approved the financial plan for BAMC's operations in 2014–2017, which includes strategic guidelines. The aforementioned strategy is based on data which the BAMC had at its disposal at the time of its preparation in March and April. The BAMC does not intend to sell its assets in distress – while this would bring immediate liquidity, it would fetch significantly lower returns. Based on the analysis of each transferred asset, the BAMC decides on the management strategy for the individual asset, in order to maximize its value for the BAMC. If the debtor restructuring strategy does not provide a higher value, the strategy of recovery of assets through disposal of pledged assets is applied. If immediate disposal of pledged assets – which in most cases involves real estate – is possible only at prices lower than those the BAMC considers realistically achievable by conducting a prudent and well-planned sale process in the future, the BAMC may also decide to take ownership and possession of such assets and possibly achieve additional development through temporary asset management activities.

Also planned is the transfer of assets from Abanka, Factor Banka and Probanka, and later possibly Banka Celje, which the BAMC intends to finance through issue of state-backed bonds.

Based on currently available information, until the end of 2017, when the BAMC will be dissolved in accordance with the ZUKSB, it will not be possible to fully cash in all transferred assets, and consequently it will not be possible to pay off the financial liabilities in full. In the event that BAMC's lifetime was to be extended by a few years, this goal might be fully achieved.

By autumn of this year, the BAMC will complete the legal due diligence on assets acquired against payment, as well as internal valuation of transferred assets. Based on this, a new business and financial plan will be prepared by the BAMC for the 2014-2017 period, which will also more clearly define strategic objectives and deadlines.

8.4 How the BAMC adds value to non-performing assets

A fundamental idea behind the BAMC is that it should be able to restructure assets and sell them once the market has recovered. When market participants realize no fire sales can be expected, the prices will stabilize.

The BAMC will always act prudently and transparently and will apply arms-length commercial principles. The BAMC is not a bank and thus cannot finance its customers, nor can it provide state aid in any form.

BAMC's work involves three overlapping phases: it starts with a credit management task followed by an asset management task and finally a divestment task.

The BAMC will closely co-operate with other banks according to the restructuring principles which have been agreed between all member banks in the Bank Association of Slovenia.

Initially, the BAMC will carefully analyze each NPL/customer situation and will prepare an individual strategy for each NPL. If the quality of an NPL can be improved by restructuring the credit terms and the customer's business, or any part of it, the BAMC will make strong efforts to manage the required changes. Improving the quality of a NPL means an increased likelihood of a full or partial repayment and, as a result, the value of the NPL is also increased. NPLs that cannot be restructured become subject to judicial recovery. In judicial recovery, value is restored through disposal of collateral, guarantees or other available saleable assets.

Restructuring is normally possible when the customer's business is legitimate, produces some positive cash flow and the customer is co-operative. Ideally, in such situations, the BAMC, the customer and other creditors co-operate with strong efforts, first to stabilize and then improve the business and particularly the cash flow. The BAMC has a variety of tools at its disposal to support co-operative customers in their efforts to improve their operations. Restructured NPLs will either be repaid over time by the customers or refinanced in the banking market. Where appropriate, the BAMC will sell restructured NPLs, provided that the price offered exceeds what a hold strategy would otherwise be expected to generate.

When value can be restored only through a judicial recovery procedure, the BAMC takes effective enforcement measures and will conduct efficient sales of collateral. The collateral will always be sold under arms-length conditions at prices determined by licensed appraisers or established in public auctions. The principal goal will be to sell the collateral to third parties. However, the BAMC may decide to acquire collateral itself in order to avoid fire sales or speculative elements, stabilize asset markets or improve the quality of the collateral through asset management actions. Naturally, all such transactions will be fully transparent.

Considering the large volume of transferred assets and the already highly problematic and deteriorated condition of transferred NPLs, restoring and optimizing value of the NPLs is likely to require several years of intensive work. The analysis and emergency restructuring measures alone may easily require more than a year. Regardless, the BAMC already expects positive results during 2014. During 2014–2015, the emphasis will be on processing the NPLs, as described above. Thereafter, a period of close monitoring will commence.

The recovery work is likely to result in the creation of a sizeable real estate portfolio, which will require intensive asset management attention during the years 2015–2016. A period of divestments would follow; the exact timing will be determined by economic and market conditions. In the exit process, the BAMC will also seek to add value. This can be done in several ways, including:

- consolidating exposures or claims;
- packaging relevant portfolios of assets that will command higher sales prices than individual assets;
- ensuring that the assets are documented flawlessly, thus removing uncertainties that reduce their value; and
- managing transparent and effective sales processes.

8.5 Strategic Priorities for 2014

The BAMC is likely to face a continuing turbulent environment in 2014 which will require considerable flexibility and strict prioritization in terms of what is critical for the BAMC to achieve its objectives. The Board of the BAMC has set the following strategic priorities for the BAMC in 2014:

1. Conclude the transfers of assets from the NLB and the NKBM

The BAMC is working through each credit file received with representatives from the banks to ensure that the documentation is accurate and complete. Substantial work is needed to correct and get the files in order, as the documentation in many cases is missing or of poor quality. A legal due diligence process is undertaken at the same time. The BAMC has the right to send back cases to the banks in cases where serious legal deficiencies have been identified. However, the BAMC will seek to get the files in order rather than returning them to the banks in cases where this is a preferable solution for the BAMC and the banking system as a whole.

2. Prepare and carry out additional asset transfers

It is expected that the BAMC will buy non-performing assets from

Abanka in 2014. In addition, it will make some complementary asset acquisitions from the NLB and the NKBM to consolidate exposures and increase recovery prospects. There will also be some asset purchases from Faktor Banka and Probanka, two banks in liquidation (under the administration of the Bank of Slovenia) which will allow the BAMC to consolidate exposures already transferred from the NLB and the NKBM and slated to be transferred from Abanka. The BAMC will be prepared to acquire other assets from banks under the ZUKSB, should the need arise. There are synergies for the BAMC to manage all of these assets in a coordinated and more logical manner with the aim to facilitate the process of restructuring assets and optimizing recovery.

3. Carry out legal due diligence and internal valuation of acquired assets

As stated above, the BAMC, together with the representatives from banks, is working through each file received to ensure that the documentation is accurate and complete. A legal due diligence process is undertaken at the same time.

NPL files are assessed to determine the best approach to optimize their value. An internal valuation is a critical part of this work and will allow the BAMC to establish appropriate fair values for all its assets.

4. Carry out an internal valuation of acquired assets

To properly determine its starting position, it was crucial for the BAMC to properly determine fair value of the acquired assets. Since the documentation in general and information regarding valuation methodology were insufficient, and since there were some indications that transfer values of a portion of the acquired assets differed significantly from their fair values, the BAMC decided to carry out an internal fair value valuation. The said internal valuation was completed early in July 2014 .

5. Prioritize and complete key restructuring cases

Many of the credit exposures the BAMC has acquired have not been adequately managed by the banks in the past. There is a pent-up need for swift action in many of these cases. The BAMC will not be able to process all cases simultaneously and will therefore have to prioritize its work and its internal resources. This will be done consecutively in order to create as much value as possible and thus the key restructuring cases will be a first priority. The BAMC will aim towards successfully completing several key cases to set precedents and show that credit and corporate restructuring procedures can be done effectively.

[1] For more information on internal valuation, methodology and conclusions, see section 9.1.1.

6. Complement and continuously improve the organization and internal processes

A staffing plan already exists and will continue to be implemented in 2014. It will add the necessary staff resources in order to properly manage the cases that the BAMC has received and will receive during 2014. The asset-management function will be strengthened as it will become more important going forward. The aim will be to reduce reliance on consultants. Services currently acquired from the banks will be scrutinized to ensure that the BAMC will have the best available and most cost-effective service providers. This includes a major review of BAMC's IT strategy and operations.

7. Strengthen internal and external reporting

Management information, internal control, audit and compliance systems will be strengthened to support BAMC's current and future operations. Currently, the BAMC is dependent on buying-in reporting and other services relating to BAMC's assets from the banks. This is a suboptimal situation and preparations are underway to move to a single IT platform with integrated reporting capacity.

Reporting processes, including reporting to the Ministry of Finance and the Finance Committee of Parliament, will be upgraded and become more automated. Interfaces with oversight authorities, including the Slovenian Court of Audit and the Commission for the Prevention of Corruption, will be further improved to ensure effective ways of meeting their oversight requirements in a co-operative manner.

8. Improve the public image of the BAMC

There is still considerable scepticism in Slovenia about the concept of having a bank asset management company and whether or not the BAMC will indeed add value. There are also many uninformed and unrealistic expectations. Furthermore, various conflicts of interest should be expected in the restructuring of the problematic assets the BAMC has received. Against this background, it is not surprising that the BAMC has been subject to constant unfavorable comments in certain media. BAMC's public image and presence in the media will have to be improved to enable the company to carry out its objectives effectively. Therefore, it is a priority for the BAMC to work towards a much improved profile in the media so that the BAMC will be viewed and evaluated on the basis of its actions and results.

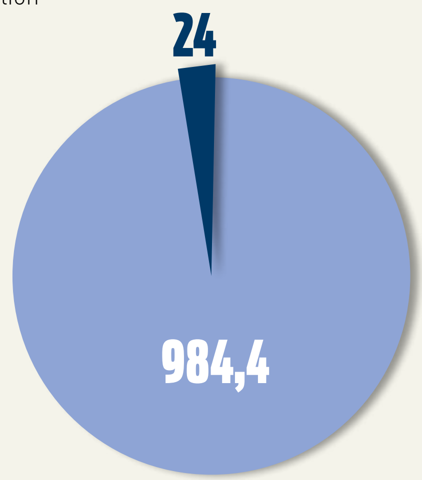
9. OVERVIEW OF OPERATIONS AND BUSINESS RESULTS

9.1 Acquisition of Assets from the NLB and the NKBM to the BAMC

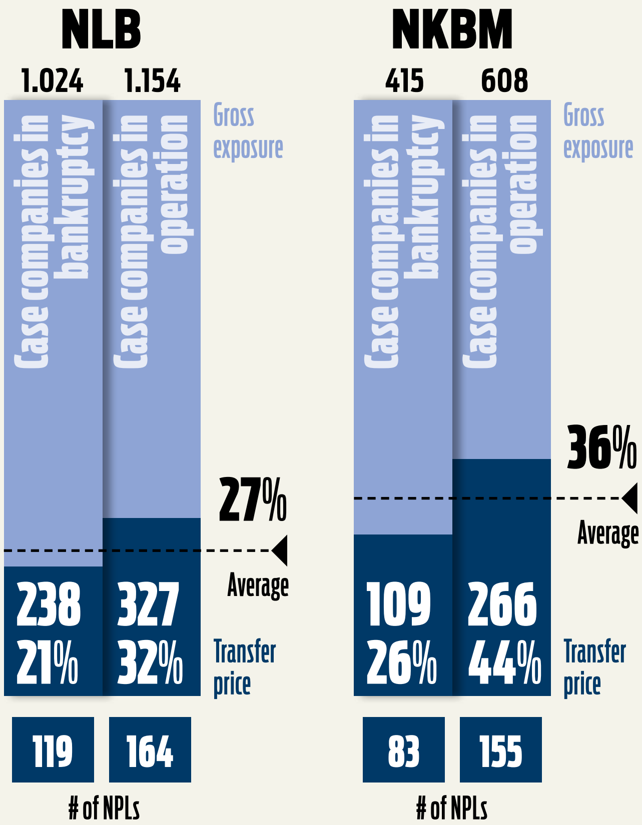
9.1.1 Transfer of assets from banks to the BAMC

On 20 December 2013, BAMC acquired non-performing loans worth EUR 1.008,4 million from the NLB and the NKBM. Loans in the transfer amount of EUR 984,4 million were predominantly transferred as well as investments in shares and equity shares in the amount of EUR 24 million. The BAMC paid for the acquired assets via issued bonds in the same amount with an interest rate of 3,75% and 4,5%, both with a guarantee of the Republic of Slovenia for which the BAMC pays the Republic of Slovenia 1,25% annually. Both bonds issued have been accepted as collateral in the Eurosystem, so the banks can use them to increase liquidity.

Acquired assets from the NLB and the NKBM
in EUR million

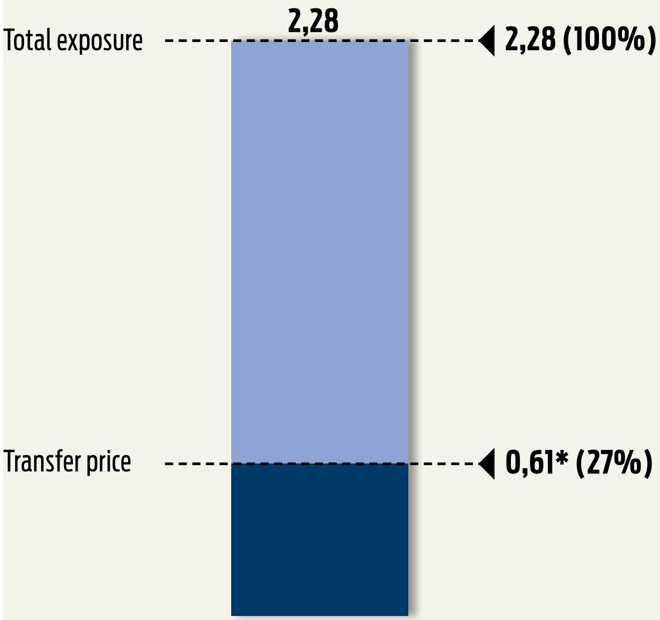


The BAMC has not been involved in choosing which assets should be transferred from the banks. There was no consultation process involving the BAMC in the period between April and December 2013. As described above, the BAMC gave input to the process by recommending (in order to facilitate the restructuring of assets) that all assets in a company group should be transferred from each bank and that the banks should transfer all their exposures to a company group. These recommendations were supported by the Bank of Slovenia but seem to have been largely ignored by the two banks transferring assets in 2013.

