DUTB | from bad to good

BAMC Annual Report for 2014

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Highlights of 2014

Key developments

At the beginning of 2014 the BAMC was still a start-up company. It had a Board of Directors, a small staff and a basic governance and corporate structure. Though the overall plans and direction were clear, it was only staring real operations. It had just days before assumed legal ownership of €3,3 billion of non-performing assets (NPAs) from the two largest state-owned banks. During 2014 a professional staff capacity was built up, decision-making and internal control processes were implemented, the documentation for the NPAs was physically received and analysed and an active asset management process started. By the end of 2014, the BAMC was a well-functioning asset management company, which had taken over an additional €1,5 billion of NPAs from four other state-owned banks. NPAs were under active management by professional teams seeking to extract maximum value for the BAMC and its owner, the government of Slovenia.

The road travelled in 2014 was a challenging one. The physical take-over of assets was a complex process, as documentation often was substandard. The externally imposed transfer prices did not identify correct fair values for individual assets and exposures that were required for external accounting and internal management purposes. This required the BAMC to develop its own internal valuation system which provided a basis for a first fair value determination for all the NPAs in mid-2014. To allow for the massive intake of assets, the BAMC had to ramp up its recruitment efforts and bring in analysts, lawyers and other professionals to work together with external temporary expert resources, consultants. In this process there were important transfers of skills and by mid-year the reliance on consultants had largely been phased out. A couple of foreign experts could successfully be recruited to remain as BAMC staff. In 2014 the number of BAMC staff grew from 12 to 81.

At the beginning of the year, the Board of Directors appointed three permanent executive directors, including a CEO. At end-July, a new CEO was brought in to strengthen management capacity. A wide range of internal rules and regulations, as required for a state-owned company, were gradually put in place. The most important governance issue was to put in place an internal decision-making process that allowed initiative and delegation, while maintaining strict internal controls. Accordingly, three credit (for loans) and three investments committees (for equities and real estate) were established at operational, executive and board levels depending on the size and complexity of the asset and the decision. These were active working committees that met whenever needed.

Following the internal valuation exercise, a first comprehensive Business plan for 2014-2017 was agreed by the Board. Considerable effort was spent on establishing a centralized, credit management information and accounting IT-platform to underpin decision-making, to allow a proper management information system (MIS) and to save costs. The BAMC ended 2014 with its corporate structure and governance systems in place to be fully implemented in 2015.

In parallel to the extensive development of the organisation in 2014, operational and financial results were remarkable and exceeding reasonable expectations.

The BAMC liquidated assets in the amount of €129,4 million corresponding to 11,5% of its assets under management.[1] The net profits for 2014 amount to €36,4 million and the value of BAMC's equity has increased by €17,2 million, from €157,9 million to €175,0 million, corresponding to a 21,9% return on equity.[2] During the second half of 2014, the restructuring work in the exposures to viable companies accelerated, in early 2015, 49% of the cases in the restructuring portfolio of approx. 100 cases have been financially restructured.[3]

Strategic objectives

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

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

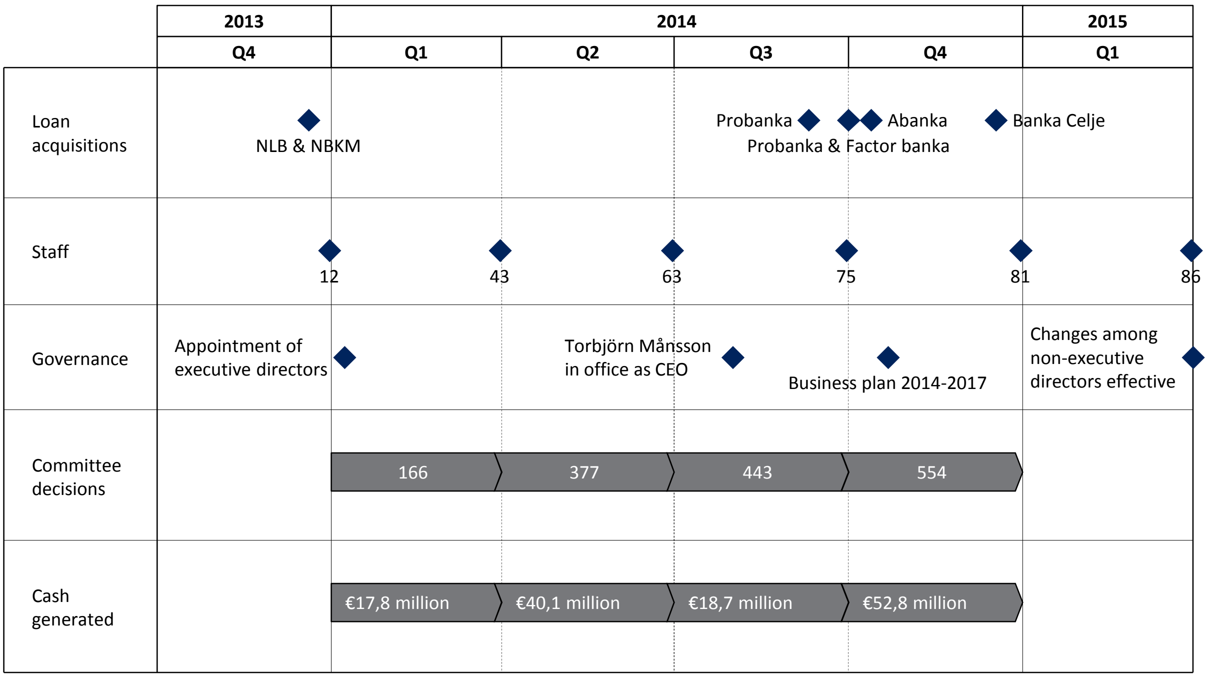
[1] As the assets were transferred to the BAMC at different dates during 2014 this was taken into account when calculating this indicator. The process is explained in more detail in the financial review section of the report.

[2] The BAMC believes that EROE, an indicator presented in table 1 below, is more suitable for tracking profitability of operations.

[3] A case may be, dependent on the context, also termed as debtor in this document.

Key operating highlights

Figure 1: BAMC's overview of 2014



In late 2013 the government completed the recapitalisation of the two largest Slovenian banks: Nova Ljubljanska banka d.d., Ljubljana (hereinafter: NLB) and Nova Kreditna banka Maribor d.d. (hereinafter: NKBM). The aforementioned banks transferred €3,3 billion in non-performing assets, primarily loans, to the BAMC at a transfer value of €1.008,4 million.

Immediately following the signing of transfer agreements, the BAMC began the physical transfer of credit files, which was completed for both banks in May 2014. The BAMC also began to analyse and manage the acquired assets. The first step was to determine the initial fair value of every acquired asset. This valuation process was completed in June 2014 using an internal valuation methodology, and resulted in an initial loss recognition of €39,9 million, which resulted in a reduction in the BAMC's equity from €203,6 million to €157,9 million as of the end of 2013.

A case by case comparison between transfer price and the thorougly assessed fair value for each asset in question revealed substantial variations, both positive and negative. The extent of the variations were such as the transfer prices cannot be used to guide decision-making in the BAMC. Therefore, the internal valuation of assets serves as the basis for defining the strategies that the BAMC pursues in the management of each asset with the aim of maximising its value.

In the first half of 2014, real estate with a tranfer value of €11,6 million was received form NKBM and in the second half of 2014 the BAMC received additional non-performing assets from Abanka Vipa d.d., Ljubljana (hereinafter: Abanka) and Banka Celje d.d., Celje (hereinafter: Banka Celje) in exchange for additional issued bonds. Thus, €1.142,4 million of non-performing assets were transferred to the

BAMC from Abanka in October at a transfer value of €423,8 million and an additional €392,2 million from Banka Celje in December at a transfer value of €125,7 million.

After asset transfers from NKBM, Abanka and Banka Celje in 2014 the BAMC estimated their initial fair values, following the valuation methodology used for first transfers as well. Fair value of assets taken over was €68,0 million lower than the transfer prices which resulted in the €68,0 million of initial loss recognition by the BAMC, representing 12,1% of transferred assets.

As part of these transactions, the banks received approved state aid from the BAMC in the amount of €623 million that was approved by the European Commission. This state aid is the difference between the transfer value of the transferred assets (i.e., actual amount paid by the BAMC) and their lower market value at the time of the transfer as assessed by the European Commission.

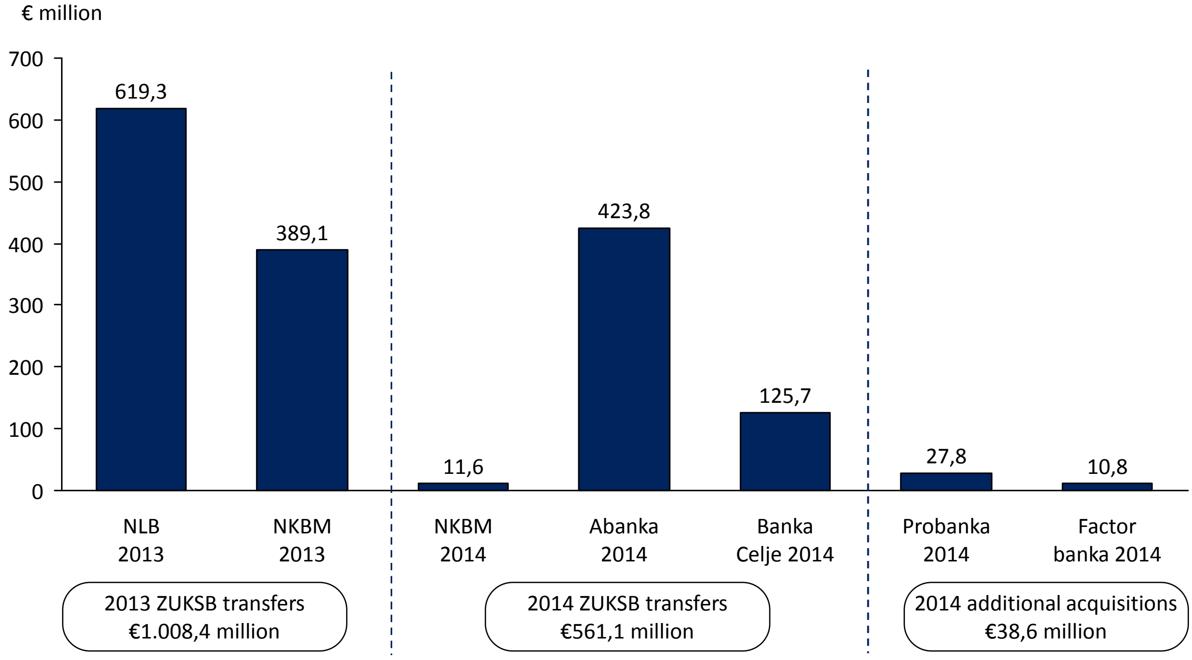
The BAMC paid for the assets it received from the banks in the form of government-guaranteed bonds that are eligible as Eurosystem collateral and can be used by the banks to secure liquidity. The BAMC transferred these performing, investment grade bonds with an average annual yield of 3,2%[4] to the banks in return for the non-performing assets it received.

The BAMC began to actively manage acquired assets in 2014, the majority of them being non-performing loans (hereinarter: loans). The entire portfolio of 577 loans was assessed as restructuring or recovery cases and, in order to complement its exposures to certain debtors, the BAMC purchased claims (loans) totalling €172,9 million from Factor banka d.d., Ljubljana (hereinafter: Factor banka) and Probanka d.d., Maribor (hereinafter: Probanka) in the amount of €38,6 million in arm's length transactions at negotiated prices.[5] The acquisitions were paid using RS68 Slovenian government bonds that the BAMC received as part of its paid-in capital.

[4] Each of the four bond issues the BAMC used to pay for the transferred assets had a different coupon rate, reflecting its maturity and economic conditions at the time of issue. The average yield is therefore of informative nature only, actual yields range from 1,4% to 4,5%.

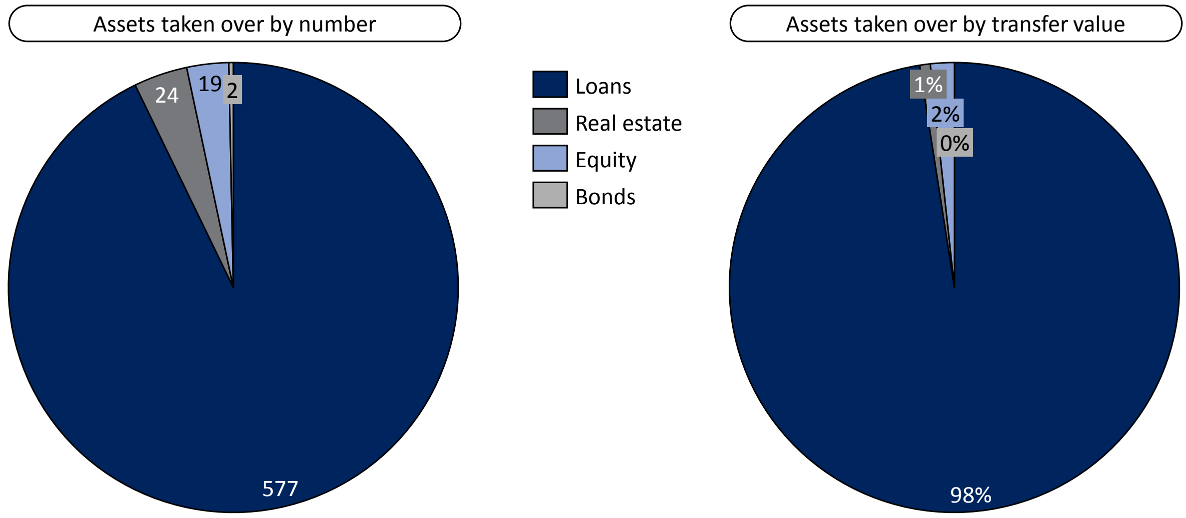
[5] A non-performing loan is abbreviated as loan in this document, but may, dependent on the context, also be termed an exposure or claim towards a specific debtor.

Figure 2: Transfer prices by bank



Note: While transfers from NLB, NKBM, Abanka and Banka Celje were done under the legislative directions, acquisitions of assets from Probanka and Factor banka were done as market transactions between the BAMC and respective banks.

Figure 3: Assets taken over by number and value



Establishing a strategy for each case includes understanding what the value to the BAMC of the case is under different value creating options but also defining an exit strategy or exit options. As principle, all assets under BAMC's management are available for sale at any time given an adequate offer. Asset exits in general depend on:

- the type of asset (loan, real estate or equity),
- legal status the asset is in, e.g., collateralized assets in bankruptcy procedures, loans towards operating companies, real estate directly owned by the BAMC, and
- features of asset demand, e.g., institutional investors or physical persons.

The BAMC generated €129,4 million in inflows from asset management in 2014, representing 11,5% of weighted transferred assets in 2014.[6] The BAMC thus exceeded the 10% target set out in the Government Measures to Strengthen the Stability of Banks Act (hereinafter: the ZUKSB).

In 2014 the BAMC paid interest in the amount of €41,9 million to five bondholders (state owned banks included in the rehabilitation process and their subsidiaries) and €13,7 million in guarantee fees to the government. The BAMC held €63,4 million in cash and cash equivalents at the end of 2014.

Cash flow and net profit were also influenced by the repayment of redeemed Slovenian-government guarantees arising from the guarantee scheme in the amount of €2,2 million and unredeemed government guarantees with a nominal value of €26,1 million resulting in a €5,2 million reduction of estimated cash inflows. The repayment was done in accordance with the general assembly decision taken by the government.

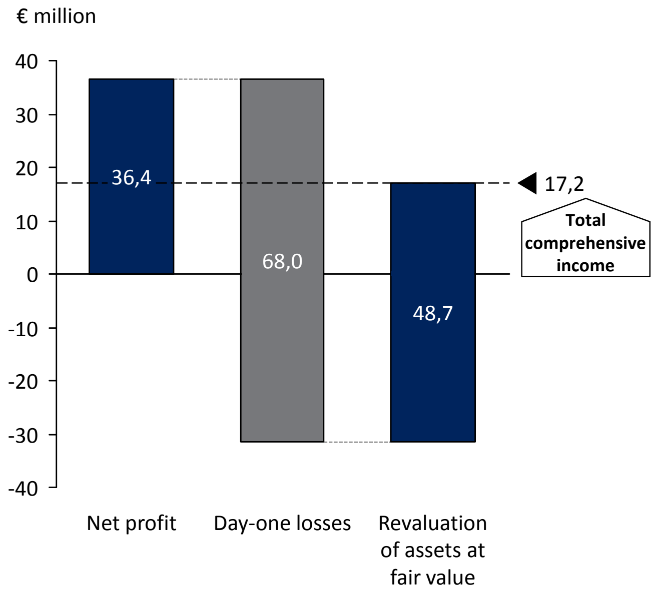
At year-end 2014 the BAMC revalued its assets to fair value and consequently recorded €17,0 million of revolution expenses relating to inventories and €69,9 million of revaluation income relating to financial assets.

The BAMC's equity totalled €175,0 million, an increase by €17,2 million from 2013. The change in total equity is a result of:

- net profit in the amount of €36,4 million,
- decrease for day one losses from acquired non-performing assets in the amount of €68,0 million, and
- increase for net revaluation of assets at fair value in the amount of €48,7 million.

6 For 2014, assets were weighted according to the length of time the BAMC had them under management. E.g., hypothetical €200 million transferred at the end of June would be given a weight of 0,5 for such calculation.

FIGURE 4: TOTAL COMPREHENSIVE INCOME



ROE amounted to 21,9% and is thus well above the target ROE of 8% set out in the operating guidelines for the BAMC issued by the government.

Additionally to the two performance indicators specified by legislation and guidelines, the BAMC developed a broader system of key performance indicators. These were approved by the Board, which can also expand them if necessary. The indicators were also included in the response report to the Court of Audit.

TABLE 1: KEY PERFORMANCE INDICATORS

KPI	**Definition**	**2014**	***2013**
Cash generated (goal: 10%)	Cash generated / NPAs transfer value	11,5%	0,8%
Profitablilty			
ROE (goal: 8%)	Net income / average equity	21,9%	-3,2%
CROE	Comprehensive income / average equity	10,3%	-25,3%
EROE	Equity / (initial equity - cumulative D1L)	82,8%	-3,6%
Cost efficiency	Operating costs / average assets under management	0,98%	0,76%
Funds returned			
Funds returned to RS	Payback / assets invested	4,3%	3,3%
Gross funds returned to RS	Gross payback / assets invested	7,4%	3,3%
Debt outstanding	Debt / initial debt	99,7%	100,1%
Guaranteed debt outstanding	Guaranteed debt / initial guaranteed debt	99,7%	100,1%
Basic data (in € million)			
Cash generated		129	8
Assets under management		1.752	1.182
Assets invested by RS	Initial equity + state-guaranteed bonds	1.767	1.215
Debt	Balance sheet debt value	1.558	1.013
Equity		175	158
Initial equity - cumulative D1L		96	164

NOTE: *It has to be stressed that indicators for 2013 are not representative as the first transfers of non-performing assets, which are the basis of BAMC's mission and operations, only occurred in December 2013.

The following abbreviations are used in the table: KPI = key performance indicator, NPAs = non-performing assets, ROE = return on equity, CROE = comprehensive return on equity, EROE = economic return on equity, D1L = day-one losses, RS = Republic of Slovenia.

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

Letter from the CEO

Ljubljana, July 2015

On 18 March 2015, BAMC celebrated that it was two years since the BAMC was registered and became a company. Two years ago, there were no employees, no office, no operational assets. There were however tremendous expectations on the BAMC. At the same time, both the public opinion and the political support for establishing and addressing the issues in the banking system with an asset management company outside the banks were very mixed. It was clear that succeeding with the BAMC would be challenging and would require, quite frankly, courage to take decisions and actions under considerable uncertainty, which is not the normal approach in the Slovenian state sector.

We are now at point where we can talk more about what the BAMC has done than what we will do and we can now be better assessed on BAMC's actual results. The BAMC is however still a very young organisation. The development and continuous improvement work will not stop. The BAMC has during 2014 finalised its first phase of operations, to unburden the systemically important banks by acquiring a substantial part of their toxic assets. Its second phase is in full motion, to restructure, to improve the value of these toxic assets and to find better owners for them so that the economy can continue to recover and the BAMC can start to unburden the state and the taxpayers from the obligations via the BAMC for covering the losses generated in the banks in the past.

I am proud and feel privileged to now lead an organisation that in my view has extraordinary employees that have taken on the challenge of delivering results for the Slovenian taxpayers while at the same time building and developing an organisation under the constant and sceptical scrutiny in the public. We have many time expressed that we would like to be evaluated on facts, and on our results, and not on opinions only. So, reporting back on 2014 is, I hope, an important step in the process where the public can be better informed about what the BAMC really has done, and based on track record, can be expected to continue delivering.

BAMC's operational and financial results are better than we had hoped to achieve when 2014 started. In an international perspective, the results are actually outstanding. Looking forward in the short-term perspective the positive results generation will continue. Investor interest in Slovenia, both from domestic and foreign capital, has increased considerably during the first three months of 2015. The BAMC has concluded on some benchmark transactions in early 2015, which will further add to investor confidence that Slovenia is an attractive place to invest, while these transactions will provide substantial profits back to the Slovenian taxpayers.

Restructuring work will continue and this work here can be compared to the work in a hospital emergency room. On short notice a number of corporate patients need to be saved and the BAMC is allocating considerable focus on accelerating its work here. Unfortunately not all patients can be saved and there will be some difficult situations to manage going forward. At the same time, we will also see some of the first complete financially and operationally restructured companies finding their new long-term owners in 2015-16.

All in all, my early and continued optimism around the success of the BAMC has found more solid ground during 2014 and in the first half of 2015.

With my very best regards,

Torbjörn Månsson
CEO, Bank Assets Management Company

Report of the Board of Directors for 2014

Under the second paragraph of Article 282 of the Companies Act (Official Gazette of the Republic of Slovenia No. 42/2006, as amended; ZGD-1), the board of directors of the Bank Assets Management Company ("BAMC") hereby submits the report on the management of the company during the financial year 2014, the audit of the annual report for 2014, and its position on the auditor's report for 2014.

Composition of the Board of Directors of the Bank Assets Management Company

The Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability (ZUKSB) and the Articles of Association of the BAMC stipulate that the BAMC has a one-tier governance system, and that the BAMC Board of Directors consists of seven members, of which three are executive and four non-executive directors.

In accordance with the ZUKSB and Article 19 of the company's Articles of Association, the executive directors serving on the board of directors shall perform their function on a full-time basis as employees of the BAMC, for a period of no more than six years.

As at 31 December 2014, the structure of the BAMC board of directors was as follows:

- Lars Nyberg, Non-Executive Director, Chairman of the board,
- Carl-Johan Lindgren, Non-executive Director, Vice-Chairman of the board,
- Arne Berggren, Non-Executive Director,
- Mitja Mavko, Non-Executive Director,
- Torbjörn Månsson, Chief executive director,
- Janez Škrubej, Executive Director,
- Aleš Koršič, Executive Director.

On 8 January 2014, the BAMC's Board appointed three permanent executive directors of BAMC: Christopher Gwilliam, Janez Škrubej and Aleš Koršič, effective on 9 January 2014.

From September 2013, one non-executive director's position remained vacant. As of 17 January 2014, the government appointed Mr Mitja Mavko as the fourth non-executive director.

On 21 July 2014 the non-executive directors proposed and the Board of Directors approved the termination of the mandate and employment contract of the CEO, Mr Christopher Gwilliam, effective on 31 July 2014. At the same date, the non-executive directors also approved the appointment of Mr Torbjörn Månsson as executive director and new CEO effective 1 August 2014.

Report on the activities of the BAMC Board of Directors

In its activities, the Board of Directors is bound by the principles of transparency, adherence to the law and good professional conduct. The decisions of the Board underpinned the successful business operations in 2014, contributed to the company's development, ensured the upgrading of basic business functions, regulated all areas of operations and oversaw the adoption of relevant policies.

During 2014 the Board held 11 regular meetings, three extraordinary meetings, 39 Board credit committee meetings, 11 extraordinary Board credit committee meetings and one Board investment committee meeting. Quorum was established in all meetings, either physically or by telephone. All Board members have proactively taken part in the decision-making process and monitored how Board decisions were being implemented, in accordance with the BAMC Board Rules of Procedure.

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

- completion of the asset transfer from NLB and NKBM,
- development and implementation of an internal asset valuation system,
- transfer of non-performing assets from Probanka, Factor banka, Abanka and Banka Celje, and the issuance of bonds to finance them,
- preparation of a business strategy and Business plan for 2014-2017,
- preparation and adoption of the annual report for 2013 and revisions to this report to comply with instructions by the Ministry of Finance,
- preparing and executing restructuring, other value creating and exit activities relating to BAMC's assets under management,
- improvements in the organization and of company processes, including the decision making processes with decision committees,
- oversight to ensure that company staffing needs are adequately met,
- implementation policies to facilitate government income policy rules,
- preparation of proposed amendments to ZUKSB,
- measures to ensure that suspicious of criminal activities are detected and reported to law enforcement authorities,
- development of a framework of anti-corruption measures,
- development of an IT platform for accounting and management information system (MIS),
- continuation of the development of the organization, preparation of internal policies, bylaws, rules and instructions,
- responses to inquiries and reports of Commission for the Prevention of Corruption and Court of Audit,
- improving media relations and communications.

Work of the Board's Committees

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

Audit Committee

In 2014, the Audit Committee consisted of the following members: Arne Berggren as the chairman and Tamara Jerman as an independent external member. In March 2014, Mr Mitja Mavko joined as member. The Audit Committee met on 12 occasions in 2014.

2014 was BAMC’s first full year of operations, which was reflected in the activities of the Audit Committee. Many of the company´s fundamental processes and capacities were gradually build-up during the year. Besides the transfer process and building of controls around transferred assets other areas of the Committee´s focus and time were:

- selection of an External Auditor and monitoring of the statutory audit progress,
- in-house accounting and reporting capabilities,
- internal valuation methods and processes,
- internal audit function, appointing a Head of Internal Audit and approving an Internal Audit plan for 2015.

Accreditation Committee

The Accreditation Committee was established in May 2014. The Committee consisted of the following members: Carl-Johan Lindgren as chairman, Janez Škrubej as member and Sonja Šmuc as an independent external member. Aleš Koršič joined the committee in December 2014.

The Accreditation Committee members have selected a pool of possible candidates for supervisory board membership. The pool is being updated on the continuous basis. Candidates nominated in the pool must fulfil the minimal criteria set by the Company Act as well as certain criteria and conditions suggested by the Corporate Governance Code which are defined in the BAMC Policy on Supervisory Board membership. The BAMC recruits possible candidates both among its employees and among professionals with previous proven international experience in corporate governance and with industry expertise.

The Accreditation Committee met on five occasions in 2014 and selected 11 candidates for the supervisory board positions in eight different companies out of which five have been employees of the BAMC and the rest external candidates. The Board has approved all of the proposed candidates. Most of the selected candidates are already serving on the supervisory board of the respected company.

Remuneration Committee

The Remuneration Committee was established in April 2013. From its establishment until February 2014, the Committee consisted of the following members: Carl-Johan Lindgren as chairman, Lars Nyberg as member and Primož Klemen as an independent external member. After the resignation of Primož Klemen the Committee consisted only of two members until December 2014, when Sergeja Slapničar was appointed as an independent external member.

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

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

The Remuneration Committee met on 11 occasions in 2014 and played a very important role in the recruitment process in 2014.

The Remuneration Committee decided and proposed to the Board for further adoption of, among others, the following documents:

- guidelines for BAMC employees and external vendors regarding confidentiality and external communications,
- amended Rules of procedure of the Committee,
- salary scale for middle management level,
- policy for monitoring the employees and compensation policy, Code of ethics and Integrity plan,
- rules on bonuses and promotions.

Board Credit and Investment Committee

The most important credit and assets management decisions are made by the Board Credit and Investment Committees. Both committees consist of all seven Board members and were chaired by Carl-Johan and Arne Berggren during 2014. The Board Credit and Investment Committee met on a weekly basis and made 223 decisions in 2014.

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. In the evaluation of its work, the Board finds that the Board has successfully completed all required procedures to allow the company to continue its successful operations and functioning.

Review of the annual report

A review of the annual report for 2014 and the auditor's report was undertaken by the Board at the meeting of the Board of Directors on 4 August 2015.

The Board has reviewed the BAMC annual report and concluded that it is in compliance with the company's Articles of Association, the Companies Act and International Accounting Standards, except the issue of consolidation of financial statements as explained bellow. In compliance with IFRS10 the BAMC is classified as an investment entity and thus is not subject to preparation of consolidated financial statements. The Slovenian Companies Act does not foresee an exemption for the preparation of consolidated financial statements in case of an investment entity. The Slovenian Company Act and International Accounting Standards are not consistent regarding this matter.

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

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

Information on the certified auditor's report

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

The Board of Director has taken note of the unqualified opinion from the certified auditor dated 30 July 2015 and established that the auditor's report confirms that the financial statements present fairly, in all material respects, the company's financial position, results of operations, and cash flows for the period from 1 January 2014 to 31 December 2014.

Presentation of the BAMC

TABLE 2: BASIC COMPANY DATA

Full company name	Družba za upravljanje terjatev, d.d. Bank Assets Management Company
Short company name	DUTB, d.d. BAMC
Registered office	Davčna ulica 1, 1000 Ljubljana
Telephone	+386 820 542 35
Fax	+386 1 429 38 59
E-mail	info@dutb.eu
Website	www.dutb.eu
Core business	Activities of collection agencies and credit bureaus
Registration entry	2013/11708, District Court of Ljubljana
Company ID number	6339620000
Tax number	41251482
VAT number	SI41251482
Initial share capital	€203.625.000,00
Number of shares	101.812.500 ordinary no-par value shares
Non-executive directors as at 30 July 2015	Lars Nyberg, Chairman of the Board of Directors Janez Širovnik, Deputy Chairman of the Board of Directors Marko Simoneti Imre Balogh
Executive directors as at 30 July 2015	Torbjörn Månsson, CEO Janez Škrubej Aleš Koršič

Corporate governance and organisational structure

The BAMC has a one-tier system of corporate governance, where the highest decision-making body is the Board of Directors. The Board of Directors comprises four non-executive directors and three executive directors. The Board of Directors has five committees: the Audit Committee, the Accreditation Committee, the Remuneration Committee, the Board Credit Committee and the Board Investment Committee. For the Audit, Remuneration and Accreditation committees, the committee members comprise of non-executive directors and one external member with the relevant professional experience in Slovenia. The Board Credit and Investment Committees comprise of all Board members. The Board of Directors and its committees function in accordance with the relevant rules of procedure. Executive directors are responsible for the BAMC's day-to-day operations.

Non-Executive directors as at 31 December 2014

Lars Nyberg, the Chairman of the Board of Directors, holds a doctorate in economics and is a long-time member of the Swedish Financial Supervisory Authority. He worked as Executive Vice-President at two commercial banks in Sweden: Handelsbanken and Swedbank. As Deputy President of the Management Board of Föreningsbanken during the Swedish banking crisis between 1991 and 1993, he made a decisive contribution to the restructuring and recapitalisation of the aforementioned bank. He continued his professional career as Deputy Governor of the Riksbanken, Sweden's central bank, where he worked for 13 years. He chaired the ECB's crisis management group for many years. As a member of the De LaRoisere Group founded by the European Commission, he participated in the development of monitoring guidelines for European banks in the wake of the 2008 economic crisis. At the same time, he chaired the EFC's High-Level Working Group that shaped the final guidelines for overcoming the economic crisis in the European Union.

Carl-Johan Lindgren, the Deputy Chairman of the Board of Directors and chairman of the Acreditation and Remuneration Committees, has over 20 years of experience in managing banking crises and restructuring banks across the world. After more than 30 years of service at the IMF, he retired in 2001 from his position as Deputy Director of the department responsible for crisis management and bank restructuring. He led the IMF's response to the banking crises in Thailand in the late 1990s and in Turkey in 2000 and 2001. 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 14 years he has worked as an independent consultant and financial policy advisor to numerous banks, central banks, supervisory agencies and governments throughout the world. His work has focused primarily on preventing financial crises through micro- and macro-prudential policies, and formulating regulatory and institutional frameworks for addressing and responding to financial crises. During his career he has worked on banking and financial sector issues in some 70 countries.

Arne Berggren, the chairman of the Audit and Credit Committees has been involved in bank restructurings and management of problem assets since the beginning of the 90s when he designed and led the bank restructuring and asset valuation process during the Swedish banking crisis and the set up of Securum AB, where he also served on the board of directors. Securum later became a model for asset managemnt companies around the world. During the Asian crisis he was a bank restructuring advisor and involved in establishing organizations of various kind and orientation dealing with problem assets. During the current financial crisis he has been CEO of Valot AB, a Swedish bank asset management company, Global Head of Financial Restructuring and Recovery at Swedbank AB as well as a member of the IMF's "Troika" team in Spain. Mr Berggren has over the years served as CEO or member of boards in a number of companies, among them companies forced to undergo fundamental restructuring of their operations. Currently, he is a member of the board of directors of Bank of Cyprus.

