DUTB from bad to good

BAMC Half-year Report 2016

September 2016

TABLE OF CONTENTS

LIST OF FIGURES

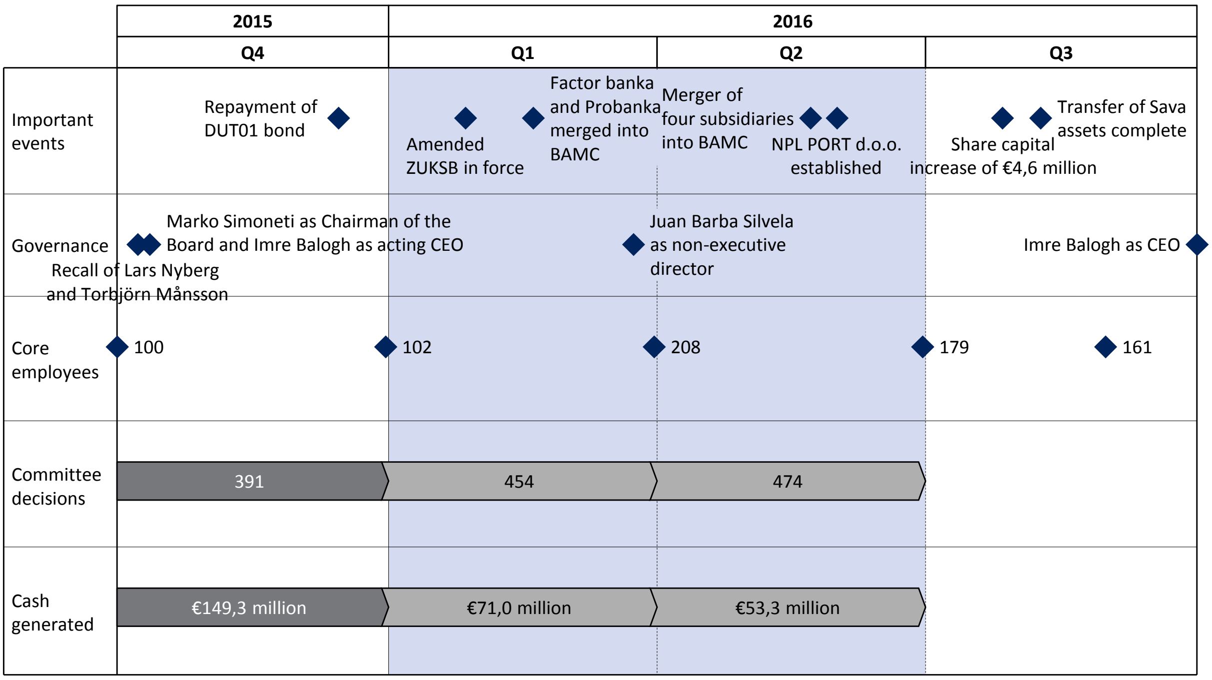
LIST OF TABLES

HIGHLIGHTS AND SUMMARY OF THE FIRST HALF OF 2016

The first half of 2016 at BAMC has been marked with the one-off event of the merger of Factor banka and Probanka into BAMC and therewith related activities directed at reorganisation, process and cost optimisation, through which BAMC laid solid foundations for future development.

Notwithstanding the smooth completion of the three-way merger, progress has been achieved in all of BAMC's key strategic tasks, and all but one of the broad range of KPIs were achieved or even overfulfilled. The company continued to excel in cash generation even without any single large ticket transaction, partially returned borrowed funds through early repayment, and by the end of the period restored its high pre-merger operational efficiency through process redesign and downsizing. The only target not reached was the ROE requirement, due to special circumstances. However, taking into account all guarantee fee and interest premium payments to public sector institutions, BAMC has secured a decent total return to its owner the Republic of Slovenia.

FIGURE 1: BAMC'S OVERVIEW OF H1 2016



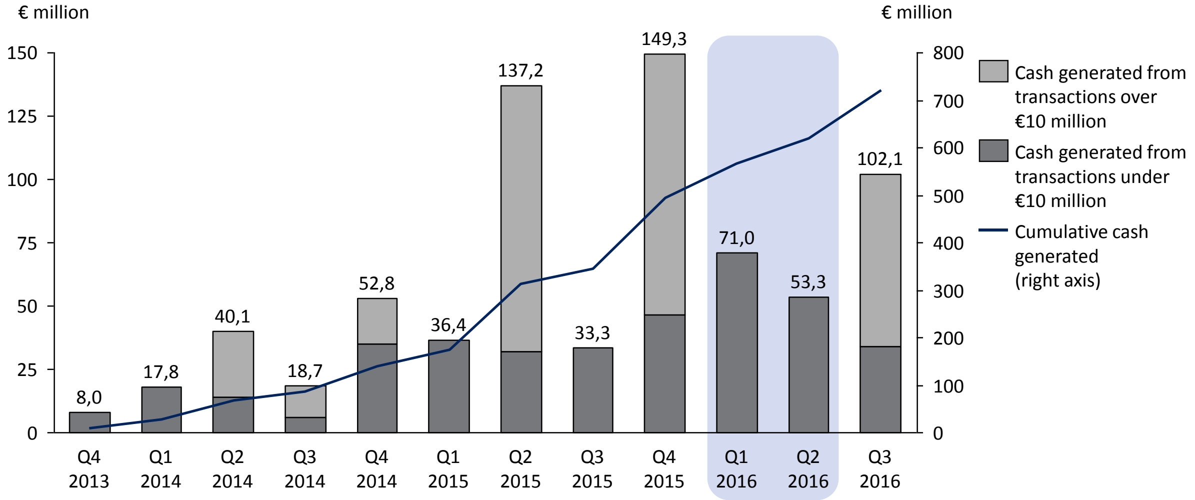
NOTE: Core employees displayed in the figure relate to staff not employed in temporary projects. See also updated breakdown in the following text.

Despite the merger process, BAMC generated, entirely from numerous smaller ticket transactions, €124,3 million of inflows representing 6,2% of portfolio transfer value in H1 2016, ensuring a stable monthly cash generation crucial for tighter liquidity management and debt prepayment. An even more reassuring sign of the enhanced stable deal flow is that the average quarterly cash from smaller transactions at €62,1 million was 68% higher than the quarterly average of €37,0 million in 2015. As for the composition of the cash generation, 37,0% was attributable to operating inflows, while 29,5%

was realised from sales of claims and equity, and 33,5% from the sales of own and collateralised physical assets (mostly real estate) in H1 2016.

Moreover, together with cash generated in July and August 2016 BAMC already realised well over €200 million of inflows (including one large transaction in August), thus surpassing the entire annual 10% statutory cash generation threshold in just eight months of operations.

FIGURE 2: CASH GENERATED BY QUARTERS



NOTE: Q3 2016 cash flows include receipts from July and August 2016.

As a result of optimised liquidity position and the realised cash flows, BAMC was able, in addition to monthly instalments of €5,0 million, to pre-pay to the state budget €150,0 million in April 2016 (and another €120,0 million in August 2016).

The H1 2016 loss of €5,6 million and a corresponding ROE of -12,6% are primarily a result of still excessive financing and guarantee costs (102,2% higher than BAMC operating costs in H1 2016), plus the one-off accounting consequences of the merger. In the latter, BAMC merged the assets from Factor banka and Probanka at book values higher than the estimated fair values. Because of this (namely, real estate inventory impairments and release of revaluation reserve) the merger had a joint €9,2 million negative effect on BAMC's income statement (and a direct €48,8 million negative effect on BAMC's equity from other asset valuation added to the €8,6 million effect from merged entities' negative equity, see Table 4 for details). Without these effects, BAMC would have a half-year profit of €3,6 million and ROE of 8,0%.

In light of the return on equity (ROE) indicator it should also be noted that BAMC is additionally providing a fixed return to the state in the form of paying the government guarantee fee on its issued bonds as well as paying a premium on the (still high in absolute terms) risk-free borrowing rate to the bondholders. Both of these considerably affect BAMC bottom line results, and BAMC's net income would be much higher without them, while they constitute a return to the Slovenian public sector institutions as guarantor and debt holders.

Due to significant valuation differences (to a material extent attributable to valuation methodology differences) at initial recognition related to the merger of Factor banka and Probanka, which was executed following General Meeting decision, BAMC equity value was reduced by €72,3 million as the direct result of the merger. Part of the difference is recorded as direct return of capital to the owner and part as direct expenditure, affecting company's equity through net income. Nevertheless, the impact of the merger on BAMC's capital was below the €76,0 million capital buffer authorised by EC and the Government for the two banks in orderly liquidation in 2013 for potential future losses.

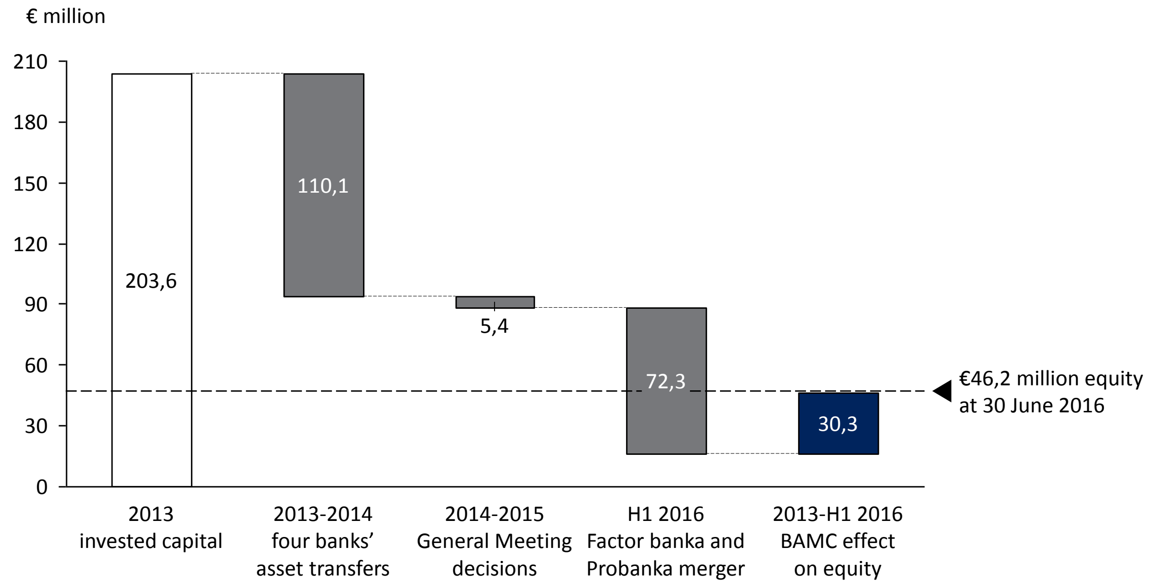
Thus, the average yearly EROE (calculated as value of equity at 30 June 2016 over invested capital net of losses incurred on behalf of the owner) stood at 53,2%, well above the 8% return required in the Guidelines. This is a cumulative consequence of the fact that, since inception, BAMC has absorbed €187,7 million of losses imposed by decisions of the owner (Republic of Slovenia) at the expense of the provided capital as presented in the table below.

TABLE 1: RETURN OF CAPITAL TO THE OWNER SINCE INCEPTION

in € million	**Effect on BAMC equity**
Transfers of non-performing assets from NLB, NKBM, Abanka and Banka Celje in 2013 and 2014	-110,1
Other transactions based on General Meeting decisions in 2014 and 2015	-5,4
Merger of Factor banka and Probanka in 2016	-72,3
Cumulative capital returned to the owner in the 2013 – H1 2016 period	**-187,7**

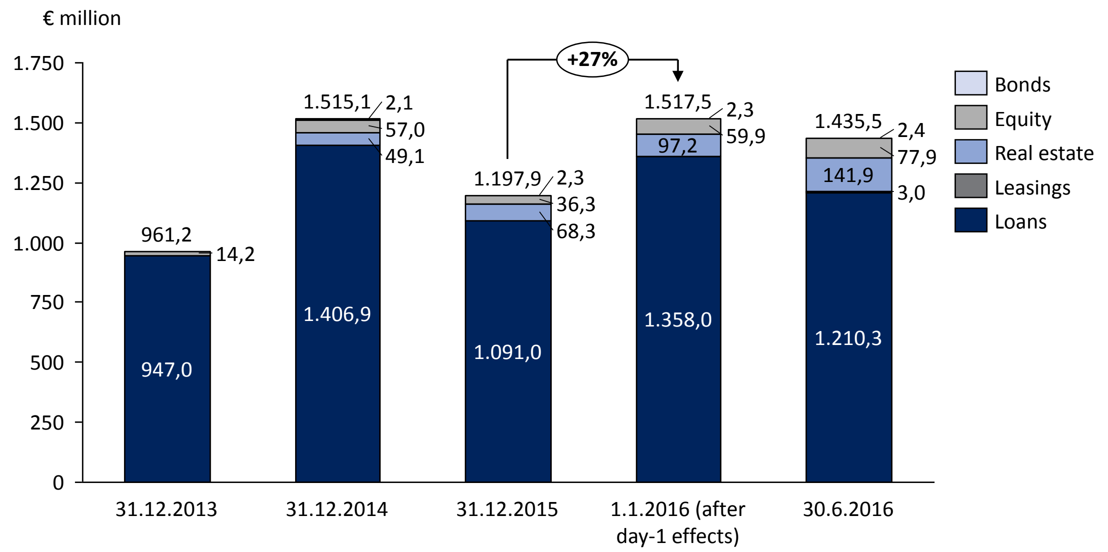
In 2013, the Republic of Slovenia invested €203,6 million worth of share capital into BAMC. As shown in the table above, BAMC realized a loss of €187,7 million through transactions where the transaction price was not negotiated but instructed by the decision of the owner – the Government – thus lowering BAMC equity to the level of €15,9 million (in other words, this was the real value of the de facto provided net capital). BAMC's equity as at 30 June 2016 amounted to €46,2 million, which means that BAMC was able to add €30,3 million to its capital as a result of its operations. However, this was insufficient to fully cover losses incurred as a result of the aforementioned transactions.

FIGURE 3: EQUITY EFFECTS SINCE INCEPTION



Factor banka and Probanka, two former banks in liquidation, were, following Government decision, merged into BAMC on 19 February 2016. As a result, BAMC's total assets under management leaped back to the level of €1,5 billion as at 1 January 2016, but reduced since through asset management transactions in H1 2016. The profile changed and the granularity of the portfolio grew significantly due to the merger, as in addition to almost 2.000 new small (including retail) exposures, the number of individually treated cases also increased by 30%, while the volume of total assets under management increased by 27% compared to 2015 year-end.

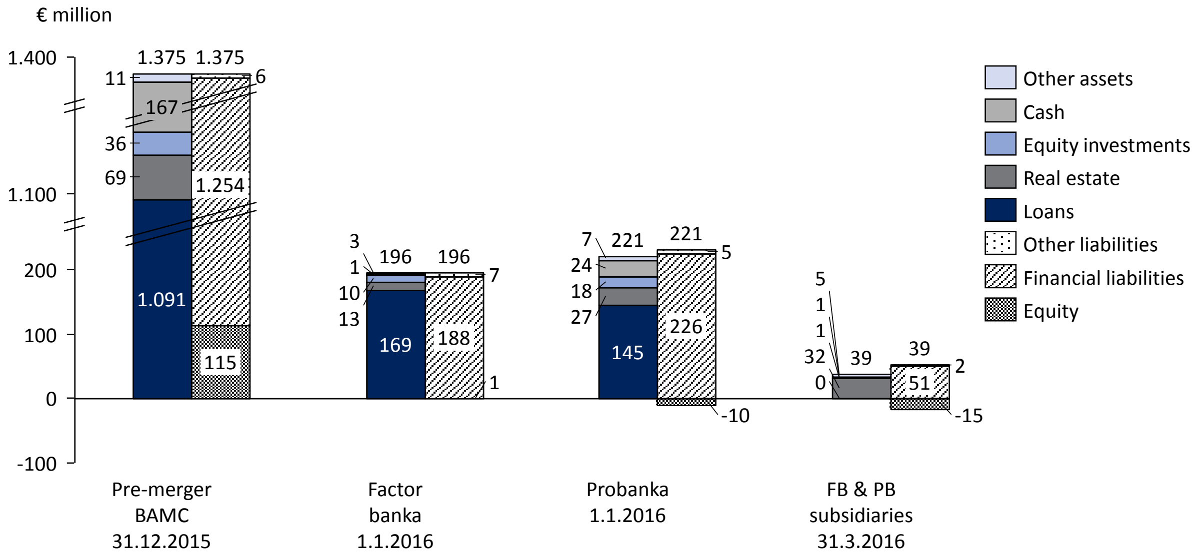
FIGURE 4: ASSETS UNDER MANAGEMENT



Pre-merger preparatory activities began already in late 2015, while process and cost optimisation was intensively pursued immediately after the merger. The two were addressed through changes in the decision-making system and optimisation of running contracts. Reorganisation, taking full effect with

1 July 2016, resulted in a 17% reduction in headcount by mid-year, compared to the number of employees at merger date, and downsizing is still in progress. As of 1 September 2016 the target staffing model with 142 permanent employees (136 for comparable positions and six for insourcing previously outsourced services, already resulting in more than €20 thousand monthly cost savings) was practically reached with 129 employed in permanent positions and 14 in temporary contracts in project tasks, of which most will finish until year-end. In this way the total increment of BAMC post-reorganisation staff is way below the authorised number of planned remaining employees of the two banks for year-end 2016, also underlying the increased overall efficiency from the merger. All in all over 90% of merger-related tasks were completed by the end of June 2016 and the remaining ones transferred to line management have mostly been closed since as well.

