DUTB from bad to good

THE 2014 UNAUDITED HALF-YEAR REPORT OF THE BAMC

January – June 2014

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1) Overview

The Bank Assets Management Company (henceforth the BAMC) was established with a task of facilitating the restructuring of systemically important banks in Slovenia that faced severe liquidity and solvency issues. At the end of 2013, the Republic of Slovenia recapitalised the two largest banks, Nova ljubljanska banka d.d. (henceforth NLB) and Nova kreditna banka Maribor d.d. (henceforth NKBM), transferring a substantial part of their non-performing assets to the BAMC. Accordingly, they entered 2014 with strengthened balance sheets and sufficient capital and liquidity.

The primary goal of the BAMC is to reduce the banks' restructuring costs from the Slovenian budget by recovering the highest possible value of transferred assets with the aim of achieving the highest possible market price in the ensuing restructuring and divestment process.

During the first six months of 2014 the BAMC generated € 65,0 million in cash from the management of the assets acquired under the provisions of Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability (*Slv. Zakon o ukrepih Republike Slovenije za krepitev stabilnosti bank*, henceforth the ZUKSB). The equity amounted to € 166,3 million due to € 8,4 million of total comprehensive income arising mainly from equity portfolio market price growth, whilst the net loss for the period totalled € 7,7 million.

TABLE 1: H1 2014 FINANCIAL HIGHLIGHTS SUMMARY

in € million	M1 – M6 2014
Cumulative cash generation	65,0
Net loss	7,7
Total comprehensive income	8,4

in € million	30 June 2014	31 December 2013
Equity	166,3	157,9

2) THE BAMC presentation and organization

TABLE 2: BASIC COMPANY INFORMATION

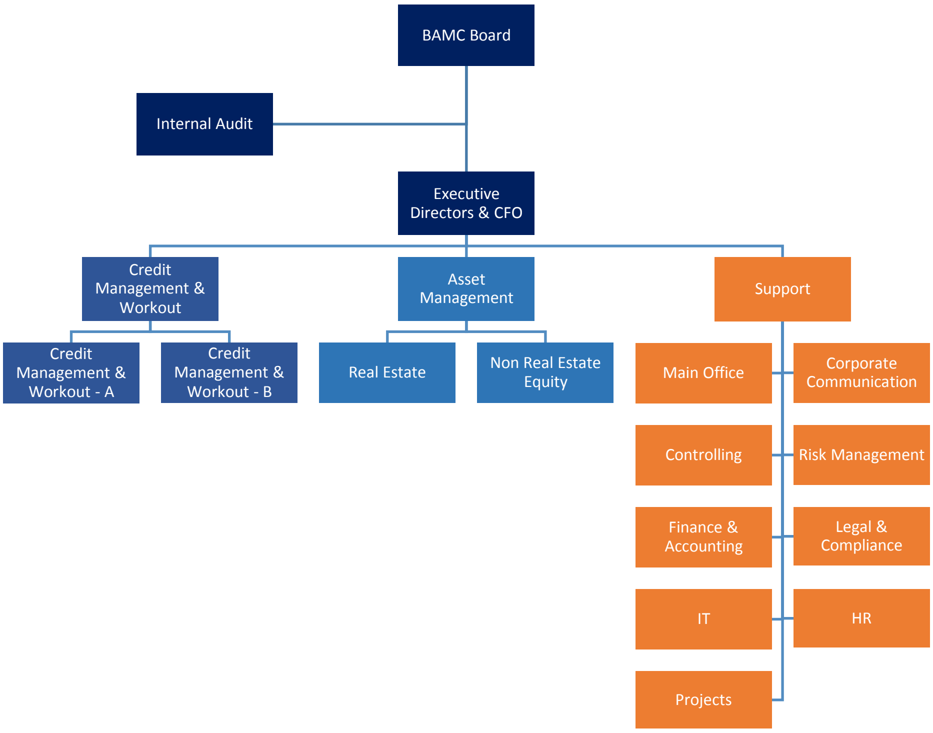
Full company name	Družba za upravljanje terjatev bank, d.d. (*Eng. Bank Assets Management Company*)
Short company name	DUTB, d. d. (*Eng. BAMC*)
Registered office	Davčna ulica 1, 1000 Ljubljana, Slovenia
Telephone	+386 820 542 35
Fax	+386 1 429 38 59
E-mail	info@dutb.eu
Website	www.dutb.eu
Core business	Acquisition of claims and assessment of credit worthiness
Registration entry	2013/11708, District Court of Ljubljana
Company ID number	6339620000
Tax number	41251482
VAT number	SI41251482
Share capital	€ 203.625.000,00
Number of shares	101.812.500 ordinary no-par-value shares
Non-executive directors as at 29 August 2014	Lars Nyberg, chairman of the Board of directors Carl-Johan Lindgren, deputy chairman of the Board of directors Arne Berggren Mitja Mavko
Executive directors as at 29 August 2014	Torbjörn Månsson, CEO Janez Škrubej Aleš Koršič

2.1) Organization and corporate governance

The BAMC has a one-tier governance structure with the Board of directors (henceforth the Board) as the ultimate decision-making authority. The Board consists of four non-executive directors and three executive directors. There are three Board committees: an Audit committee, a Remuneration committee and an Accreditation committee, each of them also include an external member with relevant professional competences in the Slovene working environment. Internal rules of procedure direct the work of the Board and the committees, while BAMC's day-to-day operations fall within the responsibilities of one of the executive directors.

Decisions relating to loans and other assets are made within an operational committee structure with mandates and competences clearly defined. Specifically, there are two credit committees and two investment committees, one of each at the executive level and the Board level. Rules and procedures for the committees to follow are defined in the *Credit and Asset Management Policy* document which also covers hierarchy, decision-making mandates and corporate governance procedures.

FIGURE 1: THE BAMC ORGANIZATIONAL STRUCTURE



In H1 2014 the main operations were undertaken in the Credit Management & Workout unit and the Asset Management unit. Supporting units were: the Main Office, Corporate Communication, Controlling, Risk Management, Finance & Accounting, Legal & Compliance, IT, Human Resources and Projects.

The Credit management and the asset management activities are performed by case managers, real estate managers and equity managers. The latter, in constant cooperation with lawyers, analysts and paralegals, prepare, present and make sure that Action plans with individual strategies for managing loans, real estate or equities are implemented. In case the restructuring of claims would not be economical, collateral may be enforced. With the enforcement of respected assets (real estate, equity stakes etc.) BAMC's claims are, mostly, repaid only partially. In case the BAMC estimates that the proceeds from enforcement would be lower than economically justifiable and that the BAMC itself could gain a higher value through managing these assets, they are taken over by BAMC's asset management with the aim of improving their value and selling them at a later stage.

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

Formalization of procedures continued in H1 2014 and acts have been adopted, covering various aspects of BAMC's operations. Examples of such acts are; *Rules on Job Positions Design and Job Positions Description*, *Rules on Salaries, Bonuses and Promotions*, *Code of Conduct for Employees of Bank Assets Management Company* and *Code of Ethics* which regulate the HR field. A *Catalogue of Public Information* is also in place as well as an *Investment Policy on the Management of Liquidity Reserves*.

2.2) Overview of key events in H1 2014

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

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

On 17 January, the Government of the Republic of Slovenia appointed Mr Mitja Mavko, state secretary at the Ministry of Finance, as a non-executive director, whereby he joined other Board members: chairman Lars Nyberg, Carl-Johan Lindgren and Arne Berggren.

On 30 April, the BAMC published an *Unaudited Annual Report for 2013*. By the time the report had to be published, the BAMC had not received sufficient information about the valuation methodology used to determine the value of individual transferred assets, which would allow it to accurately carry out initial recognition of transferred assets at fair value. The latter disallowed statutory audit. Nonetheless, based on an internal valuation of receivables of 20 of the largest cases, where it was estimated that transfer prices were set substantially higher than their fair value, the day-one loss was recognized in the amount of € 92,6 million.

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

On 10 June, the BAMC published an announcement for interested investors on its website and the Ljubljana Stock Exchange website, stating that, based on new information received in May regarding the methodology used to determine the transfer prices, the BAMC decided to carry out an internal valuation of 80% of the assets received in terms of value in order to determine the fair value of the portfolio.

2.3) Events after the reporting period

A change in the Board has occurred. Mr Christopher Gwilliam was replaced as chief executive officer by Mr Torbjörn Månsson, with effect from 31 July 2014. Given the challenges facing the BAMC, the non-executive board members were of the view that different management skills are needed for the future management of the company. After reviewing the 2013 applications for the CEO position and conducting interviews with a few potential candidates, the non-executive members of the Board appointed Mr Torbjörn Månsson as Mr Gwilliam's successor.

The internal valuation process was finalized in July and the audited financial statements for year 2013 were finally published on 29 August 2014. One result of the valuation process was that the amount of day-one losses was reduced to € 39,9 million and not € 92,6 million as reported in the unaudited financial report for 2013.

3) Business review

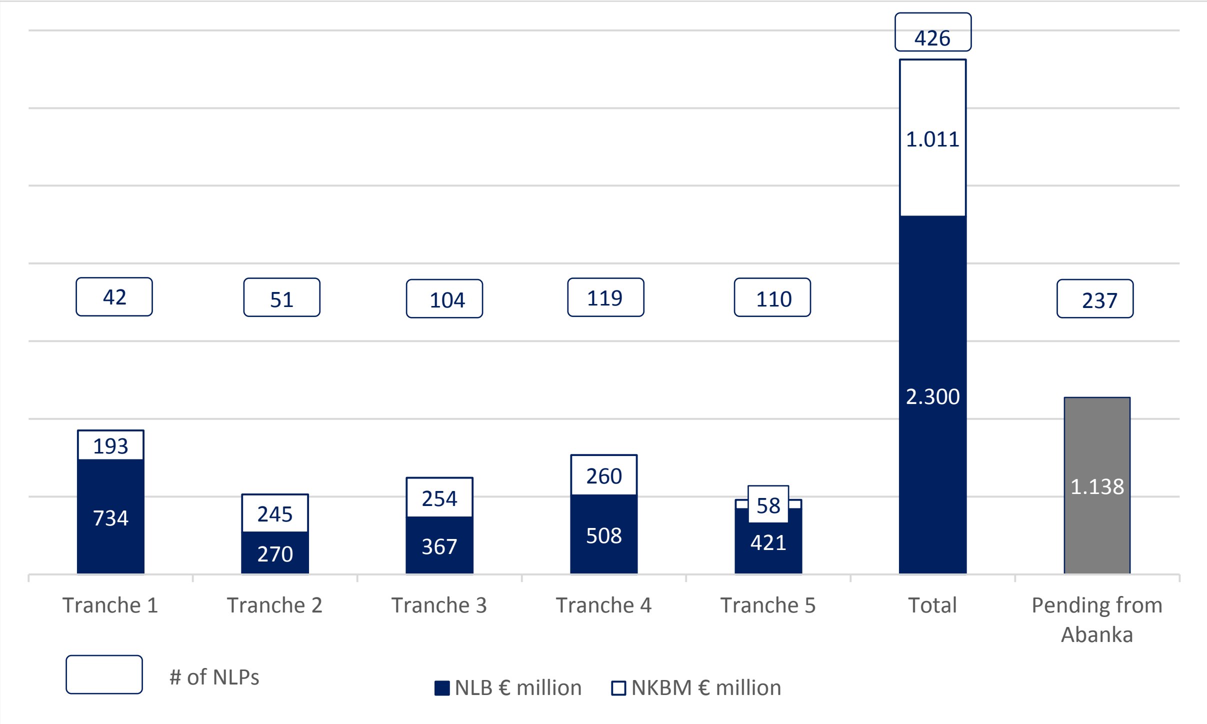
3.1) Finalization of NLB and NKBM asset transfers

In the beginning of May 2014 the BAMC completed the physical transfer of assets from NLB and NKBM, whilst the legal transfer of assets was already completed on 20 December 2013. The nominal value of assets transferred from NLB amounted to € 2,3 billion and from NKBM to € 1,0 billion and the transfer price for the loan portfolio totalled € 984,4 million. Additionally, an equity portfolio has also been transferred to the BAMC with the transfer price of € 24,0 million. The BAMC paid for the transferred assets with two bond issues guaranteed by the state in the amount of € 1.008,4 million; the BAMC had no influence on the selection of the assets to be transferred and on their transfer prices.

