Republic of Slovenia
Ministry of Finance
TREASURY DIRECTORATE

Newsletter, 1-9/2013

Central Government Budget Debt Management

1 Banking Sector Resolution Underway in Slovenia

Last Friday (6 September) the Bank of Slovenia acting in co-operation with the Government launch a controlled winding down of two smaller banks (Factor banka and Probanka), whose combined market share is about 4%. Given that the viability of both banks' business model has been exhausted, they were unable to attract adequate levels of capital for continued operation from existing or new investors.

Orderly resolution of two small banks forms part of an overall strategy to reinforce the Slovenian banking system. All regular creditors of the banks will be repaid. The Bank of Slovenia appointed liquidation administration in both banks tasked with preparing a liquidation plan while ensuring the necessary conduct of business during wind-down period.

2 Recent Developments in Banking Sector Stabilisation Plan Implementation

The Government adopted a formal decision that the three largest banks (NLB, NKBM and Abanka, accounting together for nearly 50% of the banking sector) are eligible for state support in strengthening their balance sheets. This would be implemented through measures in accordance with the Measures of the Republic of Slovenia to Strengthen Bank Stability Act (ZUKSB).

The reason why a planned transfer of impaired bank assets to the BAMC is put on hold is in European Commission requirement that a system-wide Asset Quality Review (AQR) and bottom-up stress testing (ST) has to be performed again to evaluate up-to-date estimate for Slovenian banking sector recapitalisation needs.

Before the implementation of individual measures to ensure the stability of banks (most notably recapitalisations and transfers of assets to the Banking Asset Management Company) a comprehensive asset quality review and a stress test will be conducted. This will ensure an independent assessment of capital needs and contribute to the confidence of the financial markets, while avoiding the shortcomings of the previous successive capital increases in state-owned banks.

The Bank of Slovenia, in coordination with the Ministry of Finance, commissioned a system-wide Asset Quality Review and bottom-up Stress Testing exercise. In addition to the three banks of systemic importance (NLB, Nova KBM and Abanka), taking into account specific criteria, Banka Celje, Gorenjska banka, Probanka, Factor banka, UniCredit Banka Slovenija, Hypo Alpe Adria Bank and Raiffeisen banka will also participate in the AQR and ST exercise which together amounts to 72% of total banking system assets. Bank of Slovenia appointed Oliver Wyman for the ST exercise, Deloitte and Ernst & Young for the AQR exercise and several independent real estate appraisers.

The AQR exercise includes data completeness and integrity verification, individual loan file reviews, collateral value appraisals and identification of impaired assets/impairment deficit. The ST exercise aims to assess the potential capital needs under a baseline and a stressed macroeconomic scenario for a three-year projection period (2013-2015).

The results and the full report are expected by the end of the year with interim results for the three largest banks available in early autumn. This will pave the way for transferring the assets to the BAMC and recapitalising systemically important banks.

3 Privatisation Fully Underway

After the parliament endorsed a list of 15 companies for privatisation at the end of June, the manager of state-owned enterprises (Slovenian Restitution Fund - SOD) has started implementing the privatisation programme. In August, SOD concluded an agreement with a set of entities willing to sell their stakes in Telekom Slovenije alongside the state. Thereby, more than 75% of the largest company by market cap on the privatisation list will be available for sale. In parallel, a request for proposals (RfP) for a financial advisor in the Telekom privatisation was issued with a view of appointing the advisor by the end of September.

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