FIGURE 5: SIMPLIFIED MERGER OVERVIEW

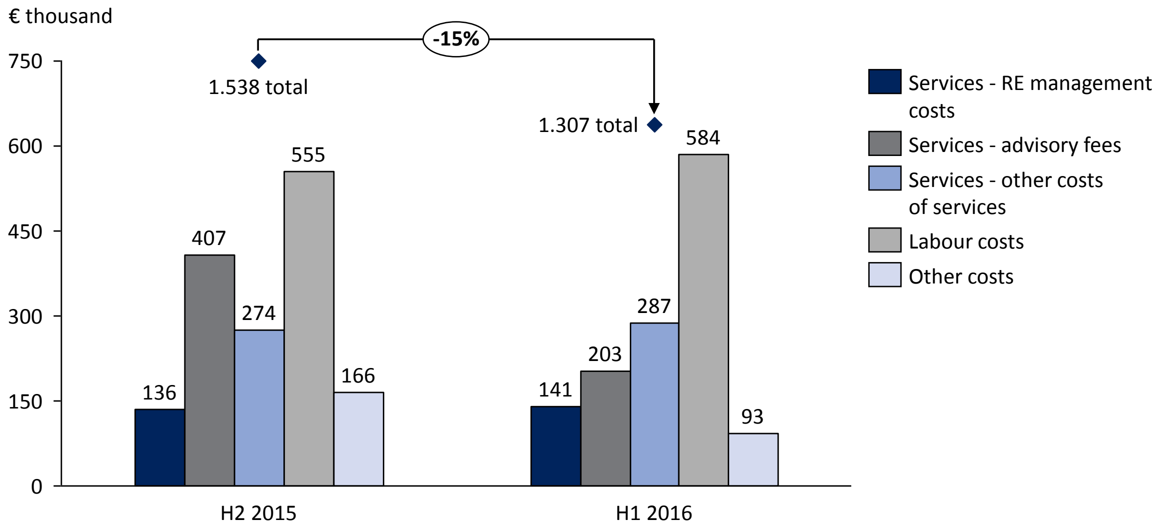


NOTE: All subsidiaries were almost entirely financed by Factor banka and Probanka, hence BAMC as their legal successor.

The measures taken are reflected in increased cost efficiency during the months, with the half-year figure standing at 0,87%. As a result of reorganisation and downsizing, BAMC's pre-merger productivity was restored in terms of asset volumes per employee and even increased in terms of number of cases per employee, while the productivity of the merged entity now is 15% higher than the three entities combined before the merger.

At the same time, the cost level of Davčna unit ("old" BAMC in the temporary organisational structure, terminated as at 1 July 2016) was reduced by 15% in comparison with H2 2015, the time when BAMC on a stand-alone basis reached full capacity and mature organisation/staff levels.

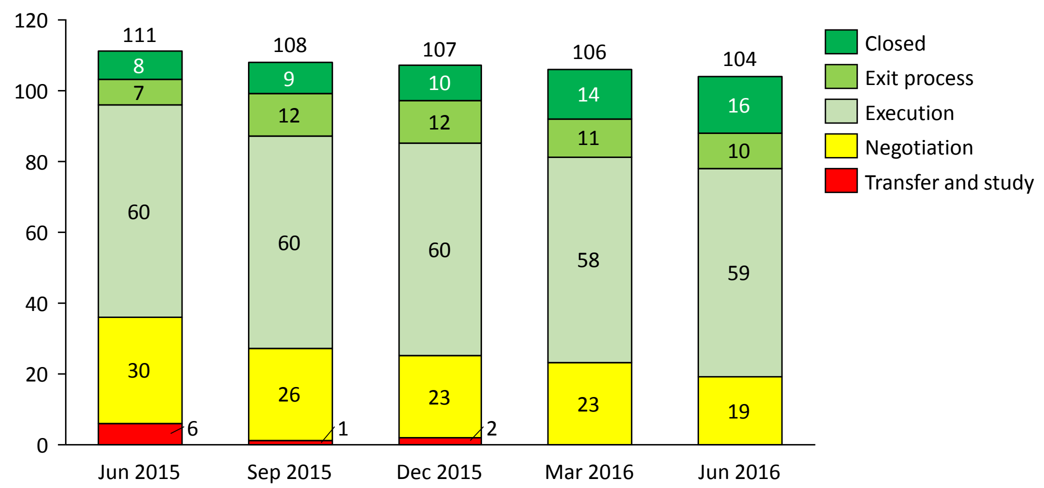
FIGURE 6: AVERAGE MONTHLY OPERATING COSTS



NOTE: For comparability to H2 2015, H1 2016 costs relate only to BAMC Davčna business unit.

BAMC has thus become an even stronger organisation with regained earlier efficiency, well-defined processes and decision-making strictly abiding the four-eye principle, improved IT architecture and a carefully selected staff apt to manage assets in the most effective way. Further progress has also been made in restructurings with less cases in the negotiation phase and more closed ones.

FIGURE 7: PROGRESS IN RESTRUCTURINGS



NOTE: Case progress is estimated monthly by case managers. The number of cases in restructuring or recovery may vary due to changed circumstances in case management or a change in BAMC strategy pursued towards a specific debtor.
Presented are only cases already managed by BAMC before the merger of Factor banka and Probanka while an extended overview is in place after the reorganisation, i.e., in the second half of 2016.

PRESENTATION OF BAMC

TABLE 2: BASIC COMPANY DATA ON 29 SEPTEMBER 2016

Full company name	Družba za upravljanje terjatev bank, d.d. Bank Assets Management Company
Short company name	DUTB, d.d. BAMC
Registered office	Davčna ulica 1, 1000 Ljubljana
Telephone	+386 820 542 35
Fax	+386 1 429 38 59
E-mail	info@dutb.eu
Website	www.dutb.eu
Core business	Activities of collection agencies and credit bureaus
Registration entry	2013/11708, District Court of Ljubljana
Company ID number	6339620000
Tax number	41251482
VAT number	SI41251482
Initial share capital	€208.235.000,00
Number of shares	104.117.500 ordinary no-par value shares
Non-executive directors as at 29 September 2016	Marko Simoneti, Chairman of the Board of Directors Janez Širovnik, Deputy Chairman of the Board of Directors Juan Barba Silvela
Executive directors as at 29 September 2016	Imre Balogh, acting CEO Janez Škrubej Aleš Koršič

NOTE: On 27 July 2016 initial share capital increase of €4,61 million (2.305.000 shares) was registered at court register.
On 24 March 2016 the Government in the capacity of the General Meeting of BAMC appointed Juan Barba Silvela as non-executive director for the period of five years from the date of appointment.
On 7 September 2016 the non-executive directors appointed Imre Balogh as the CEO of BAMC with his five-year mandate beginning on 1 October 2016.

CORPORATE GOVERNANCE

BAMC has a one-tier system of corporate governance, where the highest decision-making body is the Board of Directors. Following the provisions of ZUKSB and the Articles of Association, the Board of Directors comprises four non-executive directors[1] and three executive directors. The Board of Directors has four committees: the Audit Committee, the Accreditation Committee, the Remuneration Committee and the Board Credit and Investment Committee. For the Audit, Remuneration and Accreditation committees, the committee members comprise of non-executive directors and one

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

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

external member with the relevant professional experience in Slovenia. The Board of Directors and its committees function in accordance with the relevant rules of procedure.

The ZUKSB amendments stipulated that the non-executive directors are appointed and recalled by the Government of the Republic of Slovenia and have powers of the supervisory board while executive directors are appointed and recalled by the non-executive directors.
Executive directors are responsible for BAMC's day-to-day operations and non-executive directors are not involved therein.

In March 2016 the new Articles of Association, new Operational guidelines of DUTB and new Decree on the implementation of measures to strengthen the stability of banks entered into force. An overhaul of the applicable internal bylaws (e.g., Rules of procedure of the Board of Directors of BAMC, Rules of procedure on the work of Executive Directors, BAMC enlarged scope of new financing/asset purchase tools) took place in BAMC to bring them in line with the amended legislation, subsidiary regulations, and merger with Probanka and Factor banka.

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

BAMC has an internal audit function that reports directly to the Audit Committee of BAMC. In addition, Risk and Compliance Management Committee is supporting the work of the executive directors and this committee's reports are a standing item in each of BAMC's Board meetings.

REORGANISATION AND THE NEW ORGANISATIONAL STRUCTURE

BAMC is organised to be effective in its mission, and in the achievement of the strategic objectives defined by the ZUKSB. The functional organisational structure is illustrated in the figure below.

BAMC´s core processes are performed in the loan management and workout division and the asset management division. The former is composed of units specialised according to exposure size, complexity and debtor profiles, while the latter consists of a real estate management and an equity management unit. Credit and asset managers are supported by financial analysis and valuation review, legal and mid-office functions, now all segregated and independent from each other, ensuring adequate built-in process controls.

Headcount at the end of H1 2016 stood at 187, up 55% on the number at the end of 2015. As presented below, the entire headcount increase is due to the merger of Factor banka and Probanka into BAMC, while the staff number of the "old BAMC" (Business unit Davčna) decreased by 9%.

After the merger of Factor banka and Probanka, the headcount peaked at 226 at the end of February 2016 with the number gradually reducing in line with the reorganisation process. While downsizing is not yet completed, headcount stands at 167 at the beginning of September with 129 employees on permanent positions, 14 on temporary projects, nine on maternity or longer sick leave and 15 employees in notice period.

TABLE 3: HEADCOUNT BY ORGANISATIONAL UNIT

Organisational unit	**30 June 2016**	**31 December 2015**
Credit management and workout	51	55
Asset management	28	36
Support	25	24
Governance	6	6
Business unit Davčna	110	121
Business unit Tivolska	20	
Business unit Maribor	57	
Total	**187**	**121**

NOTE: In the transition period, after the merger of Factor banka and Probanka into BAMC and before internal reorganisation came into effect on 1 July 2016, the employees in the two former banks were assigned to respective business units.

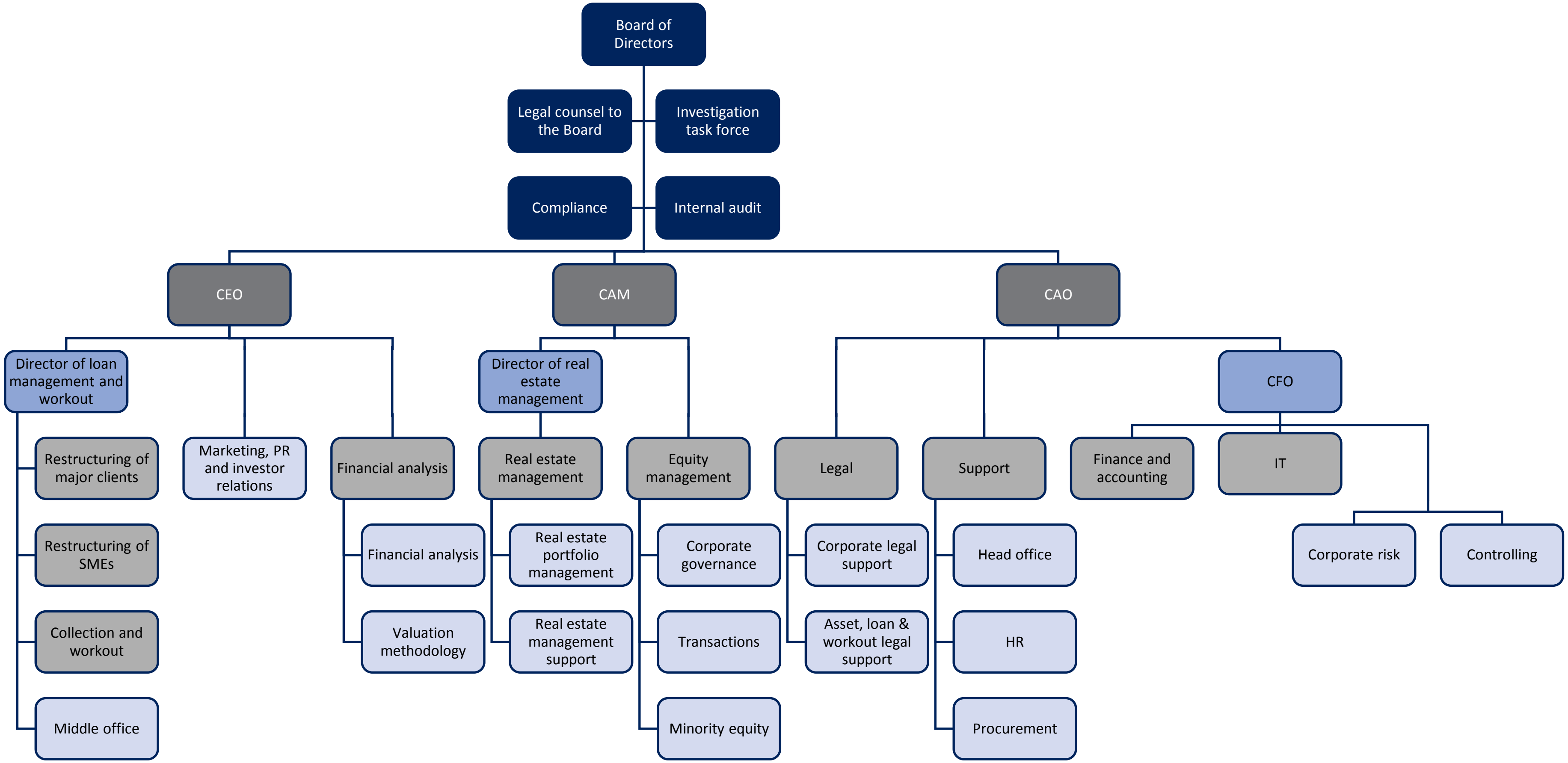
Already in its development as a quickly growing and evolving organisation, BAMC reached the stage were, due to increased size and complexity, more regulated processes, controls and clearly segregated duties and responsibilities were needed to continue efficient operations. Largely overlapping decision-making structures were imposing a high administrative burden on decision-makers, driving the focus away from higher impact cases. The changes in the legal, supervisory and corporate governance framework would have themselves alone triggered a need for significant internal redesign of the processes and organisational framework, and the three-way merger of institutions with similar activities in distressed assets management, amplified the necessity of such a change but at the same time added to its complexity.

The business processes, human resources, cultures and communications of the three organisations had to be merged without major disruptions of operations by the set deadline of 30 June 2016. Additionally, asset profiles (with their sizes and distributions) of the three entities differed considerably and managing the enlarged portfolio efficiently required more standardized work processes. This adjustment had to go hand-in-hand with elaborating a new staffing model and reorganization of the company to carry out a cost and staff optimization procedure whilst keeping the same operational results and efficiency levels.

The major milestones on the roadmap of process redesign, strengthening controls, efficiency and HR development, which finally culminated in the reorganization, were the following:

- Instruction on internal by-laws (regulating responsibilities for elaboration and adoption for internal regulations),
- Unified and transparent sales rules for all asset classes with amended KYC (know your client) and resale clauses,
- Amendments to the unified action plan templates for claims and equity in two distinct directions:
  - Enrich decision making for more complex cases with aspects of expected reaction from stakeholders, effects of alternative solutions, mandatory calculation of financial effects, etc.;
  - While at the same time introducing a simplified template for small cases and administrative decisions to reduce related workload and administrative burden,
- Completely new committee structures and decision making rules to unify decision-making for claims, equity and real estate, to eliminate previous overlaps and concentration of most decisions on higher levels, sharply separating decision-making authorities and personal composition of each individual committee and delegating a lot more decision-making responsibility to OCIC while maintaining executive level control over the high volume (83%) of exposures,
- New working rules for the Board of Directors and Executive Directors,
- Regulation on new financing, buyer financing, guarantees,
- Revised valuation policy and procedural rules,
- Regulations on procurement and financial controls (electronic invoices),
- Revised job systematisation, salary bands and unified, extended bonus system,
- Code of Conduct and Personal Integrity plan for employees,
- Performance grading for all employees, selection process of candidates for mid-management positions, portfolio reallocation between teams and individual case/asset managers, redundancy program,
- New organisational chart and rules on internal organisation.

Figure 8: Organisational structure



Note: The organisational structure valid from July 2016 onwards.

Decision-making system

BAMC's decision-making system covers well-defined separate 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 taken by the Board of Directors, taking into account the opinions and recommendations issued by the Board committees. The Board of Directors also takes strategic decisions that relate to the transfer of assets and the funding of BAMC.

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

Credit and investment decisions of lower importance or administrative nature are discussed and accepted at the operational level by Operational Credit and Investment Committee consisting of one of the operational heads included in the asset management process. All other decisions are adopted by the Executive Credit and Investment Committee. The most important credit and investment decisions, adopted by the Executive Credit and Investment Committee are subject of additional consent by the Board Credit and Investment Committee. All decisions are documented.

The appointment of directors at limited liability companies (which have no supervisory board) being restructured by BAMC is the responsibility of executive directors. Members of supervisory boards at companies being restructured by BAMC are appointed by the Board at the recommendation of the Accreditation Committee.

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

BAMC introduced changes in the decision-making system in the beginning of April 2016 as a response to changes in ZUKSB, merger process and changed structure of portfolio of assets under management. Completely renewed structure of credit and investment committees has eliminated the overlapping of responsibilities on Executive and Board levels vs. the operational level. Now the Board Credit and Investment Committee is a consent-giving body to the most important decisions adopted by the Executive Credit and Investment Committee.

Limits between different types of credit and investment committees are clearly established, and participants at the specific levels of committees are clearly defined. Operational Credit and Investment Committee now takes more operational decisions for cases with higher exposures and most of the decisions for cases with smaller exposures, while executive level committee still controls majority of larger exposures (80+% of total portfolio value altogether).

Action plan template was changed in a way to unify management of more complex loan and equity exposures and enrich decision-making with additional aspects and information on the one hand, and to simplify the decision-making process for smaller exposures with less significant impact of the proposed decisions on the other hand.

SIGNIFICANT EVENTS IN THE FIRST HALF OF 2016

CORPORATE GOVERNANCE AND REPORTING

On 27 January 2016 the amended ZUKSB came into force, empowering BAMC with additional restructuring tools as well as re-establishing BAMC's framework of operations and its supervision. More detailed information on amendments of ZUKSB is presented in a special chapter on page 59.

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

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

ASSET MANAGEMENT

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

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

FINANCING

With the merger of Factor banka and Probanka, BAMC took over not only assets of acquired former banks, but also over €369,0 million of their obligations towards the Ministry of Finance which originally matured in August and September 2016. On 8 April 2016, BAMC made an early repayment of €150,0 million of aforementioned obligations and extended the maturity of remaining obligations by December 2016 when DUT02 bond matures as well.