The BAMC took over the management of the non-performing loans, which consisted of 426 companies. In January 2014 the physical transfer of the first of the five tranches of assets from the two banks began.

- The first tranche covered 42 companies with € 927 million of gross exposure,
- the second tranche covered 51 companies with € 516 million of gross exposure,
- the third tranche consisted of 104 companies with € 622 million of gross exposure,
- in the fourth tranche 119 companies in the amount of € 768 million of gross exposure were taken over, and
- in the fifth tranche 110 companies in the amount of € 479 million of gross exposure were transferred to BAMC.

FIGURE 2: OVERVIEW OF TRANCHE TRANSFERS BY BANKS



The transfer from NLB and NKBM was a large scale project that required 39 people who contributed 5.200 working hours on the part of the BAMC alone. The BAMC representatives performed in-depth exhaustive interviews with custodians in the banks to get detailed information about the companies. At the same time the BAMC team made a "positive list" of all received documentation and all the documentation was archived. An assignment agreement was signed for each individual asset transferring managerial control over the acquired asset and confirming that the receivables including all ancillary rights related thereto had been assigned from NLB and NKBM to the BAMC. The banks and the BAMC signed the hand-over minutes after the interviews had been completed, the documentation transferred and recorded and once the assignment agreement was signed.

After receiving the complete credit file documentation, the BAMC has six months to perform a legal due diligence. During that period the BAMC can request that the banks remedy any mistakes. In case of infeasibility, then the BAMC has a right to retransfer an asset to the bank and claim the transfer value back.

3.2) Managing the transferred assets

In H1 2014 the BAMC began to actively manage the assets transferred from the banks in December 2013, the total value of which amounted to € 961,2 million on 31 December 2013. At the end of the half-year period the asset value totalled € 948 million. The loan portfolio value has been reduced due to debt repayments, whereas the real estate portfolio and the equity portfolio have increased in value.

TABLE 3: VALUES OF RESPECTIVE PORTFOLIOS

in € million	30 June 2014	31 December 2013
Loans	903,8	947,0
Real estate	14,5	0,0
Equity	29,7	14,2
Total	**948,0**	**961,2**

3.2.1) Loan portfolio management

BAMC's loan portfolio value at the beginning of 2014 was € 947 million. The value of the loan portfolio has shrunk by € 43,2 million in H1 2014 and totalled € 903,8 million on 30 June 2014. The decrease of the loan portfolio in H1 2014 is mainly the result of loan repayments in the amount of € 65,0 million on one hand, and interest income of € 19,1 million on the other. Receipts from loans also include receipts from banks in the amount of € 6,8 million which had actually been collected in 2013 but paid by the debtors to NLB and NKBM accounts instead of to the BAMC account.

Each company (henceforth case) from the loan portfolio has been split based on the internal estimation of strategy and difficulty. Strategies are split into:

- recovery, with a focus on liquidation of the assets, including legal procedures like enforcement and bankruptcy, and
- restructuring, with a focus on the going concern value of the companies, including debt rescheduling, debt-to-equity conversion, business reorganization, divestment processes, etc.

The initial analysis of each case was done through an internal valuation of BAMC's collateral and an assessment of whether the company in question is still viable as an ongoing concern or not. In case of recovery, the strategy aims to maximize cash flows through asset sales. The BAMC acts as an active asset manager by monitoring the sales processes, either through bankruptcy or enforcement proceedings.

In cases where a restructuring strategy is selected as the one providing maximal economic value, an active approach is initiated. Case managers establish a direct relationship with the management of companies to be restructured, taking an active and initiative stand in negotiations with other financial and business creditors, especially where the BAMC is the major creditor. In this process the BAMC aims to maximize repayment of its claims and, at the same time, seeks a win-win situation with all important stakeholders which, for example, results in signing a Master Restructuring Agreement. Usually, at least some of the following activities have to be performed: divestment of non-strategic assets, debt-to-equity conversion, partial debt write-off and reprograming of the remaining sustainable debt, which is determined by expected future cash flows.

The difficulty of a case is assessed according to three categories ranging from difficult to simple with the aim to reflect the complexity regarding case management. Determining factors include, among other things:

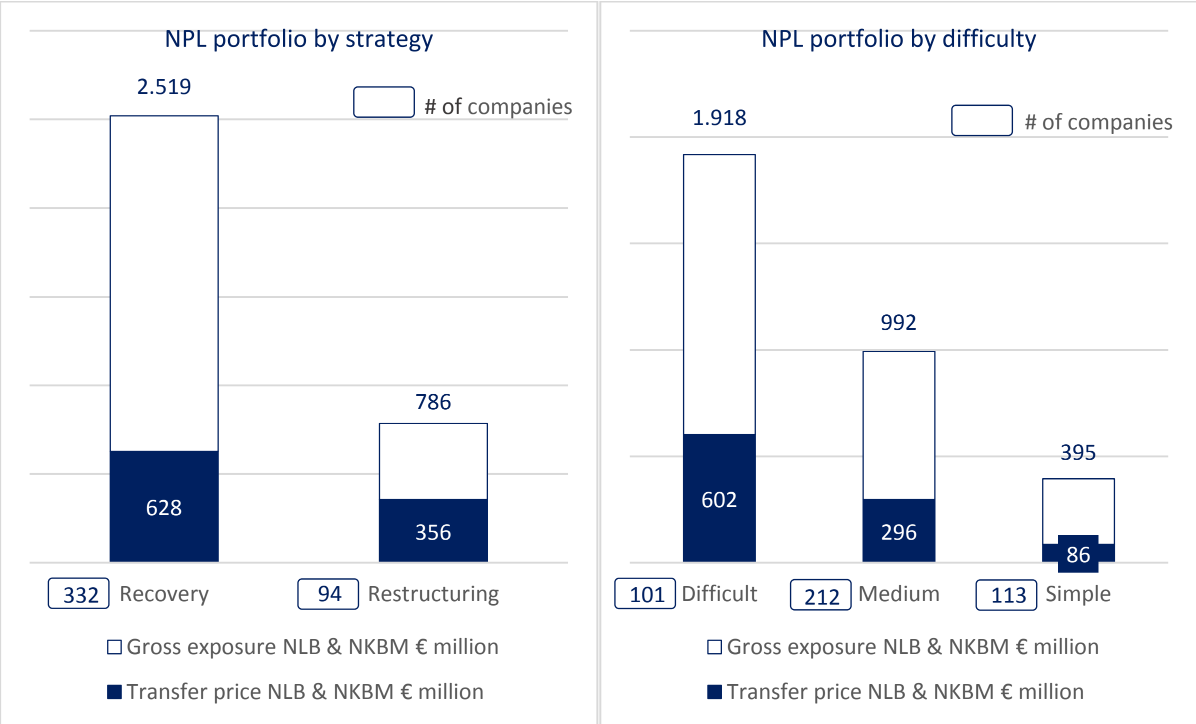
- the group structure in terms of ownership, intragroup business relationships and given guarantees, as well as intragroup financing connections,
- the exposure amount, which is usually directly related to the number of creditors, that may be either financially or business-related, taking into consideration the increased amount of negotiations and coordination required to come to an agreement,
- various positions of creditors (for example, financing the holding company or its operating daughter companies, positions regarding type and value of collateral) which can lead to unaligned interests,
- cross-collateral within the group and different creditor ranking on specific collateral, and
- only partial transfer of group exposure (for example, holding companies' debts were transferred to the BAMC, whilst the debts of operating companies were not).

Thus, simple cases are easy to decide and implement/monitor, while difficult cases are complex and require a lot of analysis and/or negotiations and coordination and/or implementation. The BAMC devotes more resources to the more difficult cases using specific knowledge, expertise and competence of its workforce to provide the most suitable case-management from the very beginning.

For the majority of the portfolio, a recovery strategy is most relevant. Often bankruptcy procedures have already been started prior to the transfer. Although there is potential for recovering more value in restructuring cases than in recovery cases, as indicated by the transfer prices compared to gross exposure, the ability to restructure has decreased over time.

The majority of cases are estimated at medium difficulty with significant numbers also shifting towards simple and difficult companies. However, judging by the underlying value, the majority of exposures are perceived as difficult and complex to manage. It is also evident that most of the simple cases have a recovery strategy while a restructuring strategy leads to more difficult approaches.

FIGURE 3: OVERVIEW OF THE NPL PORTFOLIO BY STRATEGY AND DIFFICULTY



3.2.2) Real estate portfolio management

Real estate was not a part of the direct transfer of assets in December 2013, thus the BAMC entered 2014 without any direct real estate ownership. On the other hand, the majority of loans transferred to the BAMC are secured by real estate, therefore it is expected that the BAMC real estate ownership will increase considerably in the coming years.

In H1 2014 BAMC acquired 24 real estate assets, the total value of which amounted to € 14,5 million as at 30 June 2014. These consisted of:

- 22 real estate assets transferred to the BAMC from NKBM in May and June 2014
- one real estate that was unsellable in the bankruptcy procedure,
- one pledged land plot in Ljubljana which was acquired at a bankruptcy auction.

TABLE 4: BAMC REAL ESTATE HOLDINGS AS AT 30 JUNE 2014

Real estate	**Number**	**Value** (in € million)
Empty land plots	14	9,2
Buildings	10	5,2
Total	**24**	**14,5**

NOTE: Among building types there are mostly business premises (industrial halls, touristic apartments, some commercial premises and offices) and one residential house.

Most of the real estate, pledged as collateral on the transferred assets, is not owned by the BAMC but is a part of bankrupt's estates or still owned by active firms. In case of unavoidable bankruptcies, priority will be given to selling the real estate in the bankruptcy procedure itself under the condition that an acceptable price can be achieved. In case such as sale were not successful, the BAMC would take over such a real estate.