Mitja Mavko, MSc serves as Advisor to the Director of the Constituency Office of the European Bank for Reconstruction and Development (EBRD). Prior to that, he served as State Secretary at the Ministry of Finance responsible for the financial system, international affairs, treasury operations and public procurement. Between 2001 and 2008 he worked in the cabinet of the Minister of Finance and later in the Department for International Financial Relations. In 2009 he became head of the aforementioned department. Mr Mavko also served as Deputy Governor for Slovenia at the World Bank Group, the EBRD and the Inter-American Development Bank Group, and as President of the Management Board of the Centre of Excellence in Finance.

Executive directors as at 31 December 2014

Torbjörn Månsson, CEO and Executive Director, holds a master's degree in economics and business administration. His primary tasks at the BAMC are to lead the organisation and its team, and to ensure that the BAMC completes its tasks in a professional and timely manner. His work experience includes 25 years of professional consulting to corporates and financial institutions, with McKinsey & Co, SIAR-Bossard, Bain & Co and Quartz+Co. His longest period of employment was at Bain & Co, where he worked for 18 years, the last ten years as Head of the Nordic Private Equity Practice, focusing on consulting services in the fields of asset management, strategic planning and investments. He also managed the Nordic Performance Improvement Practice, dealing mostly with restructuring and the optimisation of operations in different industries. He has worked in thirty countries around the world, from China, India, Japan, the United States and Mexico to European countries. In parallel, since 2004 he is the Chairman of the Board of Harjak & Månsson AB, a premium interior decorating retailer in Stockholm (NK Inredning).

Janez Škrubej, Executive Director for Asset Management, holds a master's degree in economics from Ljubljana University and an MBA from Drury University in the US. Prior to that he worked at the international consultancy-audit company Deloitte for several years as head of financial consultancy services, where he gained extensive experience in the fields of mergers and acquisitions, valuations, due diligence and corporate restructuring in Slovenia and the wider region. From 2002 to 2005 he worked as a sales manager at Lek d.d. of the Novartis Group where, in addition to sales management, he managed the market entry of new products, from the completion of product development to launch on the market. Prior to that he managed ITC Group d.o.o., a company that introduced innovative IT business solutions for business partners such as AT&T/Lucent Technologies, US Robotics and others.

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

On 5 March 2015 the Government in the capacity of the General Meeting of the BAMC terminated Carl-Johan Lindgren, Arne Breggren and Mitja Mavko, MSc from their office of non-executive director of BAMC, effective from 31 March 2015. The Government appointed Imre Balogh, PhD, Marko

Simoneti, PhD and Janez Širovnik as the new non-executive directors, for a term of office ending 31 December 2017.

Normative framework

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

- the Regulation on the implementation of measures to strengthen the stability of banks,
- the Guidelines on the operations of the Bank Assets Management Company (hereinafter: the Guidelines), which govern the operations of the BAMC in detail,
- the Articles of Association of the Bank Assets Management Company, and
- the BAMC's Remuneration Policy, which was adopted by the government in March 2013, and amended in July 2013 and in March 2015.

Operations in individual areas are also defined by more than 25 policies adopted or refined by the Board of Directors in 2014. Among the most important of these are:

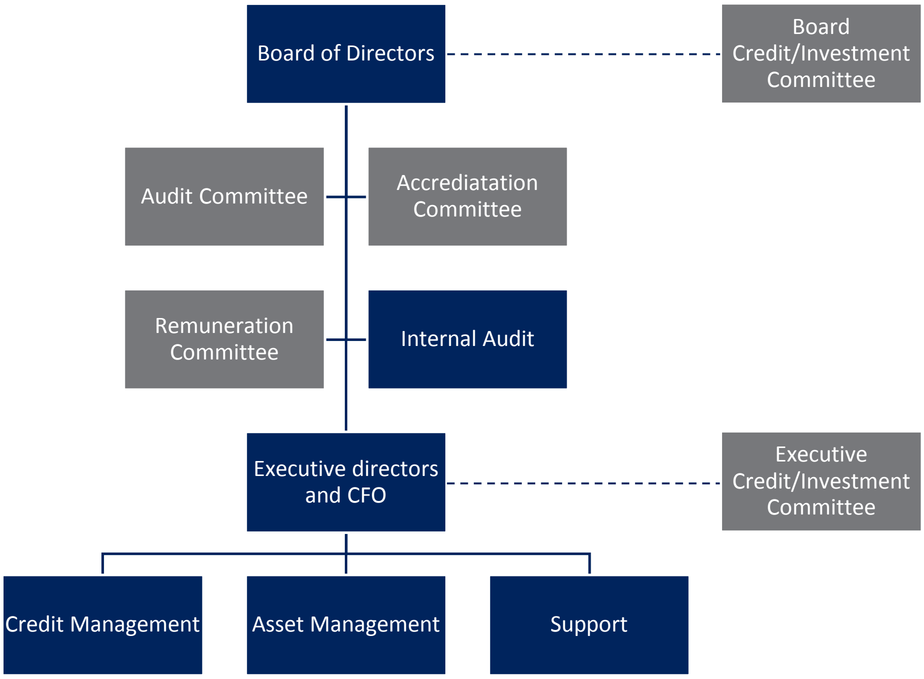
- the Credit and Assets Management Policy, which regulates the management of assets and the credit and investment decision-making system, and
- the Investment and Asset Management Policy, which governs the management of available liquid assets in accordance with the provisions of Article 46.

Functional organisational structure

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

BAMC´s core processes are performed in the credit management division and the asset management division. The latter consists of a real estate management unit and an equity management unit. Credit and asset managers receive support both within their organisational units as well as from support functions, e.g. in the form of outside legal experts' opinions, recruitment of personnel, IT support, etc.

Figure 5: Organisational structure of the BAMC



Decision-making system

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

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

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

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

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

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

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

TABLE 3: OVERVIEW OF THE DECISION-MAKING PROCESS AT THE BAMC

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

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

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

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

Perform: Executes or implements the decision.

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

Decide: Ultimate decision-maker, responsible and accountable.

Significant events in 2014

Corporate Governance and reporting

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

On 8 January the BAMC's Board of Directors appointed its permanent executive directors: Christopher Gwilliam, CEO, and Aleš Koršič and Janez Škrubej.

On 17 January the government appointed Mitja Mavko, MSc, State Secretary at the Ministry of Finance, as a non-executive director. He was in turn appointed as a member of the Audit Committee on 3 March.

On 14 March the government adopted amendments to the BAMC's Articles of Association. The aforementioned amendments relate to the detailed definition of obligations in the area of corporate governance at the BAMC, ensuring integrity and preventing corruption.

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 yet received sufficient information regarding the methodology used to value individual transferred items, which would facilitate the accurate initial recognition of assets and the auditing of the financial statements.

On 5 June the Ministry of Finance adopted the Guidelines on the operations of the Bank Assets Management Company.

On 10 June the BAMC published an announcement for investors on its website and the website of the Ljubljana Stock Exchange stating that the BAMC had decided to carry out an internal valuation of 80% of its entire portfolio of assets in order to determine their fair value based on some additional information received in the middle of May regarding the methodology used to determine transfer prices. Due to the valuation of acquired assets, the audit of the 2013 financial statements was completed after the 30 June legal deadline.

On 31 July Christopher Gwilliam was discharged from his position Chief Executive Officer with immediate effect. On 1 August Torbjörn Månsson assumed the position of Chief Executive Officer.

On 29 August the BAMC published its audited annual report for the 2013 financial year. Via two public announcements made on the website of the Ljubljana Stock Exchange on 30 April 2014 and 10 June 2014, the BAMC had stated the reasons for the delay.

On 29 August the BAMC published its unaudited half-yearly business report for the first half of 2014.

On 6 November 2014, the BAMC received the final report and appraisal of the situation concerning the established system of operations of the Bank Assets Management Company, prepared by the

Commission for Prevention of Corruption ("CPC"). The BAMC submitted its response to the report within the required timeframe. On 16 December 2014, the CPC adopted its Final Report at its CPC senate meeting. In the conclusion, it presented its reservations about the one-tier governance system used in the BAMC, since a two-tier governance system would contribute to reducing corruption and other risks which the company was exposed to in the course of its operations and warned about potential conflict of interest, both in the context of engaging external vendors and in the context of hiring and recruitment practices.

On 7 November the BAMC received a letter from the Ministry of Finance, in which it was informed that the government had discussed the BAMC's 2013 annual report at its session of 29 October 2014 and decided not to approve it, but had instead instructed the Ministry of Finance, the Ministry of Economic Development and Technology and the Ministry of Justice to request BAMC to supplement the annual report.

Transfer of non-performing assets

On 10 September the BAMC and Probanka signed an agreement on the acquisition of €114,2 million of claims against 30 companies. The BAMC paid €28,0 million for the acquired assets.[7]

On 12 September the BAMC and Factor banka signed an agreement on the acquisition of €49,2 million of claims against 17 companies. The BAMC paid €10,8 million for the acquired assets.

The acquisitions from these two banks in liquidation were market-based transactions at the initiative of the BAMC. They allowed the BAMC to increase the value of its existing portfolio of assets by consolidating claim positions, generating operational synergies and simplifying restructuring processes. The transfer prices and other terms were negotiated on an arm's length basis. The BAMC did not take on additional debt for these transactions, as it used its own funds to pay for the claims.

The BAMC and Probanka negotiated an agreement where Probanka will provide the BAMC with accounting and IT support for the management of loans acquired from all banks. In the case of Probanka and Factor banka, opening asset balances were transferred to the Probanka system, while for other banks which have already provided accounting and IT support based on their own IT systems (NLB and NKBM), data were migrated to the Probanka system in January 2015. The data from Banka Celje was transferred to the Probanka system immediately after the transaction was concluded, also in January 2015. For Abanka the data transfer is planned for the second quarter of 2015.

On 13 October the BAMC and Abanka signed an agreement under ZUKSB and approved by the government under which Abanka was to transfer assets with a value of €423,8 million to the BAMC, consisting of non-performing loans of €421,8 million, and bonds and equities of €2,0 million. The total

[7] Differences between numbers reported in this section and elsewhere in the document result from the fact that contractual values are stated here, while actual transferred values could differ from these due to larger (more than 10%) changes in gross exposure for certain debtors arising between the date of signing the contract and actual date of asset transfer.

gross value of all transferred assets was €1.143,7 million. The physical transfer of the loan and other documentation was carried out in two stages and completed by the end of 2014.

On 20 October the BAMC issued government-guaranteed bonds, designated DUT03, in the total nominal value of €424,6 million with a 3-year maturity to pay for the Abanka asset acquisition.

On 18 December the BAMC and Banka Celje signed an agreement under ZUKSB and approved by the government under which Banka Celje transferred assets with a value of €127,0 million consisting of non-performing claims of €125,3 million, as well as a bond and equities of €1,7 million. The total gross value of all assets included in the transfer was €411,4 million. The physical transfer of the asset documentation has been carried out by the end of March 2015.

On 19 December the BAMC issued government guaranteed bonds, designated DUT04, in the total nominal value of €127,0 million with a 3-year maturity to pay for the Banka Celje asset acquisition.

Return of value to the State

On 18 November the BAMC received a resolution from the government, acting in the capacity of the BAMC's General Meeting, instructing the BAMC to conclude negative annexes with SID banka as the government's representative, waiving its right to redeem guarantees under the Guarantee Scheme Act (ZJShemRS). Furthermore, the BAMC was instructed to return to the Slovenian state budget within 15 days from the receipt of the aforementioned resolution any funds it had already received from cashed-in guarantees.

On 3 December BAMC repaid previously redeemed guarantees in the amount of €2,2 million to the Slovenian state budget. The BAMC also signed negative annexes with SID banka in January 2015, whereby it waived its right to redeem guarantees under the Guarantee Scheme Act in the nominal amount of €26,1 million. As a result the expected inflows from loan portfolio decreased by €5,2 million.

Notwithstanding the aforementioned, the BAMC must also recover debt from debtors that were transferred to the BAMC in the name and on behalf of the government in the future, at no cost, in the amount of guarantees redeemed by the banks subject to transfer (NLB, NKBM, Abanka and Banka Celje) prior thereto. This means that it must transfer to the account of the government a proportionate amount of proceeds received upon the repayment of loans for which a bank subject to transfer redeemed a government guarantee prior to the transfer to the BAMC.

Asset management

The BAMC generated €129,4 million of inflows from the management of acquired assets in 2014. The inflows derive almost entirely from the loan portfolio. The major inflows came from:

- sale of collateralized shares of Helios d.d. in April from the debtors Zvon Ena in bankruptcy and Zvon Dva in bankruptcy in the value of €25,9 million,
- sale of collateralized shares of Letrika d.d. in September from the debtors Zvon Ena in bankruptcy and CBH in the value of €12,5 million,
- financial restructuring of Adria Airways d.d. where the company restructured its financial liabilities in December through lease-back of aircrafts and repaid €18,0 million of debt.

Events after the accounting period

On 16 December 2014 the BAMC received the draft Audit report on the legality, efficiency and cost-effectiveness of operations in 2013 from the Court of Audit of the Republic of Slovenia, instructing the BAMC to respond to the audit disclosures by the beginning of January 2015. At the government's request the report was classified as confidential. The BAMC prepared answers to individual audit disclosures and sent them to the Court of Audit within the deadline. On 30 January 2015, the Court of Audit followed-up with the Proposed audit report on the legality, efficiency and cost-effectiveness of BAMC's operations in 2013, against which the BAMC lodged its opposing arguments on 9 February 2015. On 17 February 2015, the BAMC communicated to the Court of Audit its position regarding confidential information contained in the audit report. On 3 March 2015, the Court of Audit issued its audit report "Establishment of the conditions for the functioning and operations of DUTB, d.d. in 2013", no. 3262-1/2013/191. The Court of Audit found that the BAMC performed without the requisite effectiveness and uneconomically, and the Court of Audit expressed an adverse opinion on the compliance of BAMC operations in 2013. The Court of Audit also instructed that, within 90 days of receiving the audit report, the BAMC submits a response report outlining the corrective measures taken to adopt bylaws, to put in place internal controls, and to set out targets and criteria for assessing the performance of executive directors and conditions for determining the variable portion of their remuneration. As of 4 March 2015, the Audit Report is accessible to the public on the official website of the Court of Audit. Confidential information and data classified as a trade secret have been redacted in the published report.

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

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

On 5 March 2015 the Government in the capacity of the General Meeting of the BAMC terminated Carl-Johan Lindgren, Arne Berggren and Mitja Mavko, MSc from their office of non-executive director of BAMC, effective from 31 March 2015. The Government appointed Imre Balogh, PhD, Marko Simoneti, PhD and Janez Širovnik as the new non-executive directors, for a term of office ending 31 December 2017.

On 13 April 2015, the BAMC signed an agreement to sell its 2,1 million shares in Pivovarna Laško d.d. for a consideration of €25,56 per share

On 17 April 2015, the BAMC closed a major transaction selling a portfolio of claims towards ACH, Adria Airways, Elan, and its claims and equity in Polzela.

On 29 May 2015, the BAMC discharged the collaterals of its matured claims against Sava d.d. and thus acquired directly or indirectly - through its newly established company - 99,05% ownership share of Sava Turizem d.d. Based on temporary injunction issued by the District Court of Ljubljana the BAMC transferred back to the Sava d.d. all enforced shares of Sava Turizem d.d. on 8 June 2015. The BAMC will prove the correctness of the enforcement of the pledged asset in the judicial proceedings.

BUSINESS REPORT

Corporate governance statement

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

Statement of compliance with the Corporate Governance Code

The BAMC's Board of Directors hereby declares that it complied with the Corporate Governance Code, as amended on 8 December 2009, to the maximum extent possible in 2014, with the exception of specific provisions based on the BAMC's unique status (its sole shareholder being the Slovenian government), provisions that are governed by the law (ZUKSB) or provisions that the company has otherwise adopted in its Articles of Association and bylaws, as well as provisions of the Code in cases where non-binding actions are not specified in its bylaws or where specific actions are not defined as legal obligations.

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

Deviations from the Code:

- 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.
- Item 2. The Board of Directors has on 20 February 2014 adopted Corporate Governance Policy. As of the day of publication of the annual report, the BAMC no longer deviates from the Code, which states that the management board works together with the supervisory board in drawing up and adopting a Corporate Governance Policy, thereby laying down the major guidelines of corporate governance as compliant with the company's long-term objectives. The Corporate Governance Policy is being published on the corporate website.
- Item 8. The BAMC does not follow this guideline, which states that all members of the supervisory board sign a special statement (in BAMC's case these are non-executive and executive directors), disclosing their meeting of the criteria of independence from Section C.3 of Appendix C of this Code, and that such signed statements are then posted on the company's website. While statements of independence are signed by the members of the Board of

Directors, they are not published on its website, but they are available for review at BAMC's headquarters.

- Item 8.3. The Board of Directors has on 20 February 2014 adopted Rules of procedure of the activities of Executive directors of the BAMC. As of the day of publication of the annual report, the BAMC no longer deviates from the Code, which in item 8.3. states, that the tasks and competences are distributed among members of the management board by the president of the Board of Directors or by the Board of directors Rules of procedure, and afterwards communicated to the Board of Directors.
- Item 8.7. states that the Board of Directors Rules of procedure stipulate the Board's communicating with the public with respect to the decisions adopted at its meetings. In exceptional cases, the Board adopts a resolution making the passed resolutions either public or confidential, and defining the manner of the Board's communicating with the public. Such communication is done by the president of the Board of Directors, or as otherwise required by the Board of Directors resolution or exceptional circumstances. The inconsistency between Corporate governance code and BAMC's current practice is of purely technical rather than substantive nature, since the Board of Directors' public communications are not defined in its rules of procedure but instead in the communications strategy adopted by the Board of Directors.
- Item 9. The Board of Directors presents an evaluation of its activities in the annual report. The Board of Directors shall perform self-evaluation in 2015.

Information regarding legislation governing takeovers

In accordance with the law governing takeover, 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 the implementation of measures based on the ZUKSB. In 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 the aforementioned act did not apply to the BAMC in 2014, as no circumstances warranting the application of those provisions arose.

Information regarding the functioning and key competences of the company's General Meeting and description of shareholder rights

The BAMC has a one-tier corporate governance system consisting of a General Meeting and a Board of Directors.

General Meeting

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

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

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

The General Meeting is convened by the Board of Directors by a simple majority vote. The General Meeting must also be convened at the shareholder's request. The convening of the General Meeting must be published a minimum of 30 days prior to the meeting. The shareholder duly entered in the central register of book-entry securities at the end of the fourth day prior to the scheduled date of the General Meeting is entitled to participate at the General Meeting and exercise voting rights. The General Meeting convened six times in 2014.

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

Board of Directors

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

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

The main competences of the Board of Directors include:

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

Executive directors represent the company and act on its behalf.

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

Executive directors are competent and responsible for the following:

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

Board's Committees

In 2013 the Board of Directors established and appointed members of an Audit Committee a Remuneration Committee and, in May 2014, an Accreditation Committee in accordance with the provisions of the law governing companies. All Board members are members of the board-level Credit and Investment Committees.

Audit Committee

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

Remuneration committee

The Remuneration Committee is an internal BAMC body established in April 2013 and its function is part of the corporate governance structure of the BAMC itself. The scope of the Remuneration Committee's responsibilities is to set up an appropriate remuneration policy for the BAMC staff in the first phase and to help prepare the framework for tracking employee performance. In general, the Remuneration Committee is responsible for preparing the decisions related to remuneration.

The Committee has at least three members:

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

Accreditation Committee

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

The Committee has at least the following members:

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

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

The Board Credit and Investment Committees

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

The BCC and the BIC have the authority to delegate decisions to more junior committees on the executive and operative levels. This is to ensure effective and fact-based decision making within the BAMC. The delegation and decision powers of BAMC's case committee structures are clearly defined in BAMC's policy: »Process and decision-making powers of the committees«. This policy is approved by BAMC's owner, the Government of the Republic of Slovenia. In short, the BCC and BIC focus on taking the decisions which are highly complex, have significant value or policy impact, are precedential, strategic, high risk or have a high public sensitivity while other decisions are normally taken in executive and operational level committees.

The BCC and BIC consist of all seven Board members of the BAMC. The BCC and BIC have quorum when at least 3 members are present, out of whom one is a non-executive director.

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

Internal control mechanisms help the company achieve its objectives and are an integral part of the values and principles formulated by the management. They are applied in everyday operations in the form of policies, guidelines, processes, procedures and activities with the aim of managing risks within acceptable limits. All employees are involved in the internal control system, with specific groups of employees holding special roles and responsibilities. The Board of Directors promotes and monitors the functioning of the internal control system, while executive directors are responsible for developing and updating the internal control system. Operational managers formulate, implement and monitor internal controls in their areas of responsibility, while other employees carry out their responsibilities as agreed. The internal control system is an integral part of all processes, while a transparent mechanism of control points facilitates regular reviews of processes and the assessment exposure to risks.

Internal auditing

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

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

An internal audit function was established in last quarter of 2014, when an internal auditor was hired. Actual internal auditing work started in first days of 2015. It is following the Internal audit plan for 2015, which was reviewed by Audit Committee and adopted by the Board of Directors.

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

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

External auditing

The BAMC’s financial statements for 2014 were audited by KPMG Slovenija, d.o.o., Ljubljana. As part of its audit of the financial statements, the external auditor reports its findings to the Board of Directors and the Audit Committee.

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

Strategic plans of the BAMC and the macroeconomic environment

Due to the nature of the assets taken over from the banks, the BAMC had to commence its operations taking a case-by-case approach to optimizing the value for each asset. Only when the individual assets had been reviewed and their values established could an aggregate business plan even be considered. In October 2014 the Board of Directors approved the BAMC's Business plan for the period 2014 to 2017, as prescribed by law.

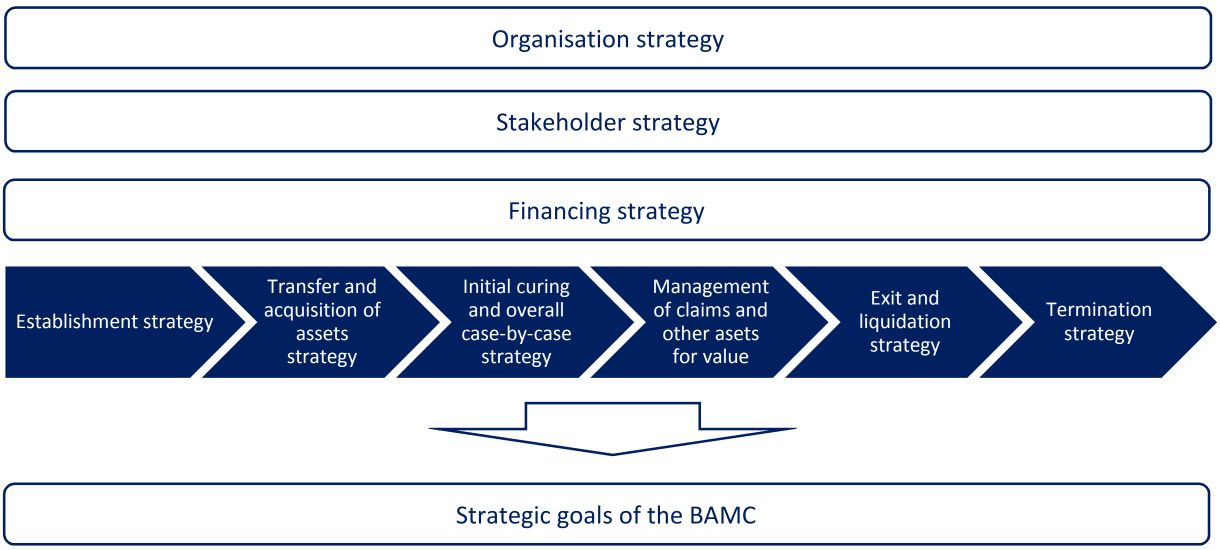
The BAMC's Board of Directors set the following strategic objectives in the company's business plan:

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

The BAMC has set highly ambitious objectives. Based on the relevant assumptions and available information, the business plan envisages a return on equity that is above the 8% target set by the government.

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

Figure 6: BAMC's strategic framework



Macroeconomic outlook

Global economy

Global annual growth rates have stabilized at 3,3% in 2014, which is at the same level as in 2013. Global growth in 2015 is projected at 3,5% (and at 3,7% in 2016). Main contributors to the projected rate of growth are expected to be advanced economies, while emerging markets and developing economies are projected to see a decline in the growth rates (from 4,3% in 2015 and back to 4,7% in 2016).

The main driver for global growth in 2014 was depreciation of oil, which was also the main factor for slightly decreased inflation on the global level, but the factors that slowed growth were lower investments, market volatility, geopolitical events (especially geopolitical risk in Ukraine/Russia and the Middle East) and stagnation in the Eurozone and Japan. Interest rates and risk spreads have risen in many emerging market economies, notably commodity exporters. In addition, risk spreads on high-yield bonds and other products exposed to energy prices have also widened.

European economy

Seasonally adjusted GDP rose by 0,3% in the Eurozone (EA18) and by 0,4% in the EU28 during the fourth quarter of 2014 compared with the previous quarter, and by 0,9% and 1,3% respectively compared with the fourth quarter of 2013. In the final months of 2014, rising investment and export led to modest pick-up of Eurozone economic growth. Germany is the largest Eurozone economy, and its consumers have the most untapped purchasing power, thus a sustained increase in spending could help to provide the demand that Europe has been lacking. The jobless rate in the Eurozone has been hovering above 11% for months, and there is little hope that the labour market will turn around in the near term.

Slovenian economy

TABLE 4: SELECTED MACROECONOMIC INDICATORS FOR SLOVENIA

Indicator / Year	2010	2011	2012	2013	2014	*2015
GDP (current prices, in € million)	36.220	36.868	36.006	36.144	37.246	38.216
GDP (real growth rate, in %)	1,2	0,6	-2,6	-1,0	2,6	2,0
GDP per capita (current prices, in €)	17.678	17.960	17.506	17.550	18.065	18.500
Productivity of work (GDP per capita, in %)	3,4	2,3	-1,8	0,5	*1,8	1,5
Rate of unemployment (registered, in %)	10,7	11,8	12,0	13,1	13,0	12,6
Rate of unemployment (survey, in %)	7,3	8,2	8,9	10,1	9,6	9,3
Inflation, end of the year (in %)	1,9	2,0	2,7	0,7	0,5	0,1
Inflation, average of the year (in %)	1,8	1,8	2,6	1,8	0,2	0,0

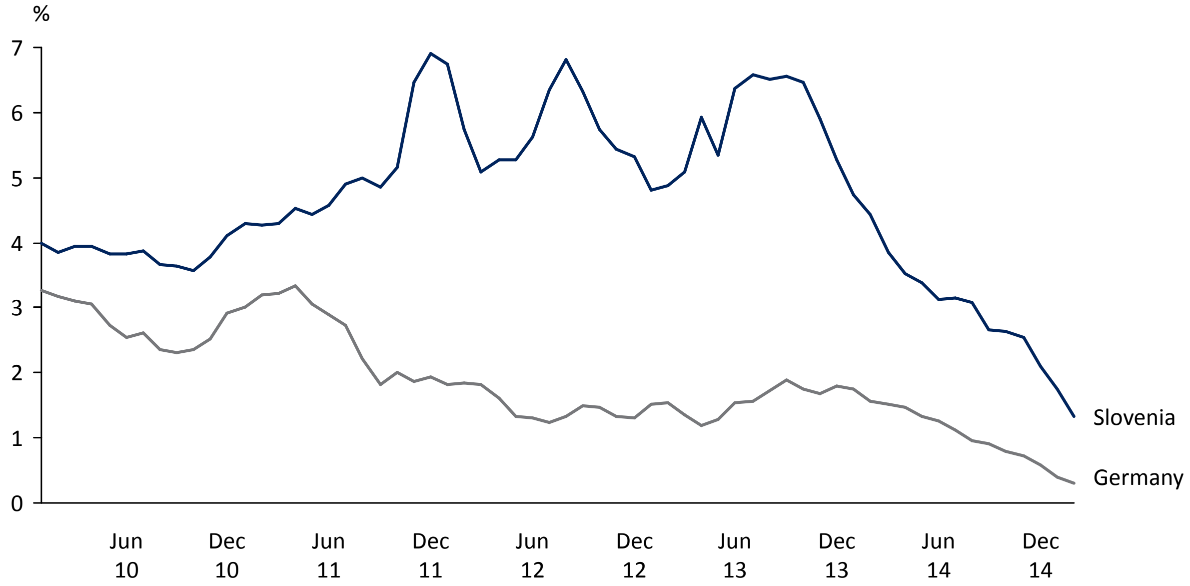
NOTE: *Expected.
SOURCE: Ekonomsko ogledalo, February and March 2015. Ljubljana: Institute of macroeconomic analysis and development.

In 2014 Slovenia has witnessed relatively high GDP growth of 2,6% and the labour market also showed signs of recovery. Improved conditions in international environment and economic policy actions established in last few years showed results in 2014. GDP was at its highest point since the beginning of the crisis. Improved competitiveness has led to higher export and more investments.

Unemployment rate has decreased for the first time since the crisis started due to increased activity in private sector. Better conditions in the labour market have also led to modest growth of private consumption. Government deficit has decreased by €299,0 million to €1,259 billion which represents 3,4% of GDP. Government income has increased by 5,2%.

Required return on 10-year government bonds started to decline already in 2013 and it has achieved its lowest levels since entering to Eurozone. The spread between German and Slovenian 10-year government bond is also at its minimum level since the crisis.

FIGURE 7: 10-YEAR SLOVENIAN AND GERMAN GOVERNMENT BOND YIELDS



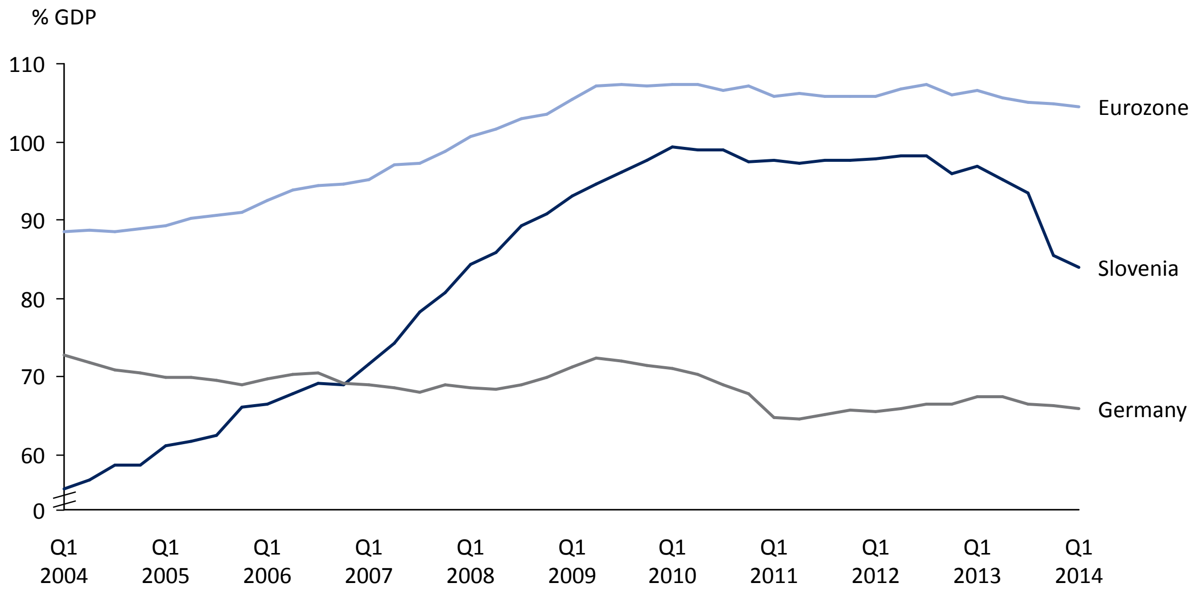
SOURCE: Eurostat.

Slovenian banking environment

Decrease of lending activity of Slovenian banks continued also in 2014. Loan volume to the domestic non-banking sector has (without transfers of claims to the BAMC in amount of €1,6 billion) decreased by €1,8 billion in 2014. The only increase was in segment of lending to the state. Savings of households and the state have increased in 2014 and banks have continued to decrease their obligations towards ECB and foreign countries. International rating agencies have slightly increased their ratings for Slovenia in the second half of the year 2014 and in the beginning of 2015.

