

Commission for the Prevention of Corruption

Dunajska 56, Ljubljana

t +386 1 400 57 10

f +386 1 478 84 72

www.kpk-rs.si

Peter Premrl
Senior Anti-Corruption Officer

Corruption Risks in the Process of Establishing the Bad Bank in Slovenia

Paris, June 2015

I will talk about:

- *Reasons for creating the bad bank - The Bank Assets Management Company (BAMC) in Slovenia.*
- *How does BAMC work?*
- *Detected corruption risks during the process of establishing the BAMC in Slovenia.*
- *CPC's proposals for reduction of corruption risks in the future to the Ministry of Finance, the Government of the Republic of Slovenia and the BAMC.*

The Commission for the Prevention of Corruption of the Republic of Slovenia (CPC) is an **independent state body** like the human rights Ombudsman, Information Commissioner or the Court of Audit with a mandate in the field of **preventing and investigating corruption, breaches of ethics and integrity of public office.**



The Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act (ZUKSB) took effect at the end of 2012. This act forms **the legal foundation** of the Bank Asset Management Company (**BAMC**).



Established in March 2013 as a **government-owned company** with the task of facilitating the restructuring of banks with ***systemic importance*** that were facing severe ***solvency and liquidity problems***.

Banks that:

- are **unable to fulfil capital adequacy requirements** in time
- **experience funding difficulties**

may apply for government support provided that they have failed to raise adequate capital from private sources.

The eligibility for support depends on **the bank's importance for the stability of the financial system**. The Government determined the **amount** and **structure** of support.

Main advantage of the BAMC:

Recapitalization of the banks would not have been possible without the transfer of assets to the BAMC.



This was an important step forward in **restoring credibility of the Slovenian banking sector, confidence and stability** in the Slovenian financial sector both on the domestic and international levels.

By the end of 2013, the ***two largest banks – Nova Ljubljanska banka d.d. and Nova Kreditna banka Maribor d.d. - had been recapitalised by the government*** and a substantial part of their **non-performing assets** had **been transferred** to BAMC.

Consequently:

Both banks entered 2014 with ***strengthened balance sheets*** and with ***sufficient capital and liquidity.***

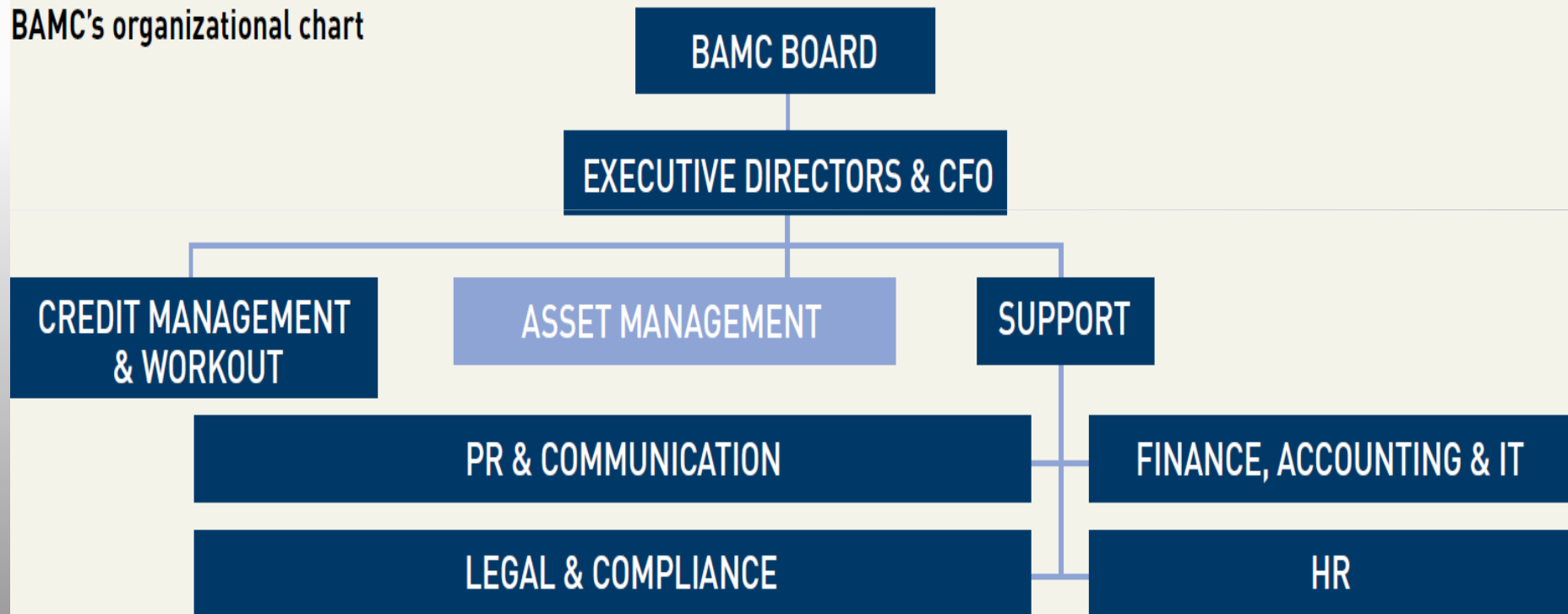
BAMC – some information:

- Share capital: 203.625.000,00 EUR,
- Number of employees: 88 (May 31st, 2015),
- Ownership: State,
- Executive directors: Torbjörn Månsson, CEO, Janez Škrubej, Aleš Koršič,

Organisation of the BAMC - corporate governance

- a one-tier Board governance structure,
- steered by a **seven-person board of directors** (three executive directors - full-time employees of the BAMC, and four non-executive directors),
- two Board committees: an Audit Committee, a Remuneration Committee (each committee has one external member).

BAMC's organizational chart



Process for application and granting of support

A Slovenian **bank is unable to raise sufficient capital** to meet the requirements of Bank of Slovenia (BS).

1



BS can request that the bank makes an **Application of support** to the Interministerial Committee.

2



A Slovenian bank can also initiate the process on its own by submitting an Application of support without a request from the Bank of Slovenia.

The application for support:

- shall be ***made by the Board of Directors*** of the bank and
- ***addressed to the Interministerial Committee.***

Bank shall describe:

- **the current situation of the bank** (background, business and operations, financial situation) and
- a proposed **restructuring plan** (proposed restructuring measures, other considerations).

The Interministerial Committee obtains the view of **Bank of Slovenia** regarding the systemic importance of the bank.

Bank of Slovenia recommends the *level of required recapitalization* and which, if any, *problem assets* should be transferred and at what price.

The Interministerial Committee may also request a **preliminary opinion from the BAMC** regarding the **structure of support** based on information provided by the bank to the Interministerial Committee.

The Interministerial Committee decides
if the bank is eligible for support.

YES:

- BAMC can be requested to perform an **in-depth analysis of the non-performing loans and assets** and
- revert to the Interministerial Committee with an **independent recommendation**.

NO

The BAMC is to enter into **an agreement** with the bank.

The bank should agree to:

- **pay** for **all BAMC direct and indirect expences** related to the support process,
- disclose all requested **information** to the BAMC,
- provide the BAMC with requested information **timely** and in the **requested format**,
- provide the BAMC with **resources** as requested to facilitate the work of the BAMC.

Principles when proposing and implementing asset transfers:

- Assess that assets to be transferred have been selected from **a risk reduction perspective** as well as from a perspective of **optimizing management efficiency**.
- Perform an assessment to understand **the operational and financial consequences** of owning the assets to be transferred.
- Assess **the impact of potential write-downs** of transferred assets in the case reasonable values of the assets are lower than the transfer prices that are decided by the government and confirmed by the EC.

- Determine **the type of securities or guarantees** to be used for asset purchase.
- Determine BAMC's **capital requirements and financing**.