The BAMC will take over from bankrupt's estates:

- real estate not getting liquidated in the bankruptcy procedures,
- real estate which could incur substantial damage due to long legal procedures and where immediate action is required,
- real estate for which there will be a concern that they will be sold considerably below an appropriate price due to the conditions in the real estate market (i.e., fire sales).

By taking over the ownership the BAMC will thus be actively involved in the real estate asset management and selling process.

The BAMC will try to achieve better selling terms over those in a bankruptcy procedure through:

- finishing or repairing the real estate,
- offering a guarantee for the removal of defects,
- temporary renting the real estate,
- selling the real estate in non-forced procedures,
- selling the real estate through various marketing channels, and
- packaging the real estate in a larger portfolio for which there would be investor interest.

Considerable attention will be directed towards distressed residential projects. As they are unsellable as a whole under current market conditions, the BAMC will probably take over and complete such projects by itself or in cooperation with interested investors. These units will later be marketed in various ways: selling, renting, renting with a purchase option, selling to REIT, etc. Residential units have a specific advantage, namely, that relatively high and stable demand is present, given adequate pricing, despite the existing crisis. Nevertheless, some time will be needed for the realization of these plans – complicated procedures of taking over the assets from bankrupt's estates will have to be performed and the projects will have to be finished first.

A bigger challenge are business real estate premises and building land, the sale of which is mostly dependent on economic activity. In case there will not be a demand for such real estate, the BAMC will not be forcefully selling these and a longer timeframe will be necessary for successful divestment, at the same time taking into account potentially high management costs which can arise if the real estate is not sold within a short time. Next to an intensive search for interested investors through various selling channels domestically and abroad much attention will be devoted to optimizing managing costs in the meantime. The BAMC will assess potential interest from larger investors to purchase a larger number of real estate in appropriate packages.

In H1 2014 the following activities were performed in the real estate area:

- an overview of the complete real estate portfolio pledged as collateral for BAMC holdings, setting up a database of over 1.000 real estate, performing internal valuations and the preparation of relevant management and marketing strategies,
- active takeovers from bankrupt's estates – in April a building land plot in the centre of Ljubljana was taken over at a bankruptcy auction. In May 2014, the BAMC acquired the Nokturno building as the only bidder at the auction (the transfer to the BAMC has not yet been undertaken) and procedures for the acquisition of other various real estate assets have been started, where it was estimated that a higher value can be obtained through the transfer to the BAMC,
- the BAMC took over the real estate portfolio of NKBM as a part of the ZUKSB measures,
- intensive procedures to prepare the recently acquired real estate from NKBM for sale are underway – legal and technical due diligence, marketing plans for every specific real estate, removal of defects found, setting up the selling infrastructure etc.

3.2.3) Equity portfolio management

The BAMC acquired several minority equity stakes from NLB and NKBM in 12 companies in the context of the fund transfer in December 2013 with the largest stake being a 23,5% ownership share in Pivovarna Laško d.d. The book value of the equity portfolio on 31 December 2013 was € 14,2 million.

As at 30 June 2014, the BAMC owns equity stakes in 14 companies in the amount of € 29,7 million. The increase of value is mostly attributable to the market value increase of Pivovarna Laško stock.

TABLE 5: BAMC EQUITY PORTFOLIO AS AT 30 JUNE 2014

Company	BAMC ownership	Acquisition type
Perutnina Ptuj d.d.	0,04%	Transfer from the banks
Elektro Celje d.d.	0,06%	Transfer from the banks
Elektro Ljubljana d.d.	0,20%	Transfer from the banks
Elektro Primorska d.d.	0,36%	Transfer from the banks
Elektro Gorenjska d.d.	1,20%	Transfer from the banks
Gorenjska banka d.d.	4,42%	Transfer from the banks
Hit d.d. (preferred shares)	7,37%	Transfer from the banks
Certa d.d.	8,84%	Transfer from the banks
Adria Airways d.d.	19,63%	Transfer from the banks
Thermana d.d.	21,20%	Transfer from the banks
Pivovarna Laško d.d.	23,51%	Transfer from the banks
Nigrad, komunalno podjetje d.d.	24,91%	Transfer from the banks
MLM d.d.[1]	34,39%	D/E swap
ŠC Pohorje d.o.o.	97,31%	D/E swap

NOTE: [1]On 15 July 2014 the additional debt-to-equity conversion was carried out, thereafter the BAMC's ownership increased to 52,53%.

BAMC's ownership of equity stakes can in principle be a result of:

- the direct transfer from the banks,
- debt restructuring of the company which includes a debt-to-equity swap or
- a recovery credit strategy whereby pledged equities are taken over.

At the beginning of 2014, the BAMC held meetings with representatives of NLB's and NKBM's asset management departments which were responsible for the shares prior to their transfer in respective banks to understand the situation of each of the equities and eventual prior attempts to sell them. The management of some of those companies has also been approached. There has been close cooperation between the asset management and credit workout team related to the cases where there could be a debt-to-equity swap or a takeover of pledged shares, resulting in the BAMC owning additional companies.

In general, the priorities in H1 2014 were:

- to understand the nature of the business and the financials of companies owned and to understand BAMC's position in the companies as a shareholder in order to design an initial strategy for each of them,
- to actively participate at the annual general meetings (AGMs) of shareholders – the BAMC has so far attended AGMs of Gorenjska Banka d.d., Certa d.d., Nigrad d.d., Adria Airways d.d., Pivovarna Laško d.d. and MLM d.d.; and
- to design and implement the process of equity valuation at an initial recognition as at 20 December 2013 for equities held either directly or indirectly as collateral.

In the process of compulsory settlement the BAMC obtained ownership stakes in 2 companies from D/E conversions already initiated by the prior owners of the claims, i.e. banks. Namely, 34,4% in

MLM d.d. and 97,3% in ŠC Pohorje d.o.o., where in case of the latter procedures for its divestment are already underway. As it is expected that the process will be concluded before the preparation of the financial statements for 2014, the investment in ŠC Pohorje d.o.o. has not been consolidated.

3.3) Asset valuation methodology

Based on an internal asset analysis, experts' experience and case-specific knowledge, the BAMC developed its own *Internal Valuation Methodology* in H1 2014 which was used for establishing the fair value at an initial recognition of assets and will be used for reassessment of asset values and ensuing impairments or revaluations in the future. The methodology will also be used for assessing fair value at initial recognition of assets transferred from Abanka Vipa as well as a base for credit and asset management decisions.

3.3.1) Loan valuation methodology

The expected outcome is calculated to estimate the value of the loans. For each company two possible scenarios, restructuring and recovery, are considered. Realistically estimated cash flows to the BAMC are estimated and probabilities are assigned to both scenarios. For the restructuring scenario, the debtor's cash flow forecast and the debt servicing capability are taken into account and for the recovery scenario, the realistic outcome of realizing collateral is considered. The expected outcome is thereafter calculated as a probability-weighted average of present values of cash flows of both scenarios discounted at a discount rate which represents financing and operating cost of the BAMC.

3.3.2) Real estate valuation methodology

For single residential units and non-residential single units below an external market valuation of € 2 million a simplified approach methodology based on GURS (Geodetska uprava Republike Slovenije, *Eng.* The Surveying and Mapping Authority of the Republic of Slovenia) is used. The obtained base values are modified with a number of different factors, taking into account the current condition of the real estate, its location, size, vacancy rate, etc. For complex real estate, the discounted cash flow method with detailed cash flow forecasts is used.

3.3.3) Equity valuation methodology

Equity positions where the BAMC share represents more than 20% or the ones with a book value above € 5 million are evaluated by the discounted cash flow method. For less control or lower book value a comparison method of adjusted EV/EBITDA multiples is used. For minority holdings, the market price is used if available and sufficient transactions have been done to ensure liquidity.

3.4) Process of asset transfer from Abanka Vipa, Probanka and Factor banka

3.4.1) Abanka Vipa

It has been expected that the BAMC will already acquire non-performing assets from Abanka Vipa in Q2 2014. However, the process has been prolonged and shall be concluded in Q3 2014 instead.

In Q2 2014 the BAMC performed all the activities needed for the implementation of the transfer (preparation of transfer agreements, procedures, negotiations), so that the legal transfer of title for all of the assets transferred from Abanka Vipa to the BAMC will occur in August/September 2014. The physical transfer of credit files and accompanying documentation, as well as the actual transition of managerial control of the assets, will be arranged in four tranches. The last tranche should be operationally transferred to the BAMC by 31 December 2014.

As already stated in the case of NLB and NKBM transfers, the BAMC will issue bonds with the state guarantee to Abanka Vipa in consideration for the troubled assets to be acquired. In Q2 2014 the BAMC held preparatory activities for the bond issue, which included coordination with the Ministry of Finance and Abanka Vipa concerning the determination of bond prices and other characteristics of the bond. Bonds will be structured so as to qualify for Eurosystem eligible collateral, providing liquidity to the holders via access to Eurosystem credit.

According to the ZUKSB and Decree, the BAMC has not been involved in the selection process of the scope of assets neither has negotiated their prices with the bank, and has had no part in the transfer price formation. The BAMC will execute the transfers at the given transfer prices as stipulated by the Decree. As the BAMC has not yet done its own valuation for Abanka Vipa's non-performing assets, it is difficult to comment on the transfer prices. The full financial consequences of these asset transfers for the BAMC are therefore still uncertain. BAMC plans to do its internal valuation and recognize day-one loss or gain in line with international accounting standards.

3.4.2) Probanka and Factor banka

The BAMC also plans to acquire some non-performing assets from Factor Banka and Probanka, two banks in liquidation (under the Bank of Slovenia administration), which will allow the BAMC to consolidate exposures already transferred from NLB and NKBM and to be transferred from Abanka Vipa. Namely, there are synergies expected for the BAMC to manage all of these assets in a co-ordinated and more logical manner with the aim of simplifying decision-making and action tied to either restructuring or recovery of the acquired non-performing assets.

The process of transferring non-performing assets from Probanka and Factor banka to the BAMC has been initiated in the beginning of May 2014. Its pace has also been slower than planned, however, in this case it has been so due to the two banks and the BAMC trying to find a mutual agreement on the transfer values and the scope of assets to be transferred considering the fact that the transaction shall be based on an arm's length principle. Anything else but that would cause additional impairments on the side of the BAMC. Discussions between the BAMC and the banks are coming to an end and it is expected that an agreement for at least part of the non-performing assets could be reached by September 2014. Approval of the supervisory bodies is then still needed before the actual transfer could be executed.

Unlike in the case of other banks' transfers, the BAMC has done its preliminary internal valuation of the non-performing assets, in line with BAMC's internal valuation policy and based on its own independent assessment with case managers in order to have a thorough independent view on the correctness of transfer values.

BAMC is planning to make payment to the two banks in a manner and by means which shall be economically most advantageous for the BAMC.