In the figure below non-financial corporation's debt-to-GDP ratio is shown. In Slovenia, the peak was achieved in the third quarter of 2010, where the ratio was at 99,9%. In year 2013 this ratio began to decrease and in the first quarter of 2014 stood at 84% of GDP. Although Slovenian corporate debt-to-GDP ratio was always below the Eurozone ratio during the examined period, it was high above the German one.

FIGURE 8: CORPORATE DEBT RATIO COMPARED TO GDP



SOURCE: Euro Area Statistics.

Slovenian real estate environment

In 2014, the number of sold residential real estate has exceeded the number of sold residential real estate of the previous year for the first time since 2010. The highest increase is shown in the segment of used residential real estate, especially in the segment of used family houses. Overall, the number of properties sold in 2014 was 31% higher than in the year 2009 when the first bottom of the Slovenian real estate market was reached.

TABLE 5: RESIDENTIAL REAL ESTATE SOLD IN SLOVENIA

Number of sold residential real estate	2010	2011	2012	2013	2014	Index 2014/2013
Residential Real estate	7.923	6.882	6.336	5.783	7.448	129
New Residential real estate	1.589	1.111	819	776	845	109
New apartments	1.282	927	654	632	694	110
New family houses	307	184	165	144	151	132
Used Residential real estate	6.334	5.771	5.517	5.007	6.603	132
Used apartments	4.910	4.441	4.196	3.781	4.985	132
Used family houses	1.424	1.330	1.321	1.226	1.618	158

SOURCE: Statistical Office of the Republic of Slovenia.

Number of sold non-residential real estate has slightly decreased in 2014. Althoughthere was more business real estate (office buildings, service buildings, etc.) sold in the first half of 2014 than in previous half years, there is a high decrease in sold lands for further construction. This coincides with lower investments in construction due and high investment activity in years before crisis.

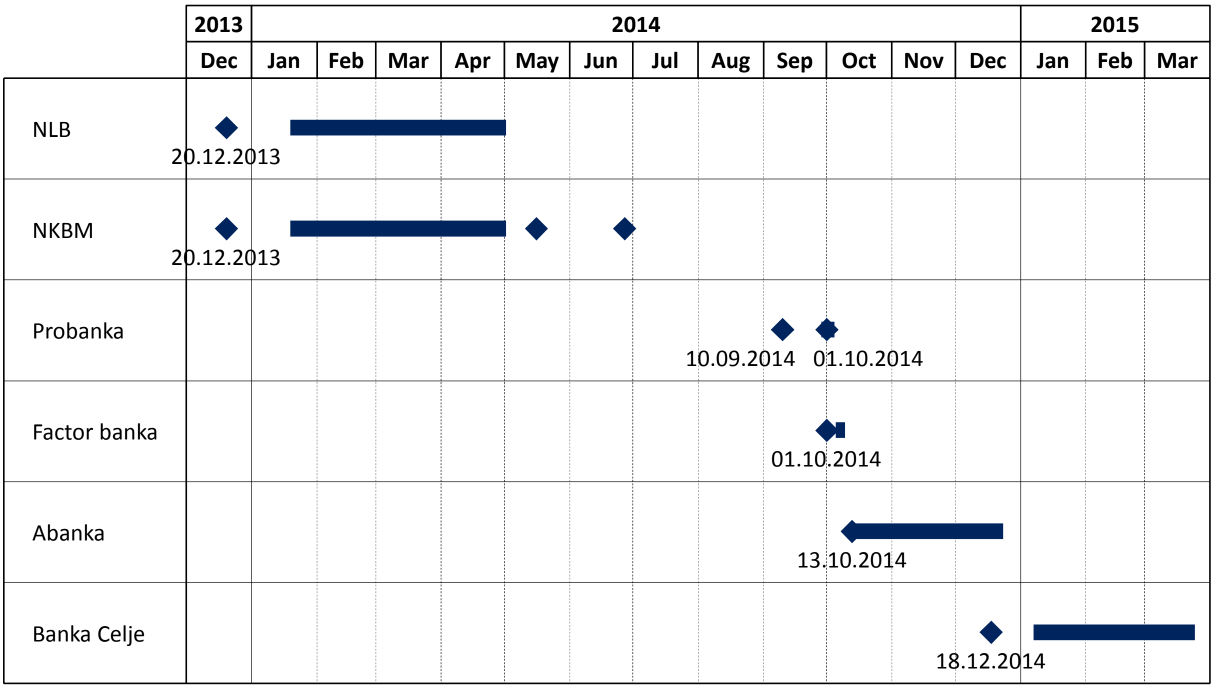
Transfer of non-performing assets

Following the transfer of non-performing assets from NLB and NKBM to the BAMC in December 2013, the BAMC acquired non-performing assets from NKBM, Abanka and Banka Celje in 2014 with a total gross value of €1.546,2 million at a transfer value of €561,1 million. In order to consolidate exposures and ensure more effective management of these assets, the BAMC also purchased claims totalling €38,6 million from Probanka and Factor banka in arm's length transactions at negoatiated market values.

Transfer prices for the four banks (i.e., excluding Probanka and Factor Banka) were set by the European Commission. The BAMC was not involved in the setting of transfer prices, nor was it any way involved in the process of determining which non-performing loans or which equities and other types of claims would be transferred.

A distinction must be made between the legal transfer and actual physical transfer of non-performing assets. Under the ZUKSB, the legal transfer was carried out with the signing of an agreement to transfer assets and the payment for those assets with BAMC bonds. The BAMC legally recognised the acquired assets in its financial statements at transfer values, while the actual physical transfer of the claims was carried out gradually with the physical receipt of the loan and other documentation by the BAMC. All in all, the documentation taken over by the BAMC from the four banks encompassed over 3.000 binders with almost 1,2 million pages of documents.

FIGURE 9: LEGAL AND PHYSICAL TRANSFERS OF NON-PERFORMING ASSETS

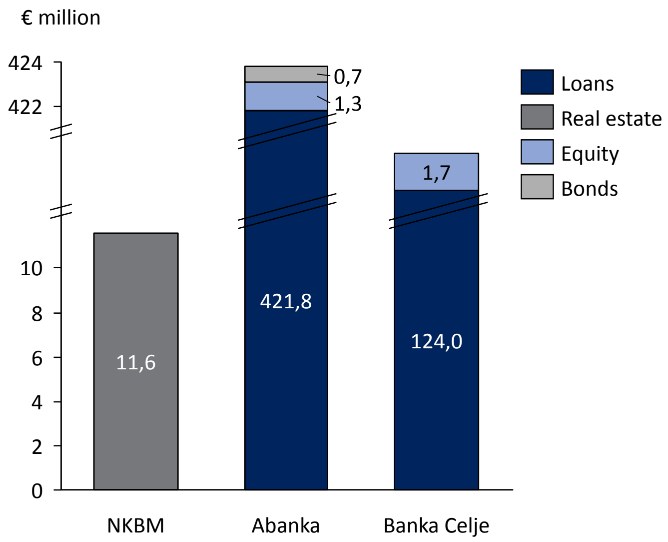


NOTE: The markers in the figure present dates of legal transfer of assets from the banks with horizontal bars denoting the duration of physical transfers. Two additional markers for NKBM denote legal transfers of real estate.

Characteristics of transferred assets

In 2014 non-performing assets transferred from the three banks consisted of loans, real estate, bonds and equity.[8] Real estate transfers were part of the NKBM transfer realised in the first half of 2014, while the other two transfer took place in the last quarter of 2014. The majority of transferred assets came from Abanka, with loans making up for the vast majority of them.

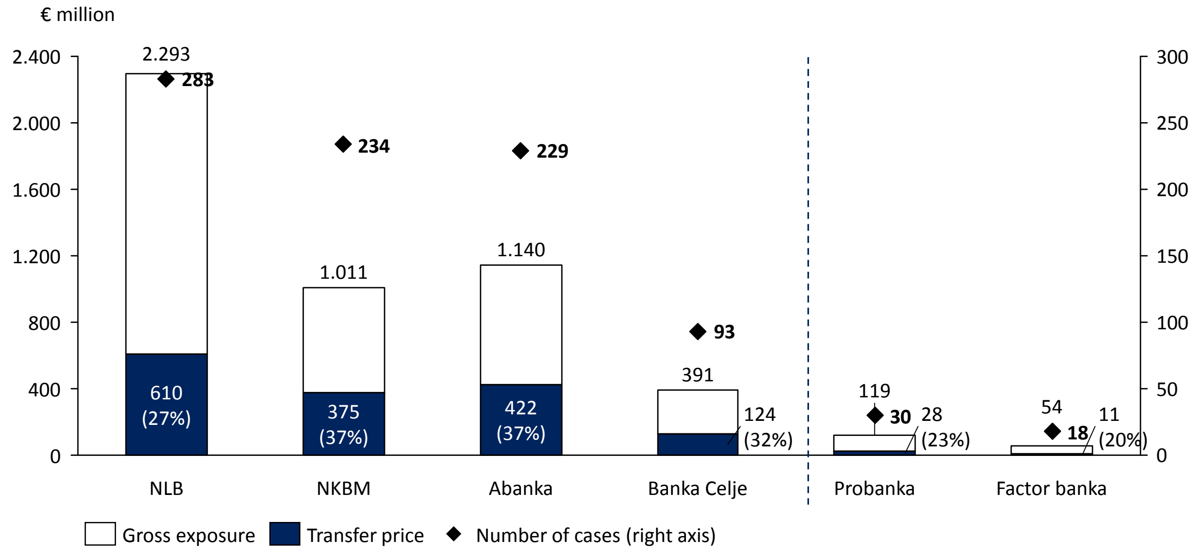
FIGURE 10: TRANSFER VALUES OF NON-PERFORMING ASSETS IN 2014



Following breakdowns take into account all loans taken over by the BAMC, i.e., including 2013 transfers from NLB and NKBM as well as Probanka and Factor banka transactions. The biggest transfer in terms of both gross exposure and transfer price was the one coming from NLB with the two coming from NKBM and Abanka combined approximately similar in size. Probanka and Factor banka asset acquisitions were minor compared to the previous ones but still enabled the BAMC to optimize its exposures, allowing for more efficient management of loans. Transfer prices for ZUKSB-regulated transfers ranged from 27% to 37% of gross exposures, while loan acquisitions which the BAMC could in fact affect and negotiate were done at around 20% of gross exposures.

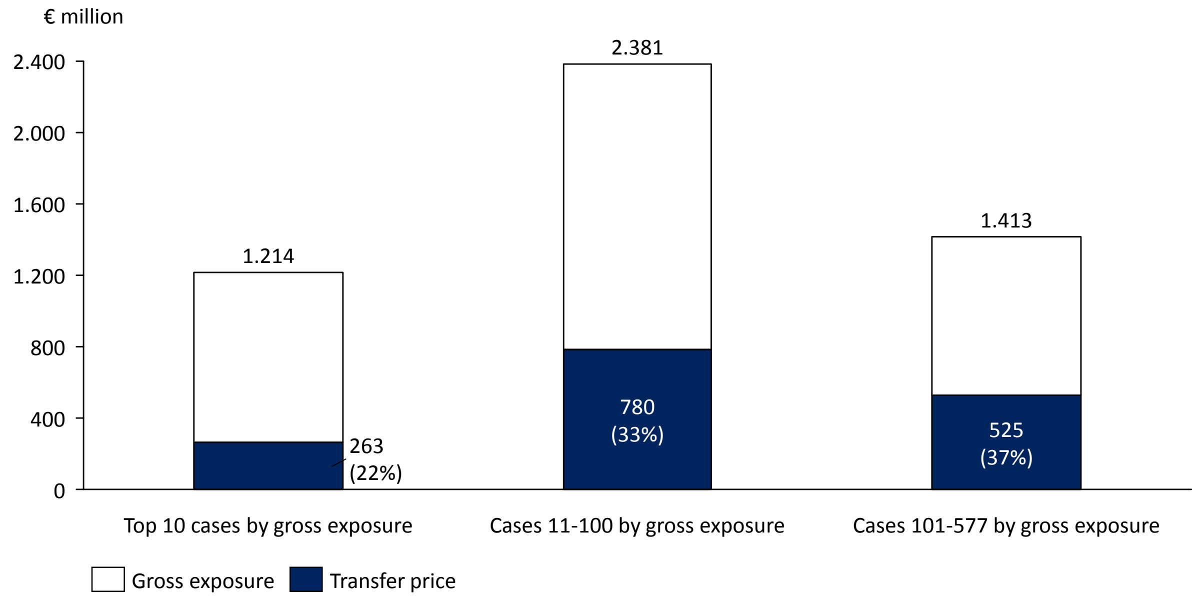
[8] There were only two bonds included in the transfer of assets as reported here and elsewhere in the document.

FIGURE 11: LOAN GROSS EXPOSURES AND TRANSFER PRICES BY BANK



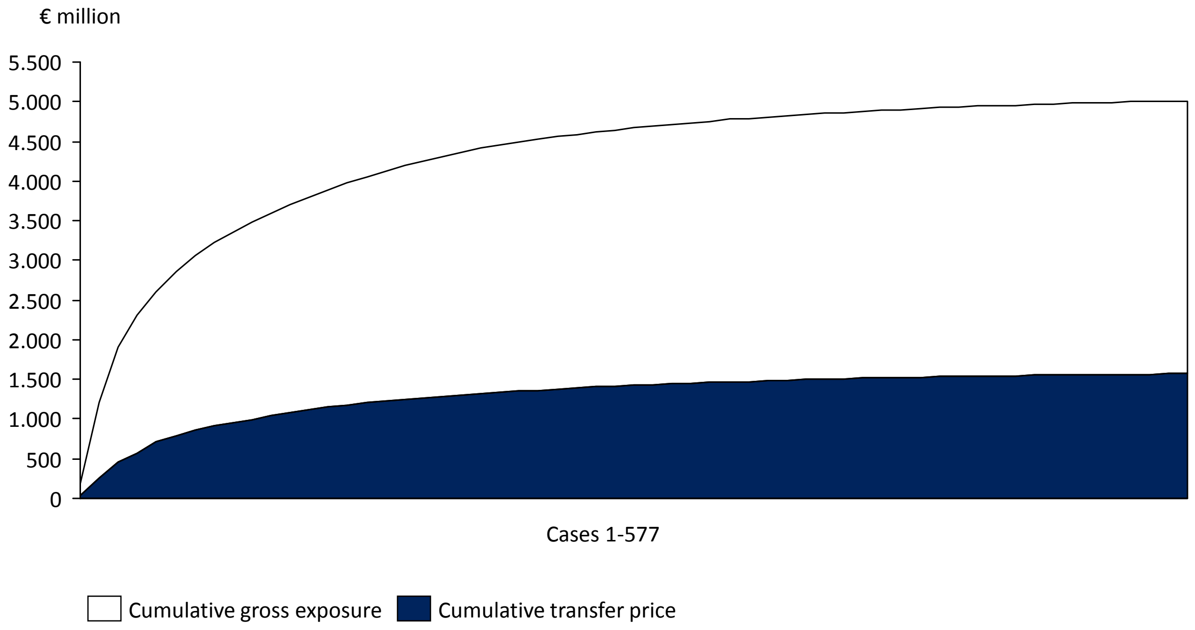
The concentration of loan exposures is presented in the following two figures. Ranked from largest to smallest by gross exposure, the top 10 cases make up for almost a quarter of total gross exposure with around 17% of the total transfer price. Cases up to hundredth in size represent roughly a half of both gross exposure and transfer price and the remaining cases making up the difference.[9]

FIGURE 12: LOAN GROSS EXPOSURES AND TRANSFER PRICES BY CASE SIZE



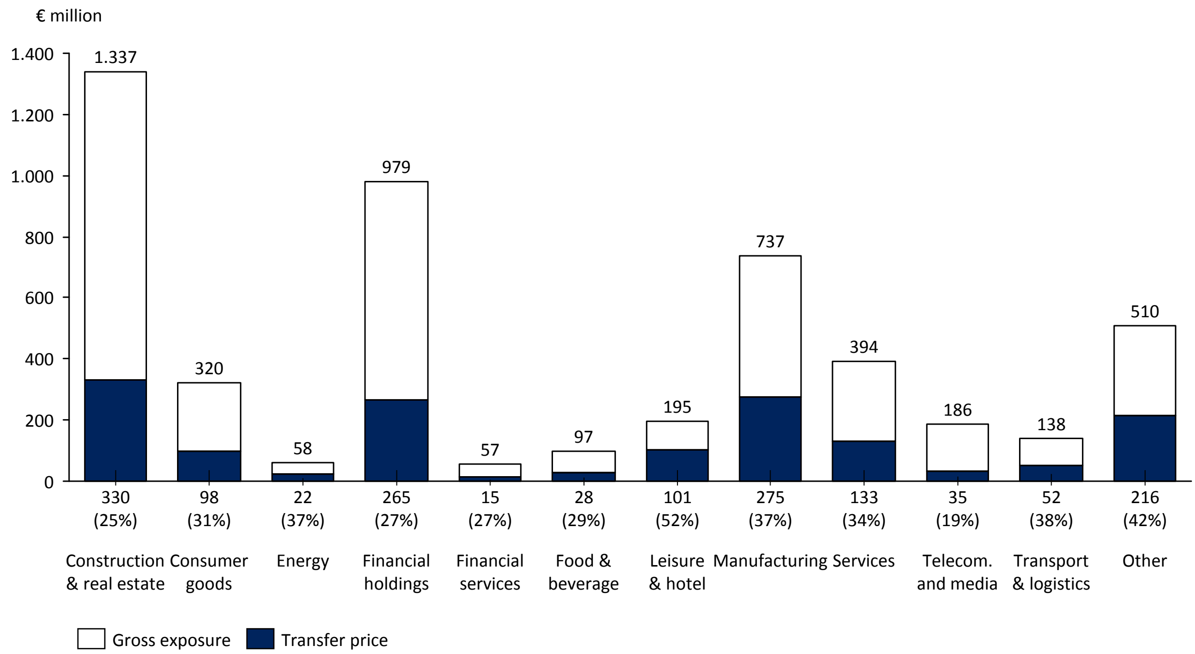
[9] Figures in this chapter take into account 577 transferred cases. At year-end 2014 the BAMC had 575 cases recorded under management.

Figure 13: Loan cumulative gross exposures and transfer prices by case from largest to smallest



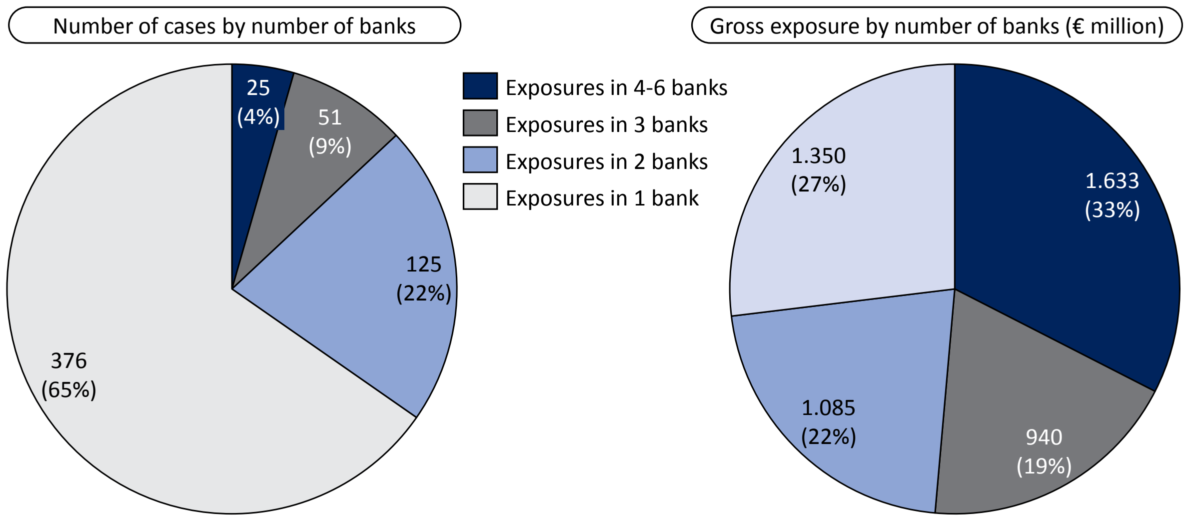
Most, over a quarter, of BAMC's exposures come from the construction and real estate industry, which also had the highest discounts to transfer value. Following are financial holdings (almost 20% of total gross exposure) and manufacturing industry (almost 15% of total gross exposure), while leisure and hotel industry loans were transferred at the highest transfer price compared to gross exposures, i.e., over a half of book value of claims.

Figure 14: Loan gross exposures and transfer prices by industry



Although there were only 76 exposures present in at least three banks from which the assets were acquired they accounted for more than half of the total gross exposure. This allowed the BAMC to consolidate its biggest exposures towards both specific debtors and other creditor banks. However, it should be noted that many of BAMC's cases remain fragmented with more than 10 creditors involved in addition to BAMC.

FIGURE 15: OVERLAPPING EXPOSURES



NOTE: Number of exposures coming from four, five and six banks was grouped for clarity. Actual counts were 20, two and three cases respectively with gross exposures of €1.147,9 million, €199,1 million and €285,8 million respectively.

Financing of the transfer

The BAMC acquired the non-performing assets from banks by issuing four different series of bonds. As seen below, the bonds were issued at different interest rates reflecting market conditions at the time of issuance.

TABLE 6: CHARACTERISTICS OF ISSUED BONDS

Bond	Value (in € million)	Coupon rate	Issued	Principal maturity	Coupon maturity
DUT01	505,8	3,75%	December 2013	December 2015	annually (December)
DUT02	505,8	4,50%	December 2013	December 2016	annually (December)
DUT03	424,6	1,50%	October 2014	December 2017	half-yearly (June and December)
DUT04	127,0	1,37%	December 2014	December 2017	half-yearly (June and December)

NOTE: As some of the bonds were not "sold" (exchanged) at par value, their effective interest rate is somewhat higher. More precisely, DUT03 effective rate was 1,57% and DUT04 effective rate was 1,38%.

The two bonds issued in 2014, DUT03 and DUT04, are both due for payment on 15 December 2017, as BAMC's mandate currently expires by the end of 2017.The BAMC is liable for the repayment of the bonds with all its assets. In addition, the bonds are also irrevocably and unconditionally guaranteed by the government. The BAMC pays an annual guarantee fee to the government equal to 1,25% of the issue value.

All four bonds are acceptable as Eurosystem collateral, so banks that hold the bonds may use them to secure liquidity on favourable terms.

The BAMC used its own funds to finance the acquisition of claims from Probanka and Factor banka, and for some minor purchases of claims from other banks. The majority of these acquisitions were paid for using RS68 Slovenian government bonds that the BAMC received as part of its paid-in capital.

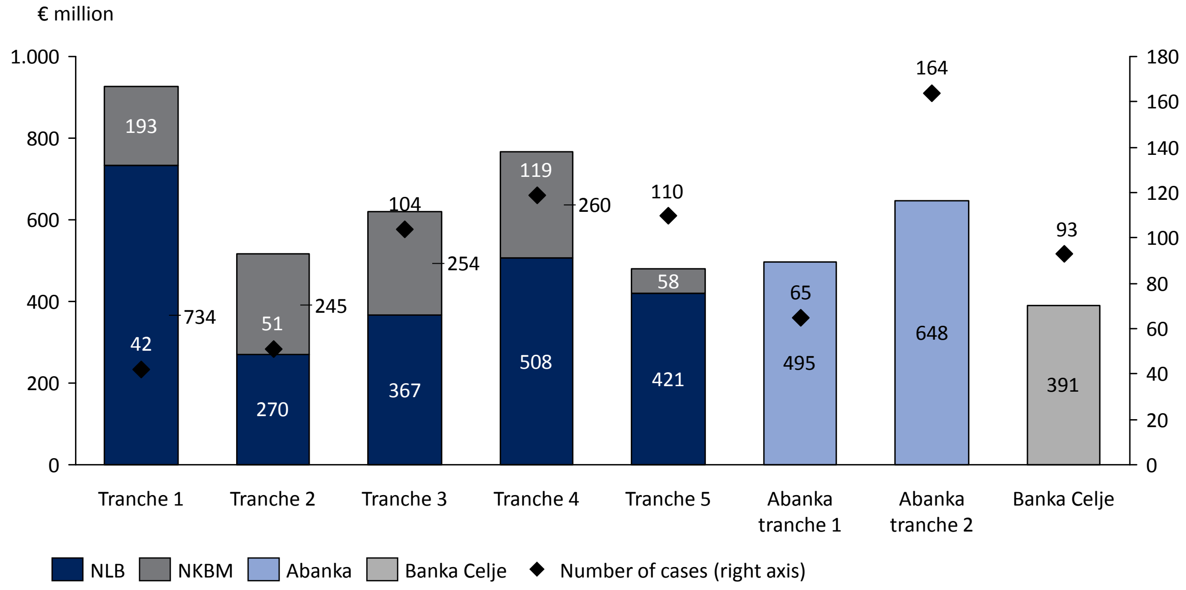
Actual (physical) acquisition of non-performing assets from banks

The actual physical transfer of the acquired assets was carried out gradually following the signing of transfer agreements. The BAMC did not have information and documentation regarding specific assets at its disposal at the time of legal transfer. For this reason, the BAMC also signed agreements on the temporary management of assets with the counterpart banks. On the basis of those agreements, the banks continued to manage the non-performing assets in question until their physical transfer, using their established credit management processes and decision-making bodies to recommend decisions and actions to the BAMC. These decisions and actions were adopted, or modified, by the BAMC before implemented.

The project entailing the actual receipt of non-performing assets from the banks was extensive and required a great deal of manpower. Representatives of the BAMC held discussions with the banks' asset managers with the aim of obtaining as much information as possible regarding the companies whose claims were subject to transfer. At the same time, BAMC's employees reviewed and precisely inventoried and archived the documentation received. An assignment agreement was concluded for the assets received from each company. Under such agreements, the BAMC assumed the role of creditor from the banks with respect to loans and associated collaterals. The BAMC and bank in question signed a handover record for each case following discussions, the inventory and receipt of documentation and the conclusion of the associated assignment agreement.

Actual transfers of non-performing assets from NLB and NKBM, relating to claims against 426 companies, began in January 2014. The transfer was carried out in five tranches, and was completed by May. The actual transfer of non-performing assets from Abanka, relating to claims against 229 companies, was carried out in two tranches, in the period from date of the legal transfer of assets, i.e., from the middle of October, until the end of December 2014. Due to the small number of transferred assets from Banka Celje, the actual transfer of claims against 93 companies was carried out in a single tranche.

FIGURE 16: LOAN GROSS EXPOSURES BY BUNDLE OF TRANSFER



Legal due diligence of assets received

According to the provisions of the ZUKSB, the BAMC has six months following the receipt of full documentation to perform detailed legal due diligence of the assets and the associated documentation. If, during this time, the BAMC identifies material or legal errors, it may call on the banks to eliminate the errors or exercise its right to transfer certain assets back to the banks. In no case during legal due diligence did the BAMC transfer assets back to the banks, as it determined that the provisions of the ZUKSB relating to the legal due diligence of assets received and their transfer back to the banks were not sufficiently clear in the event a bank and the BAMC could not reach agreement on the existence of an error. For this reason the BAMC sent a proposal to the Ministry of Finance recommending that the relevant provision be stricken and that the ZUKSB be amended to specify that assets are purchased "as-is". This would preclude any claims on the grounds of legal and material errors.

Fair value valuation of assets at initional recognition

The transfer of assets from banks under ZUKSB was carried out at the real economic value (REV) as determined by the European Commission and not at fair value. In accordance with the International Financial Reporting Standards (hereinafter: IFRS), the BAMC must disclose acquired assets at fair value. The BAMC also discloses all of its assets at fair value in all its financial reporting. A proper assessment of the value of each asset is also a key quantitative criteria for the BAMC in its credit and investment decisions.

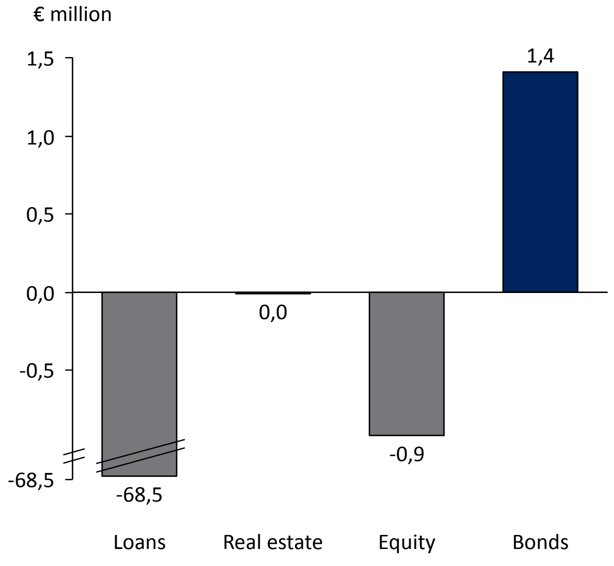
For this reason, the BAMC developed an internal methodology for valuing individual categories of assets (loans, real estate and equity holdings) on the individual basis. This was done during the first half of 2014 on the basis of internal analyses of assets and the experiences and knowledge of its experts. This in-house methodology was audited by BAMC's external auditors.

The BAMC estimated fair value of acquired assets from NKBM, Abanka and Banka Celje in 2014 and concluded that their fair values at the time of transfer were €68,0 million or 12,1% lower than the transfer values.

The fair value estimation of transferred loans involved 281 companies. For 173 companies, the fair value estimation was €165,3 million lower than the transfer value, while for 89 companies, the fair value estimation was €96,8 million higher than the transfer value.[10] The BAMC uses the portfolio approach at initial recognition of assets in financial statements. For this reason it recognized €68,5 million of net losses at initial recognition of loans.

As the both the amount and transfer prices of other assets were considerably smaller than for loans, the differences between their transfer prices and fair values at recognition were much smaller as well. More specifically, the BAMC recognized a gain of €1,4 million for bonds and a loss of €0,9 million for equity transferred in 2014.[11]

FIGURE 17: DAY-ONE GAINS AND LOSSES BY ASSET TYPE



[10] For the remaining 19 companies the fair value of loans corresponded to their transfer prices.

[11] In accordance with international accounting standards the difference between fair value and purchase value of real estate is not treated as gain/loss at initial recognition.

Methodology for the valuation of claims (loans)

A calculation of the expected value of specific claims served as the basis for determining their value. Two possible scenarios (either restructuring or recovery of assets) for each company were taken into account in the assessment and expected cash flows for the BAMC were estimated. Probabilities that those cash flows would be generated were estimated for each scenario with support of the default probability scorecard which considers various business risk elements. An individual company's estimated cash flows and its debt servicing capacity were taken into account in the restructuring scenario, while the liquidation values of cashed in collateral were considered for the recovery scenario. For each scenario the present value of the cash flows was calculated by taking into account a discount rate of 4,9%, which represents BAMC's weighted average cost of capital. In case the probability of the restructuring scenario was estimated at lower than 50%, then, for conservatism principles, only the recovery cash flows were considered. In case the probability of the restructuring scenario was estimated as higher than 50%, the value of the claim was determined based on the binomial real option pricing model, which considers the probability weighted present value of both scenarios. This effectively decreased the value of the restructuring scenario based on the probability of default and the value of the security as a back-up option in case of a restructuring failure.

Methodology used to value real estate

A simplified valuation method was used for residential real estate and individual non-residential real estate with an externally appraised value of less than €2 million. This method is based on the methodology used by the Surveying and Mapping Authority of the Republic of Slovenia (*Geodetska uprava Republike Slovenije*). Obtained values were adjusted using various correction factors such as the condition of the real estate in question, its location, size, vacancy rate, etc. For more complex real estate, the discounted cash flow method was used, based on cash flow forecasts.

Methodology used to value equity holdings

Equity investments where the BAMC holds more than 20% of equity or the book value of the equity exceeds €5 million are valued by discounting free cash flows. Other equity investments are valued using a comparative method based on EV/EBITDA multiples. The share price is used for minor investments for which a market value is available, provided that the shares in question are sufficiently liquid.

Reduction in transfer prices for the management and financing costs incurred by the BAMC

The transfer prices for non-performing assets transferred to the BAMC were set by the European Commission. The latter's decision states that the transfer price for assets subject to transfer to the BAMC must be based on the REV and include a reduction in the value of assets for the management and financing costs incurred by the BAMC, as also called for in ZUKSB.

Despite continuous efforts both with the governement and the European Commission, the BAMC has been unable to obtain precise information regarding how the management and financing costs to be incurred by the BAMC were taken into account in the setting of transfer prices, and regarding the amount of such costs for which the transfer price of assets was reduced.

Based on available information, the BAMC has concluded that the transfer prices were set for the majority of claims based on asset quality reviews (AQRs) performed for the banks, which did not include the necessary cost adjustments. The financial statements of the BAMC therefore do not include a separate adjustment to transfer values to account for the costs management and financing.