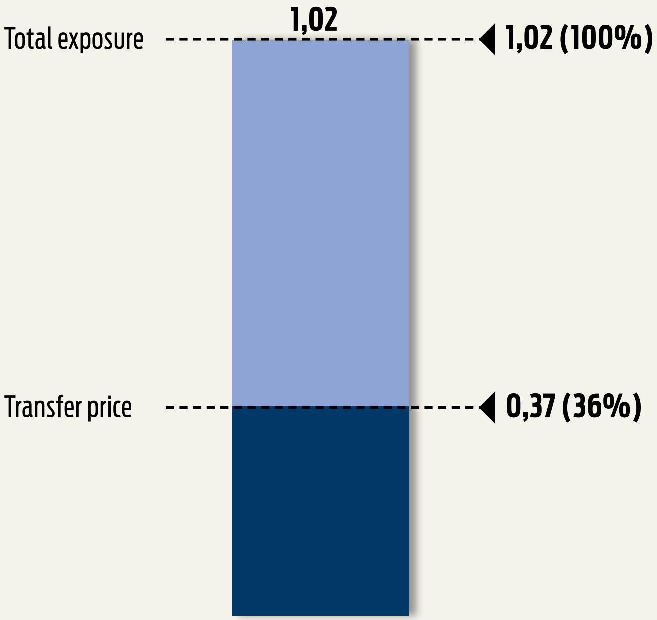


Exposure and transfer price for NPLs

NLB - Exposure and transfer price
EUR billions (percentage of total exposure)



NKBM - Exposure and transfer price
EUR billions (percentage of total exposure)



Exposure and transfer price for NPLs

The above charts depict the exposure and transfer price of the receivables that the BAMC acquired from the NLB and the NKBM. The BAMC acquired 521 assets from 283 firms from the NLB (119 bankrupt and 164 operating) and 238 firms from the NKBM (83 bankrupt and 155 still operating). The gross exposure of the transferred receivables amounted to EUR 3.301 million (of the latter amount EUR 2.278 million came from the NLB and EUR 1.023 million from the NKBM). The BAMC paid for the transferred receivables on average 27% of the gross exposure to the NLB and 37% of the gross exposure to the NKBM.

The BAMC received part of the claims transferred from the NLB as participation (silent assignment of claims) at the transfer price of EUR 217 million. This group includes claims with regard to which the NLB has identified potential legal risks, should "true" assignment of claims come to pass. Despite having done the transfer in this manner, the BAMC became the economic owner of these claims on 20 December 2013 and has maintained them in its books since.

The charts below depict the composition of the transferred receivables by sector. Two thirds of the acquired receivables represent receivables that may be ranked into real estate and construction (34%), financial holdings (19%) and manufacturing (14%). The remainder of the transferred receivables (33%) represents receivables from the service sector, consumer goods, telecommunication and media, transport and logistics, tourism, food & beverage, the energy sector, and financial services.

NLB – NPLs by exposure sizes and industry

TRANSFER PRICE RELATIVE TO EXPOSURE ACROSS INDUSTRIES

Industry	Gross exposure EUR millions	Avg. transfer price* % of gross exposure	Estimated transfer price* EUR millions
Construction & real estate	838	18,1%	151
Financial holdings	507	28,9%	146
Manufacturing	258	31,1%	80
Services	176	35,7%	63
Consumer goods	127	44,7%	57
Telecommunications and media	118	16,2%	19
Transport & logistics	104	39,5%	41
Leisure & hotel	81	41,0%	33
Food & beverage	28	31,0%	9
Energy	27	22,8%	6
Financial services	16	27,4%	4
Total	2.278	26,8%	607

* Average transfer price is shown as estimated transfer price relative to gross exposure

NKBM – NPLs by exposure sizes and industry

TRANSFER PRICE RELATIVE TO EXPOSURE ACROSS INDUSTRIES

Industry	Gross exposure EUR millions	Avg. transfer price* % of gross exposure	Estimated transfer price* EUR millions
Construction & real estate	272	43,4%	118
Manufacturing	220	37,8%	83
Financial holdings	136	17,4%	24
Services	103	35,9%	37
Leisure & hotel	79	55,9%	44
Consumer goods	73	31,3%	23
Telecommunications and media	39	16,8%	6
Food & beverage	32	37,0%	12
Financial services	30	29,2%	9
Energy	30	50,5%	15
Transport & logistics	6	35,5%	2
Other	2	58,2%	1
Total	1.023	36,7%	375

* Average transfer price is shown as estimated transfer price relative to gross exposure

9.1.2 Valuation of transferred assets

The transfer prices of assets acquired from the NLB and the NKBM were set by the European Commission, in accordance with the ZUKSB and the Decree on the Implementation of Measures to Strengthen Bank Stability ("Decree"). In December 2013, upon the transfer of assets, the BAMC was informed that according to the Decree on the implementation of measures to strengthen bank stability, the European Commission had already taken into account financing and management costs.

The BAMC was not involved in the process of determining transfer prices of assets being transferred. After a number of requests sent to the Inter-Ministerial Committee in March, where the BAMC requested certain clarification as to how the transfer prices were determined, the BAMC received AQR data in late March 2014 for a sample of companies whose assets have been transferred to the BAMC. On this basis, the BAMC prepared an internal analysis which showed that the transfer values were significantly different from the calculated AQR values. Some differences were positive and some negative. Because of this and because of its obligation to publish the annual report by the end of April, the BAMC carried out an internal valuation in April to determine the fair value of transferred assets for 20 companies, in which the transfer value was significantly higher than AQR values, and discovered in 17 of these companies that the fair value of transferred assets was EUR 92,6 million higher than the transfer values. For this reason, its unaudited financial statements published on 30 April 2014 showed a loss at initial recognition of assets (day-one loss) in the amount of EUR 92,6 million, which was also fully recognized as the financial expense in year 2013.

By early May, the BAMC did not receive sufficient documentation that would allow it to determine whether the transfer prices of transferred assets match the fair value in accordance with the IFRS. Therefore, for the purposes of the unaudited annual report, except for the above mentioned 20 companies, the BAMC estimated that the transfer prices were still the closest approximation of fair value for the remainder of the transferred assets, which were not included in the internal evaluation.

Due to insufficient information regarding the manner of valuation and methodology applied in determining transfer prices, BAMC's external auditor (KPMG Slovenia) concluded at the end of April 2014 that it could not complete the audit of the company's 2013 financial statements and issue an opinion at that time. Further efforts of BAMC's management in cooperation with its auditor were invested in obtaining further information to ensure that the values at which the company's assets were originally recorded were both in accordance with the IFRS and adequately supported. The audit was thus postponed to a later date, when additional information was available on the methodology used to determine the value of assets and the transfer prices. This was deemed to be the only acceptable solution under the circumstances.

In mid-May 2014, the Inter-Ministerial Committee sent the BAMC the methodology used, which the European Commission used as a basis to determine the transfer values for one of the banks. The BAMC also received information about the decisions whereby the European Commission granted state aid to both banks. Decisions SA.33229 (2012/C) (ex 2011/N) and SA.35709 (2013/N) indicate that the transfer prices also included an amount of state aid received by the banks based on the fact that the transfer prices were higher than current market prices. The amount of state aid was calculated as the difference between the transfer price and the current market value. The granted state aid which was received at the time by the NLB amounted to EUR 130 million, while the state aid granted to the NKBM amounted to EUR 195 million, totaling to EUR 325 million.

Based on all new information received in May 2014, the BAMC followed the advice of external auditors and for the purposes of initial recognition of fair value, BAMC's management decided to carry out its own internal valuation of transferred assets for 104 top companies, whose transfer prices constituted 80% of all assets transferred to the BAMC, and 10 of its investments in ownership interests and equities amounting to a transfer value of EUR 15 million.

Overview of BAMC's valuation methodology

Through an internal valuation procedure, the BAMC has developed its own view regarding fair asset values of the major part of the portfolio, based on its own research, experience and case-specific knowledge.

Methodology for loans

Expected outcome was calculated to estimate the value of the loans. For each company, two possible scenarios – restructuring and recovery – were considered. Realistically expected cash flows to the BAMC were estimated and probabilities were assigned to both scenarios. For the restructuring scenario, the borrower's cash flow forecast and debt servicing capability were taken into account. For the recovery scenario, a realistic outcome of realizing collateral was taken into account. Expected outcome was thereafter calculated as probability-weighted average of present values of cash flows of both scenarios discounted with 5,9%, which represents financing cost and cost of operations of BAMC. Regarding the value of underlying collateral (e.g. equity or real estate), the below mentioned principles were used.

Methodology used for equity investments

Valuation methods on enterprise value level (e.g. Free Cash Flow for the Firm for the discounted cash flow method and Enterprise Value/EBITDA for the comparison method) were preferred. Equity positions representing control of more than 20% or book value more than EUR 5 million[1] were evaluated by the discounted cash flow method. For less control and lower book value, the comparison method of adjusted EV/EBITDA multiple was used. For minority holdings, the market traded price was used when available and sufficient transactions had been made to ensure liquidity.

Methodology used for real estate

The simplified method was used for all single residential units and non-residential single units below external market valuation of EUR 2 million. The simplified approach was based on the Surveying and Mapping Authority of the Republic of Slovenia (GURS) methodology using the NEP application. Obtained base values were modified by a number of different factors, taking into account the condition of the real estate, location, size, vacancy rate, fit-for-sale measurements, fee etc. For complex real estate, the discounted cash flow method with detailed cash flow forecast was used.

In total, the estimated fair value at initial recognition of assets for all items included in the evaluation (claims, equity interests and shares) was EUR 39,9 million lower than the transfer prices, a 4% decrease in the value of transferred assets.

[1] The value of the investment in shares of Pivovarna Laško has been determined based on the market price using the closing price at the Ljubljana Stock Exchange.

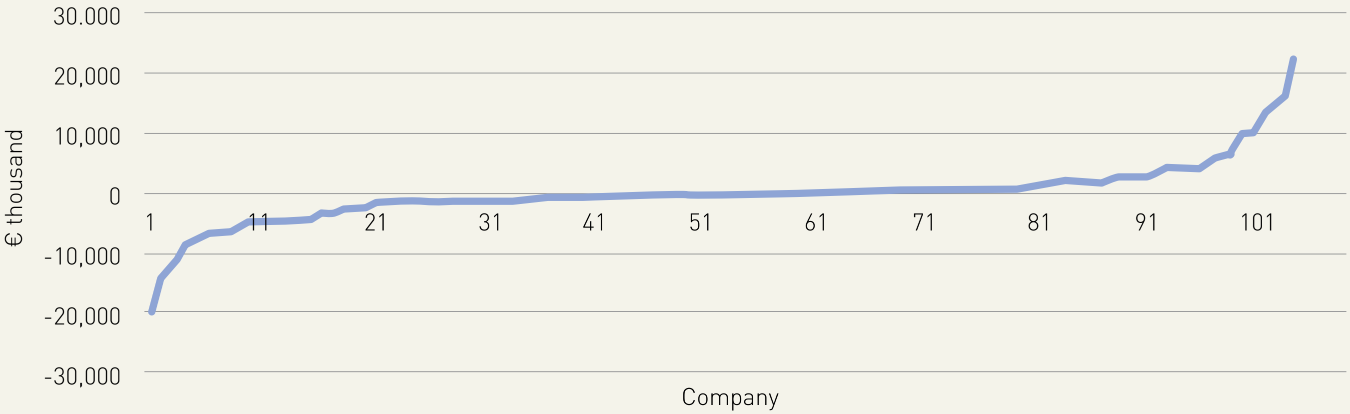
The fair value estimation involved 104 companies. For 62 companies, the fair value estimation was EUR 175,6 million lower than the transfer value, while for 42 companies, the fair value estimation was EUR 145,7 million higher than the transfer value. The BAMC uses the portfolio approach at initial recognition of assets. For this reason it recognized EUR 29,9 million of net losses at initial recognition of claims (loans).

The estimated fair value of 7 investments in equity interests were EUR 10,3 million lower than the transfer values, while for 3 companies they were EUR 0,4 million higher than the transfer values. For the equity investments portfolio, similar to the loans portfolio, the BAMC also uses the portfolio approach at initial recognition of assets. For this reason, it recognized EUR 9,9 million in net losses at initial recognition of equity investments.

The remaining 20% of the value of transferred claims, which were not included in BAMC's internal valuation, have been recognized at transfer prices for the purposes of initial fair-value recognition of assets. The sample of the top 104 companies shows that the lower transfer price suggests lower deviations between the fair price valuation and transfer price.

We can conclude that regardless of the fact that the participating banks, the BAMC and the Bank of Slovenia are state institutions, or state-owned, access to information about methodologies applied to determine transfer prices has been very difficult to obtain. With more coordinated efforts and closer collaboration, the BAMC may have been able to save the state a great deal of money and other resources.

Day-one losses and gains at initial recognition of assets - Loans



In accordance with the ZUKSB, the transfer of the assets was concluded between the BAMC, where the state is 100% owner of the company, and the banks, where the state is 100% owner as well. The transaction of asset transfer is treated as a transaction between companies under common control i.e. transaction with the owner. All effects of the transaction in amount of EUR 39,9 million of day-one loss are therefore recognized directly in equity as a transaction with the owner.

9.1.3 Financing the Buyback of Assets by the BAMC

A lengthy process that lasted a few months began in July between the BAMC and the Ministry of Finance, with the purpose of finding the optimal solution of financing the process of transferring assets onto the BAMC and the actual purchase of NPLs from banks. The fact that the capitalization of banks will not be done by the BAMC via its own balance sheet meant that BAMC's initial share capital of EUR 3,6 million would not suffice for the anticipated asset transfers.

The BAMC agreed with the Ministry of Finance's Treasury Directorate in October that the BAMC would issue medium-term transferrable bonds with a state guarantee as payment for the transferred NPLs. These should be accepted by the ECB as adequate collateral within the Eurosystem and they would replace the non-performing assets in the balance sheets of the commercial banks. The bonds could also be exchanged for liquidity with the ECB. Banks would need the liquidity if they wished to make use of business opportunities and stimulate economic growth. The ECB demanded that the BAMC prepare a monetary protocol, wherein the use of money from the sale of assets would be defined.