3.5) IT support

The main goal on the IT field is to support the company processes in a way that these processes can be effective and efficient. Currently there are two main challenges in the IT field that the BAMC has to respond to. The first one is that there are business processes which are not yet supported by an IT solution. The second is the fragmentation of IT support for the same process. In practice this means that it is very difficult to create consolidated reports and get information in a fast way.

Fragmentation is mostly present in the process of credit management. Thus, a lot of IT activities were focused on this area. A team for defining requirements and evaluation of a possible solution was established. The team also held a presentation of a possible solution and is preparing the data migration from currently outsourced systems. Similar activities were also done in the area of real estate asset management. The team had presentations of many solutions from different suppliers. The main issue is to select an appropriate solution that will cover these processes and which can be easily integrated into the IT landscape.

With the realisation of the above, the BAMC is building a base for the business intelligence system. Creating a good data warehouse, reports and using data mining tools is the goal. That is to provide data, execute reports and provide information for decision making in the most efficient way.

From the security view it is necessary to continually monitor, check and improve all security aspects. A Security policy was adopted in Q2 2014 which defines security rules not only for IT processes but also in a wider sense. It defines the security of data, information and IT system.

3.6) Public relation activities

The BAMC has been in the spotlight of interested audience since its establishment and H1 2014 was no different. Based on an evaluation of the external and internal environment, the communication objectives are to support BAMC's strategic goals through positioning the BAMC as an important driver of change in the Slovenian financial system and explaining its role, mission and the benefits of its operations for the state and taxpayers.

BAMC communication is oriented towards obtaining the support of key audience and its collaboration in order to achieve optimum results. In the context of building the organization, regular internal communication is a communication priority. At the same time, the BAMC is focusing its efforts on building a positive image in the media and among the general public through the presentation of individual restructuring cases and trying to coach the general public regarding the BAMC's scope of work. The BAMC is also making efforts to build good relations with decision-makers, opinion leaders and the business audience. This is achieved through the regular, comprehensive, proactive promotion of BAMC's impact on the recovery of the Slovenian financial system, creating communication opportunities and newsworthy stories, monitoring communication needs of key audiences, and providing responses, as well as managing potential communication obstacles.

3.7) Public information access act compliance

In March, the National Assembly of the Republic of Slovenia passed the amendment to the Public Information Access Act (ZDIJZ-C), which entered into force on 17 April 2014. Under the amended act the BAMC was obligated to publish data on loans that were transferred to it on its website. Published data included the name of the lending bank and the debtor together with the total gross exposure.

Furthermore, the BAMC was also obliged to publish information of public character referring to donations, sponsorships, consultancy and other copyrighted or intellectual services and also information in connection with the representatives of the business entity, related to the type of representative or disclosure of membership in corporate governance bodies, the management/supervisory body, as well as details about the salaries and benefits by such persons.

Three months following the Act's promulgation, the BAMC was also required to publish (as freely-accessible information of public character) details in direct relation to delinquent debtor credits, with risk items recorded as impairments in the balance sheets of the bank concerned, which were transferred to the BAMC from such banks.

The preparation of data for publication in accordance with the law demands a lot of time and work. The BAMC also receives requests for access to public information. Every request is carefully examined and a decision is made in accordance with the law.

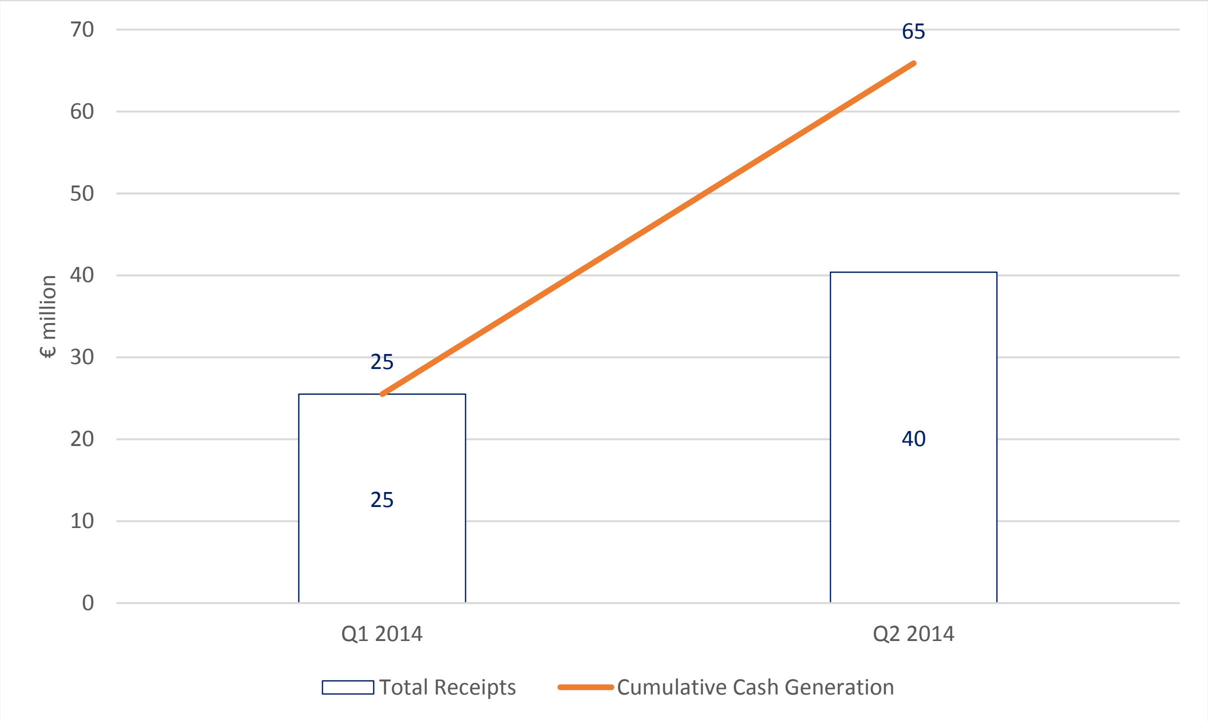
4) Financial review for H1 2014

4.1) Financial results

The financial results for H1 2014 represent BAMC's first financial results after the acquisition of assets from NLB and NKBM in December 2013. At that time, the BAMC began the process of taking over the documentation and managing assets.

During the first half-year period, the BAMC generated € 65,0 million in revenue from assets acquired under ZUKSB in 2013 and in the first half of 2014. These receipts are almost entirely derived from the management of acquired loans and include receipts from banks in the amount of € 6,8 million which had been actually collected in 2013 but paid by the debtors to NLB and NKBM accounts instead of to the BAMC account.

FIGURE 4: INFLOWS RELATING TO ASSET MANAGEMENT UNDER ZUKSB



The above presented inflows relating to asset management under ZUKSB do not include inflows from disposals of state bonds in the amount of € 9,6 million realized in the first half-year period to ensure liquidity for BAMC's day-to-day operations.

TABLE 6: STATEMENT OF CASH FLOWS SUMMARY

in € million	
Cash balance on 31 December 2013	**5,6**
Cash flows from operating activities	-17,0
Cash flows from investing activities	74,6
Cash flows from financing activities	-8,7
Cash balance on 30 June 2014	**54,5**

As at 30 June 2014, the BAMC had cash or cash equivalents balance of € 54,5 million. It should be taken into consideration that the purchase of real estate from NKBM, in the amount of € 11,4 million transferred to the BAMC as part of the measures to ensure the stability of banks, was financed by payment of cash generated through asset management activities under ZUKSB rather than additional borrowing, i.e. additional issue of state-backed bonds. In this manner, the BAMC has already implicitly repaid the aforementioned amount of debt to the state and the taxpayers.

4.2) Statement of profit and loss and comprehensive income

TABLE 7: STATEMENT OF PROFIT AND LOSS AND TOTAL COMPREHENSIVE INCOME SUMMARY

in € million	M1 – M6 2014	M1 – M6 2013
Operating income	0,0	0,0
Operating costs	6,5	2,5
Operating loss	**6,5**	**2,5**
Financial income	27,4	0,2
Financial costs	28,6	1,0
Net loss for the period	**7,7**	**2,5**
Change in value of financial assets available for sale	16,1	0,0
Total comprehensive income	**8,4**	**-2,5**

4.2.1) Operating income, costs and operating profit

BAMC's sole activity is the management of non-performing loans and other assets. For this reason, the operating result relates mainly to operating expenses, while operating revenues for the first half-year period were minimal since the handover of real estate intended for sale occurred only in Q2 2014.

During H1 2014, the BAMC booked € 6,5 million in operating expenses for its ongoing operations. The largest cost item were the costs of services in the amount of € 4,8 million, while labour costs amounted to € 1,6 million.

The prevalent share in the Cost of services category is represented by the costs of intellectual and personal services in the amount of € 3,1 million. This includes consultancy costs in the amount of € 2,0 million, legal and notarial services in the amount of € 0,5 million, and accounting and IT service costs and costs of auditing services in the amount of € 0,5 million.

Costs of other services amounted to € 1,2 million, where a prevalent share is represented by asset management costs related to assets acquired from banks, where NLB and NKBM provided asset management services until May, prior to the actual handover of the assets concerned.

As the new owner of real estate, the BAMC also faced property management costs, which amounted to € 152 thousand in the first half-year period.

4.2.2) Financial income and costs

In the first six months of 2014, BAMC generated € 27,4 million in financial income and € 28,6 million in financial costs.

The prevailing share of financial income was represented by interest income in the amount of € 26,1 million, which comprises interest on loans in the amount of € 19,1 million, and € 6,9 million in revenues from interest on RS bonds.

Financial expenses in the amount of € 20,6 million relate to interest on issued bonds DUT01 and DUT02, while the cost of guarantee on bonds issued amounted to € 6,3 million.

4.2.3) Net profit or loss and comprehensive income

In H1 2014, the BAMC generated a total comprehensive income of € 8,4 million. The net loss for the first half-year period amounted to € 7,7 million, whilst the revaluation surplus relating to the investment in the shares of Pivovarna Laško d.d. increased by € 16,0 million, and the investment in RS bonds increased by € 3,3 million as a result of the increase in the market value of the investments. In addition to this, the BAMC recognized deferred taxes in the amount of € 3,3 million.

4.3) Balance sheet

TABLE 8: BALANCE SHEET SUMMARY

in € million	30 June 2014	31 December 2013
Assets	**1.210,3**	**1.182,2**
Loans	903,8	947,0
Real estate	14,5	0,0
Equity investments	29,7	14,2
Bonds	195,7	206,2
Cash and equivalents	54,5	5,6
Liabilities	**1.044,0**	**1.024,3**
Debt securities	1.036,1	1.012,7
Equity	**166,3**	**157,9**

4.3.1) Assets

The total value of BAMC's assets increased in the first half-year period by € 28,1 million, and amounted to € 1.210,3 million as at 30 June 2014.

The total cash balance increased by € 48,9 million in the first half-year period, mainly due to loan repayment. The loan balance as at 30 June 2014 was therefore € 903,8 million. On the other hand, the volume of real estate available for sale has increased as a result of the acquisition of real estate from NKBM, amounting to € 14,5 million at the end of the first half-year period.

