



History

Transfer of non-performing assets

After its establishment in March 2013 BAMC acquired non-performing assets from four banks – NLB and NKBM in December 2013 followed by Abanka and Banka Celje in October and December 2014. Total gross value of transferred non-performing assets from four banks, done under the ZUKSB legislative directions, amounted to €4,9 billion at a transfer value of €1.569,5 million. In order to consolidate exposures and ensure more effective management of these assets, BAMC also purchased claims totalling €38,6 million from Probanka and Factor banka in arm’s length transactions at negotiated market values.

Transfer prices for the four banks under the ZUKSB legislative directions (i.e. excluding Probanka and Factor Banka) were set by the European Commission. BAMC was not involved in the setting of transfer prices, nor was it any way involved in the process of determining which non-performing loans or which equities and other types of claims would be transferred.

The transfers of assets from banks under ZUKSB were carried out at the real economic value (REV) as determined by the European Commission, and not at fair value. In accordance with the International Financial Reporting Standards, BAMC must disclose acquired assets at fair value. BAMC also discloses all of its assets at fair value in all its financial reporting. A proper assessment of the value of each asset is also a key quantitative criteria for BAMC in its credit and investment decisions.

For this reason, BAMC developed an internal methodology for valuing individual categories of assets (loans, real estate and equity holdings) on the individual basis. This was done during the first half of 2014 on the basis of internal analyses of assets and the experiences and knowledge of its experts. This in-house methodology was audited by BAMC’s external auditors.

BAMC estimated the fair value of acquired assets from NLB, NKBM, Abanka and Banka Celje in 2013 and 2014 and concluded that their fair values at the time of transfer were €107,9 million lower than the transfer values. These day-one losses have to be, according to accounting code, recognised as a return of equity to the Republic of Slovenia since BAMC and the four banks are 100% owned by the state.

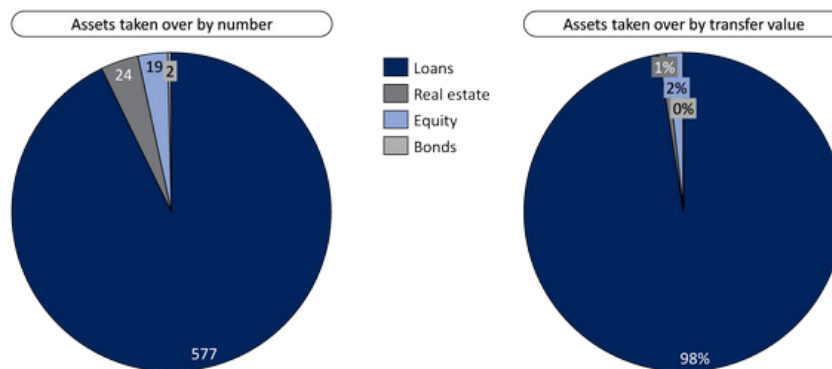
TRANSFER PRICES BY BANK



NOTE: While transfers from NLB, NKBM, Abanka and Banka Celje were done under the legislative directions, acquisitions of assets from Probanka and Factor banka were done as market transactions between BAMC and respective banks.

The EU also determined an estimate of the market value for the assets transferred under legislative directions at the date of the transfers, i.e. what the banks are estimated to have been able to sell the assets for to a buyer other than BAMC. The difference between these market value estimates and the transfer values are documented in EU’s state aid decisions regarding these four banks, and amount to €623 million.

ASSETS TAKEN OVER BY NUMBER OF DEBTORS, REAL ESTATES, COMPANIES AND THEIR VALUE



Capital structure of the BAMC

The Republic of Slovenia paid in €203.625.000 of share capital in three tranches in 2013. Majority of the equity was paid in government bonds (RS68 and RS38).

BAMC financed its non-performing assets acquisition from four banks by issuing four bond issues in total nominal amount of €1.563,2 million.