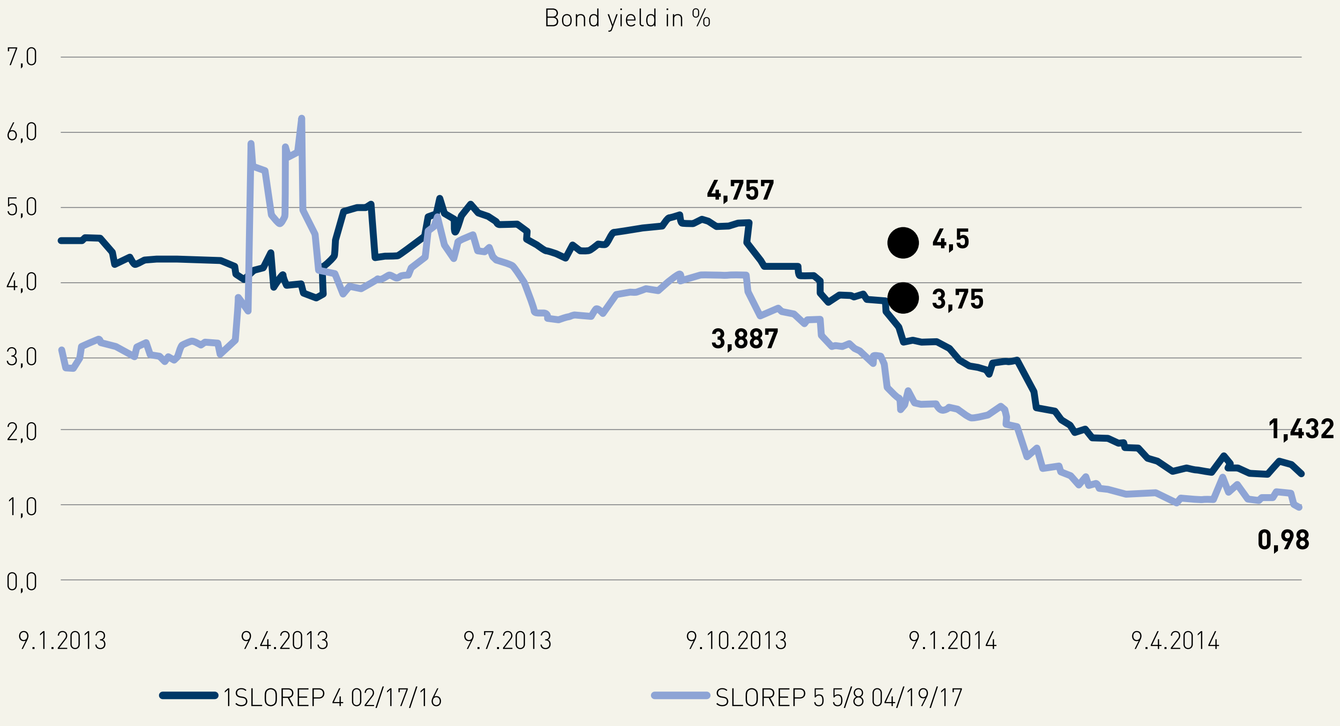
In November 2013, the BAMC invited investment banks to submit offers for the support of planning, preparation and the issuance of BAMC bonds that would meet the aforementioned criteria. The tender process determined the HSBC as the organizer and key bank, where the cost of issuance amounted to four basis points plus legal fees.

In December, the BAMC issued two series of bonds with a state guarantee, which the BAMC used to pay the banks EUR 1.009 million for the transfer of NPLs and repay the obtained loan received from the NLB.

- The first series of bonds with the ticker symbol DUT01 in the amount of EUR 505,8 million with a maturity of 2 years and a 3,75% annual interest rate;
- The second series of bonds with the ticker symbol DUT02 in the amount of EUR 505,8 million, yet with a maturity of three years and a 4,5% annual interest rate.

In accordance with the Decree, the cost of guarantee is determined at 125 basis points on top of the coupon interest rate. The bonds that were used in full for the payment of commercial banks are listed on the Ljubljana Stock Exchange.

[1] The final value of the transferred assets amounted to EUR 1.008.4 million for the transfer of EUR 0,6 million worth of exposure to shares of the NLB from the NKBM. The latter were eliminated from the Central Securities Clearing Corporation on the basis of a decision by the issuer and so their value is zero. Consequently, the NKBM returned the obtained payment for the transferred shares of the NLB as mentioned above.



Yields on German and Slovenian bonds

On 2 January 2014, the BAMC was informed that the bonds were accepted as collateral in the Eurosystem and that both banks may utilize the bonds to gain liquidity.

Ensuring the coverage of financing and management costs

According to the ZUKSB and the Decree, the management costs as well as financing costs of the BAMC are to be taken into account in determining transfer prices. This is achieved by reducing the value of the transferred assets by the cost of financing and operational costs, which would result in lower transfer prices. This is a fundamental precondition for the financial sustainability of the BAMC.

Upon the transfer of assets, the BAMC was initially informed that according to the Decree, the European Commission in setting the transfer prices had already taken into account financing and management costs when setting the transfer prices. The BAMC had not participated in determining the transfer prices.

Based on additional information received from the Ministry of Finance in May 2014, the BAMC has found that transfer prices were not reduced by the costs of financing and management incurred by BAMC. Therefore, the BAMC will request compensation from the banks or their owner in accordance with the ZUKSB.

9.2 Financial result for 2013

The financial results of the BAMC in 2013 reflect the costs of establishing the company and developing it into an operational asset management company in a constantly changing and unpredictable environment. The main events were the asset acquisition from the NLB and the NKBM and internal valuation of acquired assets, which resulted in EUR 39,9 million of negaitve difference between fair value and transfer value, which has been treated as an in-substance distribution to the shareholder as it arose from a common control transaction determined not to be at fair value.

Key elements from the income statement

Key elements from the balance sheet

2013	EUR m
Operating loss	5,3
Financial income	2,2
Financial expenses	2,7
Net loss	5,8

Key elements of income statement and balance sheet

31 December 2013	EUR m
Assets	1.182,2
Loan portfolio	947,0
Equity portfolio	14,2
Bonds	206,2
Liabilities	1.024,3
Bonds issued	1.012,7
Equity	157,9

The BAMC made a net loss of EUR 5,8 million for the period until 31 December 2013. The operating expenses of EUR 5,3 million make up the largest component of the net loss.

9.2.1 Financial expenses

In the December asset acquisition, the BAMC acquired loan and equity portfolios from the two banks. The acquisition prices were determined by the European Commission. Based on the internal valuation of fair value, the BAMC booked a day one loss of EUR 39,9 million, recognized directly in equity as an in-substance distribution to the shareholder and recorded as a negative entry to Retained Earnings.

The BAMC financed the acquisition of assets by issuing EUR 1.011,6 million of bonds with state guarantees on 20 December 2013. Interest expense for these bonds for the last ten days of December 2013 totalled EUR 1,2 million.

9.2.2 Financial income

Financial income of EUR 2,2 million comprises interest income of EUR 1,7 million from acquired loans and interest income of EUR 0,5 million from state bonds, obtained when the BAMC was recapitalized.

9.2.3 Sales revenues, operating expenses and operating loss

The BAMC made an operating loss in amount of EUR 5,3 million as the BAMC had no operational income and incurred operating expenses of EUR 5,3 million throughout 2013. This includes EUR 4,7 million of service costs, of which consultancy fees amount to EUR 3,9 million, labour costs amount to EUR 0,5 million, and other operating costs amount to EUR 0,2 million.

The BAMC has not recorded any revenue from sales of assets in 2013.

9.2.4 Net loss

The BAMC is showing a net loss for 2013 in the amount of EUR 5,8 million.

9.2.5 Equity

BAMC's equity amounted to EUR 157,9 million at 31 December 2013. The share capital amounted to EUR 203,6 million, while negative Retained Earnings in the amount of EUR 45,7 million relates to EUR 5,8 million of net loss from 2013, and EUR 39,9 million of day-one loss from asset fair value measurement on initial recognition, which has been treated as an in-substance distribution to the shareholder as it arose from a common control transaction determined not to be at fair value.

10. RISK MANAGEMENT

In 2014, the BAMC will prepare a risk register, where all identified risks will be described and the method specifying how these risks should be addressed.

10.1 Strategic Risks

Risks involving the finite period of time of the functioning of the BAMC

In accordance with the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability, the termination of the BAMC is planned for 31 December 2017 at the very latest. As already stated in the introduction, the main goals of the BAMC are foremostly to reduce the total costs for the budget and to achieve remuneration of the value of the assets for the Slovenian taxpayers to the greatest possible extent. Additionally, another goal is the reconstruction and management of banks as well as the transferred assets in a manner to achieve the highest possible value on the market, and the sale at the highest possible prices. If we wish to achieve the goals set out for the BAMC, the legal timespan of the firm may be too short. It makes no sense to sell the assets in distress, as we would not achieve the planned goal in this case.

Risks connected with capital inadequacy

As a result of past and future overpayments for assets transferred from banks and negative macroeconomic trends, the BAMC may additionally have to impair the transferred assets and additionally lower its equity capital under the threshold of one-half of the company's share capital.

Risks connected with the inability to obtain additional indebtedness

There is a risk that the BAMC may not be able to acquire additional debt for the transfer of assets from other banks (Abanka d.d., Banka Celje d.d., Factor banka d.d., Probanka d.d., and possibly other banks), and refinance the matured liabilities due to national budget restrictions.

In May 2014, the National Assembly rejected the proposed changes to the Implementation of the Republic of Slovenia's Budget, in which the Ministry of Finance suggested a quota on the indebtedness of the BAMC in 2014 and 2015 for the purpose of transferring additional NPLs from Abanka d.d., Banka Celje d.d., Factor banka d.d., and Probanka d.d. With adequate funding not provided for in the state budget, or rather the consent of the Ministry of Finance, the BAMC can neither acquire additional debt, and undertake the transferral of assets set out in the legislation, nor partially refinance the matured bonds in 2015 and in the years to come.

10.2 Operational Risk

Risks connected with informational sources

The BAMC gains informational sources from IT systems of the NLB d.d. and the NKBM d.d. Both these banks are under the obligation to ensure the functioning, availability and access to IT systems and among other things the functioning of different types of reports connected with the acquired assets.

The risk for the BAMC is the accuracy of the obtained data. The BAMC has established an internal control system to review the accuracy of the acquired data.

Risks connected with the destruction of assets (assets owned by the BAMC and assets, where the BAMC is the lienholder).

The BAMC has addressed as a potential risk the unforseeable destruction of assets, both assets owned by the BAMC as well as assets, where the BAMC is the lienholder. In case of the destruction of assets, this could affect the value of the assets. In cases of BAMC's ownership, this would mean a reduction of the value of the assets. In cases where BAMC acts as lienholder, however, the reduction of the value of the assets means a reduction in the value of the insurance of collateral. In case the debtor does not return the owed amounts, this has a negative effect on business results of the company. The stated risks of the BAMC are managed in such a manner that the asset is adequately insured. In real estate cases, where the BAMC acts as a mortgagee, the debtor, according to the loan contract, is obliged to provide adequate insurance of the assets and assign the insurance policy in favor of the creditor (BAMC).

10.3 Financial Risk

The BAMC is exposed to the following financial risks:

- credit risk;
- liquidity risk;
- market risk.

The aforementioned financial risks are described in the accounting part of the report, under Note 22.

Risks connected with the refinancing of issued bonds

Due to the short maturity of the issued bonds of the BAMC, there is a risk that the market interest rates at the time of the issue of new bonds (or other forms of indebtedness), with which the BAMC will partially refinance the matured bonds, are higher than the interest rates of existing bonds. Based on the current level of interest rates and the high interest rate of the existing bond, this risk seems relatively small. However, this may change based on the macroeconomic conditions.

11. BAMC SHARE

11.1 Description of the Share and Ownership Structure

Basic information on shares of DUTB d.d. per day of 31. 12. 2013	
Ticker Symbol	DUTR
Code ordinary, freely transferable, registered, no-par value share	
Exchange quotation	Shares are not quoted
Value of share capital	EUR 203.625.000,00
Number of shares	101.812.500
Number of shareholders	1
The owner	Republic of Slovenia

Description of the Share and Ownership Structure

Changes in share capital in 2013

The payment of the share capital in the amount of EUR 25.000 represents 12.500 ordinary exchangeable individual shares. The date of official enrollment in the Companies Register was 19 March 2014.

On 21 March 2013, the BAMC issued 1.800.000 new shares in the nominal value of EUR 3.600.000. The total emission of shares was purchased by the Republic of Slovenia. The new amount of share capital was EUR 3.625.000.

On 12 December 2013, the BAMC issued 100.000.000 new shares in the nominal amount of EUR 200.000.000. The full lot was purchased by the Republic of Slovenia. The new sum of share capital amounted to EUR 203.625.000

At the end of 2013, the BAMC had share capital in the amount of EUR 203.625.000 recorded in the company register, which represents 101.812.500 ordinary, freely transferable, registered, no-par value shares. Each share brings an equal share and a corresponding sum of share capital. All issued bonds were paid in full.

Changes in share capital in 2013	Payment amount in EUR	Number of new shares	Share capital after the capital increase in EUR	Number of shares after the capital increase
Share capital as of 7.3.2013	25.000	12.500	25.000	12.500
1st capital increase per day of 21.3.2013	3.600.000	1.800.000	3.625.000	1.812.500
2nd capital increase per day of 12.12.2013	200.000.000	100.000.000	203.625.000	101.812.500
Share capital per day of 31.12.2013			203.625.000	101.812.500

12. SUSTAINABLE DEVELOPMENT

12.1 RESPONSIBILITY TOWARDS EMPLOYEES

12.1.1 BAMC Staffing

BAMC's initial executive capacity was limited to the three temporary EDs. A key objective of the Board was to bring in permanent EDs and staff with a high level of technical competence and integrity. Given the nature of BAMC's upcoming business and associated risk of corruption, it was considered imperative to recruit people that had no potentially damaging political or corporate ties, starting from the top. In the first few weeks and months, the executive work was done by the EDs, who required intensive assistance from external consultants. Two of the EDs focused on establishing the corporate infrastructure and basic operating procedures, while the third ED directed the work to establish the framework for the role of the BAMC as owner of banks, and the transfer of NPLs from banks.

As a result of the extremely challenging time line imposed by the Ministry of Finance in April 2013, the BAMC had to change its original concept of building up the BAMC in stages with mainly internal resources. Instead, the BAMC had to prepare for executing the instructions received and the changing demands and deadlines by means of flexible and immediately available support in the form of external consultant resources. The BAMC informed the government of the cost implications of such an approach and executed on this concept fully aware that this could attract considerable criticism. Given the severity of the situation in the banking sector at the time and the marching orders it had received, the BAMC had no other options.