Furthermore, the value of financial investments in equities has increased during the first half-year period, and amounted to € 29,7 million as at 30 June 2014, caused by the increase of market value of Pivovarna Laško d.d. shares. In the first half-year period, the BAMC also acquired additional equity interests in the companies Športni center Pohorje d.o.o. and MLM d.d. as part of a debt-to-equity swap in the nominal value of € 13,8 million, however these were impaired to zero-value immediately upon acquisition by releasing the negative difference at initial recognition of assets.

As at 30 June 2014, the BAMC also owned € 195,7 million of RS government bonds, which it received at the recapitalization.

4.3.2) Equity and liabilities

The BAMC financed its assets on 30 June 2014 almost exclusively through non-current financing, namely equity in the amount of € 166,3 million and liabilities in the amount of € 1.044,0 million.

Equity increased by € 8,4 million as a result of the increase of the surplus from the revaluation of financial assets in the amount of € 16,1 million, but was set back by the net loss of € 7,7 million.

As at 30 June 2014, non-current liabilities amounted to € 1.039,4 million and pertained mainly to issued bonds DUT01 and DUT02 in the amount of € 1.036,1 million. Current liabilities in the amount of € 4,2 million fully correspond to operating liabilities.

5) Risk management

In H2 2014 the BAMC will prepare a risk register, listing all identified risks and the methods specifying how these risks should be addressed. Denoted below is the list of significant risks, identified thus far.

5.1) Strategic risks

- *Risk involving the finite period of time of the BAMC functioning*

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

- *Risk connected with capital inadequacy*

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

- *Risk connected with the inability to obtain additional indebtedness*

There is a risk that the BAMC may not be able to acquire additional debt for the transfer of assets from other banks (Abanka Vipa, Factor banka, Probanka and possibly other banks) and refinance the matured liabilities (at the end of 2015 and the following years) due to national budget restrictions or the absence of a state guarantee for its potential future bond issues.

5.2) Operational risks

- *Risk connected with informational sources*

The BAMC gains informational sources from IT systems of NLB and NKBM. Both of these banks are obliged to ensure the functioning, availability and access to IT systems and, among other things, the preparation of different types of reports connected with the acquired assets. With planned asset transfers from other banks with similar informational support arrangements there will be an increase in the risk of effectively overviewing the accuracy of data obtained.

- *Risk connected with the destruction of assets (assets owned by the BAMC and assets where the BAMC is the lienholder*)

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

5.3) Financial risks

- *Credit risk*

Credit risk is the risk of financial loss to the BAMC if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from BAMC's acquired loans and receivables from customers and investment securities and bonds.

- *Liquidity risk*

Liquidity risk is the risk that the BAMC will not be able to meet its financial obligations as they fall due. The BAMC ensures maximum possible liquidity by always having sufficient liquid assets to meet its liabilities when due, under both normal and demanding conditions, without incurring unacceptable losses or risking damage to its reputation. The key liquidity risk for the BAMC is funding of the Government Guaranteed Floating Rate Notes issued as consideration for the value of acquired assets.

- *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices, will affect BAMC's income or the value of its financial instruments. Market risk arises from open positions in interest rate and currency products, all of which are exposed to general and specific market movements, and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates. The BAMC is exposed to market risk on its loans, receivables and securities position.

- *Risk connected with the refinancing of issued bonds*

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

6) The BAMC share

As at 30 June 2014, the BAMC had a share capital in the amount of € 203.625.000 recorded in the court register, which represents 101.812.500 ordinary, freely transferable, registered, no-par value shares. Each share brings an equal share and a corresponding sum of share capital. All issued shares were paid in full.

TABLE 9: BASIC BAMC SHARE INFORMATION

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

NOTE: Share information as at 30 June 2014.

In H1 2014 there was no change in the ownership structure.

7) Employees

7.1) Employment in BAMC

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

On 9 January 2014 the Board of BAMC has appointed three executive directors with a permanent term. By the end of February the second head of credit management & workout and real estate head joined BAMC. CFO was employed in March. The three executive directors, CFO and the three management heads are, next to having professional competences, a solid base for quality leadership of the team of colleagues which grew in number steeply in H1 2014 with the majority of employments in the credit management & workout unit.

FIGURE 5: NUMBER OF EMPLOYEES ON THE LAST DAY OF THE MONTH FOR H1 2014

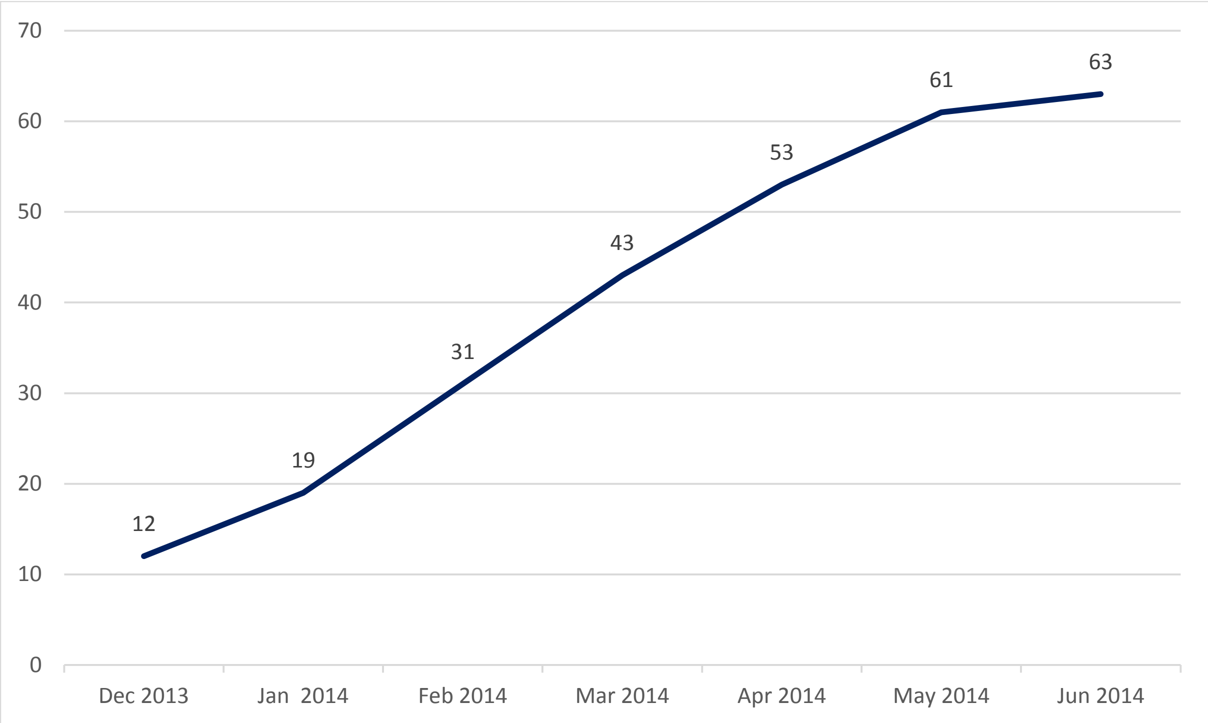


TABLE 10: NUMBER OF EMPLOYEES BY ORGANIZATIONAL UNIT

Organizational unit	**Number of employees**	
	as at 30 June 2014	as at 31 December 2013
Executive directors and CFO	4	3
Credit management & workout	42	3
Asset management	4	1
Support	13	5
Total	**63**	**12**

7.2) HR activities

In H1 2014 the focus, next to new employments, was on establishing core HR processes. Induction day was introduced, which allowed new associates to systematically get to know BAMC's organization, its main rules and management. A team atmosphere as well as the associating and familiarization of colleagues has been encouraged through various informal gatherings.

Introduction of a probation period plan and assessment is the beginning of setting up management by objectives and performance management system. A code of conduct has formalized expected conduct of colleagues. Medical examinations, co-worker education and preparation of a risk assessment and safety statement mark a systematic approach towards health and safety at the workplace.

A methodical transfer and management of knowledge has been established through a whole-day workshop, which covered an in-depth presentation of claim and asset management processes.

UNAUDITED FINANCIAL STATEMENTS OF THE BAMC FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 JUNE 2014

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

The management hereby confirms that the relevant accounting policies were consistently applied in the compilation of the consolidated financial statements. The accounting estimates were made according to the principle of prudence and the diligence of a good manager. The management confirms that the semi-annual report presents fairly, in all material respects, the financial position of the BAMC and of the outcomes of its operations for the period from 01 January 2014 to 30 June 2014.

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

The tax authorities may audit the operations of the BAMC at any time within 3 to 6 years from the day of the tax statements, which could result in an additional tax liability, default interest and fines for corporate income tax or for other taxes or levies. The management is not aware of any circumstances that could give rise to a potential material liability in this respect.

Ljubljana, 27 August 2014

Aleš Koršič
Executive director

Janez Škrubej
Executive director

Torbjörn Månsson
Chief executive officer

FINANCIAL STATEMENTS

1 BALANCE SHEET

Figures in €	NOTE	31.12.2013	30.6.2014
Assets			
Non-current assets			
Intangible assets	4	0	7.552
Property, plant and equipment	5	76.918	158.428
Available for sale financial assets	6	14.185.267	29.679.957
Loans and receivables	7	408.344.884	395.555.735
Deferred tax assets		0	
		422.607.068	**425.401.671**
Current assets			
Inventories	8	0	19.134.806
Available for sale financial assets	6	206.183.922	195.667.141
Deferred costs	10	500.830	3.229.130
Loans and receivables	7	538.640.953	508.286.279
Trade and other operating receivables	9	8.695.292	4.080.876
Cash and cash equivalents	11	5.551.869	54.474.403
		759.572.866	**784.872.635**
Total assets		**1.182.179.934**	**1.210.274.306**
Equity and liabilities			
Share capital	12	203.625.000	203.625.000
Retained earnings		-45.652.845	-53.394.247
Revaluation reserves	12	-69.885	16.063.144
Total Equity		**157.902.270**	**166.293.898**
Liabilities			
Non-current liabilities			
Debt securities	13	1.012.716.282	1.036.120.021
Operating liabilities		441	2.107
Deferred tax liabilities	12	160.837	3.290.042
		1.012.877.560	**1.039.412.169**
Current liabilities			
Borrowings	14	2.196.611	316.130
Trade and other operating payables	15	9.100.243	4.231.676
Accrued costs	16	103.250	20.433
		11.400.104	**4.568.239**
Total equity and liabilities		**1.182.179.934**	**1.210.274.306**

The notes to the financial statements on pages 32 - 62 are a constituent part of the financial statements.