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

ORGANISATION AND PROCESSES

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

- Registered capital of BAMC is increased by €50 million in order to cover potential negative effect on BAMC's capital,
- The Republic of Slovenia issues a statement that it will reimburse BAMC for any payments made to the former bondholders or to the shareholders of both merging banks on the basis of legally binding decision within one month after the receipt of the written proof of the amounts paid to the former bondholders/shareholders of Factor banka and Probanka,
- Ministry of Finance and BAMC reach an agreement regarding the restructuring of €369,0 million debt or a guarantee of the Republic of Slovenia is issued for its refinancing,
- The effects and consequences of the merger are accounted for in adjusting the target key performance indicators for BAMC.

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

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

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

In June 2016 NPL PORT d.o.o., a technical servicing company, established by the transformation of former DUP2 d.d., has begun operations. The company is providing loan portfolio back office and IT services to BAMC with the plan to attract more external customers, making use of the economies of scale, and to be sold on the market in the future.

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

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

EVENTS AFTER THE ACCOUNTING PERIOD

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

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

On 24 August 2016, in addition to regular monthly instalments of €5 million, BAMC made another early repayment of €120,0 million of obligations towards the Ministry of Finance taken over with the merger of Factor banka and Probanka. The remaining obligations in the amount of €68,5 million will be repaid by December 2016. In this way the merger ensured a much faster and full repayment of the Ministry of Finance loans than the two banks would have been able to return on a standalone basis.

Including inflows up to the end of August, BAMC has generated over €200,0 million of cash inflows in 2016 thus already surpassing the yearly statutory goal of cashing 10% of assets transfer value.[2]

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

[2] The statutory goal has increased in absolute terms with the merger of Factor Banka and Probanka. See footnote 5 for details.

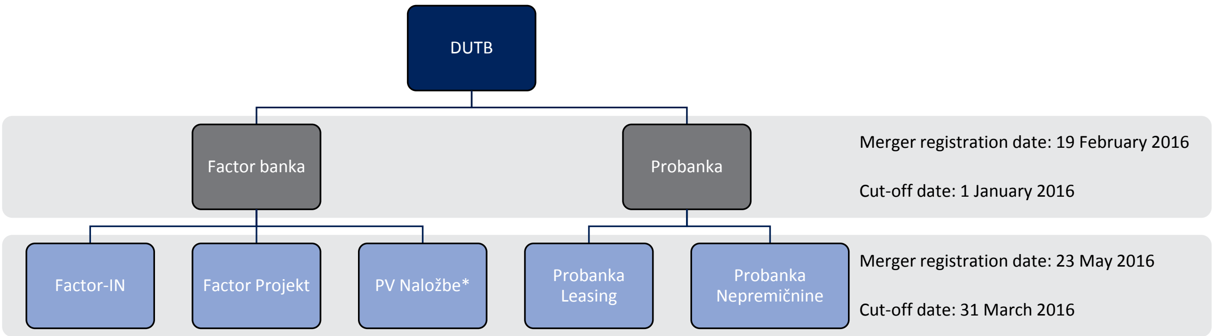
BUSINESS REPORT

MERGER OF FACTOR BANKA, PROBANKA AND THEIR SUBSIDIARIES INTO BAMC

On 19 February 2016, Factor banka and Probanka were merged into BAMC by way of a simplified merger process. On 18 February 2016, the government of the Republic of Slovenia, acting as the BAMC General Meeting, adopted a resolution on the merger of Factor banka and Probanka by way of registration in the court register on 19 February 2016, with the cut-off date of 1 January 2016.

By absorbing Factor banka and Probanka, BAMC effectively became the direct owner of all assets of the two merged companies and took over all of their outstanding liabilities, including five subsidiaries registered in Slovenia. In May and June 2016, BAMC then absorbed all five subsidiaries as of the cut-off date of 31 March 2016, effectively simplifying the process of managing the merged assets.

FIGURE 9: MERGER PRESENTATION SCHEME



NOTE: *Merger of PV Naložbe was registered on 13 June 2016.

MERGER OF FACTOR BANKA AND PROBANKA

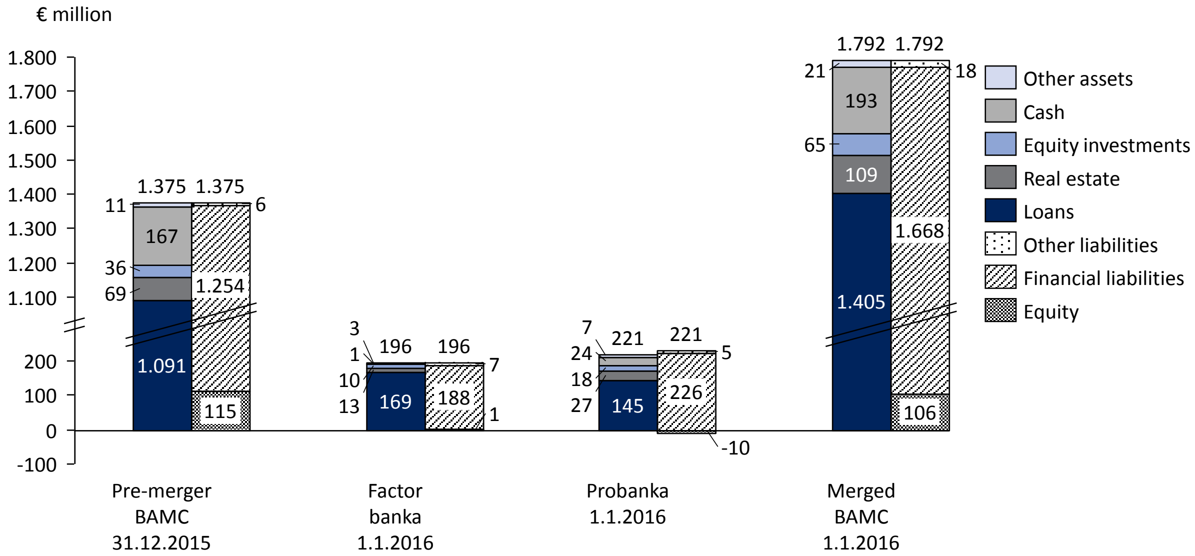
BAMC carried out the merger of Factor banka and Probanka at the initiative of Factor banka and Probanka, with the endorsement of the Bank of Slovenia, the Ministry of Finance and the Government. The Republic of Slovenia was the sole shareholder of all three entities, i.e., BAMC, Factor banka and Probanka. In September 2013 both of these banks were placed under orderly winding-down procedure. In the assessment of the Bank of Slovenia, the merger of Factor banka and Probanka into BAMC was economically merited for the Republic of Slovenia as the sole shareholder of the two companies, since the merger ensures operational rationalization and, most importantly, allows more time for disposing the assets of the acquired companies, consequently increasing the proceeds, and reducing the likelihood of a need for additional recapitalization of the two banks. Thus, the government acting as the general meeting of Factor banka and Probanka adopted the decisions supporting the merger of Factor banka and Probanka into BAMC by way of simplified merger procedure. In its explanation of the grounds for the merger, the Ministry of Finance stated that this is the most suitable way for the banks to cease to exist in an orderly procedure.

Before the merger was executed the Board prepared a merger report, pointing out that the advantages may outweigh the disadvantages, provided that:

- Registered capital of BAMC is increased by €50 million in order to cover potential negative effect on BAMC's capital,
- The Republic of Slovenia issues a statement that it will reimburse BAMC for any payments made to the former bondholders or to the shareholders of both merging banks on the basis of legally binding decision within one month after the receipt of the written proof of the amounts paid to the former bondholders/shareholders of Factor banka and Probanka,
- Ministry of Finance and BAMC reach an agreement regarding the restructuring of €369,0 million debt or a guarantee of the Republic of Slovenia is issued for its refinancing,
- The effects and consequences of the merger are accounted for in adjusting the target key performance indicators for BAMC.

In the simplified merger procedure BAMC absorbed the assets of Factor banka and Probanka at audited book values of the two companies as at 1 January 2016.

FIGURE 10: SIMPLIFIED BALANCE SHEETS OF THE THREE ENTITIES IN THE MERGER PROCESS



NOTE: Other assets in Factor banka and Probanka include claims included in day-one group valuations.

In accordance with its accounting policies, BAMC adjusted the value of the merged assets upon initial recognition as at 1 January 2016 to fair value. The fair values of merged assets and provisions were €63,7 million lower than their book values, reducing the equity of BAMC. Specifically, the differences between the fair values of assets and provisions and their book values as at 1 January 2016 are shown in the table below, which also shows the cumulative negative net equity of the two companies, which amounted to €8,6 million. The total negative difference of €72,3 million in the BAMC financial statements is disclosed as a return of capital to the owner[3].

[3] On the date of the merger, the Republic of Slovenia was the sole shareholder of all three entities, i.e., BAMC, Factor banka and Probanka.

TABLE 4: MERGER EFFECT ON BAMC'S EQUITY

in € million	Factor banka	Probanka	Total
Direct effect on equity	-28,1	-20,7	-48,8
Loans and claims	-25,6	-21,0	-46,5
Investment stakes	-4,4	-0,3	-4,7
Other assets	1,9	0,5	2,5
Indirect effect on equity through income statement	-2,1	-12,7	-14,9
Real estate as property plant and equipment	-0,1	-4,1	-4,2
Real estate as stock held for sale	-2,0	-8,6	-10,6
Sum of direct and indirect (income statement) effects	-30,2	-33,4	-63,7
Merged entity equity	1,3	-9,9	-8,6
Total effect on BAMC's equity	**-28,9**	**-43,4**	**-72,3**

NOTE: Investment stakes include bonds, shares and ownership stakes. Other assets include intangibles, provisions and accounts receivable.

Due to the shown negative differences between the book and fair values of the merged assets, the cumulative negative equity of the two merged entities, the negative income of BAMC in H1 2016, and the high amount of uncovered BAMC balance sheet loss before the merger, the BAMC equity capital fell under the capital adequacy threshold, for which reason the Board will request from the owner, the Republic of Slovenia, to confirm the following as the General Meeting of BAMC, as announced in the merger report:

- The denomination of the par value per share and the share capital from €208.235.000 to €104.117.500 which creates €104.117.500 of capital reserves, used to cover the uncovered balance sheet losses as at 30 June 2016.
- The recapitalization of BAMC in the amount of €50 million.

By implementing the proposed measures, the capital structure of BAMC will be reinforced, allowing future operations in accordance with the ZUKSB.

In addition to the assets, BAMC also acquired €414,0 million of financial liabilities from Factor banka and Probanka, among which the highest liability was to the Ministry of Finance, in the sum of €369,0 million, maturing in August and September 2016, respectively. On 8 April 2016, BAMC made an early repayment of €150 million worth of these obligations and received a decision from the Ministry of Finance, confirming its consent to extending the due date of the remaining liabilities until December 2016, when the DUT02 bond also matures. On 24 August 2016 BAMC made another early repayment of €120,0 million of obligations towards the Ministry of Finance taken over with the merger of Factor banka and Probanka. The remaining obligations are to be repaid by December 2016.

Also, the headcount increased significantly as a result of the merger, the organizational structure changed and the complexity of BAMC's operations increased. As of 1 January 2016, the headcount in Factor banka and Probanka was 29 and 115, respectively. Thus, on the fiscal date of 1 January 2016, the cumulative headcount of BAMC, Factor banka and Probanka was 265. Both Factor banka and Probanka were in the process of laying off their employees, so that at the time of the registration of the merger in late February 2016, BAMC had a headcount of 226.

Immediately following the merger, BAMC initiated the reorganization activities with a view to optimizing processes, taking advantage of the economies of scale, and optimizing costs. The new organisation formally came into force on 1 July 2016 and will make it possible to reach the target headcount of 142 after the reorganization.

The merger project was approached in three working groups which implemented most of their tasks by the set deadline of 30 June 2016. 72 out of 78 sub-tasks were fully completed while six were partially handed over to line management, and were practically all finished by August 2016.

- The first working group ensured the seamless migration and transition of accounts, payments and invoicing. Comparison and thorough assessment of software modules used in the various merged institutions resulted in the optimal finalisation of target IT infrastructure, and the smooth outsourcing of loan management services to the newly established subsidiary NPL Port was accomplished.
- The second working group analysed the merged portfolios and the decision structures in the three institutions, devised the new decision-making structures and thresholds, allocated common cases, prepared debtor reallocation between case management teams and developed the new action plan templates.
- The third working group developed the new organisational structure, lead the redundancy program, mid-management selection process, and review/harmonisation of the regulations in the three institutions.

Within the reorganization process BAMC managed to increase the average number of assets and the average value of managed assets per employee on almost every level. In comparison to all effective employees at BAMC before the merger, the reorganization process brought an increase in the total number of managed assets per employee by 29% (without decreasing the average value per employee). As a result of the reorganization, the overall efficiency in the merged entity improved by 15% in comparison with the average efficiency in the three organizations before the merger, displaying that the merger indeed facilitated the improvement in efficiency in distressed assets management in the Slovenian public sector.

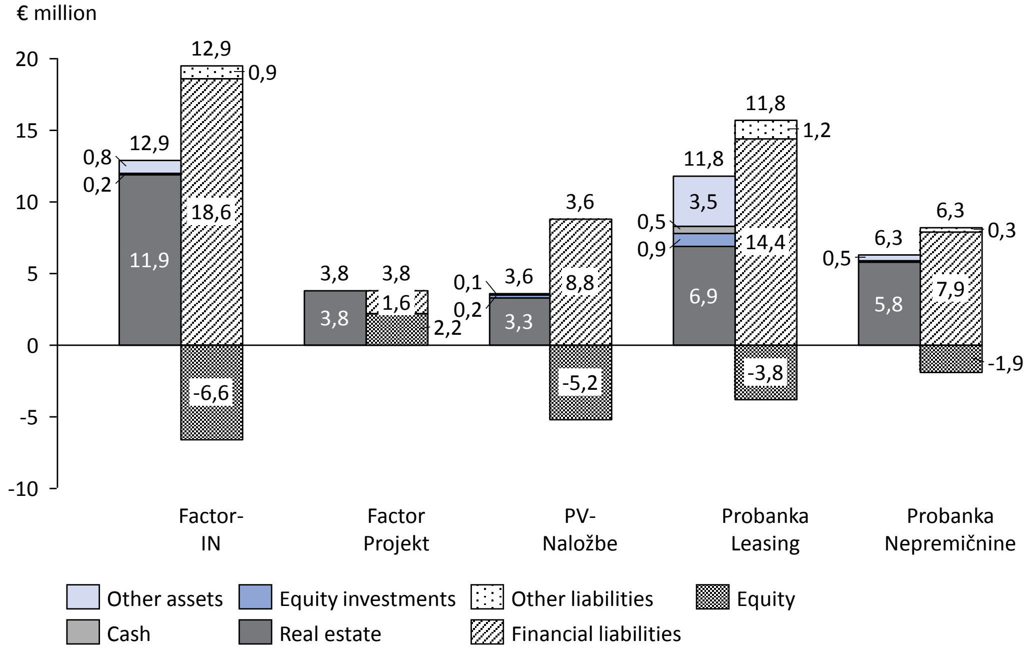
TABLE 5: OVERVIEW OF EFFECTIVE EMPLOYEES' EFFICIENCY BEFORE AND AFTER THE MERGER

values in € thousand	**BAMC before the merger (18 Feb 2016)**	**BAMC with two banks (19 Feb 2016)**	**BAMC after the reorganization**	**Increase in comparison to BAMC before the merger**	**Increase in comparison to BAMC with two banks**
Average number of assets / effective employee	18	21	24	29%	15%
Average value of managed assets / effective employee	19.907	17.491	20.063	1%	15%

MERGER OF FIVE SUBSIDIARIES OF FACTOR BANKA AND PROBANKA

After the merger of Factor banka and Probanka, BAMC also became owner of five subsidiaries of Factor banka and Probanka registered in Slovenia, all organized as limited liability companies. The companies Factor Projekt d.o.o., Ljubljana, Factor-IN d.o.o., Ljubljana, PV Naložbe d.o.o., Ljubljana and Probanka nepremičnine d.o.o., Maribor, were unstaffed, and owned mainly real estate or real estate projects. The company Probanka Leasing d.o.o., Maribor, involved in leasing operations, had four employees prior to the merger.

FIGURE 11: SIMPLIFIED BALANCE SHEETS OF THE FIVE MERGED SUBSIDIARIES



NOTE: Other assets also include leasing claims. All companies were almost entirely financed by Factor banka and Probanka, hence BAMC as their legal successor.

Considering that after the merger of Factor banka and Probanka BAMC was a 100% owner of the aforementioned companies and also almost their only creditor, it performed a simplified merger of Factor Projekt, Factor-IN, Probanka nepremičnine and Probanka leasing in May 2016, and a simplified merger of PV Naložbe in June 2016 as the most rational decision. The cut-off date of the merger of all five companies was 31 March 2016. With the merger, BAMC decreased the costs and complexity involved in managing the assets of these companies, increasing the efficiency of BAMC.

