DUTB from bad to good

BAMC ANNUAL REPORT 2016

APRIL 2017

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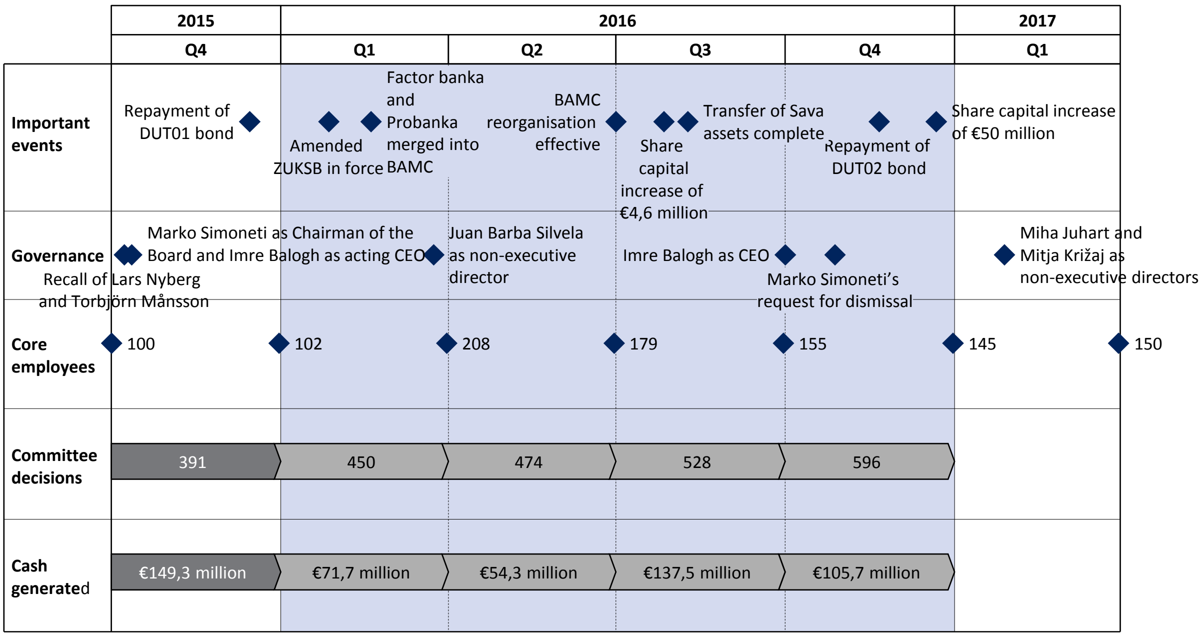
HIGHLIGHTS AND SUMMARY OF 2016

2016 has been marked with a successful merger of Factor banka d.d., Ljubljana (hereinafter: Factor banka) and Probanka d.d., Maribor (hereinafter: Probanka) into BAMC and high cash generation from asset management which surpassed statutory targets.

FIGURE 1: BAMC'S OVERVIEW OF 2016



NOTE: Core employees displayed in the figure relate to staff not employed in temporary projects.

Organisation-wise, the most important event in 2016 was the merger of Factor banka and Probanka into BAMC in February, following the decision of the owner. In addition to the smooth merger process itself, BAMC managed to complete all necessary post-merger processes by the end of the summer, which allow for cost-effective operations and attaining goals set forward by the National Assembly in the ZUKSB and the Government of the Republic of Slovenia (hereinafter: the Government) in the Guidelines on the operations of BAMC (hereinafter: the Guidelines). BAMC estimates the direct operating and restructuring costs of the merger to amount to €1,7 million (see Table 13 for details).

Due to significant valuation differences (to a certain extent also attributable to valuation methodology differences) at initial recognition related to the merger of Factor banka and Probanka, which was executed following General Meeting decision, BAMC equity value was reduced by €79,4 million as the direct result of the merger (see Table 3 for details).

Thus, the cumulative sum of capital reductions due to decisions of the owner (Republic of Slovenia) since inception of BAMC to the end of 2016 amounted to €196,2 million (see table below).

TABLE 1: CORRECTIONS TO INITIALLY INVESTED CAPITAL SINCE INCEPTION

in € million	Effect on BAMC equity
Capital invested by the Republic of Slovenia in 2013	**203,6**
Cumulative capital returned to the owner in the 2013 – 2016 period	**-196,2**
Transfers of non-performing assets from NLB, NKBM, Abanka and Banka Celje in years 2013 and 2014	-110,1
Other transactions based on General Meeting decisions (in years 2014 and 2015)	-5,4
Merger of Factor banka and Probanka into BAMC in the beginning of 2016	-79,4
Merger of five subsidiaries of Factor banka and Probanka in H1 2016	-1,4
De facto invested capital by year-end 2016	**7,4**
Recapitalisations	**53,1**
Recapitalisation in May 2016 (booked in July 2016)	3,1*
Recapitalisation in December 2016	50,0
Invested capital with corrections (returns to the owner and recapitalisations) at year-end 2016	**60,5**

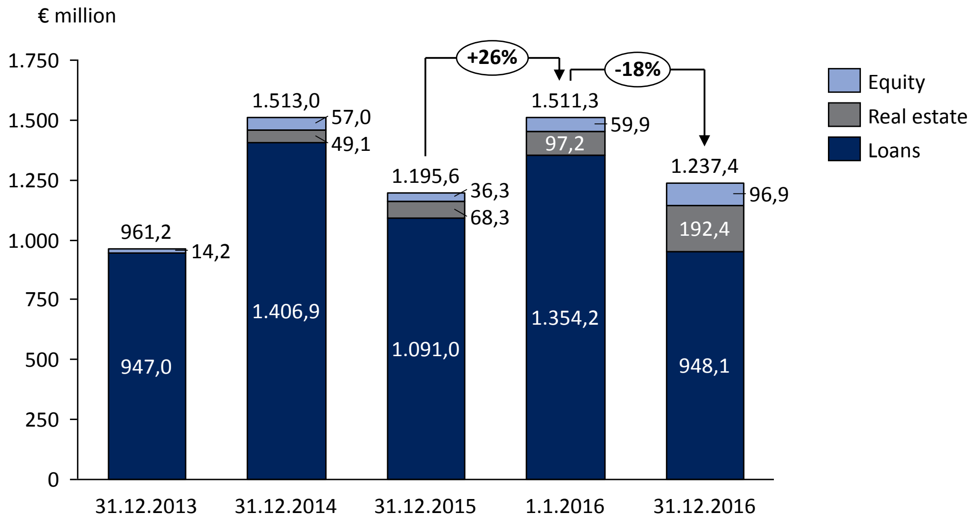
NOTE: The recapitalisation was made in the nominal amount of €4,6 million but also induced BAMC a €1,5 million day-one loss.

As a result, the average yearly EROE (economic return on equity, calculated as value of equity at 31 December 2016 over invested capital with corrections due to decisions of the owner) stood at 9,5%, above the return required in the Guidelines.

Due to the merger of Factor banka and Probanka into BAMC, BAMC's total assets under management jumped back to the level of €1,5 billion as at 1 January 2016[1] (accounting merger date), but reduced since through asset liquidation in 2016. The profile of the assets changed and the granularity of the portfolio grew significantly due to the merger, as in addition to almost 2.000 new small (including retail) exposures towards debtors, the number of individually valued cases also increased by 30%, while the volume of assets under management increased by 26% compared to 2015 year-end.

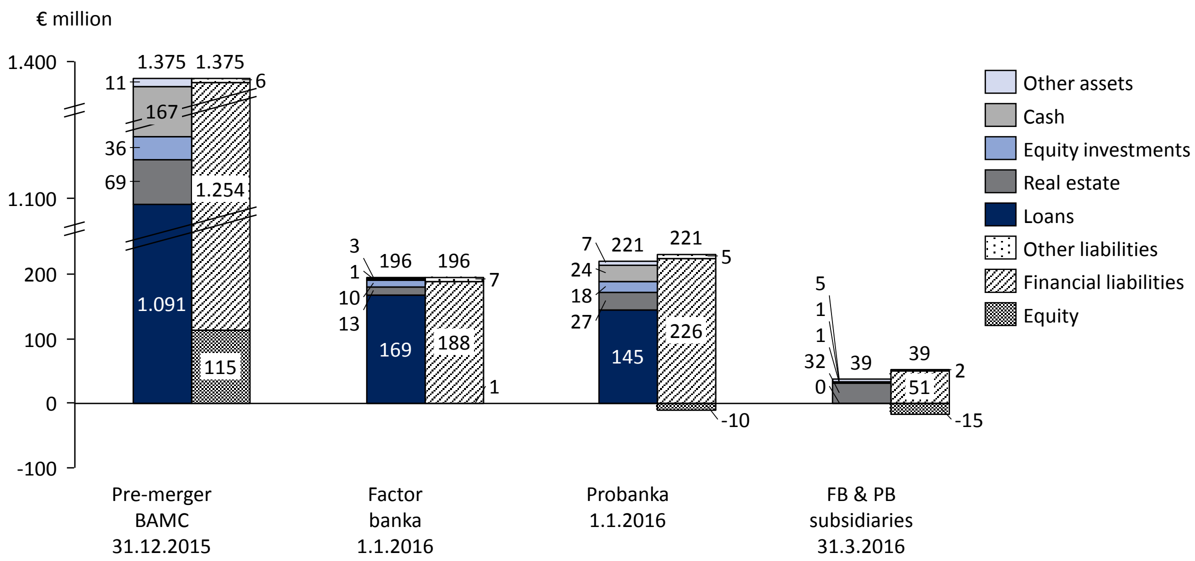
[1] In H1 2016 BAMC also merged five subsidiaries which it acquired into ownership through the merger of Factor banka and Probanka.

Figure 2: Assets under management



Note: 1 January 2016 displays the fair value of the portfolio at the merger of Factor banka and Probanka into BAMC. Since the merger BAMC also manages a minor leasing portfolio which is presented together with "Loans".

Figure 3: Simplified merger overview



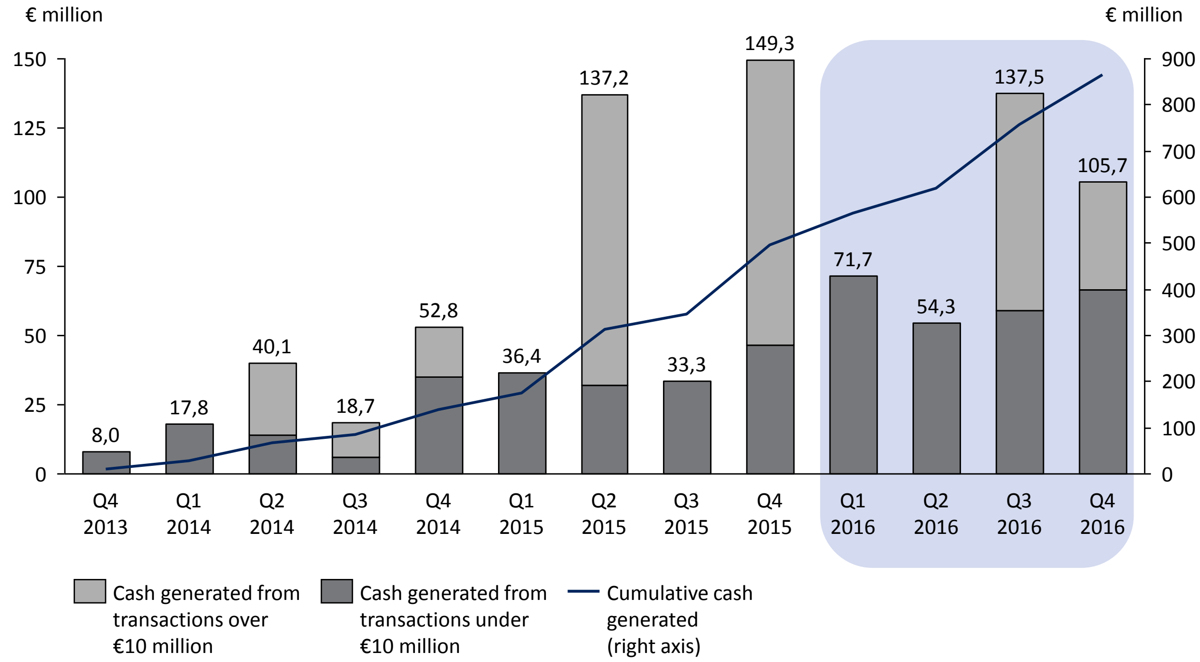
Note: All subsidiaries were almost entirely financed by Factor banka and Probanka, hence BAMC as their legal successor.

Since inception until the end of 2016 BAMC generated €862,8 million of inflows, representing almost 43% of assets transferred to BAMC in the course of measures to strengthen bank stability and the merger of Factor banka and Probanka. Also in 2016 BAMC highly exceed the statutory target of cash generation from transferred and merged assets. Through active asset management €369,2 million of inflows were generated, representing 18,3% of cumulative asset transfer value.[2] Most cash was raised from smaller transactions, generating a constant stream of inflows.

[2] Cash generated data presented here and elsewhere in the document is retrieved through "pure cash flow" principle which differs from accounting recognition of events in both timing and scope. Not all inflows may count as cash generated for the calculation of the statutory KPI.

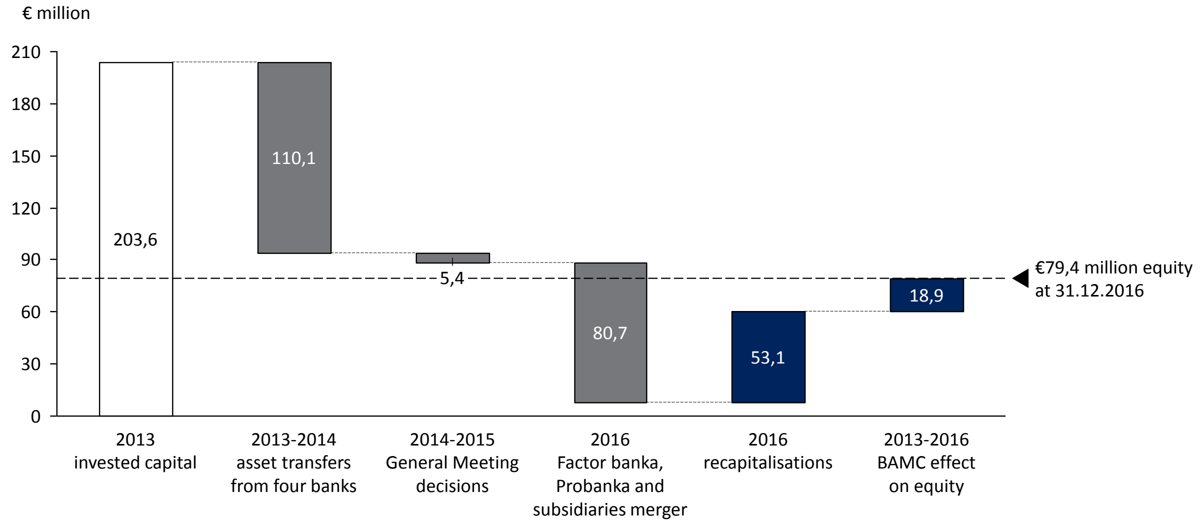
Cash generated from asset management also enabled BAMC to considerably reduce its indebtedness, which decreased by €398,0 million in 2016 since the merger. As these were liabilities towards the Republic of Slovenia and liabilities guaranteed for by the Republic of Slovenia this has an important effect on the return of assets, invested in the rehabilitation of the banking sector by the Republic of Slovenia.

Figure 4: Cash generated by quarters



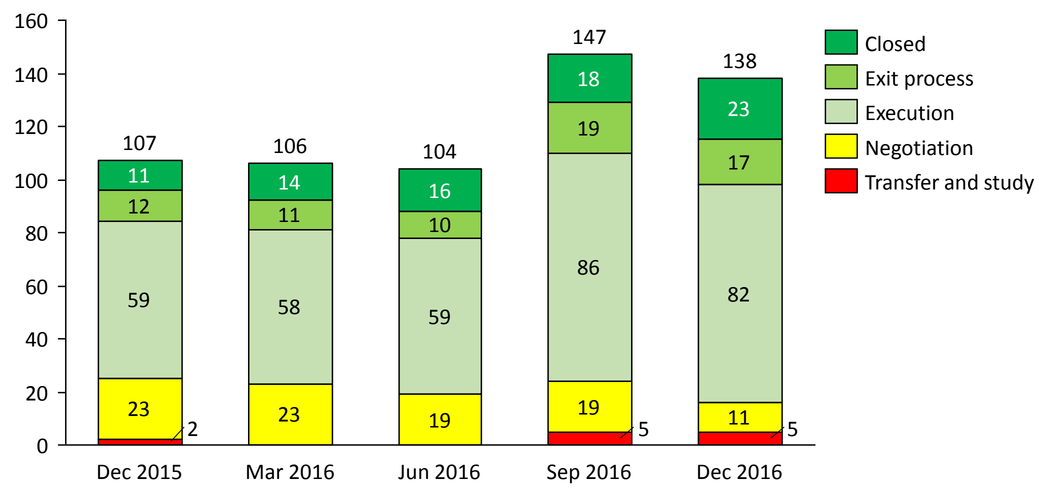
Despite a positive result from transactions, BAMC generated a net loss of €7,8 million in 2016 as a result of loan revaluation income not being high enough to cover still high financing expenses in 2016, merger restructuring costs in the amount of €1,7 million and additional costs incurred for solving the Cimos case in the amount of €8,3 million. Without these extraordinary items BAMC would have realised profit from ordinary operations in 2016.

FIGURE 5: EQUITY EFFECTS SINCE INCEPTION



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

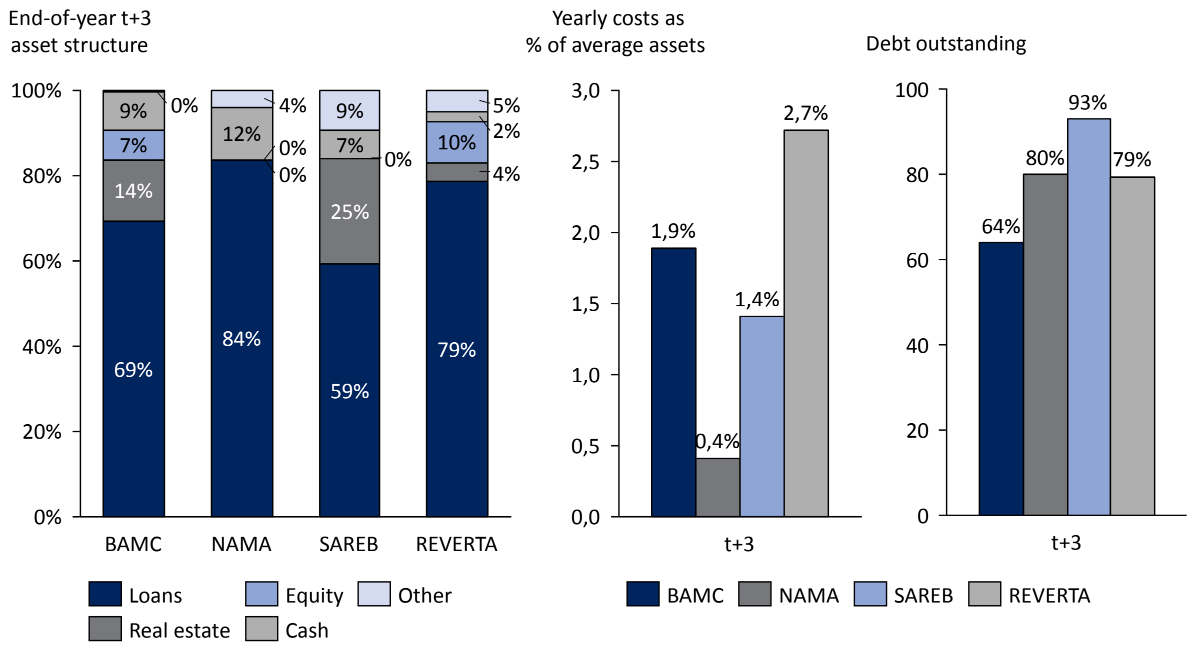
FIGURE 6: PROGRESS IN RESTRUCTURINGS



NOTE: Case progress is estimated monthly by case managers. The number of cases in restructuring or recovery may vary due to changed circumstances in case management or a change in BAMC strategy pursued towards a specific debtor.
Progress in additional cases acquired with the merger of Factor banka and Probanka into BAMC is tracked after the reorganisation, i.e., since July 2016.
This metric differs in purpose and methodology form the more conservative restructuring/recovery classification used for valuation purposes and therefore cannot be compared to data presented in Figure 16 and the financial part of the Annual report.

To internationally compare BAMC's performance, three peer organisations were selected for benchmarking: NAMA from Ireland, SAREB from Spain and REVERTA from Latvia. Benchmarking is done based on the relative time of operations, i.e., not comparing results of calendar years but of years after the set-up of the respective company.[3]

FIGURE 7: SELECTED BENCHMARKING DATA



NOTE: NAMA from Ireland (established in December 2009), SAREB from Spain (established in November 2012) and REVERTA from Latvia (established in May 2012) were selected for comparison to BAMC.
"t+3" relates to respective company's third year of operations.
Debt outstanding compares current financial liabilities to total debt issued to finance acquired assets.
SOURCE: Own calculations from companies' annual reports. Cost efficiency calculation differs from the BAMC KPI version (Table 6) for comparability with other institutions.

[3] As first assets were transferred to BAMC in December 2013, it if effectively in operation for three complete years making 2016 results the "t+3" input for benchmarking.

LETTER FROM THE CEO

BAMC HAS LAID THE FOUNDATIONS IN 2016 FOR TRANSFORMING ITSELF INTO A COMPANY OF EXCELLENCE

CEO letters are usually concise and short, highlighting the most significant trends and achievements in the reported year. However, BAMC has undergone such fundamental changes and made progress on so many fronts in 2016 that even key developments make up a long list.

Whereas during the first years of its existence BAMC was successful in building up a business-focused culture, last year we put equal emphasis on strengthening the comprehensive framework of background processes, regulations and controls to ensure safe and sound operations which are fully compliant with applicable legislation. BAMC also increased transparency of its activities, enhanced operational efficiency and effectiveness of corporate governance, improved cooperation with various stakeholders on all levels, all the while maintaining its autonomy in case management decisions, despite the many interest vectors.

In addition, the first half of 2016 has been marked with the one-off event of the full legal and operational merger of Factor banka and Probanka into BAMC, completed in record-breaking six months with implementation of technical and procedural unification, new organizational structure, massive redundancy program with no outstanding labour disputes/litigation.

A three-way merger, reorganization and downsizing is a painful and complex enough process in itself to usually slow down any organization's operations. This was not the case in BAMC. On the contrary, we accelerated the pace even further and achieved a record level of cash generation, as much as 83% higher than the legal requirement of disposing 10% p.a. of the assets transferred to BAMC. All front-line units and support functions took their fair share of the results, with one-third of the sales coming from real estate, the other two thirds emanating from loan and equity sales and the regular cash flows of restructured companies, respectively. While in past years, BAMC generated two-thirds of its cash flows mainly by selling the "family silver" in large scale transactions, last year we already generated two-thirds of our revenues from small-ticket sales, which is a much more demanding and labour-intensive activity.

The stable deal flow facilitated a major shift in BAMC refinancing strategy towards tighter liquidity management and more flexible financing structure, consequently lower financing costs. Financial expenses at €49 million, despite the €20 million reduction already last year, were still the largest burden on BAMC's P&L in 2016, surpassing operating costs two-fold. With the new financing mix generated in 2016, BAMC may reduce the financing costs by up to a further 24 million in 2017. Over its lifetime, BAMC already repaid €1.417 million of expensive debt and raised €705 million low-cost funding, thus lowering its debt leverage, returning invested funds and decreasing the burden on the national budget and the taxpayers.

Even before the merger, BAMC achieved high cost efficiency by international comparison. Following the temporary post-merger hike, cost-cutting measures already reduced the enlarged cost base by some 15%, pre-merger productivity was not just restored but even improved, and overall efficiency in the unified organization was boosted by 15% compared to the combined pre-merger efficiency of the three separate legal entities, underlying also the macroeconomic rationality of the merger.

Through all these measures and achievements BAMC laid solid foundations for future development. Our plans for 2017 are no less ambitious, even if the situation is now even more challenging. Despite all the obstacles we encountered along the bumpy road, the sales machine rolls on, and very soon BAMC will surpass the €1 billion bar in cash flow generation, which corresponds to almost a half of the assets entrusted to us for management! We will continue to reach our goals by further intensifying our asset management operations and focusing on the development of our real estate segment, returning bankable restructured companies back to the banks, and creating attractive packages of claims for sale to ensure maximum recovery value. In order to further improve our results, we will introduce new sales management tools, supported by active marketing and targeted investor relations, strengthened IT systems and further investments in BAMC's most important asset – the know-how of our employees. BAMC will continue to grow into a strong, credible competence centre for NPL management operations in Slovenia and abroad. Its contribution to the stabilization of the Slovenian financial sector has already been recognized by many countries and professional organizations, which continue to show great interest in exchanging knowledge, experience, opinions and practical advice with BAMC.

In order to achieve our aspirational targets, we will further upgrade and focus relationships with domestic and foreign investors, who are increasingly recognizing Slovenia as an attractive investment opportunity. Despite its short lifespan, armed with knowledge, experience, lessons, and results, BAMC is becoming an increasingly important player in the restructuring arena, both in the local and international environment. Through further transformation of BAMC into a self-improving organization, nothing less ambitious is our target than to achieve the level of excellence in fulfilling our mission.

Let me thank all of our diligent and professional staff for all the efforts taken in 2016, Marko Simoneti and the Board members for their dedication and guidance, and let me welcome our new Board members joining us on this exciting journey.

We at BAMC do not wait for opportunity to come knocking, we create them ourselves. We challenge ourselves to be the greatest we can be, and we face each new challenge with the attention, resolve and courage it deserves. This will ensure that we stay on track in the pursuit of our mission in the future, as well.

Dr. Imre Balogh,
Chief Executive Officer

Report of the Board of Directors for 2016

Under the second paragraph of Article 282 of the Companies Act (Official Gazette of the Republic of Slovenia No. 42/2006, as amended; hereinafter: ZGD-1), the Board of Directors of BAMC (hereinafter: the Board) hereby submits the report on the management of the company during the financial year 2016, the audit of the annual report for 2016, and its position on the auditor's report for 2016.

Composition of the Board of the Bank Assets Management Company

ZUKSB[4] and the Articles of Association of BAMC stipulate that BAMC has a one-tier governance system, and that the Board consists of seven members, of which three are executive and four non-executive directors.

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

During 2016, BAMC did not operate with a full Board. It had only six members, while one position was vacant. As per end of 2016 the structure of the Board was as follows:

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

On 7 September 2016 non-executive directors appointed Imre Balogh as the CEO of BAMC, with his five-year mandate beginning on 1 October 2016. Before that Imre Balogh was acting CEO of BAMC, appointed temporary for up to one year from the position of non-executive director.

Chairman of the Board, Marko Simoneti submitted his resignation from the position of member of the Board to the Government on 27 October 2016. The Government agreed with termination of his membership from the Board as per 27 January 2017.

On 5 January 2017 the Government in the capacity of the General Meeting of BAMC appointed Miha Juhart and Mitja Križaj as the new non-executive directors with the effective date 28 January 2017. With this appointment, the Board vacancy was filled. On its first regular meeting on 23 February 2017 the Board elected Miha Juhart as the new Chairman.

[4] Official Gazette of the Republic of Slovenia No. 105/12, as amended.

REPORT ON THE ACTIVITIES OF THE BOARD

In its activities, the Board was acting in accordance with the principles of transparency, adherence to the law and good professional conduct. The decisions of the Board contributed to the company's development, ensured the upgrading of basic business functions, regulated all areas of operations and oversaw the adoption of relevant policies.

During 2016 the Board held 13 regular meetings and 36 per capsulam sessions and adopted 279 decisions. All Board members have proactively taken part in the decision-making process and monitored how Board decisions were being implemented, in accordance with the BAMC Board Rules of Procedure.

KEY MATTERS COVERED IN 2016

1) In the beginning of 2016, the Board was dealing mainly with the merger of Factor banka and Probanka into BAMC, which came at the initiative of BAMC's owner. At the sessions of 26 January 2016, 3 February 2016 and 15 February 2016, the Board reviewed a number of documents and adopted the Merger Report pointing out that the advantages of merger may outweigh the disadvantages, provided that:
   - Registered capital of BAMC is increased by €50 million in order to cover potential negative effect on BAMC's capital,
   - The Republic of Slovenia issues a statement that it will reimburse BAMC for any payments made to the former bondholders or to the shareholders of both merging banks on the basis of legally binding decision within one month after the receipt of the written proof of the amounts paid to the former bondholders/shareholders of Factor banka and Probanka,
   - Ministry of Finance and BAMC reach an agreement regarding the restructuring of €369,0 million debt or a guarantee of the Republic of Slovenia is issued for its refinancing,
   - The effects and consequences of the merger are accounted for in adjusting the target key performance indicators for BAMC.

   Later, Board supervised and reviewed the post-merger activities which included reorganisation of BAMC in July and valuation of merged assets at fair value at initial recognition. Based on this, the Board adopted the Financial Restructuring Measures Report at its October session, which was then submitted to the Government of the Republic of Slovenia. In December, the Government then performed a €50 million capital injection into BAMC's capital reserves, and partially covered the negative equity effects of the merger of Factor banka and Probanka into BAMC.

2) The Board also spent a great deal of time on the preparation and review of the 2015 annual report. A final review of the annual report for 2015 and the auditor's report was undertaken by the Board at the meeting of the Board on 19 September 2016.

BAMC prepared financial statements for the financial year 2015 in April 2016 classifying itself as an investment entity like in the previous year, an approach then confirmed the by the external auditor who gave an unqualified opinion for the 2014 financial statements. During the audit of the 2015 financial statements in April 2016, after internal consultation on the interpretation of the requirements of IFRS 10, the auditor concluded that BAMC does not meet the criteria for the application of the investment entities consolidation exception. As a result, BAMC was unable to obtain an unqualified auditor's opinion without preparing consolidated financial statements by consolidating all controlled entities in accordance with IFRS 10.

On 26 April 2016, the Board assessed that preparation of the consolidated financial statements would require an unproportional input of resources, compared to the additional information the readers of the financial statements would receive. The Board was of the opinion that consolidated financial statements compared to the unconsolidated financial statements would not give any additional useful information to the potential investors, creditors or other stakeholders of the company, which could be used for their investment or credit decisions. On the contrary, the consolidation would include assets and liabilities which are not reflecting BAMC's principal activity. The company has a limited lifespan and its operations are primarily focused on the temporary management of doubtful claims from various undertakings, with the objective to maximise their value and with their cashing-in or their sale BAMC does not strive for a long-term control over its debtors or their assets and liabilities.

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

3) In addition, the Board also placed a great deal of attention on the international selection process of a new CEO, owing to the fact that the temporary one-year mandate of Imre Balogh expired on 12 October 2016. At its 37th session, which took place on 30 June 2016, the Board appointed a Nomination Committee to oversee the process of selecting the new CEO of DUTB, d.d. The committee was composed of the following members: Mr Janez Širovnik as chairman, Ms Sonja Šmuc and Mr Primož Klemen as members of the Nomination Committee. The international selection process was conducted in a transparent, competitive, fair and confidential manner and in accordance with best business practice in the field of human resources. Based on the Committee's proposal, the non-executive directors appointed Imre Balogh as the new CEO for a 5-year term on 7 September 2016, effective as of 1 October 2016.

Over the course of the year, other activities of the Board included also:

- adoption of a Business strategy 2016-2022 and Financial plan 2016-2022,
- reviewing of quarterly and half-year business reports,
- adoption of internal audit plan,
- strengthening of internal control system based on recommendations of Internal Audit, and
- reviewing and amending internal policies.

In March 2016 the Board performed a self-evaluation of its effectiveness. The average score of all answers combined was 3,44 on a four-level scale. With certain exceptions, the scoring was roughly unified, meaning that there were no significant discrepancies on individual questions. This shows that the members had a good understanding of the questions and indicates a relatively unified scoring of the operations of the Board.

Based on the findings the Board has already taken steps to improve the organization of the meetings of the Board and its Committees in April and May 2016 by reorganizing the work of these committees and appointing new responsible persons for their administrative support. Board also invited all non-executive directors to actively propose activities for their professional development.

WORK OF THE BOARD'S COMMITTEES

The work of the Board is supported by four committees: Audit Committee, Accreditation Committee, Remuneration Committee, and Credit and Investment Committee. For the selection of the Chief Executive Officer a Nomination Committee has been appointed.

AUDIT COMMITTEE

In 2016, the Audit Committee consisted of the following members: Marko Simoneti as Chairman, Janez Širovnik as member and Tamara Jerman as an independent external member. After Marko Simoneti's resignation the Board appointed Mitja Križaj as the new Chairman of the Audit Committee in February 2017.

The Audit Committee met on 10 regular meetings and held three extraordinary meetings in 2016.

The topics that Audit Committee paid attention to on their meetings were:

- monitoring of the financial reporting procedures, supervising of the integrity of BAMC financial information and evaluation of the information disclosed in the annual report,
- active participation at developing appropriate accounting policies, their acceptance and implementation on the executive level,
- special attention was given to the use of investment entity accounting assumption or the need for preparation of consolidated financial statements; several dilemmas were opened and discussed, like resources required for preparation of consolidated financial statements, usefulness and understandability of such financial statements to the reader; all these and the

reconciliation of various views and standpoints resulted in delays in obtaining the auditors' report on already prepared financial statements with relevant disclosures,

- monitoring of the statutory audit of financial statements and cooperation with the auditor on the audit of the BAMC annual report, supervision of the independence of the selected external auditors through inquires to the audit team and obtaining and reviewing of their written statement on independence,
- monitoring of the public procurement procedures for selection of the external auditor for years 2016 and 2017 through determination of the selection criteria for obtained proposals, before any of the public procurement procedures started,
- regular reviews of all reporting to various external supervisory institutions (Commission for Prevention of Corruption, Ministry of Finance, various Parliamentary bodies RS, National Investigations Bureau and others) as well as all other regulatory reporting requirements (Securities Market Agency, Financial Administration of the Republic of Slovenia and others),
- regular updates and status reports about the on-going audit of Court of Audit, for which the decision with the objective to issue an opinion on regularity, economy and efficiency of BAMC's operations in years 2014 and 2015, was issued at the end of January 2016, the Commission paid special attention for appropriate responsiveness of the BAMC on the extensive requirements of the Court of Audit auditors for information, documentation and explanations,
- regular reviews of the efficiency and effectiveness of the BAMC's system of internal controls, compliance, internal auditing and risk management, through regular meetings with responsible leads of mentioned functions and implementation and monitoring of their regular periodic reports on their activities and findings.

The Audit Committee regularly and closely monitors the work of the Internal Audit Function (hereinafter: IAF). The monitoring of the IAF's work includes: review, commenting and approval of the proposed IAF's plan(s), reviews of individual internal audit assignment reports, as well as review of regular quarterly IAF's reports on activities. Twice a year the IAF's activities reports include follow-up report on the implementation of issued recommendations. Through this report the members of the Audit Committee monitor management's response and remedy activities taken, following the recommendations of the IAF, as well as recommendations of other supervisory bodies, like external auditors and the Court of Audit.

Once a year IAF prepares a calculation of the requirement of internal auditing resources. The calculation is based on the confirmed business plan and especially on planned BAMC's portfolio development. Following the (re)calculation in 2016, additional hiring of internal auditors was proposed by the IAF and strongly supported by the members of the Audit Committee.

Audit Committee's initiative and support substantially contributed to the formation of the Corporate Security function within BAMC, both with initial guidance as well as with monitoring of its progress.

In year 2016, the Audit Committee renewed its Rules of Procedure and reconciled its content with the recommendations of the Slovenian Directors' Association. With the objective of improvement of the Committees activities and decision, all members of the Audit Committee filled-in self-assessment questionnaires. Answers were gathered and reviewed on the Committee's meeting at the end of August 2016. The resolutions accepted, following the self-assessment exercise, were also presented to the Board.