2 INCOME STATEMENT

Figures in €	NOTE	For the period from 19/3/2013 to 30/06/2013	For the period from 01/01/2014 to 30/06/2014
Net sales revenue		0	18.772
Cost of materials		-2.814	-18.929
Cost of services	18	-2.361.655	-4.819.524
Labour costs	19	-149.707	-1.607.611
Depreciation		-159	-11.018
Other operating costs		0	-59.273
Operating loss		**-2.514.335**	**-6.497.583**
Financial income	20	**175**	**27.392.730**
Financial costs	20	**-954**	**-28.576.009**
Other operating revenues		**0**	**201**
Other operating costs		**0**	**-5**
Financial loss		**-778**	**-1.183.082**
Loss before tax		**-2.515.113**	**-7.680.666**
Income tax expense	21	0	0
Deferred tax	21, 12	0	0
Net loss for the period		**-2.515.113**	**-7.680.666**
Attributable to owners	22	**-2.515.113**	**-7.680.666**
Basic and diluted earnings per share	22	**-2,76**	**-0,08**

The notes to the financial statements on pages 32 - 62 are a constituent part of the financial statements.

3 STATEMENT OF COMPREHENSIVE INCOME

Figures in €	NOTE	For the period from 19/3/2013 to 30/06/2013	For the period from 01/01/2014 to 30/06/2014
Net loss for the period	22	**-2.515.113**	**-7.680.666**
Items that may be subsequently reclassified to profit or loss			
Change in value of available for sale financial assets	12	0	16.133.029
Other comprehensive income for the period, net of tax		**0**	**16.133.029**
Total comprehensive gain / loss for the period attributable to owners		**-2.515.113**	**8.452.364**

The notes to the financial statements on pages 32 - 62 are a constituent part of the financial statements.

4 STATEMENT OF CASH FLOWS

Figures in €	NOTE	For the period from 19/3/2013 to 30/06/2013	For the period from 01/01/2014 to 30/06/2014
A) Cash flows from operating activities			
Operating receipts		**0**	**13.068.458**
Receipts from sales of services		0	9.617
Other receipts		0	13.058.842
Operating expenditures		**-1.076.022**	**-30.061.507**
Expenditure for purchase of materials and services		-996.916	-20.756.895
Expenditure for wages of employees and other entitlements		-78.927	-1.255.495
Expenditure for various charges		0	-1.395.406
Other operating expenditures		-178	-6.653.710
Net cash from operating activities		**-1.076.022**	**-16.993.048**
B) Cash flows from investing activities			
Receipts from investment activities		**0**	**75.013.852**
Receipts from the disposal of intangible assets		0	
Receipts from the disposal of tangible fixed assets		0	
Receipts from the disposal of long-term financial investments		0	498.689
Receipts from the disposal of short-term financial investments		0	74.515.164
Expenditure in investments activities		**-5.189**	**-419.762**
Expenditure for the acquisition of intangible assets		0	-5.477
Expenditure for the acquisition of tangible fixed assets		-5.189	-130.753
Expenditure for the acquisition of long-term financial investments		0	
Expenditure for the acquisition of short-term financial investments		0	-283.533
Net cash from investing activities		**-5.189**	**74.594.090**
Cash flows from financing activities			
Receipts from financing activities		**3.625.139**	**951.972**
Receipts from paid capital		3.625.000	
Receipts from increase in long-term liabilities		0	
Receipts from increase in short-term liabilities		139	951.972
Expenditure from financing activities		**0**	**-9.630.480**
Interest expenses relating to financing		0	
Expenditure for the repayment of long-term financial liabilities		0	-9.630.480
Expenditure for the repayment of short-term financial liabilities		0	
Net cash from financing activities		**3.625.139**	**-8.678.508**
Closing cash balance		**2.543.928**	**54.474.403**
Net increase /decrease in cash for the period		**2.543.928**	**48.922.535**
Opening cash balance		**0**	**5.551.868**

The notes to the financial statements on pages 32 - 62 are a constituent part of the financial statements.

5 STATEMENT OF CHANGES IN EQUITY

Figures in €	SHARE CAPITAL	REVALUATION RESERVES	RETAINED EARNINGS	TOTAL EQUITY
Balance as at 19/03/2013	**25.000**			**25.000**
Net loss for the period			-2.515.113	-2.515.113
Other comprehensive income				
Total comprehensive loss for the period after tax			**-2.515.113**	**-2.515.113**
New share capital subscribed (Note 1)	3.600.000			3.600.000
In-substance distribution to owner				
Balance as at 30/06/2013	**3.625.000**		**-2.515.113**	**1.109.887**

Figures in €	SHARE CAPITAL	REVALUATION RESERVES	RETAINED EARNINGS	TOTAL EQUITY
Balance as at 01/01/2014	**203.625.000**	**-69.885**	**-45.652.845**	**157.902.270**
Net loss for the period			-7.680.666	-7.680.666
Other comprehensive income		16.133.029		16.133.029
Total comprehensive loss for the period after tax		**16.133.029**	**-7.680.666**	**8.452.364**
New share capital subscribed				
In-substance distribution to owner (Note 3.1)			-60.736	-60.736
Balance as at 30/06/2014	**203.625.000**	**16.063.144**	**-53.394.247**	**166.293.898**

*The difference between the fair value and transfer value of acquired assets in the amount of € 60.736 is recognized as a deduction in equity. Since the transaction was non-commercial and has been done between companies under common control (owner of both banks as well as the BAMC is the state) the transaction is considered as a transaction with owners and all the effects of such transactions are recognized in equity.

The notes to the financial statements on pages 32 - 62 are a constituent part of the financial statements.

6 NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: General information

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

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

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

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

Financing of asset acquisition

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

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

In addition to the cost of bonds coupon the BAMC is bound to pay an annual cost of the state guarantee in the amount of 125 basis points (bp) in accordance with the regulation of the Decree on the Implementation of Measures to Strengthen Bank Stability ("Decree"). The bonds, which were entirely used to pay for assets acquired from the two banks, are listed on the Ljubljana Stock Exchange.

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

Share capital paid in

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

On 21 March 2013, the BAMC issued 1.800.000 new shares in the nominal value of € 3.600.000. The entire issue was acquired by the Republic of Slovenia. The share capital then stood at € 3.625.000.
On 12 December 2013, the BAMC issued 100.000.000 new shares in the nominal value of € 200.000.000. The entire issue was acquired by the Republic of Slovenia. The share capital then stood at € 203.625.000.

NOTE 2: Summary of significant accounting policies

2.1 Basis of preparation

Going concern
The financial statements are prepared on an ongoing concern basis.

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

2.2 Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements were approved by the Company's management on 27 August 2014.

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

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

2.3 Basis of measurement

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

2.4 Functional and presentation currency

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

2.5 Use of estimates and judgments

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

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

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

2.6 New and amended accounting standards and interpretations in 2014

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

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

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

Amendments to IFRS 1 "First-time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

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

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

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

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

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

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

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

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

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

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the BAMC has adopted.

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

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

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

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

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

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

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

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

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

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December

2013 (effective for annual periods beginning on or after 1 January 2014). The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is notated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

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

2.7 Intangible assets

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

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

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

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

The estimated useful life for license is 5 years.

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

2.8 Property, plant and equipment

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

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

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

Depreciation

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

The estimated useful life for computer equipment is 5 years.

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

2.9 Inventories

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

Recognition and measurement

Inventories are initially recognized at fair value (see Note 3.1) plus any directly attributable transaction costs. The recognized fair value is equal to the acquisition price paid for the purchased inventory.

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

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

2.10 Leases

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

2.11 Financial instruments

Financial assets

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

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans acquired by the BAMC are treated as loans and receivables because the original contracts provided for payments were fixed or determinable. Depending on their maturity, they are classified as current financial assets (maturity of up to 12 months from the date of the balance sheet) or non-current financial assets (maturity of more than 12 months from the date of the balance sheet). Loans and receivables are initially recognized at fair value (see Note 3.1) plus any directly attributable transaction costs.

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

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

b) Cash and cash equivalents

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

c) Available-for-sale financial assets

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

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

Financial liabilities

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

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

2.12 Impairment

Financial assets

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

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

a) Impairment of loans and receivables

The transfer of non-performing loans was completed by the end of 2013 (on 20 December 2013), therefore no impairment for the period from January till June 2014 was recognized. Due to the fact, that the BAMC acquired non-performing loans, the fair value at initial recognition was challenged in 2013. Positive variances between the determined fair value and the stated transfer prices amounted to €175.647.607, negative variance amounted to €145.699.380. The net negative variance recognized in 2013 in the amount of €29.948.227 has been treated as an in-substance distribution to the shareholder (Republic of Slovenia) as it arose on a common-control transaction on non-commercial terms. For further information please see note 3.1.

b) Impairment of available-for-sale financial asset

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

Inventories

The BAMC assesses the value of inventories at each reporting date to determine whether there is any objective evidence of impairment. Inventory is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow deriving from that inventory. For the period from January till June 2014 no impairment was recognized.

Positive variances between the determined fair value and the purchase prices amounted to €1.297.595, negative variance amounted to €1.358.331. The net negative variance in the amount of €60.736 has been treated as an in-substance distribution to the shareholder (Republic of Slovenia) as it arose on a common-control transaction on non-commercial terms. For further information please see Note 3.1.

2.13 Debt and equity instruments

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

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

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

2.14 Financial income and financial expenses

Interest income and expense for all interest-bearing financial instruments is recognized in interest income and interest expense in profit or loss using the effective interest rate (EIR) method on which a percentage of discount is applied representing the difference between the gross exposure and the transfer (purchase) value.

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

Financial expenses comprise borrowing costs, foreign exchange losses and impairment losses on financial assets that are recognized in profit or loss. Borrowing costs are recognized in profit or loss using the effective interest method.

2.15 Income tax

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

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

Deferred tax is disclosed by taking the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes into consideration. Deferred tax is recognized in the amount that is expected to be paid when the temporary differences reverse, and income taxes are calculated based on the laws that have been enacted or substantially enacted by the end of the reporting period.

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

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

2.16 Earnings per share (EPS)

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

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

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

2.17 Determination of fair value

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

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

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

The BAMC uses quoted prices as the basis for the fair value of financial instruments. If a financial instrument is not quoted on a regulated market and the market is considered as inactive, the BAMC uses inputs of Levels 2 and 3 for determining the fair value of financial instrument. Where applicable, further information about assumptions made when determining fair values is disclosed in the notes specific to that asset or liability of the BAMC.

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

Loans and receivables

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

Available-for-sale financial assets

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

Financial liabilities

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

Inventories

Methodology of inventory impairments is described in Note 3.1.

NOTE 3: Critical accounting estimates and judgments

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

3.1 Valuation of loans and receivables at acquisition

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

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

Overview of BAMC's valuation methodology

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

Methodology for loans

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

Methodology for valuation of equity investments

Valuation methods on enterprise value level (e.g. FCFF (free cash flows to firm) for the discounted cash flow method and EV/EBITDA (Enterprise value/EBITDA) for the comparison method) were preferred. Equity positions representing control of more than 20% or book value above € 5.000.000 were evaluated by the discounted cash flow method. For less control and lower book value, the comparison method of adjusted EV/EBITDA multiple was used. For minority holdings, the market traded price was used where available and sufficient transactions had been done to ensure liquidity.