The Interministerial Committee finalises a recommendation to the **government (final decision)** based on:

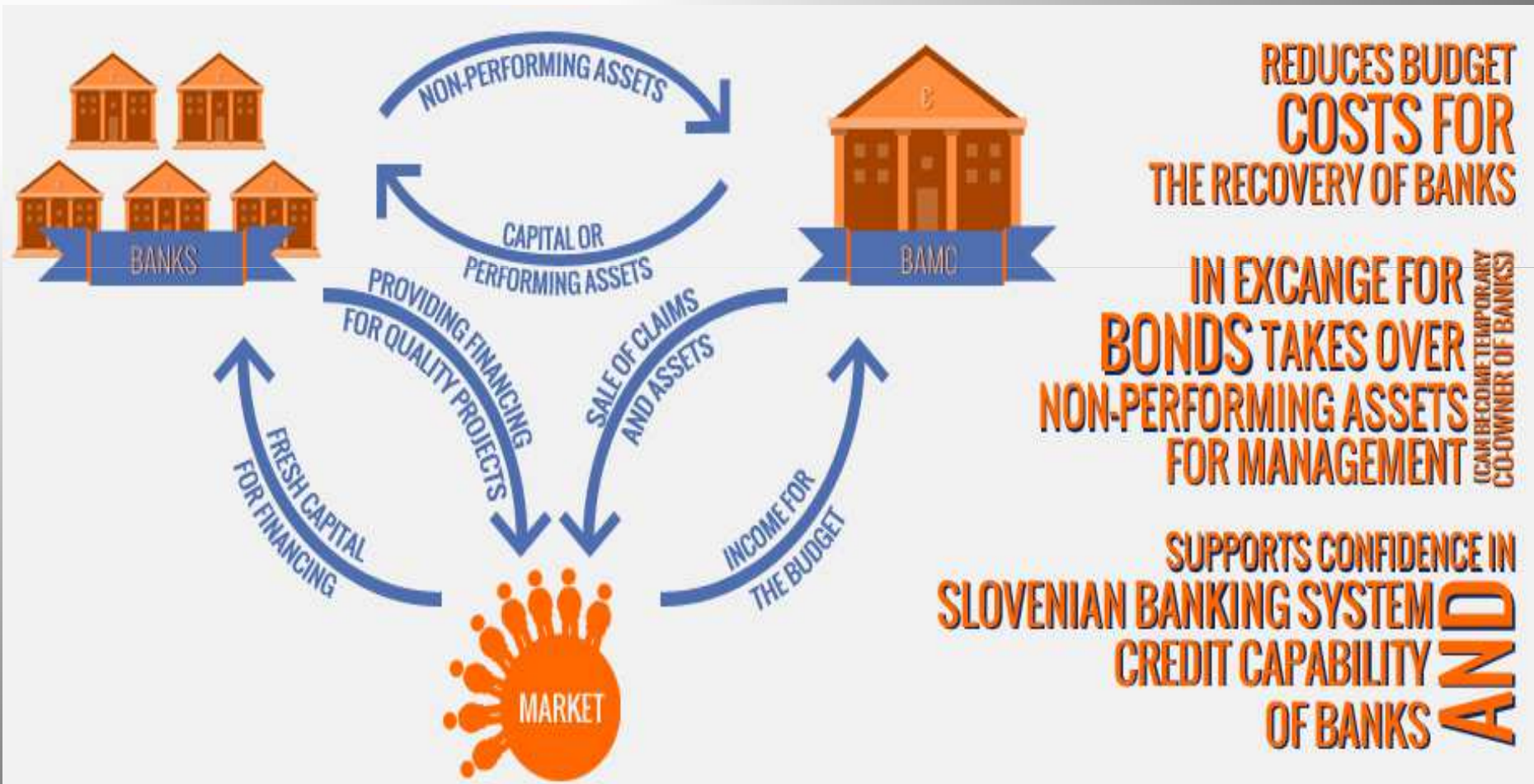
- Recommendation from **Bank of Slovenia** and the recommendation from BAMC.
- Opinion from **the European Commission** on the compliance of support measures with state aid rules.

General principles:

(All of BAMC duties should be carried out
accordance to the general guiding principles)

1. BAMC will perform its duties with the aim of maximizing value.
2. All laws and rules of European Union will be adhered to.
3. Government assistance is offered only when private solutions are not available.
4. The support must be based on business terms and conditions.

5. Government assistance must be sufficient to solve the underlying problems.
6. Government assistance must not exceed what is needed to restore trust in the bank and ensure business viability, without providing the bank with a competitive advantage.
7. Government assistance must be structured in a way to facilitate maximum recovery.
8. Government assistance can only be provided after existing shareholders and holders of subordinated debt have absorbed losses.