MANAGEMENT OF ASSETS

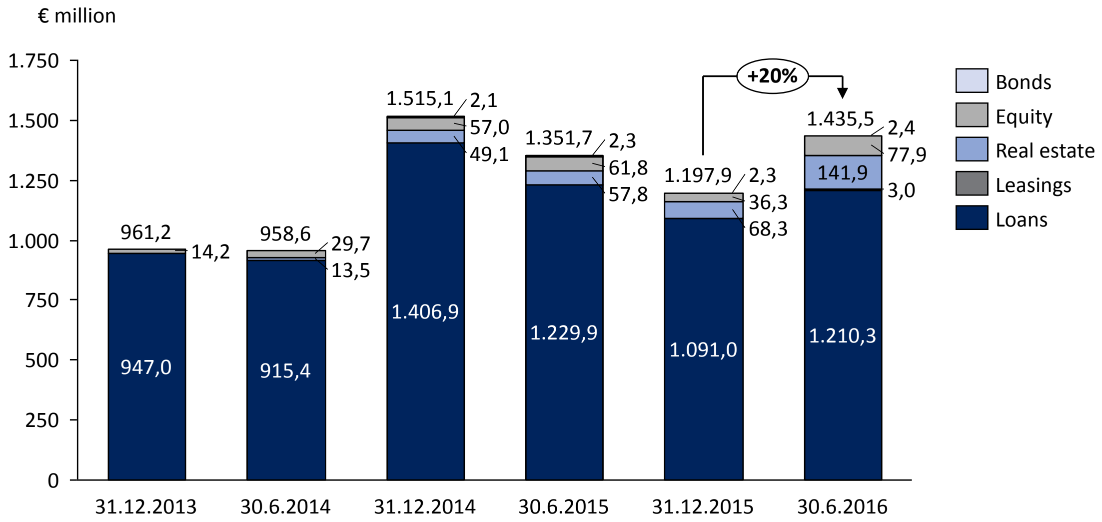
BAMC's assets are mostly managed individually, at the level of a claim or equity investment in a specific company or individual item of real estate. Where BAMC owns claims and equity in the individual company the maximization of enterprise value is targeted. In some cases, a group of companies is being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

ALL ASSETS ARE AVAILABLE FOR SALE

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

As at 30 June 2016 BAMC had over €1,4 billion of assets under its management. The majority (84,3%) was represented by loan claims, followed by real estate (9,9%) and equity holdings (5,4%). The latter two more than doubled in value compared to the end of 2015 mostly as a result of the portfolios of merged Factor banka and Probanka while the loan portfolio increased by 10,9%. Next to these BAMC also manages minor bond and leasing portfolios with a joint value of €5,4 million.

FIGURE 12: ASSETS UNDER MANAGEMENT

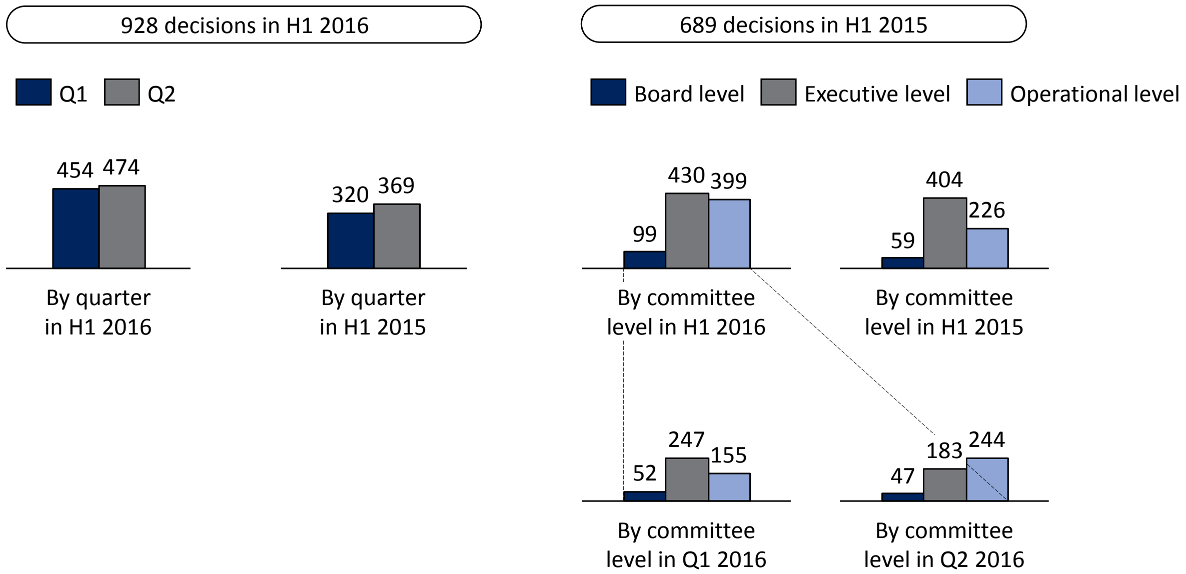


CREDIT AND INVESTMENT DECISIONS

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

Based on prepared action plans BAMC took 928 credit and investment decisions on operational, executive and board levels in the first half of 2016. As seen from the quarterly breakdown from half-year data, changes in the decision-making system effective since April 2016, due to the changes in ZUKSB and the merger of Factor banka and Probanka, have resulted in a higher number of decisions taken at the operational level increasing its power and responsibility, while the executive level can concentrate on high volume/impact cases.

Figure 13: Breakdown of decisions taken



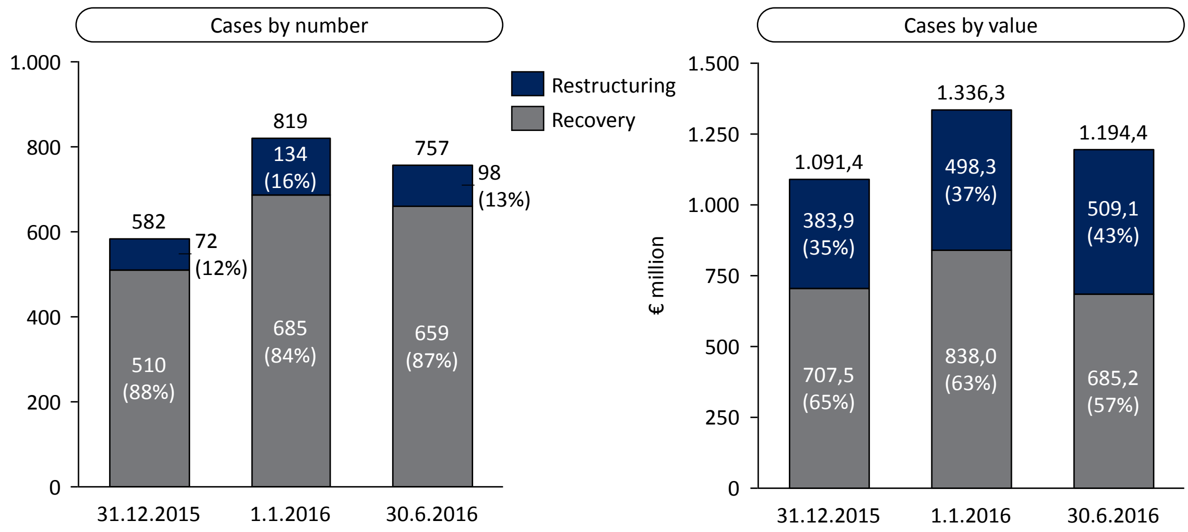
Note: The number of decisions is reported on an action plan (debtor) level, not counting multiple decisions within a single action plan. Thus, the decision count reported for H1 2015 is lower than the one presented in BAMC half-year report 2015.

LOAN PORTFOLIO MANAGEMENT

STRATEGIES TOWARDS DEBTORS[4]

757 loan cases were individually valued at mid-year 2016, with 98 having a predominant restructuring strategy and 659 cases a recovery one. While the number of cases compared to the end of 2015 increased by 30%, the value of the loan portfolio increased by less than 10% as a number of relatively smaller exposures were received with the merger (but also the value of the previously existing cases reduced, either due to repayments or other reasons). The presented loan cases' estimated fair value of €1.194,4 million corresponds to 24% of the total gross exposure of €4.888,6 million. The figure below displays also the combined end-of-year 2015 "old BAMC" valuation with day-one valuations of loans acquired with the merger. The trend shows that although less cases were classified as restructuring at mid-year, they contained relatively more value than at the beginning of the year.

FIGURE 14: VALUATED CASES BY STRATEGY



NOTE: The value of cases reported differs from the claims' value reported in Figure 12 as smaller exposures were valued as well but are not reported here.

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

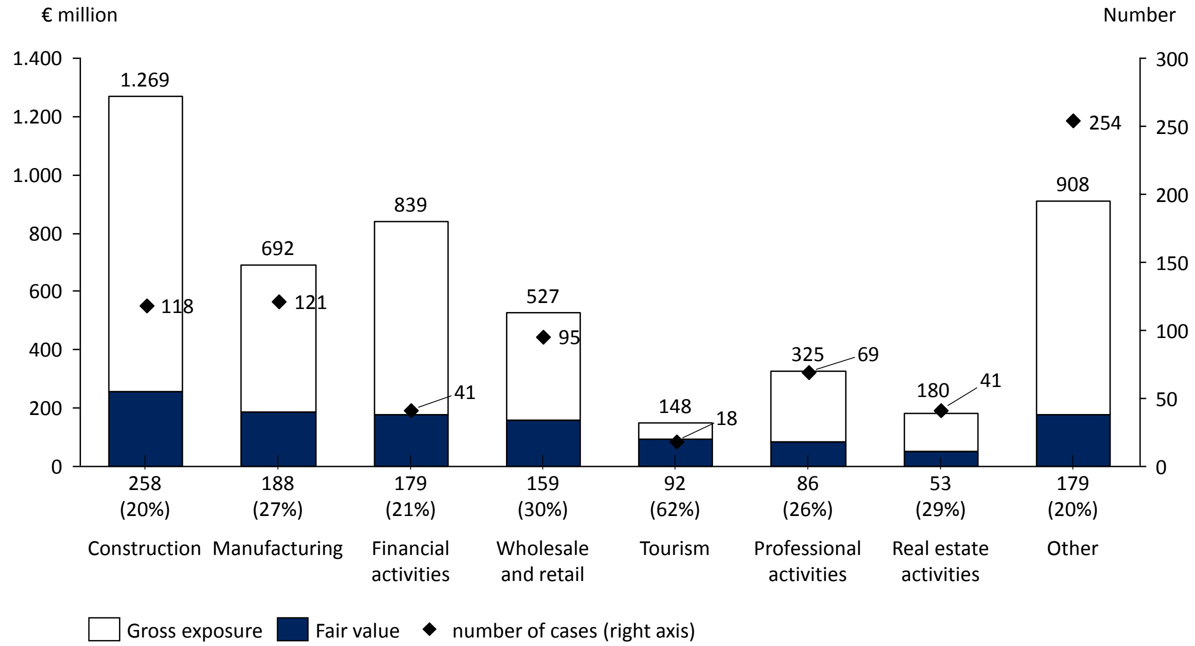
- The restructuring strategy is defined as a case, where BAMC is pursuing a restructuring scenario which has at least 50% probability of success. Nevertheless, these cases have two different value scenarios estimated depending on the success or failure of the restructuring.
- The recovery strategy is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

It has to be noted that BAMC may, conditioned on not worsening its creditor position, pursue a restructuring strategy also in cases termed as recovery for valuation purposes.

PORTFOLIO CHARACTERISTICS

More than a quarter of all gross exposure is related to the construction industry, but this sector is providing the lowest average repayment at 20%. The second highest share of total gross exposure stems from the financial activities industry which is characterised by a relatively low number of cases, resulting in the highest average gross exposure per case (over €20 million). On the other hand, the tourism industry is estimated to hold more than 60% of value compared to gross exposure with the average fair value per case of more than €5 million.

FIGURE 15: LOAN GROSS EXPOSURE AND FAIR VALUE BY INDUSTRY



NOTE: Industry classification follows Standard Classification of Activities (2008). Industries are ranked by absolute fair value. Those presenting a notable share in the portfolio are displayed separately while the remaining cases, including foreign ones, are grouped into the "Other" category.

BAMC received a number of borrowers with smaller exposures with the merger of Factor banka and Probanka. While the number and value of loans of borrowers with greater exposures did not increase significantly, the number of smaller exposures increased dramatically. Changes in portfolio structure accelerated the reorganization process in order to increase the overall efficiency of all stand-alone entities and BAMC as a whole. Overhaul of the decision-making system was prepared at the time of merger of both entities and introduced increased internal controls and segregation of duties among different levels of credit and investment committees.

TABLE 6: CLAIM PORTFOLIO STRUCTURE FROM THE MERGER PERSPECTIVE

values in € thousand	BAMC 31 December 2015		Factor banka 1 January 2016		Probanka 1 January 2016		BAMC 30 June 2016	
Classification of borrowers	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**	**Number**	**Value**
Gross exposure above €300 thousand	546	1.090.410	143	134.939	183	109.974	758	1.194.767
Gross exposure below €300 thousand	16	596	106	4.054	1.709	14.190	1.881	19.063
Total	**562**	**1.091.006**	**249**	**138.993**	**1.892**	**124.164**	**2.639**	**1.213.830**

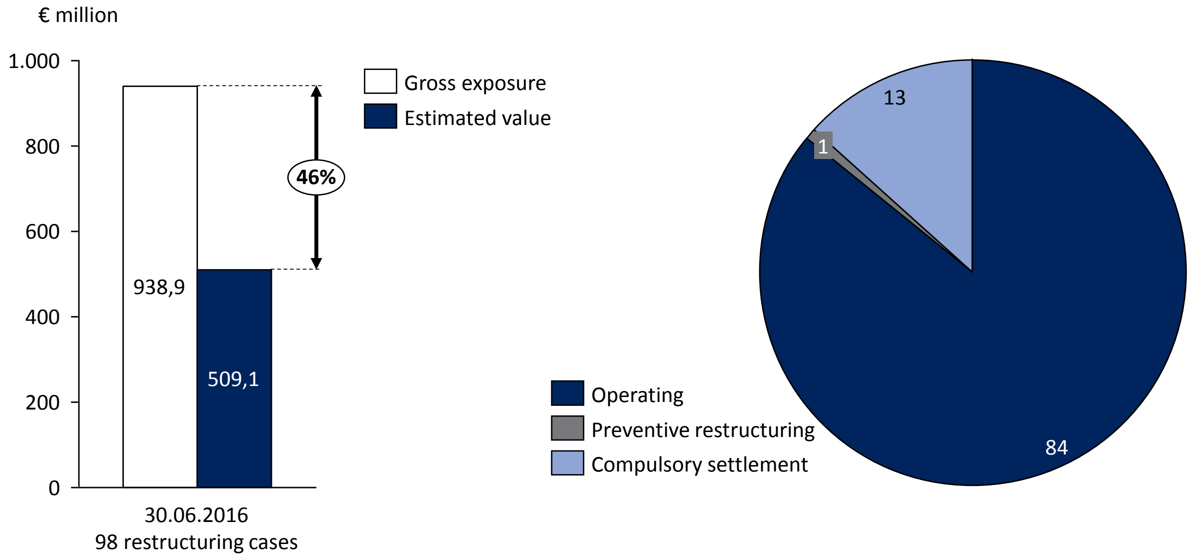
NOTE: Gross exposure was assessed on a group level. Estimated claims include leasings.

CORPORATE RESTRUCTURING

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

At mid-2016, BAMC evaluated 98 companies as restructuring for valuation purposes. With an outstanding debt to BAMC in the amount of €938,9 million the estimated fair value of the aforementioned claims was €509,1 million. Thus, a portfolio value difference to gross claims of 46% 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 83%).

FIGURE 16: RESTRUCTURING CASES OVERVIEW



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

MANAGEMENT OF EQUITY INVESTMENTS

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

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

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

TABLE 7: DEBT TO EQUITY/OTHER ASSETS CONVERSIONS AND CAPITAL INCREASES IN H1 2016

Company (values in € million)	**Gross claims converted into company's equity**	**Gross claims converted into other assets**	**Capital increase**
Zvon ena holding d.d.		20,2	
Zvon dva holding d.d.		8,2	
NPL PORT d.o.o.			0,8
Total	**0,0**	**28,4**	**0,8**

BAMC's equity management in H1 2016 was engaged in the following regular activities:

- Managing minority ownership exposures (e.g., monitoring the business results of the companies, attending general meetings of shareholders and executing ownership rights in line with ZGD-1 etc.),
- Support to credit management department in corporate governance activities where BAMC holds majority ownership (e.g., amending Articles of Associations, Implementation of Act Governing the Remuneration of Managers in Companies with Majority Ownership held by the Republic of Slovenia of Self-Governing Local Communities (Zakon o prejemkih poslovodnih oseb v gospodarskih družbah v večinski lasti Republike Slovenije in samoupravnih lokalnih skupnosti – ZPPOGD) etc.),
- Executing activities in cases where the sale process has been started.

In March 2016 the Board adopted BAMC's Corporate Governance Code in order to comprehensively set and regulate the general management and supervision standards whilst observing the principles and recommendations of industry organizations on corporate governance, as well as the operating principles laid down by the ZUKSB.

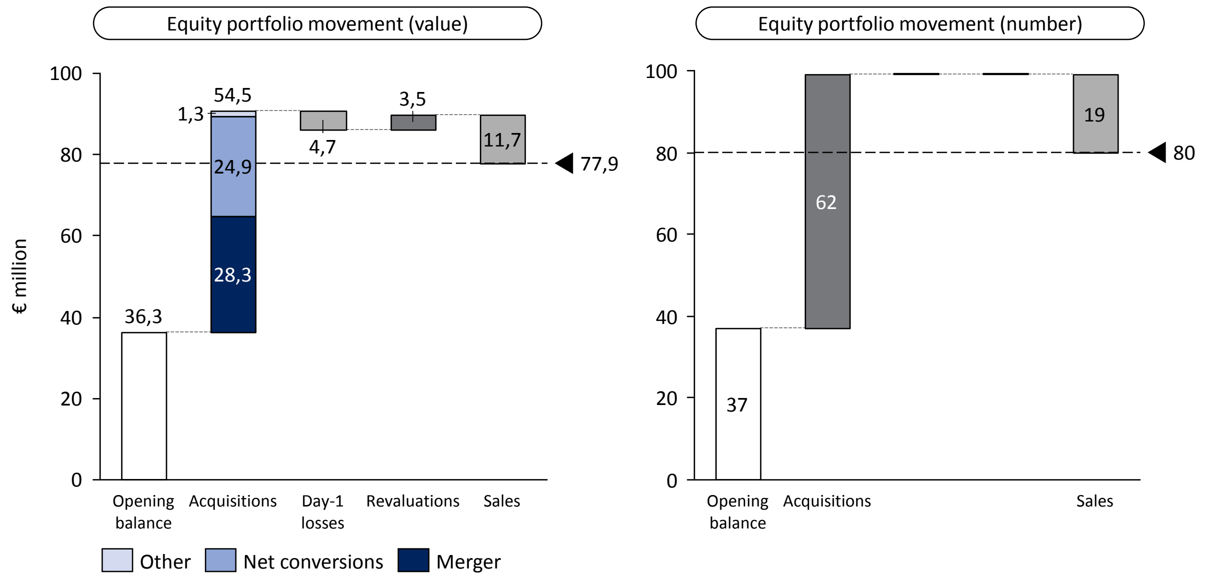
Due to merger of Factor banka and Probanka into BAMC in February 2016, H1 2016 was marked by both, pre-merger (understanding the status and content of new exposures and their priorities), and post-merger activities of including the merged ownership stakes into the new organisational structure of BAMC. The merger has namely doubled the number of direct equity exposures and added an additional international dimension of managing equity exposures on the BAMC level.