In early July, the government introduced a remuneration policy for non-executive directors, executive directors and staff. With uncertainties surrounding employment conditions for key staff removed, the BAMC was able to more actively pursue candidates for the positions of permanent executive director and other key functions. A public call for applications for permanent executive directors resulted in 67 local applications, which were complemented by an international search that identified 127 candidates, mainly with international backgrounds. A careful screening, short listing and interview process commenced and took several months to complete. In the fourth quarter, three permanent executive directors were selected and they were formally appointed by the BAMC Board on 9 January 2014.

From the beginning, the BAMC Board made a commitment to transparency, observance of laws and regulations, and open communications. Accordingly, BAMC's first staff recruitments were in the areas of communications and public relations, as well as in legal and regulatory compliance. An internationally experienced restructuring expert was contracted to lead, oversee and guide the internal staff in the credit work-out and asset management processes.

A disturbance in the work of the Board happened on 13 September, when the government dismissed the Chairman of the Board of the BAMC, Andrej Šircelj, from his position as a non-executive director. This was done on the grounds of a conflict of interest between his position at the BAMC and being a member of parliament. The Board elected the deputy chairman, Lars Nyberg, as its new chairman. The Board remained short of one non-ED for the remainder of 2013.

In late summer and early autumn, with a highly uncertain starting date for asset transfers and with the likelihood of an extended transfer period once the transfers started, the BAMC slowed down its recruitment efforts to better co-ordinate the intake of personnel with the expected arrival of assets from the banks. As the timing of the start of the transfer process became clearer in late October, the BAMC made a public call for applications to fill 40 positions of case managers, case lawyers, case assistants and paralegals. When the call closed on 10 November, 1.054 applications had been received. A major screening, short listing, interviewing and recruiting process began. By year-end, the organization had grown to 12 full time FTEs, supported by 5 external consultants. All critical functions were in place. The BAMC had agreements with another 18 FTEs for starting during the first 3 months of 2014, and given the expected inflow of assets to manage, strong recruiting efforts were still under way and continued in 2014.

Employees by departments at the end of 2013

Department	Number of employees
Executive department (executive directors)	3
Credit management	3
Asset management	1
Support	1
PR & Communication	1
Legal and compliance	2
Human resources (HR)	1
Number of employees per day of 31.12.2013	12

12.1.2 BAMC's remuneration policy

The objective 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 a small staff with relevant professional background and experience, as well as willingness to take initiatives and think independently. To attract competent and specialized people, the BAMC has set its compensation packages at levels consistent with private sector rather than public sector compensation levels; the necessity for such competitive compensation has been recognized in the ZUKSB.

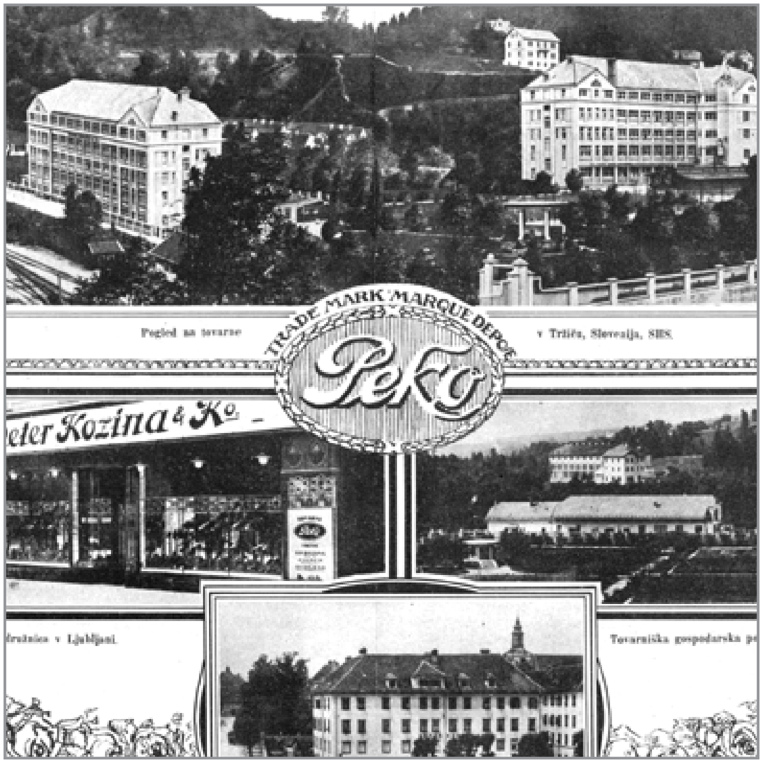
The BAMC salary levels have been set at levels commensurate with these attributes. The Board has approved salary scales that are in line with salaries of large corporate and financial institutions in Slovenia. For executives and some key senior staff, salaries have been determined case by case at competitive levels to attract people with required skill sets and domestic or international experience. In its recruitment efforts, the Board and management of the BAMC are conscious of the need to ensure high professionalism and quality corporate governance in order to maximize overall value to the state.

12.1.3 BAMC's values: Professionalism, Integrity and Ethics

The BAMC is committed to observing applicable laws and regulations and to employ highly ethical business practices. The 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.

The 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.

The BAMC staff is selected to comply with very high professional standards. All employees are highly experienced and motivated. Furthermore, the 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.



Advertisement for a shoe factory Peko
Ilustrirani Slovenec newspaper, 1926

Čitanje in presoja bilanc.

(Nadaljevanje.)

Razliko pojmovanja teh računskih teorij pojasnimo najlažje s praktičnim primerom. Vzemimo, da trgovec Fran Sever ustanovi novo trgovsko tvrdko ter vloži v podjetje kot edini aktivum K 100.000·— gotovine.

Po *personifikacijski teoriji* stoji takoj nasproti Franu Severju kot lastniku tvrdke upravitelj blagajne kot personifikacija premoženjske sestavine: blagajna. Knjigovodja si po tej teoriji tolmači knjižbeni zadatek:

»**Dati:** *Račun blagajne*

Imeti: *Račun glavnice Fran Sever*

za polog Frana Severja v gotovini K 100.000·—»
tako-le: ***Breme privatne imovine Frana Severja preide kot oddano breme na upravitelja blagajne in ima Sever terjatev napram temu,*** zato: ***razbremenitev (Imeti) Računa glavnice Sever; upravitelj blagajne pa je prevzel breme tvrdkine imovine v upravljanje,*** zato: ***obremenitev (Dati) Računa blagajne.*** Vsak račun je personificiran v upravitelju-predstavitelju in knjigovodja preizkusi samo mehanične funkcije Dati: Imeti.

Po *poslovni teoriji* pa ima Fran Sever kot dejanski lastnik tvrdke nasproti sebi namišljenega lastnika: protokolirano tvrdko Fran Sever. Knjigovodja si tolmači gorenji knjižni zadatek tako-le: ***Breme privatne imovine Frana Severja v iznosu K 100.000·— preide v last protokolirane tvrdke Fran Sever, za katero znači iznos K 100.000·— poslovno imetje (glavnico),*** sestoječo na eni strani iz a k t i v a: ***prevzeto breme aktivne postavke blagajna K 100.000·—,*** na drugi strani pa iz p a s i v a: ***dolg tvrdke Fran Sever za K 100.000·— kot bremenoprejemnik napram Franu Severju — pravemu lastniku podjetja — kot bremenodajalcu,*** zato pri a k t i v u: ***Obremenitev računa blagajne (Dati),*** pri p a s i v u: ***Razbremenitev računa glavnice (Imeti).***

Materialistična dvoračunskovrstna teorija pa ne pozna prenosa lastnine na namišljene osebe, ker sploh ne operira z osebami. Privatna imovina se sploh ne preobrazuje v poslovno imovino, ker je podjetje in lastnik podjetja en sam pojem. Knjigovodja zasleduje pri presojanju zgoraj podanega knjižbenega zadatka samo vprašanja: Kak aktivum, odnosno kak pasivum je nastal s tem, da je položil Fran Sever v podjetje iznos po K 100.000·—? S pologom sta nastali v skupni imovini Frana Severja dve sestavini, in sicer aktivna sestavina Blagajna v znesku K 100.000·—, na drugi strani pasivna sestavina Čisto premoženje, odnosno glavnica K 100.000·—. Seveda si mora knjižbeni zadatek tolmačiti obširneje glede redakcije:

Reading and assessing balance sheets

(Continued)

The difference in perceiving these computational theories is best explained with a practical example. Suppose that Fran Sever, a tradesman, founds a new trading company, investing K 100,000 cash as the only capital. According to the personification theory, Fran Sever as the company owner stands opposite the treasury administrator as the personification of an asset component: the treasury. According to this theory, the bookkeeper interprets the following entry: Give: Treasury bill - Have: Fran Sever's principal bill regarding the deposit by Fran Sever in amount of K 100.000, cash, as follows: The debit of Fran Sever's private property passes to the treasury administrator, so that Sever has a claim against this, therefore: discharge (Have) of the Sever's principal bill; whereas the treasury administrator took over the debit of company property, therefore: debit (Give) of the treasury bill. Each bill is personified by the manager-presenter, and the bookkeeper only tries out the mechanical functions of Give : Have. According to the business theory, Fran Sever as the actual company owner stands opposite an imaginary owner: the Fran Sever company. The bookkeeper interprets the entry above as follows: The debit of Fran Sever's private property in amount of K 100,000 passes to the Fran Sever company in amount of K 100,000 – business property (principal), comprised of assets (debit taken over from the active item treasury K 100,000) on the one hand, and liabilities (Fran Sever company's debt in amount of K 100,000) on the other hand, as debit recipient against Fran Sever – the actual company owner – as debit-giver, therefore for assets: Debiting the treasury bill (Give), and for liabilities: Principal bill discharge (Have). The materialistic double-entry theory does not operate with the transfer of assets to imaginary persons, because it does not operate with persons at all. Private property is not transformed into business property, because the company and its owner are one. While assessing the entries above, the bookkeeper only needs to answer the following questions: What assets and what liabilities were created by Fran Sever investing K 100,000 into the company? The deposit created two components in the total property of Fran Sever: an active component Treasury, in amount of K 100,000, and a passive component Net assets, i.e. principal in amount of K 100,000. Of course, the bookkeeping task must be interpreted more widely as to the redaction:

Expert article on reading balance sheets
Bančni vestnik newspaper, 1921

FINANCIAL STATEMENTS OF BANK ASSETS MANAGEMENT COMPANY

FOR THE PERIOD FROM 19 MARCH 2013
TO 31 DECEMBER 2013

1. BALANCE SHEET

Figures in EUR	NOTE	31. 12. 2013
Assets		
Non-current assets		
Property, plant and equipment	4	76.917
Available-for-sale financial assets	5	14.185.267
Loans and receivables	6	408.344.884
Deferred tax assets		0
		422.607.068
Current assets		
Available-for–sale financial assets	5	206.183.922
Deferred costs	8	500.830
Loans and receivables	6	538.640.953
Trade and other operating receivables	7	8.695.292
Cash and cash equivalents	9	5.551.869
		759.572.866
Total assets		**1.182.179.934**
Equity and liabilities		
Share capital	10	203.625.000
Retained earnings		–45.652.845
Revaluation reserves	10	–69.885
Total Equity		157.902.270
Liabilities		
Non-current liabilities		
Debt securities	11	1.012.716.282
Operating liabilities		441
Deferred tax liabilities	20, 10	160.837
		1.012.877.560

Current liabilities		
Borrowings	12	2.196.611
Trade and other operating payables	14	9.100.243
Accrued costs	15	103.250
		11.400.104
Total equity and liabilities		**1.182.179.934**

The notes to the financial statements on pages 56–88 are a constituent part of the financial statements.

Ljubljana, 31 July 2014

Aleš Koršič
Executive director

Janez Škrubej
Executive director

Christopher Gwilliam
Chief executive officer

2. INCOME STATEMENT

Figures in EUR	NOTE	For the period from 19. 3. 2013 to 31. 12. 2013
Net sales revenue		0
Cost of materials		–10.429
Cost of services	17	–4.734.437
Labour costs	18	–530.595
Depreciation		–2.957
Other operating costs		–12.666
Operating loss		**–5.291.121**
Financial income	19	2.223.844
Financial costs	19	–2.716.791
Other revenues		38
Other costs		–1
Financial loss		**–492.911**
Loss before tax		–5.784.031
Current income tax expense	20	0
Deferred income tax	20,10	0
Net loss for the period		**–5.784.031**
Attributable to owners		–5.784.031
Basic and diluted earnings per share	21	–0,50

The notes to the financial statements on pages 56–88 are a constituent part of the financial statements.

3. STATEMENT OF COMPREHENSIVE INCOME

Figures in EUR	NOTE	For the period from 19. 3. 2013 to 31. 12. 2013
Net loss for the period		–5.784.031
Items that may be subsequently reclassified to profit or loss		
Change in value of available-for-sale financial assets	10	–69.885
Other comprehensive income for the period, net of tax		**–69.885**
Total comprehensive loss for the period attributable to owners		**–5.853.916**

The notes to the financial statements on pages 56–88 are a constituent part of the financial statements.

4. STATEMENT OF CASH FLOWS

Figures in EUR	NOTE	For the period from 19. 3. 2013 to 31. 12. 2013
A) Cash flows from operating activities		
Operating receipts		**0**
Receipts from sales of services		0
Other receipts		0
Operating expenditures		–3.715.665
Expenditure for purchase of materials and services	17	–3.347.032
Expenditure for wages of employees and other entitlements	18	–367.934
Expenditure for various charges		0
Other operating expenditures		–698
Net cash from operating activities		**–3.715.665**
B) Cash flows from investing activities		
Receipts from investment activities		**992.496**
Receipts from the disposal of intangible assets		0
Receipts from the disposal of tangible fixed assets		0
Receipts from the disposal of long-term financial investments		0
Receipts from the disposal of short-term financial investments	6	992.496
Expenditure in investment activities		**–36.768**
Expenditure for the acquisition of intangible assets		0
Expenditure for the acquisition of tangible fixed assets	4	–36.768
Expenditure for the acquisition of long-term financial investments		0
Expenditure for the acquisition of short-term financial investments		0

Net cash from investing activities		**955.728**
Cash flows from financing activities		
Receipts from financing activities		**8.311.805**
Receipts from paid capital		3.625.299
Receipts from increase in long-term liabilities		0
Receipts from increase in short-term liabilities		4.686.506
Expenditure from financing activities		**0**
Interest expenses relating to financing		0
Expenditure for the repayment of long-term financial liabilities		0
Expenditure for the repayment of short-term financial liabilities		0
Net cash from financing activities		**8.311.805**
Closing cash balance	**9**	**5.551.869**
Net increase/decrease in cash for the period		**5.551.869**
Opening cash balance		**0**

The notes to the financial statements on pages 56–88 are a constituent part of the financial statements.