State aid

The European Commission issued decisions for all four banks in which it defined the maximum permissible amount of state aid that may be received by the banks in the form of direct recapitalisation by the government and via the transfer of non-performing assets to the BAMC in exchange for performing assets.

Non-performing assets were transferred from the four banks to the BAMC at the REV set by the European Commission. In setting the transfer prices of assets, the European Commission and its advisors also assessed the market value of the aforementioned assets at that time. The market value of the assets was substantially lower that the transfer value or REV and the difference between the two values constitutes state aid provided by the BAMC.

TABLE 7: APPROVED STATE AID

Bank (values in € million)	**Real economic value**	**Estimated market value**	**State aid**
NLB[1]	711	580	131
NKBM[1]	422	227	195
Abanka[1]	452	218	234
Banka Celje[2]	127	64	63
Total	**1.712**	**1.089**	**623**

SOURCE: [1]Ministry of Finance, [2]EC SA.38522.

Accordingly, the Republic of Slovenia provided €623 million in state aid to the banks undergoing rehabilitation via the BAMC. The BAMC is expected to increase the value of its assets to cover the entire amount of state aid, its management and financing costs and achieve a positive return on its equity. This represents a major challenge, given that management and financing costs alone may tax BAMC's capital substantially.

Management of acquired assets

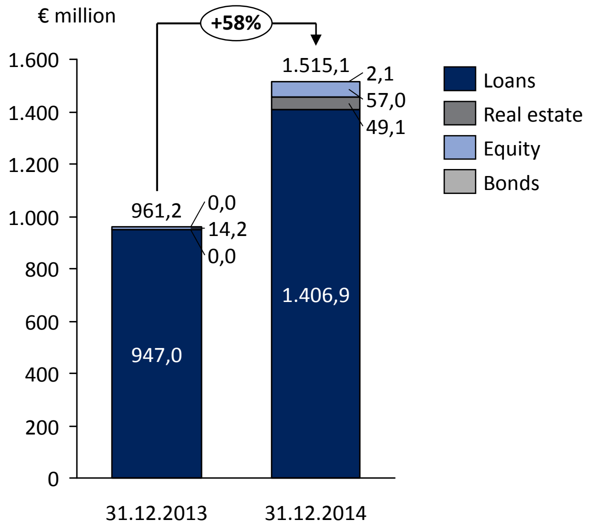
Following the transfer of non-performing assets from the banks, the BAMC began managing acquired assets with the aim of maximising their value. Assets are mostly managed individually, at the level of a claim against or equity investment in a specific company or individual item of real estate. Where the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

The first step in the management of assets is the legal due diligence of transferred documentation and its proper rearrangement and "curing". The next step is the formulation of a strategy and action plan for each asset, i.e., case in terms of claims and equity. An in-depth analysis of each case is performed and a strategy is drawn up with the aim of maximising the value of the asset in question both through financial and operational restructuring. The process is completed with the implementation of the relevant strategy and followed by a sale of/exit from the asset using a value maximization strategy.

All assets under BAMC's management are available for sale at any time. This means the BAMC is willing to sell every asset if it estimates an adequate price has been offered. The BAMC is selling assets through competitive and transparent procedures which maximize their value.[12]

The BAMC had €1.515,5 million in assets under management as at 31 December 2014. Those assets include loans, real estate, equity investments and minor bond holdings.

FIGURE 18: ASSETS UNDER MANAGEMENT AT YEAR-ENDS 2013 AND 2014



Most of the assets (92,9%) consist of loans in the amount of €1.406,9 million relating to 575 debtors. In addition to claims, the BAMC also holds equity investments in 24 companies and holds both equity

[12] The BAMC made direct sales of claims against three debtors in 2014, for which it received €3,1 million in proceeds. The gross value of claims sold was €17,8 million.

investments and claims in 13 companies. Bonds transferred to the BAMC are both already due and are managed in the same way as claims, i.e., with the goal of maximising enterprise value.

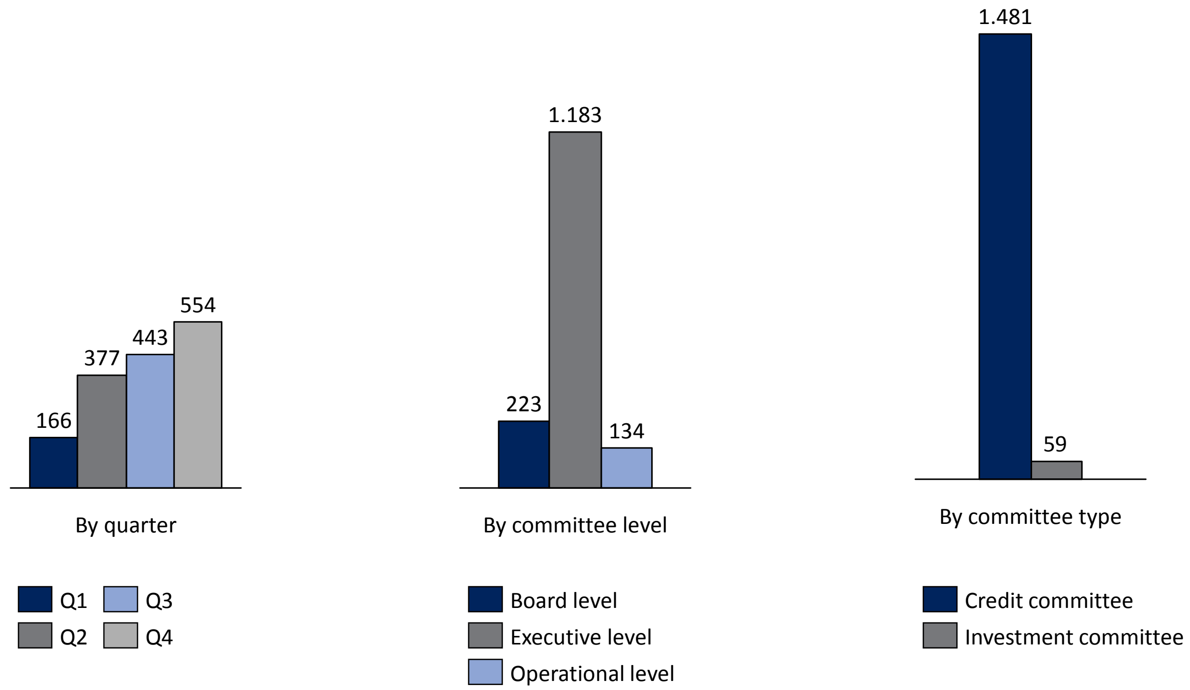
Real estate which the BAMC owns is of increasing importance in the structure of assets as more real estate is expected to be taken over in recovery procedures thereby reducing the exposures from loans. The value of the real estate portfolio held directly by the BAMC was €49,1 million and comprised 75 properties at the end of 2014.

Credit and investment decisions

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

The BAMC considered 1.540 credit and investment decisions in 2014.

FIGURE 19: BREAKDOWN OF DECISIONS TAKEN IN 2014



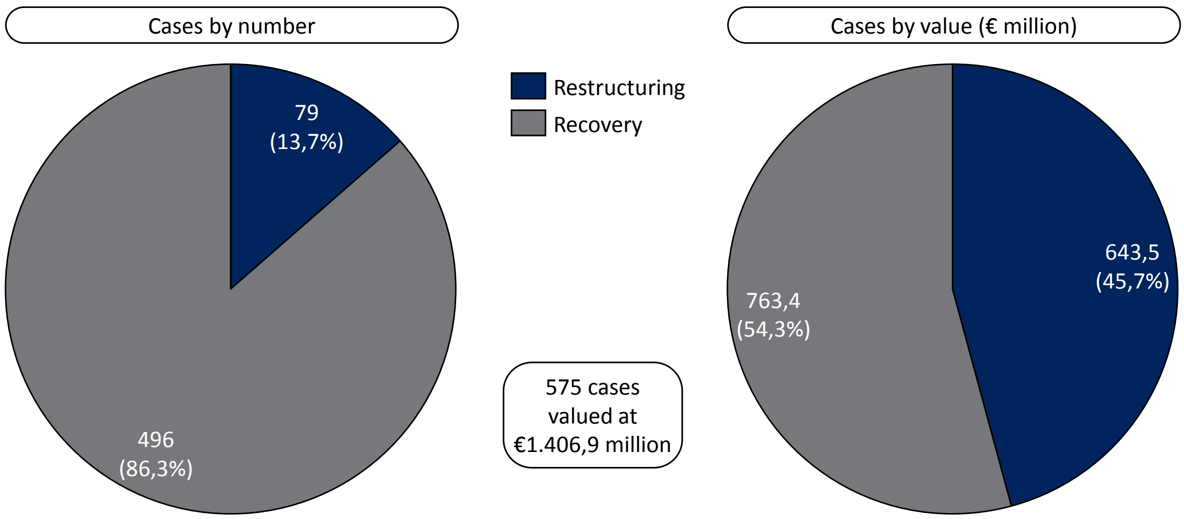
Strategies vis-à-vis debtors

Following the acquisition of a loan, the BAMC performed a detailed analysis, initially for the exposure to a specific company and then for exposure to an entire business group, if it belongs to such a group. The aforementioned analysis includes:

- an assessment of the debtor's ability to repay liabilities over the medium-and long term from cash flows or divestment opportunities,
- the legal framework that would facilitate the maximum repayment of a claim,
- the debtor's willingness to search for a mutually acceptable solution, and
- other circumstances that may affect the repayment of the BAMC's claim.

Based on the aforementioned analysis, the BAMC selects either a restructuring strategy or a recovery strategy which are presented below.[13]

FIGURE 20: CASES BY STRATEGY PURSUED



Companies in which the BAMC implements the restructuring strategy are typically larger than the companies in which it implements the recovery strategy. A higher rate of repayment is also expected from such companies compared to companies at which recovery activities are implemented.

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

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

It has to be noted that, conditioned on not worsening its creditor position, the BAMC may temporarily pursue a restructuring strategy also in cases termed as recovery for valuation purposes. As a consequence, at the end of 2014 the BAMC has actively managed 95 restructuring cases, from which, due to stricter standards, only 79 are considered as restructuring in valuation (the rest are considered as recovery cases).

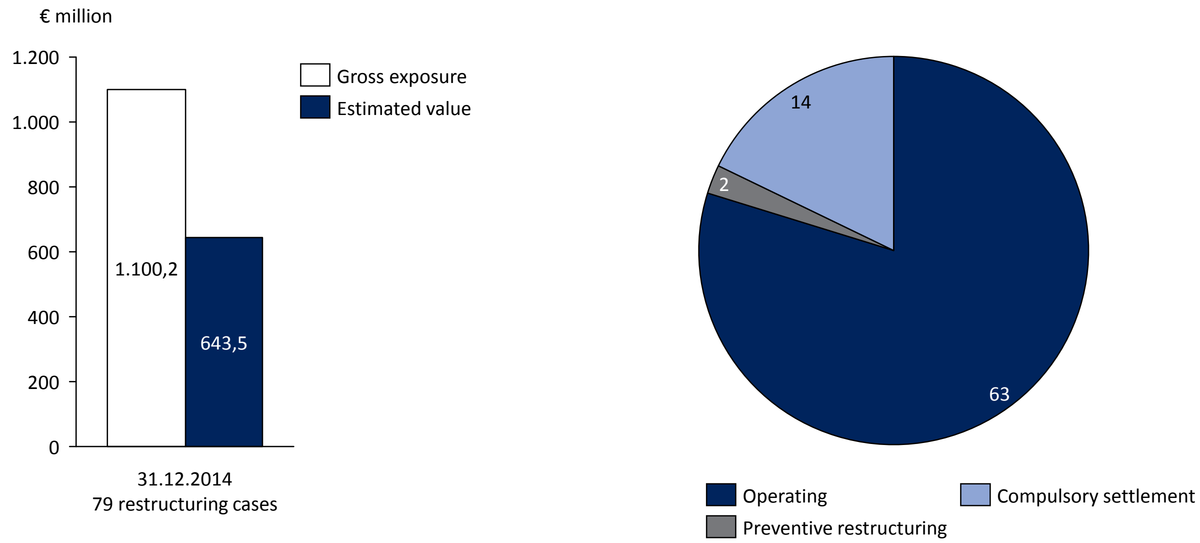
Corporate restructuring

The BAMC opts for a restructuring strategy whenever it assesses that financial and operational restructuring measures will improve a debtor's operations to such an extent that it will achieve a higher rate of repayment than if it recovered debt from the debtor through the liquidation of pledged collateral.

The BAMC's objective in the restructuring of a company is to ensure the long-term efficiency and viability of the debtor's operations and its competitiveness, and to maximise the repayment of debt with cash flows from operations. Therefore, financial restructuring is also linked to business or operational restructuring, which frequently means the sale of the company's obsolete assets and/or lines of business.

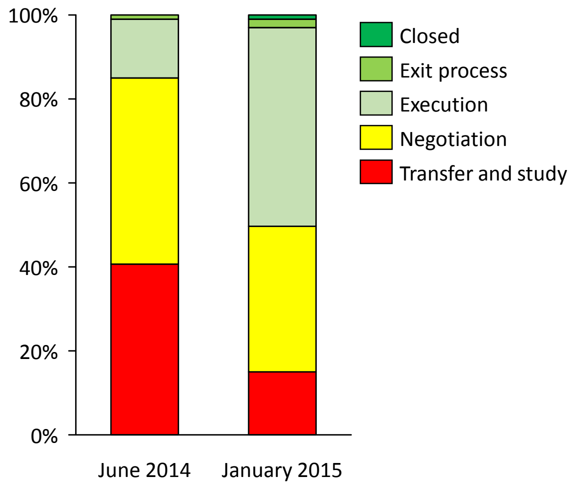
As at 31 December 2014, the BAMC implemented restructuring activities in 79 companies with an outstanding debt to the BAMC in the amount of €1.100,2 million. The estimated fair value of the aforementioned claims was €643,5 million. Thus, a portfolio value difference to gross claims of 41,5% suggests much more value can be extracted from the management of restructuring cases than from the recovery cases (which have an estimated portfolio value difference to gross claims of 80,1%).

Figure 21: Restructuring cases pursued



The BAMC is following the status of its restructuring activties according to the scheme and table below. in only seven months half of the restructuring cases have reached at least the point of signed agreement and only a small part remain in the transfer and study phase (relating to the cases transferred last from Abanka and Banka Celje).

FIGURE 22: PROGRESS IN RESTRUCTURINGS



NOTE: Data for 101 companies reported due to comparability with status on 30 June 2014, when only claims toward companies transferred from NLB and NKBM could be considered for restructuring. Number of restructuring cases differs from previously stated figures consistent with footnote 13.

TABLE 8: PROGRESS IN RESTRUCTURING CASES

	Not started	Transfer & Study			Negotiation		Execution					Exit Process	
							Fin. restructuring		Operational restructuring				
Stage in case progress	Initiation	Takeover meeting held	Documentation completed	Valuation and strategy AP in place	Detailed AP with options and tactics	Initial alignment of stakeholders	Agreement signed	Financing in place	Team in place	Operational plan in place	First results achieved	Advisor selected	Process initiated
June 2014	22%	6%	10%	3%	29%	15%	11%	1%	0%	2%	0%	1%	0%
	22%	19%			44%		12%		2%			1%	
February 2015	0%	3%	9%	3%	6%	28%	25%	1%	3%	14%	5%	1%	1%
	0%	15%			34%		26%		22%			2%	

NOTE: Data for 101 companies reported due to comparability with status on 30 June 2014, when only claims toward companies transferred from NLB and NKBM could be considered for restructuring. Reported percentages might not sum to 100% due to rounding. Number of restructuring cases differs from previously stated figures consistent with footnote 13.

Financial restructuring

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

The current provisions of the ZUKSB do not provide the BAMC with the means to directly finance its debtors. It can help them secure liquidity through the partial withdrawal of liens in favour of banks that provide debtors with fresh financing. The BAMC implemented this measure in six cases in 2014, and thus helped debtors maintain or increase the scope of their operations and implement operational restructuring measures via additional working capital or performance guarantees.

In order to ensure capital adequacy and facilitate partial debt repayments by debtors, the BAMC converted debt to equity in seven cases in 2014. In nominal terms, €61,2 million in debt was converted into the equity.

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

Management of equity investments

In principle, the BAMC acquires equity investments via the direct transfer of the latter from banks under the ZUKSB or via the management of assets when claims are converted to equity (D/E swap) as part of the restructuring of a debtor. Whether its claim is in form of debt or equity, the BAMC always follows the principle of enterprise value maximization.

In the process of asset management, the BAMC acquired equity holdings in seven companies in 2014 through the conversion of debt to equity. Those companies were the subject of restructuring measures and are presented in detail in the table below.

TABLE 9: DEBT TO EQUITY CONVERSIONS IN 2014

Company	Converted gross value (in € million)	Acquired ownership share
Merkur nepremičnine d.o.o.	33,1	62,5%
ŠC Pohorje d.o.o. – v stečaju	10,0	97,3%
MLM d.d.	7,9	52,5%
Litostroj Jeklo d.o.o.	6,1	51,5%
LIV Kolesa d.o.o.	3,1	100,0%
AERO d.d.	0,6	18,8%
Litostroj Ravne d.o.o.	0,4	65,4%
Total	**61,2**	

The BAMC began 2014 with 12 equity investments that were trasferred from NLB and NKBM at a transfer price of €24,0 million in December 2013. The book value of the equity portfolio at 31 December was reduced to €14,2 million as the result of internal valuation. The most important equity holding, was a 23,5% stake in Pivovarna Laško d.d.

The BAMC held shares in 24 companies with a total fair value of €57,0 million as at 31 December 2014. The increase in the fair value of the BAMC's equity portfolio can be attributed primarily to the increase in Pivovarna Laško's share price on the stock exchange as debt to equity conversions usually do not increase the value of acquired equity but rather enterprise value as a whole.

The BAMC also acquired equity holdings via recovery measures, when it received equity holdings and shares that couldnot be sold in bankruptcy proceedings.

FIGURE 23: BAMC'S EQUITY HOLDINGS

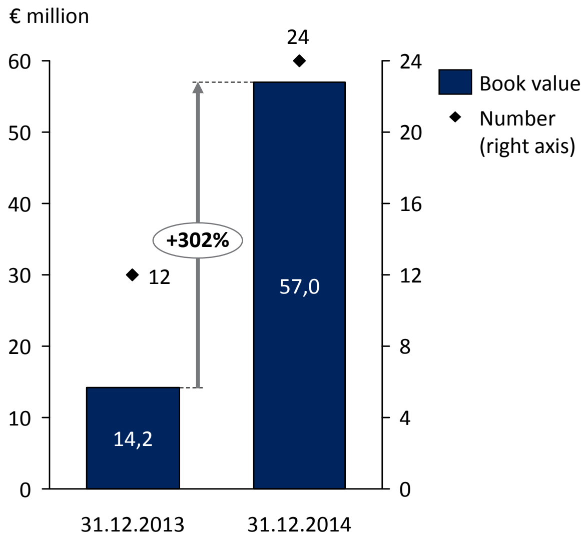


TABLE 10: BAMC'S EQUITY PORTFOLIO AS AT 31 DECEMBER 2014

Company	BAMC ownership	Company	BAMC ownership
Argolina d.o.o.	100,0%	Adria Airways d.d.	19,6%
LIV kolesa d.o.o.	100,0%	HIT d.d. (preferred shares)	19,2%
MLM d.d.	99,6%	NFD holding d.d.	10,0%
ŠČ Pohorje d.o.o. – in bankruptcy	97,3%	Certa d.d.	8,8%
Litostroj Ravne d.o.o.	65,4%	Merkur d.d. – in bankruptcy	8,7%
AERO d.d.	62,6%	Istrabenz holding d.d.	5,0%
Merkur nepremičnine d.d.	62,5%	Gorenjska banka d.d.	4,4%
Litostroj Jeklo d.o.o.	51,5%	Elektro Gorenjska d.d.	1,2%
Nigrad d.d.	24,9%	Elektro Primorska d.d.	0,4%
Pivovarna Laško d.d.	23,5%	Elektro Ljubljana d.d.	0,2%
Thermana d.d.	21,2%	Elektro Celje d.d.	0,1%
Menina d.d.	20,3%	Perutnina Ptuj d.d.	0,0%

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

Examples of companies subject to restructuring

Following are short descriptions of some companies that are undergoing restructuring, led by the BAMC in 2014. These are complex cases, reflecting the effort and expertise necessary for the processes to finish successfully.

Cimos is an important supplier to the European automotive industry with generated revenue of €426 million in 2013 and 6.853 employees on the group level. Cimos has suffered financial but also operational problems for a number of years. In 2013, the problems in Cimos worsened and the criticlal key automotive customers were loosing their patience with Cimos. A voluntary restructuring effort with €35m in State-aid signed in May 2013 failed only a few months after signing. When the BAMC received the case in late December 2013, the Cimos Group was insolvent, operationally inefficient and in an acute liquidity crisis.

Initially, at the beginning of 2014, the BAMC supported another voluntary restructuring effort led by an advisory firm hired by the owners. This effort had been initiated before the BAMC became involved. But also this effort failed and the BAMC as the biggest creditor immediately took the lead and developed new terms for a voluntary restructuring plan, including a sizeable debt-to-equity swap. The new Term Sheet, which was signed by the banks in mid-February, included Condition Precedents (pre-conditions) that brought in other key stakeholders, including the customers, non-Slovenian bank lenders, suppliers and factoring and leasing lenders, which all would need to support Cimos by rescheduling their credits, waiving a part of their claims, ensuring new business and providing new liquidity to the company. Such support was vital for the successful restructuring of the group.

It soon became clear that other stakeholders were not ready to support the proposed voluntary restructuring and BAMC's "plan b" had to be implemented. On 23 May 2014 the BAMC and five

Slovenian banks initiated a compulsory settlement in order to stabilize the situation and ensure the support of other key stakeholders. The alternatives at this point were commercially inferior. These would have been either bankruptcy due to declared insolvency, or that Slovenian state and state-owned financial institutions alone would have financed and funded the restructuring. This would not only have been very expensive and but also problematic due to the EU investigations under way of unauthorized state-aid. Most likely this would have led to a negative resolution from the EU's DG Comp (Directorate General for Competitiion Matters).

The BAMC developed a plan seeking to maximise the value of its claims towards Cimos through a sustainable restructuring of the company that would preserve the economic value of the company and at the same time limit costs to the government. As part of the compulsory settlement, a new management structure was put in place, and difficult but constructive negotiations led by the BAMC were held with the stakeholders. In October, a comprehensive restructuring agreement was reached in which all relevant stakeholder groups agreed to contribute. The customer group agreed to new financing, the large supplier group agreed to waive a part of their claims, the Slovenian banks agreed to new financing to the company and a sizeable debt-to-equity swap to restore the equity. Furthermore, non-Slovenian banks and leasing lenders agreed to reschedule their credits favourably. Due to the matching contributions from private customers, suppliers, IFC and banks, the EU state-aid investigation procedure got a new positive turn. The financial restructuring was complemented by a comprehensive operational restructuring plan prepared by the new management team, supported by a highly experienced new supervisory board comprising of both local and new international automotive expertise.

With the support of the relevant creditors, more than 90%, the Court of Koper is in process of executing the restruturing plan and thus end Cimos compulsory settlement. The financial restructuring will thus have ended successfully and full focus will be on following through with the on-going operational restructuring. Early results show very positive operational improvement results. The next step is to start preparing for the privatization of Cimos. All customers, new owners and the BAMC share the view that the company will need a new owner as soon as possible to ensure it future dynamic development. To this end, a professional advisor will be formally engaged during April 2015 .

With this successful restructuring, sizeable economical value, especially compared to the voluntary restructuring or the bankcruptcy option, was created for all financial creditors and the state. At the same time thousands of jobs were saved. More importantly, Cimos will again have the opportunity to invest, develop and grow its successful business with its customers.

Avtotehna is a holding company with 14 subsidiaries. The group operates in four business divisions - IT trade, Car dealership, Manufacturing and other operations. Consolidated revenue amounted to €243 million in 2013 and 1.485 FTEs were emplyed on the group level.

Avtotehna is an example of a group where the parent company, Avtotehna d.d., was insolvent and was dangerously jeopardizing the operations of three reasonably well functioning key subsidiaries, namely Swatycomet, Avtera and Avtotehna Vis. The parent company did not contribute in any particular way to the said businesses, instead the daughter companies suffered substantially from mother company's bad reputation and rating.

In order to remove the negative impact of the parent company, the BAMC, supported by other key lenders, decided to initiate compulsory settlement of Avtotehna d.d.. Thr BAMC then also used the creditors right to replace the management of the parent company and removed the involvement of previous owners´ influence. This was the first time in Slovenia such a creditor's initiative was implemented. The three key Avtotehna subsidiaries´ management teams, supported by the new parent company management and the BAMC, were then able to stabilize their underlying businesses and increase trust amongst their key suppliers and key stakeholders. The businesses now have real opportunities to better develop positively. As the management teams are realising these opportunities, the sound businesses will be attractive for potential investors. The BAMC as the main owner will then initiate a professional and transparent divestment processes in due course.

ACH

ACH is one of the largest holding companies in Slovenia, holding investments in companies like Adria Mobil, the Grand Hotel Union group and Debitel. Consolidated revenue amounted to €460 million in 2013 and 2.073 FTEs were employed on the group level. The BAMC received the case in early January 2014, in a situation where the trust between the lenders to the ACH group and ACH's management was completely lost. The situation was very fragile and the risk of a further deteriorating of the situation was imminent. Bankruptcy, which would have led to a great loss of economical value, was threatening.

It had to be BAMC´s first urgent goal to stabilize the situation. The BAMC had to find a way to reestablish professional relationships in the situation, by establishing both trust with the ACH management and the lenders. After intensive discussion and negotiations, the BAMC and ACH management could put together a stabilisation package that was acceptable also to the lenders. The key element of the stabilisation package was that the company agreed to pledge certain strategic assets first to the BAMC who then share this collateral pro-rata with the other lenders. In return, the BAMC agreed to support voluntary restructuring efforts during an agreed standstill period. The lengthy and intensive BAMC-led negotiations between the other lenders and ACH continued and were finally resolved by end of third quarter of 2014. A restructuring agreement between the company and its lenders was signed allowing structured and professional divestment of non-strategic assets while ensuring a better focus on the ACH's core businesses. BAMC's effort here resulted in a substantial amount of economical value to the BAMC and the other creditors.

The BAMC realised its value creation in the first quarter of 2105, when it sold its claims towards ACH to Bank of America Merrill Lynch International.

Aha Emmi is a manufacturing company dealing with aluminium and other components. It has generated €26 million of revenues in 2013 and employed 338 employees.

As its main creditor, the BAMC proposed compulsory composition proceedings for the company in April 2014 with the aim of preserving Aha Emmi's core business activities. The restructuring measures did not include a reduction in liabilities to trade creditors, and the financial restructuring plan envisaged that suppliers would be repaid in full. The BAMC played a major role in communicating with Aha Emmi's business partners to ensure their support. As a result, BAMC's effort led to a significant easing of the company's financial burden, and an agreement with a private financial institution to provide €1,5 million of additional liquidity to the company.

MLM is a producer of aluminum pressure castings and aluminum radiators and is one of the largest remaining industrial firms in Maribor that generated €39 million of revenue and employed 456 people in 2013.

During 2014 the BAMC acquired claims and equity share from Abanka, NKBM and Probanka. The company was at that time still insolvent and despite compulsory composition having been legally finalized the risk of bankruptcy was still threatening as the company still did not reach the agreement with the secured creditors. So the BAMC immediately took the initiative, got all the creditors behind the table and, after coordinating demanding negotiations, a Master Restructuring Agreement for the financial claims was signed in April 2014. It allowed the company to reschedule its existing debts, to reduce interest rates and to increase its equity position through a partial debt-to-equity conversion or write off by financial creditors.

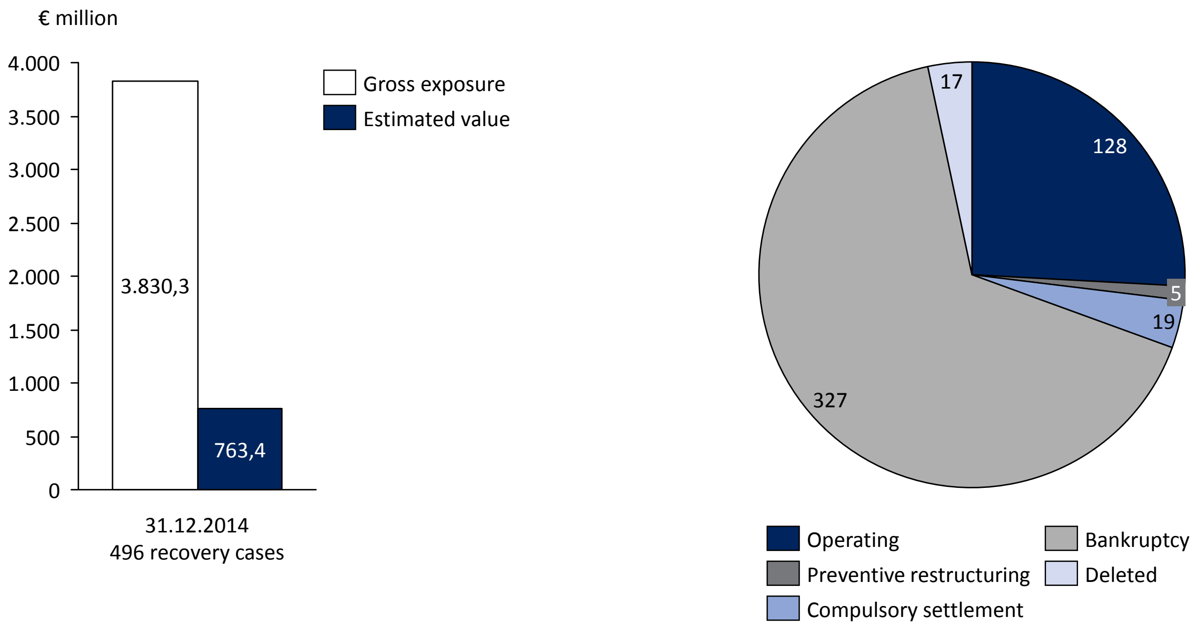
This gave a chance to the company's new management board, appointed at the beginning of 2014, to start focusing and to carry out urgent operational restructuring. The large part of the improvements are to be evident by the end of 2015. Based on the measures carried out the company is fit to be sold to an investor through the professional, transparent and well-advised divestment processes.

Loan management using the recovery strategy

In case of loss-making companies against which the BAMC holds claims, when it is clear that it would be impossible to create greater value through financial and operational restructuring than through recovery of collateral, BAMC's actions as a prudent and diligent manager dictate that it opts for the recovery strategy. A recovery strategy is also used in the case of companies against which bankruptcy proceedings had already been initiated before their transfer to the BAMC.

At the end of 2014, the BAMC was applying recovery strategy at 496 companies (debtors), against which it held €3.830,3 million in gross claims, the fair value of which was estimated at €763,4 million. Compared with companies in restructuring, these companies as a group proved to have a substantially lower potential of repayment as the fair value of claims towards them was estimated at just below 20% of gross exposure while this estimate amounted to almost 60% of gross exposure in restructurings.

FIGURE 24: RECOVERY CASES PURSUED



In cases when an over-leveraged company is not viable, the BAMC files a motion to initiate bankruptcy proceedings against the debtor, and in so doing acts with the aim of ensuring equal treatment for all creditors and preventing potential additional losses to creditors. The BAMC filed 20 motions to initiate bankruptcy proceedings in 2014. Bankruptcy proceedings are conducted by an official receiver who monitors and oversees the procedures for selling collateral. Not least in the sense of choosing the method of sale and setting the selling price, the BAMC actively participates in and guides creditor committees, diligently monitoring the administration of bankruptcy proceedings and the sale of the assets of debtors in bankruptcy. The BAMC had representatives on 19 creditor committees at the end of 2014.

The BAMC also increases the value of its assets in bankruptcy proceedings by actively advertising its real estate collateral that is being sold by the official receiver via its website and through direct contacts with potential customers.

With the aim of preventing the sale of real estate below its proper value, the BAMC has often actively participated in auctions in insolvency proceedings. Auctions in which the BAMC participated have achieved higher selling prices.

When the BAMC assesses that it can add value to collateral assets compared to a bankruptcy trustee of a company that is facing bankruptcy or where there is no relevant interest in the market at the moment of disposal, it may opt to take ownership of the collaterals with the aim of eventually selling them for a higher price. In 2014 the BAMC assumed ownership of 51 items of real estate with a purchase value of €54,2 million and equity investments in seven companies in Slovenia with a nominal value of €28,3 million.