TABLE 8: BAMC'S EQUITY PORTFOLIO CHARACTERISTICS AS AT 30 JUNE 2016

Ownership		**Type of holding**		**Domestic/foreign**	
Majority (over 50%)	25				
Important (over 20%)	5	Shares	38	Domestic	50
Minority (under 20%)	34	Ownership stake	26	Foreign	14
Total	**64**	**Total**	**64**	**Total**	**64**

Next to several minority equity exposures BAMC has, together with the sale of claims, sold also four majority equity exposures (AHA EMMI d.o.o., AHA Plastik d.o.o., Sistemska tehnika d.o.o. and Sistemska tehnika Armas d.o.o.) to strategic investors In H1 2016.

FIGURE 17: EQUITY PORTFOLIO MOVEMENT



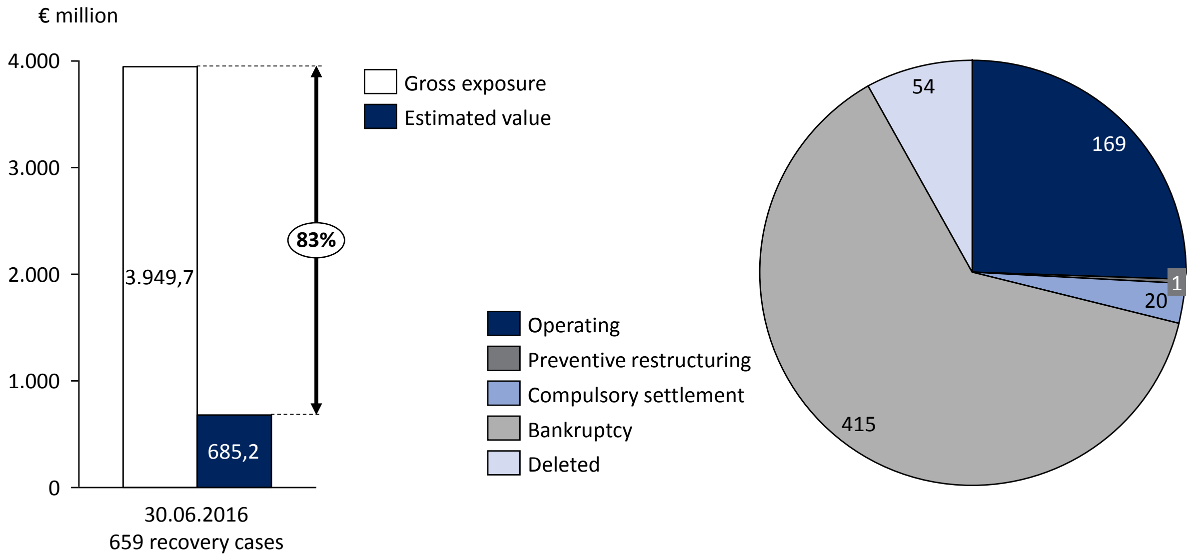
NOTE: "Merger" category includes equity holdings acquired with the merger of Factor banka and Probanka. "Other" category includes capital increases, additional purchases and net effects of the merger of subsidiaries' equity holdings.
The number data reported is from BAMC register and differs from the data presented in Table 8 since the former includes also companies in bankruptcy proceedings as well as partly sold holdings.

LOAN MANAGEMENT USING THE RECOVERY STRATEGY

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

At mid-2016, BAMC was valuing 659 claims as recovery cases, against which it held €3.949,7 million in gross claims, the fair value of which was estimated at €685,2 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 17% of gross exposure while this estimate amounted to 54% of gross exposure in restructurings.

FIGURE 18: RECOVERY CASES OVERVIEW



REAL ESTATE PORTFOLIO MANAGEMENT

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

MANAGEMENT OF PLEDGED REAL ESTATE

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

TAKEOVER OF REAL ESTATE

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

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

MERGED REAL ESTATE PORTFOLIO

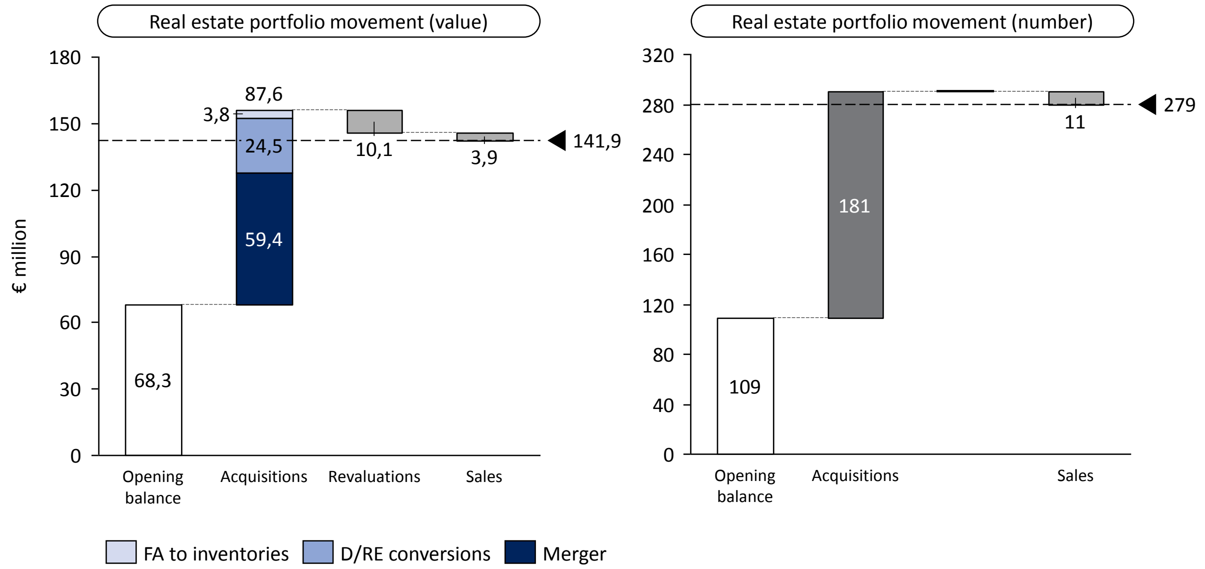
Due to the merger of Factor banka and Probanka into BAMC in February 2016, the latter substantially increased its real estate portfolio. BAMC took over 151 units of real estate with a book value of €59,4 million. The largest share of new real estate are undeveloped building land plots, mainly for residential use, followed by residential real estate (residential complexes and single units). Also, a considerable value of offices has been taken over. The new portfolio mainly consists of real estate in Slovenia, however some large real estate has also been taken over in Bulgaria and Croatia.

BAMC'S REAL ESTATE PORTFOLIO

In addition to the merger, BAMC took ownership of another 28 units of real estate through the conversion of claims. The biggest new real estate units are an office building at Beloruska in Maribor, and industrial sites in Vransko and Maribor.

In H1 2016 40 units of real estate were sold with a total book value of €3,9 million. The biggest sales were residential premises in the coast region, a land plot in Maribor, a commercial building in Kromberg and many other smaller items. Due to ongoing renovation works the Nokturno complex was not yet offered for sale and Celovški dvori were not yet in BAMC ownership in H1 2016. BAMC sells its real estate by itself or uses an external real estate agency which was selected via a public tender.

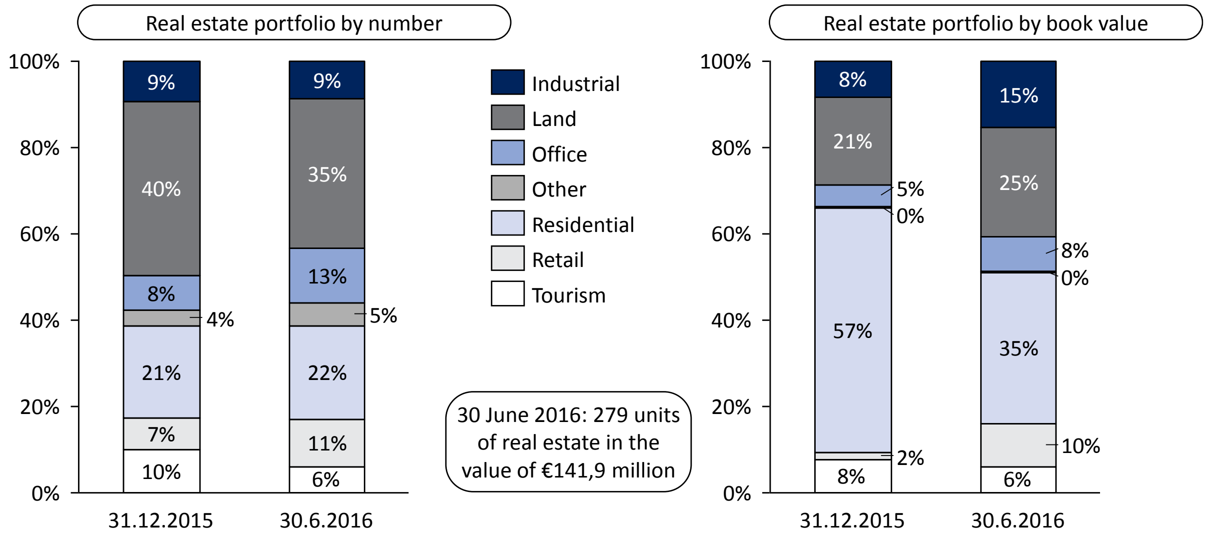
FIGURE 19: REAL ESTATE PORTFOLIO MOVEMENT



NOTE: "Merger" category includes real estate acquired with the merger of Factor banka, Probanka and their five subsidiaries. "FA to inventories" category includes the transfer of real estate categorised as fixed assets in the pre-merger entities to BAMC inventories available for sale.
Revaluations include €10,6 million impairment of merged real estate and a €0,5 million positive revaluation of the portfolio at mid-year 2016.
Only completely sold real estate units are reported in sales number, while many more units were partly sold (e.g., some of the apratments in an apartment buliding) but the unsold part of the unit is still in BAMC ownership.

At the end of H1 2016 BAMC owned 279 units of real estate with a book value of €141,9 million. The majority of owned real estate is residential: the biggest projects are the residential complex Nokturno in Koper and two unfinished residential projects in Mengeš and Vrtojba. The second largest part of the portfolio is represented by undeveloped land plots, followed by Industrial sites. The usage of land plots is mainly residential while industrial sites are not in use.

FIGURE 20: REAL ESTATE PORTFOLIO STRUCTURE



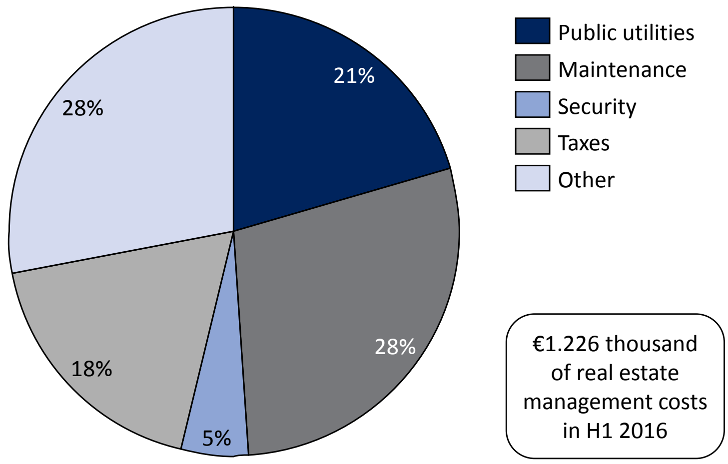
REAL ESTATE FACILITY MANAGEMENT

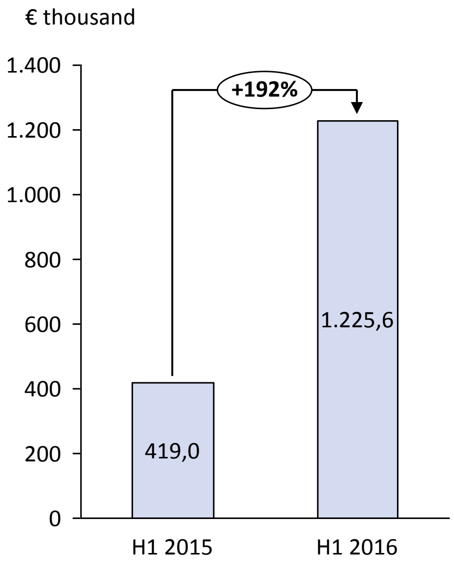
After taking over ownership of real estate, BAMC takes a wide range of measures to ensure that the real estate is maintained properly and that the value of the acquired real estate is maintained, such as cleanig, waste disposal, security, insurance, fixing roof and windows/doors, changing locks, cuting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

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

The BAMC recorded real estate management costs of €1,2 million in H1 2016, mostly related to owned real estate and a minor part induced by collateralized real estate. The largest cost items were maintenance, energy and facility management costs, followed by costs for land tax (NUSZ - compensation for use of building sites), security and water supply. In the period of H1 2015 the owned real estate portfolio was incomparably smaller hence also the high increase of costs.

FIGURE 21: REAL ESTATE MANAGEMENT COSTS





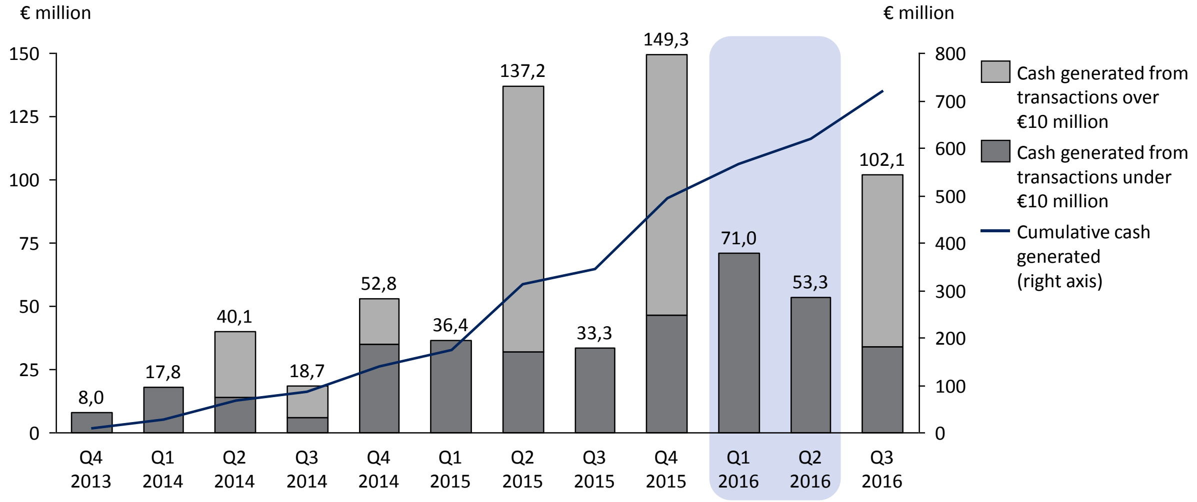
Financial overview of H1 2016

Cash generated

BAMC generated €124,3 million of inflows in H1 2016 from the management of acquired assets, which represents 6,2% of the asset portfolio transfer value[5]. Real estate and other physical assets' sales (owned and through insolvency proceedings) amounted to €41,6 million (33,5% of total), sales of claims and equity to €36,7 million (29,5% of total) and regular operating inflows to €46,0 million (37,0% of total).

Since its inception until mid-year 2016, BAMC generated €617,8 million in inflows from the management of acquired assets.

Figure 22: Cash generated by quarters



Note: Q3 2016 cash flows include receipts from July and August 2016.

[5] Cash generated in proportion of acquired assets in the amount of 6,2% is calculated as the ratio of inflows generated to the weighted value of the portfolio, where the date of transfer to BAMC is used as the weight. The same reasoning is applied to the purchase of additional exposures BAMC makes when such action is considered economically justifiable.

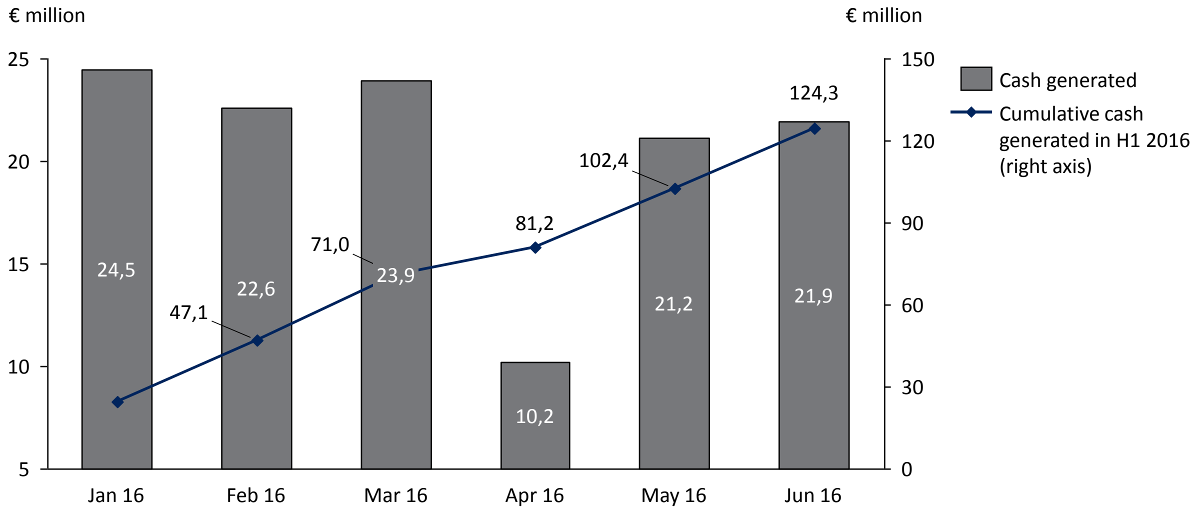
E.g., a hypothetical additional purchase of exposure in the amount of €2,0 million on 31 March 2016 would be given a weight of 0,25 (effectively adding €0,5 million to the weighted value of the portfolio) for the H1 2016 denominator calculation as BAMC would only have quarter of a year available for the liquidation of acquired assets (by 30 June 2016).