ACCREDITATION COMMITTEE

In 2016 the Committee consisted of the following members: Janez Širovnik as Chairman, Janez Škrubej and Aleš Koršič as members and Sonja Šmuc as an independent external member. In February 2017 Sonja Šmuc was appointed as Vice Chairman of the Accreditation Committee.

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

The Accreditation Committee met on five regular meetings and three per capsulam meetings in 2016 and approved as appropriate eight candidates for the supervisory board positions in five different companies. The Board has approved all of the proposed candidates. Most of the selected candidates are already serving on the supervisory board of the respected companies.

REMUNERATION COMMITTEE

In 2016 the Committee consisted of the following members: Janez Širovnik as Chairman, Sergeja Slapničar as an independent external member and Juan Barba Silvela as member of the committee, who replaced Marko Simoneti as member of the committee on 17 May 2016.

The topics that Remuneration Committee paid attention to on their meetings were:

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

The Remuneration Committee met on seven per capsulam meetings in 2016.

BOARD CREDIT AND INVESTMENT COMMITTEE

The Board has the Executive Credit and Investment Committee (ECIC) and the Operative Credit and Investment Committee (OCIC) to decide on claims owned or managed by the BAMC and to decide on matters related to acquisition of, investment into and disposal of individual assets, related to said exposures. The Board also has the Board Credit and Investment Committee (BCIC) in respect to give consent to the decisions/proposals of ECIC/BCIC if necessary.

Prior to April 2016, credit and investment committees were organized separately, after April BAMC has merged credit and investment committees into one committee on all three levels. In 2016 Marko Simoneti was the president of Board Credit and Investment Committee. The Board appointed Miha Juhart as the Chairman of the BCIC in February 2017 for replacement of Marko Simoneti, and reconfirmed Janez Širovnik as the Vice Chairman of the BCIC.

Board Credit and Investment Committee and Executive Credit and Investment Committee (prior to April 2016 Board Credit Committee, Board Investment Committee, Executive Credit Committee, Executive Investment Committee) have met on a weekly basis in 2016 and have adopted (ECIC) 779 and given consent to (BCIC) 193 credit and investment decisions.

EVALUATION OF THE WORK OF THE BOARD

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

REVIEW OF THE ANNUAL REPORT

Following the audit committee review, the Board discussed the proposed annual report during its session of 30 March 2017. The final review of the 2016 annual report and the discussion on the auditor's report were done at the Board session of 25 April 2017. The certified auditor presented the audit observations during the audit committee meeting of 21 April 2017.

The Board has reviewed the BAMC annual report and concluded that it is in compliance with the company's Articles of Association, and the ZUKSB-A. The Board confirms that the financial statements, prepared in accordance with ZUKSB-A Article 4 (3) & (5), present fairly, in all material respects, the financial position of BAMC and of the outcomes of its operations for the period from 1 January 2016 to 31 December 2016.

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

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

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

As part of the adoption of the annual report, the Board also put forward its position as regards the corporate governance statement that has been included in business section of the BAMC Annual Report for 2016, concluding it reflects the actual state of corporate governance in 2016.

INFORMATION ON THE CERTIFIED AUDITOR'S REPORT

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

The Board has taken note of the unqualified opinion from the certified auditor dated 25 April 2017 and established that the auditor's report confirms that the financial statements for the year ended 31 December 2016 are prepared, in all material respects, in accordance with the accounting requirements of ZUSKB-A.

Presentation of BAMC

Table 2: Basic company data on 20 April 2017

Full company name	Družba za upravljanje terjatev bank, d.d. Bank Assets Management Company
Short company name	DUTB, d.d. BAMC
Registered office	Davčna ulica 1, 1000 Ljubljana
Telephone	+386 8 2054 235
Fax	+386 1 4293 859
E-mail	info@dutb.eu
Website	www.dutb.eu
Core business	Activities of collection agencies and credit bureaus
Registration entry	2013/11708, District Court of Ljubljana
Company ID number	6339620000
Tax number	41251482
VAT number	SI41251482
Share capital	€104.117.500,00
Number of shares	104.117.500 ordinary no-par value shares
Owner of shares	Republic of Slovenia

Board of Directors of BAMC		Term ending on
Non-executive directors as at 20 April 2017	Miha Juhart, Chairman of the Board	27 January 2022
	Janez Širovnik, Deputy Chairman of the Board	31 December 2017
	Juan Barba Silvela	28 March 2021
	Mitja Križaj	27 January 2022
Executive directors as at 20 April 2017	Imre Balogh, CEO	30 September 2021
	Janez Škrubej, CAM	31 December 2017
	Aleš Koršič, CAO	31 December 2017

Note: On 5 May 2016 the Government in the capacity of the BAMC General Meeting decided to increase BAMC's share capital by €4,61 million or 2.305.000 shares. The share capital increase was registered at court register on 27 July 2016.

On 22 December 2016 the Government, acting in the capacity of the BAMC General Meeting, passed a decision to subscribe €50,0 million to increase the capital reserves of BAMC. In addition to the increase of capital reserves, the Government also passed a decision on the simplified reduction of BAMC's registered share capital from €208,235,000 to €104,117,500.

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

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

On 5 January 2017 the Government, acting in the capacity of the BAMC General Meeting, appointed Miha Juhart and Mitja Križaj as non-executive directors for the period of five years with their mandate beginning on 28 January 2017.

Due to his resignation from the function the term of former non-executive director Marko Simoneti ended on 27 January 2017.

CORPORATE GOVERNANCE

BAMC has a one-tier system of corporate governance, where the highest decision-making body is the Board. Following the provisions of ZUKSB and the Articles of Association, the Board comprises four non-executive directors[5] and three executive directors. The Board has four committees: the Audit Committee, the Accreditation Committee, the Remuneration Committee and the Board Credit and Investment Committee. For the Audit, Remuneration and Accreditation committees, the committee members comprise of non-executive directors and one external member with the relevant professional experience in Slovenia. The Board and its committees function in accordance with the relevant rules of procedure.

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

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

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

BAMC has an internal audit function that reports directly to the Audit Committee of BAMC. In addition, Risk and Compliance Management Committee is supporting the work of the executive directors and this committee's reports are a standing item in each of BAMC's Board meetings. Moreover, the compliance and the newly established corporate security function also report to the Board, ensuring independent oversight of the activities of BAMC over all operative levels.

[5] Until 24 March 2016, when the Government in the capacity of the General Meeting of BAMC appointed Juan Barba Silvela as non-executive director for the period of five years from the date of appointment, BAMC had two non-executive directors.

NON-EXECUTIVE DIRECTORS AS AT 31 DECEMBER 2016

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

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

Juan Barba Silvela has over 20 years of experience in the field of real estate and finance. In September 2014 he was appointed partner & executive director of the real estate fund Meridia Capital. Prior to that, he was first Real Estate Director and later Head of Transactions in Spanish asset management company Sareb. He gained his professional and management experience in companies such as Doughty Hanson, Aareal Bank AG, Principal Financial Group and Arthur Andersen Real Estate. For the past 17 years he has been a professor of Real Estate Finance in the Real Estate Master Program of the Instituto de Empresa in Madrid. He holds a degree in business administration and a degree in law from the Pontificia Comillas University.

On 5 January 2017 the Government in the capacity of the General Meeting of BAMC appointed Miha Juhart and Mitja Križaj as the new non-executive directors with the effective date 28 January 2017.

Dr. **Miha Juhart**, BAMC non-executive director since 28 January 2017, is a Doctor of Juridical Science. He teaches at the University of Ljubljana's Faculty of Law as a professor of civil and corporate law. He has extensive professional and managerial experience. He was a member of the expert council of the Securities Market Agency, and served two terms as its chairman. He is the prorector of the University of Ljubljana and the dean of the University of Ljubljana's Faculty of Law. He served on the supervisory board of Krško Nuclear Power Plant, Pozavarovalnica Sava d.d., and DARS d.d., and worked with leading law firms and corporations in various fields of law, mostly real estate and corporate, contract and status law. He served as an arbitrator in numerous domestic and international arbitration cases

Mitja Križaj, who holds a bachelor’s degree in economics, non-executive director of BAMC since 28 January 2017, has over 20 years of managerial experience in banking and finance, real estate and asset management operations, as well as corporate management of companies dealing with nonstrategic and nonperforming assets of banks and other financial organizations. He is currently employed in the consulting and investment company Fundament, which provides business and financial consultancy, with a focus on operational and financial restructuring, with emphasis on the real estate operations, divestment of non-critical assets, project development and management activities, and consultancy in asset management activities. Prior to his current position, he served as a director of Hypo Leasing, later Heta Asset Resolution, who was directly responsible for restructuring and managing nonperforming and nonstrategic assets of Hypo Alpe Adria in Slovenia. He was also the chairman of the management board of Triglav Nepremičnine, a member of Zavarovalnica Triglav, and in his early years he was professionally involved in Bank Austria Creditanstalt and Hypo Alpe Adria. He is currently a member of the supervisory board and chairman of the audit committee of Slovenian Railways.

EXECUTIVE DIRECTORS AS AT 31 DECEMBER 2016

Dr. **Imre Balogh** is CEO and Executive Director of the Bank Asset Management Company (DUTB d.d.) since October 2016. Before that, he was acting CEO since October 2015 and a Non-Executive Director of DUTB since April 2015 and was also managing as President & CEO the orderly wind-down of Probanka d.d., Maribor between September 2013 and October 2015. Previously, Dr. Balogh worked as advisor and member of the Strategy Committee of the Supervisory Board, First Ukrainian International Bank, Kiev. Prior to that he held positions in sequence as Chief Strategist, CFO, Chief Risk Officer, Chief Business Officer, in MKB Bank Hungary, and was Chairman/Board member in banks, finance, brokerage and insurance companies in four CEE countries (1988-2012). His earlier experience in NPL management embraces deleveraging corporate and real estate portfolios in Hungary, Bulgaria and Romania after 2008, and a good bank/bad bank split in Romania (2009/10). Dr. Balogh holds Masters and dr. univ. degrees in economics, PhD in regional sciences, and received executive education at Wharton and Harvard Business Schools.

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

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

Normative framework

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

- the Decree on the implementation of measures to strengthen the stability of banks
- the Guidelines on the operations of the Bank Assets Management Company, which govern the operations of BAMC in detail,
- the Articles of Association of the Bank Assets Management Company, and
- the BAMC's Remuneration Policy.

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

Operations in individual areas are also defined by policies adopted or refined by the Board. In 2016 eight new policy documents and 35 amendments to policies were approved by the Board. The most important among them were:

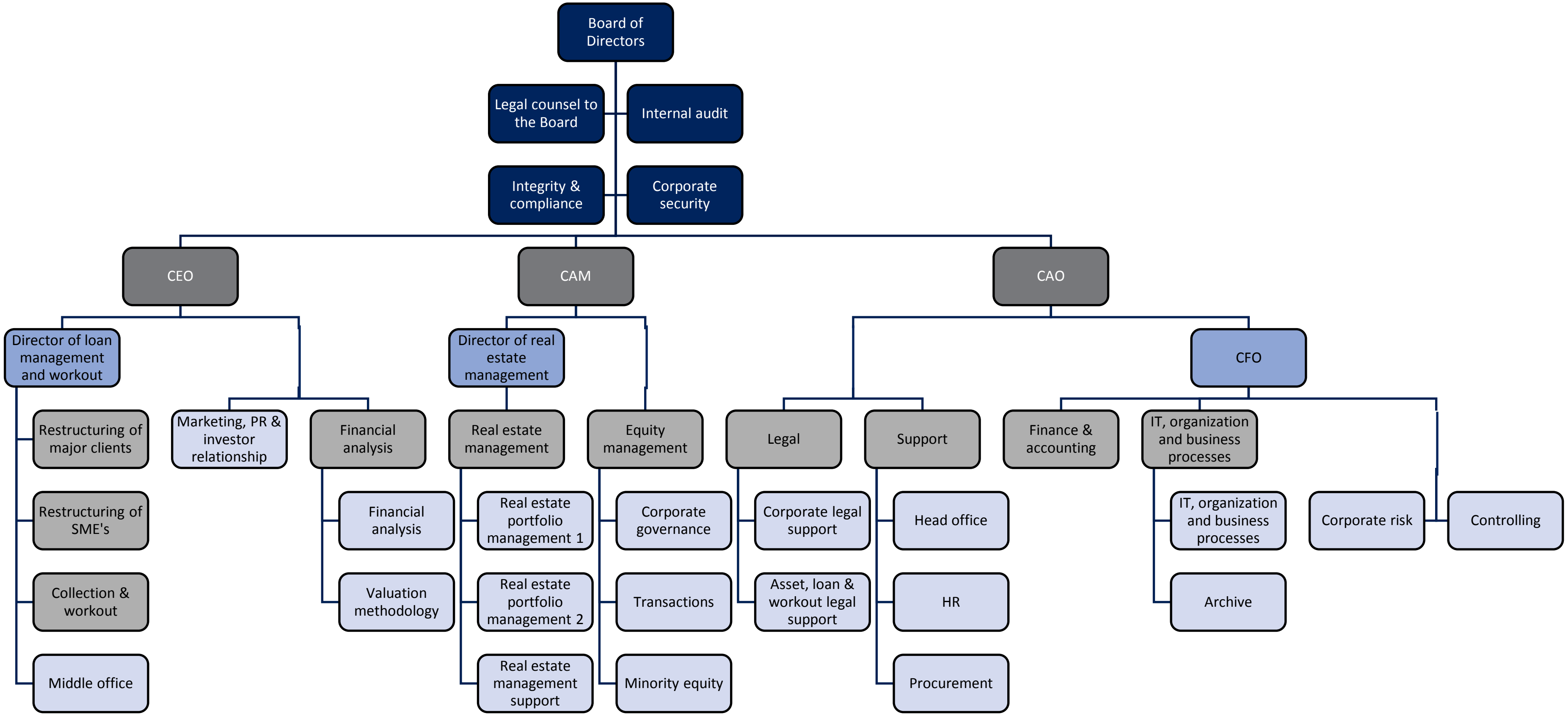
- Process and decision-making powers of the committees,
- Corporate governance policy of BAMC,
- Rules of procedure on the work of executive directors,
- Rules of procedure on the work of Board of Directors,
- Investment policy on the management of liquidity reserves,
- Risk management policy, and
- Valuation Policy.

Organisational structure

After the merger of Factor banka and Probanka into BAMC a reorganisation was performed in mid-2016 for the organisation to adapt to statutory changes as well as changes in the structure of assets under management. The new organisation, coming into effect on 1 July 2016, allows BAMC to be even more effective in day-to-day operations and ultimately in reaching its strategic goals.

BAMC's portfolio structure has changed significantly with the merger of Factor banka and Probanka. Changes in internal organization were therefore crucial in order to manage assets in the most efficient and effective way, including horizontal controls built into the processes by a clear segregation of duties between case/real estate/equity management, financial analysis and valuation verification, mid-office and legal support. Corporate defence lines were strengthened by enhanced functions of internal audit, compliance and anti-money laundering and the newly established task force on crime detection and corporate security, all reporting to the Board Internal organization, implemented at the beginning of July 2016, as well fully corresponds to the amendments of ZUKSB regarding restricted role of non-executive directors, distinction of functions, and new powers of BAMC.

FIGURE 8: ORGANISATIONAL STRUCTURE



DECISION-MAKING

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

Limits between different types of credit and investment committees are clearly established, and participants at the specific levels of committees are clearly defined. Operational Credit and Investment Committee now takes more operational decisions for cases with higher exposures and most of the decisions for cases with smaller exposures, while executive level committee still controls all high impact decisions related to larger exposures. Committee membership and voting is designed in a way to fully exclude any potential conflict of interest.

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

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

ORIGIN OF ASSETS

In late 2013 the Government completed the recapitalisation of the two largest Slovenian banks, Nova Ljubljanska banka d.d., Ljubljana (hereinafter: NLB) and Nova kreditna banka Maribor d.d. , Maribor (hereinafter: NKBM). The aforementioned banks transferred €3,3 billion in non-performing assets, primarily loans, to BAMC at a transfer value of €1.008,4 million in exchange for bonds issued by BAMC. BAMC's first step was to determine the initial fair value of acquired assets. The valuation process was completed in June 2014 and, through €175,6 million downward and €145,7 million upward adjustment to transfer values for claims received together with €9,9 million initial loss in equity received, resulted in a total initial loss recognition of €39,9 million.

In H1 2014, real estate with a transfer value of €11,6 million was received form NKBM and in H2 2014 BAMC received additional non-performing assets from Abanka Vipa d.d., Ljubljana (hereinafter: Abanka) and Banka Celje d.d., Celje (hereinafter: Banka Celje) in exchange for additional issued bonds. Thus, €1.142,4 million of non-performing assets were transferred to BAMC from Abanka in October 2014 at a transfer value of €423,8 million and additional €392,2 million from Banka Celje in December 2014 at a transfer value of €125,7 million. After 2014 asset transfers from NKBM, Abanka and Banka Celje BAMC estimated their initial fair values, following the valuation methodology used for first transfers as well. Claims towards 173 debtors were assessed at €165,3 million below transfer values while in 89 cases the fair value was €96,8 million above transfer values. Together with €0,9 million loss from equity and €1,4 million gain from bonds the total fair value of assets taken over was thus €68,0 million or 12,1% lower than the transfer prices which resulted in initial loss recognition by BAMC.

BAMC PAID €623 MILLION MORE FOR THE ASSETS THAN THE ESTIMATED MARKET VALUE

Before the transfers of the assets and before approval of the state aid to banks transferring NPL's, the EU estimated the market value of the assets transferred under legislative directions, i.e. the price at which the banks could have sold the assets in a "fire sale" process to a buyer other than BAMC. The difference between these market values and the transfer values is documented in EU state aid decisions regarding the four banks. The market values were estimated to be €623 million less than the transfer prices.

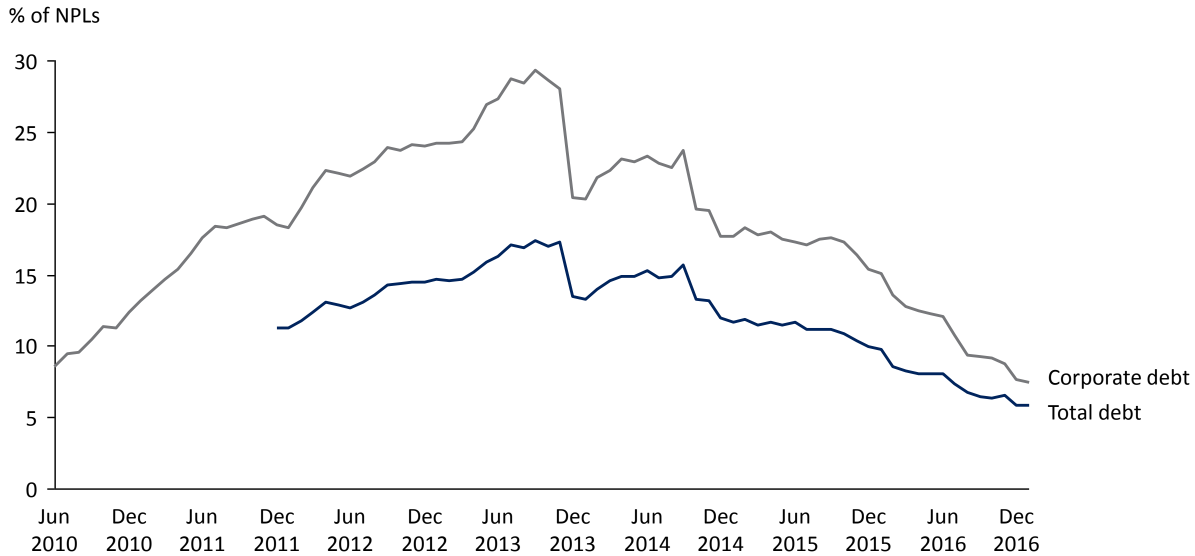
In order to complement its exposures to certain debtors, in 2014 BAMC purchased claims (loans) totalling €172,9 million from Factor banka and Probanka in the amount of €38,6 million in arm's length transactions at negotiated prices.

At the beginning of 2016, based on Government decision, BAMC merged Factor banka and Probanka. By absorbing the two former banks, BAMC effectively became the direct owner of all assets of the two merged companies in the amount of €417,0 million and took over all of their outstanding liabilities, including five subsidiaries registered in Slovenia. BAMC assessed the value of the merged assets upon initial recognition to fair value. The fair values of merged assets according to BAMC methodology were €67,0 million lower than their book values according to bank valuation methodology. Together with the cumulative negative net equity of the two companies of €8,6 million and provisions for lawsuits in the amount of €3,8 million, the total negative difference of €79,4 million in the BAMC financial statements was disclosed as a return of capital to the owner. See chapter Merger of Factor banka, Probanka and their subsidiaries into BAMC (page 39) for details.

Status of NPLs in Slovenia

The share of NPLs in the Slovenian banking sector is decreasing from its peak at 18,1% in late 2013, just before the transfers of first assets to BAMC. At the beginning of 2017 total claims over 90 days in arrears amounted to €1,9 billion (share of 5,8%) with NPLs' share in corporate debt (making up almost a half of total in value) at 7,4%. Industry-wise, construction industry is displaying more than a quarter of NPLs (25,2%), followed by accommodation and food service activities (15,1%) and real estate activities (12,9%). On the other hand, utilities, transportation and storage industries have around 1% of NPLs among claims towards them. Applying European Banking Authority definition, non-performing exposures amount to €3,4 billion or 8,2% share at the end of 2016.

Figure 9: Movement of the share of NPLs in the Slovenian banking sector



Source: Banka Slovenije: Mesečna informacija o poslovanju bank, August 2010 – March 2017. Total debt % data not available prior to December 2011.

While restructurings in large corporate debtors has mainly been undertaken or is underway, the SMEs sector is still waiting to be thoroughly addressed with 15+% of NPLs share in Q4 2016.

Sources:

- Banka Slovenije: Pogled Banke Slovenije na strateške izzive ekonomske politike v Sloveniji v letu 2016, December 2016.
- Banka Slovenije: Mesečna informacija o poslovanju bank, March 2017.
- Banka Slovenije: poročilo o finančni stabilnosti, December 2016.

BUSINESS REPORT

Corporate governance statement

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

Statement of compliance with the Corporate Governance Code

The BAMC's Board of Directors hereby declares that it complied with the Corporate Governance Code, as amended on 8 December 2009, to the maximum extent possible in 2016, with the exception of specific provisions based on BAMC's unique status (its sole shareholder being the Slovenian government), provisions that are governed by the law (ZUKSB) and provisions that the company has otherwise adopted in its Articles of Association and bylaws, as well as provisions of the Code in cases where non-binding actions are not specified in its bylaws or where specific actions are not defined as legal obligations.

In 2016 BAMC also complied with the Corporate Governance Policy of BAMC adopted by the Board on 20 February 2015 and amended on 29 November 2016.

In companies where BAMC, has a direct or indirect stake in the share capital or in the voting rights in the company to a large extent (and depending on the legislation and organizational options in companies), BAMC follows the principles and recommendations of the Code of corporate governance through the Corporate governance code of BAMC, adopted by the Board on 16 March 2016, and is published on the website BAMC.

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

Corporate Governance Policy of BAMC is available on the BAMC website.

Information regarding the functioning and key competences of the company's General Meeting and description of shareholder rights[6]

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

[6] Information regarding the functioning and key competences of the company's General Meeting and description of shareholder rights relate to ZUKSB and Articles of Association valid in 2016.

On 27 January 2016 amendments to ZUKSB came into effect which changed some provisions regulating the role of the Board, General Assembly and gave some additional supervisory powers to the Ministry of Finance, but strictly excludes its right to interfere with individual cases and business decisions.

General Meeting

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

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

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

The General Meeting is convened by the Board by a simple majority vote. The convening of the General Meeting must be published a minimum of 30 days prior to the meeting. The shareholder duly entered in the central register of book-entry securities at the end of the fourth day prior to the scheduled date of the General Meeting is entitled to participate at the General Meeting and exercise voting rights. The Government of Republic Slovenia, in the capacity of the General Meeting of BAMC, carries out General Meetings, even if the General Meeting is not convened by the Board, or if provisions of the law governing companies have not been complied with the content of the meeting, the published agenda or the referenced periods.

The General Meeting convened 13 times in 2016.

Information regarding the composition and activities of management or supervisory bodies and the committees thereof[7]

Board of Directors of BAMC

The BAMC's Board comprises seven members, four of whom are non-executive directors[8] and three of whom are executive directors. The non-executive directors are appointed and recalled by the Government, where three non-executive directors are proposed by the ministry responsible for finance and one member is proposed by the ministry responsible for the economy. Executive directors are selected on the basis of a public call for applications. Executive directors are appointed and dismissed by the non-executive directors. With the recall of the executive director shall cease his/her

[7] Information regarding key competences of the Board relate to ZUKSB and Articles of Association valid in 2015.

[8] From 8 October 2015 until 24 March 2016 the Board had two non-executive directors. On 24 March 2016 the Government in the capacity of the General Meeting of BAMC appointed Juan Barba Silvela as non-executive director for the period of five years from the date of appointment.

membership in the Board. Each member of the Board is appointed individually. Members of the Board who are not executive directors, shall have the powers of the Supervisory Board according to the law governing commercial companies and shall not manage BAMC.

Members of the Board are appointed for the period of five years. Executive directors serve on a full-time basis as employees of BAMC. Board members who were appointed before the amended ZUKSB cease their function in the Board on 31 December 2017.

The main competences of the Board include:

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

Executive directors represent the company and act on its behalf.

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

Executive directors are competent and responsible for the following:

- managing the company's day-to-day operations,
- compiling the annual report,
- preparing the financial plan,
- drawing up the business strategy,
- registering subscriptions and submitting documents to the court register,
- maintaining the books of account, and
- executing transactions in line with the Articles of Association.

Board Committees

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

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

Audit Committee

The Audit Committee (AC) is appointed by the Board. All members of the AC except the independent expert (or experts) are members of the Board. The AC consists of a minimum of three members. The Board appoints a chair of the AC from among its ranks. At least one AC member should be an independent expert in accounting or auditing.

The AC should meet at least four times per year. The practice at BAMC is that AC meetings are convened before each regular Board meetings. The Chairman of the Board, other AC members, the CEO, Head of finance, accounting and IT, Head of internal audit and representatives of external auditors, and other persons may attend the meeting by invitation extended by the AC. Each year, the AC meets at least once with external and internal auditors without the management team present.

The Board mandated the AC to:

- investigate every activity within its purview;
- request all information it requires from any employee, while all employees are under instructions to accommodate any request made by the AC, and
- procure external legal and independent professional advice at the company's cost, and ensure the presence of external associates with appropriate experience and in-depth knowledge, if they feel it necessary.

Key scope of work and responsibilities of the AC relate to financial reporting, internal control and risk management, internal audit, compliance and external auditing.

Remuneration committee

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

The Committee has at least three members:

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

ACCREDITATION COMMITTEE

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

The Committee has at least the following members:

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

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

THE BOARD CREDIT AND INVESTMENT COMMITTEES

Until April 2016 acted at the level of the Board, the Board Credit Committee (BCC) in respect of matters related to claim exposures owned and managed by BAMC and the Board Investment Committee (BIC) in respect of matters related to equity shares, real estate and other assets as the Board level decision committee for the management of the transferred and acquired assets of BAMC.

The BCC and the BIC had the authority to delegate decisions to more junior committees on the executive and operative levels. This was to ensure effective and fact-based decision-making within BAMC. The delegation and decision powers of BAMC's case committee structures was clearly defined in BAMC's policy Process and decision-making powers of the committees[9]. This policy was approved by BAMC’s owner, the government of the Republic of Slovenia and was valid until 16 March 2016. BCC and BIC focused until 16 March 2016, on taking the decisions which were complex, had significant value or policy impact, were precedential, strategic, high risk or hade a high public sensitivity. Such

[9] The policy is in force since February 2015. Prior to that, Credit and asset management policy document was regulating the decision-making at BAMC.

decisions were firstly taken on the executive level and afterwards on the BCC/BIC level. Other decisions were normally taken in executive and operational level committees.

The BCC and BIC consisted of all Board members of BAMC. The BCC and BIC had quorum when at least three members were present, out of whom one was a non-executive director.

With the introduction of the new ZUKSB and with the new Article of Associations in March 2016, BAMC conducted a thorough overhaul of internal regulations, including Processes and decision-making powers of the committees (16 March 2016).

The Board has set up an Executive credit and investment committee and Operational credit and investment committee, to decide on matters related to claim exposures owned and managed by BAMC and other assets managed by BAMC. Board credit and investment committee, if necessary, gives consent to the decisions/proposals of the Executive credit and investment committee. The renewed structure of credit and investment committees eliminates overlapping decision-making. Dividing line between the different levels of credit and investment committees is now clearly defined, together with decision-makers in individual committees.

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

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

The risk management and control mechanisms are presented in detail in the Risk management chapter (page 74).

External audit

BAMC's financial statements for 2016 were audited by KPMG Slovenija, d.o.o. As part of its audit of the financial statements, the external auditor reports its findings to the Board and the Audit Committee.

Audit costs are disclosed in Note 31 to the financial statements.

BAMC'S MISSION AND STRATEGIC GOALS

MISSION OF BAMC AS DEFINED IN THE GUIDELINES

BAMC's mission is defined in the Guidelines and in line with the mission the Board of BAMC has adopted BAMC's key objectives and strategic goals.

- Implement the measures to strengthen the stability of banks, adopted by the Government of the Republic of Slovenia.
- Promote trust in the financial system and operate by the rules of the business-financial profession and the highest ethical management standards, avoiding any conflict of interest.
- Implement a proactive, cooperative and holistic approach to the restructuring of companies.
- Being an active asset owner.
- Manage the assets in a way that would allow exiting at the best possible price.

BAMC BUSINESS STRATEGY 2016-2022

BAMC Business Strategy 2016-2022, adopted by the Board and approved by the Government in late 2016, is a key corporate document defining the following key objectives and strategic goals of BAMC:

BAMC's financial goal is to maximize the return to state and ultimately to the taxpayer and in this respect:

- (1) Redeem the state guaranteed bonds issued to pay for the transferred assets, and (2) in addition, generate the required return on the initially invested equity by the Republic of Slovenia.
- Consistent with the previous objective, act in the way which will aim to restructure companies when economically justifiable and to contribute to a renewal of sustainable activities in the property and other asset markets in Slovenia.
- Manage assets intensively and invest in them so as to optimise their income-producing potential and disposal value.

Loans will constitute the bulk of BAMC's assets throughout its lifetime. However, as repayments and refinancing of debt of successfully restructured companies will reduce the share of restructuring cases in the portfolio, the active management of own (repossessed) and collateralised real estate will gain importance over time. BAMC's own financing will closely follow the cash flows from managing its assets and will minimise financing costs through tight liquidity management. In accordance with ZUKSB the lifespan of BAMC is limited by the end of 2022. For more details on BAMC Business strategy 2016-2022 see: http://www.dutb.eu/SiteAssets/en/croporate_documents/BAMC%20Business%20strategy%202016-2022%20with%20Business%20plan%20summary.pdf

For effective strategic planning, monitoring and reporting, the Government and BAMC have defined a set of Key Performance Indicators, i.e. KPIs, presented in the financial review section (page 62).

SIGNIFICANT EVENTS IN 2016

CORPORATE GOVERNANCE AND REPORTING

On 27 January 2016 the amended ZUKSB came into force, empowering BAMC with additional restructuring tools as well as re-establishing BAMC's framework of operations and its supervision. More detailed information on amendments of ZUKSB is presented in a special chapter on page 87.

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

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

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

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

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

On 23 September BAMC issued its 2015 Annual Report, receiving an unqualified auditor's opinion after delisting its issued bonds from the regulated market at the Ljubljana Stock Exchange.[10] The Government, acting in the capacity of the BAMC General Meeting, approved the BAMC 2015 Annual Report on 27 October 2016.

[10] The delisting of issued bonds from Ljubljana Stock Exchange on 1 September 2016 and 9 September 2016, following the decisions of bondholders' general meetings, was done to allow for the applicability of the third paragraph of Article 4 of ZUKSB which stipulates that BAMC shall not include in its consolidated annual report the companies whose equity stakes or shares it had acquired by means of purchase/compensated acquisition of bank assets, or as part of corporate restructuring as per the first paragraph of Article 10a of the ZUKSB. Prior to delisting from Ljubljana Stock Exchange the bonds were listed at a non-regulated Vienna Stock Exchange Third Market on 23 August 2016.

On 27 October 2016 Marko Simoneti, then Chairman of the Board, submitted his resignation to the Government. The Government agreed with termination of his membership from the Board as per 27 January 2017.

ASSET MANAGEMENT

In 2016 BAMC closed 29 cases, some of the notable ones are shortly presented below.

In April 2016 BAMC successfully concluded equity and claims sales process for Aha Plastik d.o.o. with an entry of a domestic strategic partner, ensuring further development potential for the sold company. Financial restructuring through compulsory settlement in 2015, in which BAMC also converted part of its claims into equity, proved to be a correct course of resolution for these distressed assets.

In June 2016 equity and claims of Aha Emmi d.o.o., another company in which BAMC entered into ownership through successful debt-to-equity swap in 2015, were sold to a foreign strategic owner, an important European producer in its production scope, opening extended development opportunities.

On 14 October 2016, as part of a consortium of sellers, BAMC signed a contract with an Italian investment fund to sell its 45% equity stake and claims vis-a-vis Cimos d.d. The transaction is expected to be finalized in Q2 2017, after all conditions precedent are fulfilled.

In December 2016 over €12 million gross exposure of Kovinoplastika Lož družba pooblaščenka d.d. transferred to BAMC in 2013 was fully repaid. The debtor repaid its debt with the sale of Kovinoplastika Lož d.d. to a foreign investor, a process overseen and aided to a successful conclusion by BAMC.

In December 2016, in line with the financial restructuring plan, Avtotehna d.d. successfully concluded its divestment process with the sale of a subsidiary and related real estate. Following compulsory settlement, all liabilities towards creditors have been repaid by the end of 2016.

MERGER OF FACTOR BANKA AND PROBANKA

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

- Registered capital of BAMC is increased by €50 million in order to cover potential negative effect on BAMC's capital,
- The Republic of Slovenia issues a statement that it will reimburse BAMC for any payments made to the former bondholders or to the shareholders of both merging banks on the basis

of legally binding decision within one month after the receipt of the written proof of the amounts paid to the former bondholders/shareholders of Factor banka and Probanka,

- Ministry of Finance and BAMC reach an agreement regarding the restructuring of €369,0 million debt or a guarantee of the Republic of Slovenia is issued for its refinancing,
- The effects and consequences of the merger are accounted for in adjusting the target key performance indicators for BAMC.

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

The merger of Factor banka and Probanka had some negative impact on BAMC's equity owing to the revaluation of assets at initial recognition and negative cumulative equity of the banks. Due to this, BAMC initiated that the owner, the Republic of Slovenia, ensures additional capital thus enhancing BAMC's capital structure. The procedure was realised on 22 December 2016.