Real estate management

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

Takeover of real estate

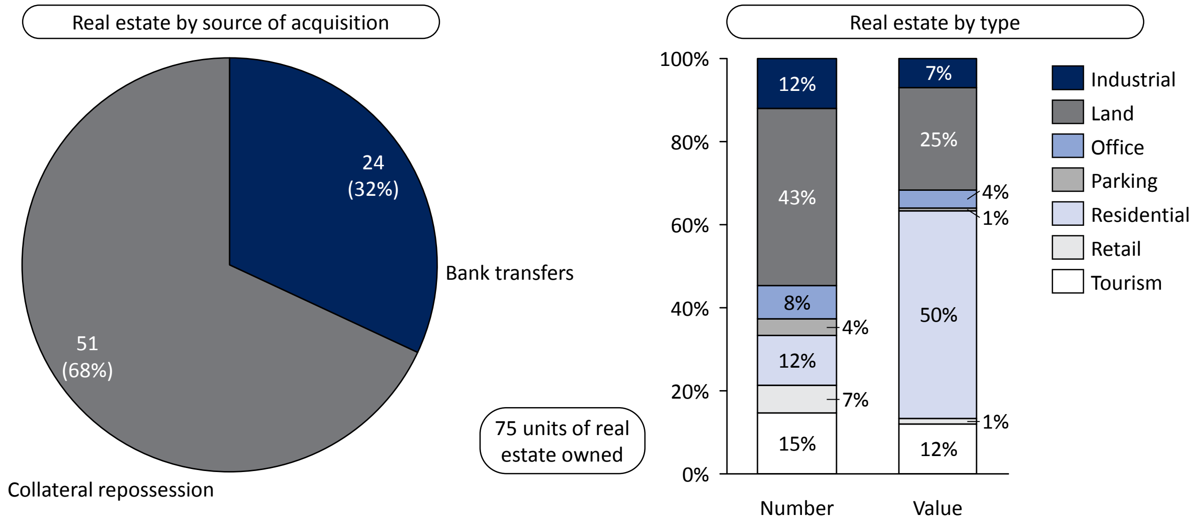
When appropriate selling prices cannot be obtained in real estate collateral disposal procedures, the BAMC decides to participate in the real estate collateral sale processes itself and to purchase the real estate by offsetting the claim held against the debtor. The basic criterion that the BAMC upholds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

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

Even though real estate is the primary asset used as collateral for claims transferred, the BAMC began 2014 without any real estate under direct ownership. The transfer of assets from NLB and NKBM in December 2013 also envisaged the transfer of real estate from NKBM although this was not carried out in legal terms until the second quarter of 2014 in the amount of €11,6 million.

The BAMC also acquired real estate from companies in recovery proceedings during 2014 in order to close some of its claims against debtors. In 2014, the BAMC acquired 51 items of real estate with a purchase value of €54,2 million and fair value of €43,4 million.

FIGURE 25: REAL ESTATE PORTFOLIO OVERVIEW



Real estate valuation

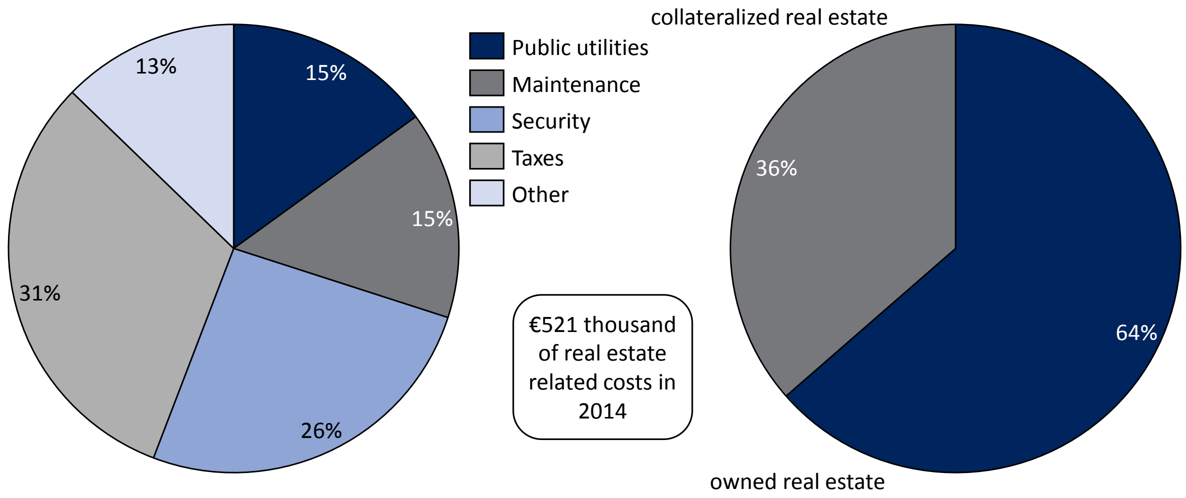
The BAMC applies an internal valuation methodology to determine the fair value of the real estate. The fair value of the real estate owned by the BAMC amounted to €54,7 million as at 31 December 2014.

The estimated fair value of 51 acquired items of real estate was in total €16,6 million lower than the nominal value, while 22 repossessed items of real estate have had higher fair value than the nominal value in the total amount of €5,0 million. (two units of real estate have had no change in the nominal value estimated). In accordance with IFRS, only impairments may be recognized in the financial statements. Therefore, the BAMC had €16,6 million of real estate stock impairments in 2014.

Real estate management

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

Figure 26: real estate related costs



The BAMC recorded real estate management costs of €0,3 million in 2014 after assuming direct ownership. The majority of these costs relate to taxes (compensation for use of building sites). With an increasing real estate portfolio, these costs are likely to increase in the years ahead.

Marketing of real estate

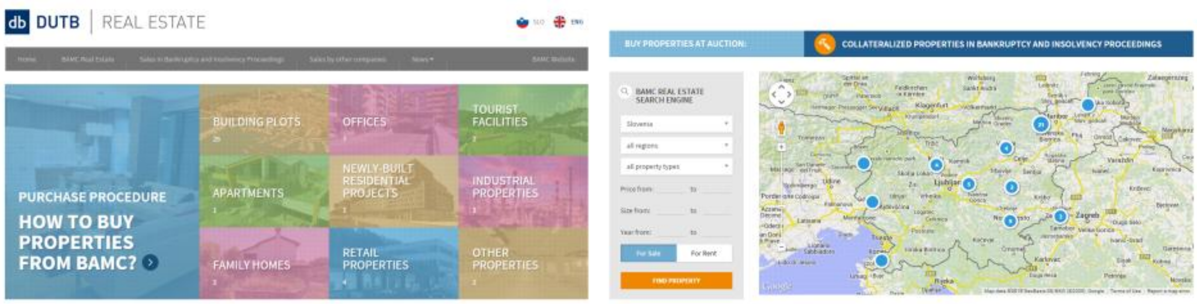
After taking over direct ownership, the BAMC begins activities to ready real estate for sale.

The BAMC seeks to attain better terms and timing of sales than normally possible in bankruptcy proceedings. The BAMC can for instance:

- offer a warranty for the rectification of defects,
- temporarily rent real estate,
- sell real estate without compulsion,
- sell real estate through a wide range of sale channels, and
- package properties into a larger portfolio which would likely attract more investor interest.

In November 2014 the BAMC launched a real estate web portal. The BAMC also uses the website to announce all current auctions of real estate collateral being sold in insolvency proceedings. This makes it easier for potential customers to find real estate of interest to them.

Figure 27: BAMC's real estate portal



In December 2014 the BAMC held a public tender for brokerage services in the sale and renting of real estate that it owns. The BAMC also began the direct marketing of its real estate in the final quarter of 2014. It received several offers and conducted several rounds of negotiations. The first real estate sales were realised in the first quarter of 2015.

Examples of major real estate acquisitions

Nokturno Koper

The BAMC purchased the Nokturno housing project at an auction and thus repossessed it. The buildings had remained unfinished and caught in bankruptcy proceedings for several years. The main reason for acquiring this housing project was value maximization through completing construction, refurbishing the buildings and beginning the sale of individual apartments.

Hotels in Pohorje

The BAMC acquired a hotel complex in Pohorje from the debtor, Športni Center Pohorje, in September 2014. The hotels were refitted by the BAMC, which then concluded new lease agreements with Terme Maribor, a well established hotel operator in Maribor area. The hotels were thus made ready for the 2014/2015 ski season.

Financial Review of 2014

Financial results

Cash generated

The BAMC generated €129,4 million of inflows from the management of acquired assets in 2014.[14,15] This is a great achievement, given that the BAMC only took full control of some the assets in the second and third quarter of 2014. The BAMC has thus met its legal objective of selling off a minimum of 10% of its acquired assets each year.[16]

The inflows derive almost entirely from the loan portfolio, mainly from sale of collateral for the benefit of the BAMC, from which the largest were the sale of Helios shares (€25,9 million) and Letrika shares (€12,5 million) as well as sales of a large number of collateralized real estate. In the process of financial restructuirng of Adria Airways the BAMC also received €18,0 million of loan repayment from the sale and lease-back of aircraft. The BAMC received €3,1 million through direct sale of claims in 2014.

The inflows from asset management under the ZUKSB do not include inflows from the sale of government bonds in the amount of €53,7 million, which the BAMC used to:

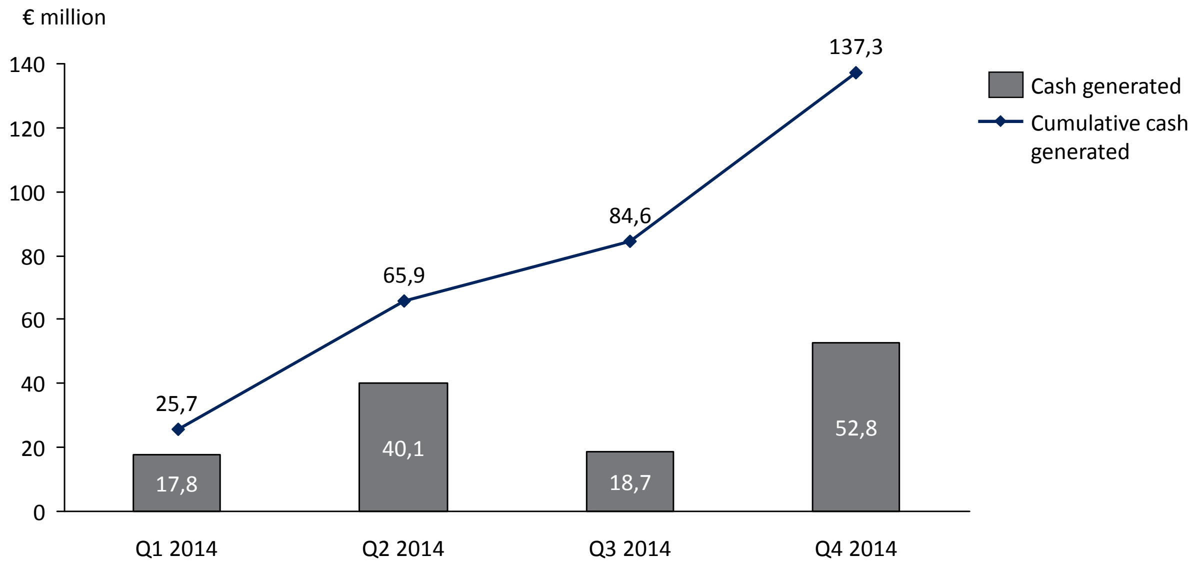
- purchase the loan portfolio from Probanka and Factor banka in the amount of €38,6 million, and
- provide liquidity for its operating activities.

[14] This does not include €8,0 million that debtors paid into the accounts of NLB and NKBM in 2013 on behalf of the BAMC. The banks subsequently transferred these funds to the BAMC's account in 2014.

[15] On the other hand, €2,2 million collected through the guarantee scheme is included in the reported number, although the amount was later returned following the decision by the government.

[16] The reported ratio of 11,5% was obtained by dividing cash generated with the date-of-transfer-weighted transfer value of the portfolio. E.g., a hypothetical €200 transfer on 30 June 2014 would be given a weight of 0,5 (effectively adding €100 million) for the 2014 transfer value denominator as the BAMC would only have half a year available for the liquidation of transferred assets. Total transfer values will be used as the denominator in 2015, given no additional asset transfers to the BAMC.

FIGURE 28: CASH GENERATED IN 2014



NOTE: Cumulative cash generated includes €8,0 million generated in December 2013.

The BAMC had €63,4 million in cash and cash equivalents at its disposal as at 31 December 2014. It should be noted that the purchase of real estate in the amount of €11,6 million from NKBM that was transferred to the BAMC under ZUKSB during 2014 was financed by payment of cash, and not by additional borrowing via the issue of government-guaranteed bonds. In this way the BAMC has not incurred additional debt (and additional gurantees for the Republic of Slovenia) as would be the case if new bonds were issued for this transfer as envisaged under ZUKSB. In this manner the BAMC has already implicitly repaid the aforementioned amount to the government.

Income statement and comprehensive income

TABLE 11: INCOME STATEMENT AND COMPREHENSIVE INCOME SUMMARY

in € million	**2014**	**2013**
Operating result	-31,0	-5,3
Operating revenues	0,3	0,0
Operating costs	-14,3	-5,3
Operating revaluation expense	-17,0	0,0
Financial result	73,8	-0,5
Financial income	166,1	2,2
Financial costs	-92,4	-2,7
Other income result	-0,1	0,0
Other revenues	0,0	0,0
Other costs	-0,1	0,0
Net income before tax	**42,7**	**-5,8**
Income tax	-6,3	0,0
Net income after tax	**36,4**	**-5,8**
Change in value of available for sale financial assets	-19,3	-39,9
Total comprehensive income	**17,2**	**-45,7**

Operating revenues, expenses and operating result

The BAMC's primary business activity is the management of non-performing claims and other related assets. Given the nautre of BAMC's operations, its operating revenues are expecteed to be minimal. In 2014 they amounted to €0,3 million.

Operating costs

The BAMC was still finalising its organisational set-up in 2014. It continued the recruitment process – its headcount increasing from 12 to 81 by year-end. This was also the year when the BAMC carried out the phisical acquisition of the entire portfolio of assets from NLB and NKBM, and also carried out the legal and most of the phisical acquisition of assets from Abanka, Banka Celje, Probanka and Factor banka. In addition, the BAMC began the active management of acquired non-performing assets, through restructuring and collateral disposal activities. The implementation of the aforementioned activities was made possible only by the full engagement of its staff and by outsourcing of certain services when necessary and economically justified.

The BAMC's operating costs in 2014 amounted to €14,3 million. The largest item of operating costs were costs of services in the amount of €8,5 million, while labour costs amounted to €4,9 million.

Among costs of services, advisory fees in the amout of €3,5 million included consulting services and attorney and notary services as the largest items, amounting to €2,2 million and €1,2 million respectively. Other service costs totalled €3,0 million, the majority consisting of asset management costs in connection with assets acquired from banks, where NLB and NKBM provided asset management services under Assets Management Agreement until May 2014 prior to the *de facto* transfer of the assets. As a result of the repossesion of real estate into direct ownership and costs connected with collateralized real estate, real estate management and maintenance costs increased in importance and amounted to €0,5 million.

TABLE 12: OPERATING COSTS

in € thousand	**2014**	**2013**	**Index 2014/2013**
Costs of materials	46	10	460
Costs of services	8.522	4.734	180
Real estate management costs	521	16	3.256
Back office and accounting costs	1.479	124	1.193
Advisory fees	3.495	4.019	87
Other service costs	3.027	576	526
Labour costs	4.868	531	917
Depreciation	47	3	1.567
Other operating costs	833	13	6.408
Court and other fees related to asset recovery	719	0	-
Other costs	114	13	877
Total operating costs	**14.317**	**5.291**	**271**

The BAMC also incurs significant recovery costs in its recovery procedures, which it formally transfers to the debtors in question, although in the majority of cases the debtors, who are already unable to repay their current liabilities, will also mostly remain unable to repay the additional liabilities. Recovery costs amounted to €0,7 million in 2014, and accounted for the majority of other costs in the amount of €0,8 million.

Financal income and financial expenses

The BAMC recorded financial income of €166,1 million and financal expenses of €92,4 million in 2014.

Financial income

Loans are the BAMC's most important assets, and the majority of financial income thus derives from loan management. Almost three quarters (€31,3 million) of interest income originated from loans, while interest income from Slovenian government bonds amounted to €10,5 million.

Among other financial income the BAMC disclosed €69,9 million of gains in financial assets as a result of marking to estimated fair value and €50,2 million of income due to release of discout.

TABLE 13: FINANCIAL INCOME

in € million	2014	2013
Interest income	41,9	2,2
Loans	31,3	1,6
Bonds	10,5	0,5
Deposits and other	0,2	0,0
Other financial income	124,2	0,0
Loan revaluation income	69,9	0,0
Loan release of discount income	50,2	0,0
Dividends	0,1	0,0
Other	4,0	0,0
Financial income	**166,1**	**2,2**

The BAMC manages its free cash in accordance with the liquidity policy adopted by the Board. €0,2 million of income has been generated by this management.

Financial expenses

Financial expenses consist primarily of interest expenses from issued bonds in the amount of €43,3 million and costs for government guarantee for issued bonds in the amount of €13,8 million. In December 2014 the BAMC paid out €41,9 million of interest to five holders of coupons of its issued bonds. In 2014 the BAMC also disclosed €27,1 million of impairments of financial assets as a result of marking to estimated fair value.

TABLE 14: FINANCIAL EXPENSES

in € million	2014	2013
Interest expenses	-43,3	-1,2
State guarantee costs	-13,8	-0,4
Impairments of equity investments	-27,1	0,0
Loan write-offs	-5,0	-0,1
Other	-3,2	-1,0
Financial expenses	**-92,4**	**-2,7**

Valuation of assets: changes in fair value

All assets transferred from the banks were subject to valuation to fair value at year-end 2014. The estimation of the fair value of assets managed by the BAMC is a key judgement in the compilation of the financial statements. The BAMC regularly estimates the fair value of assets twice a year by means of an internal valuation methodology which has been audited by an external auditor. It discloses changes in the fair value of loans and other claims, real estate and equity investments not quoted on a regulated market via the income statement as financial income (revaluation) or financial expense (impairments), depending on whether the estimated fair value is greater than or lower than the book value of the asset before valuation. Hence, valuations on a half-year or shorter intervals, if required for a specific case, provide also the basis for making asset management decisions.

TABLE 15: FAIR VALUE VALUATION EFFECTS RECOGNISED IN FINANCIAL STATEMENTS

Assets class in € million	**Book value before valuation**	**Day-one gain/loss**	**Revaluation in income statement**	**Revaluation in equity**	**Estimated value as at 31 December 2014**
Loans	1.413,8	-68,5	61,6	0,0	1.406,9
Real estate[1]	65,8	0,0	-16,6	0,0	54,7
Equity	44,9	-0,9	-27,1	40,1	57,0
Non-performing bonds	0,7	1,4	0,0	0,0	2,1
Other receivables[2]	2,9	0,0	-0,4	0,0	2,5
Total	**1.528,1**	**-68,0**	**17,5**	**40,1**	**1.517,0**

NOTE: [1]Positive differences between fair value and book value of real estate owned by the BAMC are, following IFRS, recognised in financial statements differently than revaluations of other assets. While positive differences in other assets constitute revaluation financial income, this cannot be done in the case of real estate. Their book value cannot be increased in cases where fair value is higher than recognised purchase value. Therefore, the value of real estate is recorded at €49,1 million while its fair value is assessed at €54,7 million.

[2]Other receivables consist of trade receivables to customers, receivables towards debtors from swaps, receivables towards banks and receivables to tax authority related to VAT.

Profit and comprehensive income

The BAMC generated €42,7 million of gross profit in 2014. Income tax in the amount of €6,3 million reduced the net profit to €36,4 million. Total comprehensive income in 2014 amounted €17,2 million. It consisted of net profit of €36,4 million, while the revaluation surplus increased by €48,8 million as a result of gains in the market value of Pivovarna Laško shares and Slovenian government bonds.[17] On the other hand, negative variance at initial recognition of transferred assets lowered comprehensive income for €68,0 million.

[17] The changes reported are net values, i.e., gross changes reduced by deferred taxes.

Balance sheet

TABLE 16: BALANCE SHEET SUMMARY

in € million	**31 December 2014**	**31 December 2013**
Assets	1.755,5	1.182,2
Loans	1.406,9	947,0
Real estate	49,1	0,0
Equity investments	57,0	14,2
Non-performing bonds	2,1	0
Cash and equivalents	63,4	5,6
RS Bonds	171,8	206,2
Other	5,2	9,3
Liabilities	1.580,4	1.024,3
Debt securities	1.558,0	1.012,7
Other	22,4	11,6
Equity	175,0	157,9

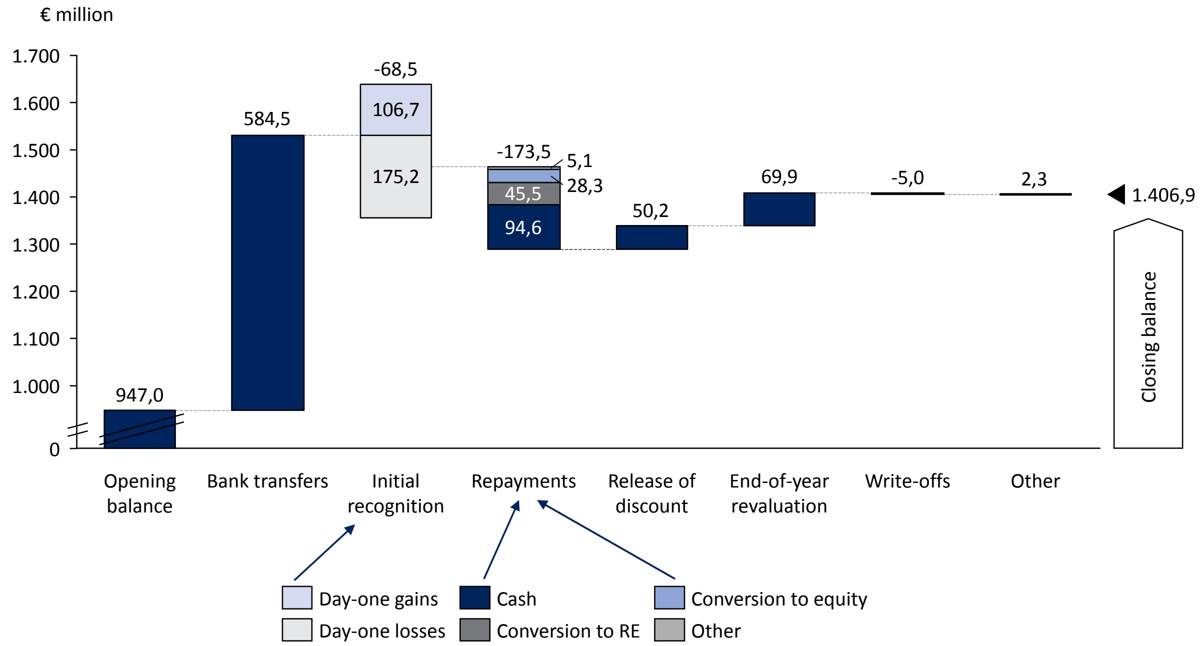
Assets

BAMC's total assets increased by €573,3 million in 2014 and amounted to €1.755,5 million as at 31 December 2014. The stock of the BAMC's assets increased primarily as a result of the transfer of non-performing assets from NKBM, Abanka and Banka Celje, and purchases of assets from other banks. Given that the BAMC values all of its assets at fair value, changes in the fair value of assets were also a significant factor in the change in the stock of assets.

Loans

Loans constitute the largest proportion of the BAMC's assets. Loans are measured and disclosed at fair value, both upon initial recognition, during transfers, and subsequently on accounting dates.

FIGURE 29: CHANGES IN LOANS IN 2014



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

From opening balance, loans were first increased by tranfer values (for the four banks in 2014) of €584,5 million. Day-one gains and losses netted to a portfolio loss of €68,5 million and loan repayments in total of €204,8 million consituted from cash (€125,9 million), real estate conversions (€45,5 million) equity conversions (€28,3 million) and other repayments (€5,1 million). €31,3 miilion of interest was attributed to loans. Through successful management release of disocunts of €50,2 million were realised and end-of-year revaluation increased the loan portfolio by a further €69,9 million. After write-offs (€5 million) and other effects (€2,3 million) the closing balance for the loan portfolio was €1.406,9 million.

Real estate

The value of real estate owned by the BAMC is presented as inventory of real estate available for sale. In accordance with the IFRS the value of inventory is presented at fair value where fair value is lower than purchase value and at purchase value where fair value is above purchase value. Therefore, the value of real estate is recorded at €49,1 million while its fair value is assessed at €54,7 million.

Equity investments

At year-end, BAMC's equity investments were valued at €57,0 million with the stake in Pivovarna Laško d.d. accounting for €48,3 million. This investment vas revalued for €40,1 million while there was an impairment of €27,1 million on all other equity holdings. In April 2015 the BAMC sold its stake in Pivovarna Laško d.d. for a price of €25,56 per share.

Liquidity management

In accordance with the liquidity policy approved by the board of directors, the BAMC must manage its liquid assets to be able to settle all its maturing liabilities on the maturity date. The general principle of the management of liquid assets is security, liquidity and profitability, in that order.

The BAMC had €63,4 million in cash and cash equivalents at its disposal at the end of 2014. Under the liquidity policy, all liquidity reserves are invested in deposits of very short maturities. In addition, the BAMC held €171,8 million of Slovenian government bonds which were obtained as in-kind contribution by Republic of Slovenia in 2013.

Issued securities repayment fund

In accordance with Article 46 of the decree, in December 2014 the BAMC opened a special cash account at the Bank of Slovenia in which funds for the repayment of principal and interest from issued securities are administered. The BAMC paid holders of its bonds €41,9 million of interest from this fund in December 2014.

Liabilities

As at 31 December 2014 the BAMC financed its assets almost exclusively through debt resources, namely with equity in the amount of €175,0 million and liabilities in the amount of €1.580,4 million. The majority of the liabilities comprise issued bonds with a government guarantee, which the BAMC used to finance the transfer of non-performing assets.

Non-current liabilities amounted to €1.063,3 million as at 31 December 2014 and primarily relate to issued bonds in the amount of €1.053,3 million. Also current liabilities in the amount of €517,1 million mostly relate to issued bonds, namely bond DUT01 which matures in December 2015.

BAMC bonds

The BAMC borrowed additional €551,6 million in 2014 via the issue of two new bonds (DUT03 and DUT04) with nominal values of €424,6 million and €127,0 million respectively.

The amortised cost of the issued bonds stood at €1.558,0 million as at 31 December 2014. Under the amortisation schedule, the BAMC paid interest in the amount of €41,9 million on issued DUT01, DUT02 and DUT03 bonds to five holders in December 2014.

Equity

The BAMC's equity increased by €17,2 million to €175,0 million in 2014 as a result of net profit (€36,4 million) and revaluation loss effects (€19,3 million).

Risk management

The BAMC is exposed to a broad spectrum of risks, which can adversely affect its financial and operative efficiency, potentially decreasing the value of BAMC's capital. Through effective risk management activities, outlined in the Risk Management Policy, a system is put in place that allows risk identification, measurement, response, tracking and control. This allows the BAMC to decrease and limit the risks involved in the implementation of the strategy and fulfilment of its strategic goals.

Presented below are the most significant risks identified, which can be categorized into strategic, reputational, operating, financial and market risks. A detailed overview of the risks involved is presented in the Financial Report.

Strategic risks

Risk of unsuccessful implementation of the optimal restructuring strategy

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

Risks involving the limited mandate of the BAMC prescribed by the ZUKSB

According to the ZUKSB, BAMC's lifespan is limited until 31 December 2017. There is a significant risk that the BAMC will be unable to fulfill its statutory purpose, i.e., decreasing the total burden on the budget and maximizing recovery of the value of the assets for the Slovenian taxpayers due to the limited lifespan. There is also a significant risk of failure to meet the strategic goals set by the BAMC's board of directors, in particular with regard to repayment of the issued BAMC bonds and restructuring companies where economically justifiable.

Reputational risk

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

Operating risks

Risk of fraud

There is a risk that fraudulent actions perpetrated by an employee might result in erroneous credit or investment decisions, which can also decrease the revenues for the BAMC.

Risk of error in legal proceedings

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

Financial risks

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 key liquidity risk for the BAMC is repayment of the issued bonds.

Risk connected with the refinancing of issued bonds

Due to the short maturity of BAMC's issued bonds there is a risk that the market interest rates at the time of the issue of new bonds (or other form of indebtedness), with which the BAMC will partially refinance the matured bonds, will be higher than the interest rates on existing bonds. Based on the current interest rate level and the high interest rate on the existing bonds, particularly the first two issues from 2013, this risk seems relatively small, however, this may change based on the macroeconomic conditions.

Market risks

Main market risks for the BAMC arise from risk of decline of real estate and equity prices in the Slovenian market. The value of the loan portfolio is significantly based on the value of the collateral value, particularly in recovery cases. In case of real estate price decline, the value of the loan portfolio will consequently decrease since real estate constitues the largest collateral class. Additionally, the BAMC is exposed to the risk of real estate price decline also through the increasingly important own real estate portfolio. Simiarly, but less intense, the BAMC is exposed to the risk of decline of Slovenian stock prices.

BAMC share

As at 31 December 2014 the BAMC had share capital in the amount of €203.625.000 recorded in the companies register, comprising 101.812.500 ordinary, freely transferable, no-par-value registered shares. Each no-par value share has the same holding, and the same corresponding amount in the share capital. All the issued shares were paid up in full.

TABLE 17: BASIC INFORMATION ON BAMC'S SHARE

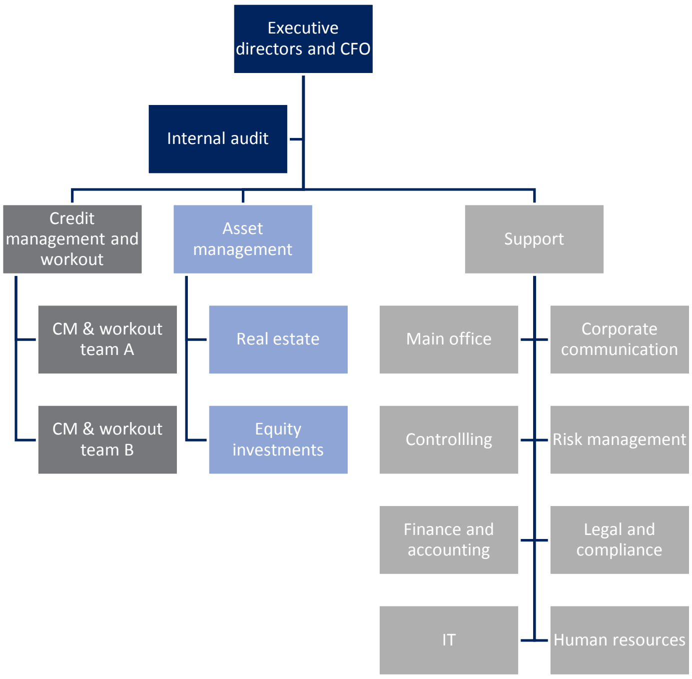
Ticker symbol	DUTR
Class	ordinary, freely transferable, no-par value registered shares
Exchange quotation	not quoted
Share capital	€203.625.000,00
Number of shares	101.812.500
Number of shareholders	1
Owner	Republic of Slovenia

NOTE: Data as at 31 December 2014.

There were no changes in the ownership structure in 2014.

Organisation of the BAMC and its processes

FIGURE 30: DETAILED ORGANISATIONAL STRUCTURE OF THE BAMC



Human resources

Recruitment

The primary HR activity in 2014 was the intensive recruitment and placement of new staff. The headcount increased from 12 to 81 in one year.

The board of directors appointed three executive directors to permanent terms of office on 9 January 2014. A second head of claims management and a head of real estate management had joined the company by the end of February. The chief financial officer (CFO) was recruited in March and a third head of claims management was employed in July. Torbjörn Månsson replaced Christopher Gwilliam as CEO in the end of August. In addition to the expertise that they bring, the three executive directors, the CFO and the three unit heads make up a solid foundation for the high-quality management of staff teams.