Methodology for the valuation of real estate

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

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

3.2 Recognition of the interest income on loans and receivables

The accounting policy for the recognition of interest income from loans and receivables is set out in accounting policy 2.12 Financial income and financial expenses and it was changed in 2014 from the invoiced basis to the cash flow basis. Due to the fact that loans and receivables acquired by the

BAMC relates to prima facie non-performing assets the BAMC considered how to recognize interest income on these loans.

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

3.3 Determination of the significant influence over other entities

The BAMC holds:

- 23,51% of ownership interest in Pivovarna Laško d.d. (2.056.738 shares PILR),
- 21,20% of ownership interest in Thermana d.d. (663.334 shares ZDLR),
- 24,91% of ownership interest in Nigrad d.d. (109.800 shares NIMR),
- 34,39% of ownership interest in MLM d.d. (361.085 shares MBLR),
- 97,31% of ownership interest in ŠC Pohorje d.o.o.

Even though the BAMC holds more than 20% of ownership interest it does not control them. According to contractual agreements the BAMC does not have significant influence over the investee as at 30.06.2014 (the BAMC does not have the ability – rights to direct the activities that could significantly affect the investee's returns).

The main purpose of the BAMC is to cash in the receivables obtained from commercial banks and not to exercise control over the investees. In the case of debt to equity swaps the BAMC will acquire stakes to take-over the control in the company just to perform restructuring and then make an exit from the investment. The BAMC will only be temporary owner and will enter into ownership just for temporary control reasons.

Transferred ownerships in Pivovarna Laško d.d., Thermana d.d. and Nigrad d.d. derived not from debt to equity swaps that were decided by the BAMC but they were transferred directly from the banks to the BAMC. In these stakes BAMC's short-term purpose is not to exercise control.

Ownerships in MLM d.d. and ŠC Pohorje d.o.o., however, derived from debt to equity swaps which were decided by the BAMC on the grounds of compulsory settlement. The BAMC did not prepare consolidated financial statements because in August 2014 there was an announced proposal to sell the ownership shares in ŠC Pohorje d.o.o.. The company estimates that the sales process will be completed before the next annual report.

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

Figures in €	**Nature of business**	**Country of incorporation**	**Shareholding %**
Pivovarna Laško d.d.	Brewery	Slovenia	23,51%
Thermana d.d.	Medical and tourism	Slovenia	21,20%
Nigrad d.d.	Utility company	Slovenia	24,91%
MLM d.d.	Industrial enterprise	Slovenia	43,39%
ŠC Pohorje d.o.o.	Tourism	Slovenia	97,31%

Investment in Pivovarna Laško d.d. is measured and valued using the market price valid on 30 June 2014, calculated as the number of shares multiplied by the market price per share on the Ljubljana stock exchange. Changes in the fair value are recognized in other comprehensive income.

Investments in Thermana d.d., Nigrad d.d., MLM d.d. and ŠC Pohorje d.o.o. are measured at cost as fair value cannot be reliably determined and subsequently at each reporting date the BAMC assesses the value of financial assets whether there is any objective evidence of impairment. For further information see Note 6.

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

In determining the fair values of equities in MLM d.d. and ŠC Pohorje d.o.o., negative variances of € 13.800.000 was determined at initial recognition in 2013 on transferred loans. But with debt to equity swaps those negative variances were transferred from loans to equity investments. Because of the release of negative variances from loans and new negative variances in equity investments, there was no effect in the equity or profit and loss statement.

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

7 NOTES TO THE BALANCE SHEET

NOTE 4: Other intangible assets

Figures in €	30.06.2014
Licence	7.552
Total	**7.552**

Figures in €	Intangible assets
Opening balance per 01/01/2014	**0**
Acquisition	7.552
Depreciation	0
Closing balance per 30/06/2014	**7.552**

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

NOTE 5: Property plant and equipment

Figures in €	30.06.2014
IT equipment	140.798
Furniture	17.630
Total	**158.428**

Figures in €	IT EQUIPMENT		FURNITURE		TOTAL
Carrying amount as at 19/03/2013	**Acquisition value**	**Depreciation**	**Acquisition value**	**Depreciation**	**0**
Acquisition	79.874				79.874
Depreciation		-2.957			-2.957
Carrying amount as at 31/12/2013	**79.874**	**-2.957**			**76.917**
Opening balance per 01/01/2014	**79.874**	**-2.957**			**76.917**
Acquisition	74.338		18.191		92.529
Depreciation		-10.457		-561	-11.018
Closing balance per 30/06/2014	**154.212**	**-13.414**	**18.191**	**-561**	**158.428**

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

NOTE 6: Available for sale financial assets

Figures in €	31.12.2013	30.06.2014
Bonds	206.183.922	195.667.141
Shares and participating interests	14.185.267	29.679.957
Quoted on stock exchange	8.247.519	*24.228.374*
Not quoted on stock exchange	5.937.748	*5.451.583*
Total	**220.369.189**	**225.347.098**

Available for sale financial assets relate to equity shares in other companies and government bonds acquired as paid in capital. Investment in Pivovarna Laško d.d. (see note 3.3) is measured using the market price valid on 30 June 2014.

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

Investment in bonds is measured using the market exchange rate in accordance with the terms prescribed by the issuer of the bonds at the time of issue. This value is increased for interest, calculated in accordance with the terms defined by the issuer.
The principal amounts of bonds totalling € 195.667.141 refer to two lots of bonds issued by the Republic of Slovenia:

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

Figures in €	For the period from 1/1/2014 to 30/6/2014
Opening balance 01/01/2014	**220.369.189**
Pay out of interests	-9.550.625
Sells of RS68 bond of the Republic of Slovenia	-12.594.417
Increase of investment by inkind contribution of bond of BAMC (Interevropa)	1.400.000
Acquisition	347.617
Returns Intereuropa shares - Replacement for bonds DUT01	-833.781
Swap from loans to equity investment	13.800.000
Negative variances upon initial recognition in swap (see Note 3.3)	-13.800.000
Interest accrued	6.946.882
Increase in fair value (fair value reserve) equity	19.262.233
thereof from bonds	*15.980.854*
thereof from shares	*3.281.380*
Closing balance 30/06/2014	**225.347.098**

NOTE 7: Loans

Figures in €	31.12.2013	30.06.2014
Non-current loans	408.344.884	395.555.735
Current loans	538.640.953	508.286.279
Total	**946.985.837**	**903.842.014**

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

Figures in €	LOANS
Opening balance 01/01/2014	**946.985.837**
Fair value	946.985.837
New loans	0
Repayments	-61.854.732
there of cash repayments	*-58.112.298*
there of realized guarantee scheme from RS	*-249.265*
there of operating receivable to NKBM	*-443.222*
there of conversion to real estate	*-3.039.946*
there of conversion to equity investments	*-13.800.000*
there of release of negative variance with conversion to equity investments	*13.800.000*
Loan interest income	19.119.421
Foreign exchange differences	-393.547
Write offs	0
Other	-14.966
Closing balance at 30/06/2014	**903.842.014**

NOTE 8: Inventories

Figures in €	30.06.2014
Property	**5.228.681**
Acquisition	*3.682.601*
Conversion from loan	*1.546.080*
Land	**9.221.912**
Acquisition	*7.621.912*
Conversion from loan	*1.600.000*
Total	**14.450.593**

The following table presents the movements in different kinds of inventories

Figures in €	Property	Land
Opening balance 01/01/2014	**0**	**0**
Increase due to purchase	3.890.459	7.474.790
Increase due to conversion from loan	1.439.946	1.600.000
Increase due to additional costs	106.134	0
Negative variances upon initial recognition (see Note 3.1)	-757.768	-600.563
Positive variances upon initial recognition (see Note 3.1)	549.910	747.685
Fair value at initial recognition	**5.228.681**	**9.221.912**
Closing balance at 30/06/2014	**5.228.681**	**9.221.912**

Most of properties and lands were purchased from NKBM in amount of €11.365.249 and are all categorized as available for sale inventories.
BAMC has already made an advance payments in amount of €4.684.214 for new real estates. The highest one from May 2014 in amount of €4.141.000 is for new property located in Koper, which transfer was not completely finished till end of June 2014.

Valuation method is explained in Note 3.1.

NOTE 9: Trade and other operating receivables

Figures in €	31.12.2013	30.06.2014
Trade receivables	324	1.824
Other operating receivables	8.694.968	4.079.052
Total	**8.695.292**	**4.080.876**

Other operating receivables amounted to € 4.079.052 the majority of which relates to receivables towards debtors related to loan costs in the amount of € 2.307.687. Receivables to the Tax Authority amounted to €1.717.858 and are related to VAT.

NOTE 10: Deferred costs

Figures in €	31.12.2013	30.06.2014
Deferred costs	122.142	3.229.130
Advances VAT	378.688	0
Total	**500.830**	**3.229.130**

Deferred costs mostly relate to paid commission to the Ministry of Finance for guarantee costs on issued bonds in the amount of €3.187.233. The amount of € 14.502 is related to upfront payment for the online credit rating application.

NOTE 11: Cash and cash equivalents

Figures in €	31.12.2013	30.06.2014
Cash in banks NLB	5.551.869	54.474.403
Total	**5.551.869**	**54.474.403**

NOTE 12: Equity

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

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

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

The BAMC does not hold any treasury shares.

Reserves and retained earnings:

	30.06.2014
Fair value reserve	16.063.144
Total	**16.063.144**

Breakdown of fair value reserve

- The increase in fair value from the investment in Pivovarna Laško in the amount of € 15.980.854, the fair value was determined based on quoted market prices;
- The increase in fair value from the investment in Slovenian state bonds in the amount of € 3.281.380, the fair value was determined based on quoted market prices;
- The total net effect of the increase of fair value is in the amount of € 16.133.029.
- The BAMC recognized a related deferred tax liability on the increase of fair value in investment in Pivovarna Laško and Slovenian bonds in the amount of € 3.290.042. Therefore, the net revaluation reserves totalled € 16.063.144.

NOTE 13: Debt securities issued

Figures in €	31.12.2013	30.06.2014
Debt securities issued	1.012.716.282	1.036.120.021
Total	**1.012.716.282**	**1.036.120.021**

Figures in €	31.12.2013	30.06.2014
Opening balance	**0**	**0**
Amortised value Issued bonds on 20 December 2013 (DUT01 + DUT02)	1.012.335.200	1.032.932.788
Issued in the period DUT 01 – 20 December 2013	*506.113.577*	*516.411.272*
Issued in the period DUT 02 – 20 December 2013	*506.221.623*	*516.521.516*
Government guarantee for bond issued - debt	31.440.038	31.440.038
Government guarantee for bond issued - cost	-31.058.956	-28.252.805
Closing balance	**1.012.716.282**	**1.036.120.021**

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

In 2013, the BAMC issued DUT01 bonds with the total nominal value of € 505.800.000. The entire bond issue contains 5058 denominations of € 100.000. The bond maturity date is 15 December 2015. The interest rate on the bonds is fixed at 3,75% pa. Interest is accrued quarterly in arrears. The nominal value of the principal falls due in full and in a single amount upon the maturity of the bond on 15 December 2015. The bonds are listed on the Ljubljana Stock Exchange. The DUT01 bond liabilities stood at € 516.411.272 as at 30 June 2014.