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

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

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

FINANCING

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

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

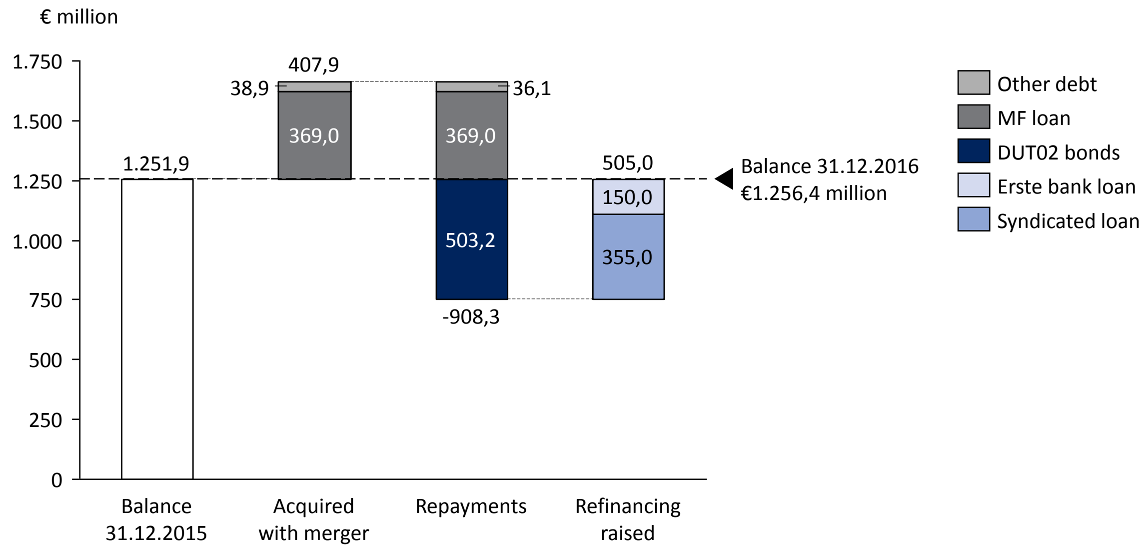
On 24 August 2016, in addition to regular monthly instalments of €5,0 million, BAMC made another early repayment of €120,0 million of obligations towards the Ministry of Finance taken over with the merger of Factor banka and Probanka. In this way the merger ensured a much faster and full repayment of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

On 15 December 2016 maturing DUT02 bonds were repaid in full in the amount of €503,2 million, together with interest from all three bond issues in the amount of €26,7 million.

On 15 December 2016 BAMC also fully repaid the remaining €53,6 million matured obligations towards the Ministry of Finance from the Factor banka and Probanka merger. Thus, BAMC repaid a total of €369,0 million of the relevant financial liabilities to the Ministry of Finance in 2016.

BAMC partly refinanced the repaid liabilities with a long-term €150,0 million loan from Erste Group Bank AG Vienna, and a €355,0 million syndicated loan from a group of Slovenian banks (with Nova Ljubljanska banka d.d. as the agent) selected as the best bidders in a transparent and competitive process. Both loans have an amortizing structure with five-year term, maturing in mid-December 2021 with BAMC having an option of early repayment. The loans are secured with a state guarantee, subject to a 1,0% guarantee fee payable to the Republic of Slovenia.

FIGURE 10: DEBT MOVEMENT IN 2016



NOTE: Principal outstanding values without interest are reported for clarity.

On 22 December 2016 the Government, acting in the capacity of the BAMC General Meeting, passed a decision to subscribe €50,0 million to increase the capital reserves of BAMC. In addition to the increase of capital reserves, the Government also passed a decision on the simplified reduction of BAMC's registered share capital from €208,235,000 to €104,117,500.

EVENTS AFTER THE ACCOUNTING PERIOD

On 5 January 2017 the Government, acting in the capacity of the BAMC General Meeting, appointed Miha Juhart and Mitja Križaj as non-executive directors for the period of five years with their mandate beginning on 28 January 2017. On 23 February 2017 the Board appointed Miha Juhart as its new Chairman.

On 27 January 2017 BAMC closed a sale of claims towards DZS d.d., Ljubljana, Delo prodaja d.d., Ljubljana and Terme Čatež d.d., Čatež to York Global Finance Offshore BDH (Luxembourg) S.a.r.l.

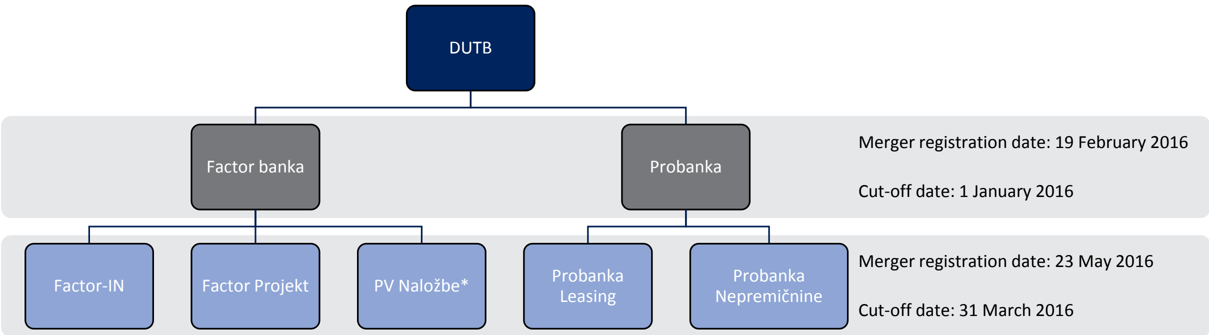
On 1 February 2017 BAMC made an early repayment of €168,0 million of syndicated long-term loan due to excessive liquidity received from the sale of assets in December 2016 and January 2017 and recapitalization in December 2016.

MERGER OF FACTOR BANKA, PROBANKA AND THEIR SUBSIDIARIES INTO BAMC

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

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

FIGURE 11: MERGER PRESENTATION SCHEME



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

MERGER OF FACTOR BANKA AND PROBANKA

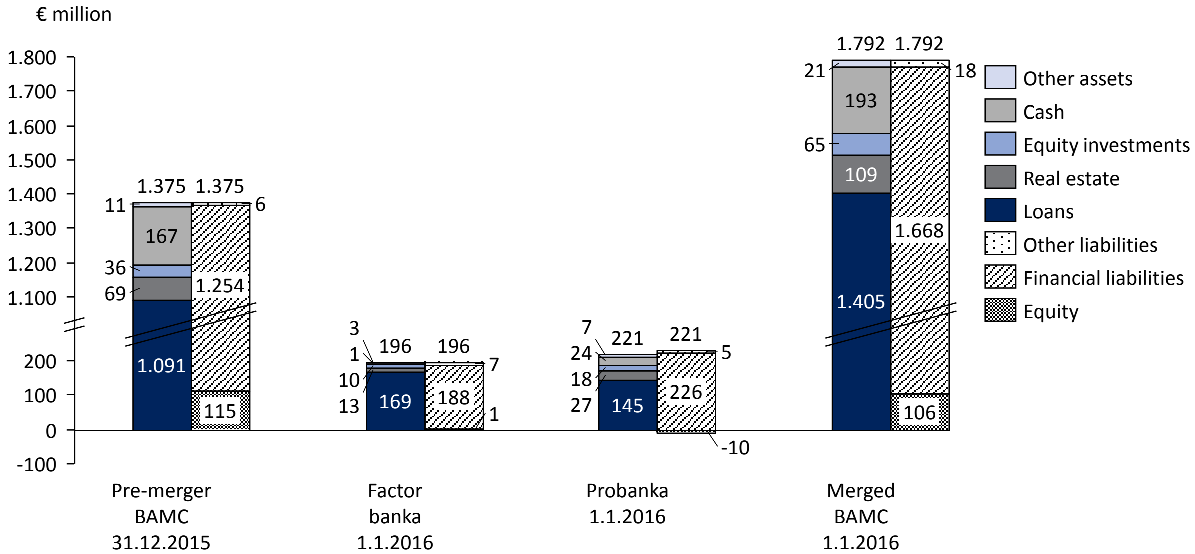
BAMC carried out the merger of Factor banka and Probanka at the initiative of Factor banka and Probanka, with the endorsement of the Bank of Slovenia, the Ministry of Finance and the Government. The Republic of Slovenia was the sole shareholder of all three entities, i.e., BAMC, Factor banka and Probanka.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

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

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

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

FIGURE 12: SIMPLIFIED BALANCE SHEETS OF THE THREE ENTITIES IN THE MERGER PROCESS



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

In accordance with its accounting policies[11], BAMC adjusted the value of the merged assets upon initial recognition as at 1 January 2016 to fair value. All accounting effects of the merger are accounted to retained earnings and are not influencing the net result for 2016. The fair values of merged assets and provisions were €67,0 million lower than their book values, reducing the equity of BAMC. Specifically,

[11] The transactions were accounted for as asset acquisitions in which the cost of acquisition was allocated between the individual identifiable assets and liabilities in the group based on their relative fair values at the date of acquisition. Consequently, BAMC re-measured all transferred assets and liabilities at their respective fair values.

the differences between the fair values of assets and provisions and their book values as at 1 January 2016 are shown in the table below, which also shows the cumulative negative net equity of the two companies, which amounted to €8,6 million and provisions for lawsuits in the amount of €3,8 million. The total negative difference of €79,4 million in the BAMC financial statements is disclosed as a return of capital to the owner[12].

TABLE 3: MERGER EFFECT ON BAMC'S EQUITY

in € million	Factor banka	Probanka	Total
Assets	**-33,8**	**-33,1**	**-67,0**
Loans and claims	-27,3	-21,0	-48,2
Real estate	-2,1	-12,4	-14,5
Investment stakes	-4,4	-0,3	-4,7
Other assets	0,0	0,5	0,5
Merged entity equity	**1,3**	**-9,9**	**-8,6**
Provisions for lawsuits	**0,0**	**-3,8**	**-3,8**
Total effect on BAMC's equity	**-32,5**	**-46,8**	**-79,4**

NOTE: Investment stakes include bonds, shares and ownership stakes. Other assets include intangibles, receivables and operating liabilities.

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

- Subscription of a cash contribution of €50 million into BAMC's capital reserves, without increasing the share capital by the existing owner;
- Denomination of the par value per share and the share capital from €208.235.000 to €104.117.500 which creates €104.117.500 of capital reserves, used to cover the uncovered balance sheet losses.

By implementing the proposed measures, the capital structure of BAMC was reinforced, allowing future operations in accordance with the ZUKSB. For more details see Note 12 in the financial part of the annual report.

In addition to the assets, BAMC also acquired €414,0 million of financial liabilities from Factor banka and Probanka, among which the highest liability was to the Ministry of Finance, in the sum of €369,0 million, maturing in August and September 2016, respectively. On 8 April 2016, BAMC made an early repayment of €150 million worth of these obligations and received a decision from the Ministry

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

of Finance, confirming its consent to extending the due date of the remaining liabilities until December 2016, when the DUT02 bond also matured. On 24 August 2016 BAMC made another early repayment of €120,0 million of obligations towards the Ministry of Finance taken over with the merger of Factor banka and Probanka. The remaining obligations were fully repaid in December 2016.

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

Immediately following the merger, BAMC initiated the reorganization activities with a view to optimizing processes, taking advantage of the economies of scale, and optimizing costs. The new organisation formally came into force on 1 July 2016 and made it possible to decrease number of core employees to 145 as per 31 December 2016.

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

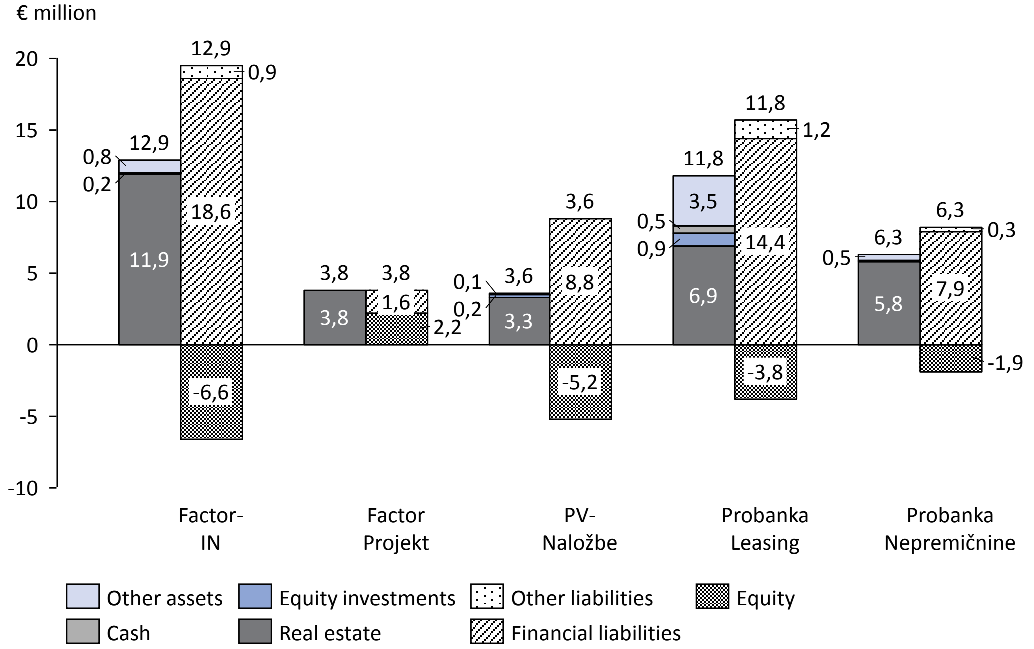
- The first working group ensured the seamless migration and transition of accounts, payments and invoicing. Comparison and thorough assessment of software modules used in the various merged institutions resulted in the optimal finalisation of target IT infrastructure, and the smooth outsourcing of loan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

Within the reorganization process BAMC managed to increase the average number of assets and the average value of managed assets per employee on almost every level.

Merger of five subsidiaries of Factor banka and Probanka

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

FIGURE 13: SIMPLIFIED BALANCE SHEETS OF THE FIVE MERGED SUBSIDIARIES



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

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

Management of assets

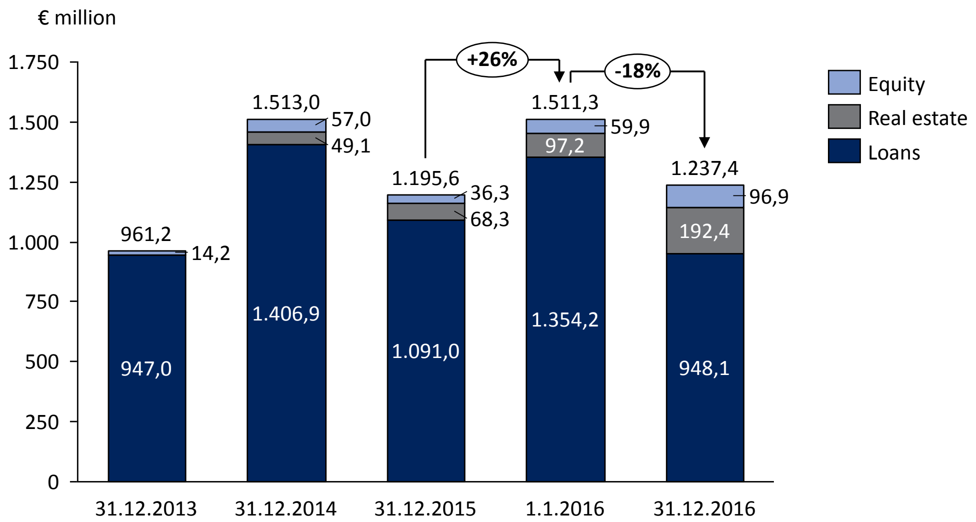
BAMC's assets are mostly managed individually, at the level of a claim towards a specific debtor, equity investment in a specific company or individual item of real estate. Where BAMC owns both claims and equity in the company, the maximization of enterprise value is targeted applying different strategies.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

All assets are available for sale

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

As at 31 December 2016 BAMC had over €1,2 billion of assets under its management. The majority (76,6%) was represented by loan claims, followed by real estate (15,6%) and equity holdings (7,8%). The latter two more than doubled in relative value compared to the end of 2015, partly as a result of the portfolios of merged Factor banka and Probanka and partly due to considerable repossessions (real estate) or increases of value (equities).

Figure 14: Assets under management



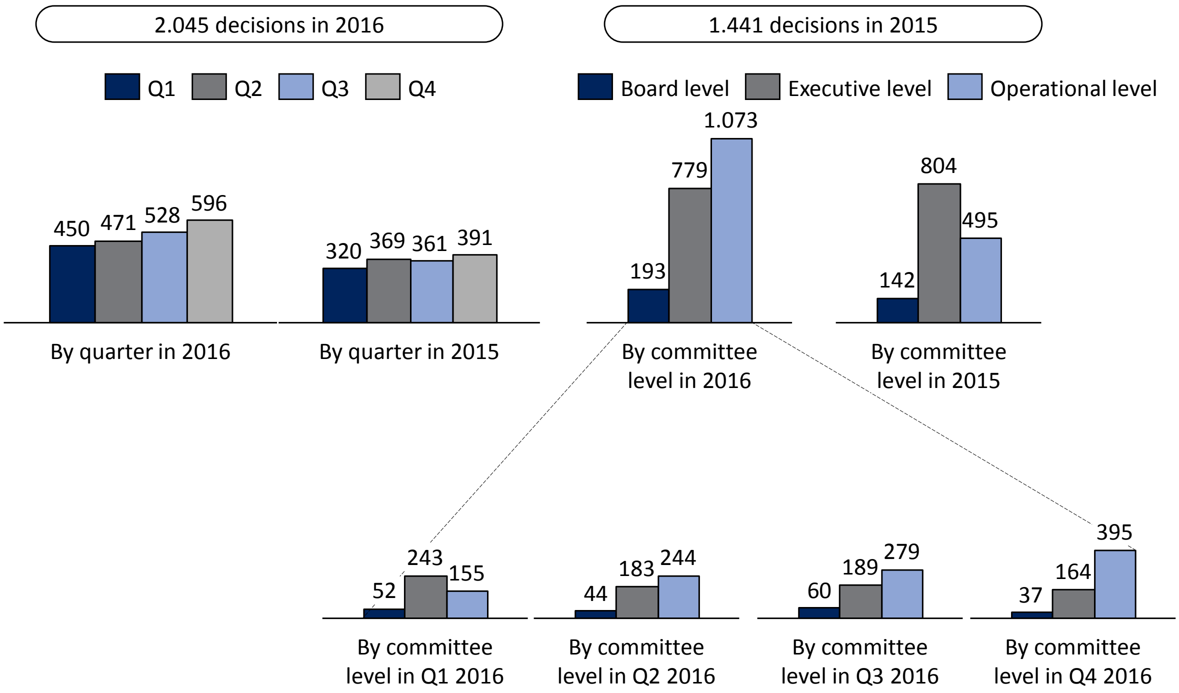
Note: 1 January 2016 displays the fair value of the portfolio at the merger of Factor banka and Probanka into BAMC. Since the merger BAMC also manages a minor leasing portfolio which is presented together with "Loans".

CREDIT AND INVESTMENT DECISIONS

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

Based on prepared action plans BAMC took 2.045 credit and investment decisions on operational, executive and board levels in 2016. As seen from the quarterly breakdown, changes in the decision-making system effective since April 2016, due to the changes in ZUKSB and redesign of processes after the merger of Factor banka and Probanka, have resulted in a higher number of decisions taken at the operational level increasing its power and responsibility, while the executive level can concentrate on high volume/impact cases.

FIGURE 15: BREAKDOWN OF DECISIONS TAKEN



NOTE: The number of decisions is reported on an action plan (debtor) level, not counting multiple decisions within a single action plan. Thus, the decision count reported for 2015 is lower than the one presented in 2015 BAMC Annual Report.

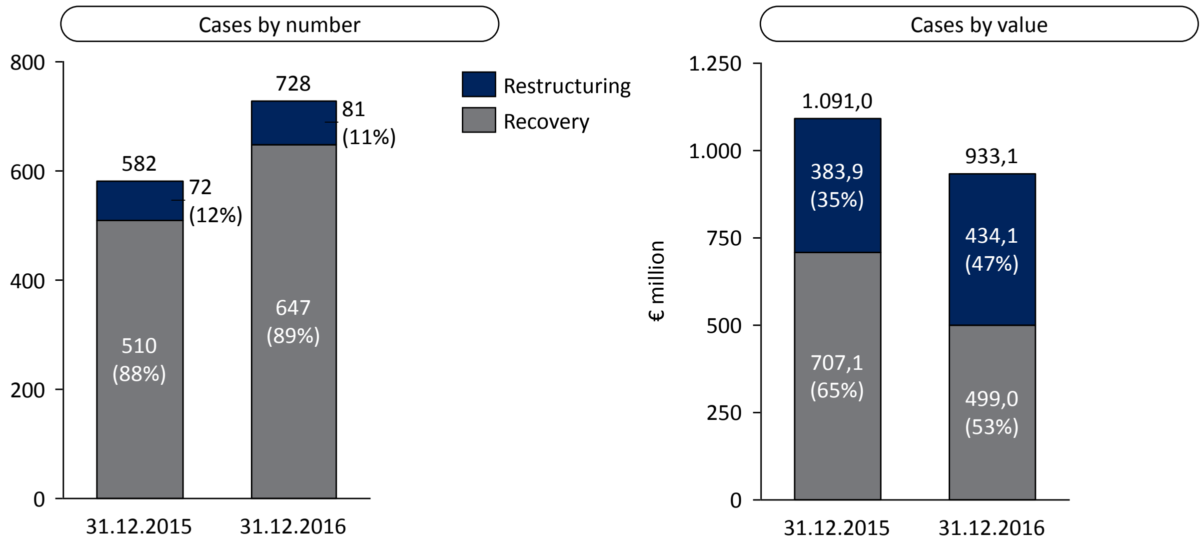
LOAN PORTFOLIO MANAGEMENT

BAMC manages debtors of various exposures in its loan portfolio. 1.563 cases with smaller exposures were valued on a group level and 728 debtors were valued individually. These larger cases are presented in more detail.

STRATEGIES TOWARDS DEBTORS[13]

Out of 728 individually valued claim cases at year-end 2016, with 81 having a predominant restructuring strategy and 647 cases a recovery one. While the number of cases compared to the end of 2015 increased by 25%, the value of the loan portfolio decreased by 15% as a number of relatively smaller exposures were received with the merger of Factor banka and Probanka (but also the value of the previously existing cases reduced, either due to repayments or other reasons). The presented loan cases' estimated fair value of €933,1 million corresponds to 20% of the total gross exposure of over €4,6 billion. The change from 2015 shows that although relatively less cases were classified as restructuring at year-end 2016, they contained relatively more value than at the beginning of the year.

FIGURE 16: VALUATED CASES BY STRATEGY



NOTE: The value of cases reported differs from total loans' value reported in Figure 14 and elsewhere. This and the following figures present breakdowns of individual valuations while smaller exposures are valued as well but are not reported here.

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

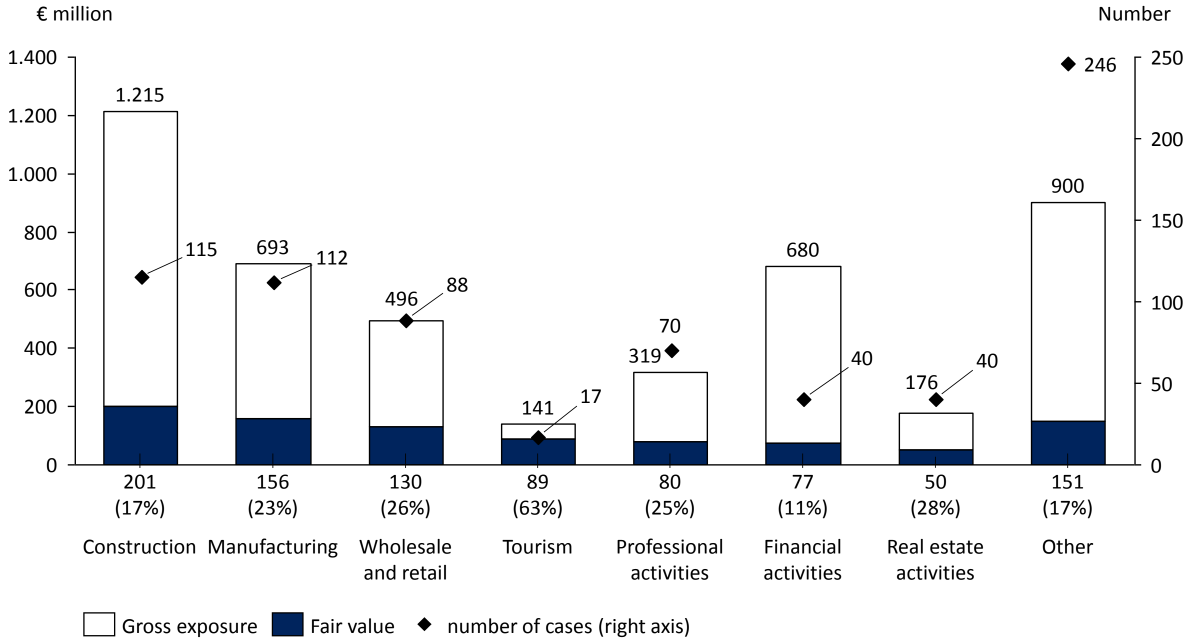
- The restructuring strategy is defined as a case, where BAMC is pursuing a restructuring scenario which has at least 50% probability of success. Nevertheless, these cases have two different value scenarios estimated depending on the success or failure of the restructuring.
- The recovery strategy is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

It has to be noted that BAMC may, conditioned on not worsening its creditor position, pursue a restructuring strategy also in cases termed as recovery for valuation purposes, see Progress in restructurings (page 5).

Portfolio characteristics

More than a quarter of all gross exposure is related to the construction industry, but this sector is providing below-average repayment at 17%. This is followed by manufacturing industry with 23% average repayment. The third highest share of total gross exposure stems from the financial activities industry which is characterised by a relatively low number of cases, resulting in the highest average gross exposure per case (almost €17 million) which provide the lowest average repayment at 11%. On the other hand, the tourism industry is estimated to hold more than 60% of value compared to gross exposure in a small number of cases.

Figure 17: Loan gross exposure and fair value by industry



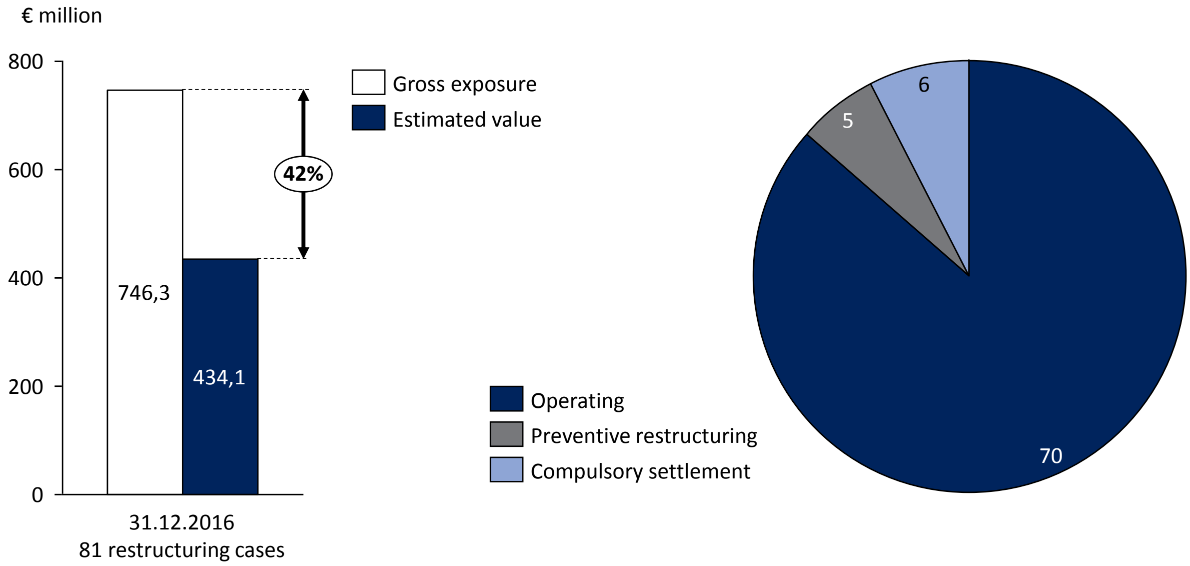
Note: Industry classification follows Standard Classification of Activities (2008). Industries are ranked by fair value. Those presenting a notable share in the portfolio are displayed separately while the remaining cases, including foreign ones, are grouped into the "Other" category.

Corporate restructuring

BAMC's objective in the restructuring of companies is to ensure long-term efficiency and viability of the debtors' operations and their competitiveness, and to maximise the repayment of debt with cash flows from operations. BAMC is also attempting to reduce the indebtedness of the debtor to a sustainable level, thus improving its position and increasing debtor's value in sale of claims. Next to financial, operational restructuring is also required.

At the end of 2016, BAMC evaluated 81 companies as restructuring for valuation purposes. With an outstanding debt to BAMC in the amount of €746,3 million the estimated fair value of the aforementioned claims was €434,1 million. Thus, a portfolio value difference to gross claims of 42% suggests much more value can be extracted from the management of restructuring cases than from the recovery cases (which have an estimated portfolio value difference to gross claims of 87%).

FIGURE 18: RESTRUCTURING CASES OVERVIEW



BAMC implements financial restructuring measures in cooperation with other creditors. These measures include allowing debtors to extend deadlines for the repayment of liabilities, apply standstills, pay reduced interest on their debt, make partial debt repayments, improve their capital structure and secure additional liquidity. BAMC may convert its claims into equity, take over other claims and equity stakes or increase the capital of respective debtors with cash or in-kind injections.

PURCHASES OF CLAIMS

In 2016 BAMC acquired additional claims towards four existing debtors in the value of €13,6 million (€43,2 million gross) and provided justified loan financing towards seven companies in the value of €6,1 million.

MANAGEMENT OF EQUITY INVESTMENTS

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

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

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

TABLE 4: DEBT TO EQUITY CONVERSIONS AND CAPITAL INCREASES IN 2016

Company (values in € million)	**Nominal value of conversion into company's (debtor's) equity**	**Nominal value of conversion into other company's equity**	**Capital increase**
LIV Kolesa d.o.o.	2,0		
PPS Ptujske pekarne d.d.	1,1		
Zvon ena holding d.d.		20,3	
Zvon dva holding d.d.		9,3	
CG Invest d.d.		0,1	
NPL PORT d.o.o.			0,9
DUTB d.o.o. Beograd			0,01
Total	**3,1**	**29,7**	**1,0**

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

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

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

As a result of the merger of Factor banka and Probanka into BAMC, the direct equity investments managed by BAMC have doubled and an international dimension was introduced as BAMC came to own companies in the Balkan region (Croatia, Serbia, Bulgaria) and elsewhere (Cyprus, Ukraine, Russia, etc.). Consequently, H2 2016 was marked by the introduction of a new organizational structure of the department, with particular emphasis on corporate governance in majority-owned companies, managing sale procedures (M&A) and minority share management.

TABLE 5: BAMC'S EQUITY PORTFOLIO CHARACTERISTICS AS AT 31 DECEMBER 2016

Ownership	Count	Type of holding	Count	Domestic/foreign	Count
Majority (over 50%)	25				
Important (over 20%)	4	Shares	34	Domestic	45
Minority (under 20%)	32	Ownership stake	27	Foreign	16
Total	**61**	**Total**	**61**	**Total**	**61**

NOTE: BAMC had equity stakes in 78 companies on 31 December 2016. 17 companies in bankruptcy procedures are excluded from the table.

In 2016, BAMC sold four majority equity stakes (together with claims) to strategic investors: AHA Emmi d.o.o., AHA Plastik d.o.o., Sistemska tehnika d.o.o. and Sistemska tehnika Armas d.o.o.

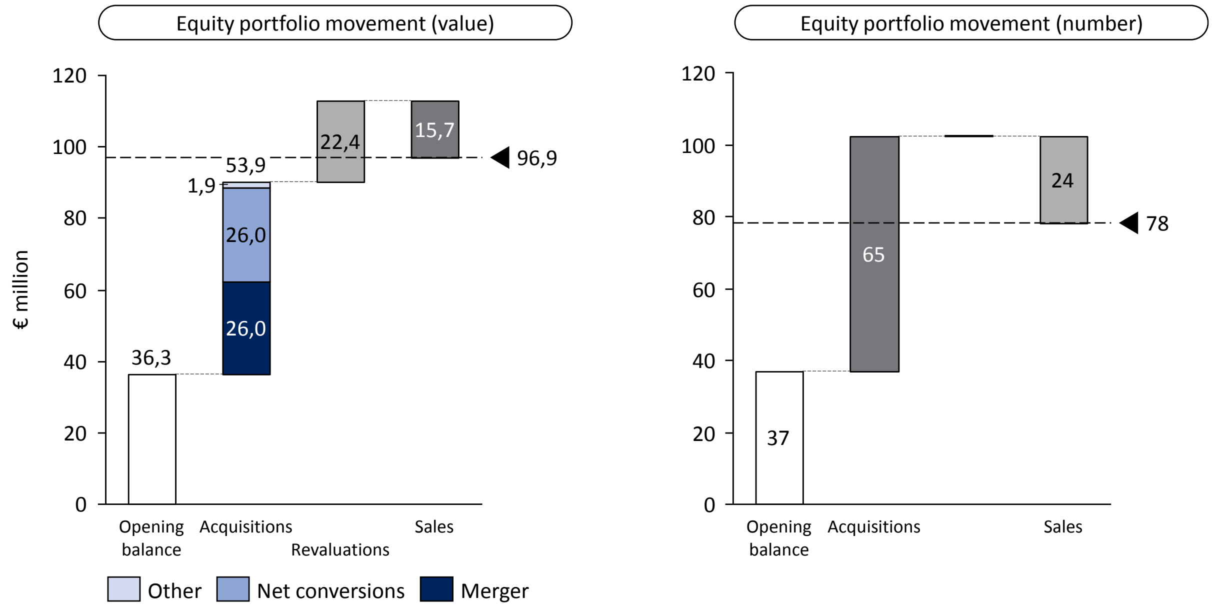
Besides this, BAMC sold six minority equity stakes in 2016, including its interest in ETI d.d. and Adria Airways d.d., as part of a consortium of sellers. In 2016 BAMC also entered into a sale consortium for Gorenjska banka d.d. shares.

Through D/E swaps BAMC became 100% owner of PPS Ptujske pekarne d.d., and acquired the majority stake through repossession of collateral in three real estate companies in Serbia (100%), 51,2% stake in the company MKZ d.d., where BAMC appointed three new supervisory board members at the general meeting, and minority stakes in Petrol d.d., Cinkarna Celje d.d. and Terme Olimia d.d.

In May 2016 BAMC established the company NPL Port d.o.o., by way of converting its SPV DUP2 d.d. to NPL Port d.o.o., which is fully owned by BAMC and currently provides back office, reporting, archiving and IT services for BAMC loan portfolio. These services were previously performed for BAMC by Probanka.

In 2016 BAMC received a total of €1,5 million in dividends and participated in 35 shareholder meetings. As of the end of the year, it managed an equity asset portfolio worth €96,9 million.

FIGURE 19: EQUITY PORTFOLIO MOVEMENT IN 2016



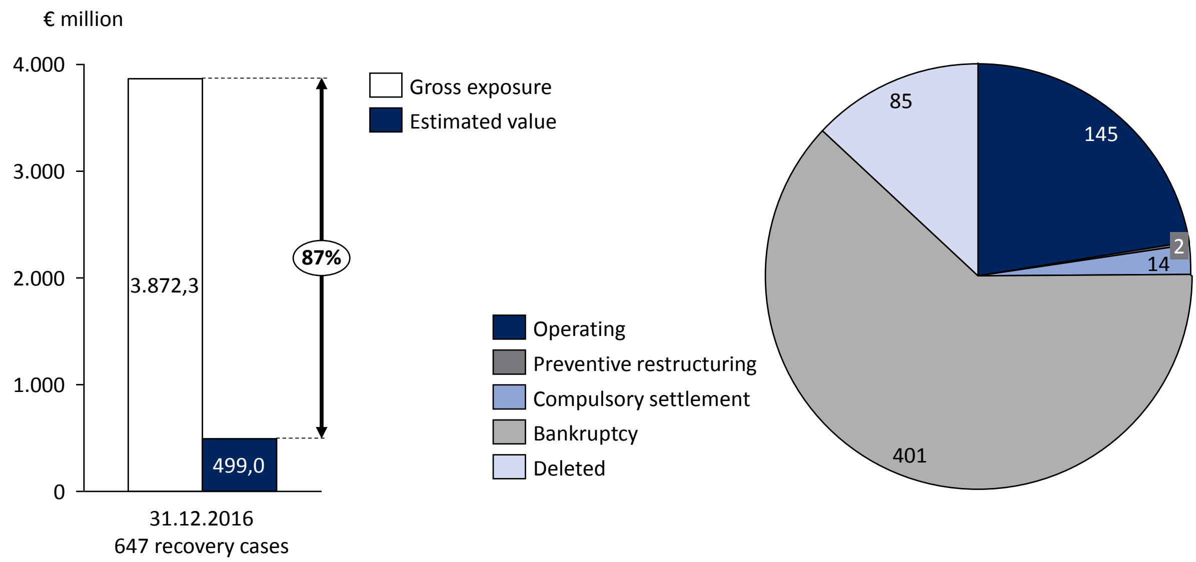
NOTE: The "merger" category includes equity holdings acquired with the merger of Factor banka and Probanka, their subsidiaries and therewith related effects. "Other" category includes capital increases and additional purchases.
The number data reported includes companies in bankruptcy and presents only complete transaction count (e.g., a partly sold holding is not counted as a sale in number terms).