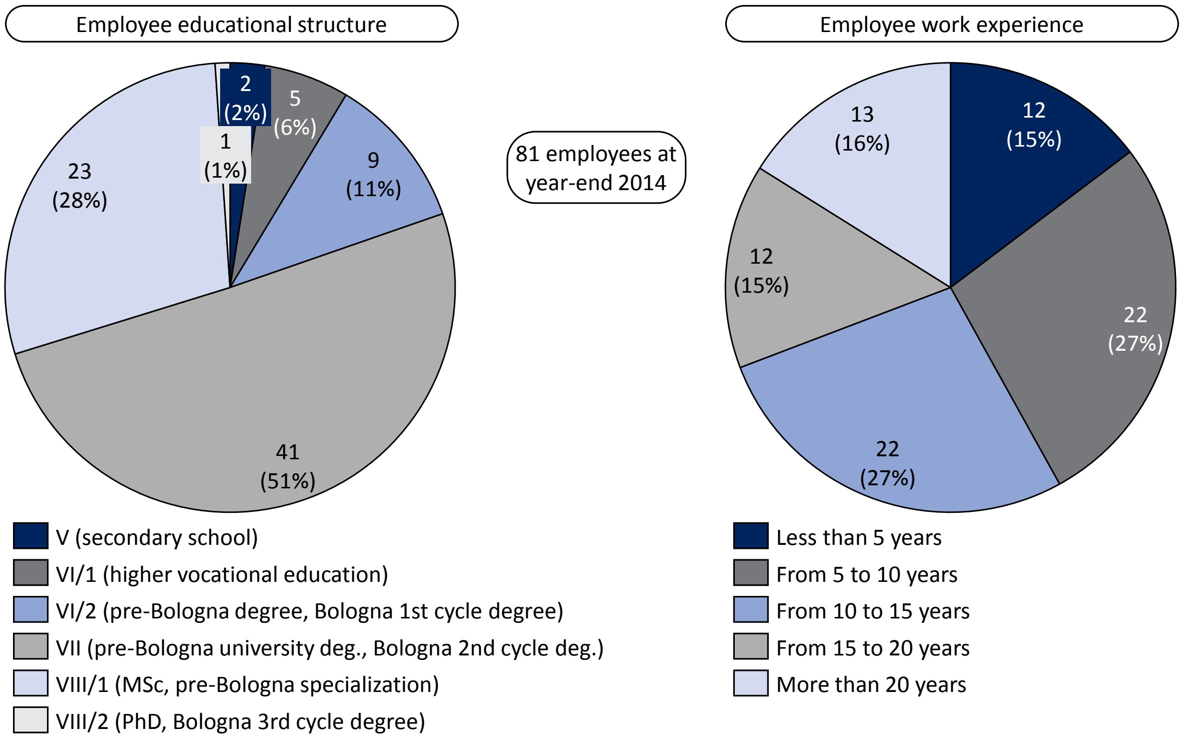
The majority of recruitment in the first half of the year was to strengthen the claims management organisational unit, while in the second half of the year the anticipated expansion of real estate management was followed by the strengthening of the real estate organisational unit, which had a team of eight by the end of the year. The team at the back-office organisational unit was upgraded throughout the year in the areas of IT, accounting, controlling, HR and compliance.

Table 18: Headcount by organisational unit

Organisational unit	31 December 2014	31 December 2013
Credit management and workout	47	3
Asset management	10	1
Support	19	5
Governance	5	3
Total	**81**	**12**

The BAMC has a balanced team of 60% women and 40% men. 80% of its staff hold a university degree, a master's of science or a doctorate, which is a sound basis for decision-making based on expertise. The average age of the staff is 37, which is reflected in dynamism and responsiveness of the team. The BAMC has a seasoned team, with an average of 12 years of working experience with maturity being a valued component as 16% of staff have more than 20 years of working experience. The information on staff breakdown is valid as at 31 December 2014.

Figure 31: Education and work experience of employees



Key activities

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. 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.

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.

In addition to recruitment, the BAMC's HR management activities in 2014 also focused primarily on placing basic HR processes in place. Staff selection was upgraded by the introduction of a day on which new recruits are given a systematic introduction to the company's organisation, its main rules and its senior management.

The establishment of a system of probationary work was the initial step in the creation of targeted management and performance management. A code of ethics formalised the conduct expected of staff.

Integrity and Ethics

The BAMC is committed to observing applicable laws and regulations and to employing 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.

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

Support activities

IT support

The objective of the BAMC's IT support is to support the company in a way that makes it more efficient and more successful. The BAMC faced two key challenges in 2014. The first was the computerisation of processes that did not yet have IT support, and the second was the diversification of IT solutions. In practice the two challenges were reflected in the difficulty of compiling consolidated reports and the speed of obtaining information.

The diversification of IT solutions was seen primarily in the area of claims management. The majority of activities therefore focused on this area. A group was set up to draw up the requirements for solutions and the project of changing over to a single information system to support claims management. The project of consolidating the operational loan management process into a single system was begun in the autumn. After thorough analysis the Probanka system was selected. Claims from three banks (Probanka, Factor banka and Banka Celje) had been transferred to it by the end of the year, while claims from the two largest banks (NLB, NKBM) underwent intensive preparation for migration which was successfully undertaken in January 2015.

Similar activities are also being undertaken in the area of real estate management process, where potential solutions for the computerisation of this process were presented. The chosen solution provides appropriate support to the business processes of real estate management, and is simultaneously integrated into a comprehensive IT architecture. The project to introduce the system was begun before the end of the year, and is expected to be completed in the first quarter of 2015.

These activities are helping the BAMC build the foundations of a business information system. The objective is to produce a high-quality data warehouse, reports and data analysis tools that allow for effective business reporting.

In light of the above, the IT infrastructure was also upgraded in the second half of 2014 to ensure sufficient capacity and security for these purposes. A data server and a platform for process automation and for data and document capture were installed. A platform for the creation of an internet portal was also installed, server virtualisation was undertaken, and the network was upgraded to ensure greater security. This platform will above all allow for the development of in-house solutions to support specific processes, which is part of the plan for 2015.

In the area of information security, the BAMC adopted a data and information protection rulebook in the second quarter, which sets out security rules in IT and further afield. It defines the areas of protection for data, information and the information system. At the operational level, an audit trail was ensured for data access, and the security and reliability of the infrastructure itself were upgraded. The data backup process was improved, and the reliability of key elements of the system was increased (both, hardware and software).

Public relations

BAMC's communication activities are focused on supporting its strategic goals. This is being achieved by increasing awareness about the company's role and mission, educating interested publics about the processes involved in the turnaround of nonperforming and other transferred assets, and building a positive corporate image through proactive and reactive communications.

During 2014, the media has been actively scrutinizing different aspects of the BAMC and its operations. In general, the media has chosen a negatively biased approach in its reporting, and not all reporting has been factual or correct. The BAMC has made significant efforts to clarify, correct and portray the factual situation to the extent possible. However, during 2014, the BAMC has had to be more re-active to statements and stories initiative by parties outside the BAMC than what can be considered optimal. A more proactive approach to informing the general public will be pursued during 2015.

Thus, the BAMC maintained professional, regular, open, consistent and proactive communications with the media and other audiences throughout the year. It should be taken into consideration that the fulfilling of BAMC's strategic goals will require acceptance or support from the key publics, which, in addition to its employees, also include the owners and other decision-makers, the financial and business public, opinion leaders and the media as intermediaries of information between the BAMC and other audiences. The BAMC will seek to generate the necessary support through transparent, factual, professional and timely communication about the effects of its activities on the recovery of the Slovenian financial system, creating communication opportunities, keeping track of the key publics' communication needs, regularly responding to these needs and proactively addressing any existing communication barriers.

Access to information of a public nature

The National Assembly adopted a new Access to Information of a Public Nature Act (ZDIJZ-C) in March. Under the new law, on 17 April 2014 the BAMC was required to publish a final list of debtors transferred to the BAMC from banks, and the final figures for the gross exposures transferred from the Ministry of Finance to the BAMC on the day of transfer of claims on its website.

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

Three months after the law's publication in the Official Gazette of the Republic of Slovenia, the BAMC was also required to publish (as freely accessible information of a public nature) detailed information directly related to defaulters' loans as risk items administered as impairments in the balance sheets of a bank that were transferred to the BAMC from the bank in question.

Preparing the aforementioned information cost the BAMC a good deal of time and imposed a heavy workload. The BAMC also received a significant number of requests for access to information of a public nature in 2014. The BAMC studies each such request in detail and with the requisite expertise, and decides on the request in accordance with law.

Outsourced serives

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

In 2014, the BAMC outsourced the following services:

- loan IT, accounting and back office support,
- asset management,
- accounting and payrolls, and
- legal support.

IT, accounting and back office for loan portfolios

At the time of the transfer of non-performing assets from NLB and NKBM in December 2013 the BAMC did not have its own analytical loan accounting system as well as did not have employees for back office and accounting tasks related to loans. Because of this the BAMC and the banks in question, which already had the necessary data in their IT systems, signed an agreement on providing IT, accounting and back office services for the transferred loan portfolios. A matching agreement has also been signed with Abanka in October 2014.

In the summer of 2014, in light of anticipated additional transfers, it became clear that the BAMC will not be able to efficiently perform asset management if the analytical support for the loan portfolios would be distributed at more banks. A set-up of a central system at one of the existing banks was identified as the most efficient and fastest solution. When taking over the loan portfolio of Probanka in September the BAMC also reached an agreement on running the Factor banka portfolio data on its IT system as well. Similarly, the entire portfolio taken over from Banka Celje in December was immediately transferred to the Probanka platform.

In the fourth quarter of 2014 activities started on the migration of NLB and NKBM loan portfolios to the Probanka system which was successfully completed in January 2015. Hence, since February 2015, the BAMC has all of its loan portfolios consolidated at Probanka analytical system except for the Abanka portfolio which is scheduled to be migrated in May 2015. With that the management of the loan portfolio will become easier as all information will be available in one place allowing for standardised loan management and reporting processes as well as improving cost efficiency of these activities.

In 2014 the BAMC paid to NLB, NKBM, Abanka and Probanka €1,0 million for IT, accounting and back office services related to transferred loan portfolios.

Asset management

At the time of legal transfer of non-performing assets, the BAMC had neither information nor documentation on the assets being transferred. Therefore, in order to act as a responsible owner, the BAMC had to sign an agreement on asset management with the banks in question. Based on this agreement, the banks, which still had all the documentation and knew the cases being transferred, prepared the technical bases for credit and investment decisions until the physical transfers were complete (described in more detail in chapter Transfer of non-performing assets).

In 2014 the BAMC had asset management agreements with NLB, NKBM and Abanka. Costs of these services amounted to €1,1 million.

Accounting and payrolls

In 2014 the BAMC did not have internal resources to completely perform its own accounting of general ledger and other analitical books. For this reason, accounting, tax consultancy and payroll settlement services were outsourced to Unija računovodska hiša d.d., Ljubljana.

The costs of these services in 2014 amounted to €0,2 million €.

Establishing of organization & transfer support

The support of Quartz+Co that had been initiatied in 2013 continued during the first two quarters of 2014. During the period when the BAMC in-house organisation was built up, a team from Quartz+Co supported BAMC's in-house team with the activities relating to managing and executing the asset transfers from NLB and NKBM. These actitivities included assisting in managing the physical asset transfers, assisting in managing the implementation of the Service Level Agreements with the two banks, and managing time planning and coordination with the banks to ensure that deadlines were kept.

The same team also assisted the BAMC with supporting the case management organisation that was being built up with the preparation of action plans for critical cases that required BAMC's decision-making during the first half of 2014. Specifically, the Quartz+Co supported process management, supported the development of financial perspectives in restructuring cases, pressure-testing operational restructuring plans and supported case managers to prepare cases for BAMC's credit committee decisions.

During the period of 6 March until 27 June, Mr Mansson was also engaged through Quartz+Co to provide additional support to the Executive Directors and CFO of the BAMC in the area of preparing the content for the Annual Report for 2013, supporting the restructuring teams of the BAMC by acting as a sounding board and providing advice to the Board and the CEO of BAMC at the request of the CEO and the Board of Directors.

The fees paid to Quartz+Co during 2014 amounted to €1,4 million and the last engagement with Quarz+Co was ended on 27 June 2014.

Legal support

The purpose of engaging an external law firm was to carry out due diligence of the credit files received in the process of acquisition of non-performing loans from NLB, NKBM, Abanka and additionally from Probanka and Factor banka.

Based on the provisions outlined in the ZUKSB, the BAMC has only six months available to notify the banks about any identified deficiencies and to return the assets. This is why the BAMC needed to get legal assistance immediately, from trained professionals who have done similar types of work before. Due to the extremely short timelines, three law firms (Odvetniška družba Fatur o.p., d.o.o., Odvetniška družba KRB, o.p., d.o.o. and Odvetniška pisarna Jadek&Pensa d.o.o.) worked on performing due diligence simultaneously. It was not known in advance how long the due diligence would last but it was not likely the BAMC would be able to get skilled lawyers who would be able to start work immediately within a few months.

The cost of due diligence services in 2014 amunted to €0,6 million.

Activities of reporting on suspicions of criminal activities

In accordance with the ZUKSB and the Guidelines, the BAMC is required to determine who is responsible for the loans and investments transferred from banks to the BAMC as risk items, since the BAMC gains insight into the credit files as the transfer of risk items occurs. Article 7 of the Guidelines requires that any suspicion that risk items have been created as a result of criminal activities associated with the actions of management and supervisory bodies of banks, supervisory authorities or the borrower be reported to the proper authorities.

The BAMC is making efforts to successfully and comprehensively collaborate with law enforcement bodies and therefore cooperates with the National Investigation Bureau (NPU) and the Specialized State Prosecutor's Office of the Republic of Slovenia. In 2014 the BAMC and the NPU have reached an agreement on the best and most efficient collaboration on open cases, further cooperation and the manner of BAMC's reporting.

In 2014, the BAMC launched an internal investigation of 14 cases based on detected irregularities. The BAMC sends regular updates on its internal investigations to the NPU. In two out of the 14 cases, the bank itself, and in three cases the bankruptcy trustee, notified the law enforcement authorities of suspected criminal activity, while in two cases the bank is also conducting independent investigations on suspicions of criminal activity. In all other cases, the BAMC requested updates on the status of reported criminal activities from the Ministry of the Interior.

Non-use of certain ZUKSB institutes and limitations set to the BAMC by other legislation

In the course of its work, the BAMC established that certain provisions in the ZUKSB are not in line with the mission and goals set for the BAMC by the same law. As the government and the parliament in 2013 decided that recapitalisation of systematically importat banks shall not be done through the BAMC but rather through direct entry of the state into the banks' ownership structure this effectively disabled the use of some ZUKSB institutes.[18] In light of the above, the BAMC has in 2014 suggested changes of the ZUKSB to the Ministry of Finance in accordance with BAMC's actual role in implementing measures for strengthening bank stability, thereby operationalising certain instruments already foreseen in the existing ZUKSB but not effective due to the non-exactness and looseness or non-existence of corresponding regulatory framework.

In attaining its stategic goals, the BAMC is confronted with limitations and inconsistencies set also by other legistaltion, particularly in the field of insolvency legislation and legislation limiting the remuneration in state-owned companies. Following is a short list of fields where, according to BAMC's opinion and experience, changes to the ZUKSB and other legislation would be reasonable.

- eliminating the obligation to sell at least 10% of acquired assets on a yearly basis (taking into account the purchase price),
- allowing private equity to enter into the BAMC (according to current law, the only allowed shareholder of the BAMC is the state),
- prolonging the lifespan of the BAMC,
- eliminating the obligation of forming the Bank Stability Fund[19],
- allowing for financing of the companies in which the BAMC holds a claim or an equity stake,
- clearly excluding the BAMC from the provisions of the Companies Act relating to so-called thin capitalisation,
- excluding the BAMC from two provisions laid out in the insolvency legislation (ZFPPIPP), relating to the BAMC as the owner of the company not being a member of the credit committee nor allowing it to act as a purchaser of the assets of the insolvent debtor,
- allowing the BAMC to procure external services more efficiently,
- excluding the BAMC from the obligation to make consolidated annual statements regulated under the Companies Act, and

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[18] More detailed explanation for non-use of certain ZUKSB institutes is presented in BAMC's 2013 Annual Report.

[19] As already stressed in the 2013 Annual Report, the BAMC did not set up a Bank stability fund (BSF) with the following explanation:

In light of the decision by the Government to recapitalize banks directly rather than through the BAMC, the BAMC did not set up the BSF as the mission and role of the BAMC focused on paid acquisition of non-performing assets from distressed banks, effective management thereof and ensuring maximum repayment of public funds, which was also reflected in a change of the covering of BAMC's operating costs. Consequently all the assets transferred or invested in the BAMC are intended for the sole purpose of maximizing the return of public funds via repayment of issued bonds with state guarantees, repayment of the equity of the Republic of Slovenia, and ensuring the required return on equity invested in the BAMC, as stipulated in the BAMC Operating Guidelines, issued by the Government of RS 2014. In light of the above, establishment of a BSF was not warranted.

- excluding the BAMC from the Act regulating the payments of the directors in the companies owned by the state (the so-called Lahovnik Act) – this act sets a tight rule on the reimbursement policies for the directors of the companies now owned by the BAMC as a result of restructuring processes.

FINANCIAL STATEMENTS OF THE BAMC FOR THE PERIOD 1 JANUARY 2014 TO 31 DECEMBER 2014

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, except the issue of consolidation of financial statements as explained bellow. In compliance with IFRS10 the BAMC is classified as an investment entity and thus is not subject to preparation of consolidated financial statements. The Slovenian Companies Act does not foresee an exemption for the preparation of consolidated financial statements in case of an investment entity. The Slovenian Company Act and International Accounting Standards are not consistent regarding this matter.

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 1 January 2014 to 31 December 2014.

The financial statements, together with the notes, have been prepared on an ongoing concern basis, and in accordance with the current Slovenian 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 three to six 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, 30 July 2015

Aleš Koršič	Janez Škrubej	Torbjörn Månsson
Executive director	Executive director	Chief executive officer

AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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Independent Auditor's Report

To The Owner of Družba za upravljanje terjatev bank, d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of the company Družba za upravljanje terjatev bank, d.d. (hereinafter »DUTB«), which comprise the balance sheet as at 31 December 2014, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal control as the 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 the 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 the 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 the company Družba za upravljanje terjatev bank, d.d. as at 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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.

KPMG Slovenija, podjetje za revidiranje, d.o.o., slovenska družba z omejeno odgovornostjo in članica KPMG mreže neodvisnih družb članic, ki so povezane s švicarskim združenjem KPMG International Cooperative ("KPMG International").

TRR: SI 56 2900 0000 1851 102
vpis v sodni register: Okrožno sodišče v Ljubljani
št. reg. vl.: 061/12062100
osnovni kapital: 54.892,00 EUR
ID za DDV: SI20437145
matična št.: 5648556

Report on Other Legal and Regulatory Requirements

In compliance with IFRS 10 the company DUTB has classified itself as an investment entity, as it is disclosed in Note 3.4 *Consolidation exemption for investment entities.* Investment entities are not subject to preparation of consolidated financial statements in accordance with the IFRS mentioned and therefore DUTB did not prepare consolidated financial statements for the financial year 2014. The Slovenian Companies Act does not foresee an exemption for the preparation of consolidated financial statements in case of an investment entity as determined in IFRS 10. The Slovenian Companies Act and IFRS do not comply in this section.

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

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

Mag. Simona Korošec Lavrič
Certified Auditor

Boris Drobnič
Partner

KPMG Slovenija, d.o.o.
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Ljubljana, 30 July 2015

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.

FINANCIAL STATEMENTS

Balance sheet

in €	Note	31 December 2014	31 December 2013
Non-current assets		1.280.823.771	422.607.068
Intangible assets	4	8.238	0
Long-term deferred cost		7.929	0
Property, plant and equipment	5	178.612	76.918
Financial assets designated at fair value through profit or loss	6	8.627.355	5.937.748
Available for sale financial assets	7	221.056.480	8.247.519
Loans and receivables	8	1.050.945.156	408.344.884
Current assets		474.676.236	759.572.866
Inventories	9	51.338.768	0
Available for sale financial assets	7	2.148.718	206.183.922
Deferred costs	11	224.351	500.830
Loans and receivables	8	355.942.604	538.640.953
Trade and other operating receivables	10	1.631.736	8.695.292
Cash and cash equivalents	12	63.390.059	5.551.869
Total assets		**1.755.500.007**	**1.182.179.934**
Total Equity		175.074.945	157.902.270
Share capital	13	203.625.000	203.625.000
Retained earnings	13	-77.216.882	-45.652.845
Revaluation reserves	13	48.666.827	-69.885
Non-current liabilities		1.063.278.228	1.012.877.560
Debt securities	14	1.053.309.033	1.012.716.282
Operating liabilities		1.291	441
Deferred tax liabilities	13	9.967.904	160.837
Current liabilities		517.146.834	11.400.104
Borrowings	15	4.541	2.196.611
Debt Securities	14	504.722.885	0
Trade and other operating payables	16	11.509.331	9.100.243
Accrued costs	17	910.077	103.250
Total equity and liabilities		**1.755.500.007**	**1.182.179.934**

The notes to the financial statements on pages 99 – 155 are integral part of the financial statements.

Income statement

in €	Note	For the period from 1 January 2014 to 31 December 2014	For the period from 19 March 2013 to 31 December 2013
Operating profit / loss		-30.988.064	-5.291.121
Net sale revenue		343.300	0
Cost of materials	19	-45.592	-10.429
Cost of services	19	-8.522.474	-4.734.437
Labour costs	20	-4.868.481	-530.595
Depreciation	19	-46.853	-2.957
Operating revaluation expense	19	-17.014.502	0
Other operating costs	19	-833.461	-12.703
Financial profit / loss		73.757.130	-492.947
Financial income	21	166.127.014	2.223.844
Financial costs	21	-92.369.884	-2.716.791
Other revenues	21	1.782	38
Other costs	21	-66.562	-1
Profit / Loss before tax		**42.704.286**	**-5.784.031**
Income tax expense	22	-6.276.368	0
Deferred tax	13, 22,	0	0
Net profit / loss for the period		**36.427.919**	**-5.784.031**
Attributable to owners	23	36.427.919	-5.784.031
Basic and diluted earnings per share	23	0,40	-0,50

The notes to the financial statements on pages 99 – 155 are integral part of the financial statements.

Statement of balance sheet profit / loss

in €	For the period from 1 January 2014 to 31 December 2014	For the period from 19 March 2013 to 31 December 2013
Net profit / loss for the period	**36.427.919**	**-5.784.031**
In-substance distribution to owner	-67.991.956	-39.868.814
Transferred loss	-45.652.845	0
Balance sheet loss	**-77.216.882**	**-45.652.845**

The notes to the financial statements on pages 99 – 155 are integral part of the financial statements.

Statement of comprehensive income

in €	Note	For the period from 1 January 2014 to 31 December 2014	For the period from 19 March 2013 to 31 December 2013
Net profit / loss for the period	23	**36.427.919**	**-5.784.031**
Items that may be subsequently reclassified to profit or loss	13	48.736.712	-69.885
In-substance distribution to owner	13	-67.991.956	-39.868.814
Other comprehensive income for the period, net of tax		**-19.255.244**	**-39.938.699**
Total comprehensive gain / loss for the period attributable to owners		**17.172.675**	**-45.722.730**

The notes to the financial statements on pages 99 – 155 are integral part of the financial statements.

Statement of changes in equity

in €	Share Capital	Revaluation Reserves	Retained Earnings	Total Equity
Balance as at 1 January 2014	**203.625.000**	**-69.885**	**-45.652.845**	**157.902.270**
Total comprehensive loss for the period after tax	-	48.736.712	36.427.919	88.934.520
Net profit / loss for the period	-	0	36.427.919	36.427.919
Other comprehensive income	-	48.736.712	0	48.736.712
New share capital subscribed	0	0	-	0
In-substance distribution to owner* (Note 3.1, 3.3)	-	0	-67.991.956	-67.991.956
Balance as at 31 December 2014	**203.625.000**	**48.666.827**	**-77.216.882**	**175.074.945**

NOTE: *The difference between the fair value and transfer value of acquired assets in the amount of €67.991.956 is recognized as a deduction in equity. Since the transaction was non-commercial and has been done between companies under common control (owner of both banks as well as the BAMC is the state) the transaction is considered as a transaction with owners and all the effects of such transactions are recognized in equity.

in €	Share Capital	Revaluation Reserves	Retained Earnings	Total Equity
Balance as at 19 March 2013	**25.000**	**0**	**0**	**25.000**
Total comprehensive loss for the period after tax	-	-69.885	-5.784.031	-5.853.916
Net profit / loss for the period	-	0	-5.784.031	-5.784.031
Other comprehensive income	-	-69.885	0	-69.885
New share capital subscribed	203.600.000	0	-	203.600.000
In-substance distribution to owner (Note 2.13, 3.1)	-	0	-39.868.814	-39.868.814
Balance as at 31 December 2013	**203.625.000**	**-69.885**	**-45.652.845**	**157.902.270**

The notes to the financial statements on pages 99 – 155 are integral part of the financial statements.

Statement of cash flows

in €	For the period from 1. 1. 2014 to 31. 12. 2014	For the period from 19. 3. 2013 to 31. 12. 2013
A) Cash flows from operating activities	**-63.908.208**	**-3.715.665**
Operating receipts	24.704.682	0
Receipts from sales of services	19.746.096	0
Other receipts	4.958.585	0
Operating expenditures	-88.612.890	-3.715.665
Expenditure for purchase of materials and services	-68.091.431	-3.347.032
Expenditure for wages of employees and other entitlements	-3.753.933	-367.934
Expenditure for various charges	-1.683.246	0
Other operating expenditures	-15.084.279	-698
B) Cash flows from investing activities	**171.234.490**	**955.728**
Receipts from investment activities	175.339.454	992.496
Receipts from the disposal of equity investments	126.845	0
Receipts from the disposal of intangible assets	0	0
Receipts from the disposal of tangible fixed assets	0	0
Receipts from the disposal of long-term financial investments	8.638.455	0
Receipts from the disposal of short-term financial investments	166.574.153	992.496
Expenditure in investments activities	-4.104.963	-36.768
Expenditure for the acquisition of intangible assets	-7.552	0
Expenditure for the acquisition of tangible fixed assets	-117.245	-36.768
Expenditure for the acquisition of long-term financial investments	-1.247.617	0
Expenditure for the acquisition of short-term financial investments	-2.732.549	0
C) Cash flows from financing activities	**-49.488.093**	**8.311.805**
Receipts from financing activities	2.036.932	8.311.805
Receipts from paid capital	0	3.625.299
Receipts from increase in long-term liabilities	0	0
Receipts from increase in short-term liabilities	2.036.932	4.686.506
Expenditure from financing activities	-51.525.024	0
Interest expenses relating to financing	0	0
Expenditure for the repayment of long-term financial liabilities	-40.950.493	0
Expenditure for the repayment of short-term financial liabilities	-10.574.531	0
Closing cash balance	63.390.059	5.551.869
Net cash result for the period	**57.838.190**	**5.551.869**
Opening cash balance	5.551.869	0

The notes to the financial statements on pages 99 – 155 are integral part of the financial statements.

Notes to the financial statements

NOTE 1: General information

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

The Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act (ZUKSB), which entered into force at the end of 2012, forms the legal foundation for the BAMC. The first task of the BAMC is to relieve 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 the BAMC is to acquire assets in the form of property-related loans from credit institutions which have been designated by the Ministry of Finance. The BAMC will manage the assets to preserve their real value and sell them on the market.

Share capital paid in

The BAMC was established based on the share capital of €25.000 paid in by the government of the Republic of Slovenia on 7 March 2013. The aforementioned 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 2013.

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

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

Financing of asset acquisition

BAMC issued four series of state-backed bonds to pay for the non-performing loans (hereinafter referred to as NPLs) transferred from banks and to repay a loan obtained from Nova Ljubljanska banka d.d. (hereinafter referred to as NLB). Further information on individual bond issues, their maturities and interest rates are included in note 14.

In addition to the cost of bonds coupon the BAMC is bound to pay an annual cost of the state guarantee in the amount of 125 basis points (b. p.) in accordance with the regulation of the Decree on the

Implementation of Measures to Strengthen Bank Stability ("Decree"). The bonds, which were entirely used to pay for assets acquired from the two banks, are listed on the Ljubljana Stock Exchange.

BAMC was informed that aforementioned bonds are accepted as collateral for the Eurosystem liquidity operations.

NOTE 2: Summary of significant accounting policies

2.1 Basis of preparation

Going concern

The financial statements are prepared on an ongoing concern basis.

The BAMC was established under a statute with a specific statutory mandate until the end of December 2017. In its consideration whether accounting on an ongoing concern basis is appropriate, the BAMC based its determination in accordance with Article 36 of ZUKSB, 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 Events after the Balance Sheet Date

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 4 August 2015.

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

2.3 Statement of compliance

The financial statements present fairly the financial position, financial performance and cash flows of the BAMC. A 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 ZGD-2, as the company is a joint stock company and in accordance to ZGD-2 it is required to use financial statements format for commercial companies and not for banks.

2.4 Basis of measurement

The financial statements have been prepared on a historical cost basis, except for loans and receivables and financial liabilities which have been recognized at fair value which is deemed to be the basis for further measurement at amortized costs and financial assets available-for-sale which have been measured at fair value.

2.5 Functional and presentation currency

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

2.6 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 recognized 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 following balances:

- inventory impairments (note 2.10);
- interest income recognition (note 2.15);
- deferred taxes recognition (note 2.16);
- fair values of loans, investments and inventories (note 2.18); and
- consideration of the extent of the group and preparation of consolidated financial statements, e.g. use of investment entities exemption (note 3.4).

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

2.7 New and amended accounting standards and interpretations in 2014

2.7.1 Standards and interpretations issued by IASB and adopted by the EU in 2014

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 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 the 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 the aforementioned 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), the amendments 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). The amendment 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. Analysis 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. Further considerations on this matter with detailed justifications of the assumptions and judgments of BAMC's management, used in these financial statements are presented in note 2.19.

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), the amendment added 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), the amendments 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). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is notated (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.

2.7.2 Standards, amendments and interpretations issued by IASB and adopted by the EU, that are not yet effective in 2014

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

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

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

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

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

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

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

2.8 Intangible assets

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

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

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

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

The estimated useful life for license is 5 years.

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

2.9 Property, plant and equipment

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

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

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

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 3 years.

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

2.10 Inventories

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

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

After initial recognition, these inventories are valued at lower value of purchase value increased for any transaction cost and net realizable value.

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

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

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

2.11 Leases

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

2.12 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. Due to the fact that the transfer of assets from banks to the BAMC in accordance with ZUKSB has been made by banks that are 100% state-owned and the state is also 100% owner of the BAMC, the aforementioned transaction is deemed to be a transaction between entities under common control and the transaction therefore treated as a transaction with the owner. All effects of this transfer have been recognized directly in equity as a transaction with the owner.

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

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

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) Financial assets designated at fair value through profit or loss

As financial assets designated at fair value through profit or loss BAMC classifies investments in equity shares of companies, which are not listed on the stock exchange.

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 and changes in fair value being recognized in income statement.

d) Available-for-sale financial assets

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

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

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

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

2.13 Financial liabilities

Issued debt securities and subordinated liabilities are initially recognized on the day they arise. All other financial liabilities are initially recognized on the trade date, when the BAMC becomes a contractual party in relation to the instrument. The BAMC derecognizes a financial liability when the obligations specified in the contract have been discharged, have been cancelled or have expired.

Financial assets and liabilities are offset, and the net amount is recognized in the statement of financial position, when and only when the BAMC has an official enforceable right to net settlement of the amounts, and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

2.14 Debt instruments

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

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

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

2.15 Financial income and financial expenses

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

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

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

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

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

2.17 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.

2.18 Determination of fair value

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

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

- Level 1 - Fair value of financial assets measured at fair value (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 quoted 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 financial instrument. Where applicable, further information about assumptions made when determining fair values is disclosed in the notes specific to that asset or liability of the BAMC.

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

a) 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 estimate takes into account the credit risk associated with these financial assets. For further information please see Note 3.1, 3.2 and 18.

b) Financial assets designated at fair value through profit or loss

The fair value of financial assets designated at fair value through profit or loss is determined using the valuation method on enterprise value level e.g. FCFF (free cash flows to firm). For further information please see Note 3.1, 3.3 and 18.

c) Available-for-sale financial assets

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

d) 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.

e) Inventories

Methodology of inventory valuations is described in Note 3.1, which should be read together with Note 2.10.

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 (the Decree) the acquisition price was determined based on the evaluation carried out by the European Commission. The BAMC has not participated in the evaluation process. The BAMC was informed only that the transfer value (acquisition price) was determined according to the first bullet of paragraph one of Article 26 as set out in the Decree, where it states that the transfer value comprises the value of the assets as determined by the European Commission and that the result of the asset valuation includes management and financing costs. The transfer of non-performing loans from banks to BAMC is a state-aid instrument in value of a difference between BAMC's payment for transferred loans and their market value, as assessed by the European Commission, which approved the mentioned state-aid.

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

Methodology for loans

Valuation of loans is methodologically based on Binominal Option Pricing Model (BOPM). It uses IFRS 13, Level 3 fair value hierarchy and has features of unobservable inputs, which reflect assumptions using the best information available in circumstances, and include entity's own data, taking into account all information about market participant assumptions that is reasonably available. For each debtor two possible scenarios, restructuring and recovery, are considered and the cash flows forecasted.

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

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

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

- avgP < 3,5 = there is more than 50% probability of realization of restructuring scenario,
- avgP = 3,5 = there is 50% probability of realization of restructuring scenario,
- avgP > 3,5 = there is less than 50% probability of realization of restructuring scenario.