5. STATEMENT OF CHANGES IN EQUITY

Figures in EUR	SHARE CAPITAL	REVALUATION RESERVES	RETAINED EARNINGS	TOTAL EQUITY
Balance as at 19. 03. 2013	**25.000**	**0**	**0**	**25.000**
Net loss for the period			–5.784.031	–5.784.031
Other comprehensive income		–69.885		–69.885
Total comprehensive loss for the period after tax		**–69.885**	**–5.784.031**	**–5.853.916**
New share capital subscribed (Note 1)	203.600.000			203.600.000
In-substance distribution to owner (Note 3.1, 3.3)			–39.868.814	–39.868.814
Balance as at 31. 12. 2013	**203.625.000**	**–69.885**	**–45.652.845**	**157.902.270**

*The difference between fair value and transfer value of acquired assets in the amount of EUR 39.868.814 is recognized as a deduction in equity. Since the transaction was non-commercial and has been done between companies under common control (the owner of both banks as well as BAMC is the state) the transaction is considered as a transaction with owners and all the effects of such transactions are recognized in equity.

The notes to the financial statements on pages 56–88 are a constituent part of the financial statements.

Ljubljanski velesejem (Ljubljana Industrial Fair)
Ilustrirani Slovenec newspaper, 1925

Ljubljanski velesejem.

Po končani vojni je nastopila doba gospodarske obnove in pričele so se polagoma zopet oživljati industrija, obrt in trgovina. Gospodarski krogi, ki so se trudili najti pota in sredstva, da bi pospešili to oživljenje, so se oprijeli starega preizkušenega sredstva prirejanja velesejmov. Velesejem naj ob določenem času in na določenem mestu zbere kar največje število kupcev in prodajalcev, ki naj med seboj ustvarjajo trajne trgovske vezi in sklepajo kupčije. V zavesti, da je taka institucija neobhodno potrebna zlasti za Slovenijo kot industrijsko najbolj razviti del naše države so ustanovili dalekovidni zastopniki gospodarskih krogov leta 1920. v Ljubljani prvi vzorčni velesejem. Ta se je vršil na 25.000 kvadratnih metrov velikem sejmišču. Bilo je takrat 470 razstavljalcev in preko 100.000 obiskovalcev. Sejmišče pa se je pokazalo premajhnim in drugi Ljubljanski velesejem leta 1922. je obsegal že 40.000 kvadratnih metrov. Število razstavljalcev je narastlo na 700. Tudi ta velesejem je kakor tretji l. 1923. zelo lepo uspel. Lanskoletni velesejem pa beleži navzlic težkim krizam našega gospodarstva tako lepe uspehe, da se je 90 % vseh razstavljalcev izjavilo s prireditvijo v vsakem oziru popolnoma zadovoljno. Število posetnikov je doseglo svoj rekord, v desetih dnevih je obiskalo velesejem okrog 150.000 ljudi. Ljubljanski velesejmi se prirejajo pod protektoratom Nj. Vel. Kralja Aleksandra I. Tudi letošnji velesejem je veličasten prikaz dela rok in razuma človekovega ter mora v obiskovalcih zbuditi spoštovanje in ljubezen do dela in ustvarjanja ter dvigati naš gospodarski in narodni ponos. Na velesejmskih prireditvah so vidna velika znamenja naše zrelosti, naše resnosti in volje, da se uvrstimo v krog velikih prosvetljenih narodov. Kdor obišče razkaz najrazličnejših produktov na velesejmu, mora v njem dozoreti prepričanje, da le v resnem in vztrajnem delu leži naša bodočnost. Našemu kmetovalcu in obrtniku je posebno potrebno, da se okoristi z vsemi modernimi pridobitvami ter da preide h gospodarstvu, v katerem se uporabljajo koristne iznajdbe nove dobe. Zato obisk letošnjega velesejma vsem in vsakemu najtopleje priporočamo.

Ljubljana Industrial Fair

The end of the war brought forth an era of economic reconstruction – industry, craft and trade slowly started to revive. Economic circles trying to find ways and means to speed up the revival, took to a tried and tested solution: organizing industrial fairs. The purpose of a large-scale fair is to gather as many buyers and sellers as possible at a certain time and place, so as to create permanent trade relations and do business. Being aware that such events are indispensable, especially for Slovenia as the most industrially developed part of our State (translator's note: the Kingdom of Serbs, Croats and Slovenes), in 1920 far-sighted economic representatives organized the first industrial fair in Ljubljana. It took place on a 15,000 square meter fairground and welcomed 470 exhibitors as well as over 100,000 visitors. The fairground turned to be too small, which is why the second Ljubljana Industrial Fair of 1922 was held on 40,000 square meters. The number of exhibitors increased to 700. This fair, as well as the next one in 1923, have been a great success. Despite severe economic crises, last year's industrial fair has been remarkably successful – 90% of exhibitors said that they were completely satisfied with the event in every way. The number of visitors was record-breaking: 150,000 people attended the fair in a course of ten days. Ljubljana industrial fairs are held under the protectorate of His Majesty King Alexander I. This year's fair is another magnificent display of handicraft and intellect that inspires respect and love to work and create, as well as promotes our economic and national pride. Large-scale fairs exhibit our maturity, seriousness and determination to join the group of grand, enlightened nations. The wide range of products at the fair should make every visitor see that our future lies in committed and persistent work. It is especially important for our farmers and artisans to equip themselves with all the modern devices and for our economy to evolve into one that benefits from useful inventions of a new age. This is the reason why we encourage each and every one to visit this year's industrial fair.

Presentation of the Ljubljana Industrial Fair
Ilustrirani Slovenec newspaper, 1925

6. NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: General information

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

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

These are mainly loans given in the past that are not being serviced by the companies and organizations due to the economic crisis or some other reasons. As a consequence, the banks have made provisions for expected losses, which has eroded their capital base. This means they lack capital for normal operations.

The main purpose of BAMC is to acquire assets in the form of property-related loans from credit institutions which have been designated by the Minister of Finance. BAMC will manage the assets to preserve their real value and sell them on the market.

Financing of asset acquisition

In December 2013, the BAMC issued two series of state-backed bonds to pay for non-performing loans (hereinafter reffered to as NPLs) transferred from banks (EUR 1.009 million) and to repay a loan obtained from Nova Ljubljanska banka d.d. (hereinafter reffered to as NLB):

- the first series of bonds (DUT01) in the amount of EUR 505,8 million with a two-year maturity has an annual interest rate of 3,75%;
- the second series of bonds (DUT02) in the amount of EUR 505,8 million with a three-year maturity has an annual interest rate of 4,5%.

In addition to the cost of bonds coupon the BAMC is bound to pay annual cost of the state guarantee in amount of 125 basis points (bp) 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 two banks, are listed on the Ljubljana Stock Exchange.

On 2 January 2014, the BAMC was informed that said bonds would be accepted as collateral for the Eurosystem liquidity operations.

Share capital paid in

The BAMC was established based on share capital of EUR 25.000 paid in by the government of the Republic of Slovenia on 7 March 2013. The said share capital was divided into 12.500 ordinary freely transferable no-par value registered shares. The newly established company was entered in the court register on 19 March 2014.

On 21 March 2013, the BAMC issued 1.800.000 new shares in the nominal value of EUR 3.600.000. The entire issue was acquired by the Republic of Slovenia. Share capital then stood at EUR 3.625.000.

On 12 December 2013, the BAMC issued 100.000.000 new shares in the nominal value of EUR 200.000.000. The entire issue was acquired by the Republic of Slovenia. Share capital then stood at EUR 203.625.000.

NOTE 2: Summary of significant accounting policies

2.1 Basis of preparation

Going concern

The financial statements are prepared on a going concern basis.

The BAMC was established under statute with specific statutory mandate until the end of December 2017. In its consideration whether accounting on a going concern basis is appropriate, the BAMC based its determination in accordance with Article 36 of the MSSBA, where it states that all assets, rights and obligations of the BAMC, after its termination, shall be transferred to the Slovenian Restitution Fund or its legal successor. Therefore, the Board believes it is reasonable to assume that, given the purpose of the legislation, that applying the going concern basis is appropriate.

2.2 Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements were approved by the Company's management on 31 July 2014.

The financial statements shall present fairly the financial position, financial performance and cash flows of the BAMC. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IFRS. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

The financial statements include disclosures required by the Slovene Companies Act (hereinafter reffered to as ZGD-2), as the company is a limited company and in accordance to ZGD-2 it is required to use financial state format for commercial companies and not for banks.

2.3 Basis of measurement

The financial statements have been prepared on a historical cost basis, except for loans and receivables and financial liabilities that have been recognised at fair value deemed to be the basis for further measurement at amortised costs, as well as financial assets available for sale have been measured at fair value.

2.4 Functional and presentation currency

The financial statements have been prepared and are presented in euros. All accounting information presented in euros has been rounded to the nearest unit.

2.5 Use of estimates and judgments

In compiling financial statements the management must make 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 must be reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, and in all future years affected by the revision.

Information about significant areas of estimation uncertainty and critical judgments drawn up by the management in the process of applying the accounting policies that have the greatest impact on the amounts in the financial statements is provided in Note 3.

2.6 New and amended accounting standards and interpretations in 2013

In 2013 the BAMC implemented all the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the EU, the use of which is mandatory for the accounting period beginning on 1 January 2013.

2.6.1 Accounting standards and interpretations adopted in 2013 by the BAMC, with amendments:

IFRS 13 "Fair Value Measurement", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and is a single source of fair value measurement and disclosure requirements for use across IFRSs.

Amendments to IFRS 1 "First-time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).
The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to

severe hyperinflation resumes presenting or presents, for the first time, its financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value, and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

Amendments to IFRS 1 "First-time Adoption of IFRS"– Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013). The amendments regarding loans received from governments at a below-market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers.

Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'.

Amendments to IAS 12 "Income Taxes"– Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value.

Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) re-measurements in other comprehensive income.

Amendments to various standards "Improvements to IFRSs (cycle 2009–2011)" resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, Borrowing costs, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment having been used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision-maker and there has been a material change in those measures since the last annual financial statements.

IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013). The interpretation clarifies that benefits from the stripping activity are accounted for in accordance with the principles of IAS 2, Inventories, to the extent that they are realized in the form of inventory produced. To the extent the benefits represent improved access to ore, the entity should recognize these costs as a 'stripping activity asset' within non-current assets, subject to certain criteria being met.

In the preparation of these financial statements, the BAMC complied with all the aforementioned amendments to the accounting standards.

2.6.2 Standards and interpretations issued by IASB and adopted by EU but not yet effective

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the BAMC has not early adopted.

IFRS 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation – special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. This standard may have significant impact on the company's financial statements as in accordance with the new standard; control may arise as a result of holding troubled debt. This may result in the company needing to consolidate certain entities. Analysis in this area is ongoing and additional consolidation of debt from future transfers will further increase the potential significance of this standard for the company.

IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28, Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarized financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

IAS 27 (revised in 2011) "Separate Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.

IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

Amendments to IFRS 10 "Consolidated Financial Statements",

IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014), clarify the transition guidance in IFRS 10 Consolidated Financial Statements. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interests in Other Entities, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements" – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014), introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgments made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The BAMC is currently assessing the impact of the amendments on its financial statements. This standard may have a significant impact on the Company's financial statements as in accordance with the new standard; control may arise as a result of holding troubled debt. This may result in the company needing to consolidate certain entities. Analyis in this area is ongoing and additional consolidation of loans from future transfers will further increase the potential significance of this standard for the company.

Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014), add application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

Amendments to IAS 36 "Impairment of assets" – Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014), remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014), will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation if specific conditions are met.

The BAMC is considering the implications of the amendment, the impact on the BAMC and the timing of its adoption by the BAMC.

2.7 Property, plant and equipment

Recognition and measurement

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. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. 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 among other operating income/expenses.

Depreciation

Deprecation 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 5 years.

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

2.8 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 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.

2.9 Financial instruments

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. Any part of a transferred financial asset that the BAMC creates or transfers is recognized as an individual asset or liability. 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) Loans and receivables

Loans and receivables 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 and receivables are initially recognized at fair value (see Note 3.1) plus any directly attributable transaction costs.

Subsequently, loans and receivables are measured at amortized cost using the effective interest method, minus any impairment losses.

Further information on loans acquired by the BAMC from financial institutions is included in Note 3.

b) Cash and cash equivalents

Cash and cash equivalents comprise cash balance, hand 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 financial assets that have been designated as available-for-sale. 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 imparement of these assets. If the fair value of the investments cannot be measured reliably, the BAMC measures the available-for-sale investments at cost.

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 realise the asset and settle the liability simultaneously.

The BAMC recognises loans and advances, bank overdrafts, other financial liabilities and trade payables among non-derivative financial liabilities. These financial liabilities are recognised 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.

2.10 Impairment

Financial assets

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 derecognition of the investments, the accumulated gain and losses recognized in other comprehensive income are transferred to profit or loss.

a) Impairment of loans and receivables

The transfer of non-performing loans was completed by the end of 2013 (on 20 December 2013); therefore no impairment for the period 2013 was recognized. Due to the fact that the BAMC acquired non-performing loans, the fair value at initial recognition was challenged. Positive variances between the determined fair value and the stated transfer prices amounted to EUR 175.647.607, while negative variance amounted to EUR 145.699.380. The net negative variance in the amount of EUR 29.948.227 has been treated as an in-substance distribution to the shareholder (Republic of Slovenia) as it arose on a common-control transaction on non-commercial terms. For further information please see Note 3.1.

b) Impairment of available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring any cumulative loss that has been previously recognised in other comprehensive income for the period and presented in the fair value reserve to profit and loss.

2.11 Debt and equity instruments

Debt and equity instruments are classified either as liabilities or as equity in accordance with the substance of the contractual terms of the instruments. Instruments that 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.

2.12 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.

Financial income comprises interest income on investments (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and foreign exchange gains that are recognized in profit or loss.

Financial expenses comprise 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 effective interest method.

2.13 Income tax

Income taxes have been recognized in the financial statements in accordance with legislation enacted or substantively enacted by 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 disclosed 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 in 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 by 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 the carryforward of unused tax losses is recognized to the extent that is probable that future taxable profit will be available against which the unused tax losses can be utilized. The BAMC considers the probability whether taxable profit will be available on an ongoing basis.