Loan management using the recovery strategy

In case of negative cash flows-making companies against which BAMC holds claims, when it is clear that it would be impossible to create greater value even through financial and operational restructuring than through recovery of collateral, BAMC's actions as a prudent and diligent manager dictate that it opts for the recovery strategy. A recovery strategy is also used in the case of companies against which bankruptcy proceedings had already been initiated before their transfer to BAMC. On the other hand, cashing of collateral may also be executed in agreement with the debtor, without enforcement and insolvency procedures.

At the end of 2016, BAMC was valuing 647 claims as recovery cases, against which it held €3,9 billion in gross claims, the fair value of which was estimated at €499,0 million. Compared with companies in restructuring, recovery companies as a group proved to have a substantially lower potential of repayment as the fair value of claims towards them was estimated at 13% of gross exposure while this estimate amounted to 58% of gross exposure in restructurings.

Figure 20: Recovery cases overview



REAL ESTATE PORTFOLIO MANAGEMENT

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

MANAGEMENT OF PLEDGED REAL ESTATE

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

TAKEOVER OF REAL ESTATE

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

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

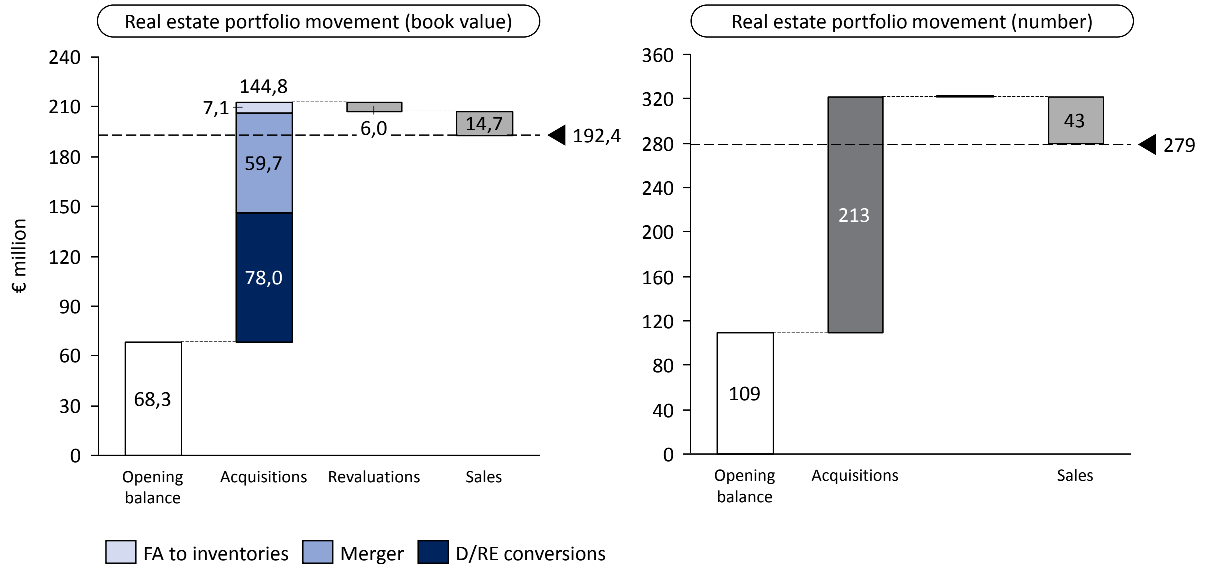
MERGED REAL ESTATE PORTFOLIO

Due to the merger of Factor banka and Probanka into BAMC in February 2016, the latter substantially increased its real estate portfolio. BAMC took over 151 units of real estate with a book value of €59,7 million. The largest share of new real estate were undeveloped building land plots, mainly for residential use, followed by residential real estate (residential complexes and single units). Also, a considerable value of offices has been taken over. The new portfolio mainly consists of real estate in Slovenia, however some large real estate has also been taken over in Bulgaria and Croatia.

BAMC'S REAL ESTATE PORTFOLIO

In addition to the merger, BAMC took ownership of another 71 units of real estate through the conversion of claims in 2016. Sales in 2016 included 43 units of real estate (partial sales are not included number-wise) and a total book value of €14,7 million. BAMC sells its real estate by itself or uses an external real estate agency which was selected via a public tender.

FIGURE 21: REAL ESTATE PORTFOLIO MOVEMENT IN 2016



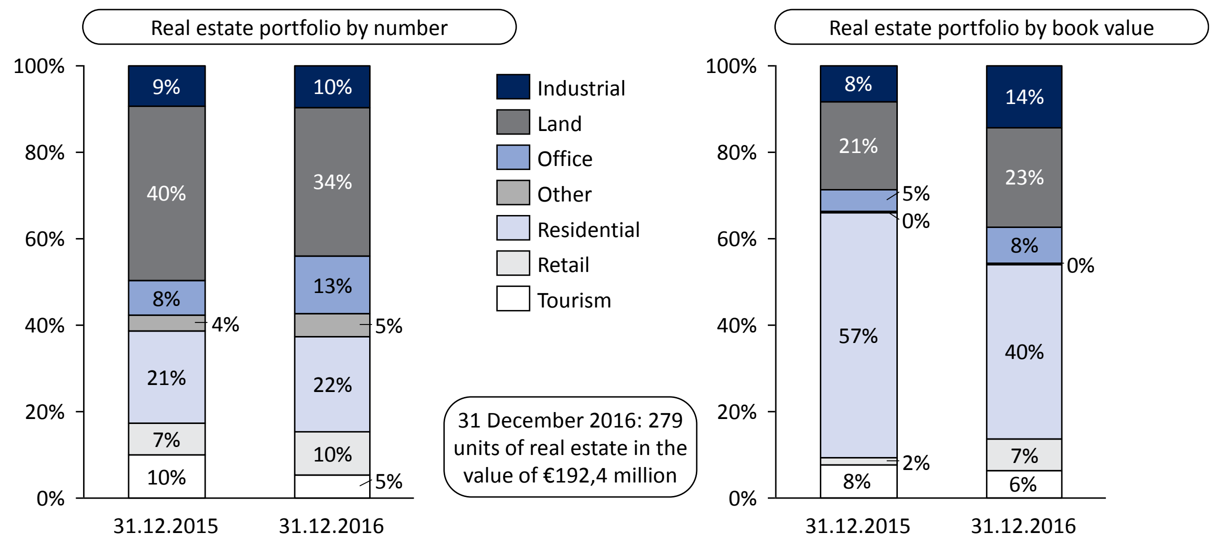
NOTE: The "merger" category includes real estate acquired with the merger of Factor banka, Probanka and their five subsidiaries. "FA to inventories" category includes the transfer of real estate categorised as fixed assets in the pre-merger entities to BAMC inventories available for sale.

Revaluations also include increase in value due to investments.

The net realisable value of real estate at year-end 2016 stood at €209,2 million, wherefrom €192,4 million were disclosed as book value due to IFRS.

Only completely sold real estate units are reported in sales number, while many more units were partly sold (e.g., some of the apratments in an apartment buliding) but the unsold part of the unit is still in BAMC ownership.

FIGURE 22: REAL ESTATE PORTFOLIO STRUCTURE



At the end of 2016 BAMC owned 279 units of real estate with a book value of €192,4 million. The majority of owned real estate is residential: the biggest projects are the residential complexes Celovški dvori in Ljubljana and Nokturno in Koper. The second largest part of the portfolio is represented by undeveloped land plots, followed by Industrial sites. The usage of land plots is mainly residential while industrial sites are not in use.

CELOVŠKI DVORI

In the case of Celovški dvori development, BAMC took over 226 residential and 23 commercial premises from the bankruptcy estate, which had been pledged as collateral, and became the legal owner of the residential and commercial premises at the end of July 2016. After taking over the apartments, BAMC carried out renovations, thorough cleaning and restoration works. On 14 October 2016, BAMC offered 56 apartments from the first residential section for sale with a 45-day open house viewing period, where potential buyers were invited to submit their bids. All 56 apartments were sold, and BAMC recorded almost 1.700 viewings and received 450 binding bids. The great deal of interest expressed by bidders for apartments in the residential complex and the fact that all apartments were sold already in the first phase of the sale process, confirmed that the tarnished reputation of the Celovški dvori residential complex is in fact entirely unfounded. By setting attractive starting bid prices for the apartments and conducting a transparent, competitive and customer friendly sale process, BAMC was able to achieve excellent sales results for Celovški dvori apartments.

Nokturno

At the end of 2014, BAMC purchased 215 Nokturno apartments, storage units and parking spaces pledged to BAMC, as well as two commercial premises and a few extra storage units. BAMC promptly undertook maintenance and renovation works on the apartments and shared areas on the facility, and put the Nokturno apartments on the market on 1 October 2016. Through extensive renovations, which included reroofing, restoring the facades of the buildings, terraces, garages and electrical installations, landscaping, restoring damage caused by leaks, drainage and other works, BAMC was able to increase the residential complex's value by more than the funds invested in the restoration. The asking prices for apartments, which are built to higher quality standards and have above-standard surface areas and terraces, were set to fit market conditions and are comparable to similar apartments in the region. The Nokturno apartments' sale process included a 45-day open house viewing period, where potential buyers were invited to submit binding bids. In 2016, BAMC successfully signed 47 apartment sale contracts, an exceptional achievement considering that a total of 200 apartment units were sold in the whole Koper area in 2015 (source: GURS). During the open-door viewing period, BAMC logged over 620 viewings of Nokturno apartments, with more than 2.000 visitors.

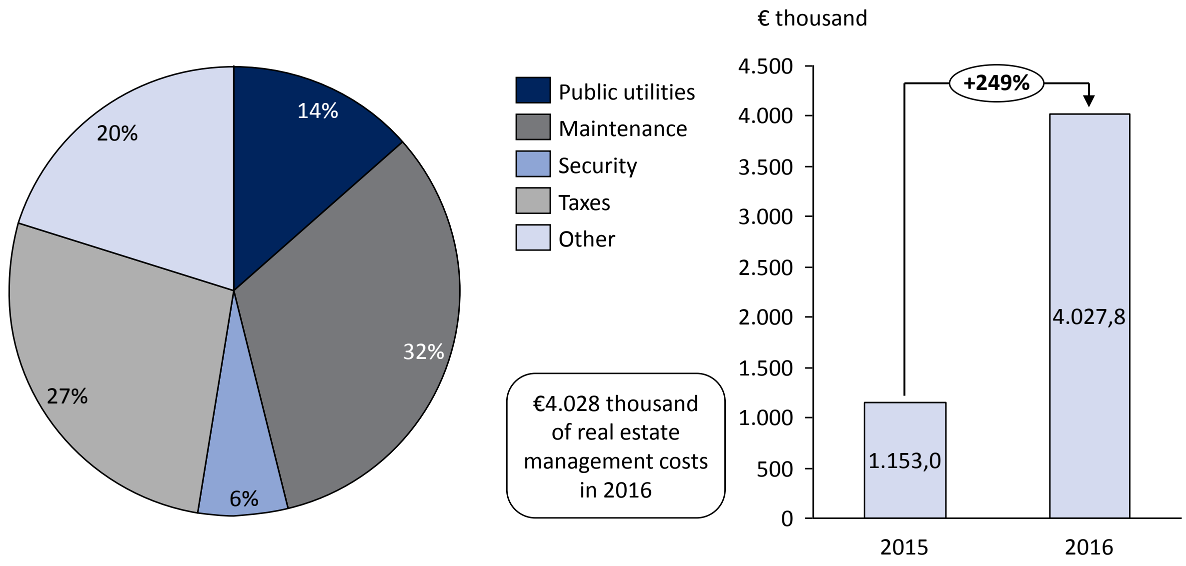
Real estate facility management

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

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

BAMC incurred real estate management costs of €4,0 million in 2016, mostly related to owned real estate and a minor part induced by collateralized real estate. The largest cost items were maintenance costs (which include various repairs), followed by taxes (which are almost entirely represented by NUSZ - compensation for use of building sites - amounting to €1,0 million in 2016). In 2015 the owned real estate portfolio was incomparably smaller than in 2016 when it increased both due to the merger of Factor banka and Probanka as well as due to substantial repossesions, therefore also the high increase of costs followed.

FIGURE 23: REAL ESTATE MANAGEMENT COSTS



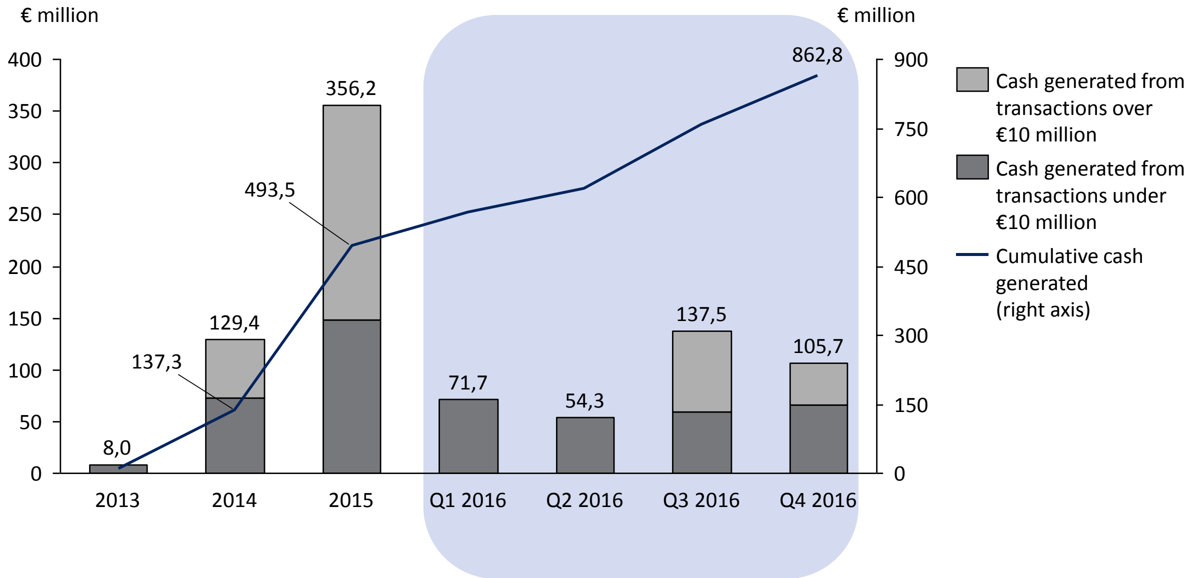
FINANCIAL OVERVIEW OF 2016

CASH GENERATED[14]

BAMC generated €369,2 million of inflows in 2016 from the management of acquired assets, which represents 18,3% of the asset transfer value[15]. Smaller (under €10 million) transactions at an average of almost €63 million per quarter provided a stable cash inflow with larger transactions completing the cash generation in the second half of the year.

2016 yearly cash generation even exceeded the one from 2015 and, since its inception until year-end 2016, BAMC generated €862,8 million in inflows (42,8% of asset transfer value) from the management of acquired assets.

FIGURE 24: CASH GENERATED



[14] Cash generated data presented here and elsewhere in the document is retrieved through "pure cash flow" principle which differs from accounting recognition of events in both timing and scope. Not all inflows may count as cash generated for the calculation of the statutory KPI.

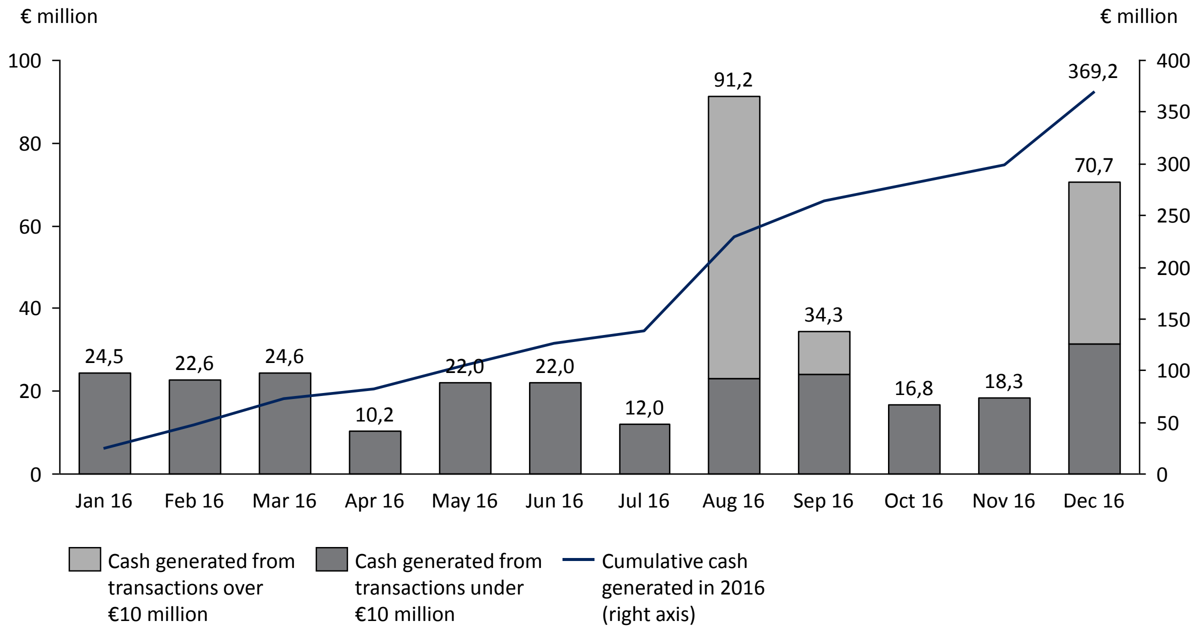
[15] Cash generated in proportion to acquired assets KPI in the amount of 18,3% is calculated as the ratio of inflows generated to the weighted value of the portfolio, where the date of transfer to BAMC is used as the weight. The same reasoning is applied to the purchases of additional exposures BAMC makes when such action is considered economically justifiable.

E.g., a hypothetical additional purchase of an exposure in the amount of €2,0 million on 30 June 2016 would be given a weight of 0,5 (effectively adding €1,0 million to the weighted value of the portfolio) for the 2016 denominator calculation as BAMC would only have half a year available for the liquidation of acquired assets (by 31 December 2016). In all subsequent years following the acquisition the transfers/purchases are included in the KPI denominator in their full value.

With the merger of Factor Banka and Probanka into BAMC in 2016 the denominator of the respective KPI increased considerably as the book values of merged claims, real estate and equity were taken as "transfer values" of additional assets acquired.

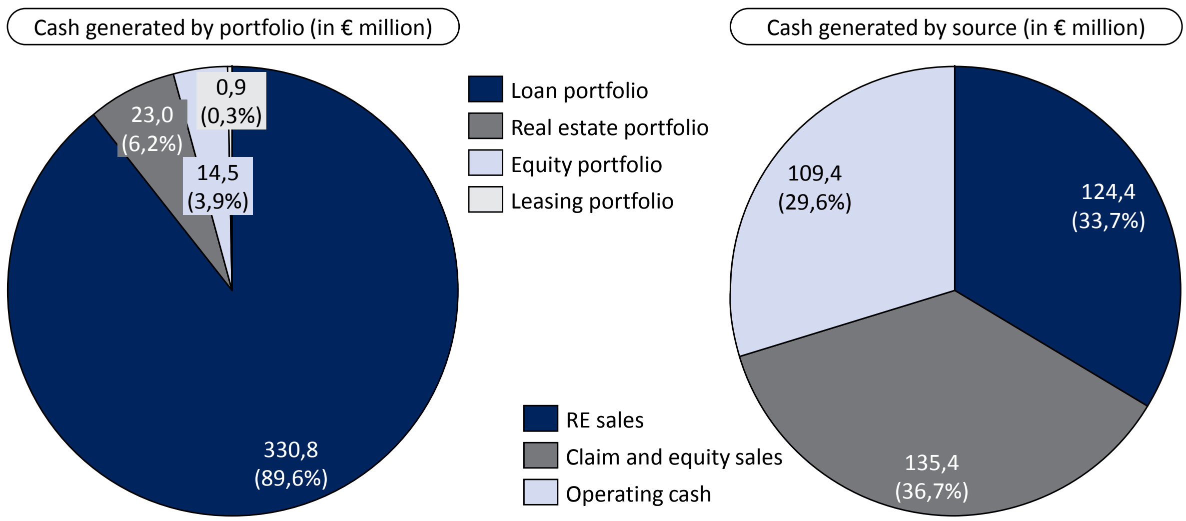
Also on an individual monthly level, smaller (under €10 million) transactions did not deviate much from the average almost €21 million per month. The largest single large transaction was the dictated transfer of Sava assets to SDH and Kapitalska družba.

Figure 25: Monthly cash generated in 2016



Portfolio-wise, a great majority of inflows came from the loan portfolio, but this included considerable sales of real estate and other assets in insolvency proceedings, establishing an almost even, third-based, partition of inflows by source.

Figure 26: 2016 cash generated by portfolio and source



Note: “RE sales” include also sales of other physical assets both from ownership as well as from cashed collateral. Similarly, “claim and equity sales” include cash generated both from ownership as well as from cashed collateral. “Operating cash” includes regular payments from debtors and sureties, rents, dividends, leasing and other inflows.

REPAYMENT OF DUT02 BOND AND THE DEBT TOWARDS THE MINISTRY OF FINANCE

At the end of 2015, after BAMC fully repaid the DUT01 bond in December, BAMC's financial liabilities amounted to €1.253,5 million. With the Factor banka and Probanka merger as of the accounting date of 1 January 2016, BAMC also acquired financial liabilities in the amount of €414,0 million, the majority of which, i.e. €369,0 million, comprised the obligation towards the Ministry of Finance created in the process of the orderly winding-down of Factor banka and Probanka in 2013.

Through active asset management operations in 2016, BAMC generated cash flows in the amount of €369,2 million, which enabled BAMC to repay the majority of its obligations towards the Ministry of Finance ahead of time (€150,0 million in April and €120,0 million in August 2016), and the remaining amount when due on 15 December 2016.

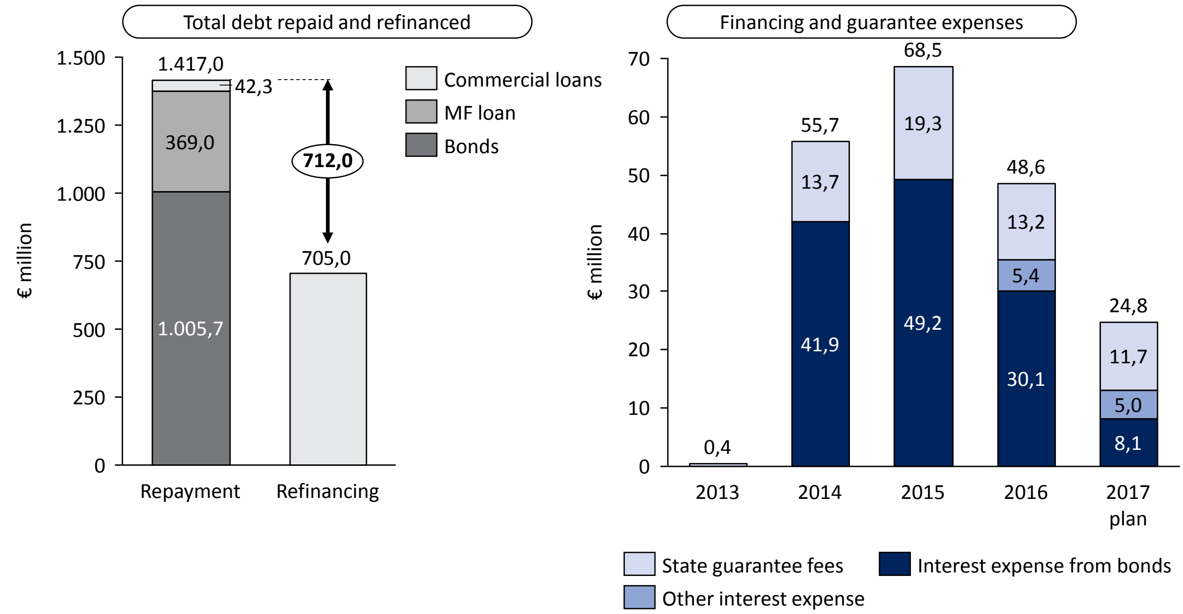
On 15 December 2016 the DUT02 bond in the amount of €503,2 million also fell due, together with interest from all three remaining bond issues in the total amount of €26,7 million. This obligation was refinanced on the commercial loan market. After selection of the best bidders in a transparent and competitive process, BAMC draw-down a long-term €150,0 million loan from Erste Group Bank AG Vienna, and a €355,0 million syndicated loan from Nova Ljubljanska banka d.d., Banka Koper d.d., NKBM d.d., Unicredit Banka Slovenija d.d. and Abanka d.d. (with Nova Ljubljanska banka d.d. as the agent) to repay the DUT02 bond. Both loans have an amortizing structure, maturing in mid-December 2021. BAMC has an option of early repayment, which gives it flexibility in managing its liquidity until 2021. The loans are secured with a state guarantee, subject to a 1% guarantee fee payable to the Republic of Slovenia.

By refinancing the DUT02 bond, BAMC was able to significantly reduce the costs of financing. The interest rates for the two loans are significantly lower than the 4,5% interest rate on the matured DUT02 bond, which came as a result of the situation at the end of 2013, when the measures to strengthen the stability of the banks were taken. BAMC's cost of financing in 2017 will thus be decreased by over €20 million.

The repayment of DUT02 bonds and full repayment of merged financial liabilities toward Ministry of Finance represents an important step in the fulfilment of BAMC's mission, as defined by the ZUKSB. Through the repayment of the aforementioned bonds, BAMC reduced its debt, repaid invested funds and thus reduced the burden on the Republic of Slovenia and its taxpayers.

Since its inception BAMC repaid already more than €1,4 billion of debt which it had to partly refinance with €705 million, still resulting in a net repayment of €712 million. BAMC paid €127 million of interest on its debt since 2013, together with €47 million of guarantee fees.

FIGURE 27: TOTAL DEBT REPAID/REFINANCED AND FINANCING EXPENSES



NOTE: Principal values without interest are reported as debt repaid. Some BAMC-held DUT bonds received as reimbursement in the transfer processes are excluded from repayments. 2017 data as planned in the BAMC Financial plan 2017-2022.

KEY PERFORMANCE INDICATORS

The Guidelines, adopted by the Government in December 2016 set forward four key performance indicators under which BAMC is considered to operate in an economical, efficient and successful manner. Next to these, BAMC follows additional indicators to better present performance throughout its lifespan. Direct comparison of 2016 and 2015 KPIs is misrepresentative due to the effect the merger of Probanka and Factor banka into BAMC has on its operations.

TABLE 6: KEY PERFORMANCE INDICATORS

KPI	Definition	Since inception (by EOY 2016)		2016	2015	2015*
		Cumulative	Average			
Guidelines-defined KPIs						
Cumulative cash generated	Absolute amount (in € million)	-	-	863	494	494
Cash generated %	Cash generated / NPAs transfer value	42,8%	14,3%	18,3%	22,0%	22,0%
EROE	Equity / invested capital with corrections - 1	31,3%	9,5%	-9,9%	25,7%	24,1%
Cost efficiency	Operating costs / average total assets	-	1,26%	1,84%	0,97%	1,01%
Additional BAMC-followed KPIs						
ROE	Net income (loss) / average equity	10,3%	3,3%	-8,0%	-5,7%	-5,7%
Funds returned to RS	Payback / RS invested assets	76,6%	-	31,8%	1,6%	28,6%
Gross funds returned to RS	Gross payback / RS invested assets	95,2%	-	31,9%	18,8%	33,4%
Debt outstanding	Debt / initial debt	-	-	64,1%	80,2%	80,2%
Guaranteed debt outstanding	Guaranteed debt / initial guaranteed debt	-	-	65,0%	80,2%	80,2%
Basic data (in € million)						
Cash generated		863	288	369	356	356
RS invested assets	Cumulative invested capital	-	-	258	204	1.767
Debt	Balance sheet debt value	-	-	1.263	1.254	1.254
Equity	Balance sheet equity value	-	-	79	115	115
Invested capital with corrections		-	-	61	88	93

GENERAL NOTES: *Data as reported in the 2015 Annual Report (hereinafter: 2015 AR). Due to changes in the methodology (see below) some KPI values have changed and are restated.
Cumulative values represent the calculations of respective items since the inception of BAMC where applicable and where the respective KPI is not a cumulative indicator by itself.
As first assets were transferred to BAMC in December 2013, 2014 is considered the first year of actual operation for BAMC. Thus, the calculation of averages takes three full years of operation into account.
The following abbreviations are used in the table: NPAs = non-performing assets, EROE = economic return on equity, ROE = return on equity, RS = Republic of Slovenia.

NOTES TO THE KPIS' DEFINITIONS:

- "Cash generated %" denominator, NPAs transfer value, has increased in 2016 due to the merger of Factor banka and Probanka into BAMC, raising the statutory 10% yearly goal in absolute terms. See footnote 15 for details.
- "Invested capital with corrections" is corrected for day-one losses and other returns of capital to the owner as well as recapitalizations. See Table 1 for details. 2015 AR calculation did not include other extraordinary returns (see "payback" below) and revaluation of real estate acquired from NKBM in 2014 as part of the initial asset transfers.
- As defined in the Guidelines, operating costs used in the calculation of "cost efficiency" exclude transaction costs, incurred in assets' sales processes. See Table 13 for details. 2015 AR calculation did not exclude transaction costs as the Guidelines were changed in 2016.
- "Payback" includes all corrections to invested capital. 2015 AR calculation additionally considered redemption of guaranteed debt, dividends and other extraordinary returns (the latter are now counted under corrections to invested capital). As part of the bond-based guaranteed debt was and most likely will be refinanced it is not correct to consider its repayment with refinancing as "payback".
- "Gross payback" includes "payback", total taxes (income tax, net VAT, tax on financial services, compensation for use of building sites [Slo. *nadomestilo za uporabo stavbnega zemljišča*] and real estate transaction tax [Slo. *davek na promet nepremičnin*]) and state guarantee fees paid. 2015 AR calculation additionally considered guaranteed-bonds' interest paid. With the exclusion of bond repayment from "payback", bonds' interest payments were also excluded from "gross payback".
- "RS invested assets" definition also changed. Now it is only cumulative invested capital, while 2015 AR calculation considered invested capital and state-guaranteed bonds. As bond repayments were removed from "payback" and bonds' interest payments were excluded from "gross payback" which are the numerators of the two "funds returned" KPIs, bond principals were removed from the numerator (being "RS invested assets") as well.
- "Initial debt" includes all debt initially raised/acquired with assets transfers. Specifically, these are the four bond issues for primary bank assets' transfers as well as liabilities towards the Ministry of Finance and some commercial banks taken over with the merger of Factor banka and Probanka into BAMC.
- "Initial guaranteed debt" excludes commercial banks' liabilities from "initial debt".

INCOME STATEMENT

Core business of BAMC is managing non-performing assets, predominantly non-performing loans, therefore BAMC's operating and financial expenses have to be covered by realised capital gains, interest income and revaluation income in order to generate profit. BAMC recorded a net loss of €7,8 million in 2016.

In order to better present business operations BAMC changed the format of its income statement[16].

TABLE 7: INCOME STATEMENT

in € thousand	1 Jan 2016 to 31 Dec 2016	1 Jan 2015 to 31 Dec 2015	Index 2016/2015
Income from loans	29.418	-4.329	-679
Income from equity instruments and bonds	29.991	89.586	33
Income from inventories	7.931	-9.913	-80
Financial expenses	-48.634	-68.536	71
Other income	272	814	33
Costs of material	-255	-53	481
Costs of services	-11.536	-8.450	137
Labour costs	-10.750	-5.944	181
Depreciation	-362	-85	426
Other expenses	-3.878	-1.408	275
Net profit/loss	**-7.803**	**-8.318**	**94**

BAMC's result for 2016 is better than in 2015 with a net loss €0,5 million lower than in the previous year. The key one-off event in 2016 was the merger of Factor banka and Probanka into BAMC. All accounting effects of the merger are accounted to retained earnings and are not influencing the net result for 2016. However, the merger also caused some direct and indirect operating costs for BAMC in the post-merger period. In H1 2016 these amounted to €1,7 million (see Table 13 for details).

[16] ZGD-1 allows a format that differs from prescribed. The changed format is in line with IFRS.

INCOME STATEMENT BREAKDOWN

Income from managing loans was €29,4 million in 2016, significantly better than in 2015 but still not sufficient to cover BAMC's financial expenses and costs of operations.

TABLE 8: RESULT FROM LOANS

in € thousand	1 Jan 2016 to 31 Dec 2016	1 Jan 2015 to 31 Dec 2015	Index 2016/2015
Capital gains/losses	54.526	29.054	188
Net revaluation result	-30.372	-35.375	86
Other income from loans	5.263	1.991	264
Total income from loans	**29.418**	**-4.329**	**-679**

Income from equity and bonds in 2016 amounted to €30,0 million with the apparent decrease from 2015 almost entirely attributable to a one-off event of booking the sale of Pivovarna Laško d.d. accounting for €45,6 million of capital gain in 2015.

TABLE 9: RESULT FROM EQUITY AND BONDS

in € thousand	1 Jan 2016 to 31 Dec 2016	1 Jan 2015 to 31 Dec 2015	Index 2016/2015
Capital gains/losses	1.637	58.472	3
Net revaluation result	26.686	24.626	108
Dividends	1.454	110	1318
Other income from equity investments and bonds	214	6.378	3
Total income from equity investments and bonds	**29.991**	**89.586**	**33**

Income from inventories relates almost entirely to inventories of real estate. The sales income of €18,2 million (the carrying amount of which was €15,0 million), €16,0 million more than in 2015, displays the positive result of accelerated sale of real estate in 2016. BAMC also generated €2,1 million from temporary renting inventory of real estate and recorded €2,6 million of increase in value of inventory of real estate due to revaluation.

As at 31 December 2016 BAMC estimated a surplus in the estimated net realisable value of inventory of real estate over the historical cost thereof in the amount of €16,8 million. In accordance with IFRS, that amount is not disclosed as revaluation income at the end of the year, but will be recognised as sales income when BAMC sells the real estate in question.

With the merger and substantial repossessions from collateralised claims, BAMC's real estate portfolio increased significantly, subsequently causing an over three-times rise in real estate management costs which are also presented here. The direct costs of managing inventory of real estate, excluding labour costs, totalled €4,0 million in 2016, and related primarily to the maintenance of real estate and taxes.

TABLE 10: RESULT FROM INVENTORIES

in € thousand	1 Jan 2016 to 31 Dec 2016	1 Jan 2015 to 31 Dec 2015	Index 2016/2015
Income from rents	2.075	448	463
Income from inventories sold	18.219	2.201	828
Cost of inventories sold	-14.957	-1.939	771
Net revaluation result from inventories	2.594	-10.623	-24
Real estate management costs	-4.028	-1.236	326
of these real estate transaction costs	-284	-22	1.288
Total result from inventories	**3.903**	**-11.150**	**-35**

NOTE: Real estate management costs included under "Costs of services" in Table 7 are included here.

Despite additional liabilities acquired from the merger of Factor banka and Probanka into BAMC, BAMC's financial expenses for 2016 were €19,9 million lower than in 2015. With the repayment of DUT01 bond in December 2015 and its partial refinancing with much less expensive borrowing from the commercial market (backed by guarantee from the Republic of Slovenia) the costs of financing reduced significantly.