The probability of recovery scenario is calculated as (1 – probability of restructuring scenario).

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

- Probability of restructuring scenario (determined with the use of DPS model).
- Probability of recovery scenario (determined with the use of DPS model).
- Time to switch from restructuring to recovery scenario. BAMC assumes the switch to lower value recovery scenario with immediate effect in order to ensure conservatism principle. The model considers the failure risk and does not allow this risk to be underestimated by means to postpone the failure. Furthermore, due to the early restructuring phase and turnaround nature of the restructuring projects, it is fair to assume that if the failure occurs at all, it occurs rather sooner than later.

- Value of cash flows according to each (restructuring and recovery) scenario. For the restructuring scenario, the debtor's cash flow forecast and debt servicing capability is taken into account. For the recovery scenario, the realistic outcome of realizing collateral is taken into account.
- Risk-free rate of return in the framework of BOPM model is zero since it is already considered in the weighted average cost of capital (WACC) of BAMC and therefore is part of the present values of forecasted cash flows in both scenarios.
- WACC of BAMC was calculated at the level of 4,9% as at 31 December 2014 (WACC as at 31 December 2013 was 5,9%).

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

Methodology for valuation of equity investments

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

Methodology for the valuation of real estate

A simplified method was used for all single residential units and single non-residential units below an external market valuation of €2.000.000. The simplified approach was based on The Surveying and Mapping Authority of the Republic of Slovenia (GURS) methodology through the application NEP. The 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 more complex real estate, the discounted cash flow method with a detailed cash flow forecast was used.

3.2 Recognition of the interest income on loans and receivables

The loans that BAMC bought are in accordance with ZUKSB non-performing, so the management assesses the probability of repayment of interests on these loans and receivables and based on these estimates set the accounting policy for the recognition of interest income from loans and receivables disclosed in note 2.15.

3.3 Determination of the significant influence over other entities

THE BAMC HOLDS AS AT 31 DECEMBER 2014:

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

NOTE: *In bankruptcy.

BAMC has also smaller ownerships which are described in business part of annual report 2014.

THE BAMC HOLDS AS AT 31 DECEMBER 2013:

Name	**Industry**	**Country**	**Share holding** (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%

Even though the BAMC holds more than 20% of ownership interest it does not consolidate this entities as at 31 December. Detailed reasons are explained in Note 2.19.

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 make an exit from the investment. The BAMC will only be temporary owner and will enter into ownership just for temporary control reasons.

Transferred ownerships in Pivovarna Laško d.d., Thermana d.d., Argolina d.o.o., Menina d.d. derived not from debt to equity swaps that were decided by the BAMC but they were transferred directly from the banks to the BAMC.

Ownerships in MLM d.d., ŠC Pohorje d.o.o., Liv Kolesa d.o.o., Litostroj jeklo d.o.o., Litostroj Ravne d.o.o., AERO d.d. and Merkur nepremičnine d.d. however, derived from debt to equity swaps which were decided by the BAMC on the grounds of compulsory settlement. The BAMC did not prepare consolidated financial statements.

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

Investment in Pivovarna Laško d.d. is measured and valued using the market price valid on 31 December, 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 all other companies are measured at cost as fair value cannot be reliably determined and subsequently at each reporting date the BAMC assesses the value of financial assets whether there is any objective evidence of impairment. For further information see Note 6.

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

Debt to equity swaps negative variances were transferred from loans to equity investments. Because of the release of negative variances from loans and their transfer to equity investments negative variances, there was no effect in the equity or profit and loss statement.

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

3.4 Consolidation exemption for investment entities

BAMC's management is of opinion that BAMC meets all three criteria, as well as all four standard characteristics of investment entities (under the IFRS 10) and should be considered as such for the financial reporting purposes.

The IFRS 10 is of particular relevance to the complex consideration of the concept of control, which is a condition for consolidation, and the exception to the preparation of consolidated statements for investment entities.

In the application of this exception, it is crucial whether the company is recognized as an investment entity. IFRS 10.27 lists three criteria which must be met in order for a company to be treated as an investment entity, namely:

- if it obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both;
- Measures and evaluates the performance of substantially all of its investments on a fair value basis.

In addition to the required criteria, IFRS 10.28 lists four more standard characteristics of investment entities. While the company is not required to meet all four characteristics in order to be considered an investment entity, however it is bound to make additional assessments in such cases to ensure that all of the three characteristics mentioned above are met. IFRS 10:BC234 even mentions an example of a retirement fund which does not meet any of the four characteristics, yet is still defined as an investment entity. The aforementioned four characteristics are:

- It has more than one investment;
- It has more than one investor;
- It has investors that are not related parties of the entity;
- It has ownership interests in the form of equity or similar interests.

However, it is necessary to take into account or carry out numerous assessments in determining whether an entity is an investment entity. The details are presented below.

a) It obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services.

The investor (owner) in this case is the state. The state paid in capital at establishment for current operations (start up, salaries, consulting, interest payable from bonds in the first years etc.). For the purpose of acquiring assets (loans and investments) from state banks the BAMC issued bonds that are backed by the state guarantee.

Looking from the broader perspective the investors are taxpayers (represented by the state) and BAMC was established to provide those investors with investment management services in order to maximize returns with the proceeds from assets acquired from the state owned banks.

b) Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.

As mentioned above, the purpose of BAMC is to manage the acquired assets in a way to maximize returns for taxpayers. Either from the sale of collateral or sale of restructured assets. There is also a number of assets that are repaying interest and principal while waiting to be restructured.

BAMC does not provide any other services outside maximizing the returns on its assets (equity interests, loans), which is in line with the requirement stipulated in IFRS 10:B85D.

BAMC is not eligible for other important benefits related to its holdings, as defined in IFRS 10:B85I. As mentioned above, the BAMC has a time-limited lifetime. This time-limited lifetime clearly shows that BAMC will not hold its assets for an unlimited period of time, but will instead fully dispose them within a specific timeframe (IFRS 10:B85F).

c) Measures and evaluates the performance of substantially all of its investments on a fair value basis.

The company manages its portfolio on a fair value basis, which supports constant evaluation of assets' fair value approach. Assets are classified at fair value through profit and loss (loans) or other comprehensive statement (debt instruments) in the financial statements of the company.

The company's key management makes all its decisions based only on the information of the fair value of these assets (IFRS 10:B85K). All credit and investment decisions are based on analyses, where the key input data is the fair value of assets upon realization of a given scenario.

ADDITIONAL CRITERIA

a) It has more than one investment.

This is true, the company holds more than 500 loans as well as app. 20 equity investments.

b) It has more than one investor.

The owner of the company is the state (who represents taxpayers). The investors are also the bondholders (i.e. 5 state owned banks at the moment).

However, the standard acknowledges that in some cases a single investor is entirely credible. For example, a pension fund, government investment fund or family trust might be a single investor, representing a wider group of investors. Alternatively, there might be a single feeder fund in a master-feeder structure (IFRS 10.B85R).

c) It has investors that are not related parties of the entity.

This criteria is currently not met, since bondholders and the BAMC are all owned by the state.

However if we consider the state as a representative of all taxpayers, it is difficult to state that all taxpayers are related parties of BAMC in accordance with IAS 24. However with the sale of state owned banks (bondholders) the number of investors will increase. The first state bank is expected to be sold in 2015.

d) It has ownership interests in the form of equity or similar interests.

The state is the 100% owner of BAMC and therefore holds 100% of shares. These are ordinary shares.

Each unit of ownership in an investment entity typically represents a specifically identifiable proportionate share in its net assets. However, it is also acceptable for an investment entity to have multiple classes of investors with separate investment pools per class or different proportionate shares of net assets or differential rights in the proportionate share of net assets - e.g. in a waterfall structure (IFRS 10.B85V).

An investment entity may have significant ownership interests that are classified as liabilities under IAS 32, as long as debt holders are exposed to variable returns from changes in the fair value of the entity's net assets (IFRS 10.B85W). This requirement could be viewed from the perspective that bondholders are state banks which indicates that final benefits from bonds and equities are the benefits for taxpayers. The change in fair value of the assets impacts the dividends payable to the state who again represent the taxpayers which indicates that bondholders are also exposed to variable returns from changes in the fair value of the entity's net assets.

The absence of one or more of these typical characteristics does not immediately disqualify an entity from being classified as an investment entity. Management may use its judgment to decide that the entity nonetheless meets the definition of an investment entity.

All these gives grounds to BAMC's management being of opinion that the company qualifies as an investment entity and as such is an exempt from the consolidation.

Notes to the balance sheet

NOTE 4: Intangible assets

in €	31 December 2014	31 December 2013
Licenses	8.238	0
Total	**8.238**	**0**

Movement of intangible assets in 2014 – net:

in €	Intangible assets
Opening balance 1 January 2014	**0**
Acquisition	9.497
Depreciation	-1.259
Closing balance 31 December 2014	**8.238**

The BAMC does not have any intangible asset acquired by means of a finance lease nor are they pledged.

NOTE 5: Property plant and equipment

in €	31 December 2014	31 December 2013
IT equipment	156.949	76.917
Furniture	21.663	0
Total	**178.612**	**76.917**

Movement of property, plant and equipment in 2014 – net:

in €	IT Equipment	Furniture	Total
Opening balance 1 January 2014	**76.917**	**0**	**76.917**
Acquisition	126.223	24.467	**150.690**
Depreciation	-44.686	-2.804	**-47.490**
Write off	-1.505	0	**-1.505**
Closing balance 31 December 2014	**156.949**	**21.663**	**178.612**

Movement of property, plant and equipment in 2014 – gross:

in €	IT Equipment		Furniture		Total
	Acquisition	Depreciation	Acquisition	Depreciation	
Opening balance 1 January 2014	**79.874**	**-2.957**	**0**	**0**	**76.917**
Acquisition	126.223	0	24.467	0	**150.690**
Depreciation	0	-44.686	0	-2.804	**-47.490**
Write off	-1.672	167	0	0	**-1.505**
Closing balance 31 December 2014	**204.425**	**-47.476**	**24.467**	**-2.804**	**178.612**

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

MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT IN 2013:

v EUR	IT Equipment		Furniture		Total
	Acquisition	Depreciation	Acquisition	Depreciation	
Opening balance 1 January 2014	**0**	**0**	**0**	**0**	**0**
Acquisition	79.874	0	0	0	**79.874**
Depreciation	0	-2.957	0	0	**-2.957**
Closing balance 31 December 2014	**79.874**	**-2.957**	**0**	**0**	**76.917**

NOTE 6: Financial assets designated at fair value through profit or loss

in €	31 December 2014	31 December 2013
Equity shares in non-listed companies	8.627.355	5.937.748
Total	**8.627.355**	**5.937.748**

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

in €	For the period from 1 January 2014 to 31 December 2014
Opening balance (stock not quoted on stock exchange) 1 January 2014	**5.937.748**
Acquisition	347.617
Transfer from banks	2.936.321
Conversion from loan	28.275.504
Negative variances upon initial recognition	-926.910
Impairments	-27.109.143
Return and replacement of Interevropa shares for DUT01 bonds	-833.781
Closing balance (stock not quoted on stock exchange) 31 December 2014	**8.627.355**

The fair value at initial recognition was challenged in 2014 also for transfers from Abanka and Banka Celje. The net negative variance recognized in 2014 in the amount of €926.910 for transferred shares and participating interests 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 (Note 3.1).

MOVEMENT OF FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS IN 2013:

in €	For the period from 19 March 2013 to 31 December 2013
Opening balance (stock not quoted on stock exchange) 19 March 2014	**0**
Transfer from banks	16.661.528
Negative variances upon initial recognition	-10.323.859
Positive variances upon initial recognition	403.272
Impairments	-803.193
Closing balance (stock not quoted on stock exchange) 31 December 2013	**5.937.748**

NOTE 7: Available for sale financial assets

in €	31 December 2014	31 December 2013
Bonds	173.971.855	206.183.922
Shares and participating interests	48.333.343	8.247.519
Quoted on stock exchange	48.333.343	8.247.519
Deposit	900.000	0
Total	**223.205.198**	**214.431.441**

SHORT-AND LONG-TERM PORTIONS OF AVAILABLE FOR SALE FINANCIAL ASSETS IN 2014:

in €	31 December 2014
Short term investments	2.148.718
Bonds	2.148.718
Long term investments	221.056.480
Bonds	171.823.137
Quoted on stock exchange	48.333.343
Deposit	900.000
Total	**223.205.198**

Available for sale financial assets relate to government bonds acquired as paid in capital and bonds transferred from banks. Investment in Pivovarna Laško d.d. (see note 3.3) is measured using the market price valid on 31 December 2014.

Investment in Slovenian 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.

The principal amounts of bonds totalling €173.971.855 refers to:

- bonds issued by the Republic of Slovenia:
  RS38 with the nominal value of €149.008.700. The BAMC holds 1.490.087 denomination of €100. The bond maturity dates is 19 April 2017. The interest rate on the bonds is fixed at 5,625% p.a.
- bonds issued by Sava d.d.:
  SA38 with the nominal value of €9.281.000. The BAMC holds 9.281 denomination of €1.000. The bond already matured on 30 November 2014.
- bonds issued by Cimos d.d.:
  CIM2 with the nominal value of €1.000.000. The BAMC holds 1.000 denomination of €1.000. The bond already matured on 1 August 2014.

Long term investment in amount of €900.000 is related to paid deposit to Abanka for issued bank guarantee for our debtor and will matured in 2016.

The fair value at initial recognition was challenged in 2014 also for transfers from Abanka and Banka Celje. The net positive variance in amount of €1.413.046 for transferred bonds 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 (Note 3.1).

MOVEMENT OF AVAILABLE FOR SALE FINANCIAL ASSETS IN 2014:

in €	For the period from 1 January 2014 to 31 December 2014
Opening balance 1 January 2014	**214.431.441**
A) Bonds	
Opening balance	206.183.922
RS bonds	
Pay out for accrued interests in purchased RS bonds	6.501.385
Received payment of coupon interests RS68, RS38	-9.550.625
Accrued interests RS68, RS38	10.443.019
Sells of RS68 bond of the Republic of Slovenia	-53.705.909
Income from selling RS68	748.785
Increase in fair value (fair value reserve) equity	11.202.558
Other bonds	
Transfer from banks (Sava, Cimos)	735.673
Positive variances upon initial recognition (see Note 3.3)	1.413.046
B) Shares and participating interests	
Opening balance of shares quoted on stock exchange	8.247.519
Increase in fair value (fair value reserve) equity	40.085.824
C) Deposits	
Opening balance	0
Increase	900.000
Closing balance 31 December 2014	**223.205.198**

MOVEMENT OF AVAILABLE FOR SALE FINANCIAL ASSETS IN 2013:

in €	For the period from 19 March 2013 to 31 December 2013
Opening balance 19 March 2013	**0**
Increase of ordinary share capital by in-kind contribution of bond of the Republic of Slovenia	199.999.700
Interest accrued	6.184.222
Shares	8.247.519
Closing balance 31 December 2013	**214.431.441**

NOTE 8: Loans

The transfer of non-performing loans from NLB and NKBM was completed by the end of 2013 (on 20 December 2013), on 10 September 2014 and on 01 October 2014 from Probanka and Factor banka, on 13 October 2014 from Abanka and on 18 December 2014 from Banka Celje. Due to the fact, that the BAMC acquired non-performing loans, the fair value at initial recognition was challenged in 2013 and for transfers from Abanka and Banka Celje in 2014. The net negative variance recognized in 2014 in the amount of €68.479.664 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 and 3.3. For the period from January till December 2014 positive valuations were recognized in amount of €69.905.089.

LOAN VALUATION VARIANCES IN 2014:

in €	**31 December 2014**
Loans before valuation	1.413.771.017
Negative variances upon initial recognition (see Note 3.1)	-68.479.664
Valuations as at 31 December 2014	61.596.407
Total	**1.406.887.760**

Current and non-current portions of loans as at the end of 2013 are presented in accordance with bank amortisation plans of loans. In 2014 current and non-current portions of loans are represented in accordance with BAMC loan valuation policy and estimated cash flows.

CURRENT AND NON-CURRENT PORTIONS OF LOANS:

in €	**31 December 2014**	**31 December 2014***	**31 December2013**
Non-current loans	1.050.945.156	597.018.221	408.344.884
Current loans	355.942.604	809.869.540	538.640.953
Total	**1.406.887.760**	**1.406.887.760**	**946.985.837**

NOTE: *Current and non-current portions of loans as at the end of 2014 presented in accordance with bank amortisation plans of loans.

Following the transfer of non-performing assets from NLB and NKBM to the BAMC in December 2013, the BAMC acquired non-performing assets from NKBM, Abanka and Banka Celje in 2014 with a total gross value of €1.542,5 million at a transfer value of €561,1 million. In order to consolidate exposures and ensure more effective management of these assets, the BAMC also purchased claims totalling €38,6 million from Probanka and Factor banka in an arm’s length transactions at negotiated market values.

Transfer prices for the four banks (i.e. excluding Probanka and Factor Banka) were set by the European Commission. The BAMC was not involved in the setting of transfer prices, nor was it any way involved in the process of determining which non-performing loans or which equities and other types of claims would be transferred.

MOVEMENT IN THE LOAN BALANCES IN 2014:

in €	
Opening balance 1 January 2014	**946.985.837**
Increase due to transfer of loans from Probanka	27.833.942
Increase due to transfer of loans from Factor banka	10.796.253
Increase due to transfer of loans from Abanka	421.816.346
Increase due to transfer of loans from Banka Celje	124.019.042
Negative variances upon initial recognition (see Note 3.1)	-175.177.927
Positive variances upon initial recognition (see Note 3.1)	106.698.263
Increase because of court costs	1.785.719
Repayments	-204.773.584
cash repayments	-125.912.332
sell back	-1.158.834
conversion to real estate	-45.481.259
conversion to equity investments	-28.275.504
sell back (paid with DUTB bonds)	-3.745.821
conversion to trade receivables	-199.834
Loan interest income	31.272.182
Loan provision and other cost income	96.242
Foreign exchange differences	288.330
Income from release of discount	50.239.635
Revaluations	69.905.089
Write offs	-5.007.088
Other	109.479
Closing balance 31 December 2014	**1.406.887.760**

Movement in the loan balances in 2013:

in €	
Opening balance 19 March 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
cash repayments	−992.496
operating receivables to the NLB (see Note 7)	−5.670.739
operating receivables to the NKBM (see Note 7)	−1.171.502
Loan interest income	1.637.698
from the NLB	1.122.626
from the NKBM	515.072
Foreign exchange differences	−118.538
Write-offs	−94.322
Other	18.492
Closing balance 31 December 2013	**946.985.837**

NOTE 9: Inventories

in €	**31 December 2014**
Property	37.147.999
Acquisition	49.299.202
Impairments	-12.151.202
Land	11.974.083
Acquisition	16.464.496
Impairments	-4.490.413
Inventories	**49.122.082**
Advance payments	2.216.686
Total	**51.335.768**

MOVEMENT IN DIFFERENT KINDS OF INVENTORIES

in €	Property	Land
Opening balance 1 January 2014	**0**	**0**
Increase due to purchase	49.299.202	16.464.496
Sales	0	0
Impairments	-12.151.202	-4.490.413
Closing balance at 31 December 2014	**37.147.999**	**11.974.083**

From NKBM 11 properties and 13 lands were purchased in amount of €11.576.989 and are all categorized as inventories. All other 51 real estates in amount of €54.186.708 were recognised as a result of the conversion of loans into property or buying at auctions of our debtors. All inventories on stock are recognised as available for sale.

Estimated fair value on year-end of all inventories on stock is €54.679.491.

For the period from January till December 2014 impairment was recognized in income statement in the amount of €16.641.616, so that the value of real estate inventory as at 31 December 2014 is €49.122.082.

BAMC has already made advance payments in amount of €2.216.687 for new real estates which were recognised in 2015.

INVENTORY IMPAIRMENTS IN 2014:

in €	31 December 2014
Inventory before impairments	65.763.697
Impairments as at 31 December 2014	-16.641.616
Total	**49.122.082**

Valuation method is explained in Note 3.1.

NOTE 10: Trade and other operating receivables

in €	31 December 2014	31 December 2013
Trade receivables to customers	337.376	324
Trade receivables to others	1.294.360	8.694.968
Total	**1.631.736**	**8.695.292**

in €	31 December 2014
Trade receivables to customers	337.376
Trade receivables to others	1.294.360
Increase due to swap loan to trade receivables	199.833
Increase of other receivables	207.548
Revaluation of trade receivables relating collaterals	-371.381
Other operating receivables	1.258.360
Total	**1.631.736**

Most of the Trade receivables to customers relates to charged costs in amount of €281.891, all other receivables relates to charged rents. Trade receivables to other includes receivables towards debtors from swaps loan to debt in the amount of €199.834, amount of €52.772 is receivable to Banka Celje related to later reduction of transfer price of loans, amount of €32.093 is receivable to Abanka for already received payments from our debtors but transferred to us in January 2015.

Other operating receivables in amount of €21.014 relates to already made down payments for court procedures and amount of €19.250 to other costs. Receivables to the Tax Authority amounted to €1.137.615 and are related to VAT.

NOTE 11: Deferred costs and accrued income

in €	31 December 2014	31 December 2013
Deferred costs	190.571	122.142
Accrued rent income	33.780	0
Advances VAT	0	378.688
Total	**224.351**	**500.830**

Short-term deferred costs mostly relate to paid insurance premiums for liability insurance for employees in amount of €164.010, the rest represents paid insurance premium for inventory and collateralized real estates and upfront payment for various online available data bases.

NOTE 12: Cash and cash equivalents

in €	31 December 2014	31 December 2013
Cash in banks	1.385.325	5.551.869
Call deposits	61.194.339	0
Over-night deposits	810.395	0
Total	**63.390.059**	**5.551.869**

On 31 December 2014 deposits are held at BKS Bank and Unicredit bank.

NOTE 13: Equity

The first payment of share capital in the amount of €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 a capital increase, in the amount of €3.600.000 was received on 21 March 2013.

The next capital increase in the amount of €199.999.700,99 was made as an in kind capital contribution in the form of a bond of the Republic of Slovenia. The difference in the amount of €299,01 was paid in cash.

The BAMC's share capital registered with the court and defined in its articles of association amounts to €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.

FAIR VALUE RESERVE:

in €	31 December 2014	31 December 2013
Fair value reserve	48.666.827	-69.885
Total	**48.666.827**	**-69.885**

Breakdown of fair value reserve

- The increase in fair value from the investment in Pivovarna Laško in the amount of €40.085.824, the fair value was determined based on quoted market prices;
- The increase in fair value from the investment in Slovenian state bonds in the amount of €18.457.956, the fair value was determined based on quoted market prices;
- The total effect of the increase of fair value is in the amount of €58.543.780.
- The BAMC recognized a related deferred tax liability on the increase of fair value in investment in Pivovarna Laško and Slovenian bonds in the amount of €9.967.904. Therefore, the net change of revaluation reserves totalled €48.736.712.

MOVEMENT OF RETAINED EARNINGS:

in €	31 December 2014	31 December 2013
Opening balance	**-45.652.845**	**0**
Net profit / loss for the period	36.427.919	-5.784.031
In-substance distribution to owner (Note 3.1, 3.3)	-67.993.528	-39.868.814
from loans	-68.479.664	-29.948.227
from equity investments	-926.910	-9.920.587
from bonds	1.413.046	0
Other	1.571	0
Total	**-77.216.883**	**-45.652.845**

NOTE 14: Debt securities issued

in €	31 December 2014	31 December 2013
Debt securities issued	1.558.031.918	1.012.716.282
Short-term part	1.053.309.033	1.012.716.282
Long-term part	504.722.885	0
Total	**1.558.031.918**	**1.012.716.282**

BALANCES OF DEBT SECURITIES PER ISSUE:

in €	2014	2013
Amortised value Issued bonds	1.558.031.918	1.012.335.200
DUT01 – issued 20 December 2013	503.267.527	506.113.577
DUT02 – issued 20 December 2013	504.759.238	506.221.623
DUT03 – issued 20 October 2014	424.103.374	0
DUT04 – issued 19 December 2014	125.901.778	0
Liability for government guarantee of bonds issued	52.192	381.082
Total	**1.558.084.109**	**1.012.716.282**

Debt securities issued refer to four lots of bonds issued by the BAMC, Ljubljana with official designations of DUT01, DUT02, DUT03 and DUT04. Debt securities in issue are initially measured at fair value and are subsequently measured at amortized cost.

CHARACTERISTICS OF BOND ISSUES:

Bond	Value (in € million)	Coupon rate	Issued	Principal maturity	Coupon maturity	Number of bonds in BAMC's ownership
DUT01	505,8	3,75%	December 2013	December 2015	Annually (December)	33
DUT02	505,8	4,50%	December 2013	December 2016	Annually (December)	19
DUT03	424,6	1,50%*	October 2014	December 2017	Semi-annually (June and December)	0
DUT04	127,0	1,375%*	December 2014	December 2017	Semi-annually (June and December)	12

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

The above debt securities are all government guarantees issued on asset acquisition date.

BAMC bonds were acquired back from banks in exchange of loans (NLB) (see Note 7), exchange of transferred share in Interevropa d.d. (NKBM) and in repayment of transferred loans (Banka Celje) in amount of €6.298.004.

NOTE 15: Borrowings (current)

in €	31 December 2014	31 December 2013
Borrowings from banks (loans)	0	2.100.000
Other current borrowings	4.541	96.611
Total	**4.541**	**2.196.611**

CURRENT BORROWINGS MOVEMENT IN 2014:

in €	Current borrowings
Opening balance 1 January 2014	**2.196.611**
Increases	1.252.158
Decreases	-3.444.228
Transfer from non-current liabilities	0
Closing balance 31 December 2014	**4.541**

CURRENT BORROWINGS MOVEMENT IN 2013:

in €	Current borrowings
Opening balance 19 March 2013	**0**
Increases	2.196.611
Decreases	0
Transfer from non-current liabilities	0
Closing balance 31 December 2013	**2.196.611**

The increase in amount of €900.000 was from already open loan from 2013 which was paid back in total €3.000.000 in first half of year 2014.

NOTE 16: Trade and other operating payables

in €	31 December 2014	31 December 2013
Trade payables	1.443.861	1.225.512
Payables to employees	422.949	96.167
Payables to state and other state institutions	6.440.333	7.668.562
Payables to others	3.202.188	110.002
Total	**11.509.331**	**9.100.243**

Trade payables relates mostly to the cost of acquisition of assets from bankruptcy in amount of €725.673, to services provided by lawyers in the amount of €115.975, services provided by banks in amount of €245.068, and other costs.

Most of the balance of payables to state and other state institutions represents amount of €6.276.368 calculated tax from profit for 2014.

Liability to state represents mostly liability for court deposit from swap debt to debt in amount of €212.254 and other liabilities for court taxes. Payables to other in amount of €2.700.000 represent obligation to the bank for the return of the cashed bank guarantee.

NOTE 17: Accrued costs

in €	31 December 2014	31 December 2013
Accrued costs	910.077	103.250
Total	**910.077**	**103.250**

Accrued cost in amount of €91.112 relates to unused holidays, amount of €73.380 relates to audit services for 2013 and 2014, amount of €745.585 relates to accruals for work performance in 2014.

NOTE 18: Fair value

As at 31 December 2014 the BAMC recognizes at fair value only financial assets available for sale (investment in Pivovarna Laško, bonds from the Republic of Slovenia and own BAMC bonds). These are classified in Level 1 in the fair value hierarchy. There were no transfers between levels 1 and 3 during the year.

FAIR VALUE AS AT 31 DECEMBER 2014:

in €	Note	Level 1	Level 3	Total fair value	Total book value
Assets		223.205.198	1.555.916.129	1.779.121.627	1.752.864.189
Financial assets designated through profit or loss	6	0	8.627.355	8.627.355	8.627.355
Available-for-sale financial assets	7	223.205.198	0	223.205.198	223.205.198
Non-current loans granted	8	0	1.066.407.853	1.066.407.853	1.050.945.156
Current loans	8	0	361.179.635	361.179.635	355.942.604
Trade and other operating receivables	10	0	1.631.736	1.631.736	1.631.736
Cash and cash equivalents	12	0	63.390.059	63.390.059	63.390.059
Inventories	9	0	54.679.491	54.679.491	49.122.082
Liabilities		1.558.031.918	11.509.331	1.569.547.081	1.569.547.081
Borrowings	15	0	4.541	4.541	4.541
Non-current operating liabilities		0	1.291	1.291	1.291
Trade and other operating payables	16	0	11.509.331	11.509.331	11.509.331
Debt securities issued	12	1.558.031.918	0	1.558.031.918	1.558.031.918

FAIR VALUE AS AT 31 DECEMBER 2013:

in €	Note	Level 1	Level 3	Total fair value	Total book value
Assets		214.431.442	967.170.745	1.181.602.187	1.181.602.187
Financial assets designated through profit or loss	6	0	5.937.747	5.937.747	5.937.747
Available-for-sale financial assets	7	214.431.442	0	214.431.442	214.431.442
Non-current loans granted	8	0	408.344.884	408.344.884	408.344.884
Current loans	8	0	538.640.953	538.640.953	538.640.953
Trade and other operating receivables	10	0	8.695.292	8.695.292	8.695.292
Cash and cash equivalents	12	0	5.551.869	5.551.869	5.551.869
Liabilities		1.011.600.000	11.297.295	1.022.897.295	1.024.013.577
Borrowings	15	0	2.196.611	2.196.611	2.196.611
Non-current operating liabilities		0	441	441	441
Trade and other operating payables	16	0	9.100.243	9.100.243	9.100.243
Debt securities issued	14	1.011.600.000	0	1.011.600.000	1.012.716.282

Financial instruments in level 3

MOVEMENT OF LEVEL 3 FINANCIAL INSTRUMENTS IN 2014:

in €	Equity investments	Loans and receivables
Opening balance 1 January 2014	**5.937.747**	**955.681.129**
Acquisition	31.559.442	588.254.607
Negative variances upon initial recognition(see Note 3.3, 3.1)	-926.910	-68.479.664
Settlements (see Note 7)	0	-213.468.876
Gains and losses recognised in profit or loss	-27.109.143	146.423.008
Other	0	109.482
Replacements	-833.781	0
Closing balance 31 December 2014	**8.627.355**	**1.408.519.685**

MOVEMENT OF LEVEL 3 FINANCIAL INSTRUMENTS IN 2013:

in €	Equity investments	Loans and receivables
Opening balance 19 March 2013	**0**	**0**
Acquisition	16.661.527	984.486.121
Other operating receivables	0	−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	0	18.494
Closing balance 31 December 2013	**5.937.747**	**955.681.129**

MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS IN 2014:

Type of financial instrument	Fair value as at 31 December 2014 (in €)	Valuation technique
Loans	1.406.887.760	Discounted cash flow (See Note 3.1)
Receivables	1.631.736	(See Note 3.1)
Trading assets	8.627.355	(See Note 3.3)
Total	**1.417.146.851**	

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 is determination of the probability of restructuring and recovery scenario and the recovery value. Components of the recovery value are the value of the underlying collateral (mainly real estate and equity shares), 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.

Notes to the income statement

NOTE 19: Operating costs excluding payroll costs

in €	For the period from 1 January 2014 to 31 December 2014	For the period from 19 March 2013 to 31 December 2013
Material costs	**45.592**	**10.429**
Cost of services	**8.522.474**	**4.734.437**
Maintenance costs	652.815	12.162
Rents	205.992	71.604
Costs of professional services	4.973.789	3.919.007
Insurance costs	165.209	0
Other services	2.524.669	731.664
training and education	54.902	n/a
post and phone costs	53.862	n/a
fees and other charges for issued bonds	113.176	n/a
asset management agreement costs	1.079.481	n/a
costs for claim management	378.150	n/a
provisions, fees related to claims and investments	131.977	n/a
Other costs	713.121	n/a
Depreciation of fixed assets	**46.853**	**2.957**
Operating revaluation expense	**17.014.502**	**0**
Operating expenses from revaluation of inventory	16.641.616	0
IT equipment write-off	1.505	0
Operating expenses from revaluation of trade receivables	371.381	0
Other operating costs	**833.461**	**12.703**
Total	**26.462.882**	**9.448.319**

The costs of professional services include consultancy fees in the amount of €3.494.934. They relate mostly to the establishment of the BAMC, consulting and cooperation during the transfer of loans and receivables.

Other services include Asset management's services in the amount of €1.079.481 from banks.

Other operating costs in the amount of €833.461 represents mostly court costs and taxes from the proceedings in acquisition of assets from bankruptcy.

