Bank of Slovenia and Slovenian Government Announced Results of Stress Tests

Ljubljana, 12 December 2013 - The Bank of Slovenia and the Government of the Republic of Slovenia (government) announced the results of the stress tests at a press conference today: the capital shortfall at the banks covered by the review would amount to EUR 4.778 billion under the adverse scenario. EUR 3.012 billion will be required for capital increases at three banks (NLB, NKBM, Abanka).

1 The capital deficit at the banks covered by the review would amount to EUR 4.778 billion under the adverse scenario

The purpose of the comprehensive review was to assess, with the help of independent international experts, the robustness of the Slovenian banking system in an unlikely adverse macroeconomic scenario, and to determine any capital shortfall that could arise at an individual bank or consequently across the entire banking system in the event of such a scenario being realised. Ten banks constituting a representative sample of 70% of the Slovenian banking system were initially included in the comprehensive review. The following banks were included in the review: NLB, NKBM, Abanka, Gorenjska banka, Banka Celje, UniCredit Banka, Hypo Alpe-Adria-Bank, Raiffeisen banka, Probanka and Factor banka (the orderly wind-down process later saw the last two excluded from the review). The comprehensive review was conducted by:

- Oliver Wyman (bottom-up stress tests),
- Roland Berger (top-down stress tests),
- Deloitte and EY (asset quality review),
- CBRE, Jones Lang LaSalle, Cushman & Wakefield, Colliers (real estate valuation).

The comprehensive review of the banking sector encompassed an asset quality review and stress tests (bottom-up and top-down). The review has been conducted since August 2013, and included verification of data completeness and integrity, a review of individual loans and collateral valuations, and identification of the adequacy of impairments. An assessment was conducted on the basis of this data, or in other words stress testing of whether the banks would be able to maintain an adequate level of capital at the end of 2015 assuming a further sharp deterioration in the macroeconomic situation. The comprehensive review was supervised by a Steering committee comprising representatives of the Bank of Slovenia and the Ministry of Finance, and observers from the European Commission (DG EcFin and DG Comp), the European Central Bank and the European Banking Authority.

Bank	Capital deficit under the adverse scenario, EUR million	Total capital increase, EUR million
NLB	1,904	**1,551**
NKBM	1,055	**870**
Abanka	756	**591**
Banka Celje	388	6 months for capital strengthening via money from private investors
Gorenjska banka	328	
Hypo Alpe-Adria-Bank	221	
Raiffeisen banka	113	
UniCredit Banka Slovenija	14	
Total	**4,778**	**3,012**

EUR 3.012 billion will be required for capital increases at three banks (NLB, NKBM, Abanka)

Following the comprehensive review of the banks and the stress tests, a total of EUR 3.012 billion is required for capital increases at NLB, NKBM and Abanka, of which NLB requires EUR 1,551 million, NKBM EUR 870 million and Abanka EUR 591 million. The government has secured the requisite funds: two-thirds in cash and one-third in marketable government securities. After the process has been completed, NLB, NKBM and Abanka will have overall capital adequacy ratios of around 15%.

The Bank of Slovenia has classed the banks into the following groups on the basis of the results of the comprehensive review and the stress tests:

- **Group 1:**
    - NLB and NKBM: even before the stress tests were conducted, they failed to meet the Bank of Slovenia's capital requirements and were unable to attract private investors on the market. On the basis of the stress tests they will require EUR 2.421 billion for capital increases, which will be provided by the government in the form of state aid. The capital increases will be carried out via cash and, in part, via bonds. NLB will undergo a capital increase via cash in the amount of EUR 1,140 million and via bonds in the amount of EUR 411 million, while NKBM will undergo a capital increase via cash in the amount of EUR 619 million and via bonds in the amount of EUR 251 million. Both banks have already drawn up their reorganisation plans and commitments, which have been submitted to the European Commission. The capital increases at the two banks will be carried out as soon as the European Commission gives a formal confirmation that they comply with its state aid rules. Both banks also envisage the transfer of the majority of their non-performing claims to the Bank Asset Management Corporation (BAMC) in the total amount of EUR 1.133 billion, which should mostly be carried out by the end of the year. After the completion of the recapitalization and transfer of bad assets to BAMC, the privatization of banks recipients of state aid will follow.In the case of NLB, a commitment was made to reduce the government's participating interest to no more than 25% plus one share, while for NKBM there was a commitment to sell off the government's entire participating interest.
    - Abanka: even before the stress tests were conducted, it failed to meet the Bank of Slovenia capital requirements and was unable to attract private investors on the market. It requires EUR 591 million for a capital increase on the basis of the stress tests, which will be provided by the government in the form of state aid. The capital increase will be carried out primarily via cash, in the amount of EUR 348 million, and also via bonds, in the amount of EUR 243 million. The reorganisation plan is being drawn up, and will be submitted to the European Commission. The capital increase will be carried out as soon as the European Commission confirms that it complies with its state aid rules. Abanka also envisages the transfer of the majority of its non-performing claims to the BAMC, in the total amount of EUR 543 million, which will be carried out after final approval of the restructuring programme by the European Commission, provisionally in the first quarter of 2014. The commitments made to the European Commission again include privatisation, with the aim of selling off the government's participating interest in Abanka.

- **Group 2:**
    - UniCredit Banka Slovenija, Banka Celje, Hypo Alpe-Adria-Bank, Raiffeisen banka and Gorenjska banka: banks that currently meet the Bank of Slovenia capital requirements, but that were shown by the stress tests to have a potential shortfall in available capital by the end of 2015. The banks can strengthen capital adequacy by increasing their income, achieving better loan recovery, redeeming collateral on non-performing loans, selling claims, transferring investments to companies in the same group, undergoing a capital increase, finding new investors and taking other measures to strengthen capital adequacy. Should the capital shortfall not be covered by the end of June 2014, the government will provide the requisite capital backstops, the rules on state aid being upheld in full.

	Total capital increase, EUR million	Capital increase via cash	Capital increase via bonds	Write-down of subordinated instruments (bail-in)	Transfer of non-performing claims to BAMC	Tier 1 capital ratio after transaction
NLB	1,551	1,140	411	257	711	15.0%
NKBM	870	619	251	64	422	16.8%
Abanka	591	348	243*	120	543*	9.0%**
Total	**3,012**	**2,107**	**905**	**441**	**1,676**	**/**

** estimate*
*** Tier 1 capital ratio after approval of provisional ruling for state aid (capital increase via cash in the amount of EUR 348 million)*

2 Other Measures to Stabilise the Banking System

The government has adopted two further resolutions relating to the banking sector:

- capital increases at Factor banka and Probanka, which are already in the process of an orderly wind-down. The shortfall in capital for the orderly wind-down will be provided by the government; the capital increase will be carried out simultaneously with the inclusion of subordinated instruments in capital.
- a capital increase at the BAMC in the amount of EUR 200 million, to ensure its normal operation as a going concern.

The general government debt is forecast to stand at 75.6% of GDP after the implementation of the measures to restructure the banking system. If the balance of approximately EUR 2.5 billion in the government's single treasury account is taken into account (after the implementation of the measures), the net general government debt will stand at 68.5% of GDP.

The measures adopted are all vital and represent a significant step forward in the stabilisation of the banking system, and are a prerequisite for renewed economic growth.

In parallel with the measures taken in the banking system, the Slovenian Government continues its implementation of the reform agenda to enhance the recovery of the economy, particularly with:

- measures for the corporate sector deleveraging, through the amendments already approved with insolvency legislation;
- efficient management of state-owned enterprises provided by the proposal of a new Slovenian Sovereign Holding Act and
- execution of the planned privatisation processes.

In this way, the Government acts comprehensively, both in the banking and real sector, thus ensuring the way out of the crisis.