With the merger of Factor Banka and Probanka into BAMC the denominator of the respective KPI increased considerably as the book values of merged claims, real estate and equity were taken as "transfer values" of additional assets acquired.

On a monthly level, BAMC has been generating a relatively constant average cash inflow of over €20 million on average exclusively from smaller volume transactions, an almost 70% increase over the previous year's' €12 million average from small tickets. While no single transaction in H1 2016 has exceeded €10 million, the lagest inflows came from the following debtors:

- Sistemska tehnika d.o.o.,
- PC Komenda d.o.o.,
- Set d.o.o.,
- CPM d.d. (v stečaju), and
- Energoplan d.d.

Figure 23: Monthly cash generated in H1 2016



Including inflows up to the end of August, BAMC has generated well over €200 million of cash inflows in 2016 thus already surpassing the yearly statutory goal of cashing 10% of assets transfer value.

KEY PERFORMANCE INDICATORS

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

TABLE 9: KEY PERFORMANCE INDICATORS

KPI	Definition	Cumulative (c) Average (a)	H1 2016
Cash generated %	Cash generated / NPAs transfer value	30,7% (c) 12,3% (a)	6,2%
Cost efficiency	Operating costs / average total assets	n/a (c) 1,14% (a)	0,87%
Profitability			
ROE	Net income / average equity	13,4% (c) 5,2% (a)	-12,6%
EROE (cumulative years)	Equity / invested capital with corrections - 1		190,7% (c) 53,2% (a)
Funds returned			
Funds returned to RS	Payback / RS invested assets	92,2% (c)	35,5%
Gross funds returned to RS	Gross payback / RS invested assets	115,1% (c)	34,9%
Debt outstanding	Debt / initial debt		74,6%
Guaranteed debt outstanding	Guaranteed debt / initial guaranteed debt		75,7%
Basic data (in € million)			
Cash generated		617,8 (c)	124,3
RS invested assets	Invested capital		203,6
Debt	Balance sheet debt value		1.471,4
Equity	Balance sheet equity value		46,2
Invested capital with corrections			15,9

NOTE: H1 2015 KPIs are not presented as the comparison would be incorrect and misrepresentative due to the effects of the merger of Factor banka and Probanka.

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

NPAs transfer value has increased with the merger of Factor Banka and Probanka. See footnote 5 for details.

Invested capital with corrections is corrected with day-one losses and other returns of capital to the owner as well as initial revaluations in income statement related to transferred or merged assets (difference to 2015 annual report approach).

Payback includes all corrections to invested capital (difference to 2015 annual report approach).

Gross payback includes payback, total taxes (income tax, net VAT, tax on financial services, compensation for use of building sites [Slo. *nadomestilo za uporabo stavbnega zemljišča*] and real estate transaction tax [Slo. *davek na promet nepremičnin*]) and state guarantee fees paid (difference to 2015 annual report approach).

Cumulative (c)/average (a) column reports the cumulative or average value of the respective indicator since the inception of BAMC, dependent on the context. As first assets were transferred to BAMC in December 2013, 2014 is considered as the first year of actual operation for BAMC. EROE and both debt outstanding indicators are cumulative by definition.

ROE for H1 2016 was calculated as net income over the averages of equity on 30 June 2016 and 1 January 2016 (€42,6 million). The former value was used because losses at initial recognition from the merger of Factor banka and Probanka considerably affected BAMC capital of 31 December 2015 and the used number more appropriately reflects the equity base for the respective period.

In light of the return on equity (ROE) indicator it should also be noted that BAMC is additionally providing a fixed return to the state in the form of paying the government guarantee fee on its issued bonds as well as paying a premium on the (still high in absolute terms) risk-free borrowing rate to the bondholders. Both of these considerably affect BAMC bottom line results, and BAMC's net income would be much higher without them, while they constitute a return to the Slovenian public sector institutions as guarantor and debt holders. The additional return KPIs below are taking this into account.

TABLE 10: ADDITIONAL RETURN PROVIDED

Corrected ROE	Definition	Cumulative (c) Average (a)	H1 2016
corrected ROE_{v1}	Net income / average equity (both corrected for state guarantee costs)	39,1% (c) 14,1% (a)	0,8%
corrected ROE_{v2}	Net income / average equity (as above + corrected for cost of financing premium)	49,5% (c) 17,5% (a)	3,7%

NOTE: ROE = return on equity. Cumulative percentage (c) is comparing cumulative corrected net income generated by BAMC since its inception with the average of initial and H1 2016 equity. (a) is the yearly geometric average from (c).

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

Core business of BAMC is managing non-performing assets, predominantly non-performing loans, therefore BAMC's operating and financial expenses have to be covered by realised capital gains, interest income and revaluation income in order to generate profit. BAMC recorded a net loss of €5,6 million in first half 2016.

Key event which influenced net result of BAMC in H1 2016 was merger of Factor banka and Probanka. It effected BAMC's net result negatively in amount of €9,2 million due to valuations of merged asset at fair value on cut-off date – 1 January 2016. Without that effect, BAMC would have €3,6 million of net profit[6].

Because of the merger, the comparison of the individual categories by last first half year is not relevant. That is why the differences comparing to last first half are commented where it is relevant only.

[6] However, a great deal of effects from merger of Factor banka and Probanka are recognized in BAMC's equity directly.

TABLE 11: INCOME STATEMENT DECOMPOSITION AND COMPREHENSIVE INCOME

in € million	**H1 2016**	**1 January 2016 (Effects of FB&PB Merger)**	**H1 2015**
Operating result	-26,0	-14,9	-6,5
Non-real estate income	0,4		0,5
Non-real estate costs and expenses	-13,0		-6,2
Fixed assets from merger revaluation expenses	-4,2	-4,2	0,0
Real estate stock income from rents	0,8		0,2
Real estate stock management costs	-1,1		-0,5
Real estate stock capital gain / loss	1,4		0,0
Real estate stock from merger revaluation	-10,3	-10,6	-0,5
Financial result	20,3	5,5	-36,1
Interest income / expense	-25,6		-30,3
Capital gain / loss	32,5		-15,8
Revaluation	13,4	5,5	10,0
Other income result	0,0	0,0	0,0
Other income	0,1		0,0
Other expenses	0,0		0,0
Net income before tax	**-5,6**	**-9,3**	**-42,6**
Income tax	0,0		0,0
Net income after tax	**-5,6**	**-9,3**	**-42,6**
Change in value of available for sale financial assets	-48,7	-48,7	2,1
Total comprehensive income / loss	**-54,3**		**-40,5**

The total comprehensive loss amounted €54,3 million and comprises of €5,6 million net loss and €48,7 million of in-substance contribution to owner due to the merger of Factor banka and Probanka. Without the merger, total comprehensive income in H1 2016 would be positive in amount €3,6 million.

OPERATING INCOME, EXPENSES AND OPERATING RESULT

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

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

The result from operations of real estate stock was negative in amount €9,2 million due to the revaluation of merged real estate stock from Factor banka and Probanka to fair value at the merger cut-off date in amount €10,6 million. Otherwise, the result would be positive in amount €1,4 million.

Total sales income in first half of 2016 amounted to €6,4 million, of which €6,0 million relates to income associated with inventory of real estate held for sale. Sales income was significantly higher comparing to H1 2015 as BAMC intensify selling of stock of real estate. The results of intensified sale of real estate will be fully materialized in second half of 2016 and 2017. The comparison of individual categories is irrelevant since the merger of real estate stock from Factor banka and Probanka as well as from five subsidiaries in H1 2015.

The majority of income in the amount of €5,3 million relates to income from the sale of inventory of real estate held for sale, the carrying amount of which was €3,9 million. BAMC also generated €0,8 million from temporary renting inventory of real estate held for sale.

TABLE 12: INCOME AND EXPENSES OF THE REAL ESTATE STOCK SEGMENT

in € thousand	1 Jan 2016 to 30 Jun 2016	1 Jan 2015	1 Jan 2015 to 30 Jun 2015
Real estate operating result	-0,4		-0,3
Real estate operating income	0,8		0,2
Rents	*0,7*		*0,1*
Invoiced costs	*0,0*		*0,0*
Real estate operating costs (management costs)	-1,1		-0,5
Capital gain / loss from real estate	1,4		0,0
Income from sale	5,3		0,7
Release of book value at sale	-3,9		-0,7
Operating revaluation result	-10,3	-10,6	-0,5
Operating revaluation income / loss	0,4		-0,5
Revaluation of merged RE stock from FB and PB	-10,6	-10,6	0,0
Real estate stock segment result	**-9,2**	**-10,6**	**-0,8**

The direct costs of managing inventory of real estate held for sale, excluding labour costs, totalled €1,1 million in H1 2015, and related primarily to the maintenance of real estate, taxes and energy costs.

An unwinding of stock of real estate was done at 30 June 2016 in amount of €0,4 million. As at 30 June 2016 BAMC disclosed a surplus in the fair value of inventory of real estate held for sale over the historical cost thereof in the amount of €12,7 million. In accordance with the IFRS, that amount is not disclosed as revaluation income, but will be disclosed as sales income when BAMC sells the real estate in question.

OPERATING INCOME AND COSTS NOT RELATED TO REAL ESTATE

Overall, operating costs not related to real estate management costs and the expenses of the revaluation of inventory of real estate held for sale totalled €17,2 million in H1 2016 and were 178% higher than the previous year. In the first half of 2015, the BAMC was still growing organization, what is beside merger of the Factor banka and Probanka at the beginning of 2016, the main reason of increased operating costs in the first half of 2016. During the H1 2016, due to process optimization and especially after the reorganization in the July 2016, the operating costs were reducing from month to month. The results will be more evident in the second half 2016 where operating cost will be significantly lower.

With merging Factor banka and Probanka, the fixed assets in amount of €13,3 million were also merged to BAMC. By apprising these assets at fair value BAMC recognised €4,2 million of write-downs as per 1 January 2016.

TABLE 13: REAL-ESTATE-EXCLUDING OPERATING RESULT

in € million	H1 2016 excluding real estate stock	1 January 2016 (Effects of FB&PB Merger)	H1 2015 excluding real estate stock
Net sales income	0,4	0,0	0,5
Operating costs	-17,2	-4,2	-6,2
Costs of materials	-0,1	0,0	0,0
Costs of services	-4,1	0,0	-3,1
Labour costs	-6,2	0,0	-2,6
Depreciation	-0,4	0,0	0,0
Other operating costs	-0,6	0,0	-0,4
Operating revaluation expense	-1,4	0,0	0,0
Fixed assets from merger revaluation expenses – write downs	-4,2	-4,2	0,0
Operating result (excluding real estate)	**-16,8**	**-4,2**	**-5,7**

The largest part of costs are accounted for by the costs of services, which amounted to €4,1 million, excluding real estate management costs. The highest proportion of the cost of services is accounted by the costs of intellectual services, the majority of which were the costs of legal and notary services in the amount of €1,2 million and consulting costs in the amount of €0,8 million. The legal services costs were higher primarily because of completion of legal disputes from the previous year.

The costs of accounting and reporting services amounted to €0,3 million, a decrease of 66% relative to the previous first half year. With merging Probanka, BAMC insourced for five months back-office services which had been previously provided by Probanka. In June 2016, BAMC established the technical company NPL PORT to which IT and back-office services related to credit management were transferred. In April, the accounting services, previously provided by Unija računovodska hiša, were fully insourced as well.

Labour costs totalled €6,2 million in H1 2016, an increase of 138% relative to the previous year. Higher costs were the result of an increase in the number of employees, as the monthly average number of employees at BAMC was 86 in H1 2015 and reached 121 at the end of 2015. By merging Factor banka and Probanka average number of employees increased to 213 in H1 2016, which, due to downsizing in the reorganization process, was partially a temporary, one-off increment. The redundancy costs was fully covered by provisions brought forward from the merged entities.

Other operating costs totalled €0,6 million in H1 2016. These costs are associated with judicial proceedings that are the result of intensive efforts to liquidate the assets of debtors in insolvency and judicial recovery proceedings.

In order to provide comparison of key operating costs after the merger of Factor banka and Probanka, BAMC created the business unites[7] in a cost accounting system. ExBAMC business unit created €2,4 million of cost of services in H1 2016 thus even reduced last first half year services costs for 21,5%. Labour costs were higher by 34,2% due to increased number of headcount during 2015.

FINANCIAL INCOME AND FINANCIAL EXPENSES

Financial income and expenses derive from the management of the loan portfolio and the portfolio of equity investments and other financial instruments, and from financial liabilities which BAMC requires to finance the assets it manages. Net financial result of H1 2016 was €20,3 million which is €56,5 million better compared to the previous year, mainly due to higher realized capital gains from loan portfolio and lower interest expenses from financial liabilities.

[7] Three business units were created: ExBAMC, ExFactor banka and ExProbanka.

TABLE 14: TOTAL FINANCIAL RESULT

in € million	1 Jan 2016 to 30 Jun 2016	1 Jan 2015 to 30 Jun 2015
Interest income / expenses result	- 25,6	- 30,3
Interest income	0,1	4,3
Interest expense	- 25,7	- 34,5
Capital gain / loss result	32,5	- 15,8
Realized capital gain	34,6	1,6
Realized capital loss	- 2,0	- 17,4
Revaluation result	13,4	10,0
Financial revaluation income	13,6	8,0
Financial revaluation expense	- 0,2	2,0
Total financial result	**20,3**	**- 36,1**

FINANCING RELATED EXPENSES AND INTEREST LIKE INCOME

BAMC incurred financial expenses from financial liabilities in the amount of €25,7 million in H1 2016 comprising interest expenses for issued bonds in the amount of €15,4 million, a borrowings in the amount of €3,7 million and fees for the guarantees issued by Republic of Slovenia in the amount of €6,6 million. The aforementioned expenses were down comparing to first half of 2015 since additional financing cost of merged financial liabilities of Factor banka and Probanka were more than offset by lower interests from old BAMC financial liabilities due to repayment of bond issue DUT01 in December 2015. However, the average cost of BAMC financing, including guarantee fees paid, is still very high in the extremely low current interest rate environment.

Interest like income, excluding paid interests from loan portfolio, totalled €0,1 million.

TABLE 15: INTEREST LIKE INCOME / FINANCING RELATED EXPENSES RESULT

in € million	1 Jan 2016 to 30 Jun 2016	1 Jan 2015 to 30 Jun 2015
Interest income, dividends and fees received (excluding interest income from loans)	0,1	4,3
Interest income and dividends	0,1	4,3
RS bonds	*-*	*4,0*
Leasing	*0,0*	*-*
Dividends	*0,0*	*-*
Deposits	*0,1*	*0,3*
Interest expenses	- 25,7	- 34,5
Interest expense	- 25,7	- 34,5
BAMC bonds	*- 15,4*	*- 24,8*
Republic of Slovenia guarantee provision	*- 6,6*	*- 9,7*
Borrowing	*- 3,7*	*-*
Tax from loan provisions	- 0,0	- *0,0*
Interest income / expenses result	**- 25,6**	**- 30,3**

CAPITAL GAINS, PAID INTERESTS FROM LOANS AND CAPITAL LOSSES

BAMC generated capital gains of €34,6 million in 2015 and capital losses of €2,0 million from the liquidation of loans and equity investments, resulting in net capital gains of €32,5 million. Comparing to last year it is €47,8 million improvement.

TABLE 16: CAPITAL GAIN / LOSS RESULT

in € million	1 Jan 2016 to 30 Jun 2016	1 Jan 2015 to 30 Jun 2015
Realized capital gain	34,6	1,6
Loans		
Unwind of fair value to get to expected cash flows(including paid interests)	*32,9*	*25,2*
Equity	-	-
Capital gain from sale	*0,9*	*- 23,6*
Guarantees	-	-
Release of provisions	*0,8*	*-*
	-	-
Realized capital loss	- 2,0	- 17,4
Loans	-	-
Write offs	*- 2,0*	*- 17,4*
	-	-
Capital gain / loss result	**32,5**	**- 15,8**

In terms of the loan portfolio, net capital gains[8] in the amount of €30,9 million (comprising of financial income of €32,9 million and financial expenses of €2,0 million) were generated from the sale of loans, amortization of loans and redemption of collateral, including repossessed real estate and equity investments.

Realized capital gains from equity and other asset classes amounted €1,7 million in H1 2016.

FINANCIAL INCOME AND EXPENSES DUE TO REVALUATION

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

VALUATION OF ASSETS

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

Most of the value in BAMC's portfolio is driven by the value of the underlying assets that is mainly pledged real estate and equity. The valuation of these assets is done based on the valuation methods which are also widely used by external valuators, i.e. mainly income and market approach. The discount rates used in this context reflect the estimated cost of capital for an average market investor.

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

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

[8] Capital gains includes interest income from loans since interest income is, according to BAMC's accounting policy, recognized at the payment only.

BAMC revaluated all financial asset at fair value as per 30 June 2016. Financial revaluation result was €13,4 million which is higher comparing to last year first half. Main revaluation income comes from the reclassification of equity portfolio merged from Probanka according to BAMC's accounting policy.

TABLE 17: REVALUATION RESULT

in € million	1 Jan 2016 to 30 Jun 2016	1 Jan 2015 to 30 Jun 2015
Financial revaluation income	13,6	8,0
Revaluation income	13,6	8,0
Loans	*1,9*	*7,9*
Equity	*6,2*	*0,1*
Reclassification of merged equity investment from Probanka at 1 Jan 2016	*5,5*	*-*
	-	-
Financial revaluation expense	- 0,2	2,0
Revaluations	- 0,2	-
Other asset classes	*- 0,2*	*-*
Other financial expenses including foreign exchange differences	- 0,0	*2,0*
	-	-
Financial revaluation result	13,4	10,0

NET PROFIT OR LOSS AND TOTAL COMPREHENSIVE INCOME

BAMC generated a net loss of €5,6 million in H1 2016. Without the effect of fair value valuation of merged assets from Factor banka and Probanka, BAMC would have 3,6 million of net profit

Total comprehensive loss amounted to €54,3 million is comprising of:

- net loss of €5,6 million,
- in-substance distribution of capital to the due to negative differences at fair value valuation of assets merged from Factor banka and Probanka in the amount of €48,7 million.