2.14 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.

2.15 Determination of fair value

In numerous cases 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 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 (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 quated prices included in 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).

The BAMC uses quoted prices as the basis for the fair value of financial instruments. If a financial instrument is not quoted on a regulated market and the market is considered as inactive, the BAMC uses inputs of Levels 2 and 3 for determining the fair value of the 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.

Loans and receivables

The fair value of receivables and loans for disclosure purposes is calculated as the present value of future cash flows, discounted at the market rate of interest at the end of the reporting period. The estimates take into account the credit risk associated with these financial assets. For further information please see Note 16.

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 16.

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.

NOTE 3: Critical accounting estimates and judgments

The preparation of financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues 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 ("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; it was informed 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 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 BAMC follows the guidance of IAS 39 and IFRS 13, which require for all financial assets (including loans and receivables) to be recognized initially at fair value.

Overview of BAMC valuation methodology

Through an internal valuation procedure, the BAMC has developed its own view regarding fair asset values of the portfolio based on its own research, experience and case-specific knowledge.

Methodology for loans

Expected outcome was calculated to estimate the value of the loans. For each company two possible scenarios – restructuring and recovery – were considered. Realistically expected cash flows to the BAMC were estimated and probabilities were assigned to both scenarios. For the restructuring scenario, the borrower's cash flow forecast and debt servicing capability were taken into account. For the recovery scenario, the realistic outcome of realizing collateral was taken into account. Expected outcome was thereafter calculated as probability-weighted average of present values of cash flows of both scenarios discounted with 5,9%, which represents BAMC's financing cost and cost of operations. Valuation underlying collateral (e.g. equity or real estate) was performed taking into account the following principles:

- Methodology for valuation of equity investments

Valuation methods on enterprise value level (e.g. FCFF (free casflows to firm) for discounted cash flow method and EV/

EBITDA (Enterprise value/EBITDA) for comparison method) were preferred. Equity positions representing control of more than 20% or book value more than EUR 5.000.000 were evaluated by discounted cash flow method. For less control and lower book value, comparison method of adjusted EV/EBITDA multiple was used. For minority holdings, market traded price was used where available and sufficient transactions had been done to ensure liquidity.

- Methodology for valuation of real estate

A simplified method was used for all single residential units and non-residential single units below external market valuation of EUR 2.000.000. The simplified approach was based on The Surveying and Mapping Authority of the Republic of Slovenia (GURS) methodology through the NEP application. Obtained base values were modified with a number of different factors, taking in account the condition of the real estate, location, size, vacancy rate, fit-for-sale measurements fee etc. For complex real estate, discounted cash flow method with detailed cash flow forecast was used.

In total, the estimated fair value at initial recognition of assets for all items included in the evaluation (claims, equity interests and shares) was EUR 39.868.814 lower than the transfer prices, a 4% decrease compared to amount paid for the transferred assets.

The fair value estimation determined negative variance of EUR 175.647.607 (i.e. fair value lower than the transfer value) and positive variance of EUR 145.699.380 (i.e. fair value higher than the transfer value). The BAMC has applied a portfolio approach at initial recognition of assets. For this reason it recognized EUR 29.948.227 of net negative variance at initial recognition of claims (loans); this has been treated as an in-substance distribution to the shareholder (Republic of Slovenia) and has been recorded directly in equity as negative retained earnings.

Due to the fact that the transfer of assets from the NLB and the NKBM to the BAMC in accordance with the ZUKSB has been made by banks that are 100% state-owned and state is also 100% owner of the BAMC, the said 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 owner.

3.2 Recognition of the interest income on loans and receivables

The accounting policy for the recognition of interest income from loans and receivables is set out in accounting policy 2.12 Financial income and financial expenses. Due to the fact that loans and receivables acquired by the BAMC relate to prima facie non-performing assets, the BAMC considered how to recognize interest income on these loans.

The loan portfolio acquired by the BAMC was acquired at a significant discount to the original value of the loans, reflecting loan losses already incurred on the loans prior to the acquisition by the BAMC. Therefore, interest income is recognised based on initial EIR of the loans, on which a percentage of discount is applied representing the difference between the gross exposure and the transfer (purchase) value. The average discount for the NLB is 27% and for the NKBM 36%.

3.3 Determination of the significant influence over other entities

The BAMC holds:

- 23,88% of ownership interest in Pivovarna Laško d.d. (2.056.738 shares PILR);
- 21,20% of ownership interest in Thermana d.d. (663.334 shares ZDLR);
- 24,91% of ownership interest in Nigrad d.d. (109.800 shares NIMR).

Even though the BAMC holds more than 20% of ownership interest, it does not control it. According to the contractual agreement the BAMC does not have a significant influence over the investee as at 31 December 2013 (the BAMC does not have the ability, i.e. rights, to direct the activities that could significantly affect the investee's returns).

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 will acquire stakes to take-over the control in the company just to perform restructuring and then exit from the company. The BAMC will be only a temporary owner and will enter into ownership just for temporary control reasons.

Transferred equities are not derived from debt-to-equity swaps which were decided by the BAMC, but were transferred directly from banks to the BAMC. In these stakes BAMC's short-term purpose is not to exercise control.

Based on this, these investments are not accounted as investments in associates. However, the BAMC will revisit the classification on an ongoing basis and determine the continued appropriateness thereof. Currently the investments are classified as available-for-sale assets.

Investment in Pivovarna Laško d.d. is measured and valued using the market price valid on 31 December 2013, calculated as the number of shares multiplied by the market price per share on the Ljubljana Stock Exchange. Changes in the fair value are recognized in other comprehensive income.

Investments in Thermana d.d. and Nigrad d.d. are measured at cost as fair value, which can not be reliably determined and subsequently at each reporting date the BAMC assesses the value of financial assets to determine whether there is any objective evidence of impairment. For further information see Note 5.

Valuation methods for equity investments on enterprise value level have been described at 3.1 Methodology for equity investments.

In determining the fair values of equities, there were positive variances compared to transfer prices in the amount of EUR 403.272 and negative variances in the amount of EUR 10.323.859. As for loans, the overall fair value has been determined on a portfolio basis and the net negative variance of EUR 9.920.587 has been treated as an in-substance distribution to the shareholder as explained for loans in Note 3.1.

An overview of BAMC valuation methodology is provided in chapter 3.1 Valuation of loans and receivables at acquisition.

	Nature of business	Country of incorporation	Shareholding in %
Pivovarna Laško d.d.	Brewery	Slovenia	23,88%
Thermana d.d.	Medical and tourism	Slovenia	21,20%
Nigrad d.d.	Utility company	Slovenia	24,91%

7. NOTES TO THE BALANCE SHEET

NOTE 4: Property plant and equipment

Figures in EUR	31. 12. 2013
IT equipment	76.917
Total	**76.917**

Figures in EUR	IT EQUIPMENT	TOTAL
Carrying amount as at 19.03.2013	**0**	**0**
Additions	79.874	79.874
Depreciation	–2.957	–2.957
Carrying amount as at 31.12.2013	**76.917**	**76.917**

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

Cash in the amount of EUR 36.768 was applied on the acquisition of property, plant and equipment.

NOTE 5: Available-for-sale-financial assets

Figures in EUR	31. 12. 2013
Bonds	206.183.922
Shares and participating interests	14.185.267
Quoted on stock exchange	8.247.519
Not quoted on stock exchange	5.937.748
Total	**220.369.189**

Available-for-sale financial assets relate to equity shares in other companies and government bonds acquired as paid in capital. Investment in Pivovarna Laško d.d. (see Note 3.3) is measured using the market price valid on 31 December 2013.

All other financial assets are reported at cost as they do not have a quoted market price and fair value cannot be measured reliably.

Based on second capital increase in December 2013, the BAMC obtained bonds issued by the Republic of Slovenia (see Note 10). Investment in bonds is measured using the market exchange rate in accordance with the terms prescribed by the issuer of the bonds at the time of issue. This value is increased for interest calculated in accordance with the terms defined by the issuer.

Principal amounts of bonds totalling EUR 206.183.921 refer to two lots of bonds issued by the Republic of Slovenia:

- RS68 with the nominal value of EUR 52.234.000. The BAMC holds 52.234 denominations of EUR 1.000. The bond maturity date is 17 March 2015. The interest rate on the bonds is fixed at 2,75% p.a;
- RS38 with the nominal value of EUR 149.008.700. The BAMC holds 1.490.087 denomination of EUR 100. The bond maturity date is 19 April 2017. The interest rate on the bonds is fixed at 5,625% p.a.

Figures in EUR	For the period from 19. 3. 2013 to 31. 12. 2013
Opening balance 19. 3. 2013	**0**
Increase due to acquisition of shares and participating interests from two commercial banks	23.962.948
Increase of ordinary share capital by in-kind contribution of bond of the Republic of Slovenia	199.999.700
Interest accrued	7.039.369
Increase in fair value (fair value reserve) equity	90.952
Negative variances upon initial recognition (see Note 3.3)	–10.323.859
Positive variances upon initial recognition (see Note 3.3)	403.272
Gains and losses recognized in profit or loss (see Note 19)	–803.193
Closing balance 31. 12. 2013	**220.369.189**

NOTE 6: Loans

Figures in EUR	31. 12. 2013
Non-current loans	408.344.884
Current loans	538.640.953
Total	**946.985.837**

Loans by bank

Figures in EUR	31. 12. 2013
Loans	
Transferred from the NLB	
Non-current loans	195.706.794
Current loans	428.150.985
Transferred from the NKBM	
Non-current loans	212.638.090
Current loans	110.489.968
Total	**946.985.837**

The following table summarizes the movement in the loan balances since acquisition:

Figures in EUR	LOANS
Opening balance 19. 3. 2013	**0**
Increase due to transfer of loans and receivables	984.486.121
Other operating receivables	–1.215.650
Negative variances upon initial recognition (see Note 3.1)	–175.647.607
Positive variances upon initial recognition (see Note 3.1)	145.699.380
Fair value at initial recognition	953.322.244
New loans	55.000
Repayments	–7.834.737
of which cash repayments	–992.496
of which operating receivable to the NLB (see Note 7)	–5.670.739
of which operating receivable to the NKBM (see Note 7)	–1.171.502
Loan interest income	1.637.698
of which from the NLB	1.122.626
of which from the NKBM	515.072
Foreign exchange differences	–118.538
Write-offs	–94.322
Other	18.492
Closing balance at 31. 12. 2013	**946.985.837**

Maturity analysis of non-current and current loans

(EUR)	31. 12. 2013	PAST-DUE	MATURITY BREAKDOWN UP TO 6 MONTHS	6 TO 12 MONTHS	1 TO 2 YEARS	2 TO 5 YEARS	OVER 5 YEARS	UNSECURED PORTION	SECURED PORTION
Loans – contractual cash flows	3.296.620.076	2.435.639.832	107.094.021	196.504.934	130.895.842	253.371.499	173.113.949	2.212.684.277	1.398.605.637
Loans – net exposure (including discounts)	946.985.837	946.985.837	0	0	0	0	0	2.212.684.277	1.398.605.637

NOTE 7: Trade and other operating receivables

Figures in EUR	31. 12. 2013
Trade receivables	324
Other operating receivables	8.694.968
Total	**8.695.292**

Other operating receivables amounted to EUR 8.694.968 the majority of which relates to receivables towards the NLB and the NKBM due to incorrect payments made by debtors in the amount of EUR 6.842.241. Payments were settled in January 2014. Open receivable to the NKBM in amount of EUR 564.792 is related to the reimbursement of funds paid for the transfer of NLB's bonds, which were offset by the BAMC bonds DUT 01 in 2014.

NOTE 8: Deferred costs

Figures in EUR	31. 12. 2013
Deferred costs	122.142
Advances VAT	378.688
Total	**500.830**

Deferred costs relate to services based on the SLA agreement for January 2014 in the amount of EUR 33.343, first instalment of fees based on the AMA in the amount of EUR 29.490., penalty interests to Tax Authority in amount of EUR 19.682, costs for airline tickets reserved for the first quarter of 2014 in amount of EUR 21.388 and other services related to 2014.

NOTE 9: Cash and cash equivalents

Figures in EUR	31. 12. 2013
Cash in NLB accounts	5.551.869
Total	**5.551.869**

NOTE 10: Equity

The first payment of share capital in the amount of EUR 25.000 was received on 7 March 2013 while the Company was officially registered on 19 March 2013. The second payment of share capital – as capital increase – in the amount of EUR 3.600.000 was received on 21 March 2013.

A second capital increase in the amount of EUR 199.999.700,99 was made through in-kind capital contributions of bonds of the Republic of Slovenia. The difference in amount of EUR 299,01 was paid in cash.

BAMC's share capital registered with the court and defined in its articles of association amounts to EUR 203.625.000 and is divided into 101.812.500 ordinary freely exchangeable no-par value registered shares. Each no-par value share has the same holding and the same corresponding amount in the share capital. All shares issued were fully paid.

The BAMC does not hold any treasury shares.

Reserves and retained earnings:

	2013
Fair value reserve	–69.885
Total	**–69.885**

Breakdown of fair value reserve

- Increase in fair value from the investment in Pivovarna Laško in the amount of EUR 946.099 – fair value has been determined based on quoted market prices;
- Decrease in fair value from investment in Slovenian state bonds in the amount of EUR 855.147 – fair value has been determined based on quated market prices;
- Total net effect of the increase of fair value amounts to EUR 90.952.

The BAMC recognized a related deferred tax liability on the increase of fair value in the investment in Pivovarna Laško in the amount of EUR 160.837. Therefore, the net revaluation reserves totaled EUR 69.885.

NOTE 11: Debt securities issued

Figures in EUR	31. 12. 2013
Debt securities issued	1.012.716.282
Total	**1.012.716.282**

Figures in EUR	TOTAL
Opening balance 19.03.2013	0
Issued in the period DUT01 – 20 December 2013	506.113.577
Issued in the period DUT02 – 20 December 2013	506.221.622
Government guarantee for bond issued – debt	31.440.038
Government guarantee for bond issued – cost	–31.058.956
Closing balance 31.12.2013	**1.012.716.282**

Debt securities issued refer to two lots of bonds issued by the BAMC with official designations of DUT01 and DUT02. Debt securities in issue are initially measured at fair value and are subsequently measured at amortized cost.