TABLE 11: RESULT FROM FINANCIAL EXPENSES

in € thousand	1 Jan 2016 to 31 Dec 2016	1 Jan 2015 to 31 Dec 2015	Index 2016/2015
Interest expenses from debt securities and borrowings	-35.370	-49.273	72
Guarantee fees	-13.162	-19.263	68
Other financial expenses	-102	0	-
Total financial expenses	**-48.634**	**-68.536**	**71**

Overall, operating costs not related to real estate management costs totalled €22,8 million in 2016 and were 55% higher than in the previous year. In 2015, BAMC was still a growing organization, what is, besides the merger of Factor banka and Probanka at the beginning of 2016, the main reason of increased operating costs in 2016 compared to the previous year. During 2016, due to process optimization, and especially after the reorganization in July 2016, the operating costs were reduced.

TABLE 12: OTHER RESULT WITHOUT REAL ESTATE

in € thousand	1 Jan 2016 to 31 Dec 2016	1 Jan 2015 to 31 Dec 2015	Index 2016/2015
Other income	273	814	33
Costs of material	-255	-53	479
Costs of services	-7.508	-7.214	104
Costs of outsourced back office and accounting services	-1.180	-1.714	69
Advisory fees	-3.320	-3.501	95
of these equity transaction costs	-347	-617	56
of these merger-related costs of services	-490	-	-
Other service costs	-3.008	-1.999	150
Depreciation	-362	-84	428
Labour costs	-10.750	-5.944	181
of these merger-related labour costs	-1.258	-	-
Other expenses	-3.878	-1.407	276
Other result	**-22.481**	**-13.889**	**162**
Other result without transaction and merger-related costs	**-20.387**	**-13.272**	**154**

NOTE: Real estate management costs are not included here among "Costs of services" but in Table 10.

The largest part of costs is accounted for by costs of services, which amounted to €7,5 million, excluding real estate management costs. The highest proportion of these costs of services is accounted for by the costs of intellectual services, the majority of which were the costs of legal and notary services in the amount of €2,1 million. The costs of accounting and reporting services in 2016 amounted to €1,2 million, a decrease of 31% relative to the previous year. With merging Probanka, BAMC insourced the back office services, which had been previously provided by Probanka, for five months. In June 2016, BAMC established the technical company NPL Port to which IT and back office services related to credit management were transferred. In April, the accounting services, previously provided by Unija računovodska hiša, were fully insourced as well.

In the process of liquidating its assets BAMC also incurs transaction costs related to sales and sale-consultancy success fees. These amounted to €0,6 million in 2016 as presented in Table 13.

TABLE 13: TRANSACTION AND MERGER COSTS

Item	**Costs** (in € thousand)
Real estate transaction costs	284
Equity transaction costs	347
Total transaction costs	**631**
"Excessive" labour costs from the merger in H1 2016*1	1.258
"Excessive" attorney costs from the merger in H1 2016*2	358
Cost of due diligence and review of valuations	132
Total merger costs	**1.748**

NOTE: *1 = Excessive labour costs from the merger are calculated as the difference between labour costs in H1 2016 and H2 2016 reduced for labour costs of NPL Port employees.

*2 = Excessive attorney costs from the merger are calculated as a difference between attorney costs in H1 2016 and H2 2016.

Labour costs totalled €10,8 million in 2016, an increase of 81% relative to the previous year. Higher labour costs were the result of an increase in the number of employees, as the monthly average number of employees at BAMC was 96 in 2015 and reached 121 at the end of 2015. By merging Factor banka and Probanka the number of employees increased to 226 in February 2016, which, due to downsizing in the reorganization process, was at least partially a temporary increment. Still, the average monthly number of employees in 2016 stood at 181.[17]

Other expenses totalled €3,9 million in 2016. These costs are primarily associated with provisions for lawsuits established in 2016 and with judicial proceedings that are the result of intensive efforts to liquidate the assets of debtors in insolvency and judicial recovery proceedings.

[17] The number of employees in NPL Port, a service company to which back office services were outsourced, was 22 as the 31 December 2016.

VALUATION OF ASSETS

BAMC assesses the fair value of assets using an internal asset valuation methodology.

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

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

For small credit exposures (lower than €300 thousand gross) the Expected loss model is used. Expected loss is influenced by the estimated probability of default and the value of the potential fall-back scenario in case the default occurs. The latter represents the value of the collateral pledged for loans of each borrower.

BAMC discloses changes to the fair value of loans, real estate stock and equipment, equity investments and bonds through profit and loss as revaluation. The assessed fair values of assets represent one of the key quantitative information inputs that BAMC takes into account when adopting decisions.

For more details see Note 4 in the financial part of the annual report.

Balance sheet

Table 14: Balance sheet summary

in € million	31 Dec 2016	Merged from FB and PB 1 Jan 2016	31 Dec 2015	Index 2016/2015
Assets	1.370,4	350,0	1.374,6	100
Loans	948,1	265,3	1.091,0	87
Real estate	197,7	26,1	68,8	287
Equity	96,9	23,6	36,3	267
Cash and equivalents	122,3	25,5	167,1	73
Other	5,4	9,5	11,4	60
Liabilities	1.290,9	429,4	1.259,7	102
Bonds	548,9	0,0	1.052,5	52
Borrowings	714,6	408,0	201,0	356
Other	14,7	8,6	6,2	445
Provisions	12,8	12,8	0,0	-
Total merger effect		-79,4		
Equity	79,4		114,9	69

Note: FB = Factor banka, PB = Probanka. Fair value of merged assets is reported. “Loans” category also includes minor leasing holdings.

Assets

BAMC’s total assets practically did not change (-0,3%) in 2016 and stood at €1.370,4 million at the end of the year. The reason for this was a €350,0 million (fair value) increase at the beginning of the year due to the merger of assets from Factor banka and Probanka into BAMC. Hence, assets de facto decreased by €354,2 million in 2016. After valuating merged assets at fair value at initial recognition on 1 January 2016, the value of merged assets was revalued by €67,0 million. That was accounted for directly to equity as in-substance contribution to the owner.

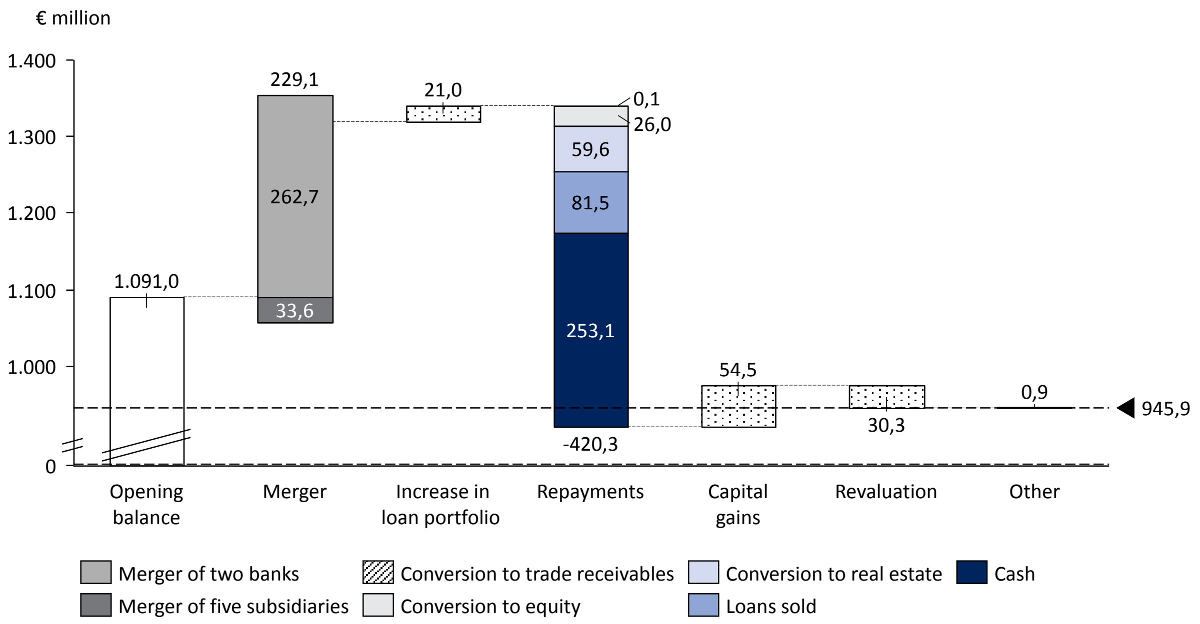
Loans

Loans accounted for the highest proportion of BAMC’s assets at the end of 2016. The value of loans totalled €948,1 million at year-end, a decrease of 13,1% relative to the balance at the end of the previous year.

Repayments of loans amounted to €420,3 million and include cash repayments in the amount of €253,1 million, €59,6 million of debt to real estate conversions and €26,0 million of debt to equity conversions. Merger of five subsidiaries on 31 March 2016 resulted mainly in replacement of loans into inventory of real estate and other assets in the amount of €33,6 million since subsidiaries had financed their assets by borrowings from Factor banka and Probanka. On the other hand, BAMC granted some new loans and purchased certain loans from other creditors which increased the total value of the loan portfolio.

With the merger of Probanka Leasing on 31 March 2016, BAMC acquired €3,5 million of leasing contracts, which are reported under loans. Due to repayments during the year the balance at the end of 2016 decreased to the amount of €2,2 million.

FIGURE 28: LOAN MOVEMENT IN 2016



INVENTORY OF REAL ESTATE AND EQUIPMENT

BAMC discloses all real estate that it holds, except fixed assets, as inventory of real estate, representing the predominant part of inventories. In accordance with IFRS, the stock of real estate is disclosed at the lower of net realisable value or its historical cost.

At the end of 2016, BAMC disclosed a carrying amount of real estate stock of €197,7 million while the estimated net realisable value of all inventory of real estate was €209,2 million. The carrying amount of real estate was up €128,9 million in 2016 due to the merged inventory of real estate from Factor banka and Probanka, conversion of banks' fixed assets into inventory real estate, conversions from loans due to merger of five subsidiaries of Factor banka and Probanka and repossessions of real estate pledged to BAMC as collateral by debtors, against whom BAMC has claims.

EQUITY INVESTMENTS

The fair value of equity investments in BAMC's ownership amounted to €96,9 million at the end of 2016. The value of equity investments increased more than twofold due to successful management, shares obtained from debt to equity swaps and merger of equity investments from Factor banka and Probanka.

TRADE AND OTHER OPERATING RECEIVABLES

Trade and other operating receivables amounted to €4,8 million at the end of 2016 which is €3,8 million less than at the end of 2015. The decrease is the consequence of refunded receivables from taxes toward the state which amounted €7,8 million at the end of previous year.

LIQUIDITY MANAGEMENT

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

BAMC had €122,3 million in cash and cash equivalents at its disposal at the end of 2016. Government's subscription of €50,0 million into capital reserves in the end of December contributed a substantial part to this level.

LIABILITIES

BAMC financed its assets at the end of 2016 mainly through debt sources, more precisely via liabilities in the amount of €1.290,9 million. The majority of liabilities are accounted for by issued bonds with Slovenian government guarantee that BAMC used to finance transfers of non-performing assets and long-term loans towards various banks for which the Republic of Slovenia bears either subsidiary liability or provides an explicit guarantee. The merger of Factor banka and Probanka increased BAMC's liabilities by €416,6 million on 1 January 2016.

LIABILITIES FROM BONDS AND LOANS

After repaying DUT02 bond in full in December 2016, BAMC had two outstanding bond issues at the end of 2016 in the amortised amount of €548,9 million.

Borrowings and other financial liabilities amounted €201,0 million at the end of 2015. With the merger of Factor banka and Probanka, BAMC merged €408,0 million of additional financial liabilities of which the majority in the amount of €369,0 million were financial liabilities towards the Ministry of Finance – these being completely repaid in 2016. At the end of 2016, amortised amount of borrowings and other financial liabilities was €714,6 million.

TABLE 15: OUTSTANDING FINANCIAL OBLIGATIONS AS AT 31 DECEMBER 2016

Financial instrument	**Amount issued** (in € million)	**Amount outstanding**	**Interest rate**	**Issued**	**Interest payment**	**Month of maturity**
DUT03 bond	424,6	422,9	1,50%	Oct 2014	Half-yearly	Dec 2017
DUT04 bond	127,0	125,8	1,38%	Dec 2014	Half-yearly	Dec 2017
Commercial loan	200,0	200,0	-	Dec 2015	Quarterly	Dec 2017
Commercial loan	-	0,1	-	upon merger	Quarterly	Mar 2017
Commercial loan	-	2,7	-	upon merger	Half-yearly	May 2018
Commercial loan	355,0	355,0	-	Dec 2016	Quarterly	Dec 2021
Commercial loan	150,0	150,0	-	Dec 2016	Half-yearly	Dec 2021

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

All financial obligations, expect the ones acquired with the merger, are guaranteed by the Republic of Slovenia.

OTHER LIABILITIES AND PROVISIONS

Other liabilities and provisions amounted to €27,5 million at 31 December 2016. The balance from the end of 2015 increased by €8,6 million at 1 January 2016 by merging other liabilities from Factor banka and Probanka. Additionally to these €12,8 million of provisions were also merged with the two banks. These comprise of provisions for potential losses on lawsuits account for €8,8 million and provisions for issued guarantees account for €3,3 million.[18]

EQUITY

BAMC's equity totalled €79,4 million at the end of 2016 which is a €35,4 million decrease from end of 2015. The reason for the decrease in equity lies primarily in negative differences between fair value of merged assets at the initial recognition and book values from merged assets from Factor banka and Probanka, negative equity of Probanka at the cut-off date and provisions for lawsuits (see page 41 for more details). Total negative effect from the merger on BAMC equity was €79,4 million and even with recapitalisations in 2016 the cumulative effect on BAMC's equity is still negative.

[18] Both of these provisions originate from Factor banka and Probanka activities before the start of the liquidation process in 2013.

Risk management

Risk management system and model

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

With the merger of Factor banka and Probanka into BAMC, BAMC was exposed to additional risk stemming from the newly-acquired types of assets, and in particular due to the liabilities and potential liabilities associated with these assets. Also, BAMC was facing additional risks as a result of having to unify the operational processes in the wake of the merger. BAMC took an active approach to eliminate most of these risks already in 2016.

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

Participants in risk management

All BAMC employees are part of the risk management system in their daily operations. However, Risk management policy ensures a systematic approach in addressing key risks. In addition, compliance provides an overview on compliance rules and standards and informs employees regarding changes in the relevant legislation and internal acts. Compliance is a key body in preparing an integrity plan, which was adopted by the Board in June 2016, and measures for identification and prevention of corruption risks and the risk of other wrongdoing or unethical conduct. Internal audit encompasses the evaluation of adequacy and effectiveness of risk management and internal controls as well as the quality of performance carrying out assigned responsibilities to achieve the organization’s stated goals and objectives and provides an overall view on risk management on all levels of BAMC.

Risk identification

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

RISK ESTIMATION

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

RISK CATALOGUE

Risk catalogue was reviewed and amended in 2016 with main identified risks together with their estimation, mitigation and monitoring of impact of risks over time. Risk catalogue represents identified risks based on estimation of heads of departments, identified loss events, performed surveys among employees and is reviewed on a monthly basis. Each identified risk has a determined risk mitigation, total estimation of risk is regularly monitored.

LOSS EVENTS MONITORING

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

RISK AND COMPLIANCE MANAGEMENT COMMITTEE

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

INTERNAL CONTROL SYSTEM

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

Internal audit

The internal audit by definition is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Following this definition, the objective of BAMC's internal audit function is to represent a value adding activity to the company and helping the company achieve its goals. The internal audit function is reporting directly to the Board, which approves its audit charter, audit plan as well as budget and resource plan. The work of internal audit function adheres to the mandatory guidance of The Institute of Internal Auditors and The Slovenian Institute of Auditors.

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

Internal audit in BAMC started in the last quarter of 2014, when an internal auditor was hired. Key activities in 2015 included preparation and acceptance of Charter of Internal Audit Function, start of internal audit assignments, following the approved IAF's plan for 2015 and preparation and issuance of first internal audit reports. From the start internal audit was in BAMC an important partner in development and optimization of processes in the company.

Although merger of the two banks in liquidation process was discussed, no decision was accepted when the initial 2016 plan of internal audit work in BAMC was prepared. The plan was built on work completed in 2015, with continued focus on areas that had no or limited prior audit coverage. The plan anticipated the internal audit headcount of 2 people, as additional internal auditor joined BAMC at the end of 2015.

The merger of the two banks brought considerable changes in BAMC's organization and its processes. The reorganization that followed brought interference in the planned activities and IAF's 2016 plan was in mid-year revised and adjusted to reflect these changes. Departures from plan continued in the second part of the year (extended extraordinary assignment, changes in headcount etc.). Frequent disruptions were the main detriment to the internal audit work, while the independence of the IAF, its selection of the work, findings and recommendations were not impaired.

In 2016 completed internal audit work includes several cases audits; two planned audits of recovery and restructuring case and an extended extraordinary assignment in which several cases were reviewed. An important segment of audit work in 2016 represent two audits focused at information technology and applications BAMC is using. The first IT audit was completed just after the merger and amidst major organizational changes, while the second audit considered BAMC after all of the organizational changes.

All IAF's documentation, templates developed and approaches and methodologies used in prior years were gathered and organized in an IAF's Manual, which was accepted into use in early 2017. Through the whole year Head of Internal Audit extensively supported investigation work that started in the two merged banks and which BAMC is, parallel to investigations under ZUKSB, required to proceed.

In the last quarter of the year two internal audit job positions were announced, after the review, selection of received applications and two rounds of interviews, two new colleagues joined at the start of 2017. It is expected that in 2017 the BAMC's IAF direction to cover the areas with no or limited audit coverage will continue, with special attention to be given to the segment of real estate, both collateral as well as BAMC's inventory real estate.

Key risks and their mitigation

Most important identified risks categorised as strategy, operational, reputational and financial risks are presented below. More detailed and quantified presentation of risks is given in Note 28 in the financial part of the annual report.

Strategy risks

Risk of unsuccessful implementation of the optimal restructuring strategy

Estimated risk exposure

Very low	Low	Medium	High	Very high

BAMC denoted 81 indebted companies with a restructuring strategy at the end of 2016. BAMC will opt for the restructuring strategy in cases where financial and operational restructuring would yield a higher value compared to the disposal value of the collateral. There is a risk, however, that the restructuring will not be successful and that the recovery strategy will have to be used instead, or that the planned cash flows will not materialise in the amount and/or timing planned which would result in lower result from loans. This risk can materialise either due to developments in the macroeconomic environment or due to failed financial, and in most cases strategic and operational restructuring of the debtors. BAMC is managing this risk by active case management, corporate governance and strict performance monitoring of restructuring cases. For more details see Note 28.2 in the financial part of the annual report.

Operational risks

Risk of error in legal proceedings

Estimated risk exposure

Very low	Low	Medium	High	Very high

Particularly in debtor companies where BAMC is implementing the recovery strategy there is a risk that BAMC might miss the deadlines in judicial procedures involving foreclosure. BAMC may thus lose its rights to repayment through disposal of collateral. In order to lower that risk, a four-eye principle was introduced which inlcudes the involvement of a lawer and case manager.

Reputational risk

Estimated risk exposure

Very low	Low	Medium	High	Very high

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

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

BAMC strengthened its public relation activities in 2016 by proactively informing stakeholders and media on its activities.

Financial risks

Liquidity risk

Estimated risk exposure

Very low	Low	Medium	High	Very high

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

In December 2017, two bond issues and a commercial loan mature in the total amount of €748,7 million. Additionally, over €100 million of debt from two commercial loans taken in December 2016 amortize in 2017. BAMC is planning to repay its obligations with liquidity reserves generated from asset management and part by refinancing with state guarantee. See Note 28.3 in the financial part of the annual report for more detials.

BAMC SHARE

As at 31 December 2016 BAMC had share capital in the amount of €104.117.500 recorded in the companies register, comprising 104.117.500 ordinary, freely transferable, no-par-value registered shares. Each no-par value share has the same holding, and the same corresponding amount in the share capital. All the issued shares were paid up in full.

In July 2016, the share capital increased for €4.610.000 through in-kind contribution of Republic of Slovenia for exchange of 2.305.000 newly issued ordinary freely exchangeable no-par value registered shares.

In December 2016, BAMC's general assembly made the decision to denominate of the par value per share and reduce the share capital from €208.235.000 to €104.117.500 which created €104.117.500 of capital reserves.

TABLE 16: BASIC INFORMATION ON BAMC'S SHARE

Ticker symbol	DUTR
Class	ordinary, freely transferable, no-par value registered shares
Exchange quotation	not quoted
Share capital	€104.117.500
Number of shares	104.117.500
Number of shareholders	1
Owner	Republic of Slovenia

NOTE: Data as at 31 December 2016.

There were no changes in the ownership structure in 2016.

ORGANISATION AND SUPPORTING ACTIVITIES

HUMAN RESOURCES

One of the objectives of the BAMC has been to establish a company with highly professional, motivated, highly ethical staff who show a high degree of self-initiative and independence. High professionalism and high quality corporate governance lead to the realisation of strategic goals and help to maximize overall value to the Republic of Slovenia.

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

Despite the disclosure in accordance with the third paragraph of Article 70 of ZGD-1 that BAMC does not have an explicit diversity policy in place, the representation of women at managerial positions (directors and heads) stands at 39%.

RECRUITMENT

As a result of the merger of Factor banka and Probanka and the resulting transfer of claims, assets and employees, as well as insourcing of services previously provided by external vendors, BAMC's headcount has increased by 34% in 2016, from 121 to 162, out of which 144 are employed on an indefinite time basis, and 18 are employed on a temporary basis.

The greatest degree of change in the number of employees occurred in the support-related organizational units, which is mainly due to the merger of two banks and insourcing of legal, accounting, IT, public procurement and marketing & public relations functions. The second largest increase in the number of employees occurred in the Credit & Workout organizational unit, as a result of the increased caseload from the two merged banks. Within the organizational unit Management, the new organizational unit of Corporate Security was established, and the Internal Audit function was also expanded by adding new resources.

In 2016, BAMC underwent a reorganization process, where lower-level organizational units were transitioning between higher-level organizational units. An example of such transition is Legal Support to Claims and Asset Management, which was moved from under the organizational unit Credit Management and Workout into the organizational unit Support. The organizational units Legal Counsel to the Board and Compliance were moved from the organizational unit Support under the organizational unit Management, and a new organizational unit Corporate Security was also formed within the organizational unit Management. The above should be observed when interpreting the end-year organizational unit numbers, as presented below.

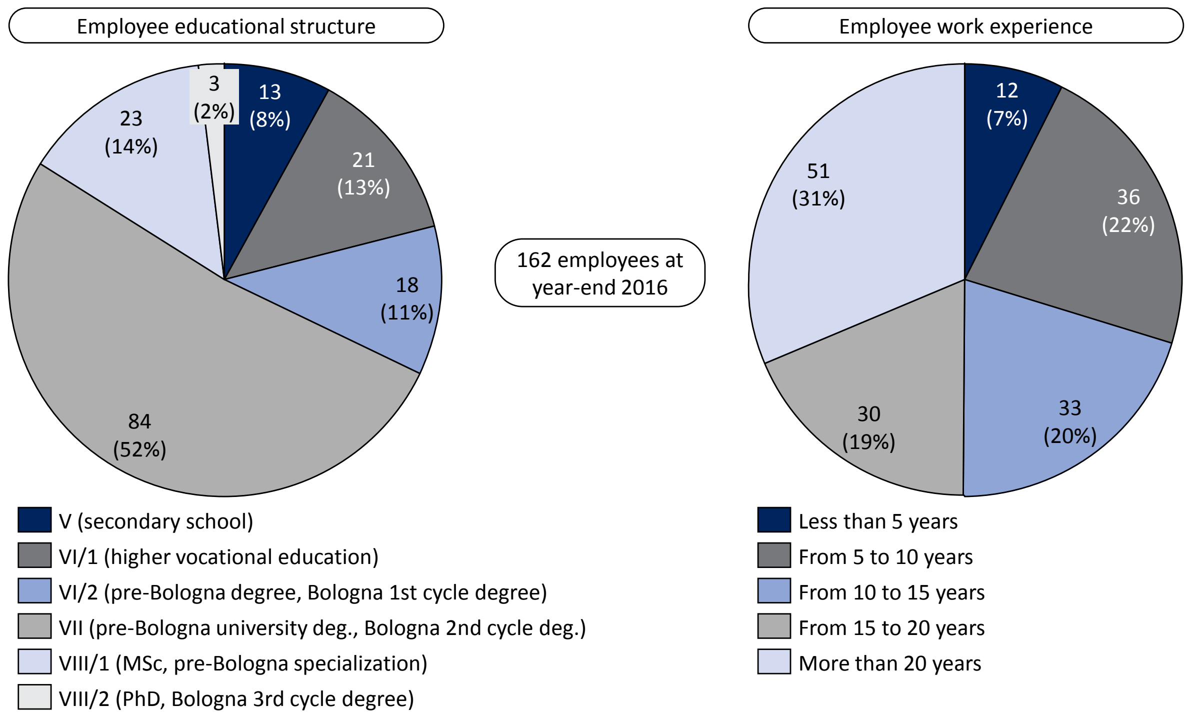
TABLE 17: HEADCOUNT BY ORGANIZATIONAL UNIT

Organizational unit	Total employees		Core employees	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Credit management	58	55	55	53
Asset management	35	36	32	20
Support	46	24	40	23
Management	11	6	11	6
Uncategorized (employees in the downsizing process)	12	0	7	0
Total	**162**	**121**	**145**	**102**

NOTE: Core employees relate to staff not employed in temporary projects.

BAMC has a team of 60% women and 40% men. 68% of its staff hold a university degree, out of these 16% with a master's of science or a doctorate, which is a sound basis for decision-making based on expertise. The average age of the staff is 41, which is reflected in dynamism and responsiveness of the team. BAMC has a seasoned team, with an average of 15 years of working experience with maturity being a valued component as 31% of staff have more than 20 years of working experience. The information on staff breakdown is valid as at 31 December 2016.

FIGURE 29: EDUCATION AND WORK EXPERIENCE OF EMPLOYEES



In 2016, BAMC's main HR activities involved supporting the process of the merger of the two banks, change management, reorganization of the company, and executing the redundancy program. In order to increase the organization's governance quality and stability in the reorganization process, the mid-level management team was strengthened, the management selection process was enhanced by carrying out an independent psychometric evaluation, and the first steps towards establishing continuity by introducing a formal succession system was made by appointing three deputy heads. Important processes in 2016 were also developing of performance management and internal transfer of knowledge.

INTEGRITY AND ETHICS

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

BAMC will apply the zero tolerance principle to unlawful and unethical conduct of employees and business partners. Since August 2015 BAMC is also a holder of the Anti-corruption Compliance System Certificate by the French agency ETHIC Intelligence. The certificate is awarded only after a comprehensive program has been successfully implemented and the BAMC program was designed to effectively take into account the recommendations of the Court of Audit and the Commission for the Prevention of Corruption.

BAMC continually strives to ensure compliance and eliminate corruption risks and places great emphasis on education of employees. In this respect an internal e-learning program was launched on compliance, integrity, corruption prevention etc. issues. In June 2016 the Board has adopted the Integrity plan of BAMC based on Act on Integrity and Corruption Prevention (ZIntPK), a tool for establishing and verifying the integrity of the organization. The Integrity plan was published on BAMC website and on the intranet.

INFORMATION TECHNOLOGY

With the merger of Factor banka and Probanka, 2016 was a very demanding year, full of changes in all areas of information technology. Decisions had to be made with regard to the new IT architecture, diverse IT solutions had to be integrated and consolidated, operability of electronic archives from the merged banks had to be ensured, and contracts with IT service providers had to be rearranged. The number of IT users more than doubled during this period.

In terms of application management, BAMC continued development of proprietary solutions based on the goals set in the preceding year. In this way the decision-making processes in credit and investment committees were supported and registration in functionalities covering anti-money laundering legislation demands was introduced as well. Insourcing of accounting services which were previously outsourced also resulted in additional activities to support these processes. The accounting system and invoice processing system migration was carried out in April 2016.

The area of IT infrastructure therefore underwent a great deal of changes. The entire infrastructure of Factor banka was transferred and integrated into BAMC, increasing the reliability and capacity of the

IT infrastructure. At the same time, the entire bank system of Factor banka was also transferred, which became the archive system of BAMC.

After establishing NPL Port in June 2016 the IT infrastructure and credit management software were invested into NPL Port which started providing IT support for the credit management software and archive systems of ex-Probanka.

From the perspective of the IT system security, a secondary IT location was set up in the Maribor business unit, where backup copies are kept and certain services provided. Following the reorganization, user groups and user rights in the IT system were also reorganized.

Public relations

The goal of corporate communications in BAMC is to provide support in the course of implementation of BAMC's strategic goals. This is done by promoting awareness about the company's role and mission and educating interested audiences about the processes involved in turning non-performing assets into performing ones.

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

Communication in 2016 was thus primarily focused on supporting BAMC's core business through presenting the results of its activities and explaining management processes in closed cases. After a few turbulent years, in 2016 BAMC moderated its media relations, so the media reports shifted from negative towards more neutral. Case and asset management operations required comprehensive communications with other key stakeholders, as well: decision-makers, business audiences, investors, opinion-leaders, local communities and employees.

Access to information of public nature

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

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

BAMC received a few requests for access to information of a public nature in 2016, which related mainly to individual sales of assets managed by BAMC. BAMC reviews each such request in detail and with the requisite expertise, and decides on the request in accordance with law.

OUTSOURCED SERVICES

After the merger of Factor banka and Probanka, due to a number of new employees from the two merged banks, the conditions were met which allowed BAMC to insource its accounting in early April 2016, which were previously outsourced to Unija računovodska hiša d.o.o. In 2016, BAMC spent €49 thousand on accounting services and assistance with the data migration into the BAMC information system.

In addition, the merger of Probanka to BAMC also included the arrival of Probanka employees, who had previously provided BAMC with back office and IT services to support loan portfolio management operations. This resulted in BAMC insourcing these services. Later, in June 2016 NPL Port., a technical servicing company, 100% owned by BAMC, was established and has begun operations. The company is providing loan portfolio back office and IT services to BAMC with the plan to attract more external customers, making use of the economies of scale, and to be sold on the market in the future. In 2016, BAMC paid NPL Port €868 thousand for services rendered.

REPORTING ON SUSPICIONS OF CRIMINAL ACTIVITIES

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

BAMC is making efforts to successfully and comprehensively collaborate with law enforcement bodies and therefore cooperates with the National Investigation Bureau (hereinafter: NPU) and the Specialized State Prosecutor's Office of the Republic of Slovenia. BAMC has registered 13 additional irregularities in 2016, bringing the total number to 57 so far. In accordance with the agreed and established way of communication, BAMC frequently requests additional information from NPU regarding the name of cases/matters where criminal investigation was already initiated. BAMC has prepared four criminal incidents in 2016 (nine in total since inception), which were reported to the Criminal Police Directorate for further investigation.

In May 2016 BAMC created a permanent investigation team, to ensure that the investigative procedures of the former Probanka and Factor banka are successfully completed and that all cases managed by BAMC are systematically monitored in terms of suspicious activity.

At the end of 2016, the task force for the investigation of irregularities was renamed into Corporate Security. The tasks of Corporate Security are:

- investigation of all irregularities or suspected criminal activities except those which are reported through “whistleblowing”,
- internal security of the BAMC.

Corporate security communicates with the police and other law enforcement bodies on all levels, provides and disseminates orders regarding (non-)participation in judicial (criminal) procedures and prepares formal criminal complaints to the authorities.

COURT OF AUDIT COOPERATION

In 2016 the Court of Audit began its audit of BAMC’s operations in 2014 and 2015. In order to facilitate easier and faster cooperation some of the Court of Audit employees were working directly at BAMC’s premises and a standardised communication channel was agreed and established. In 2016 BAMC received 28 information requests from the Court of Audit containing 1.131 questions and sub-questions, and has tried to be as prompt as possible in providing answers, explanations and documentation requested.

All in all, over 40.000 pages of documents have been handed over to the Court of Audit. BAMC estimates that around 3.400 working hours have been spent on the preparation of requested documentation in 2016, an equivalent of two permanent employees working exclusively for this purpose. The costs of two average yearly gross salaries together with outsourced translation services required in the process amount to more than €100 thousand.

AMENDMENTS OF ZUKSB

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

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

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

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

Additionally amended Guidelines were adopted by the Government in December 2016 also setting the new KPI target values and extending the reporting requirements of BAMC.

FINANCIAL STATEMENTS OF BAMC FOR THE PERIOD 1 JANUARY 2016 TO 31 DECEMBER 2016

TRANSLATION OF THE ORIGINAL FINANCIAL STATEMENTS PREPARED IN SLOVENIAN LANGUAGE.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

The management hereby confirms that the relevant accounting policies were consistently applied in the compilation of the financial statements. The accounting estimates were made according to the principle of prudence and the diligence of a good manager. The management confirms that the financial statements, prepared in accordance with ZUKSB-A Article 4 (3) & (5), present fairly, in all material respects, the financial position of BAMC and of the outcomes of its operations for the period from 1 January 2016 to 31 December 2016.

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

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

Ljubljana, 20 April 2017

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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Independent Auditor's Report

To the owner of DUTB, d.d.

Opinion

We have audited the financial statements of the DUTB,d.d.("the Company"), which comprise the balance sheet as of 31 December 2016, the income statement, statements of other comprehensive income, cash flows, and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements as at 31 December 2016 are prepared in all material respects, in accordance with the accounting requirements of the ZUKSB-A.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of Financial Statements* section of our report. We are independent of the Company in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of the matter

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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<table>
<tr><th colspan="2">Valuation of financial assets at fair value through profit or loss</th></tr>
<tr><td colspan="2">The carrying amount of financial assets at fair value through profit or loss as at 31 December 2016: EUR 1.045.060 thousand (2015: EUR 1.127.353 thousand); income from loans - net revaluation for 2016: EUR -30.371 thousand (2015: EUR -35.374 thousand): income from equity investments and bonds – net revaluation for 2016: EUR 26.686 thousand (2015: EUR 24.626 thousand).

We refer to the financial statements: note 3.3. Financial assets at fair value through profit or loss, note 4 A Methodology for valuation of loans and 4 B Methodology for valuation of equity investments (accounting policy); note 6 Financial assets at fair value through profit or loss – Loans, note 7 Financial assets at fair value through profit or loss - equity investments and bonds, note 19 income from loans and note 20 Income from equity investments and bonds (disclosures).</td></tr>
<tr><td>Key audit matter</td><td>Our response</td></tr>
<tr><td>The financial assets at fair value through profit or loss include loans and equity investments.

The loans portfolio represents 69% of the carrying value of the Company's total assets. The above mentioned loans are classified as financial assets at fair value through profit or loss, with their valuation based on the Binominal Option Pricing Model, which uses unobservable inputs. The inputs to which the valuations are most sensitive are disclosed in note 4 of the financial statements.

A key unobservable input in the valuation methodology is the estimation of the probability of realization. For each debtor two possible scenarios, restructuring and recovery, are considered and future cash flows are estimated accordingly.

The equity investments, including equity shares in unlisted companies, represent 7% of the carrying value of the Company's total assets. The majority of the portfolio requires significant management judgments in determining valuation inputs. The inputs with the most significant impact on these valuations are disclosed in note 4.

We identified the valuation of financial instruments at fair value through profit or loss as a key audit matter due to the significance of the balance to the financial statements, combined with significant judgment involved in determining fair value.</td><td>Our audit procedures included, among others:
• Assessing whether the valuation methodology is appropriate.
• Testing whether the valuation process is designed in accordance with methodology, covering key procedures and controls.
• Testing design, implementation and effectiveness of controls over the input data, used in the valuation model.