Without the merger, total comprehensive income in H1 2016 would be positive in amount €3,6 million.

BALANCE SHEET

TABLE 18: BALANCE SHEET SUMMARY

in € million	30 Jun 2016	Merged from FB&/PB at 1.1.2016	31 Dec 2015	Index 30 Jun 2016/ 31 Dec 2015
Assets	1.536,0	417,0	1.374,6	112
Loans	1.210,3	313,6	1.091,0	111
Real estate	143,5	28,0	68,8	209
Equity investments	81,2	28,3	36,3	223
Non-performing bonds	0,0	0,0	2,3	0
Cash and equivalents	87,3	25,5	167,1	52
Other	13,6	21,6	9,1	150
Property, plant, equipment, intang. Ass.	5,0	13,3	0,2	2820
Leasing	3,0	0,0	0,0	
Trade and other operating receivables	4,9	8,0	8,5	57
Deferred costs	0,7	0,3	0,4	192
Liabilities	1.489,8	425,6	1.259,7	118
Debt securities	1.063,9	0,0	1.052,5	101
Borrowings	407,5	414,0	201,0	203
Long term provisions	18,4	11,6	6,2	
Equity	46,2	-8,6	114,9	40

ASSETS

BAMC's total assets increased by 12% or €161,5 million in H1 2016 to stand at €1.536,0 million at the end of the year. The major increase was due to merger of assets from Factor banka and Probanka which was lowering by rapid cashing of managed asset and repayment of financial liabilities in first half of 2016.

By merging Factor banka and Probanka at 1 January 2016, the book value of BAMC's assets increased by €417,0 million. After valuating merged assets at fair value at initial recognition on 1 January 2016, the value of merged assets were impaired by €65,6 million. That was accounted as in-substance contribution to the owner, directly to equity or indirectly through income statement, since the book values from Factor banka and Probanka were taken in merger process which were presenting fair values of the assets.

LOANS

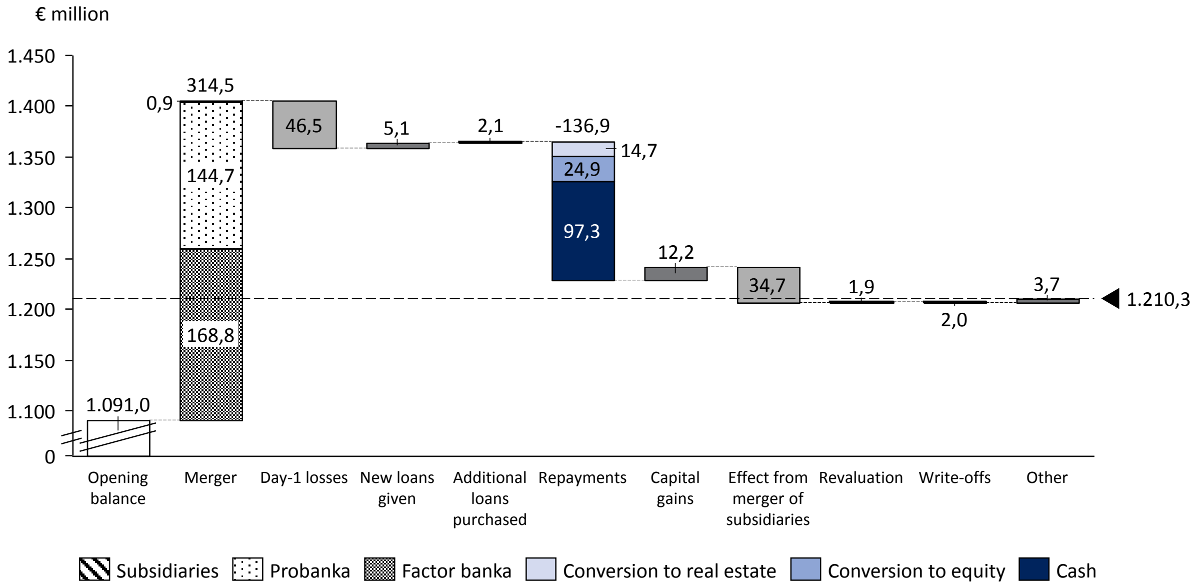
Loans accounted for the highest proportion of BAMC's assets at the end of H1 2016. The value of loans totalled €1.210,3 million at year-end, an increase of 11% relative to the balance at the end of the previous year.

Major event that caused the increase of loan portfolio was Merger of Factor banka and Probanka. Taking into account book values from merged banks on 1 January 2016, the value of loans increased for €313,6 million. The fair value of merged loans was aggregately lower at initial recognition by €46,5 million.

Repayments of loans amounted €156,7 million and include cash repayments in amount of €117,3 million, €14,7 million of debt to real estate conversions and €24,9 million of debt to other asset classes conversion. Merger of five subsidiaries on 31 March 2016 resulted mainly in replacement of loans into inventory of real estate and other assets in amount of €34,7 million since subsidiaries had financed their assets by borrowings from Factor banka and Probanka.

On the other hand, BAMC granted new loans in the amount of €5,0 million and purchased €2,1 million of loans from other creditors which increased the value of the loan portfolio. Besides that, interest income of €20,0 million, €12,2 million of income from capital gains and income from unwind of fair value to get to expected cash flows of €1,9 million increased the closing balance of loans as well.

FIGURE 24: LOAN MOVEMENT IN H1 2016



NOTE: Net cash repayment (already reduced for interest income in H1 2016) is displayed in the figure. Actual cash inflows and interest income amounted to €117,3 million and €20,0 million respectively.

REAL ESTATE

BAMC discloses all real estate that it holds, except fixed assets, as inventory of real estate held for sale. In accordance with IFRS, the stock of real estate is disclosed at fair value for real estate the fair value of which is lower than its historical cost. In the opposite case, when the fair value of real estate exceeds its historical cost, that real estate is disclosed at the latter. At the end of H1 2016, BAMC disclosed a carrying amount of real estate stock of €143,5 million while the fair value of all inventory of real estate was €156,2 million. The carrying amount of real estate was up €74,8 million in H1 2016 mainly due to the merged inventory of real estates from Factor banka and Probanka in amount of €28,0 million before the impairments made at initial recognition in amount €10,6 million, €31,7 million from conversions from loans due to merger of five subsidiaries of ex Factor banka and Probanka and €24,5 million from repossessions of real estate pledged to BAMC as collateral by debtors, against whom BAMC has claims.

Equity investments

The fair value of equity investments in BAMC's ownership amounted to €81,2 million at the end of H1 2016. The value of equity investments more than doubled due to shares obtained from debt to equity swaps in amount of €24,9 million and merger of equity investments from Factor banka and Probanka in amount of €28,5 million which were impaired at initial recognition for €4,7 million.

Leasing

With merger of Probanka Leasing on 31 March 2016, BAMC acquired €3,5 million of leasing contracts. Balance at the end of H1 2016 decreased to amount €3,0 million, due to repayments of leasing contracts during H1 2016.

Fixed assets

Carrying amount of fixed assets was €5,0 million at the end of H1 2016 comprising mainly of merged property from Factor banka and Probanka. The fixed assets merged from Factor banka and Probanka in amount of €12,9 million were impaired at initial recognition for €4,2 million.

Trade and other operating receivables

Trade and other operating receivables amounted to €4,9 million at the end of H1 2016 which is €3,5 million less than at the end of 2015. The decrease is mainly the consequence of refunded receivables from taxes toward state which amounted €7,7 million at the end of previous year.

Liquidity management

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

BAMC had €87,3 million in cash and cash equivalents at its disposal at the end of H1 2016. The major event lowering cash reserves was early repayment of financial liabilities toward Ministry of finance merged from Factor banka and Probanka in amount of €150 million in April 2016[9].

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

EQUITY AND LIABILITIES

BAMC financed its assets at the end of H1 2016 mainly through debt sources, more precisely via equity in the amount of €46,2 million and liabilities in the amount of €1.489,9 million. The majority of liabilities are accounted for by issued bonds with Slovenian government guarantee that BAMC used to finance transfers of non-performing assets, a long-term loan for which the Republic of Slovenia bears subsidiary liability and liability toward Ministry of finance.

The merger of Factor banka and Probanka increased BAMC's liabilities by €425,6 million and decreased equity of BAMC by €8,6 million on 1 January 2016.

LIABILITIES FROM BONDS AND LOANS TAKEN/MERGED

After repaying DUT01 bond in full in December 2015, at the end of H1 2016, BAMC had three outstanding bond issues in the amortised amount of €1.063,9 million.

Borrowings and other financial liabilities amounted €201,0 million at the end of 2015. With merger of Factor banka and Probanka, BAMC merged €414,0 million of additional financial liabilities of which the majority in amount of €369,0 million were financial liabilities toward Ministry of finance. At the end of H1 2016, amortised amount of borrowings and other financial liabilities was €407,5 million which means repayment of €207,5 million.

TABLE 19: OUTSTANDING FINANCIAL INTERESTS AS PER 30 JUNE 2016

Financial instrument	Amount issued	Amount outstanding	Interest rate	Issued	Interest payment	Month of maturity
	(nominal, in € million)					
DUT02 bond	505,8	503,2	4,50%	Dec 13	Annually	Dec 16
DUT03 bond	424,6	422,9	1,50%	Oct 14	Half-yearly	Dec 17
DUT04 bond	127	125,8	1,375%	Dec 14	Half-yearly	Dec 17
Ministry of finance-loan	198,4	198,4	1,20%	upon merger	Monthly	Dec 16
Commercial loan	200	200		Dec 15	Quarterly	Dec 17
Commercial loan	3,3	3,3		upon merger	Half-yearly	May18
Commercial loan	0,2	0,2		upon merger	Monthly	Mar 17

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

Almost all financial liabilities are either guaranteed by Republic of Slovenia or directly owed to Republic of Slovenia. Only 0,3% of financial liabilities are not guaranteed by Republic of Slovenia.

TRADE AND OTHER OPERATING LIABILITIES

Trade and other operating liabilities amounted €18,4 million at 30 June 2016. The balance from end of 2015 was increased for €11,6 million at 1 January 2016 by merging of Factor banka and Probanka.

Trade and other operating liabilities are comprised mainly of provisions for issued guarantees in amount of €3,4 million, €3,2 million of provisions for potential losses on lawsuits, €5,3 million of received prepayments and others.

BAMC estimated the probability and size of merged provisions at the cut-off date and released €1,9 million of provisions for guarantees issued[10].

EQUITY

BAMC's equity totalled €46,2 million at the end of H1 2016 which is €68,7 million decrease from end of 2015. The reason for the decrease in equity lies primarily in a negative differences between fair value of merged assets at the initial recognition and book values from merged assets from Factor banka and Probanka and negative equity of Probanka at the cut-off date (see page 19 for more details). Total negative effect on BAMC equity was €72,3 million, so without these effects BAMC's equity would be €72,3 million higher.

[10] The provisions for guarantees issued origine from Factor banka and Probanka activities before the start of liquidation proces in 2013.

RISK MANAGEMENT

RISK MANAGEMENT MODEL

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

PARTICIPANTS IN RISK MANAGEMENT

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

RISK IDENTIFICATION

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

RISK ESTIMATION

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

RISK CATALOGUE

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

LOSS EVENTS

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

RISK AND COMPLIANCE MANAGEMENT COMMITTEE

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

INTERNAL CONTROL SYSTEM

Special attention of risk management was devoted to increased and empowered internal control system in H1 2016. The risk management department is involved in regular reporting system and has provided additional four-eye principle in key business processes, such as valuation of assets, and several risk reviews in decision-making process. Impact of internal controls is expected to be increased.

CHANGES OF INTERNAL ORGANIZATION AND DECISION-MAKING SYSTEM

Changes in the legal framework, corporate governance and supervisory function together with merger of Factor banka and Probanka have resulted in the need to adjust the internal organization. BAMC responded quickly and efficient to challenges that emerged in the first half of 2016.

BAMC's portfolio structure has significantly changed with the merger of Factor banka and Probanka. Changes in internal organization were therefore crucial in order to manage assets in the most efficient and effective way, including horizontal controls built in the processes by a clear segregation of duties between case/equity/real estate management, financial analysis and valuation verification, mid-office and legal support . In addition, internal organization, implemented at the beginning of July 2016, fully corresponds to the amendments of ZUKSB regarding restricted role of non-executive directors, distinction of functions, and new powers of BAMC.

The decision-making system has been renewed with a four-eye principle which allowed operational heads to fully cover the operational decisions for minor exposures. While executive directors adopt decisions with greater impact for BAMC, strategic guidelines for managing assets are still set by the Board entirely. Decisions regarding granting additional loans (provided with ZUKSB) is also one of the objectives of detailed review of departments, separated from credit management.

BAMC introduced changes in the decision-making system in the beginning of April 2016 as a response to changes in ZUKSB, merger process and changed structure of portfolio of assets under management. Completely renewed structure of credit and investment committees has eliminated the overlapping of responsibilities on Executive and Board levels. Now the Board Credit and Investment Committee is a consent-giving body to the decisions adopted by the Executive Credit and Investment Committee.

Limits between different types of credit and investment committees are clearly established, and participants at the specific levels of committees are clearly defined. Operational Credit and Investment Committee now takes more operational decisions for cases with higher exposures and most of the decisions for cases with smaller exposures, while executive level committee still controls all high impact decisions related to larger exposures.

Action plan template was changed in a way to unify management of loan and equity exposure on the one hand and to simplify the decision-making process for smaller exposures with less significant impact of the proposed decisions on the other.

KEY RISKS AND THEIR MITIGATION

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

STRATEGY RISKS

RISK OF UNSUCCESSFUL IMPLEMENTATION OF THE OPTIMAL RESTRUCTURING STRATEGY

Estimated risk exposure

Very low	Low	Medium	High	Very high

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

Operational risks

Risk of error in legal proceedings

Estimated risk exposure

Very low	Low	Medium	High	Very high

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

Reputational risk

Estimated risk exposure

Very low	Low	Medium	High	Very high

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

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

Financial risks

Liquidity risk

Estimated risk exposure

Very low	Low	Medium	High	Very high

Liquidity risk is the risk that BAMC will not be able to meet its financial obligations as they fall due. BAMC ensures maximum possible liquidity by always having sufficient liquid assets to meet its liabilities when due, under both normal and demanding conditions, without incurring unacceptable losses or risking damage to its reputation. The key liquidity risk for BAMC is the repayment of issued debt. In December 2016, debt matures in the amount of over €580 million and BAMC is planning to repay part of its obligations with liquidity reserves and part with refinancing with Republic of Slovenia's guarantee.

CAPITAL ADEQUACY RISK

Estimated risk exposure				
Very low	Low	Medium	High	Very high

Due to negative equity of the merged Factor banka and Probanka and negative difference between fair values of merged assets at the initial recognition and bank's book values, the equity of BAMC deteriorated to the level where the management has to assess capital adequacy. BAMC's General Assembly has been informed on the potential risk already in the February 2016 Merger report.

BAMC SHARE

As at 30 June 2016 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 20: 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 30 June 2015.
On 27 July 2016 initial share capital increase of €4,61 million (2.305.000 shares) was registered at court register.

There were no changes in the ownership structure in the first half of 2016.

REPORTING ON SUSPICIONS OF CRIMINAL ACTIVITIES AND COURT OF AUDIT COOPERATION

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

BAMC is making efforts to successfully and comprehensively collaborate with law enforcement bodies and therefore cooperates with the National Investigation Bureau (NPU) and the Specialized State Prosecutor's Office of the Republic of Slovenia. BAMC continues its exemplary collaboration with NPU and proceeds by forwarding brief descriptions of every new detected anomaly regarding any particular case, as soon as it is recorded by BAMC employees, to the investigators. BAMC has registered nine additional irregularities in H1 2016, bringing the total number to 53 so far. In accordance with the agreed and established way of communication, BAMC frequently requests additional information from NPU regarding the name of cases/matters where criminal investigation was already initiated. BAMC has prepared one criminal incident in H1 2016 (bringing the total number to six so far), which was reported to the Criminal Police Directorate for further investigation.

In May 2016 BAMC established a permanent investigation team (task force) to ensure that the process of investigation of criminal activity in merged Factor banka and Probanka is brought to a successful conclusion and that all cases in the BAMC portfolio are systematically monitored regarding any new suspicious activity.

In H1 2016 the Court of Audit began its audit of BAMC's operations in 2014 and 2015. In order to facilitate easier and faster cooperation some of the Court of Audit employees are working directly at BAMC's premises and a standardised communication channel was agreed and established. In H1 2016 BAMC received 15 information requests from the Court of Audit containing 441 questions, and has tried to be as prompt as possible in providing answers, explanations and documentation requested.

Amendments of ZUKSB

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

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

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

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

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

Financial Statements of BAMC for the period 1 January 2016 to 30 June 2016

Translation of the original financial statements prepared in Slovenian language.