CHARACTERISTICS OF ISSUED BONDS

Bond	Value (in € million)	Coupon rate	Issued	Principal maturity	Coupon maturity
DUT01	505,8	3,75%	December 2013	December 2015	annually (December)
DUT02	505,8	4,50%	December 2013	December 2016	annually (December)
DUT03	424,6	1,50%	October 2014	December 2017	half-yearly (June and December)
DUT04	127,0	1,37%	December 2014	December 2017	half-yearly (June and December)

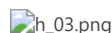
NOTE: As some of the bonds were not "sold" (exchanged) at par value, their effective interest rate is somewhat higher. More precisely, DUT03 effective rate was 1,57% and DUT04 effective rate was 1,38%.

BAMC is liable for the repayment of the bonds with all its assets. In addition, the bonds are also irrevocably and unconditionally guaranteed by the Republic of Slovenia. BAMC pays an annual guarantee fee to the Government equal to 1,25% of the issue value (e.g., €19,3 million in 2015) All four bonds are acceptable as Eurosystem collateral, so banks that hold the bonds may use them to secure liquidity on favourable terms.

Actual (physical) acquisition of non-performing assets from banks

A distinction must be made between the legal transfer and actual physical transfer of non-performing assets. Under the ZUKSB, the legal transfer was carried out with the signing of an agreement to transfer assets and the payment for those assets with BAMC bonds. BAMC legally recognised the acquired assets in its financial statements at transfer values, while the actual physical transfer of the claims was carried out gradually with the physical receipt of the loan and other documentation by BAMC. All in all, the documentation taken over by BAMC from the four banks encompassed over 3.000 binders with almost 1,2 million pages of documents.

LEGAL AND PHYSICAL TRANSFERS OF NON-PERFORMING ASSETS



NOTE: The markers in the figure present dates of legal transfers of assets from the banks with horizontal bars denoting the duration of physical transfers. Two additional markers for NKBM denote legal transfers of real estate.

State aid

Non-performing assets were transferred from the four banks to BAMC at the real economic value set by the European Commission. In setting the transfer prices of assets, the European Commission and its advisors also assessed the market value of the aforementioned assets at that time. The market value of assets was substantially lower than the transfer value or REV and the difference between the two values constitutes state aid provided by BAMC.

APPROVED STATE AID

Bank (values in € million)	Real economic value	Estimated market value	State aid
NLB ¹	711	580	131
NKBM ¹	422	227	195
Abanka ¹	452	218	234
Banka Celje ¹	127	64	63
Total	1.712	1.089	623

SOURCE: ¹Ministry of Finance, 2EC SA.38522.

Accordingly, the Republic of Slovenia provided €623 million in state aid to the banks undergoing rehabilitation via BAMC. BAMC is expected to increase the value of its assets to cover the entire amount of state aid, its management and financing costs and achieve a positive return on its equity.

Without the transfer of assets to BAMC, recapitalisation of the banks would not have been possible. The latter was an important step towards restoring credibility in the Slovenian banking sector both at home and abroad. International markets responded favourably in the form of a substantial reduction in interest rates for Slovenian debt.

Merger of Factor banka and Probanka to BAMC

As the owner of all three entities involved in the merger process, the Government of the Republic of Slovenia passed a decision in November 2015, in support of the merger of Factor banka and Probanka to BAMC. Formally, acting in the capacity of the General Assembly of BAMC, the Government passed a decision on 15 January 2016, stating that the simplified merger process would be carried out, meaning that certain formal steps will not be required, thus expediting the process.

In the context of preparations, BAMC was given insight into the two banks' loan portfolio, as well as employee information, ongoing court proceedings etc. For the purpose of assessment of the economic consequences of the merger, BAMC ordered financial due diligence of both banks.

Operational preparations for the merger have been ongoing since December 2015, and in the beginning of January 2016 three working teams have been formed, covering the fields of labour relations, management and decision-making process analysis, asset review of both banks, ensuring a harmonized accounting system and

harmonizing IT processes.

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 to BAMC was registered at court register the next day, setting the cut-off date at 1 January 2016.

Amendments of ZUKSB

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

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

The key changes and new additions brought by the new [ZUKSB-A](#) 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, and
- the law extends BAMC's lifespan by the end of 2022.

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



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