<u>Loans</u>
• Selecting a sample of loans which included the most significant loans and those with significant changes in fair values from previous year. On a sample basis, independently challenging the appropriateness and reasonableness of estimated cash flows used as an input in the valuation model, and value of collateral.
• Independently challenging the discount rate used.
• Assisted by our own valuation specialists, assessing the appropriateness of the techniques and underling data used in valuation of equity investments as collateral, which enters into the loan valuation model.
• Assisted by external appraisal specialist, assessing the appropriateness of the techniques used in valuation of real estate collateral.
• Testing the Company's sensitivity analysis of the valuations to changes in key model assumptions and assessed the appropriateness of the related disclosures.

<u>Equity investments</u>
On a sample of most significant non-listed equity investments and assisted by our own valuation specialists we:
• Assessed the appropriateness of the underling data used in the valuations;
• challenged the reasonableness of key assumptions used in the valuations, such as growth rates, WACC, earnings multiples and we performed analysis to confirm that these multiples were within an appropriate range with reference to other comparable company multiples;</td></tr>
</table>

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Valuation of inventories of property and equipment	
The carrying value of inventories of property and equipment as at 31 December 2016: EUR 197.677 thousand (2015 EUR 68.762 thousand); income from inventories of property and equipment – net write-downs and reversal of write-downs in 2016: EUR 2.594 thousand (2015 EUR - 10.623 thousand); We refer to the financial statement: note 3.4 Inventories of property and equipment, note 4 C Methodology for valuation of real estate (accounting policy); note 9 Inventories of property and equipment, note 21 income from inventories of property and equipment (disclosures).	
Key audit matter	Our response
The inventories of property and equipment represent 14, 4% of the carrying value of the Company's total assets. The inventories are measured at lower of cost and net realizable value. The majority of the portfolio involves significant management judgments in determining valuation inputs in determining net realizable value. We identified the valuation of inventories of property and equipment as representing a key audit matter due to the judgement associated with determining net realizable value.	Our audit procedures included, among others: • Assessing whether the valuation methodology is appropriate. Testing whether the valuation process is designed in accordance with methodology covering key procedures and controls with respect to the determination of net realizable value. • Assisted by external appraisal specialist, assessing the appropriateness of the techniques used to determine net realizable value of the real estate portfolio. On a sample of the most significant items of real estate, our external appraisal specialist compared inputs used in determining net realizable value to market data and property-specific information to assess the appropriateness of these judgements and estimates.

Merger with Probanka and Factor banka	
We Refer to the financial statement: note 33 Merger (disclosures)	
Key audit matter	Our response
On 19 February 2016 the merger of Factor Banka and Probanka with BAMC was registered at court register, with an effective date of 1 January 2016. The Company performed a valuation of the assets and liabilities of these entities at their fair values as of 1 January 2016. The fair value of transferred assets amounted to TEUR 350.016 and liabilities amounted to TEUR 429.365. The majority of the acquired assets represent loans, equity investments and real estate. The majority of the liabilities represent financial liabilities. We identified the merger of Probanka and Factor Banka as a key audit matter due to the significance of the value of assets and liabilities to the financial statements, combined with significant estimates and judgment involved in determining the fair value at the acquisition date and appropriate accounting for the merger.	Our audit procedures included, among others: • Assessed the appropriateness of accounting treatment of the merger. • On a sample basis, independently challenging the appropriateness and reasonableness of cash flows applied as inputs into the valuation model, discount rates used and value of collateral. • Assisted by our own valuation specialists, assessing the appropriateness of the techniques and underling data used in valuation of collateral, which were applied as inputs in the loan valuation model at the acquisition date. • Assisted by external appraisal specialist, assessing the appropriateness of the techniques used to fair value the real estate portfolio at the acquisition date. On a sample of the most significant items of real estate, our external appraisal specialist compared inputs used in determining fair value to market data and property-specific information to assess the appropriateness of these judgements and estimates.

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Other Information

Management is responsible for other information. The other information comprises the Highlights and summary of 2016, Letter from the CEO, Report of the board of directors for 2016, presentation of BAMC, status of NPLS in Slovenia and Business Report included in the Annual report, but does not include the financial statements and our auditor's report thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report we have considered whether the Business Report includes the disclosures required by the Company's Act (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the financial statements are prepared, is consistent with the financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this respect.

Responsibility of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using of the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

On behalf of the auditing company

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

Barbara Kunc	Katarina Sitar Šuštar, MBA
Certified auditor	*Certified auditor*
Partner	*Partner*

Ljubljana, 25 April 2017

FINANCIAL STATEMENTS

BALANCE SHEET OF BAMC FOR YEAR ENDED AS AT 31 DECEMBER

in € thousand	Note	31 Dec 2016	31 Dec 2015
Intangible assets		213	22
Property, plant and equipment	5	139	156
Financial assets at fair value through profit or loss		1.045.060	1.127.353
Loans	6	948.115	1.091.006
Equity investments and bonds	7	96.945	36.347
Available for sale financial assets	8	0	3.278
Inventories of property and equipment	9	197.677	68.762
Trade and other operating receivables	10	4.768	8.522
Deferred costs		280	361
Cash and cash equivalents	11	122.261	166.132
Total assets		**1.370.398**	**1.374.586**
Total Equity	12	79.443	114.867
Share capital		104.118	203.625
Capital reserves		154.117	0
Accumulated losses		-178.792	-88.758
Total liabilities		1.290.955	1.259.719
Debt securities	13	548.855	1.052.538
Borrowings	14	714.555	200.990
Trade and other operating payables	15	12.199	5.266
Provisions	16	12.824	0
Other liabilities	17	2.522	925
Total equity and liabilities		**1.370.398**	**1.374.586**

The notes to the financial statements on pages 100-164are an integral part of the financial statements.

INCOME STATEMENT OF BAMC FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER

in € thousand	Note	1 Jan to 31 Dec 2016	1 Jan to 31 Dec 2015
Income from loans	19	29.418	-4.329
Income from equity instruments and bonds	20	29.991	89.586
Income from inventories of property and equipment	21	7.931	-9.913
Financial expenses	22	-48.634	-68.536
Other income		272	814
Cost of material		-255	-53
Cost of services	23	-11.536	-8.450
Payroll costs	24	-10.750	-5.944
Depreciation		-362	-85
Other expenses	25	-3.878	-1.408
Profit / Loss before tax		**-7.803**	**-8.318**
Income tax expense	26	0	0
Net profit / loss for the period		**-7.803**	**-8.318**
Attributable to owners		-7.803	-8.318
Basic and diluted earnings per share		-0,08	-0,08

The notes to the financial statements on pages 100-164 are an integral part of the financial statements.

Statement of other comprehensive income of BAMC for the period from 1 January to 31 December

in € thousand	1 Jan to 31 Dec 2016	1 Jan to 31 Dec 2015
Net profit / loss for the period	**-7.803**	**-8.318**
Items that are reclassified to profit or loss (revaluation surplus of financial assets available for sale)	0	-58.635
Income tax relating to revaluation surplus of financial assets available for sale	0	9.968
Other comprehensive income for the period, net of tax	**0**	**-48.667**
Total comprehensive gain / loss for the period attributable to owners	**-7.803**	**-56.985**

The notes to the financial statements on pages 100-164 are an integral part of the financial statements.

Statement of changes in equity of BAMC for the period from 1 January to 31 December

in € thousand	Note	Share Capital	Capital Reserves	Accumulated loss	Total Equity
Balance as at 1 January 2016	**12**	**203.625**	**0**	**-88.758**	**114.867**
Transactions with owner		-99.507	154.117	-82.231	-27.621
Merger	12	0	0	-80.721	-80.721
Recapitalization	12	4.610	0	-1.510	3.100
Decrease in share capital	12	-104.117	104.117	0	0
Payment in capital reserves	12	0	50.000	0	50.000
Total comprehensive loss for the period after tax	12	0	0	-7.803	-7.803
Net profit / loss for the period		0	0	-7.803	-7.803
Balance as at 31 December 2016	**12**	**104.118**	**154.117**	**-178.792**	**79.443**

in € thousand	Note	Share Capital	Revaluation Reserves	Accumulated loss	Total Equity
Balance as at 1 January 2015	**12**	**203.625**	**48.667**	**-77.217**	**175.075**
Transaction with owner		0	0	-3.221	-3.221
Acquisition of loans	12	0	0	-3.221	-3.221
Total comprehensive loss for the period after tax	12	0	-48.667	8.318	-56.985
Net profit / loss for the period	12	0	0	-8.318	-8.318
Items that are reclassified to profit or loss, after tax	12	0	-48.667	0	-48.667
Balance as at 31 December 2015	**12**	**203.625**	**0**	**-88.758**	**114.867**

The notes to the financial statements on pages 100-164 are an integral part of the financial statements.

Statement of cash flows of BAMC for the period from 1 January to 31 December

in € thousand	Note	1 Jan to 31 Dec 2016	1 Jan to 31 Dec 2015
Cash flow from operating activities			
Loss		-7.803	-8.318
Adjustments for:			
Write off of fixed assets		35	0
Amortization and depreciation		362	84
Reversal of write down of inventories	9	-2.594	10.623
Foreign exchange differences		-544	-1.453
Interest	22	48.634	69.130
		38.090	**70.066**
Changes in:			
Loans and receivables	6	379.995	314.099
Equity investments	7	-36.762	-27.720
Available for sale financial assets	8	3.278	158.308
Inventories of property and equipment	9	-68.580	-28.046
Trade and other operating receivables	10	13.006	-6.890
Deferred costs		459	-128
Trade and other operating payables	15	4.852	-5.258
Provisions	16	-948	0
Other liabilities	17	-541	15
Net cash from operating activities		**332.849**	**474.446**
Cash flow from investing activities			
Purchase of equipment and intangible assets		-107	-74
Net cash flow from investing activities		**-107**	**-74**
Cash flow from financing activities			
Proceeds in capital reserves	12	50.000	0
Increase of borrowings	14	505.000	200.000
Repayment of borrowings	14	-406.211	0
Redemption of debt securities	13	-503.200	-502.500
Interest paid		-48.634	-69.130
Net cash flow from financing activities		**-403.045**	**-371.630**
Net increase (decrease) in cash and cash equivalents		**-70.303**	**102.742**
Cash and cash equivalents from merger		**26.432**	**0**
Cash and cash equivalents at the beginning of year	**11**	**166.132**	**63.390**
Cash and cash equivalents at the end of year	**11**	**122.261**	**166.132**

The notes to the financial statements on pages 100-164 are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

TABLE: BASIC COMPANY DATA ON 31 DECEMBER 2016

Full company name	Družba za upravljanje terjatev, d.d. Bank Assets Management Company
Short company name	DUTB, d.d. BAMC
Registered office	Davčna ulica 1, 1000 Ljubljana
Telephone	+386 820 542 35
Fax	+386 1 429 38 59
E-mail	info@dutb.eu
Website	www.dutb.eu
Core business	Activities of collection agencies and credit bureaus
Registration entry	2013/11708, District Court of Ljubljana
Company ID number	6339620000
Tax number	41251482
VAT number	SI41251482
Share capital	€104.117.500,00
Number of shares	104.117.500 ordinary no-par value shares
Non-executive directors as at 31 December 2016	Marko Simoneti, Chairman of the Board of Directors Janez Širovnik, Deputy Chairman of the Board of Directors Juan Barba Silvela
Executive directors as at 31 December 2016	Imre Balogh, CEO Janez Škrubej, CAM Aleš Koršič, CAO

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

The Act Regulating Measures of the Republic of Slovenia to Strengthen the Stability of Banks (ZUKSB), which entered into force at the end of 2012, provides the legal basis for BAMC's operations. The BAMC was established with a specific statutory mandate until the end of December 2017, extended until the end of 2022 by virtue of the amended ZUKSB.

The first task of the BAMC was to relieve distressed banks by taking over the non-performing assets, predominantly non-performing loans (NPLs). These were mainly loans granted in the past by these banks that were not being serviced by the debtors due to the economic crisis and other reasons. As a consequence, the banks made impairments for expected losses, which eroded their respective capital bases. This was reflected in the lack of capital for normal operations. In accordance with the government's decision, in 2013 and 2014, BAMC acquired non-performing assets from four distressed banks (NLB, NKBM, Abanka, Banka Celje) in order to maximize the recovery value of the asset and exit from assets at the best achievable price. The ZUSKB requires BAMC to realize at least 10% of the transfer value of the transferred assets each year.

MERGER OF FACTOR BANKA AND PROBANKA

On 19 February 2016, Factor banka d.d., Ljubljana and Probanka d.d., Maribor were merged into BAMC, the effective date was 1 January 2016. The transactions was accounted for as asset acquisitions in which the cost of acquisition was allocated between the individual identifiable assets and liabilities in the group based on their relative fair values at the date of acquisition. Consequently, BAMC re-measured all transferred assets and liabilities at their respective fair values. Hereinafter, the term "merger" is used for the transaction.

Both banks were in an orderly winding-down procedure since September 2013. By merging Factor banka and Probanka, BAMC effectively became the direct owner of five subsidiaries registered in Slovenia, as well. In May and June 2016, BAMC absorbed all five subsidiaries as of the effective date of 31 March 2016, effectively simplifying the process of managing the merged assets.

More information about the effects of the merger is presented in Note 33.

VALUATION OF ASSETS AT INITIAL RECOGNITION

According to the ZUKSB and the Decree on the Implementation of Measures to Strengthen the Stability of Banks (the Decree), the acquisition price of loans and receivables transferred in 2013 and 2014 from four banks of systemic importance (NLB, NKBM, Abanka and Banka Celje) was determined by the state and the European Commission. BAMC was not involved in the process of determination of the acquisition prices. 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, which 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 the management and financing costs. BAMC followed the guidance of IAS 39 and IFRS 13 which requires all financial assets to be recognized initially at fair value. All transferred assets were valued at fair value using an internal asset valuation methodology. The differences between the transfer values (acquisition prices) and fair values were recognized in retained earnings as a transactions with the owner.

FINANCING OF ASSET ACQUISITION

BAMC issued four series of state-guaranteed bonds for each exchange of the NPLs transferred from banks (NLB, NKBM, Abanka, Banka Celje) in years 2013 and 2014. The bonds were at their issuance listed on the Ljubljana Stock Exchange and were also accepted as collateral for the Eurosystem liquidity operations.

On 23 August 2016 BAMC listed DUT03 and DUT04 bonds on the non-regulated Third market of the Vienna Stock Exchange. Following the decisions of bondholders' general meetings, Ljubljana Stock

Exchange delisted the DUT02 bond on 1 September 2016 and DUT03 and DUT04 bonds on 9 September 2016.

In December 2016, BAMC redeemed the matured bond DUT02 and settled all financial liabilities assumed in the merger of Factor banka and Probanka, which the BAMC partially refinanced by state-guaranteed borrowings from two commercial banks.

Note 2: Basis of preparation of financial statements

2.1 General

The financial statements have been prepared in accordance with the ZUKSB and the Slovenian Companies Act. The financial statements were approved by the Company's management on 20 April 2017.

In December 2015, the ZUKSB-A19 was amended to exempt BAMC from consolidating and accounting following the equity method for all entities, over which it has control, joint control or significant influence, and were acquired during the initial asset transfer and / or restructuring process as envisaged by the ZUKSB. Therefore, in line with ZUKSB consolidation exemption, BAMC has not prepared consolidated accounts and has not used the equity method for investments in associates. For these reasons these financial statements are not prepared in full compliance with IFRS. Apart from equity stake acquired to ZUKSB measures BAMC does not own any other material equity stakes.

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

Details of the Company's accounting policies, are included in notes 3.2. to 3.11. These policies have been applied consistently in all years presented, unless otherwise stated.

The financial statements were prepared on a going concern basis. Management estimates that BAMC's lifespan, which is limited to the end of 2022, is sufficient to achieve the mission set under the ZUKSB i.e. to recover value from transferred asset without forced sale of assets and to fully repay all its liabilities.

[19] In further text used ZUKSB

According to the ZUKSB stipulations, the Government of Republic of Slovenia, as the only shareholder, represents the BAMC's General Assembly and in accordance with the ZGD-1 may accept or reject the annual report.

This financial statements are presented for the year starting 1 January 2016 and ending 31 December 2016.

Financial statements are prepared as separate financial statements of BAMC, Ljubljana.

The structure of financial statements has been changed, in comparison with the presentation as of 31 December 2015, to better present selected balances, be more understandable to the reader of financial statements as well as better reflect the nature of BAMC's operations.

BAMC recognises and analyses revenues and incurred expenses at the level of individual asset classes (e.g. loans, equity investments and inventories of property and equipment). Management also regularly reviews the operating results on the level of the above mentioned asset classes. Nevertheless management considers all operations and activities, related to the mentioned asset classes, as interwoven and does not recognise and disclose them as separate operating segments.

2.2 BASIS OF MEASUREMENT

The financial statements have been prepared on a cost basis, except for financial assets which are measured at fair value as described in note 4. Critical accounting estimates and judgments.

Fair value measurement of financial assets was elected to better reflect the values of the transferred non-performing loans over the limited life-span of the Company as prescribed by ZUKSB.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

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

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

2.4 USE OF ESTIMATES AND JUDGMENTS

Preparing financial statements requires the application of estimates, judgements and assumptions which affect the application of accounting policies and the value of reported assets and liabilities, the disclosure of potential assets and liabilities as at the reporting date, and the amount of revenues and expenditure in the period then ended.

The estimates, judgments and assumptions are subject to regular review. As the assessments are subject to subjective evaluation and a certain degree of uncertainty, later actual results may vary from previous estimates. The changes in accounting estimates are recognized in the period in which they were changed if the change affects that period only, or in the period of the change and in future periods, if the change affects future periods.

Estimates and assumptions are especially present in the following considerations:

- fair value of loans and equity investments (note 4 A and 4 B),
- net realizable value of inventories of property and equipment and potential write-down of inventories (note 4 C),
- provisions for obligations towards employees and provisions for liabilities arising from legal disputes (note 3.7),
- potential tax items (note 3.9),
- the value of financial assets and revenues generated from their sale will suffice to cover the repayment of bonds maturing in 2017 and financial liabilities maturing later, therefore the financial statements were prepared on a going concern principle (note 13 and 14),
- determination of current and non-current part of provisions (note 28)
- determination of current and non-current part of loans, due and not due loans (note 28)
- Conversions of loans and receivables into underlying collateral (see detailed description in note 3.3 C).

2.5 STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BY IASB AND ADOPTED BY THE EU, THAT WERE NOT YET EFFECTIVE IN 2016

IFRS 9: Financial instruments

This Standard replaces IAS 39, Financial Instruments: Recognition and measurements. Effective for annual periods beginning on or after 1 January 2018. It can be applied retrospectively with some exemptions. Early application is permitted. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. The criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

BAMC does not expect IFRS 9 to have a material impact on its financial statements. The classification and measurement of the BAMC’s financial instruments are not expected to change under IFRS 9.

No reclassifications of financial instruments following IFRS 9 disclosure requirements are expected.

- The transfers or taking over of available for sale financial assets are not expected anymore.
- No reclassifications are expected to occur to Loans and Equities currently valued at fair value and classified as financial assets at fair value through profit and loss (hereon FVTPL). In case the financial asset(s) will be purchased in the future, to optimize the position of the BAMC’s

existing financial asset(s), it/they will be recognized at fair value through profit and loss, as already existing financial asset(s) in BAMC portfolio is/are recognized.

- Further the reclassification is not expected also for the Issued debt securities, which are originally measured at fair value, and subsequently at amortised cost using the effective interest method, since they mature before the end of 2017 and new issues of such securities are not planned.

IFRS 15: Revenue from contracts with customers

The new Standard and amendments thereto provides a framework that replaces existing revenue recognition guidance in IFRS. Effective for annual periods beginning on or after 1 January 2018. It can be applied retrospectively. Earlier application is permitted. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the BAMC's financial statements, management does not expect that the new Standard, when initially applied, will have a material impact on the Entity's financial statements. The timing and measurement of the BAMC's revenues are not expected to change under IFRS 15 because of the nature of the BAMC's operations and the types of revenues it earns. Net revenue comprising dividends and capital gains, is recognized when expected cash flows or inflow of the economic value are more than probable, while revenue from valuation of financial assets, recognized in accordance with valid valuation methodology, are determined twice a year and posted in profit or loss on an annual basis.

2.6 STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BY IASB AND NOT ADOPTED BY THE EU, THAT WERE NOT YET EFFECTIVE IN 2016

IFRS 16: Leases

IFRS 16 supersedes IAS 17 Leases and related interpretations. Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15. Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals. The new Standard introduces a number of limited scope exceptions for lessees which include leases with a lease term of 12 months or less and containing no purchase options, and leases where the underlying asset has a low value ('small-ticket' leases).

BAMC does not expect that the new Standard, when initially applied, will have material impact on its financial statements.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted. The amendments clarify share-based payment accounting in the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments,
- share-based payment transactions with a net settlement feature for withholding tax obligations, and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

BAMC expects that the amendments, when initially applied, will not have a material impact on the presentation of its financial statements because BAMC does not enter into share-based payment transactions.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively. The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4.

BAMC expects that the amendments, when initially applied, will not have a material impact on the presentation of its financial statements because BAMC is not an insurance provider.

Amendments to IFRS 10 and IAS: 28 Sale or contribution of assets between an investor and its associate or joint venture
The effective date has not yet been determined by the IASB, however earlier adoption is permitted. The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

BAMC does not expect that the amendments, when initially applied, will have material impact on its financial statements.

Amendments to IAS 7: Statements of cash flows
Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted. The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes.

BAMC does not expect that the amendments, when initially applied, will have material impact on the financial statements.

Amendments to IFRS 12: Disclosure of interests in Other Entities
Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted. The amendment clarifies that when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate.

BAMC is currently preparing analysis of the impact of the amendments on the financial statements.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted. The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

BAMC expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements because BAMC already measures future taxable profit in a manner consistent with the Amendments

Amendments of IAS 40: Investment property
Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted. Amendments provide guidance on transfers to, or from, investment properties. An Entity shall transfer to, or from, investment property when, and only when, there is an evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

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

IFRIC 22: Transactions in foreign currency and prepayments
Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted. IFRC clarifies that the transaction date is the date on which the Entity initially recognizes the prepayment or deferred income arising from the advance consideration. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

BAMC expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements because BAMC initially recognizes non-monetary assets or liabilities at the exchange rate, valid at the day of the transaction.

Note 3: Accounting policies of significant accountancy items

3.1 New and amended accounting standards and interpretations in 2016

IAS 1: Presentation of financial statements

The Amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1,
- specific line items in the statement of profit or loss, the statement of comprehensive income and the statement of financial position may be left aside,
- that entities have flexibility as to the order in which they present the notes to financial statements,
- that the share of comprehensive income of associates and joined ventures accounted for using the equity method must be presented in aggregate as a single line item and classified between those items that will not be subsequently be reclassified to profit or loss.

Amendments did not have material impact on financial statements.

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

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

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.

Amendments did not have material impact on BAMC’s financial statements.

Amendments to IAS 16 and IAS 38: New restrictive test for intangible assets

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

Amendments did not have material impact on the financial statements as the BAMC does not apply revenue-based methods of amortisation/depreciation.

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

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

Amendments did not have material impact on financial statements as the BAMC has no bearer plants.

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

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

Amendments did not have material impact on the financial statements as the BAMC, according to the ZUKSB, the BAMC intends to continue to carry its investments in subsidiaries, associates or joint ventures at fair value.

3.2 PROPERTY AND EQUIPMENT

Property and equipment is recognized at cost, including transaction costs related to the purchase of the asset. Acquired software that is integral to the functionality of equipment and is purchased together with the equipment is capitalized as part of that equipment. After recognition as an asset, an item of property and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Annual depreciation rates are determined with regard to the estimated useful life of the assets. The estimated useful life of the equipment is two to three years, and the annual depreciation rate is thus between 33.3% and 50%. Amortization/depreciation is charged on a straight-line basis over the useful life of each item of property and equipment.

Assets are derecognised upon disposal, or when it is determined that no further economic benefits can be expected to accrue from the use of the asset. The gain or loss on the disposal of property, plant and equipment is determined by deducting the carrying amount of the asset from the receipts on disposal, the amount being recognised as other income/ through profit or loss.

In the event of a change of circumstance affecting the estimated useful life of the property and equipment, the effects are recognised through profit or loss.

3.3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The company classifies loans held for sale or redemption and investments in participating interests as financial assets at fair value through profit or loss.

A) LOANS

Loans are non-derivative financial assets with fixed or determinable payments not listed on an active market. With regard to expected cash flows, loans are classed as current (expected cash flows within

12 months of the date of the statement of financial position) and non-current (expected cash flow in period of more than 12 months from the date of the statement of financial position).

Loans are recognised on the day when and only when the Company becomes party to the contractual provisions in the financial instrument.

Loans are originally recognised at fair value. The transfer of non-performing loans from financial institutions to the BAMC, in accordance with the ZUKSB, was carried out between banks under the 100% ownership of the Slovenian government, which is also the 100% owner of the BAMC. For this reason the aforementioned transaction was regarded as a transaction between undertakings under joint control. All the effects of this transfer are recognised directly in equity as a transaction with owner.

Upon the takeover of non-performing loans in accordance with the ZUKSB, which was carried out in 2013 and 2014, all the loans were reviewed (legal and economic due diligence) and evaluated at fair value in line with the BAMC’s guidance for the valuation of loans presented in Note 4. Critical accounting estimates and judgments. Differences between the transfer and estimated fair values, on the day of transfer, are recognised in retained earnings as transactions with the owner.

The same accounting policies as in the takeover of loan and receivables from banks were applied by the company in the absorption of the portfolios of loans and receivables of the two banks under 100% government ownership. Loans were measured at fair value in line with the valuation policy, and differences between the transfer value and estimated fair values were recognised in retained earnings as transactions with the owner.

Loans bought on the market, under market conditions and loans granted to companies, representing BAMC's restructuring cases, are initially recognized at cost and subsequently measured at fair value. Granting new loans represent one of restructuring instruments under ZUKSB.

Loans are valued twice a year on the basis of the adopted valuation policy, and the effects of the valuations are recognised in profit or loss as revaluation revenues/expenses on the annual basis. The fair value of loans are calculated based on the Binominal Option Pricing Model (BOPM) except for loans smaller than €300 thousand gross; see Note 4 for further explanations.

The company derecognises a financial asset when and only when the contractual rights to receive cash flow from the financial asset expire or when the company transfers such rights together with all risks and rewards associated with ownership of the financial asset.

B) Equity investments and bonds

Investments are measured at historical cost upon initial recognition. On the day of the merger of the two banks all merged equity investments were measured at fair value, in accordance with BAMC's valuation methodology regarding equity investments, presented in the Note 4. Positive and negative differences between measured equities fair values and merged equities values, were recognised in retained earnings as transactions with the owner, as at the day of the merger.

The fair value of equity investments are determined using the valuation method on enterprise value level e.g. FCFF (free cash flows to firm) or quoted prices for the equity instruments listed on active markets.

When shares owned by the BAMC are traded on the prime market of Ljubljana Stock Exchange, the price at the close of trading on the valuation date is used in valuation. If it is determined that the market price and/or volume of trading does not reflect the attainable levels with regard to the size of the BAMC holding, another method and/or discounting may be used, with appropriate arguments.

The effects of valuation are assessed twice a year, recognised directly through a reduction/increase in the carrying value and recognised in profit or loss as revaluation income/expenses.

C) CONVERSIONS OF LOANS

In the process of recovery of loans, these may be settled through the transfer of the underlying collateral. Loans may effectively be converted into an equity investment, a property or even equipment.

Converted asset is recognised at carrying amount of converted loan (measured at last valuation before conversion). The difference between conversion value and carrying value of converted loan is recognized as income from loans in the income statement.

All converted assets, except inventory of property and equipment, which are subsequently measured aa lower of cost and net realizable value, are subsequently measured at fair value in accordance with the relevant valuation policy (see Note 4).

3.4 INVENTORIES OF PROPERTY AND EQUIPMENT

The BAMC executes purchases and acquisitions of property in various insolvency proceedings for the sole purpose of realising transferred non-performing loans or optimizing the return on existing properties (see also note 3.3 c). Both acquired and purchased property is disclosed under inventories.

Inventories are valued at the lower of cost and net realisable value. Net realizable value is estimated as the fair value less the selling costs of the inventory.

Twice a year the company reviews the criteria, based on which the inventories are valued, to determine whether there is any objective evidence requiring the recognition of a write-down i.e. whether there has been a reduction in the expected future cash flow from the asset owing to one or more events.

When inventories are sold, their carrying amount is recognised as an expense in the period in which the revenue from the sale of the inventories is recognised. The amount of the reduction of the inventories to net realisable value is recognised as a write-down in the period the valuation of the inventories is reassessed. The amount deriving from an increase in the net realisable value of inventories is recognised to the extent that it is a reversal of an earlier write-down. The amount of reversal is limited to the amount of the original write-down, such that the new carrying amount is the lower of cost and the revised net realisable value.

On the day of the merger of the two banks, inventories of the banks were measured at net realizable value, in accordance with BAMC's valuation methodology regarding real estates, presented in the Note 4.C. Differences between the net realizable value of inventories of the merged banks and their transfer value were recognised within the retained earnings as transactions with the owner, as at the day of the merger.

3.5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in bank balances and sight deposits maturing in less than 3 months, and other short-term and readily convertible instruments.

3.6 FINANCIAL LIABILITIES

Issued debt securities are initially recognised on the settlement date and measured at fair value. Subsequently are debt securities measured at amortised cost using the effective interest method.

All other financial liabilities are originally recognised on the trading date, i.e. when the company becomes party to contractual provisions in the financial instrument.

The company recognises loans as non-derivative financial liabilities. Such financial liabilities are originally recognised at fair value, plus all directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method.

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

The company derecognises a financial liability when the commitments stipulated in the contract have been discharged, cancelled or have expired. Financial assets and liabilities are netted and the net amount is disclosed in the balance sheet if and only if the company has a legally enforceable right to net the recognised amounts, or to redeem the asset and simultaneously settle the liability.

3.7 Provisions

Provisions are recognised if, as a result of a past event, the company has a present legal or contractual obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.8 Income

Income includes capital gains on surpluses of payments received in excess of the carrying amount of non-performing loans, and gains and losses on conversion of assets as described in Note 3.3 C), dividend receipts, gains and losses on the remeasurement of financial assets at fair value through profit or loss, and exchange rate differences.

3.9 Finance expenses

Finance expenses include borrowing costs (including costs of guarantee fees paid to the Republic of Slovenia), recognised in the income statement using the effective interest rate method.

3.10 Corporate income tax

Corporate income tax is recognised in the financial statements in accordance with the regulations applicable to the end of the reporting period. Corporate income tax comprises current taxes and deferred taxes. Corporate income tax is included in net profit, except when it relates to items recognised in other comprehensive income or directly in equity.

Current tax liabilities are calculated on the basis of the taxable income for the year. The taxable income differs from the net profit reported in profit or loss insofar as it excludes revenues and expenses that are taxable or deductible in other years, and items that are never taxable or deductible.

A deferred tax asset is not recognised for the unutilised tax losses, if it is not probable that the future taxable income will be available against which the tax loss can be utilised. The Company regularly reviews the probability of the taxable income being available.

3.11 Net earnings per share

The company discloses basic and diluted net earnings per ordinary share.

Basic net earnings per share are calculated by dividing the net profit for the financial year pertaining to ordinary shareholders by the weighted average of the number of outstanding ordinary shares in the financial year.

The calculation of diluted earnings per share are determined on the same basis, except that the net profit attributable to ordinary shareholders and the weighted average number of outstanding ordinary shares are adjusted for the effects of all dilutive transactions in relation to ordinary shares.

3.12 DETERMINATION OF FAIR VALUE

In numerous cases the BAMC's accounting policies 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 and liabilities whose values are based on unadjusted, quoted prices for identical assets or liabilities in an active market,
- Level 2 - Fair value of financial assets and liabilities whose values are based on their quoted prices in inactive markets, or whose values are based on models for which the inputs to those models are observable either directly or indirectly for substantially the full term of the asset or liability,
- Level 3 - Fair value of financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing 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 or the market is considered inactive, the BAMC uses inputs of Level 2 and mostly Level 3 for determining the fair value of financial instrument. Where applicable, further information about assumptions made in 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.

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

A) METHODOLOGY FOR VALUATION OF LOANS

Individual valuations of loans are performed at borrower level for exposures higher than €300 thousand, while collective valuations at borrower level are performed for smaller exposures. These valuations are Level 3 in the fair value hierarchy and have features of unobservable inputs, which reflect assumptions using the best information available in the circumstances, and include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

Individual valuation on borrower basis
Individual valuations of loans are based on the Binominal Option Pricing Model ("BOPM"). For each borrower two possible scenarios, restructuring and recovery, are considered and the cash flows forecasted.

A key unobservable input in the valuation process is the estimate of the probability of realization: either restructuring or recovery scenario. If and when it is estimated that the recovery strategy is to prevail, then the recovery scenario, which reflects the collateral value, is assigned a 100% probability (see Note 4B and 4C for more details on valuation of equity and real estate collateral). In the event that the restructuring scenario is considered more likely, the BAMC uses the Default Probability Scorecard ("DPS") to establish the probabilities of the restructuring and recovery scenarios. DPS probabilities can be overruled by a decision of the case manager, subject to review and subject to appropriate argumentation regarding different case-specific risk factors and real options provided. This approach enables compliance with IFRS 13 and International Valuation Standards regarding:

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

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

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

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

- Probability of the restructuring scenario (determined with the use of the DPS model),
- Probability of the recovery scenario (determined with the use of the DPS model),
- Time to switch from restructuring to recovery strategy. BAMC assumes a switch to a lower value recovery strategy with immediate effect in order to recognise the prudence principle.

The model considers the failure risk and does not allow this risk to be underestimated by means of postponing the failure. Furthermore, due to the early restructuring phase and turnaround nature of the restructuring projects, it is fair to assume that if a failure occurs at all, it occurs sooner than later,

- Value of cash flows according to each (restructuring and recovery) scenario. For the restructuring scenario, the borrower's cash flow forecast and debt servicing capability is taken into account. For the recovery scenario, the realistic outcome of realizing collateral is taken into account,
- The risk-free rate of return in the framework of the BOPM model is zero since it is already considered in the weighted average cost of capital ("WACC") of the BAMC and therefore is part of the present values of forecasted cash flows in both scenarios,
- The WACC of the BAMC was calculated at the level of 2,31% as at 31 December 2016 (WACC as at 31 December 2015 was 3,5%). The main reason for the decreasing WACC as at end of 2016 was lower borrowing cost due to partial refinancing of debt at lower interest rates.

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

Valuation process and controls applied

The BAMC performs individual valuations of loans on a borrower basis as per 30 June and 31 December every year.

The respective case manager is responsible for estimating expected cash flows and probabilities for both scenarios (restructuring and recovery). For the recovery scenario, the input for the value of the underlying collateral is based from the collateral valuations performed by the internal real estate management support department, external valuators and/or the analyst department.

The head of the analysts department is responsible for monitoring the valuation process and review all valuations for technical and logical correctness. Valuation reports, compliant with International Valuation Standards, are prepared by the respective case manager and are countersigned by a reviewer who reviewed the respective loan valuation.

This process, among others, includes the review of inputs such as:

In the restructuring strategy:

- Reasoning for the factors used in determining the restructuring probability (DPS)
- Sustainability of the projected cash flows
- Attributing cash flows to the correct source (operations, divestment, refinancing etc.)

In the recovery strategies:

- Use of appropriate inputs as collateral values and reasoning if deviations are assumed
- Assumptions used for estimated repossessions and time to sell

Additional logical and technical controls are performed and documented by the Corporate Risk Manager.

The Executive Credit and Investment Committee ("ECIC") approves valuations subject to additional consent from the Board Credit and Investment Committee ("BCIC").

The effects of these valuations are presented in the financial statements on an annual basis.

Collective valuation on borrower basis
Collective valuation is based on the Expected loss model. The expected loss is influenced by the estimated probability of default and the value of the potential fall-back scenario in the event that default occurs. The latter represents the value of collateral pledged for the loans of each borrower.