FINANCIAL STATEMENTS

BALANCE SHEET

in € thousand	Note	30 June 2016	1 January 2016*	31 December 2015
Non-current assets		980.998	1.068.671	892.118
Intangible assets		291	410	22
Long-term deferred cost		46	14	14
Property, plant and equipment		4.731	13.027	156
Financial assets at fair value through profit or loss		975.004	1.054.256	890.962
Equity investments held for sale		*80.297*	*64.678*	*36.347*
Loans held for sale	*1*	*891.863*	*989.578*	*854.615*
Leasing		*2.844*	*0*	*0*
Available for sale financial assets		926	964	964
Current assets		554.965	722.883	482.468
Inventory of real-estate held for sale		143.533	96.725	68.762
Available for sale financial assets		0	2.314	2.314
Deferred costs		646	650	347
Financial assets at fair value through profit or loss		318.595	415.008	236.391
Loans held for sale	*1*	*318.468*	*415.008*	*236.391*
Leasing		*127*	*0*	*0*
Trade and other operating receivables		4.878	16.526	8.522
Cash and cash equivalents		87.313	191.660	166.132
Total assets		**1.535.963**	**1.791.553**	**1.374.586**
Total Equity		46.171	106.255	114.867
Share capital		203.625	203.625	203.625
Capital reserve		17.725	17.725	0
Retained earnings		-175.179	-120.865	-88.758
Revaluation reserves		0	5.770	0
Non-current liabilities		759.484	972.677	748.173
Debt securities		548.173	548.173	548.173
Operating liabilities		7.209	8.996	0
Borrowings		204.103	415.508	200.000
Deferred tax liabilities		0	0	0
Current liabilities		730.307	712.622	511.546
Loans		203.375	199.495	990
Debt Securities		515.723	504.365	504.365
Trade and other operating payables		8.316	6.704	5.266
Other liabilities		2.894	2.058	925
Total equity and liabilities		**1.535.963**	**1.791.553**	**1.374.586**

* Balance sheet total of three companies (BAMC, Factor banka and Probanka) as at 1 January 2016, mutual assets/liabilities are consolidated.

INCOME STATEMENT

in € thousand	For the period from 1 January 2016 to 30 June 2016	For the period from 1 January 2015 to 30 June 2015
Operating profit / loss	-25.982	-6.470
Net sale revenue	6.842	1.335
Cost of materials	-138	-26
Cost of services	-5.276	-3.548
Labour costs	-6.223	-2.612
Depreciation	-477	-39
Operating revaluation expense	-20.161	-1.189
Other operating costs	-579	-391
Financial profit / loss	20.332	-36.120
Financial income	57.692	47.099
Financial costs	-37.360	-83.219
Other revenues	90	0
Other costs	-44	-14
Profit / Loss before tax	**-5.605**	**-42.605**
Income tax expense	0	0
Deferred tax	0	0
Net profit / loss for the period	**-5.605**	**-42.605**
Attributable to owners	-5.605	-42.605
Basic and diluted earnings per share	-0,06	0,42

STATEMENT OF COMPREHENSIVE INCOME

in € thousand	For the period from 1 January 2016 to 30 June 2016	For the period from 1 January 2015 to 30 June 2015
Net profit / loss for the period	**-5.605**	**-42.605**
Items that may be subsequently reclassified to profit or loss	0	2.094
In-substance distribution to owner	-48.709	0
Other comprehensive income for the period, net of tax	**-48.709**	**2.094**
Total comprehensive gain / loss for the period attributable to owners	**-54.314**	**-40.511**

STATEMENT OF CHANGES IN EQUITY

in € thousand	Share Capital	Capital reserve	Revaluation Reserves	Retained Earnings	Total Equity
Balance as at 1 January 2016*	**203.625**	**0**	**0**	**-88.758**	**114.867**
Total comprehensive loss for the period after tax	0	17.725	0	-86.421	-68.696
Net profit / loss for the period	0	0	0	-5.605	-5.605
Merger	0	17.725	86	-32.107	-14.296
Other comprehensive income	0	0	-86	86	0
New share capital subscribed	0	0	0	0	0
In-substance distribution to owner (from merger)	0	0	0	-48.795	-48.795
Balance as at 30 June 2016	**203.625**	**17.725**	**0**	**-175.179**	**46.171**

*only BAMC

in € thousand	Share Capital	Revaluation Reserves	Retained Earnings	Total Equity
Balance as at 1 January 2015	**203.625**	**48.667**	**-77.219**	**175.073**
Total comprehensive loss for the period after tax	-	2.093	-42.605	-40.512
Net profit / loss for the period	-	0	-42.605	-42.605
Other comprehensive income	-	2.093	0	2.093
New share capital subscribed	0	0	-	0
In-substance distribution to owner	-	0	0	0
Balance as at 30 June 2015	**203.625**	**50.760**	**-119.824**	**134.561**

STATEMENT OF CASH FLOWS

in € thousand	For the period from 1. 1. 2016 to 30. 6. 2016	For the period from 1. 1. 2015 to 30. 6. 2015
A) Cash flows from operating activities	**-7.717**	**-15.971**
Operating receipts	16.103	17.552
Receipts from sales of services	6.557	16.133
Other receipts	9.546	1.419
Operating expenditures	-23.820	-33.523
Expenditure for purchase of materials and services	-17.177	-17.822
Expenditure for wages of employees and other entitlements	-5.061	-3.059
Expenditure for various charges	-1.573	-2.880
Other operating expenditures	-9	-9.762
B) Cash flows from investing activities	**112.411**	**161.299**
Receipts from investment activities	325.829	181.746
Receipts from the disposal of equity investments	1	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	6.295	8.822
Receipts from the disposal of short-term financial investments	319.532	172.924
Expenditure in investments activities	-213.417	-20.447
Expenditure for the acquisition of intangible assets	0	0
Expenditure for the acquisition of tangible fixed assets	-81	-59
Expenditure for the acquisition of long-term financial investments	-7.175	-4.208
Expenditure for the acquisition of short-term financial investments	-206.162	-16.180
C) Cash flows from financing activities	**-183.513**	**-3.969**
Receipts from financing activities	0	4.250
Receipts from paid capital	0	0
Receipts from increase in long-term liabilities	0	0
Receipts from increase in short-term liabilities	0	4.250
Expenditure from financing activities	-183.513	-8.219
Interest expenses relating to financing	-1.454	0
Expenditure for the repayment of long-term financial liabilities	-158.625	-4.019
Expenditure for the repayment of short-term financial liabilities	-23.434	-4.200
Closing cash balance	87.313	204.748
Net cash result for the period	**-78.819**	**141.358**
Opening cash balance	166.132	63.390

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – LOANS

CURRENT AND NON-CURRENT PORTIONS OF LOANS:

in € thousand	30 June 2016	1 January 2016	31 December 2015
Non-current loans	891.863	989.578	854.615
Current loans	318.468	415.008	236.391
Total	**1.210.331**	**1.404.586**	**1.091.006**

MOVEMENT IN THE LOAN BALANCES IN 2016 AND 2015

in € thousand	For the period from 1. 1. 2016 to 30. 6. 2016	For the period from 1. 1. 2015 to 30. 6. 2015
Opening balance 1 January	**1.091.006**	**1.406.888**
Increase due to merger of Probanka	144.734	0
Increase due to merger of Factor banka	168.845	0
Increase due to merger of subsidiaries	902	0
Increase due to new loans given from BAMC	5.054	16.180
Increase due to new purchases from other banks	2.121	14.915
Increase due to redeemed guarantees	2.278	0
Negative variances upon initial recognition	-46.537	-3.221
Increase because of court costs	776	55
Repayments	**-191.500**	**-339.317**
Cash repayments	-117.308	-317.909
Conversion to real estate	-14.663	-18.794
Conversion to equity investments	0	0
Conversion to other equity investments	-24.871	0
Sell back (paid with DUTB bonds)	0	-2.452
Effect from merger of subsidiaries	-34.659	0
Conversion to trade receivables	0	-161
Loan interest income	19.983	34.164
Loan provision and other cost income	615	391
Foreign exchange differences	-10	1.453
Income from release of discount	12.206	12.866
Revaluation income	1.889	0
Impairements	0	-35.375
Write offs	-2.049	-18.142
Other	18	150
Closing balance 30 June	**1.210.331**	**1.091.006**

NOTE 2: RELATED PARTY TRANSACTIONS

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 TO JUNE 2016 THE BAMC DID BUSINESS WITH RELATED PARTIES

	Subsidiaries	Associates	Companies associated with owner (RS)
	I – VI 2016	I – VI 2016	I – VI 2016
Financial assets at fair value through profit or loss (loans)			
Opening balance	148.924		
Increase	4.219		267.042
Decrease	142.331		46.537
Closing balance	**10.813**	**0**	**267.042**
Financial income	7.572	6	
Financial expense	-18.698	0	
Deposits			
Opening balance			4.475
Increase			0
Decrease			-54
Closing balance			**4.421**
Interest income			
Equity investments			
Opening balance	25.734	2.355	0
Increase	11.505	19	23.605
Decrease	294	93	4.725
Closing balance	**36.945**	**2.281**	
Financial income			
Borrowings			
Opening balance			200.000
Increase			404.189
Decrease			202.299
Closing balance			**401.890**
Interest expense			3.644
Debt securities			
Payouts			4.058
Obligations			1.068.718
Financial expense			21.967
Other expenses			14.857
Other costs			322

NOTE 3: ACQUISITION

ACQUISITONS OF FACTOR BANKA AND PROBANKA

Acquisition with the cut-off date set at 1.1. 2016

On 19 February 2016 the merger of Factor banka and Probanka into BAMC was registered at court register, the cut-off date was set at 1 January 2016.

General data of the acquired companies

Name of the acquired company	Factor banka d.d.	Probanka d.d.
Business address of the acquired company	Tivolska cesta 48, Ljubljana	Trg Leona Štuklja 12, Maribor
Identification number	5777011000	5827876000
Ownership	Republika Slovenija (100%)	Republika Slovenija (100 %)
Date of signing the merger contract	3.2.2016	3.2.2016
Date of the registration of the merger in the court register	19.2.2016	19.2.2016
Cut-off date of the merger	1.1.2016	1.1.2016
Balance sheet total on the cut-off date	196 mio EUR	221 mio EUR
Total capital on the cut-off date	1,3 mio EUR	-9,9 mio EUR

In its decision dated 13 November 2015, number 40300-14/2015/15, the Government of the Republic of Slovenia expressed support for the simplified merger of FB and PB to DUTB in such a way that enables the completion of orderly winding-down of both banks in the most cost-effective manner from the perspective of financial burden for the state, which owns all three entities.

Government decision adopted as the general assembly of DUTB dated 15 January 2016, number 40300-14/2015/26, is part of the legal basis for simplified procedure, meaning that no management report and audit of the merger are required nor the formalities regarding the general assembly determined in article 586, para 1 and 2 of the Companies Act.

Also Slovenian Sovereign Holding acting in the name of the Republic of Slovenia which is the only shareholder of the two banks adopted the same decision in the notarial record, therefore the conditions for simplified merger procedure were met.

The merger of the two banks was performed in accordance with paragraph 6 of Article 599 of the Companies act (simplified merger). The acquired companies were dissolved as of the date of registration of the merger in the court register (19 February 2016). All assets and liabilities were transferred to BAMC according to the balance as at the cut-off date of the merger (1 January 2016).

On the date of the registration of the merger in the court register, BAMC inherited all legal relationships of which the acquired company was a subject as the universal legal successor.

The same shareholder, i.e. the Republic of Slovenia, was the holder of the entirety of shares of both the acquiring company and the acquired company. Therefore, in accordance with Item 1 of the second paragraph of Article 589 of the Companies Act, the acquiring company in the merger process did not provide the acquiring company's shares to the acquired company's shareholder. In order to execute the merger process, the acquiring company did not increase its share capital, nor did it pay in any money contributions.

Booking of the acquisition and effects on the financial statements of BAMC

The values of individual assets and liabilities transferred on the books BAMC on 1 January 2016 are based on the two banks' balance sheet values. The original merging values are presented below:

Simplified balance sheets of the two merged banks as at 1 January 2016:

in € thousand	Factor banka	Probanka
Total Assets	**195.871**	**221.097**
Loans	168.845	144.734
Real estate	11.503	16.460
Equity investments	9.960	18.370
Cash and equivalents	1.285	24.243
RS Bonds	0	0
Other	4.278	17.290
Deferred costs	18	286
Property, plant, equipment, intang. Ass.	2.070	11.189
from that property & plant	*1.266*	*10.638*
Trade and other operating receivables	2.189	5.815
Total Liabilities	**195.871**	**221.097**
Equity	1.311	-9.923
Liabilities	194.560	231.020
Debt securities	0	0
Borrowings and other financial liabilities	187.808	226.203
Other	6.751	4.816

On 1 January 2016, BAMC adjusted the values of merged assets and liabilities in accordance with applicable BAMC accounting policies. This valuation produced effects which were reflected either:

- in the BAMC business result for the period 1 January 2016 - 30 June 2016,
- or directly in the components of capital.

Revaluation effects categorized by accounting category are displayed below:

1. Effects on the business result of BAMC

In € thousand	Factor banka	Probanka
Property, plant and equipment	-126	-4.083
Real estate	-2.018	-8.630
Total effects through P&L	-2.144	-12.713

2. Effects on the components of capital of BAMC

In € thousand	Factor banka	Probanka
Intangible assets	0	668
Financial assets designated at fair value through profit and loss	-4.427	-298
Loans and receivables	-25.572	-20.966
Trade and other operating receivables	0	-131
Operating liabilities	1.939	-10
Total effects on capital items	-28.060	-20.735

With the merger of the two banks into the BAMC, BAMC capital value was also affected by the capital values of the merged companies as at 1 January 2016, namely:

In € thousand	**Effects through P&L**	
	Factor banka	Probanka
Capital	1.311	-9.923

The effect of the revaluation of merged assets and liabilities of Factor banka and Probanka, which was recognized in the income statement, amounts to a total of -14,857 thousand EUR, the effect recognized in the capital items was -48.796 thousand EUR, the decrease of capital resulting from negative equity of the merged companies amounts to -8,612 thousand EUR.

The total negative effect recognized in the financial statements as at 1 January 2016 and resulting from the merger of Factor banka and Probanka and the revaluation of accounting categories in accordance with with BAMC accounting policies amounts to -72.264 thousand EUR.

ACQUISITION OF FIVE SUBSIDIARIES

Acquisition with the cut-off date set at 31.3. 2016

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

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

General data of the acquired companies

	Former subsidiaries of Factor banka		
Name of the acquired company	Factor – IN d.o.o	Factor Projekt d.o.o.	PV Naložbe d.o.o
Business address of the acquired company	Tivolska cesta 48, Ljubljana	Tivolska cesta 48, Ljubljana	Tivolska cesta 48, Ljubljana
Identification number	2332434000	3715400000	2305887000
Ownership	DUTB (100%)	DUTB (100%)	DUTB (100%)
Date of signing the merger contract	17.5.2016	17.5.2016	8.6.2016
Date of the registration of the merger in the court register	23.5.2016	23.5.2016	13.6.2016
Cut-off date of the merger	31.3.2016	31.3.2016	31.3.2016
Balance sheet total on the cut-off date	12,9 mio EUR	3,8 mio EUR	3,6 mio EUR
Total capital on the cut-off date	- 6,6 mio EUR	2,2 mio EUR	- 5,2 mio EUR

	Former subsidiaries of Probanka	
Name of the acquired company	Probanka Leasing d.o.o.	Probanka Nepremičnine d.o.o.
Business address of the acquired company	Trg Leona Štuklja 12, Maribor	Trg Leona Štuklja 12, Maribor
Identification number	5724180000	1196987000
Ownership	DUTB (100%)	DUTB (100%)
Date of signing the merger contract	17.5.2016	17.5.2016
Date of the registration of the merger in the court register	23.5.2016	23.5.2016
Cut-off date of the merger	31.3.2016	31.3.2016
Balance sheet total on the cut-off date	11,8 mio EUR	6,3 mio EUR
Total capital on the cut-off date	- 3,8 mio	- 1,9 mio EUR

The merger of five subsidiaries was performed in accordance with paragraph 6 of Article 599 of the Companies act (simplified merger). The acquired companies were dissolved as of the date of registration of the merger in the court register (23 May 2016 or 13 June 2016 PV Naložbe). All assets and liabilities were transferred to BAMC according to the balance as at the cut-off date of the merger (31 March 2016). On the date of the registration of the merger in the court register, BAMC inherited all legal relationships of which the acquired company was a subject as the universal legal successor.

The acquiring company, BAMC, was the holder of the entirety of shares of all acquired companies. In order to execute the merger process, the acquiring company did not increase its share capital, nor did it pay in any money contributions.

Booking of the acquisition and effects on the financial statements of BAMC

The values of individual assets and liabilities transferred on the books BAMC on 31 March 2016 are based on the subsidiaries' balance sheet values. The original merging values are presented below:

Balance sheet items as at 31 March 2016 (cut-off date)

In € thousand	Factor – IN d.o.o	Factor Projekt d.o.o.	PV Naložbe d.o.o	Probanka Leasing d.o.o.	Probanka Nepremičnine d.o.o.
Long term assets	9.573	0	1.698	4.447	3.767
Short term assets	3.286	3.848	1.913	7.403	2.577
Total assets	**12.859**	**3.848**	**3.611**	**11.850**	**6.344**
Capital	-6.599	2.202	-5.200	-3.818	-1.865
Long term liabilities	0	0	0	994	1
Short term liabilities	19.458	1.646	8.811	14.674	8.208
Total liabilities	**12.859**	**3.848**	**3.611**	**11.850**	**6.344**

Transferred assets and liabilities of the five subsidiaries' were valuated in accordance with BAMC accounting policies before the merger date. This effects were recognized in financial statements of Factor banka and Probanka for financial year 2015.

On the cut-off date 31.3.2016 BAMC recognized just immaterial negative effect on the net result of the period from 1 January 2016 to 30 June 2016 in amount of 1.371 tEUR.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management hereby confirms that the condensed financial statements for the six months ended 30 June 2016, including all its components, have been prepared in accordance with the Companies Act and amendments of the Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act (ZUKSB-A)

BAMC is, according to Article 4. (3) of ZUKSB-A, exempt from consolidating or equity accounting the companies whose assets were acquired by means of purchase / compensated acquisition of bank assets, or as part of corporate restructuring. Therefore consolidated financial statements were not prepared and equity accounting was not used for investments in associates. As per article 4. (5) of ZUKSB-A, BAMC in its financial accounting and reporting observes requirements of International Financial Reporting Standards.

The management hereby confirms that the relevant accounting policies were consistently applied in the compilation of the financial statements. The accounting estimates were made according to the principle of prudence and the diligence of a good manager. The management confirms that the financial statements, prepared in accordance with ZUKSB-A Article 4 (3)&(5), present fairly, in all material respects, the financial position of BAMC and of the outcomes of its operations for the period from 1 January 2016 to 30 June 2016.

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

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

Ljubljana, 29 September 2016

Aleš Koršič	Janez Škrubej	Imre Balogh
Executive director	Executive director	acting Chief executive officer