NOTE 20: Payroll costs

in €	For the period from 1 January 2014 to 31 December 2014	For the period from 19 March 2013 to 31 December 2013
Salaries (including bonuses)	4.109.392	378.712
Pension contributions	261.593	33.961
Health and social insurance	233.400	27.834
Other	264.096	90.088
Total	**4.868.481**	**530.595**

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

REMUNERATION OF BOARD MANAGEMENT MEMBERS IN 2014:

Name (amounts in €)	**Period**	**Position**	**Gross income**	**Fringe benefits**	**Costs reimburse ments***	**Severance pay**	**Total**
Berggren Sten Arne	1. 1. – 31. 12. 2014	Non-executive director	121.698	5.093	9.885		**136.676**
Lindgren Carl Johan Nils Viktor	1. 1. – 31. 12. 2014	Non-executive director	122.500	7.500	35.715		**165.715**
Mavko Mitja**	17. 1. – 31. 12. 2014	Non-executive director	24.118	358	1.849		**26.319**
Nyberg Lars Erik	1. 1. – 31. 12. 2014	Non-executive director	122.444	7.332	13.183		**142.959**
Gjerkeš Boštjan	1. 1. – 8. 1. 2014	Executive director	11.146	51	12		**11.209**
Gwilliam Chris	1. 1. – 31. 7. 2014	Executive director	162.079	1.124	2.329	142.135	**307.667**
Koršič Aleš	9. 1. – 31. 12. 2014	Acting executive director	123.118	2.594	4.031		**127.408**
Månsson Torbjörn Ingemar Anders	1. 1. – 8. 1. and 1. 8.-31. 12. 2014	Acting executive director	131.770	274	691		**132.735**
Škrubej Janez	9. 1. – 31. 12. 2014	Acting executive director	258.908	327	8.580		**267.815**
Total			**1.077.781**	**24.653**	**76.275**	**142.135**	**1.318.503**

NOTE: *Costs reimbursements are related to costs of airline tickets, hotels, taxies and meals.
**Mr Mitja Mavko waived his remuneration as non-executive director of BAMC while serving as state secretary at the Ministry of Finance (until 31 July 2014).

Remuneration of Committees' members in 2014:

Name (amounts in €)	**Period**	**Position**	**Gross income**
Jerman Tamara	1. 1. – 31. 12. 2014	Member of Audit Committee	6.000
Klemen Primož	1. 1. – 31. 12. 2014	Member of Remuneration committee	2.000
Šmuc Sonja	1. 1. – 31. 12. 2014	Member of Remuneration committee	2.500
Total			**10.500**

NOTE 21: Financial income and expenses

in €	**For the period from 1 January 2014 to 31 December 2014**	**For the period from 19 March 2013 to 31 December 2013**
Financial income	**166.127.014**	**2.223.844**
Interest income	41.899.605	2.175.680
deposits, avista	151.178	0
bonds RS38, RS68, Sava, DUT	10.476.245	537.982
acquired loans	31.272.182	1.637.698
Other financial income	124.227.409	48.164
dividends	126.845	0
acquired loans (impairments, release of discount, foreign exchange differences)	124.100.564	0
Revaluation income	69.905.088	0
Income from release of discount	50.239.635	0
Loan provision and other cost income	96.242	0
Foreign exchange differences	3.399.599	0
Other financial income	460.000	0
Financial expenses	**-92.369.884**	**-2.716.791**
Interest expenses (debt securities issued)	-43.324.225	-1.238.364
Provision for state guarantee for issued bonds and other costs	-13.744.151	-381.082
Penalty interest	-40.245	-33.449
Impairments of equity investments	-27.109.142	0
Foreign exchange differences	-3.123.467	-166.380
Other financial expense	-21.566	-803.193
Loan write off	-5.007.088	-94.322
Profit / Loss from financing	**73.757.130**	**-492.946**

Interest income comprises interest on loans in the amount of €31.272.182 recognized as explained in the Note 7. The income of €151.178 relates to interest income from short-term and over-night deposits and income of €10.476.245 relates to interests from bonds.

Revaluation financial income include effects of loans valuation at fair value. Valuations are done at mid and at the end of year. The net valuation effects in 2014 is €69.905.088, what includes positive valuation effects in amount of €259.268.271 and negative valuation effects in the amount of €189.363.183.

Income from release of discount in value of €50.239.635, includes income from loan repayments that exceed transfer values and release of day-1-variances between transfer and estimated fair value, that were at the initial measurement included in comprehensive income.

Interest expense in the amount of €43.324.225 comprises interest of debt securities issued as explained in Note 13. The amount of €13.744.151 is a fee for the guarantee for issued bonds. Foreign exchange differences in the amount of €3.123.467 are related to the transferred loans in foreign currency, mostly in CHF. The amount of €27.109.142 is related to impairments of equity investments and shares, while loan write-offs recognized at the start of insolvency procedures amount to €5.007.088.

NOTE 22: Income tax expense

in €	**For the period from 1 January 2014 to 31 December 2014**	**For the period from 19 March 2013 to 31 December 2013**
Profit / loss before tax	**42.704.286**	**-5.784.031**
Non-tax-deductible expenses	242.439	7.108
Covering loses from previous years	-5.776.923	0
Non-tax-deductible income	-126.845	0
Tax relief for investment	-83.742	0
Tax relief for additional pension insurance	-37.163	0
Tax base	**36.922.053**	**-5.776.923**
Statutory tax rate	17%	17%
Income tax at statutory tax rate, prior to changes in taxable base	6.276.368	0
Tax effects of tax loss for which no deferred tax asset was recognised	0	0
Deferred tax liability	9.967.904	160.837
Current and deferred income tax	**16.244.272**	**160.837**
Effective tax rate	**38%**	**0%**

NOTE 23: Earnings per share

in €	31 December 2014	31 December 2013
Profit / loss for the year	36.427.919	-5.784.031
Number of shares issued at the end of the year	101.812.500	101.812.500
Weighted average number of ordinary shares	101.812.500	11.632.500
Earnings per share and diluted earnings per share	**0,36**	**-0,50**

BAMC operations in 2013 were mostly dedicated to planning and designing the organization of the company and preparation activities for transfer of non-performing loans. Since the transfer of loans from NLB and NKBM happened only at the end of 2013, BAMC has not yet managed the transferred assets. Because of that income statement of BAMC in 2013 included mainly operating expenses and no significant financial income. In 2014 the company started with active management of transferred assets, mostly loan portfolio, which resulted in higher financial income and realized net profit of €40.197.808.

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.

NOTE 24: 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 that of the acquisition from business banks of eligible loans, dealing with the loans acquired and protecting or enhancing the value of those loans.

NOTE 25: Financial instruments and risk exposure

Effective risk management is one of the key elements for safe and stabile business operations in order to achieve BAMC's strategic goals. BAMC set a foundation for risk management in 2014. Management authorities, heads of departments and other employees are actively involved with risk management function. BAMC is through its operations on a daily basis exposed to numerous risks, which are in general divided into:

- strategic risks,
- reputational risks,
- operative risks,
- market risks,
- liquidity risks and
- credit risks.

Risk, related to financial instruments are market risks, liquidity risks and credit risks which are presented in this segment together with their management. Ability to manage these risks and to propose appropriate risk mitigations effects a stability of the company and its business results. Risk management function is for that reason under an increasing consideration and includes identification of risks, their measurement and assessment, control, monitoring and reporting identified risk issues.

Strategic decisions and corresponding policies from risk management area are approved by the Board of Directors, which monitors the effectiveness and adequacy of risk management.

25.1 Risk oversight and governance

Audit Committee

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

Credit / Investment Committees

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

Internal audit function

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

Treasury Management

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

Risk management unit

BAMC has reinforced its risk unit during 2014. Unit is responsible for the risk management system as a whole, for its management, for monitoring and updating the risk catalogue and reporting. Responsibility for collecting and monitoring the implementation of measurements and implementation of control activities is one of unit's priorities as well as the collection all relevant documentation regarding risk management and raising level of risk awareness in the company.

Compliance

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

25.2 Credit risks

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

a) The creditworthiness of debtors

Credit risk of BAMC depends mainly on characteristics of main customers. BAMC manages loans, transferred from banks on debtor's group level. For each debtor a strategy is decided. Details about these strategies are presented in Note 3.1.

In the table below an exposure of loans to credit risk is shown. Loans are shown based on fair value (net exposure) according to BAMC's internal valuations. Maturity of loans is determined according to these internal valuations and presents time frame when cash-flows are expected.

LOAN PORTFOLIO EXPOSURE TO CREDIT RISK:

in €	Net exposure 31 December 2014	Net exposure 31 December 2013
Long-term loans	1.050.945.156	408.344.884
Short-term loans	355.942.604	538.640.953
Total	**1.406.887.760**	**946.985.837**

In the tables below net exposure and number of cases according to the strategy decided on the level of debtor are shown. Number of cases, exposed to credit risk is 575, which is higher than in year 2013 due to additional non-performing loans that were transferred to BAMC during the year 2014. At the end of the year 2013 strategies were not decided yet, since loans were transferred to BAMC only 10 day prior.

Loan portfolio balances according to strategy as at 31 December 2014:

Strategy (values in €)	**Net exposure**	**No. of borrowers**	**Average net exposure per borrower**
Recovery	763.436.405	496	1.539.186
Restructuring	643.451.355	79	8.144.954
Total	**1.406.887.760**	**575**	**2.446.761**

Loan portfolio balances according to strategy as at 31 December 2013:

Strategy (values in €)	**Net exposure**	**No. of borrowers**	**Average net exposure per borrower**
Recovery	n/a	n/a	n/a
Restructuring	n/a	n/a	n/a
Total	**946.985.837**	**426**	**2.222.971**

One of the biggest credit risks identified by BAMC is change of strategy from restructuring to recovery, which means that all of the restructuring cases would end up in a court procedures. In the table below, expected outcome (Net Exposure) as at 31 December 2014 is presented for scenario, where all the restructurings would fail.

Net exposure in case of default of restructuring part of loan portfolio as at 31 December 2014:

Strategy (values in €)	**Net exposure**	**Net exposure if all restructurings fail**	**Difference**
Recovery	763.436.405	1.302.277.781	538.841.376
Restructuring	643.451.355	0	-643.451.355
Total	**1.406.887.760**	**1.302.277.781**	**-104.609.979**

b) Structure of loans and receivables

BAMC does not apply credit rating for its loans, since most of them are already in the default. Below is presented structure of loans and receivables according to the days in delay.

In the table below Gross and Net Exposures as at 31 December 2014 are presented. Gross Exposure is presented as the contractual cash flows according to the days of delay. Days in delay are counted according to the emergence of a single claim within one loan. Therefore several loans are calculated more than once since they have several open claims in several different categories of delay.
Net Exposure within single category of delay was calculated according to the maximum day of delay, regardless the immateriality of a certain claim in a loan.

Data as at 31 December 2013 are not available since loans were transferred to BAMC just a few days prior.

CURRENT AND PAST DUE BALANCES OF LOAN PORTFOLIO AS AT 31 DECEMBER 2014:

Category of delay (values in €)	**Gross exposure**	**Net exposure**
No delay	395.837.560	262.831.624
In delay	4.534.457.173	1.144.056.136
Delay up to 90 days	394.777.582	246.643.271
Delay between 90 days and 1 year	362.462.304	159.944.731
Delay between 1 and 3 years	1.851.743.853	487.239.700
Delay over 3 years	1.925.473.434	250.228.434
Total	**4.930.294.733**	**1.406.887.760**

In the table below, Gross Exposure is shown according to the maturity of the loan portfolio. Major part is already matured (73% as at 31 December 2014) and the number has not significantly increased since the end of year 2013.

MATURITY OF LOAN PORTFOLIO GROSS EXPOSURE AS AT:

in €	**Matured loans**	**Immature loans**	**Total**	**% of matured loans**
31 December 2014	3.583.379.608	1.346.915.125	4.930.294.733	73%
31 December 2013	2.435.639.832	860.980.244	3.296.620.076	74%

Loans and receivables that are not past due and not provisioned

According to the contractual maturity of loans and receivables transferred from banks an important part of loans is not yet past due. However during the valuation process these loans were valued according to BAMC's valuation policy.

Loans and receivables that are past due and provisioned

After day one losses and gains were calculated at the date of the transfer of loans to BAMC, positive and negative deviations from the fair value were calculated in addition, as presented in the Note 7. There is also shown movement of the loan portfolio is during 1 January 2014 and 31 December 2014 in the Note 7.

c) Exposure to concentration risks

BAMC manages loans that were transferred to from several Slovenian banks. As a consequence, BAMC has no impact on a concentration risks of the transferred loans. Below is presented structure of loans according to the main industry, where clients conduct their business as at 31 December 2014 and 2013. Activity is presented according to the registered activity as in Standard Classification of Activities.

EXPOSURE TO CONCENTRATION RISK AS AT 31 DECEMBER 2014:

Industry (amounts in €)	Gross exposure	Net exposure	No of cases	Average net exposure per case
Financial and insurance activities	967.917.581	296.691.191	45	6.593.138
Construction	1.299.863.748	293.284.501	120	2.444.038
Manufacturing	896.355.960	248.637.803	129	1.927.425
Wholesale	634.987.589	220.399.664	106	2.079.242
Accommodation and food service	187.208.144	101.709.940	20	5.085.497
Professional, scientific and technical activities	329.758.835	84.196.588	63	1.336.454
Other	614.202.876	161.968.072	92	1.760.523
Total	**4.930.294.733**	**1.406.887.760**	**575**	**2.446.761**

EXPOSURE TO CONCENTRATION RISK AS AT 31 DECEMBER 2013:

Industry (amounts in €)	Gross exposure	Net exposure	No of cases	Average net exposure per case
Financial and insurance activities	593.801.509	175.735.555	35	5.021.016
Construction	1.028.339.388	255.845.431	98	2.610.668
Manufacturing	554.685.651	143.007.309	95	1.505.340
Wholesale	342.438.518	121.794.114	69	1.765.132
Accommodation and food service	133.871.902	62.335.869	15	4.155.725
Professional, scientific and technical activities	180.344.343	55.561.558	41	1.355.160
Other	463.138.765	132.706.001	73	1.817.890
Total	**3.296.620.076**	**946.985.837**	**426**	**2.222.971**

25.3 Liquidity risks

Liquidity risk is a risk of loss in case of BAMC not being able to meet all its obligation on time or in case BAMC should require additional liquidity at higher interest rate than are current market ones.

Key liquidity risk for BAMC presents the repayment of its bonds with the state guarantee at the end of years 2015, 2016 and 2017 and is presented in the Note 6.

In tables below an exposure to liquidity risk as at 31 December 2014 and 31 December 2013 is presented.

EXPOSURE TO LIQUIDITY RISK AS AT 31 DECEMBER 2014:

in €	Book Value	Undiscounted contractual cash flows	Up to 12 months	1-2 years	2-5 years
Debt Securities	1.558.031.918	1.652.013.724	555.622.224	536.676.250	559.715.250
Trade and other operating payables	1.631.736	1.631.736	1.631.736	0	0
Borrowings	4.541	4.541	4.541	0	0
Total	**1.559.672.736**	**1.653.650.001**	**557.258.501**	**536.676.250**	**559.715.250**

EXPOSURE TO LIQUIDITY RISK AS AT 31 DECEMBER 2013:

in €	Book Value	Undiscounted contractual cash flows	Up to 12 months	1-2 years	2-5 years
Debt Securities	1.012.716.282	1.117.246.376	41.156.876	547.528.500	528.561.000
Trade and other operating payables	8.695.292	8.695.292	8.695.292	0	0
Borrowings	2.196.611	2.196.611	2.196.611	0	0
Total	**1.023.608.185**	**1.128.138.279**	**52.048.779**	**547.528.500**	**528.561.000**

BAMC manages liquidity risks with constant coordination of obligations and due assets. Payment of principle of bond DUT01 will past due at the end of the year 2015 in total amount of €505,8 million which represents high liquidity risk for BAMC. Partial repayment of obligation is expected, but BAMC will not be able to avoid refinancing of this bond. BAMC will endeavour to refinance debt without explicit state guarantee. Similar is expected with DUT02 bond, which will past due in December 2016 in total amount of €505,8 million. BAMC will endeavour to refinance debt with partial or even without state guarantee.

25.4 Market risk

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

BAMC has recognized the importance of market risks and has set its control activities in Risk Management Policy. These market risks are managed in a context of a conservative risk appetite that is consistent with the BAMC legislation.

a) Interest rate risk

Interest rate risk is a risk of loss as a consequence of changed interest rates in the market. BAMC acquired fixed and variable rate loans, major part of them was non-performing as shown in the Credit Risk Section.

In the table below an exposure to Interest rate risk is presented as at 31 December 2014. Percentage of financial assets with variable interest rate exceeds 39% of all financial assets.

EXPOSURE TO INTEREST RATE RISK AS AT 31 DECEMBER 2014:

in €	Fixed interest rate	Variable interest rate	Total
Financial assets	960.913.234	619.946.382	**1.580.859.616**
Loans and receivables	786.941.379	619.946.382	**1.406.887.761**
Bonds	173.971.855	0	**173.971.855**
Financial liabilities	1.012.720.823	0	**1.012.720.823**
Debt securities	1.012.716.282	0	**1.012.716.282**
Borrowings	4.541	0	**4.541**

Data as at 31 December 2013 are not available since loans were transferred to BAMC just a few days prior.

Interest rate risk is estimated to be immaterial in restructuring and recovery cases, since there is high risk that BAMC will not be fully repaid due to creditworthiness of the debtors and insufficient collaterals and not due to changed interest rates.

In addition, in the Table below gross exposure as at 31 December 2014 is shown according to the maturity and type of interest rate (fixed/variable). The immature part of gross exposure (without discounts) with variable interest rates presents only 14,42% of total gross exposure.

EXPOSURE TO INTEREST RATE RISK AS AT 31 DECEMBER 2014:

in €	Fixed interest rate	Variable interest rate	Total
Gross exposure 31 December 2014	3.098.870.016	1.831.424.717	**4.930.294.733**
immature gross exposure	635.865.018	711.050.107	**1.346.915.125**
mature gross exposure	2.463.004.998	1.120.374.610	**3.583.379.608**
Net exposure 31 December 2014	786.941.379	619.946.381	**1.406.887.760**
immature net exposure	312.182.342	399.925.461	**712.107.802**
matured net exposure	474.759.037	220.020.921	**694.779.957**

Interest rate risk – sensitivity analysis

BAMC has transferred loans from the banks with fixed and variable interest rates, in addition bonds with fixed interest rates were issued. Almost all loans with variable interest rates are combined as EURIBOR + mark-up. As at 31 December 2014 these loans represented 98% of all loans with variable interest rate.

In the table below, sensitivity analysis and effects on immature gross exposure with variable interest rates are shown. Change in interest rates effects only the immature part of gross exposure so increase or decrease of total gross exposure is relatively low. It is emphasized that risk that BAMC's debtors will not be able to repay their obligations origin from debtor's inability and not from interest rate changes. Regardless the changes in gross exposure, according to the BAMC's methodology net exposure depends on expected cash flows so the change in gross exposure is not linear to the change in net exposure.

SENSITIVITY ANALYSIS OF INTEREST RATE RISK AS AT 31 DECEMBER 2014:

Immature Gross Exposure with variable interest rate	**Business operating result**	
in €	Increase	Decrease
100 b. p. change	7.110.501	-7.110.501
50 b. p. change	3.555.251	-3.555.251
10 b. p. change	711.050	-711.050

b) Foreign exchange risk

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

The following Tables summarises BAMC's exposure to foreign currency risk as at 31 December 2014 and 31 December 2013. Net exposure of BAMC denominated in foreign currencies represents 9,30% of total net exposure as at 31 December 2014. Net exposure is higher than in year 2013 (5,39%) due to transfer of additional loans from Slovenian banks.

EXPOSURE TO FOREIGN CURRENCY RISK AS AT 31 DECEMBER 2014:

in €	EUR	CHF	USD	RSD	RUB	JPY	Total
Contractual cash flows (loans)	4.886.896.430	37.075.789	2.439.722	17.227	2.302.599	1.562.967	**4.930.294.733**
Gross exposure	1.683.092.474	11.449.224	425.543	1.363	59.491	86.848	**1.695.114.942**
Contractual cash flows with discount (loans)	1.394.865.292	11.449.224	425.543	1.363	59.491	86.848	**1.406.887.760**
Available-for-sale financial assets	223.205.198	0	0	0	0	0	**223.205.198**
Trade and other operating receivables	1.631.925	0	0	0	0	0	**1.631.925**
Cash and cash equivalents	63.390.059	0	0	0	0	0	**63.390.059**
Gross exposure	1.565.775.901	0	0	0	0	0	**1.565.775.901**
Trade and other operating payables	7.739.441	0	0	0	0	0	**7.739.441**
Borrowings	4.541	0	0	0	0	0	**4.541**
Debt securities	1.558.031.918	0	0	0	0	0	**1.558.031.918**
Net exposure	**117.316.573**	**11.449.224**	**425.543**	**1.363**	**59.491**	**86.848**	**129.339.041**

EXPOSURE TO FOREIGN CURRENCY RISK AS AT 31 DECEMBER 2013:

in €	EUR	CHF	USD	RSD	RUB	JPY	Total
Contractual cash flows (loans)	3.254.116.103	35.706.946	2.157.095	2.460	3.267.553	1.369.918	**3.296.620.075**
Gross exposure	**1.167.496.391**	**7.142.612**	**813.389**	**0**	**7.116**	**204.931**	**1.175.664.439**
Contractual cash flows with discount (loans)	938.817.789	7.142.612	813.389	0	7.116	204.931	**946.985.837**
Available-for-sale financial assets	214.431.441	0	0	0	0	0	214.431.441
Trade and other operating receivables	8.695.292	0	0	0	0	0	**8.695.292**
Cash and cash equivalents	5.551.869	0	0	0	0	0	**5.551.869**
Gross exposure	1.024.013.136	0	0	0	0	0	**1.024.013.136**
Trade and other operating payables	9.100.243	0	0	0	0	0	**9.100.243**
Borrowings	2.196.611	0	0	0	0	0	**2.196.611**
Debt securities	1.012.716.282	0	0	0	0	0	**1.012.716.282**
Net exposure	**143.483.255**	**7.142.612**	**813.389**	**0**	**7.116**	**204.931**	**151.651.303**

Foreign exchange risk – sensitivity analysis

Strengthening or weakening of the euro against the following currencies as at 31 December 2014 would have impact on assets and liabilities by the amounts set out below. Share of net exposure in foreign currencies represents 9,30% of total net exposure as at 31 December 2014.

NET EXPOSURE TO FOREIGN CURRENCY RISK AS AT:

in €	Net exposure 31 December 2014	Net exposure 31 December 2013
EUR	117.316.573	143.483.255
CHF	11.449.224	7.142.612
USD	425.543	813.389
JPY	86.848	204.931
RUB	59.491	7.116
RSD	1.363	0
Total	**129.339.041**	**151.651.303**
Share of foreign currencies according to total exposure (in %)	9,30%	5,39%

Sensitivity analysis was made according to the scenarios of 20% and 10% changes of EUR against CHF and USD. Impact of change of EUR against USD in relatively low due to small amount of loans in USD.

On the other hand, 20% change of EUR against CHF and USD together will change the net exposure for 1,64 or -1,70 percentage points respectively as at 31 December 2014.

SENSITIVITY ANALYSIS OF FOREIGN CURRENCY RISK EXPOSURE AS AT 31 DECEMBER 2014:

in percentage points	Weakening	Strengthening
20% change of EUR against CHF	1,58 p.p.	-1,63 p.p.
10% change of EUR against CHF	0,80 p.p.	-0,81 p.p.
20% change of EUR against USD	0,06 p.p.	-0,06 p.p.
10% change of EUR against USD	0,03 p.p.	-0,03 p.p.
20% change of EUR against CHF and USD	1,64 p.p.	-1,70 p.p.
10% change of EUR against CHF and USD	0,83 p.p.	-0,87 p.p.

c) Risk of changed market prices

Real estate prices

BAMC has in ownership 75 real-estate as at 31 December 2014 in total book value €49.122.082. Any change in market situation could lead to changed real estate prices and therefore affect the outcome that BAMC has anticipated.

Below are shown real-estates according to the intended use (value of real estates and their amount). As at 31 December 2013 BAMC has not had any real-estates in the ownership.

INVENTORY PER TYPE OF REAL ESTATE AS AT 31 DECEMBER 2014:

in €	Number of real estate	Book value
Residential	9	24.279.042
Land	32	11.974.082
Tourism	11	5.777.984
Industrial	9	3.946.663
Office	6	2.151.019
Retail	5	671.556
Parking	3	321.735
Total	**75**	**49.122.082**

Equity prices

BAMC has in ownership shares and stocks of companies. Stocks of Pivovarna Laško, d.d. are valued according to the market price as at 31 December 2014 at Ljubljana Stock Exchange.

LISTED EQUITY STOCK VALUED AT MARKET PRICES:

Pivovarna Laško, d.d.	Number of shares	Market value per share (in €)	Total market value (in €)
31. 12. 2014	2.056.738	23,50	48.333.343
31. 12. 2013	2.056.738	4,01	8.247.519

Other stocks and equity that are owned by BAMC are valued according to the internal valuation and are shown in the Table below as at 31 December 2014 and 2013.

OTHER STOCKS AND EQUITY SHARES VALUED ACCORDING TO INTERNAL VALUATION MODEL AS AT:

in €	**Total exposure to market risk**
31. 12. 2014	8.627.355
31. 12. 2013	5.937.747

In the table below, total exposure to market risk of changed equity prices is shown. Exposure has as at 31 December 2014 increased by 402% due to additional transfers form Slovenian banks during year 2014.

TOTAL MARKET RISK EXPOSURE OF EQUITY STOCK AND SHARES AS AT:

in €	**Total market value**	**Total fair value**	**Total exposure to market risk**
31. 12. 2014	48.333.343	8.627.355	56.960.698
31. 12. 2013	8.247.519	5.937.747	14.185.266

Changes of market values of own real estates and equity shares impact income statement and statement of other comprehensive income. Increases of real estate market values do not impact the value of inventory or income statements. While decrease of real estate market values proportionally decreases the value of inventory, which results in inventory impairments and proportionally lower income statement result.

Changes in value of equity shares are reflected in financial statements in two ways. Change in value of Pivovarna Laško shares (PILG) proportionally changes statement of comprehensive income. Increase in value of other equity shares proportionally increases income statement result. In case of objective evidence of equities impairment, the effects are reflected in income statement for both.

NOTE 26: Events after the reporting period

On 5 March 2015, the Government of Slovenia adopted the annual report of 2013, approved the Business Plan for BAMC for 2014-2017, adopted new Remuneration policy and noted the BAMC's Goals for 2015.

On 5 March 2015 the Government in the capacity of the General Assembly of the BAMC terminated Carl-Johan Lindgren, Arne Berggren and Mitja Mavko, MSc from their office of non-executive directors of BAMC, effective from 31 March 2015. The Government appointed Imre Balogh, Phd, Marko Simoneti, PhD and Janez Širovnik as the new non-executive directors, for a term of office ending 31 December 2017.

On 13 April 2015, the BAMC signed an agreement to sell its 2,1 million shares in Pivovarna Laško d.d. for a consideration of €25,56 per share.

On 17 April 2015, the BAMC closed a major transaction selling a portfolio of claims towards ACH, Adria Airways, Elan, and its claims and equity in Polzela.

BAMC on 29 May 2015 transferred to itself and newly established company 99,05% of Sava Turizem d.d. shares, which were pledged for by Sava d.d. for its non-performing loans. Based on temporary decree of the Ljubljana District Court, BAMC has on 8 June returned all of Sava Turizem d.d. shares back to Sava d.d. Legality of the temporary decree and the return of Sava Turizem d.d. shares will BAMC be proving in court procdure.

NOTE 27: Related party transactions

The ownership structure as at 31 December 2014 is presented in chapter 3.3 Determination of the significant influence over other entities.

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

- Subsidiary and associate companies,
- Companies associated with the management and members of the Supervisory Boards, including the audit committees and their close family members, and
- Companies associated with the government.

From January till December 2014 the BAMC did business with public funds users that are owned by state. Major transactions were as follows:

MAJOR TRANSACTION WITH RELATED PARTIES IN 2014:

Name	City	Trade payables	Financial payables
Agencija za trg vrednostnih papirjev	Ljubljana	62.800	0
Mestna občina Ljubljana	Ljubljana	49.500	0
Mestna občina Maribor	Maribor	13.983	0
Mestna občina Nova Gorica	Nova Gorica	38.512	0
Mestna občina Novo mesto	Novo mesto	145	0
Ministrstvo za finance	Ljubljana	0	20.292.499
Občina Komenda	Komenda	5.337	0
Občina Mokronog-Trebelno	Mokronog	4.822	0
Občina Radlje ob Dravi	Radlje ob Dravi	136	0
Občina Trbovlje	Trbovlje	6.666	0
Občina Trebnje	Trebnje	214	0
Okrajna sodišča v Sloveniji		103.884	0
Okrožna sodišča v Sloveniji		265.107	0
Vrhovno sodišče RS	Ljubljana	26.701	0
Total		**577.807**	**20.292.499**

FROM JANUARY TO DECEMBER 2014 THE BAMC DID BUSINESS WITH THE ORGANIZATIONS AND COMPANIES THAT HAVE OWNERSHIP TIES WITH THE STATE. MAJOR TRANSACTIONS WERE AS FOLLOWS:

		Ownership			Transactions										Open saldo on 31.12.2014						
M. št.	Naziv	% RS	% SDH	% DUTB	Deposit	Inventories	Equity investments	Trade receivable	Financial receivable	Trade payables	Financial payables	Transfered loans	Transfered bonds	Transfered equity	Deposit	Loans	Bonds	Equity investments	Trade receivables	Accrued deposit interests	Trade payables
5026024	ABANKA VIPA, D.D.	100			900.000					520.068	3.000.000	421.816.346	735.673	1.264.327	900.000			32.093	32.093	853	33.377
5026121	BANKA CELJE D.D.	100						143.585				124.019.042	0	1.671.993					143.585		
5103061	GORENJSKA BANKA, D.D.	0,05		4,42				33.800										2.423.279	33.800		
5860580	NKBM, D.D.	100				11.576.989				14.226.663											73.408
5860571	NLB, D.D.	100						55.837		1.595.829	347.617								55.837		204.160
5665493	SID - SLOVENSKA IZVOZNA IN RAZVOJNA BANKA, D.D., LJUBLJANA	99,41						101.441		111.532	4.620.818								101.441		
5223067	ELEKTRO CELJE, D.D.	79,5		0,06					1.500									38.418			
5175348	ELEKTRO GORENJSKA, D.D., KRANJ	79,42	0,31	1,2					16.576									479.749			
5227992	ELEKTRO LJUBLJANA D.D.	79,5	0,3	0,2					4.604									175.899			
5231698	ELEKTRO MARIBOR, D.D.	79,5								45.888											1.132
5229839	ELEKTRO PRIMORSKA, D.D.	79,5		0,36					4.786									134.896			
1646613	GEN ENERGIJA, D.O.O.	100							82												
5111358	SAVA, D.D.	0,03	11,06						15.499								0				
5680859	CASINO PORTOROŽ, D.D., PORTOROŽ		9,46													6.667.377					
5232058	HIT, D.D., NOVA GORICA		20	19,15														1.648.041			
1799797	MAKSIMA INVEST, D.D. - V STEČAJU	0,00005														2.108.283					
1813463	MAKSIMA HOLDING, D.D. - V STEČAJU	0,01														3.792.385					
5037212	MURA, D.D. - V STEČAJU		12,23													3.016.966					
1294261	NFD HOLDING, D.D. - V STEČAJU	0,000003		9,97												4.948.120		0			
1545248	RIMSKE TERME, D.O.O. - V STEČAJU	3,83														834.776					
5881447	POŠTA SLOVENIJE, D.O.O.	100								14.674											1.185
5014018	TELEKOM SLOVENIJE, D.D., LJUBLJANA	62,54	4,25					9.684		38.520									9.684		2.999
5141966	PERUTNINA, D.D., PTUJ	0,00003		0,04														8.322			
5040302	CIMOS, D.D.		6,9													45.892.758					
5510244	INKOS, D.O.O., KRMELJ	2,54														1.386.880					
5041210	POLZELA, D.D.	30,42														1.522.053					
5156505	ADRIA AIRWAYS, D.D.	69,87		19,63												4.788.570		0			
5001684	INTEREUROPA, D.D., KOPER		1,73				-833.781														
5835771	ŠCP d.o.o.			97,31		8.956.519				19.968						5.699.457					10.112
5063345	ZAVAROVALNICA TRIGLAV, D.D., LJUBLJANA	34,47*	28,09							36.421											13.024

NOTE 28: Contingent liabilities

The list of court proceedings in which the BAMC acts as defendant party shows that there are no proceedings against the BAMC in which the plaintiff would demand payment from the BAMC. All the facts from the legal proceedings are taken into account in the valuations of the fair value of assets, for that reason no accruals are made in the balance sheet.

NOTE 29: Audit cost

The cost of the audit for the financial year 2014 is €79.287 while cost of additional audit services was €29.867.