Exposures belonging to this class of loans are allocated into five groups based on the days in delinquency (days of delay in settlement of outstanding debt) and for each group, the probability of default is assessed.

Deduction the collateral value from the gross value of the loan results in a loss given default value (LGD). The loss given default is the value that the creditor would lose under the assumption the default had already occurred and the collateral had been realized.

The expected loss is therefore calculated as a product of the probability of default (predefined by the days in delay) and the loss given default, which is then used as an impairment level of each loan. The carrying amount of such loans is therefore calculated as the gross value of the loan less the expected loss.

Valuation process and controls applied
The BAMC performs collective valuations of loans and receivables on a borrower basis as at 30 June and 31 December every year.

The Head of the analyst department monitors the valuation process and reviews the valuations process for technical and logical correctness. This process, among others, includes the review of inputs such as:

- Correct classification of borrowers in specific groups based on days in delinquency
- Use of appropriate inputs as collateral values

The ECIC approves the valuations subject to additional consent from the BCIC.

The effects of these valuations are presented in the financial statements on an annual basis.

B) METHODOLOGY FOR VALUATION OF EQUITY INVESTMENTS

The valuation methodology for equity investments and equity collateral is a Level 3 valuation in the fair value hierarchy and has features of unobservable inputs, which reflect assumptions using the best information available in the circumstances, and include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

Key unobservable inputs in the valuation process are revenue growth, gross profit margin, capex, working capital and terminal growth of FCF.

The valuation methods on enterprise value level (eg FCFF for discounted cash flow method and EV/EBITDA for comparative method) are always preferred to those at the equity level or those based on dividends or book values. Exceptions to this are valuations of holding structures, where the preferred method is the net asset value approach.

Equity investments representing more than a 20% interest or carrying value above €5.000.000 are valued within an In-depth valuation process mainly relying on discounted cash flows analysis. For lower percentage shareholdings and carrying book values, the FCFF method is still preferred if the data quality is sufficient. Alternatively, the comparative method, based on European average multiples in the same industry, is acceptable for these types of holdings. For listed holdings, the market price is used where available and sufficient transactions occur to ensure liquidity.

Valuation process and controls applied

The BAMC performs valuations of equity investments as at 30 June and 31 December every year.

The respective analyst is responsible for the valuation of equity investments (as well as equity collateral).

The Head of business analysis monitors the valuation process and reviews all valuations for technical and logical correctness. This process includes a review of inputs such as:

- WACC of the underlying investment,
- discounts applied to the equity value,
- assumptions used in the projected periods (regarding revenue, costs, capex, working capital etc.),
- reasoning of the underlying assumptions used (majority/minority stakeholder, consolidated or individual financial statements etc.).

The valuation report is signed by the responsible analyst who performed the equity valuation and the reviewer who reviewed the specific equity valuation.

Additional logical and process controls are performed and documented by the corporate risk manager.

The ECIC approves valuations subject to additional consent from the BCIC.

The effects of the valuations are recognised in the financial statements on an annual basis.

C) METHODOLOGY FOR VALUATION OF REAL ESTATE

The internal real estate valuation methodology applies to inventory of property20 and real estate collateral. It is compliant with International Valuation Standards and is a Level 3 valuation in the fair value hierarchy. It has features of unobservable inputs, which reflect assumptions using the best information available in the circumstances, including the entity's own data and taking into account all information about market participant assumptions that is reasonably available.

Key unobservable inputs in the valuation process are adjusted market rent, adjusted market price, investment costs, liquidity discount (i.e. time to sell).

Regardless of the stated above, the BAMC use the transaction value/price of assets as the fair value, in case the outcome of the sale transaction is not only possible, but very likely (i.e. contract signed, down-payment received etc.)

The **Market approach** is the most common method of estimating real estate values and provides the most realistic proxy of values. It is commonly used when sufficient quality data about transactions (Trgoskop, own database) or offers (nepremicnine.net, bolha.com) exists.

During the valuation process using this methodology the building is always valued together with the functional part of the land plot (land plot needed for the building to serve its purpose). As an entire property may also include a land plot larger than needed to form a sellable unit, this is also taken into account in the adjustment of the value.

Before market data is used it needs to be verified: were transactions among unrelated parties, has all the tax been included, do the surface areas match the GURS data etc.

The income approach is used in two different ways. If a constant annual return is expected until the expiration of usefulness of the real estate, the approach of capitalization of the stabilized annual return is used. If the return is expected to be limited for a specific number of years, the discounted cash flow approach is used.

Before the values using this method are derived, the adjusted market rent for the valued real estate needs to be assessed. The adjustment is performed through comparison of rents, which need to be comparable from the perspective of gross/net rent, comparable cost structure etc.

[20] For more detail on Inventories accounting policy see Note 3.4.

After the determination of the effective profit, which is a product of market rent and the property's surface area, an additional discount factor is applied for vacancy and indirect costs of the investment (studies, appraisals, technical documentation), investor profit, cost of financing, time to complete the project and assumption of time to sell are included.

Discount rates used in valuations of real estate

For the calculation of the discount rates, the bottom-up approach is used. Generally the following discounts are applied:

- Risk-free rate,
- Market risk discount,
- Liquidity discount,
- Management discount,
- Retention of capital discount (if the capitalization rate is used).

The risk-free rate is calculated using the Fisher equation based on the 3 year average yield of the 10 year Slovenian bond and using the three year average inflation.

The market risk premium/discount is calculated based on market data. This rate is adjusted according to the market price changes defined in the semi-annual report of GURS.

The liquidity discount is a market rate reflecting the time to sell.

The management discount represents the cost of ownership which is pre-defined for certain real estate types and reflects actual costs related to real estate, owned by BAMC.

The retention of capital discount is added to the discount factor to attain a capitalization rate, which is calculated according to the Ringo method.

Valuation process and controls applied

According to internal rules, the BAMC performs a valuation of real estate twice per year, namely, as at 30 June and 31 December every year.

A full in-depth valuation of the real estate is performed every 3 years. In the interim, valuations are performed periodically twice a year only taking into account changes in market conditions, changes in real estate management costs and changes in the estimated time to sell.

The full in-depth valuation is performed by certified appraisers in the Real Estate Management Support Department in cooperation with the Asset managers. If this valuation is performed during the calendar year, the estimated value is re-assessed to check the appropriateness of the value for financial reporting purposes at mid-year and at year end. If the re-assessed value falls within a 5 % margin it is presumed that the value is still appropriate.

During the 3 year period from the last in-depth valuation, the following adjustments are made twice a year:

- the real estate values are automatically adjusted through the use of a statistical index for various real estate types, which is published by GURS, semi-annually,
- Estimated time to sell is re-assessed and the present value of the real estate is adjusted accordingly.

Real Estate Management Support Department is responsible for valuation of inventory of real estate and real estate collateral. The valuation process is monitored by the Head of Real Estate Management Support Department who also reviews the valuations from a logical and technical point of view.

The valuation report is signed by the valuator and reviewer.

Additional logical and technical controls are performed and documented by the corporate risk manager.

The ECIC approves the valuations subject to additional consent from the BCIC.

The effects of the valuation, if any, are recognised in financial statements on an annual basis.

Notes to the balance sheet

Note 5: Property plant and equipment

in € thousand	31 Dec 2016	31 Dec 2015
IT equipment	78	127
Other equipment	61	29
Total	**139**	**156**

Movement of property, plant and equipment for the period from 1 Jan 2016 to 31 Dec 2016

in € thousand	IT equipment	Other equipment	Total
Costs or valuation			
Opening balance 1 January 2016	241	41	282
Merger	59	40	99
Additions	34	35	69
Disposals	-6	-28	-34
Closing balance 31 December 2016	328	88	416
Accumulated depreciation			
Opening balance 1 January 2016	115	12	127
Depreciation	136	15	151
Disposals	-1	0	-1
Closing balance 31 December 2016	250	27	277
Net book value 31 December 2016	**78**	**61**	**139**

Movement of property, plant and equipment for the period from 1 Jan 2015 to 31 Dec 2015

in € thousand	IT equipment	Other equipment	Total
Costs or valuation			
Opening balance 1 January 2015	195	35	230
Additions	46	6	52
Closing balance 31 December 2015	241	41	282
Accumulated depreciation			
Opening balance 1 January 2015	46	4	50
Depreciation	69	8	77
Closing balance 31 December 2015	115	12	127
Net book value 31 December 2015	**127**	**29**	**156**

NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – LOANS

in € thousand	31 Dec 2016	31 Dec 2015
Loans and receivables		
restructuring	434.064	383.870
recovery	498.664	707.137
Other (collective valuation)	13.219	0
	945.947	**1.091.006**
Leasing	2.168	0
Total	**948.115**	**1.091.006**

MOVEMENT IN THE LOAN BALANCES (WITHOUT LEASING) FROM 1 JAN TO 31 DEC

in € thousand	2016	2015
Opening balance 1 January	**1.091.006**	**1.406.888**
Merger of two banks	265.349	0
Merger five subsidiaries	902	0
Exclusion of loans given to five subsidiaries	-34.514	0
Increase in loan portfolio	18.414	27.929
Repayments	-420.341	-339.317
Cash repayments	-253.138	-317.909
Conversion to real estate	-59.601	-18.794
Sell back (paid with the BAMC's bonds)	0	-2.452
Conversion to trade receivables	-67	-162
Loans sold	-81.513	0
Conversion to equity	-26.022	0
Increase/decrease on revaluation	-30.288	-35.375
Increase/decrease for capital gains/losses	54.526	29.054
Other	894	1.827
Closing balance 31 December	**945.947**	**1.091.006**

The increase in loan portfolio represents new loans, granted by the BAMC, purchase from other banks, increases for recoverable court costs and guarantees paid. New loans are granted to existing borrowers and companies, in which the BAMC has a significant ownership stake. Granting new loans represent one of restructuring instruments under the ZUKSB.

In July 2016 the BAMC was recapitalized by the Republic of Slovenia through the in-kind contribution of loans to Cimos group companies in the amount €4.610 thousand. The BAMC evaluate the fair value of these loans on initial recognition at an amount €1.510 thousand lower than the recapitalization amount and recognized the difference as an in-substance distribution to the owner.

Similarly, in 2015, the BAMC was instructed by the owner to acquire a non-performing loan from Probanka. The BAMC recognized a difference of €3.221 thousand on initial recognition of the loan transferred from Probanka on that transaction.

In the table below presents the movement in loan balances (Excluding leasing portfolio) with a separate analysis for debtors, which were classified as debtors with a restructuring strategy as at 31 December 2016.

MOVEMENT IN THE LOAN BALANCES (WITHOUT LEASING) FROM 1 JAN TO 31 DEC

in € thousand	Restructuring debtors	Recovery Debtors and mass valuation	Total 2016
Opening balance 1 January	**398.101**	**692.905**	**1.091.006**
Merger of two banks	66.580	198.769	265.349
Merger of five subsidiaries	0	902	902
Exclusion of loans given to five subsidiaries		-34.514	-34.514
Increase in loan portfolio	13.111	5.303	18.414
Repayments	-46.300	-374.041	-420.341
Cash repayments	-46.289	-206.849	-253.138
Conversion to real estate	0	-59.601	-59.601
Conversion to trade receivables	0	-67	-67
Loans sold	-11	-81.502	-81.513
Conversion to equity	0	-26.022	-26.022
Increase/decrease on revaluation	-12.238	-18.050	-30.288
Increase/decrease for capital gains/losses	15.499	39.027	54.526
Other	-690	1.584	894
Closing balance 31 December	**434.063**	**511.884**	**945.947**

NOTE 7: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – EQUITY INVESTMENTS AND BONDS

in € thousand	31 Dec 2016*	31 Dec 2015
Equity shares and bonds of listed companies	34.504	0
Equity shares and bonds of unlisted companies	62.441	36.347
Total	**96.945**	**36.347**

*of the entire amount € 2.757 thousand represents bonds

MOVEMENT IN EQUITY INVESTMENTS AND BONDS AT FAIR VALUE THROUGH PROFIT OR LOSS FROM 1 JAN 2016 TO 31 DEC 2016

in € thousand	**Shares**	**Ownership stake**	**Bonds**	**Total**
Opening balance 1 January 2016	**33.862**	**2.485**	**0**	**36.347**
Merger of Factor banka and Probanka	10.030	6.503	7.072	23.605
Merger of five subsidiaries	231	0	0	231
Acquisition	371	320	0	691
Debt to equity conversions	26.022	0	0	26.022
Interest accrued	0	0	215	215
Revaluation	24.172	2.983	-75	27.080
Capital contributions	0	952	0	952
Disposal	-10.899	-2.844	-4.455	-18.199
Closing balance 31 December 2016	**83.789**	**10.399**	**2.757**	**96.945**

Capital contributions relate to equity contributions to two companies – NPL Port in amount of €942 thousand and DUTB Serbia, an SPV entity, in amount of €10 thousand.

DETAILED LIST OF THE BAMC EQUITY OWNERSHIPS AS AT 31 DECEMBER 2016:

Name	Industry	Country	Shareholding (in %)
ALPINA, tovarna obutve, d.o.o.	Manufacturing	Slovenia	100,00%
ARGOLINA d.o.o.	Construction	Slovenia	100,00%
AVTOTEHNA d.d.	Wholesale and retail	Slovenia	100,00%
CIMOS d.d.	Manufacturing	Slovenia	47,50%
DRUŽBA ZA NEKRETNINE D.O.O.		Croatia	100,00%
DUP1 d.d.	Professional activities	Slovenia	100,00%
DUTB D.O.O. – Srbija		Serbia	100,00%
FACTOR BG EOD		Bulgaria	100,00%
FACTOR PROJEKT D.O.O.		Croatia	100,00%
FARME IHAN d.d.	Agriculture	Slovenia	95,00%
FUNDUS d.o.o., Beograd		Serbia	100,00%
ILLURIA HOLDINGS LIMITED		Cyprus	100,00%
KOTO D.O.O.	Manufacturing	Slovenia	66,23%
Litostroj Jeklo d.o.o.	Manufacturing	Slovenia	79,49%
LITOSTROJ RAVNE d.o.o.	Manufacturing	Slovenia	88,67%
LIV KOLESA, d.o.o.	Manufacturing	Slovenia	100,00%
MENINA d.d.	Manufacturing	Slovenia	20,28%
MERKUR nepremičnine, d.d.	Real estate activities	Slovenia	62,49%
MK Založba d.d.	IT	Slovenia	51,23%
MLM d.d.	Manufacturing	Slovenia	67,24%
NIGRAD d.d.	Public utilities	Slovenia	24,91%
NPL PORT, d.o.o.	Professional activities	Slovenia	100,00%
PPS - PEKARNE PTUJ D.D.- V PRISILNI POR	Manufacturing	Slovenia	100,00%
PY&CA d.o.o., Beograd		Serbia	100,00%
RIOSI INŽENIRING d.o.o.	Professional activities	Slovenia	39,18%
SOTTO VENTO d.o.o., Beograd		Serbia	100,00%
THERMANA D.D.	Tourism	Slovenia	100,00%
TINK d.o.o.	Wholesale and retail	Slovenia	100,00%
ZLATA MONETA II, d.o.o.	Financial activities	Slovenia	100,00%

The table above presents equity investments in companies where the BAMC hold more than a 20% ownerships stake and the companies are not in bankruptcy procedure. With respect to all equity investments, the BAMC is only a temporary owner.

MOVEMENT IN EQUITY INVESTMENTS AND BONDS FROM 1 JAN 2015 TO 31 DEC 2015

in € thousand	Shares	Ownership stake	Bonds	Total
Opening balance 1 January 2015	**8.627**	**0**	**0**	**8.627**
Acquisition	0	2.831	0	2.831
Capital contributions	0	263	0	263
Revaluation	25.235	-609	0	24.626
Closing balance 31 December 2015	**33.862**	**2.485**	**0**	**36.347**

Detailed list of the BAMC equity ownerships as at 31 December 2015:

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

Note 8: Available for sale financial assets

in € thousand	31 Dec 2016	31 Dec 2015
Bonds	0	2.314
Deposits	0	964
Total	**0**	**3.278**

Movement in available for sale financial assets from 1 Jan 2016 to 31 Dec 2016

in € thousand	Bonds	Deposits	Total
Opening balance 1 January 2016	**2.314**	**964**	**3.278**
Interest accrued	0	7	7
Revaluation	-394	0	-394
Disposal / Redemption	-1.920	-971	-2.891
Closing balance 31 December 2016	**0**	**0**	**0**

Movement in available for sale financial assets from 1 Jan 2015 to 31 Dec 2015

in € thousand	Shares	Bonds	Deposits	Total
Opening balance 1 January 2015	**48.333**	**173.972**	**900**	**223.205**
Acquisition	512	0	64	576
Interest accrued	0	6.378	0	6.378
Interest payment	0	-8.389	0	-8.389
Disposal	-53.401	-152.209	0	-205.610
Revaluation	4.556	-17.438	0	-12.882
Closing balance 31 December 2015	**0**	**2.314**	**964**	**3.278**

Note 9: Inventories of property and equipment

in € thousand	31 Dec 2016	31 Dec 2015
Real estate	192.386	68.254
Equipment	1.667	0
Advance payments for inventories	3.624	508
Total	**197.677**	**68.762**

The majority of inventories of property and equipment in the amount of €197.677 thousand were recognized as a result of debt to real estate conversions or purchases at auctions from the BAMC's debtors.

Of the total carrying amount of €192.386 thousand of real estate inventories, €67.275 thousand is valued at costs and €125.111 thousand at net realizable value.

The estimated net realisable value of real estate inventories at year-end is €209.215 thousand.

Residential real estate and land presented the largest part of the real estate inventory by type of real estate.

Net realisable value of real estate inventory by type of real estate

in € thousand	31 Dec 2016
Residential	82.192
Land	51.241
Industrial	27.533
Office	16.850
Retail	16.485
Tourism	14.136
Other	776
Total	**209.215**

NET REALISABLE VALUE OF REAL ESTATE INVENTORY BY VALUATION METHOD

in € thousand	31 Dec 2016
Transaction value	9.074
Market approach	46.436
Income approach	153.705
Total	**209.215**

MOVEMENT IN INVENTORIES OF PROPERTY AND EQUIPMENT FROM 1 JAN 2016 TO 31 DEC 2016

in € thousand	Real estate and equipment	Advance payments	Total
Opening balance 1 January 2016	**68.254**	**508**	**68.762**
Merger of Factor banka and Probanka	26.097	0	26.097
Merger of five subsidiaries	31.644	0	31.644
Partial settlement of debts (repossessions)	59.601	5.917	65.518
Cash paid at auctions for repossession in excess of loan balances and other acquisitions	20.820	0	20.820
Disposal	-14.957	-2.801	-17.758
Reversals of net realizable value write-downs	2.594	0	2.594
Closing balance 31 December 2016	**194.053**	**3.624**	**197.677**

MOVEMENT IN INVENTORIES OF PROPERTY AND EQUIPMENT FROM 1 JAN 2015 TO 31 DEC 2015

in € thousand	Real estate	Advance payments	Total
Opening balance 1 January 2015	**49.122**	**2.217**	**51.339**
Partial settlement of debts (repossessions)	31.694	8.720	40.414
Disposal	-1.939	-10.429	-12.368
Write-downs to net realizable value	-10.623	0	-10.623
Closing balance 31 December 2015	**68.254**	**508**	**68.762**

NOTE 10: TRADE AND OTHER RECEIVABLES

in € thousand	31 Dec 2016	31 Dec 2015
Trade receivables from customers	1.395	117
Advance payments	2.056	216
Trade receivables in relation to taxes	107	7.826
Other trade receivables	1.210	363
Total	**4.768**	**8.522**

NOTE 11: CASH AND CASH EQUIVALENTS

in € thousand	31 Dec 2016	31 Dec 2015
Cash in banks	1.264	1.390
Call deposits	110.273	160.860
Over-night deposits	10.724	3.882
Total	**122.261**	**166.132**

The BAMC pledged deposits to banks as collateral for the bank guarantees issued to BAMC's debtors. The amount of pledged deposits as at 31 December 2016 amounts to € 3.638 thousand (at 31 December 2015 €4.475 thousand).

NOTE 12: EQUITY

The BAMC's share capital registered with the court and defined in its articles of association amounts to €104.118 thousand and is divided into 104.117.500 ordinary freely exchangeable no-par-value registered shares. Each no-par-value share has the same corresponding amount in share capital. All shares issued were fully paid.

The BAMC does not hold any treasury shares.

in € thousand	31 Dec 2016	31 Dec 2015
Share capital	104.118	203.625
Capital reserves	154.117	0
Accumulated loss	-178.792	-88.758
Total	**79.443**	**114.867**

In December 2016, the BAMC's general assembly resolved to redenominate the par value per share and the share capital from €208.235.000 to €104.117.500 which resulted in the release of €104.117.500 to capital reserves. On the same day, the Republic of Slovenia executed also in-cash contribution of €50.000 thousand into the BAMC's capital reserves thus increased capital reserves to the amount €154.117 thousand.

In July 2016, the share capital was increased by €4.610 thousand through an in-kind contribution by the Republic of Slovenia in exchange for 2.305.000 newly issued ordinary freely exchangeable no-par value registered shares.

By merging Factor banka, Probanka and five subsidiaries with the BAMC in simplified procedure at the beginning of 2016, the BAMC recognised an in-kind distribution to the owner in the amount of €80.721 thousand through accumulated losses.

MOVEMENT OF ACCUMULATED LOSS FROM 1 JAN TO 31 DEC

in € thousand	**2016**	**2015**
Opening balance 1 January	**-88.758**	**-77.217**
Transactions with owner	-82.231	-3.221
from loans transferred	-1.510	0
From loans acquired	0	-3.221
from merger of two banks	-79.351	0
From merger of five subsidiaries	-1.370	0
Net profit / loss for the period	-7.803	-8.318
Other	0	-2
Closing balance 31 December	**-178.792**	**-88.758**

The in-kind distribution to the owner in the amount of €1.510 thousand for 2016 relates to the recapitalization through the transfer of the Cimos loans and the amount of €3.221 thousand from 2015 relates to the acquisition of a loan from Probanka based on a decision of the owner.

As a result of the merger of two banks, the BAMC recognized €79.351 thousand as an in-kind distribution to the owner, arising from the negative total equity of the banks at the effective date of the merger.

As a result of the merger of five subsidiaries the BAMC recognized €1.370 thousand as an in-kind distribution to the owner arising from the negative total equity of the five subsidiaries at the effective date of the merger.

NOTE 13: DEBT SECURITIES ISSUED

CURRENT AND NON-CURRENT PORTIONS OF ISSUED DEBT SECURITIES

in € thousand	**31 Dec 2016**	**31 Dec 2015**
Current portion	548.855	548.173
Non-current portion	0	504.365
Total	**548.855**	**1.052.538**

The amount of €548.855 thousand of debt securities issued by BAMC consist of two issues of bonds with the official designations of DUT03 and DUT04.

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

BALANCES OF DEBT SECURITIES PER ISSUE

in € thousand	31 Dec 2016	31 Dec 2015
DUT02 – issued 20 December 2013	0	503.996
DUT03 – issued 20 October 2014	422.971	422.673
DUT04 – issued 19 December 2014	125.880	125.869
Total	**548.855**	**1.052.538**

The BAMC fully redeemed all DUT02 bonds at their maturity in December 2016.

CHARACTERISTICS OF BOND ISSUES

Bond	Nominal value of issue (in € million)	Coupon rate	Issued	Principal maturity	Coupon maturity
DUT03	424,6	1,50%*	October 2014	December 2017	Semi-annually (June and December)
DUT04	127,0	1,375%*	December 2014	December 2017	Semi-annually (June and December)

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

All bonds issued by the BAMC have €100.000 denominations.

NUMBER OF TREASURY BONDS

Bond	31 Dec 2016	31 Dec 2015
DUT02	0	26
DUT03	17	17
DUT04	12	12

NOTE 14: BORROWINGS AND OTHER FINANCIAL LIABILITIES

in € thousand	31 Dec 2016	31 Dec 2015
Loans from banks	707.528	200.000
Deposits received	2.025	0
Other financial liabilities	5.002	990
Total	**714.555**	**200.990**

The BAMC obtained a 5 year syndicated loan from Slovenian commercial banks and a 5 year loans from Erste Bank Vienna at the end of 2016 in the total amount of €505.000 thousand. Other financial liabilities in the amount of €5.002 thousand relate to advance payments for sold loans and unallocated payments from loan debtors.

CURRENT AND NON-CURRENT PORTIONS OF BORROWINGS AND OTHER FINANCIAL LIABILITIES

in € thousand	31 Dec 2016	31 Dec 2015
Current portion	309.055	990
Non-current portion	405.500	200.000
Total	**714.555**	**200.990**

MOVEMENT IN LOANS FROM BANKS FROM 1 JAN TO 31 DEC

in € thousand	2016	2015
Opening balance 1 January	**200.000**	**0**
Merger of two banks	408.008	0
Merger of five subsidiaries	250	0
New loans raised	505.000	200.000
Interest accrued	4.922	0
Payments	-410.652	0
Closing balance 31 December	**707.528**	**200.000**

NOTE 15: TRADE AND OTHER PAYABLES

in € thousand	31 Dec 2016	31 Dec 2015
Trade payables	5.715	452
Payables to employees	754	508
Payables to the state and other state institutions	241	0
Advance payments and securities	4.848	127
Payables to others	641	4.193
Total	**12.199**	**5.266**

Trade payables in the amount of €5.715 thousand relate mainly to payables for the acquisition of assets in bankruptcy proceedings and for other costs.

The advance payments and security deposits amounting to 4.848 thousand EUR reflect payments made under already-signed real estate sale contracts and the potential buyers' payments made in the bidding process involving the submission of binding bids on real estate and equity investments.

Payables to employees represent the liability for salary for December 2016 paid out in January 2017.

NOTE 16: PROVISIONS

in € thousand	31 Dec 2016	31 Dec 2015
Provisions for lawsuits	8.659	0
Provisions for severance payments	579	0
Other provisions	3.586	0
Total	**12.824**	**0**

MOVEMENT IN PROVISIONS FROM 1 JAN TO 31 DEC 2016

in € thousand	Provisions for severance payments	Provisions for lawsuits	Other provisions	Total
Opening balance 1 January 2016	**0**	**0**	**0**	**0**
Merger of two banks	681	5.997	6.103	12.781
Merger of five subsidiaries	8	0	983	991
Increase	376	2.662	135	3.173
Provisions used	-486	0	0	-486
Provisions released	0	0	-3.635	-3.635
Closing balance 31 December 2016	**579**	**8.659**	**3.586**	**12.824**

A) PROVISIONS FOR LAWSUITS

Several lawsuits were filed against the BAMC or the merged banks. The estimates and assumptions to raise provisions for lawsuits against the BAMC took into account the knowledge of individual proceeding, past court practice and other criteria. Nevertheless actual results of lawsuits might differ from the BAMC's assessments, for that reason all the estimates and assumptions are regularly reviewed and duly recognized in the financial statements.

For the lawsuits for which the probability of a negative outcome of the lawsuit was assessed as more than 50%, the provisions were raised in the total value of the currently estimated liability. The estimations of the result of lawsuit together with potential damages is prepared by management of the BAMC in cooperation with the legal department.

In 2016, €2.662 thousand of provisions were raised for lawsuits, of which the majority originate from the merger with Probanka.

B) PROVISIONS FOR SEVERANCE PAYMENTS

Provisions for termination benefits and other employees' earnings comprise termination benefits under the Slovenian Employment Law (ZDR-1), for termination of fixed term employment contracts (Article 79) and for termination of contracts by the employer (Article 108).

Actuarial calculation of provisions considers demographics, employees' fluctuations and nominal financial assumptions, taking into account salaries increases for promotions, valid internal regulations and salaries additions for years of service increases.

Provisions for termination benefits and other employees' earnings were raised and measured due to the limited life-span of the BAMC as stipulated by the ZUKSB. This is reflected in the Company's plans as a gradual decrease of its activities, as well as a gradual decrease of the number of employees.

The liabilities for long-term employee benefits are discounted and their present value at the end of 2016 amounts to €579 thousand.

C) OTHER PROVISIONS

Other provisions consist of provisions for issued bank guarantees in amount of €3.251 thousand and other provisions in amount of €335 thousand.
With the merger of Factor banka and Probanka, the BAMC took over the provisions for issued bank guarantees. The two banks raised the provisions for off-balance sheet items, e.g. issued guarantees and letters of credit, granted overdrafts and assets management related potential liabilities. The provisions were raised based on past experiences and in accordance with internal methodology.
In 2016, since the merger with the two banks, provisions for issued bank guarantees decreased to €3.251 thousand due to the release of provisions for expired guarantees.
The full amount of valid guarantees issued is presented as a contingent liability and disclosed in note 32.
Other provisions comprises provisions for potential damages inherited from the merged Probanka and an onerous contract. As at 31 December 2016 other provisions amount to €335 thousand.

NOTE 17: OTHER LIABILITIES

BALANCE AT THE END OF THE YEAR

in € thousand	31 Dec 2016	31 Dec 2015
Accrued costs	1.464	925
Deferred income	1.058	0
Total	**2.522**	**925**

NOTE 18: FAIR VALUE

The BAMC recognize at fair value financial assets at fair value through profit and loss (loans and equity investments and bonds) and for disclosure purposes also borrowings and debt securities.

The majority of BAMC financial assets and liabilities are classified in Level 3 of the fair value hierarchy except listed equity investments and bonds, which are classified in Level 1 of the fair value hierarchy as at 31 December 2016 and debt securities, which are classified in Level 2 of the fair value hierarchy. Additionally, equity investments for which there was a transaction price already agreed (concluded but not closed sale agreements), are also classified in Level 1.

There were no transfers between Levels 1 and 3 during the year, except for equity investment. The transfer between levels of equity investments is presented in the movement in Level 3 financial assets valued at fair value through profit or loss below.

FAIR VALUE AS AT 31 DECEMBER 2016

in € thousand	Note	Level 1	Level 2	Level 3	Total fair value	Total book value
Assets		36.577	0	1.008.483	1.045.060	1.045.060
Financial assets designated at fair value through profit or loss		36.577	0	1.008.483	1.045.060	1.045.060
Loans	6	0	0	948.115	948.115	948.115
Equity Investments and bonds	7	36.577	0	60.368	96.945	96.945
Liabilities		0	548.855	714.555	1.263.410	1.263.410
Borrowings	14	0	0	714.555	714.555	714.555
Debt securities issued	13	0	548.855	0	548.855	548.855

In the case of borrowings and debt securities issued the effective interest rates do not substantially deviate from the market interest rates, therefore the fair values of these items do not substantially deviate from the book values. For this reason, the book values are presented in the tables.

FAIR VALUE AS AT 31 DECEMBER 2015

in € thousand	Note	Level 1	Level 2	Level 3	Total fair value	Total book value
Assets		0	0	1.130.631	1.130.631	1.130.631
Financial assets designated at fair value through profit or loss		0	0	1.127.353	1.127.353	1.127.353
Loans	6	0	0	1.091.006	1.091.006	1.091.006
Equity Investments	7	0	0	36.347	36.347	36.347
Available-for-sale financial assets	8	0	0	3.278	3.278	3.278
Liabilities		0	1.052.538	200.990	1.253.528	1.253.528
Borrowings	14	0	0	200.990	200.990	200.000
Debt securities issued	13	0	1.052.538	0	1.052.538	1.052.538

FINANCIAL INSTRUMENTS IN LEVEL 3

MOVEMENT IN LEVEL 3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS IN 2016

in € thousand	Equity investments	Loans*	Total
Opening balance 1 January 2016	**36.347**	**1.091.006**	**1.127.353**
Transfer from level 3 to level 1	-765	0	-765
Merger of Probanka and Factor banka	18.583	265.349	283.932
Elimination of loans given to five subsidiaries	0	902	902
Merger of five subsidiaries	231	-34.514	-34.283
Acquisition	691	0	691
Loans granted	0	18.414	18.414
Capital contributions	952	0	952
Debt to equity swaps	6.942	-26.022	-19.080
Debt to real estate conversion	0	-59.601	-59.601
Disposal	-16.122	-81.513	-97.635
Repayments	0	-253.138	-253.138
Capital gains/losses	0	54.526	54.526
Revaluation	13.509	-30.288	-16.779
Other changes	0	827	827
Closing balance 31 December 2016	**60.368**	**945.946***	**1.006.314**

* leasing portfolio merged from one subsidiary is not included

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

in € thousand	Equity investments	Loans	Total
Opening balance 1 January 2015	**8.627**	**1.406.888**	**1.415.515**
Acquisition	2.831	0	2.831
Loans granted	0	27.929	17.929
Loans sold back	0	-2.452	-2.452
Capital contributions	263	0	263
Debt to real estate conversion	0	-18.794	-18.794
Repayments	0	-317.909	-317.909
Capital gains/losses	0	29.054	29.054
Revaluation	24.626	-35.375	-10.749
Other changes	0	1.665	1.665
Closing balance 31 December 2015	**36.347**	**1.091.006**	**1.127.353**

Although the BAMC believes that estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different estimates of such value. Key inputs used in the valuation model for the loan portfolio are the determination of the probability of restructuring and recovery scenario and the recovery value. Components of the recovery value are the value of the underlying collateral (mainly real estate and equity shares), restrictions and conditions derived from the legal position (mainly pledge ranking, pledge values and outstanding exposures of pledge holders). For more details see Note 4. Critical accounting estimates and judgments.

Key unobservable inputs in the valuation model for equity investments are revenue growth, gross profit margin, capex, working capital and terminal growth of FCF.

FAIR VALUE OF EQUITY INVESTMENTS AND BONDS AS AT 31 DEC 2016 BY VALUATION METHOD USED

in € thousand	**31 Dec 2016**
DCF	32.631
Net asset value	21.108
Multiples	5.199
Dividend discount model	1.430
Level 3	**60.368**
Market price	33.573
Transaction price	3.004
Level 1	**36.577**
Total	**96.945**

NOTES TO THE INCOME STATEMENT

NOTE 19: INCOME FROM LOANS

in € thousand	2016	2015
Capital gains/losses	54.526	29.054
Net revaluation	-30.371	-35.374
Other income from loans	5.263	1.991
Total	**29.418**	**-4.329**

Capital gains/losses relate to differences between net carrying value according to last valuation and realized value at sale or conversion of loans to other asset classes or repayments which exceed previously recognized net carrying amount.

Other income from loans includes fees, release of provisions for guarantees, foreign exchange differences.

Net revaluation result amounts to €30.371 thousand of which €30.288 thousand relates to loans and €83 thousand to leasing.

NOTE 20: INCOME FROM EQUITY INVESTMENTS AND BONDS

in € thousand	2016	2015
Capital gains/losses	1.636	58.472
Net revaluation	26.686	24.626
Dividends	1.455	110
Other income from equity investments and bonds	214	6.378
Total	**29.991**	**89.586**

NOTE 21: INCOME FROM INVENTORIES OF PROPERTY AND EQUIPMENT

in € thousand	2016	2015
Income from rents	2.076	448
Income from inventories sold	18.219	2.201
Cost of inventories sold	-14.958	-1.939
Net write-downs and reversal of write-downs	2.594	-10.623
Total	**7.931**	**-9.913**

In 2016 the BAMC recognized €9.790 thousand in write-downs of inventories and €12.384 thousand in reversals of write-downs. Net write-downs and reversals of write-downs of inventories amount to €2.594 thousand.

NOTE 22: FINANCIAL EXPENSES

in € thousand	2016	2015
Interest expenses on debt securities and borrowings	-35.370	-49.273
Guarantee fees	-13.162	-19.263
Other	-102	0
Total	**-48.634**	**-68.536**

NOTE 23: COST OF SERVICES

in € thousand	2016	2015
Real estate management cost	-4.028	-1.236
Costs of professional services	-4.500	-5.215
Accounting and back office services	-1.180	-1.714
Legal, valuation and advisory services	-3.320	-3.501
Other services	-3.008	-1.999
Total	**-11.536**	**-8.450**

NOTE 24: PAYROLL COSTS

in € thousand	2016	2015
Salaries (including bonuses)	-7.846	-4.718
Pension contributions	-667	-331
Health and social insurance	-591	-381
Other payroll costs	-1.646	-514
Total	**-10.750**	**-5.944**

Higher labour costs for 2016 were the result of an increase in the number of employees, as the monthly average number of employees of the BAMC was 96 in 2015 and reached 121 at the end of 2015. By merging with Factor banka and Probanka the number of employees increased to 226 in February 2016, which, due to downsizing in the reorganization process, was at least partially a temporary increment.