In 2013, the BAMC issued DUT01 bonds with the total nominal value of EUR 505.800.000. The entire bond issue contains 5058 denominations of EUR 100.000. The bond maturity date is 15 December 2015. The interest rate on the bonds is fixed at 3,75% p.a. Interest is accrued quarterly in arrears. The nominal value of the principal falls due in full and in a single amount upon the maturity of the bond on 15 December 2015. The bonds are listed on the Ljubljana Stock Exchange. The DUT01 bond liabilities stood at EUR 506.113.557 as at 31 December 2013.

Also in 2013, the BAMC issued DUT02 bonds with the total nominal value of EUR 505.800.000. The entire bond issue contains 5058 denominations of EUR 100.000. The bond maturity date is 15 December 2016. The interest rate on the bonds is fixed at 4,5% p.a. The interest is accrued quarterly in arrears. The nominal value of the principal falls due in full and in a single amount upon the maturity of the bond on 15 December 2016. The bonds are listed on the Ljubljana Stock Exchange. The DUT02 bond liabilities stood at EUR 506.221.622 as at 31 December 2013.

The above debt securities are all government-backed and issued on asset acquisition date (20 December 2013).

NOTE 12: Borrowings (current)

Figures in EUR	31. 12. 2013
Borrowings from banks (loan)	2.100.000
Other current borrowings	96.611
Total	**2.196.611**

Figures in EUR	CURRENT BORROWINGS	TOTAL
Opening balance 19. 3. 2013	**0**	**0**
Increases	2.196.611	2.196.611
Transfer from non-current liabilities	0	0
Closing balance 31. 12. 2013	**2.196.611**	**2.196.611**

Financial liability in amount of EUR 2.100.000 relates to a loan obtained from one bank with no interest-bearing contract. The loan was repaid in April 2014.

NOTE 13: Maturity of current borrowings

(Figures in EUR	CURRENCY	31. 12. 2013	MATURITY BREAKDOWN UP TO 6 MONTHS	FINAL MATURITY DATE	INTEREST NOMINAL RATE	SECURED PORTION	UNSECURED PORTION	COLLATERAL
Borrowings from banks	EUR	2.100.000	2.100.000	31.3.2014	0%	0,00	2.100.000	0,00
Total principal								
Total interest	EUR	0,00	0,00	N/A	N/A	N/A	N/A	
Total borrowings		**2.100.000**	**2.100.000**	**31.3. 2014**	**N/A**			

NOTE 14: Trade and other operating payables

Figures in EUR	31. 12. 2013
Trade payables	1.225.512
Payables to employees	96.167
Payables to state and other state institutions	7.668.562
Of which liabilities to Tax Authority (VAT, PIT, social contributions)	1.167.177
Of which liabilities to state	6.501.385
Payables to others	110.002
Total	**9.100.243**

Trade payables relate mostly to services provided by consulting companies abroad in amount of EUR 924.927.

Payables to the state and other state institutions mainly relate to VAT in amount of EUR 1.142.968, employee income tax in amount of EUR 19.125 and social contributions for December 2013 in amount of EUR 5.083.

Payables to others mainly include liability for interest on the notes of the Republic of Slovenia (classified as AFS) RS68, for the period from 17 March 2013 to 12 December 2013 (the date of acquisition) in the amount of EUR 1.062.568, and RS38 for the period from 19 April 2013 to 12 December 2013 in the amount of EUR 5.438.817, for which the state demanded a reimbursement from the BAMC.

NOTE15: Accrued costs

Figures in EUR	31. 12. 2013
Accrued costs	103.250
Total	**103.250**

Accrued cost in amount of EUR 43.670 mainly relates to audit services for 2013, costs of asset management in amount of EUR 15.000, and the preparation of the annual report and related accounting services in amount of EUR 20.000.

NOTE 16: Fair value

Figures in EUR	NOTE	31. 12. 2013 Level 1	Level 3	Total fair value	Total book value
Assets					
Available-for-sale financial assets	5	214.431.442	5.937.747	220.369.189	220.369.189
Non-current loans granted	6		408.344.884	408.344.884	408.344.884
Current loans	6		538.640.953	538.640.953	538.640.953
Trade and other operating receivables	7		8.695.292	8.695.292	8.695.292
Cash and cash equivalents	9		5.551.869	5.551.869	5.551.869
Total assets		**214.431.442**	**968.116.845**	**1.181.602.187**	**1.181.602.187**
Liabilities					
Borrowings	12		2.196.611	2.196.611	2.196.611
Non-current operating liabilities			441	441	441
Trade and other operating payables	14		9.100.243	9.100.243	9.100.243
Debt securities issued	11	1.011.600.000		1.011.600.000	1.012.716.282
Total liabilities		**1.011.600.000**	**11.297.295**	**1.022.897.295**	**1.024.013.577**

As at 31 December 2013 BAMC recognizes at fair value only financial assets available for sale (investment in Pivovarna Laško and bonds from the Republic of Slovenia). These are classified as Level 1 in the fair value hierarchy. There were no transfers between Levels 1 and 3 during the year.

All borrowings were interest-free. The repayment deadline was short and the difference between fair value and book value would be immaterial.

Financial instruments in Level 3

The following table presents the changes in Level 3 instruments for the year ended 31 December 2013.

Figures in EUR	Equity investments	Loans and receivables
Opening balance 19. 3. 2013	**0**	**0**
Acquisition	16.661.527	984.486.121
Other operating receivables		–1.215.650
Negative variances upon initial recognition (see Note 3.3, 3.1)	–10.323.859	–175.647.607
Positive variances upon initial recognition (see Note 3.3, 3.1)	403.272	145.699.380
Issues	**0**	**8.749.969**
Settlements (see Note 6)	0	–7.834.737
Gains and losses recognized in profit or loss	–803.193	1.425.159
Other		18.492
Closing balance 31. 12. 2013	**5.937.747**	**955.681.129**

The table below sets out information about significant unobservable inputs used at 31 December 2013 in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

Type of financial instrument	Fair value at 31 December 2013	Valuation method
Loans and receivables	954.734.654	Discounted cash flow (See Note 3.1)
Trading assets	5.937.747	(See Note 3.3)
Total	**1.973.007.600**	

Although the BAMC believes that estimations of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Key inputs used in the valuation model for loan portfolio was determining the probability of restructuring and recovery scenario and recovery value. Components of the recovery value are the value of the underlying collateral (mainly real estate and equity shares), limits and conditions derived from the legal position (mainly pledge ranking, pledge values and outstanding exposures of pledge holders). By varying the recovery values for 10% the effect on the value of the Loans and receivables would be 5% and no effect on the trading assets.

The following table presents the sensitivity of fair value of Level 3 financial instruments on the changes of recovery values for the year ended 31 December 2013.

Figures in EUR thousand	**Effect on profit or loss**		**Effect on Equity**	
	10% increase of recovery values	**10% decrease of recovery values**	**10% increase of the recovery values**	**10% decrease of recovery values**
Loans and receivables		0	46.537	–46.537
Trading assets		0		0
Total		**0**	**46.537**	**–46.537**

8. NOTES TO THE INCOME STATEMENT

NOTE 17: Cost of services

Figures in EUR	For the period from 19. 3. 2013 to 31. 12. 2013
Maintenance costs	12.161
Rents	71.604
Costs of professional services	4.144.025
Other costs	506.647
Total	**4.734.437**

The costs of professional services include consultancy fees in amount of EUR 3.919.007. They relate mostly to the establishment of the BAMC, consulting and cooperation during the transfer of loans and receivables.

The costs of professional services include auditing services relating to the annual report audit in amount of EUR 43.670.

Other costs include management's services in amount of EUR 352.985.

Cash in the amount of EUR 3.347.032 was applied on the acquisition of material and services.

NOTE 18: Payroll costs

Figures in EUR	For the period from 19. 3. 2013 to 31. 12. 2013
Salaries (including bonuses)	378.712
Pension contributions	33.961
Health and social insurance	27.834
Other	90.088
Total	**530.595**

Other expenses relate primarily to allowance for transport to and from work in amount of EUR 70.001, meal allowance in amount of EUR 3.290, holiday allowance in amount of EUR 2.775 and fringe benefits (accommodation, taxi costs, meal expenses) in amount of EUR 14.021.

Cash in the amount of EUR 367.934 was applied on the wages paid out.

Remuneration of Board Management members in 2013:

Name	Period	Position	Fixed gross income	Fringe benefits	Costs reimbursement	Total
BERGGREN STEN ARNE	20. 3 – 31. 12. 2013	Non-executive director	95.217	2.793	15.529	113.539
LINDGREN CARL JOHAN NILS VIKTOR	20. 3 – 31. 12. 2013	Non-executive director	95.456	3.511	44.284	143.251
NYBERG LARS ERIK	20. 3 – 31. 12. 2013	Non-executive director	95.458	3.518	16.683	115.659
ŠIRCELJ ANDREJ*	20. 3 – 13. 9. 2013	Non-executive director	52.928	-	-	52.928
MANSSON TORBJORN INGEMAR ANDERS	8. 4 – 31. 12. 2013	Acting executive director	83.038	5.028	7.293	95.359
GJERKEŠ BOŠTJAN	20. 3 – 31. 12. 2013	Acting executive director	80.326	-	127	80.453
KORŠIČ ALEŠ	11. 4 – 31. 12. 2013	Acting executive director	73.997	-	440	74.437
TOTAL			**576.419**	**14.851**	**84.356**	**675.626**

* released 13.9.2013

Costs reimbursements are related to costs of airline tickets, hotels, taxies and meals.

Name	Period	Position	Fixed gross income	Total
JERMAN TAMARA	26. 4 – 31. 12. 2013	Member of Audit Committee	1.500	1.500
KLEMEN PRIMOŽ	19. 7 – 31. 12. 2013	Member of Remuneration committee	1.500	1.500
TOTAL			**3.000**	**3.000**

NOTE 19: Financial income, financial expenses

Figures in EUR	For the period from 19. 3. 2013 to 31. 12. 2013
Interest income	2.175.680
Of which bonds RS 38, RS 68	537.982
Of which acquired loans	1.637.698
Of which other financial income (a vista, foreign exchange differences)	48.164
Financial income	**2.223.844**
Interest expenses (debt securities issued)	–1.238.364
Debt securities	–381.082
Penalty interest	–33.449
Foreign exchange differences	–166.380
Impairment of financial assets	–803.193
Write-downs of receivables	–94.322
Financial expenses	**–2.716.790**
Loss from financing	**–492.946**

Interest income comprises interest on loans in amount of EUR 1.637.698, recognized as explained in the Note 6. The difference of EUR 537.982 relates to interest income of bonds.

Interest expense in the amount of EUR 1.238.364 comprises interest of debt securities issued as explained in the Note 11. The amount of EUR 381.082 is a fee for the guarantee for issued bonds. At the end of 2013, we received note for end of compulsory settlement and we created a write-off investment in the amount of EUR 803.193. Foreign exchange differences in amount of EUR 166.380 are related to transfered loans from the NLB (EUR 158.074) and the NKBM (EUR 8.307) in foreign currency.

NOTE 20: Income tax expense

Figures in EUR	For the period from 19. 3. 2013 to 31. 12. 2013
Loss before tax	5.784.031
Non-tax deductible expenses	7.109
Tax base	5.791.140
Statutory tax rate	17%
Income tax at statutory tax rate, prior to changes in taxable base	0
Tax effects of tax loss for which no deferred tax asset was recognised	0
Deferred tax liability	160.837
Current and deferred income tax	0
Effective tax rate	**0%**

As at 31 December 2013, the BAMC did not recognize deferred tax assets from tax loss in amount of EUR 982.076 due to the uncertainty related to the probability of the future taxable profits being available against the deferred tax asset. At the end of the next accounting period, the recognition criteria will be reassessed and deferred tax assets recognised, if necessary. Tax loss has no expiring and can be covered in the next years.

NOTE 21: Earnings per share

	2013
Loss for the year in EUR	–5.784.031
Number of shares issued at the beginning of the year	12.500
Number of shares issued at the end of the year	101.812.500
Weighted average number of ordinary shares	11.632.500
Earnings per share and diluted earnings per share	**–0,50**

Basic earnings per share are calculated by dividing the owner's net loss by the weighted average number of ordinary shares. The BAMC has no potential dilutive ordinary shares, so the basic and diluted earnings per share are identical.

Segment reporting

The BAMC has determined it has only one operating segment, which is the portfolio asset management business operated by the BAMC. The primary activity of the business is the acquisition of eligible loans from business banks, dealing with the loans acquired, and protecting or enhancing the value of those loans.

NOTE 22: Financial instruments and risk exposure

This note presents information about the BAMC and its exposure to each of the aforementioned risks, its objectives, policies and processes for measuring and managing risk, and its capital management. Other quantitative disclosures are covered below in the notes to the financial statements.

The BAMC is exposed to the following risks in its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk;
- operational risk.

The management has overall responsibility for the establishment of BAMC's risk management framework. BAMC's executive directors are responsible for the development and oversight of the risk management policies adopted by the BAMC, and for regular briefing of the management on these activities.

The credit risk policy is established to identify and analyse the risks to which the BAMC is exposed. On this basis, appropriate risk limits and controls are set, and the risks and the adherence to limits are monitored. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and BAMC's activities. The BAMC, through its training and risk management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the BAMC if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from BAMC's acquired loans and receivables from customers and bonds. The larger single exposure to a single client represents 5,4% of the total exposure to all clients. The largest 104 clients represent 80% of total exposure.

The largest single exposure in the amount of EUR 206.183.922 represent exposure to bonds issued by the Republic of Slovenia.

Information regarding the credit quality of loans and receivables

BAMC's exposure to credit risk is dependent primarily on the characteristics of each customer. The overall objective of BAMC's Credit and Risk Policy is to safeguard the BAMC by protecting and enhancing the value of loans acquired. The BAMC is responsible for managing loans, which are acquired under the provision of the MSSBA. Loans acquired from banks are grouped together and managed by debtor connection.

The BAMC has formulated a credit policy under which each new customer is analysed individually for creditworthiness before being impaired.

In the 2013 annual report, the majority of credit risk is taken into account through accounting for NPLs at fair values instead of gross exposure. Exposure to each company is internally evaluated by case managers, supported by asset managers and analysts. Realistically expected cash flows to the BAMC were estimated for different scenarios and probabilities were assigned to both scenarios. Cash flows for each scenario were discounted by a discount rate of 5,9%, which – as the BAMC funding cost – represents time value of money. The riskiness of restructuring scenarios was taken into account through probability of the scenario instead of risk-premium in the discount rate. These valuations of expected outcome were approved by the board of the BAMC.