Also in 2013, the BAMC issued DUT02 bonds with the total nominal value of 505.800.000. The entire bond issue contains 5058 denominations of € 100.000. The bond maturity date is 15 December 2016. The interest rate on the bonds is fixed at 4,5% pa. Interest is accrued quarterly in arrears. The nominal value of the principal falls due in full and in a single amount upon the maturity of the bond on 15 December 2016. The bonds are listed on the Ljubljana Stock Exchange. The DUT02 bond liabilities stood at € 516.521.516 as at 30 June 2014.

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

NOTE 14: Borrowings (current)

Figures in €	31.12.2013	30.06.2014
Borrowings from banks (loan)	2.100.000	0
Other current borrowings	96.611	316.130
Total	**2.196.611**	**316.130**

Figures in €	CURRENT BORROWINGS	TOTAL
Opening balance 19/03/2013	**2.196.611**	**2.196.611**
Increase	347.617	347.617
Decreases	-2.228.098	-2.228.098
Transfer from non-current liabilities	0	0
Closing balance 31/12/2013	**316.130**	**316.130**

The increase in other non-current financial liabilities in the amount of € 347.617 represent open liabilities for purchased equity investments in Adria Airways and is due in September 2014.

NOTE 15: Trade and other operating payables

Figures in €	31.12.2013	30.06.2014
Trade payables	1.225.512	3.589.150
Payables to employees	96.167	467.245
Payables to state and other state institutions	7.668.562	119.653
Thereof liabilities to Tax Authority ((VAT, PIT, social contributions)	*1.167.177*	*119.653*
Thereof liabilities to state	*6.501.385*	*0*
Payables to other	110.002	55.628
Total	**9.100.243**	**4.231.676**

Trade payables relates mostly to services provided by consulting companies abroad in the amount of € 505.412 and services provided by banks in amount of € 2.639.127.

Payables to state and other state institutions mainly relates to VAT in the amount of € 107.137, employee income tax in the amount of € 8.304 and social contributions for June 2014 in the amount of € 4.212.

NOTE16: Accrued costs

Figures in €	31.12.2013	30.06.2014
Accrued costs	103.250	20.433
Total	**103.250**	**20.433**

Accrued cost in amount of € 12.661 relates to unused holidays, the amount of € 6.722 relates to audit services for 2013 and the preparation of the annual report in the amount of € 1.050.

NOTE 17: Fair value

Figures in €	NOTE	30.06.2014			
		Level 1	Level 3	Total fair value	Total book value
Assets					
Available-for-sale financial assets	6	219.895.515	5.451.583	225.347.098	225.347.098
Non-current loans granted	7		395.555.735	395.555.735	395.555.735
Current loans	7		508.286.279	508.286.279	508.286.279
Trade and other operating receivables	9		4.080.876	4.080.876	4.080.876
Cash and cash equivalents	11		54.474.403	54.474.403	54.474.403
Inventories	8		19.134.806	19.134.806	19.134.806
Total assets		**219.895.515**	**986.983.682**	**1.206.879.196**	**1.206.879.196**
Liabilities					
Borrowings	14		316.130	316.130	316.130
Non-current operating liabilities			2.107	2.107	2.107
Trade and other operating payables	15		4.231.676	4.231.676	4.231.676
Debt securities issued	13	1.011.600.000		1.011.600.000	1.036.120.021
Total liabilities		**1.011.600.000**	**4.549.913**	**1.016.149.913**	**1.040.669.933**

As at 30 June 2014 the BAMC recognizes at fair value only financial assets available for sale (investment in Pivovarna Laško and bonds from the Republic of Slovenia). These are classified in Level 1 in the fair value hierarchy.

There were no transfers between levels 1 and 3 during the year.

Financial instruments in level 3

The following table presents the changes in Level 3 instruments for the first half of the year which ended on 30 June 2014.

Figures in €	Equity investments	Loans and receivables
Opening balance 01/01/2014	**5.937.747**	**955.681.129**
Acquisition	14.147.617	0
Negative variances upon initial recognition from debt to equity swaps (see Note 3.3, 3.1)	-13.800.000	13.800.000
Issues		13.234.183
Settlements (see Note 7)		-78.308.554
Gains and losses recognised in profit or loss		18.725.875
Other		242.481
Replacement	-833.781	-16.839.946
Closing balance 30/06/2014	**5.451.583**	**907.922.889**

The table below sets out information about significant unobservable inputs used at 30 June 2014 in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

Type of financial instrument	Fair value at 31 December 2013	Valuation technique
Loans and receivables	907.922.889	Discounted cash flow (See Note 3.1)
Trading assets	5.451.583	(See Note 3.3)
Total	**913.374.472**	

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

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

Inventories in level 3

The following table presents the changes in Level 3 inventories for the first half of the year which ended on 30 June 2014.

Figures in €	Property	Land
Opening balance 01/01/2014	**0**	**0**
Increase due to purchase	3.890.459	7.474.790
Increase due to conversion from loan	1.439.946	1.600.000
Increase due to additional costs	106.134	0
Negative variances upon initial recognition (see Note 3.1)	-757.768	-600.563
Positive variances upon initial recognition (see Note 3.1)	549.910	747.685
Fair value at initial recognition	**5.228.681**	**9.221.912**
Closing balance at 30/06/2014	**5.228.681**	**9.221.912**

DUTB

8 NOTES TO THE INCOME STATEMENT

NOTE 18: Cost of services

Figures in €	For the period from 19/3/2013 to 30/06/2013	For the period from 1/1/2014 to 30/06/2014
Maintenance costs	2.814	18.929
Rents	16.309	85.045
Costs of professional services	2.327.996	3.565.372
Other costs	14.536	1.150.177
Total	**2.361.655**	**4.819.524**

The costs of professional services include consultancy fees in the amount of € 3.127.311. They relate mostly to the establishment of the BAMC, consulting and cooperation during the transfer of loans and receivables.

Other costs include management's services in the amount of € 755.200 from banks (NLB, NKBM).

NOTE 19: Payroll costs

Figures in €	For the period from 19/3/2013 to 30/06/2013	For the period from 1/1/2014 to 30/06/2014
Salaries (including bonuses)	87.015	1.291.165
Pension contributions	7.791	113.903
Health and social insurance	6.381	95.932
Other	48.520	106.610
Total	**149.707**	**1.607.611**

Other expense relates primarily to allowance for transport to and from work in the amount of € 54.600, meal allowance in amount of € 30.528, holiday allowance in amount of € 20.123 and fringe benefits (accommodation, taxi costs, meal expenses) in amount of € 1.359.

NOTE 20: Financial income, financial expenses

Figures in €	For the period from 19/3/2013 to 30/06/2013	For the period from 01/01/2014 to 30/06/2014
Interest income		26.117.773
Thereof deposits		*51.470*
Thereof bonds RS 38, RS 68		*6.946.882*
Thereof acquired loans		*19.119.421*
Thereof other financial income (a vista, foreign exchange differences)	175	1.274.958
Financial income	**175**	**27.392.730**
Interest expenses (debt securities issued)		-20.617.270
Debt securities		-6.270.534
Penalty interest	-954	-20.143
Foreign exchange differences		-1.668.062
Impairment of financial assets		0
Write downs of receivables		0
Financial expenses	**-954**	**-28.576.009**
Loss from financing	**-779**	**-1.183.279**

Interest income comprises interest on loans in the amount of € 19.119.421 recognized as explained in the Note 7. The income of € 51.470 relates to interest income from short-term and over-night deposits.

Interest expense in the amount of € 20.617.270 comprises interest of debt securities issued as explained in Note 13. The amount of € 6.270.534 is a fee for the guarantee for issued bonds. Foreign exchange differences in the amount of € 1.668.062 are related to the transferred loans from NLB and the NKBM in foreign currency.

NOTE 21: Income tax expense

Figures in €	For the period from 01/01/2013 to 30/06/2013	For the period from 01/01/2014 to 30/06/2014
Loss before tax	**-2.515.113**	**-7.680.666**
Non-tax deductible expenses	0	2.316
Tax base	**-2.515.113**	**-7.678.349**
Statutory tax rate	17%	17%
Income tax at statutory tax rate, prior to changes in taxable base	0	0
Tax effects of tax loss for which no deferred tax asset was recognised	0	0
Deferred tax liability	0	3.290.042
Current and deferred income tax	**0**	**0**
Effective tax rate	**0%**	**0%**

As at 30 June 2014 the BAMC did not recognize deferred tax assets from tax losses in amount of € 1.305.319 due to the uncertainty related to the probability of the future taxable profits being available against the deferred tax asset. At the end of the next accounting period the recognition criteria will be reassessed and deferred tax assets recognized, if necessary. Tax loss has no expiration period and can be covered in years to follow.

NOTE 22: Earnings per share

	30.06.2013	30.06.2014
Loss for the year in EUR	-2.515.113	-7.680.666
Number of shares issued at the beginning of the year	12.500	101.812.500
Number of shares issued at the end of the year/half year	1.812.500	101.812.500
Weighted average number of ordinary shares	912.500	101.812.500
Earnings per share and diluted earnings per share	**-2,76**	**-0,08**

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

NOTE 23: Segment reporting

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

NOTE 24: Events after the reporting period

Mr. Christopher Gwilliam was replaced as chief executive officer by Mr. Torbjorn Mansson, effective as of 31 July 2014. Given the challenges facing the BAMC, the non-executive board members were of the view that different management skills are needed for the future management of the company. After reviewing the 2013 applications for the CEO position and conducting interviews with a few possible candidates, the non-executive members of the Board appointed Mr Torbjörn Månsson as Mr Gwilliam's successor.

There are no other significant events after the balance sheet date.

NOTE 25: Related party transactions

The ownership structure as at 30 June 2014 is presented in chapter 3.3 Determination of the significant influence over other entities.

Related parties are deemed to be the following companies in compliance with the IAS 24 in addition to the government of the Republic of Slovenia as a 100% owner:
Subsidiary and associate companies,
The management and members of the Supervisory Boards, including the audit committees and their close family members,
Companies associated with the government.

From January till June 2014 the BAMC did business with the organizations and companies that have ownership ties with the state. Major transactions were as follows:

Figures in €	Description of services performed	Volume of liabilities
NLB d.d.	Short-term trade payables in Slovenia	844.702
NLB d.d.	Short-term financial payables in Slovenia	347.617
NLB d.d.	Sell of Slovenian bonds	12.594.217
NLB .d.d	Short-term trade receivables in Slovenia (deposit interests)	51.887
NOVA KBM d.d.	Acquisition of inventories	11.365.249
NOVA KBM d.d.	Short-term other trade receivables	443.222
NOVA KBM d.d.	Short-term trade payables in Slovenia	2.143.565
Republic of Slovenia	Short-term financial receivables in Slovenia (guarantee scheme)	249.265

NOTE 26: Contingent liabilities

Court proceedings

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