REMUNERATION OF BOARD MANAGEMENT MEMBERS IN 2016

in € thousand **Name**	**Period**	**Position**	**Gross income**	**Fringe benefits**	**Other**	**Total**
Simoneti Marko	1.1. - 31.12.2016	Non-executive director	97	0	1	**98**
Širovnik Janez	1.1. - 31.12.2016	Non-executive director	60	0	0	**60**
Nyberg Lars Erik	1.1. - 6.10.2015	Ex Non-executive director	1	1	0	**2**
Barba Silvela Juan	1.4. - 31.12.2016	Non-executive director	38	0	0	**38**
Koršič Aleš	1.1. - 31.12.2016	Executive director	129	8	5	**142**
Škrubej Janez	1.1. - 31.12.2016	Executive director	148	7	5	**160**
Balogh Imre	1.1. - 31.12.2016	Executive director	196	3	18	**217**
Total			**669**	**19**	**29**	**717**

REMUNERATION OF COMMITTEE MEMBERS IN 2016

in € thousand **Name**	**Period**	**Position**	**Gross income**
Jerman Tamara	1. 1. – 31. 12. 2016	Member of Audit Committee	8
Slapničar Sergeja	1. 1. – 31. 12. 2016	Member of Remuneration committee	3
Šmuc Sonja	1. 1. – 31. 12. 2016	Member of Accreditation committee	7
Total			**18**

NOTE 25: OTHER EXPENSES

in € thousand	**2016**	**2015**
Increase in provisions for lawsuits	-1.813	0
Court cost	-809	-1.253
Taxes	-327	-30
Other	-929	-125
Total	**-3.878**	**-1.408**

Note 26: Income tax expense

in € thousand	2016	2015
Profit / loss before tax	**-7.803**	**-8.318**
Tax using statutory tax rate (17%)	-1.327	-1.414
Tax-exempt income	-525	-19
Nondeductible expenses	44	34
Recognition of tax effect of previously nondeductible expenses	-12.469	1
	-14.277	**-1.398**
Deferred tax asset not recognized with respect to tax losses carried forward	14.277	1.398
Income tax	**0**	**0**
Effective tax rate	**0%**	**0%**

Previously not deductible expenses represent revaluation expenses from financial assets categorized as available for sale at merged banks, which were not tax deductible at recognition, but became tax deductible at the moment of sale of this financial asset (transfer to BAMC qualifies as sale from the tax aspect).

The Accumulated tax losses of the BAMC as at 31 December 2016 amounts to €768.511 thousand. Of this amount, accumulated loss of €89.060 thousand EUR represent tax losses of the BAMC and €679.451 thousand represent tax losses of the two merged banks and five subsidiaries. The tax authorities confirmed the tax loss of merged companies.

The BAMC did not recognize a deferred tax asset due to realized loss and the uncertainty of future profits.

Note 27: Earnings per share

	2016	2015
Profit / loss for the year (in € thousand)	-7.803	-8.318
Number of ordinary shares issued at the end of the year	104.118	101.813
Weighted average number of ordinary shares	102.804	101.813
Earnings per share and diluted earnings per share (in €)	**-0,08**	**-0,08**

Note 28: Financial instruments and risk exposure

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

In 2016 the BAMC has additionally improved the risk management system with regular and strict implementation of rules adopted a year earlier.

Exposure measurement to each type of risks and the mitigation measures is performed based on the expected financial effects for the BAMC. The main goals of risk management is to minimise the probability of realization of the loss events and the amount of loss in such an events.

28.1 Risk oversight and governance

Risk and Compliance Management Committee

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

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

Corporate Security

At the end of 2016, the task force for the investigation of irregularities was renamed Corporate Security. The tasks of Corporate Security are:

- investigation of all irregularities or suspected criminal activities except those which are reported through "whistleblowing",
- internal security of the BAMC.

Corporate Security communicates with the police and other law enforcement bodies at all levels, provides and disseminates orders regarding (non-) participation in judicial (criminal) procedures and prepares formal criminal complaints to the authorities.

Audit Committee

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

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

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

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

Risk Management
Risk management is responsible for the risk management system as a whole, for its management, for monitoring and updating the risk catalogue and reporting. Responsibility for collecting and monitoring the implementation of measures and implementation of control activities is one of the unit's priorities as well as the collection of all relevant documentation regarding risk management and raising the level of risk awareness in the Company. In the valuation process, additional logical and process controls are performed and documented by the corporate risk manager. The risk manager prepares an internal control performance report and this report is the basis for valuations to be approved.

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

28.2 CREDIT RISKS
Credit risk is a risk of loss as a consequence of a debtor's inability to fulfil, on time or completely, its obligations toward the BAMC, due to any possible reasons. Credit risk also includes concentration risk (in a single industry, region). Credit risk is present where the BAMC has decided on a restructuring strategy. In these cases, there is always a possibility that the debtors will end up in insolvency procedures and will discontinue business operations, therefore the BAMC will lose access to planned cash flows from debtor's regular operations. Risks, originated from cash and cash-equivalents are

relatively low, since the BAMC invests its liquidity reserves in overnight deposits at banks with proven rating.

The maximum credit risk exposure is presented in the table below.

in € thousand	31 Dec 2016	31 Dec 2015
Available for sale financial assets	0	3.278
Loans	948.115	1.091.006
Loans	*945.947*	*1.091.006*
Leasing	*2.168*	*0*
Trade and other operating receivables	4.768	8.522
Cash and cash equivalents	122.261	166.132
Total	**1.075.144**	**1.268.938**

A) THE CREDITWORTHINESS OF DEBTORS

Credit risk of the BAMC depends heavily on the characteristics of its main debtors. The BAMC manages loans, transferred from banks at debtor group levels. For each debtor a strategy is decided (restructuring or recovery). For more details see Note 4. Critical accounting estimates and judgements.

The BAMC has not developed its own rating system, since the loan portfolio consists of non-performing loans and the majority of loans are in default. All borrowers with group (or individual) gross exposure21 higher than € 300 thousand are assigned to one of the two main strategies - restructuring and recovery and are valued individually. Borrowers with gross exposure lower than € 300 thousand are valued collectively. The fair value of loans assigned to each of the strategies is presented below. The table does not contain information regarding Leasing. See Note 4. Critical accounting estimates and judgements for more details on valuation methodology.

in € thousand	31 Dec 2016	31 Dec 2015
Restructuring	434.064	707.137
Recovery	498.664	383.870
Collective valuation	13.219	0
Total	**945.947**	**1.091.007**

[21] Outstanding value of loan, including calculated interests.

in € thousand	2016		2015	
	Number of debtors	Average fair value per debtor	Number of debtors	Average fair value per debtor
Restructuring	81	5.359	69	5.563
Recovery	647	771	493	1.434
Collective Valuation	1.492	9	0	0
Total	**2.220**	**426**	**562**	**1.941**

The number of cases increased due to the merger with Factor banka and Probanka with which the BAMC acquired 2.189 cases, of which most were classified as recovery cases. For this reason, the fair value of recovery cases increased compared to 31 December 2015. The main reason for the decrease in the fair value of restructuring cases compared to 31 December 2015 is the sale of loans and received payments with respect to restructuring cases. The average fair value per debtor assigned to the recovery strategy decreased due to the cases acquired having lower individual amounts of exposures.

Risk of deterioration in the financial position of debtors

One of the most important credit risks, identified by the BAMC, is the risk of deterioration of the financial position of debtors and consequently a change of strategy from restructuring to recovery. Cash flows would than depend only on the realization of collateral and the BAMC would lose access to cash flows from regular operations which are potentially higher than amounts that can be realized from the sale of collateral.

In the table below presents the difference in the carrying amount of loans assuming the entire portfolio was assigned to the recovery strategy.

FOR THE YEAR ENDED DECEMBER 31, 2016

in € thousand **Strategy**	**Fair value of loans**	**Recovery fair value of loans, if all restructurings fail**	**Difference**
Restructuring	434.064	295.195	-138.869
Recovery	498.664	498.664	0
Total	**932.728**	**793.859**	**-138.869**

FOR THE YEAR ENDED DECEMBER 31, 2015

in € thousand **Strategy**	**Fair value of loans**	**Recovery fair value of loans, if all restructurings fail**	**Difference**
Restructuring	383.870	276.580	-107.290
Recovery	707.137	707.137	0
Total	**1.091.006**	**983.718**	**-107.290**

B) SENSITIVITY ANALYSIS ACCORDING TO WACC

The BAMC values loans at fair value, using as a discount rate determined based on the BAMC's weighted average cost of capital (WACC),applied in discounting future cash flows from restructuring and recovery scenarios (see Note 4.A for more details on valuation methodology of loans). As at 31 December 2016 the WACC was 2,31%. The sensitivity analysis for a change in the WACC of one percentage points (and thus amounted 1,31%, or 3,31%) is presented below[22].

FOR THE YEAR ENDED DECEMBER 31, 2016

		Impact of change in WACC of one percentage point	
Strategy in € '000	**Fair value of loans** (WACC 2,31%)	**Increase**	**Decrease**
Restructuring	434.064	-8.140	8.153
Recovery	498.664	-1.923	3.029
Total	**932.728**	**-10.063**	**11.182**

The fair value of loans would increase by € 11.182 thousand (decrease by € 10.063 thousand) if the WACC would decrease (increase) for one percentage point.

As at 31 December 2015 the WACC was 3,53%. The sensitivity analysis for change in the WACC of one percentage points (and thus amounted 2,53%, or 4,53%) is presented below.

FOR THE YEAR ENDED DECEMBER 31, 2015

		Impact of change in WACC of one percentage point	
Strategy, in € '000	**Fair value of loans** (WACC 3,53%)	**Increase**	**Decrease**
Restructuring	383.870	-11.327	9.528
Recovery	707.136	-5.038	4.844
Total	**1.091.006**	**-16.366**	**14.372**

C) STRUCTURE OF LOANS

The main credit risks originates from loans and the majority of the credit risk has been already crystallised before the transfer of these loans to the BAMC since only non-performing loans were transferred. The fair value of loans is based on a weighted average of the net present value of restructuring and recovery scenario (for more details see note 4.A). Until an agreement on restructuring is reached with a debtor for the first time, each cases are treated as a recovery case. The cash flows from loans are estimated for valuation of fair value twice a year and serve as the basis for determination of current and non-current parts of the loans. According to management judgements, in the recovery strategy, the cash flows from the sale of collateral or sale of the loan itself are estimated in terms of the value and time (when the inflow is expected). According to management judgements,

[22] In the valuation of real estate and equity collateral, different discount rates are used (see note 4b and 4c for more details on real estate and equity collateral valuations). Due to technical limitations the sensitivity to changes in the discount rate for collateral values is not presented.

in the restructuring strategy, cash flows are estimated in terms of value and time as well, whereas contractual cash flows are used only from newly agreed master restructuring agreements ("MRAs").

In the table below, the structure of loans is presented according to the maturity of expected cash flows.

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

in € thousand	2016	2015
Current	173.410	236.391
Non-current	774.705	854.615
Total	**948.115**	**1.091.006**

In the table below, the fair value of loans is presented according to the days overdue. Days overdue are determined according to the current amortization plan. Large part of not due loans is the result of the forbearance agreements.

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

in € thousand	2016	2015
Not due	397.426	414.439
Overdue	548.520	676.568
Overdue up to 90 days	4.049	26.183
Overdue between 90 days and 1 year	8.498	38.633
Overdue between 1 and 3 years	178.522	375.191
Overdue over 3 years	357.450	236.561
Total	**945.947***	**1.091.006**

* leasing portfolio not included

D) EXPOSURE TO CONCENTRATION RISKS

The vast majority of loans were transferred or acquired through merger to the BAMC in terms of the respective law, without BAMC having the ability to select the respective loans. The primary sector is defined according to the Standard Classification of Activities (SKD). The BAMC manages concentration risk in terms of loans to a specific debtor or debtor group regardless of the specific sector in which debtors conduct their business. The table below presents the structure of loans according to the primary sector of each debtor.

FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

	31.12.2016			31.12.2015		
Sector, exposure in € thousands	**Fair value of loans**	**% of total Fair value**	**No. of debtors**	**Fair value of loans**	**% of total Fair value**	**No. of debtors**
Construction	200.514	21%	104	247.360	23%	118
Financial activities	76.199	8%	39	186.537	17%	42
Manufacturing	154.748	16%	107	184.971	17%	118
Wholesale and retail	129.768	14%	83	166.646	15%	101
Tourism	88.836	9%	17	88.473	8%	19
Professional activities	80.252	8%	69	81.924	8%	60
Real estate activities	49.766	5%	39	35.938	3%	37
Other	165.864	18%	1.762	99.158	9%	67
Total	**945.947**	**100%**	**2.220**	**1.091.006**	**100%**	**562**

* leasing portfolio not included

E) LOAN-TO-VALUE

The loan-to-value ratio (LTV ratio) is a ratio of a loan to the value of the pledged asset. Exposures with a high LTV ratios are generally seen as having a higher risk. The loans were transferred to the BAMC therefore the BAMC didn't have the ability to qualify a borrower for a loan based on collateral.

In the table below the LTV ratio is presented according to the type of loan strategy:

FOR THE YEAR ENDED DECEMBER 31, 2016

in € thousand	**Gross exposure* 31.12.2016**	**Fair value 31.12.2016**	**Recovery value 31.12.2016**	**LTV %**
Restructuring	746.303	434.064	405.217	184%
Recovery	3.865.678	498.664	506.879	763%
Collective valuation	28.541	13.219	42.884	67%
Total	**4.640.522**	**945.947**	**954.980**	**486%**

* Outstanding value of loan, including calculated interests

The lowest LTV ratio (67%) is attributable to the collectively valued loans which mostly consists of borrowers that are physical person, which indicates the more conservative lending policy of banks to physical person comparing to larger borrowers.

Comparing to the previous year, the higher LTV ratios for the recovery portfolio at the end of 2016 is a consequence of realisation of collateral in 2016.

FOR THE YEAR ENDED DECEMBER 31, 2015

in € thousand	Gross Exposure 31.12.2015	Fair value 31.12.2015	Recovery value 31.12.2015	LTV %
Restructuring	617.773	383.870	353.724	175%
Recovery	3.746.408	707.136	711.702	526%
Total	**4.364.181**	**1.091.006**	**1.065.426**	**410%**

F) COLLECTION OF COLLATERAL

In 2016 BAMC received €121,7 thousand of inflows from the sale of collateral[23] (real estate collateral, equity collateral, other types of collateral). Compared to 2015, the cash inflow was higher by 19%.

in € thousand	2016	2015
Cash generated from sale of collateral	121.712	102.319

28.3 LIQUIDITY RISKS

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

The BAMC manages liquidity risks by preparing weekly projections of cash flows and maintaining adequate liquidity reserves all the time. The key liquidity risk for the BAMC presents the maturity of its bonds and borrowings, both with state guarantees, at the end of 2017. The BAMC expects to fully repay its obligations from cash generating from asset management, its liquidity reserves and partly by refinancing liabilities with a new debt issue with a guarantee of the Republic of Slovenia. The refinancing with a guarantee of the Republic of Slovenia is envisaged in BAMC Business strategy 2016-2022 which was adopted by the Government. Therefore the management has assessed the going concern assumption as appropriate.

In the tables below the maturity of liabilities as at 31 December 2016 and 2015 is presented.

[23] Conversions of loans and recivables to inventory of financial investments are excluded.

FOR THE YEAR ENDED DECEMBER 31, 2016

in € thousand	Carrying amount	Contractual undiscounted Cash flows	up to 12 months	1 to 2 years	2 to 5 years
Debt Securities	548.855	556.794	556.794	0	0
Borrowings and other financial liabilities	714.555	724.554	313.592	207.169	203.793
Provisions	12.824	12.824	11.416	815	593
Trade and other operating payables	12.199	12.199	12.199	0	0
Accrued expenses	2.522	2.522	2.522	0	0
Total	**1.290.955**	**1.308.881**	**896.511**	**207.984**	**204.386**

FOR THE YEAR ENDED DECEMBER 31, 2015

in € thousand	Carrying amount	Contractual undiscounted Cash flows	up to 12 months	1 to 2 years	2 to 5 years
Debt Securities	1.052.538	1.091.421	534.627	556.531	0
Borrowings	200.000	204.000	2.000	202.000	0
Trade and other operating payables	6.257	6.257	6.257	0	0
Total	**1.258.795**	**1.306.649**	**556.430**	**758.531**	**0**

28.4 MARKET RISK

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

A) INTEREST RATE RISK

Interest rate risk is a risk of loss as a consequence of changed interest rates in the market. In the table below the financial assets and financial liabilities breakdown by fixed and variable rate are presented. Acquired fixed and variable rate loans, which present major part of financial assets, are almost entirely non-performing and already due as presented in the Credit risks section above. The key risk is that the BAMC will not fully recover loans due to the low creditworthiness of the debtors and insufficient collateral and not due to changed interest rates. Thus the interest rate risk on financial assets is estimated as relatively low.

AS AT DECEMBER 31, 2016

in € thousand	Fixed interest rate	Variable interest rate	Total
Financial assets	709.541	363.591	1.073.132
Loans	584.523	363.591	948.114
Restructuring	*230.968*	*203.096*	*434.064*
Recovery	*348.916*	*149.748*	*498.664*
Collective valuation	*3.757*	*9.461*	*13.218*
Leasing	*882*	*1.286*	*2.168*
Bonds	2.757	0	2.757
Cash and cash equivalents	122.261	0	122.261
Financial liabilities	548.855	707.528	1.256.383
Debt securities	548.855	0	548.855
Loans from banks	0	707.528	707.528

AS AT DECEMBER 31, 2015

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

BONDS FOR THE YEAR ENDED DECEMBER 31, 2016

in € thousand	Effect on gross exposure with variable interest rate	
	Increase	**Decrease**
100 b.p. change	3.042	-3.042
50 b.p. change	1.521	-1.521
10 b.p. change	304	-304

BONDS FOR THE YEAR ENDED DECEMBER 31, 2015

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

In the table below the effects on interest expenses in case of increase/decrease of interest rate on borrowings are presented.

FOR THE YEAR ENDED DECEMBER 31, 2016

in € thousand	Effect on interests expenses in case of changed interest rate on borrowings	
	Increase	**Decrease**
100 b.p. change	4.970	0
50 b.p. change	1.431	0
10 b.p. change	0	0

FOR THE YEAR ENDED DECEMBER 31, 2015

in € thousand	Effect on interests expenses in case of changed interest rate on borrowings	
	Increase	**Decrease**
100 b.p. change	1.736	0
50 b.p. change	736	0
10 b.p. change	0	0

The borrowings are not sensitive on decrease of interest since the loan agreements contain a zero floor clause.

B) EXCHANGE RATE RISK

The BAMC also acquired a small portion of loans denominated in foreign currencies in the transfer from banks and the merger with two banks. On the other hand, all financial liabilities are denominated in EUR.
Since the loan portfolio of the BAMC is almost entirely non-performing the risk of fluctuations in foreign currency exchange rates does not have an effect on the fair value thereof.

The table below summaries exposure of the BAMC to the exchange rate risk as at 31 December 2016 and 2015.

FOR THE YEAR ENDED DECEMBER 31, 2016

in € thousand	EUR	CHF	USD	RSD	RUB	JPY	TOTAL
Total	**1.158.818**	**10.220**	**156**	**3**	**688**	**35**	**1.169.919**
Loans	934.844	10.220	156	3	688	35	945.946
Trade and other operating receivables	4.768	0	0	0	0	0	4.768
Cash and cash equivalents	122.261	0	0	0	0	0	122.261
Total	**1.288.433**	**0**	**0**	**0**	**0**	**0**	**1.288.433**
Trade and other operating payables	12.199	0	0	0	0	0	12.199
Borrowings and other financial liabilities	714.555	0	0	0	0	0	714.555
Debt securities	548.856	0	0	0	0	0	548.856
Long-term provisions	12.824	0	0	0	0	0	12.824
Net Exposure	**-129.616**	**10.220**	**156**	**3**	**688**	**35**	**-118.514**

FOR THE YEAR ENDED DECEMBER 31, 2015

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

C) ELASTICITY OF THE FAIR VALUE OF LOANS IN RELATION TO CHANGED DPS (DEFAULT PROBABILITY SCORECARD)

In accordance with the loan valuation methodology (see note 4.A), the Default Probability Scorecard (DPS) is applied to calculation of fair value of restructuring cases.

Sensitivity analysis of changing probability of default from the DPS for +/- 10 percentage points (hereinafter p.p.) as at 31 December 2016 and 31 December 2015 is presented below. The increase of DPS means the decrease of probability of default and vice versa.

AS AT DECEMBER 31, 2016

in € thousand	Fair value of loans	Fair value of loans if DPS increases by 10 p.p.	Change	Change in %
Restructuring	434.064	448.162	14.098	3,25%
Recovery	498.664	498.664	0	0,00%
Total	**932.728**	**946.826**	**14.098**	**1,51%**

AS AT DECEMBER 31, 2016

in € thousand	Fair value of loans	Fair value of loans if DPS decreases by 10 p.p.	Change	Change in %
Restructuring	434.064	265.222	-168.842	-38,90%
Recovery	498.664	610.713	112.049	22,47%
Total	**932.728**	**875.934**	**-56.793**	**-6,09%**

A decreasing probability from the DPS of 10 p.p. would cause the reclassification of restructuring cases, with a current probability of default between 50% - 60%, into recovery cases while the reclassification from recovery to restructuring strategy is not an option24. Knowing that the recovery value of loans is by the definition lower to the restructuring value of loans, the sensitivity to a DPS decrease is much higher than a sensitivity to a DPS increase.

AS AT DECEMBER 31, 2015

in € thousand	Fair value of loans	Fair value of loans if DPS increases by 10 p.p.	Change	Change in %
Restructuring	383.870	398.774	14.895	3,88%
Recovery	707.136	707.234	0	0,00%
Total	**1.091.006**	**1.106.008**	**14.895**	**1,37%**

AS AT DECEMBER 31, 2015

in € thousand	Fair value of loans	Fair value of loans if DPS decreases by 10 p.p.	Change	Change in %
Restructuring	383.870	274.085	-109.794	-28,60%
Recovery	707.136	801.703	94.225	13,32%
Total	**1.091.006**	**1.075.789**	**-15.569**	**-1,43%**

D) ELASTICITY OF THE FAIR VALUE OF LOANS DUE TO CHANGES IN THE COLLATERAL

value of real estate, provided as a collateral for loans – sensitivity analysis of loans

Real estate, provided as underlying collateral has an important role in determining the fair value of loans. The methodology for valuation of real estates is described in Note 4.C and also applies to the valuation of real estate collateral.

[24] According to the valuation methodology, zero probability of the restructuirng scenario is applied when the probability of restructuring is below 50% as the recovery in such cases is treated as a real option.

Changes in underlying real estate valuations could have an impact on the value of loans, thus a sensitivity analysis as at 31 December 2016 is presented below.

AS AT DECEMBER 31, 2016

in € thousand	Fair value of loans	Fair value of loans if value of real estate collateral increases by 10%	Change	Change in %
Restructuring	434.064	437.535	3.471	0,8%
Recovery	498.664	537.067	38.403	7,7%
Total	**932.728**	**974.602**	**41.874**	**4,4%**

AS AT DECEMBER 31, 2016

in € thousand	Fair value of loans	Fair value of loans if value of real estate collateral decreases by 10%	Change	Change in %
Restructuring	434.064	429.948	-4.116	0,9%
Recovery	498.664	460.919	-37.745	7,6%
Total	**932.728**	**890.867**	**-41.862**	**4,5%**

Recovery cases are significantly more sensitive to a change in the value of real estate collateral than restructuring cases since the fair value of restructuring cases is derived mainly from expected cash flows from operations.

Value of equity investments, provided as collateral for loans – sensitivity analysis of loans

Equity investments, provided as an underlying collateral for loans have an important impact in determining the fair value of loans. The methodology for valuation of equity investments is described in item 4. B and also applies to the valuation of equity collateral (shares and ownership interests pledged as collateral for loans. The sensitivity analysis as at 31 December 2016 is presented below.

The elasticity of the fair value of loans is not proportional due to different rankings, legal circumstances and other known facts in underlying collateral equity.

AS AT DECEMBER 31, 2016

in € thousand	Fair value of loans	Fair value of loans if value of equity collateral increases by 10%	Change	Change in %
Restructuring	434.064	434.412	348	0,08%
Recovery	498.664	501.643	2.979	0,60%
Total	**932.728**	**936.055**	**3.327**	**0,36%**

As at December 31, 2016

in € thousand	Fair value of loans	Fair value of loans if value of equity collateral decreases by 10%	Change	Change in %
Restructuring	434.064	433.712	-352	-0,08%
Recovery	498.664	496.223	-2.442	-0,49%
Total	**932.728**	**929.934**	**-2.794**	**-0,30%**

Fair value of recovery cases is more sensitive to changes in the equity collateral value than in restructuring cases. However, sensitivity to changes in the equity collateral values is much lower than the sensitivity to change in real estate collateral value.

Lower sensitivity to changes in equity collateral value in comparison to the previous year is caused by intensive repossessions of equity investments from borrowers which reduced the value of equity collateral at the end of 2016.

As at December 31, 2015

in € thousand	Fair value of loans	Fair value of loans if value of collateral increases by 10%	Change	Change in %
Restructuring	383.870	384.560	690	0,18%
Recovery	707.136	720.319	13.183	1,86%
Total	**1.091.006**	**1.104.879**	**13.873**	**1,27%**

As at December 31, 2015

in € thousand	Fair value of loans	Fair value of loans if value of collateral decreases by 10%	Change	Change in %
Restructuring	383.870	383.137	-733	-0,19%
Recovery	707.136	692.948	-14.188	-2,01%
Total	**1.091.006**	**1.076.085**	**-14.921**	**-1,37%**

Note 29: Events after the reporting period

On 1 February 2017 BAMC made an early repayment of €168,0 million of the syndicated long term loan due to excess liquidity arising from the sale of assets in December 2016 and January 2017 and recapitalization in December 2016.

Note 30: Related party transactions

The ownership structure as at 31 December 2016 is presented in Note 7 Determination of the significant influence over other entities.

Related parties are, in addition to the Government of the Republic of Slovenia as a 100% owner, deemed to be the following companies:

- Subsidiaries and associates
- Companies associated with the management and members of the Board of Directors, including the Audit Committee members and their close family members, and
- Companies associated with the Government of the Republic of Slovenia.

FROM JANUARY TO DECEMBER 2016 THE BAMC DID BUSINESS WITH RELATED PARTIES

in € thousand	Subsidiaries	Associates	Companies associated with the owner (RS)
Financial assets at fair value through profit or loss (loans)			
Opening balance 1 Jan 2016	148.924	0	107.012
Increase	5.286	0	220.945
Decrease	-77.175	0	0
Closing balance 31 Dec 2016	77.036	0	327.956
Deposits			
Opening balance 1 Jan 2016	0	0	4.475
Decrease	0	0	-954
Closing balance 31 Dec 2016	0	0	3.521
Financial assets at fair value through profit or loss (equity investments)			
Opening balance 1 Jan 2016	25.734	2.356	0
Increase	8.071		0
Decrease	-8.796		0
Closing balance 31 Dec 2016	25.009	2.356	0
Borrowings			
Opening balance 1 Jan 2016	0	0	200.000
Merger on 1 January 2016	0	0	379.376
Increase	0	0	355.250
Decrease	0	0	-376.899
Closing balance 31 Dec 2016	0	0	557.728
Debt securities			
Opening balance 1 Jan 2016	0	0	1.090.711
Bonds redemption	0	0	-533.917
Closing balance 31 Dec 2016	0	0	556.794
Iincome from loans	4.531	0	14.687
Income from equity investments	1.101	21	0
Interest			
Interest income from deposits	0	0	16
Interest expense from borrowings	0	0	-4.959
Interests from debt securities	0	0	-43.176
Other expenses and costs			
Other expenses	-868	0	-15
Other costs	54	0	-979

The BAMC did not undertake business with companies that are associated with the BAMC Board members, including the Audit Committee and their immediate family members.

FROM JANUARY TO DECEMBER 2015 THE BAMC DID BUSINESS WITH RELATED PARTIES

in € thousand	Subsidiaries	Associates	Companies associated with owner (RS)
	2015	**2015**	**2015**
Financial assets at fair value through profit or loss (loans)			
Opening balance 1 Jan 2015	196.386	3.338	0
Increase	16.180	0	107.012
Decrease	-63.642	-3.338	0
Closing balance 31 Dec 2015	148.924	0	107.012
Deposits			
Opening balance 1 Jan 2015	0	0	901
Increase	0	0	3.574
Closing balance 31 Dec 2015	0	0	4.475
Financial assets at fair value through profit or loss (equity investments)			
Opening balance 1 Jan 2015	0	50.131	171.823
Increase	25.734	512	0
Decrease	0	-48.287	-171.823
Closing balance 31 Dec 2015	25.734	2.356	0
Borrowings			
Opening balance 1 Jan 2015	0	0	0
Increase	0	0	200.120
Decrease	0	0	-120
Closing balance 31 Dec 2015	0	0	200.000
Debt securities			
Opening balance 1 Jan 2015	0	0	1.638.531
Redemption	0	0	-547.820
Closing balance 31 Dec 2015	0	0	1.090.711
Income from loans	7.615	93	0
Income from equity investments	0	45.699	12.691
Interest			
Interest income from deposits	0	0	22
Interest expense from borrowings	0	0	-93
Interests from debt securities	0	0	-68.244
Other expenses and costs			
Other expenses	0	0	-1.488
Other costs	0	0	-1.369

NOTE 31: AUDIT COST

The cost of the audit of the financial statements for the financial year 2016 is €72.375 plus VAT.

Note 32: Contingent liabilities

Maximum contingent liabilities of the BAMC for guarantees issued were as follows:

in € thousand	31 Dec 2016	31 Dec 2015
Factor banka	5.759	0
Probanka	9.983	0
Total	**15.742**	**0**

The table shows contingent liabilities with respect to approved but yet unredeemed or unexpired guarantees. All outstanding guarantees were assumed in the merger with Factor banka and Probanka as at 1 January 2016.

Current and non-current portions of contingent liabilities

in € thousand	31 Dec 2016	31 Dec 2015
Current portion	4.833	0
Non - current portion	10.909	0
Total	**15.742**	**0**

The amount of €3.251 thousand of provisions recognised for guarantees is based on past experiences and is in accordance with internal methodology (see note 16).

Note 33: Merger

1. Merger of Factor banka and Probanka

On 19 February 2016 the merger of Factor banka and Probanka into BAMC was registered in the court register, the effective date being 1 January 2016.

General data of the Merged companies

Name of the acquired company	**Factor banka d.d.**	**Probanka d.d.**
Business address of the acquired company	Tivolska cesta 48, Ljubljana	Trg Leona Štuklja 12, Maribor
Identification number	5777011000	5827876000
Ownership	Republic of Slovenia (100%)	Republic of Slovenia (100 %)
Date of signing the merger contract	3.2.2016	3.2.2016
Date of registration of the merger in the court register	19.2.2016	19.2.2016
Effective date of the merger	1.1.2016	1.1.2016
Total book value of assets as at 31 Dec 2015	€196 million	€221 million
Total book value of equity as at 31 Dec 2015	€1,3 million	€-9,9 million

Accounting for the merger and effects on the financial statements of the BAMC

Individual assets and liabilities transferred to the BAMC on 1 January 2016 were recognised at fair value and are presented below:

FAIR VALUE OF ASSETS AND LIABILITIES FROM TWO MERGED BANKS AS AT 1 JANUARY 2016:

in € thousand	Factor banka	Probanka	Total
Total fair value of assets	**162.032**	**187.984**	**350.016**
Loans	141.577	123.772	265.349
Real estate	11.333	14.764	26.097
Equity investments	5.533	18.072	23.605
Cash and equivalents	1.285	24.243	25.528
Other	2.304	7.133	9.437
Deferred costs	18	286	304
Property, plant, equipment, and intangible assets	97	1.163	1.260
Trade and other operating receivables	2.189	5.684	7.873
Total Liabilities	**194.559**	**234.806**	**429.365**
Liabilities	188.337	227.114	415.451
Borrowings	183.124	224.884	408.008
Other financial liabilities	4.684	1.321	6.005
Trade and other operating payables	529	909	1.438
Provisions	5.774	7.007	12.781
Other liabilities	448	685	1.133
Difference between fair value of assets and fair value of liabilities	**-32.527**	**-46.822**	**-79.349**

On 1 January 2016, the BAMC re-measured all transferred assets and liabilities at their respective fair values and recognised the difference between the fair value of the assets and liabilities acquired in the transfer and the nil consideration directly in equity (in accumulated loss) as a distribution to owner.

The total amount recognised as a distribution to owner recognized in the financial statements as at 1 January 2016 and resulting from the merger of Factor banka and Probanka in accordance with the BAMC accounting policies amounts to € -79.349 thousand.

2. MERGER OF FIVE SUBSIDIARIES

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

On 13 June 2016 PV Naložbe d.o.o., Ljubljana, the last former subsidiary of Factor banka, was merged into BAMC with the effective date being 31 March 2016.

GENERAL DATA OF THE MERGED COMPANIES

	Former subsidiaries of Factor banka		
Name of the acquired company	**Factor – IN d.o.o**	**Factor Projekt d.o.o.**	**PV Naložbe d.o.o**
Business address of the acquired company	Tivolska cesta 48, Ljubljana	Tivolska cesta 48, Ljubljana	Tivolska cesta 48, Ljubljana
Identification number	2332434000	3715400000	2305887000
Ownership	DUTB (100%)	DUTB (100%)	DUTB (100%)
Date of signing the merger contract	17.5.2016	17.5.2016	8.6.2016
Date of the registration of the merger in the court register	23.5.2016	23.5.2016	13.6.2016
Effective date of the merger	31.3.2016	31.3.2016	31.3.2016
Total book value of assets as at 31 Mar 2016	€12,9 million	€3,8 million	€3,6 million
Total book value of equity as at 31 Mar 2016	€-6,6 million	€2,2 million	€-5,2 million

	Former subsidiaries of Probanka	
Name of the acquired company	**Probanka Leasing d.o.o.**	**Probanka Nepremičnine d.o.o.**
Business address of the acquired company	Trg Leona Štuklja 12, Maribor	Trg Leona Štuklja 12, Maribor
Identification number	5724180000	1196987000
Ownership	DUTB (100%)	DUTB (100%)
Date of signing the merger contract	17.5.2016	17.5.2016
Date of the registration of the merger in the court register	23.5.2016	23.5.2016
Effective date of the merger	31.3.2016	31.3.2016
Total book value of assets as at 31 Mar 2016	€11,8 million	€6,3 million
Total book value of equity as at 31 Mar 2016	€-3,8 million	€-1,9 million

Accounting for the merger and effects on the financial statements of the BAMC

Individual assets and liabilities transferred to the BAMC on 31 March 2016 were recognised at fair value and are presented below:

FAIR VALUE OF ASSETS AND LIABILITIES OF FIVE MERGED SUBSIDIARIES AS AT 31 MARCH 2016:

in € thousand	**Total**
Total fair value of assets	**38.508**
Loans	902
Leasing	3.329
Inventories of property and equipment	31.644
Equity investments	231
Cash and equivalents	904
Other	1.498
Deferred costs	74
Property, plant, equipment and intangible assets	45
Trade and other operating receivables	1.379
Total Liabilities	**39.878**
Liabilities	37.882
Borrowings	37.208
Other	674
Provisions	991
Other liabilities	1.005
Difference between fair value of assets and fair value of liabilities	**1.370**

On the effective date, 31 March 2016, the BAMC recognized an insignificant effect on equity in the amount of €1.370 thousand, also recognised as a distribution to the owner.