Loans and receivables neither past due nor impaired

On acquisition of loans and receivables from business banks, a significant portion of the acquired assets were deemed past due based on the classification systems of the banks. However, this past due status will change when the loans and receivables are restructured. The credit quality of the loan and its related performance will be assessed against the restructured loan amount.

Loans and receivables past due not impaired

Service banks that were administering the loans as at 31 December 2013 were unable to provide the BAMC with the aging structure of acquired loans as at 31 December 2013. The management is satisfied that this information is unimportant in any event as almost the entire loan portfolio is non-performing (i.e. credits past due by more than 90 days). Values were checked at calculation of fair value.

Loans and receivables individually assessed for impairment

Due to the fact that the transfer of non-performing loans was completed very close to the end of 2013 (on 20 December 2013), no impairment for the year 2013 was recognised, exept as disclosed in Note 19. Considering the fact that the BAMC acquired non-performing loans, the fair value at initial recognition was challenged. For further information please see Note 3.1.

Loans renegotiated

No loans had been restructured or renegotiated at the reporting date.

Available-for-sale financial assets

In investments in debt securities and bonds, the BAMC has set restrictions and limits for individual issuers and banks, which are renewed on an annual basis in respect of their balance sheet date.

Total credit risk

BAMC's exposure to credit risk (for the receivables representing net carrying amounts of acquired receivables at 31 December 2013) is presented in the table below:

Figures in EUR	31. 12. 2013
Non-current loans	408.344.884
Current loans	538.640.953
Other operating receivables (see Note 7)	8.694.968
Available-for-sale financial assets (see Note 5)	206.183.922
Cash and cash equivtalents	5.551.869

Age profile of trade and other receivables as at 31 December 2013

Figures in EUR	31. 12. 2013		
	PAST-DUE	NON PAST-DUE	TOTAL
Net contractual amounts of loans and other receivables acquired – contractual cash flows	2.435.639.832	860.980.244	3.296.620.076
Net contractual amounts of loans and other receivables acquired – contractual cash flows including discounts	955.680.805	0	955.680.805

Breakdown of loans and receivables, being the most significant item exposed to the credit risk by class:

The BAMC monitors the quality of trade and other receivables by monitoring the financial discipline of individual customers (number of days overdue).

Cash equivalents and deposits are placed with Slovenian banks.

Liquidity risk

Liquidity risk is the risk that the BAMC will not be able to meet its financial obligations as they fall due. The 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 BAMC devotes particular attention to monitoring changes in liabilities and receivables. By matching the maturities of liabilities and receivables, it manages its cash flows and attempts to optimise current liquidity.

The key liquidity risk for the BAMC is funding of the bonds issued as consideration for the value of acquired assets (see Note 11).

Liquidity risk in 2013

Figures in EUR	CARRYING AMOUNT AS AT 31.12.2013	UNDISCOUNTED CONTRACTUAL CASH FLOWS	up to 12 months	1 to 2 years	2 to 3 years
Debt securities issued	1.012.716.282	1.117.246.376	41.156.876	547.528.500	528.561.000
Trade payables and other liabilities (operating liabilities)	6.501.385	6.501.385	6.501.385	-	-
Borrowings	2.196.611	2.196.611	2.196.611	-	-
Total	**1.021.414.278**	**1.125.944.372**	**49.854.872**	**547.528.646**	**528.561.146**

How the BAMC will ensure its liquidity depends on the dynamics of the disposal of its assets. The company notes that its major liquidity risk is repayment of bonds with state guarantee.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices, will affect BAMC's income or the value of its financial instruments.

Market risk arises from open positions in interest rate 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 such as interest rates, credit spreads and foreign exchange rates. The BAMC is exposed to market risk on its loans and receivables, as well as its securities.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. It is difficult to accurately predict changes in economic or market conditions or to anticipate the precise effects that such changes could have on the BAMC.

The BAMC is not exposed to the risk of a change in market prices.

a) Foreign-exchange risk

As part of the acquisition of loans and derivatives from the banks, the BAMC acquired a number of loans and receivables denominated in foreign currency. As a result, the BAMC is exposed to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows.

The following table summarises BAMC's exposure to foreign currency risk at 31 December 2013.

Figures in EUR equivalent	EUR	USD	CHF	RSD	RUB	JPY	Total
	31.12.2013						
Contractual cash flows from loans and receivables	3.254.116.103	2.157.095	35.706.946	2.460	3.267.553	1.369.918	3.296.620.076
Contractual cash flows including discounts from loans and receivables	938.817.789	813.389	7.142.612	0	7.116	204.931	946.985.837
Financial assets available for sale	220.369.189	-	-	-	-	-	220.369.189
Trade and other operating receivables	8.694.968	-	-	-	-	-	8.694.968
Cash and cash equivalents	5.551.869	-	-	-	-	-	5.551.869
Gross exposure	**1.173.433.815**	**813.389**	**7.142.612**	**0**	**7.116**	**204.931**	**1.181.601.863**
Trade payables	6.501.385	-	-	-	-	-	6.501.385
Borrowings	2.196.611	-	-	-	-	-	2.196.611
Financial liabilities	1.012.716.282						1.012.716.282
Gross exposure	**1.021.414.278**	**-**	**-**	**-**	**-**	**-**	**1.021.414.278**
Net exposure	**152.019.537**	**813.389**	**7.142.612**	**0**	**7.116**	**204.931**	**160.187.585**

Net exposure in a currency other than EUR represents only 5,10% of total, thus the BAMC concludes that the risk of changes in exchange rates of foreign currencies is irrelevant.

b) Interest-rate risk

Interest-rate risk is the risk of the effect of change in market interest rates on the value of interest-sensitive assets and, at the same time, a risk of financially sensitive assets and financially sensitive liabilities maturing on different dates and in different amounts. The BAMC is exposed to following interest-rate risk:

Figures in EUR	31. 12. 2013
Financial assets	
Loans	523.464.797
Bonds	206.183.922
Financial liabilities	1.014.912.893
Fixed rate instruments	**1.744.561.612**
Financial assets	453.211.653
Financial liabilities	0
Variable rate instruments	**453.211.653**

The BAMC has acquired fixed and variable rate loans from the banks. In addition, the BAMC has issued fixed rate securities. The above table summarizes BAMC's exposure to interest rate risk. The BAMC is exposed to variable interest rates on loans purchased from the NLB and the NKBM, which are in almost all cases EURIBOR + margin. The sensitivity analysis has taken into account a possible increase or decrease of 100 bp. In all phases, the impact of the change would be in profit and loss.

Cash flow sensitivity analysis for variable rate instruments

Figures in EUR	Operating result	
	100 bp increase	100 bp decrease
	For the period from 19. 3. 2013 to 31. 12. 2013	
Variable rate instruments	4.532.117	–4.532.117
Cash flow sensitivity		

NOTE 23: Events after the reporting period

On 2 January, the Ministry of Finance informed the BAMC that the bonds used by the BAMC to pay for the acquired assets were formally accepted as collateral by the Eurosystem.

On 16 May 2014 and 27 June 2014, the BAMC purchased two real estates from the NKBM in a total of EUR 11.365.249 plus VAT. Real estate prices were set by the European Commission.

Christopher Gwilliam has agreed with the non-executive members of the Board of the BAMC to step down as a chief executive director, effective 31 July 2014. Given the challenges facing the BAMC, the non-executive board members are of the view that different management skills are needed for the future management of the company. After reviewing the 2013 applications for the CEO position and conducting interviews with some possible candidates, the non-executive members of the Board of the BAMC have appointed Mr. Torbjörn Månsson as Mr. Gwilliam's successor as of 1 August 2014

There have been no other significant events after the balance sheet date.

NOTE 24: Related party transactions

The ownership structure as at 31 December 2013 is presented in chapter 3.3 Determination of the significant influence over other entities.

In compliance with the IAS 24, the following companies are deemed to be related parties in addition to the government of the Republic of Slovenia as the 100% owner:

- Subsidiary and associate companies;
- The management and members of the supervisory boards, including the audit committees and their close family members;
- Companies associated with the government.

In 2013, the BAMC did business with the organizations and companies that have ownership ties with the state. Major transactions were as follows:

Figures in EUR	Description of services performed	Volume of liabilities
NLB d.d.	Acquisition of financing assets at transfer value	609.637.347
NLB d.d.	Short-term trade payables in Slovenia	65.765
NLB d.d.	Short-term loans from banks in Slovenia	2.400.000
NLB .d.d	Costs of payment services and bank fees	685
NLB d.d.	Amortised cos tof bonds issued for financing transfer of loans	621.710.382
NLB d.d.	Acquisition of financing assets at transfer value	609.637.348
NOVA KBM d.d.	Acquisition of financing assets at transfer value	374.848.773
NOVA KBM d.d.	Short-term trade payables in Slovenia	106.002
NOVA KBM d.d.	Amortised cos tof bonds issued for financing transfer of loans	389.703.433
ABANKA VIPA d.d.	Short-term loans from banks in Slovenia	2.100.000
Republic of Slovenia	Short-term payables	6.501.385

Transfer prices were defined by the European Commission and the BAMC had no influence over their decision.

NOTE 25: Auditing costs

The costs of auditing financial statements for the year 2013 are EUR 43.670.

NOTE 26: Contingent liabilities

Court proceedings

The list of court proceedings in which the BAMC figures as defendant party (related to the legal succession arising from the assets transferred on 20 December 2013) shows that there are no proceedings against the BAMC, in which the plaintiff would demand payment from the BAMC. Regarding claims for performance, the BAMC does not figure as defendant, as the disputed payments were received by the NLB/NKBM, which decreased their exposures accordingly.

AUDITOR’S REPORT

Independent Auditor's Report

To the shareholder of Družba za upravljanje terjatev bank, d.d. ("Bank Asset Management Company")

Report on the Financial Statements

We have audited the accompanying financial statements of Družba za upravljanje terjatev bank, d.d., which comprise the balance sheet as at 31 December 2013, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 7 March 2013 to 31 December 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, 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.

Auditor's 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 the auditor's 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, the auditor considers 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 present fairly, in all material respects, the financial position of Družba za upravljanje terjatev bank, d.d. as at 31 December 2013, its financial performance and its cash flows for the period from 7 March 2013 to 31 December 2013in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we also confirm that the information in the business report is consistent with the accompanying financial statements.

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

Mag. Simona Korošec Lavrič	Jason Stachurski
Certified Auditor	*Partner*

Ljubljana, 11 August 2014

KPMG Slovenija, d.o.o.
2

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

Advertisements for factories: Jugoslovanska tiskarna v Ljubljani, a print shop
Ilustrirani Slovenec newspaper, 1925

Konkurenčni boj.

Pri nas vladajo kaj nejasni pojmi o škodljivosti ali koristnosti ter o moralnosti konkurence. Človek, nepoučen v narodnem gospodarstvu, gleda z nekim studom na konkurenčni boj med obrtniki in med trgovci, ter ga kratkomalo obsoja kot nemoralno početje. Nekateri podjetniki pa so mnenja, da mora vladati v trgovskem in obrtnem življenju pravica močnejšega, da ni nič slabega uničiti svojega vrstnika, da to spada takorekoč k trgovskemu poslovanju, in da je dovoljeno v to svrho vsako sredstvo. Drugi zopet, posebno taki, ki čutijo posledice konkurenčnega boja na lastni koži, pa vidijo v njem največjo oviro za razvoj obrti in trgovine, ter obupno kličejo vlado na pomoč proti neznosnim konkurentom, posebno inozemskim. Ne bo škodilo, če na tem mestu malo razbistrimo nejasne pojme o konkurenčnem boju.

Predvsem treba dobro razlikovati med pošteno in nepošteno, ali umazano konkurenco. Vsak trgovec in obrtnik ima neoporekano pravico, posluževati se v prospeh svojega podjetja vsakovrstnih sredstev, ne glede na to, ali so ista drugim všeč ali ne; med ta sredstva spada tudi znižanje prodajnih cen v svrho pridobitve večjega števila klientov. Če kak drugi podjetnik ne more znižati svojih cen v istem razmerju, mu pač ni pomoči; in če njegovo podjetje propade, se to ne zgodi vsled krivde konkurenta, marveč vsled pomanjkljivosti podjetja samega.

Competitive Struggle

It seems quite unclear whether and when competition is moral, harmful or beneficial. A person ignorant of the national economy looks at the competitive struggle between artisans and tradesmen with some disgust and simply condemns it as immoral. However, some businessmen believe that trade and craft operate according to the "survival of the fittest" principle. They say there is nothing wrong in destroying your peer, as this is part of doing business, and that the purpose justifies the means. There are still others, especially those that have suffered the consequences of competitive struggle first hand, that see competition as the greatest obstacle to the development of crafts and trade, and desperately call the government for help against unbearable competitors, especially the ones from abroad. At this point it seems useful to clarify some vague notions of competitive struggle. First and foremost, one must distinguish between fair and unfair competition. Each tradesman and artisan has the undisputed right to take any measure that benefits their company, regardless if others like it or not. Such measures include reducing the selling prices in order to obtain more clients. If another businessman cannot lower their prices equally, this cannot be helped – if their company goes out of business, one should not blame the competitor, but the shortcomings of the company.

Editorial of a newspaper dealing with trade, craft and the national economy
Trgovski list newspaper, 1914

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management hereby confirms that the annual report, including all its components, has been compiled and published in accordance with the Companies Act and the International Financial Reporting Standards as adopted by the EU.

The management hereby confirms that the relevant accounting policies were consistently applied in the compilation of the consolidated 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 annual report presents fairly, in all material respects, the financial position of the BAMC, and of the outcomes of its operations for the period from 19 March 2013 to 31 December 2013.

The financial statements, together with the notes, have been prepared on a going concern basis, and in accordance with current Slovene legislation and the International Financial Reporting Standards as adopted by the EU.

The tax authorities may audit the operations of the BAMC at any time within 3 to 6 years 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, 31 July 2014

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For the sake of clarity, the numbering format commonly used in many countries in continental Europe (e.g. Germany, Italy, Slovenia, etc.) was used throughout this document (e.g. "EUR 3.301 million" corresponds to "EUR 3 301 000 000").