Executive directors



Torbjörn Månsson, CEO and Executive Director, holds a master's degree in economics and business administration. His primary tasks at the BAMC are to lead the organisation and its team, and to ensure that the BAMC completes its tasks in a professional and timely manner. His work experience includes 25 years of professional consulting to corporates and financial institutions, with McKinsey & Co, SIAR-Bossard, Bain & Co and Quartz+Co. His longest period of employment was at Bain & Co, where he worked for 18 years, the last ten years as Head of the Nordic Private Equity Practice, focusing on consulting services in the fields of asset management, strategic planning and investments. He also managed the Nordic Performance Improvement Practice, dealing mostly with restructuring and the optimisation of operations in different industries. He has worked in thirty countries around the world, from China, India, Japan, the United States and Mexico to European countries. In parallel, since 2004 he is the Chairman of the Board of Harjak & Månsson AB, a premium interior decorating retailer in Stockholm (NK Inredning).

quartz+co Management Consulting - Nordic presence, global reach

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Experienced partner joins Quartz+Co's Stockholm office

08 March 2013



Torbjörn Månsson joins Quartz+Co to further grow our platform in Stockholm. Torbjörn brings 20+ years of experience from positions in McKinsey & Co. and Bain & Co.

In March 2013, Torbjörn Månsson joins Quartz+Co's office in Stockholm. Torbjörn will contribute to strengthening Quartz+Co's position in Sweden. Torbjörn has more than 20 years of experience within management consulting from positions at McKinsey & Co. and Bain & Co. Among others, Torbjörn headed Bain & Co's Nordic Private Equity Practice and Performance Improvement Practice. During his 17 years at Bain Nordic, the company grew from 10 people to 180+.

"It is an exciting challenge to contribute to build a truly Nordic premium position in Stockholm. The combination of working with intriguing clients, building the best team of management consultants in Stockholm and at the same time developing

In March 2013, Torbjörn Månsson joined Quartz+Co's office in Stockholm. 1

In March 2013, non-executive directors start to search three executive directors. 2



Torbjörn Månsson
CEO and Executive Director

Quartz+Co. was able to immediately provide suitable expert - Torbjörn Månsson. 3

In March 2013, Torbjörn Månsson joined BAMC as Executive Director. 4

The biggest BAMC external contractor became Quartz+Co. (over 3,6 mio EUR). 5

Key activities in the **Initial Phase**:

- Describe the journey ahead and develop roadmap.
- Draft organisation and processes.
- Support development of initial policies.
- Support development of guidelines of BAMC.
- Prepare and host workshop for key stakeholders.
- Support preparation of status reports and board meeting documentation.
- Support critical start-up activities.

Key activities in the project of **Initial Strategic and Operational Due Diligence** include:

- Review bank strategy and implications of restructuring plan, including resulting competitive position(s) of its businesses.
- Develop scenarios for likely outcome of volumes, margins, market shares and cost development.
- Review quality of operational improvement plan, planned value levers and expected outcome of improvements.
- First assessment of organisational robustness.

Key activities in the project of **Initial Strategic and Operational Due Diligence** include (continue):

- Review proposed NPLs to be separated from an investor perspective (i.e. optimal from a cash recovery for BAMC / taxpayers perspective).
- Review sample of credit files that will be transferred to BAMC (potentially review a few "good credit" files).
- Identify resources that can be taken over by, or used for outsourcing agreement with BAMC's NPL / Credit work-out operations.
- Co-ordinate and co-operate closely with Financial Due Diligence project to integrate findings in valuation.

Key activities in **Project Management and Development of First round Recommendation** include:

- Manage Process with activities, timelines and responsibilities.
- Manage interdependencies between sub-projects (Financial due diligence, Strategic due diligence, Transaction preparation, etc.) to ensure consistency of perspectives and assumptions across modules.
- Manage and co-ordinate inter-linkages with internal BAMC and projects such as "Organisation Development" and "Stakeholder Management" as well as external advisors and bank(s).

Key activities in **Project Management and Development of First round Recommendation** include:

- Ensure quality control.
- Monitor project cost and take action on deviations.
- Manage updating with Board / Investment Committee.
- Integrate findings into a first round recommendation with supporting documentation.

Quartz & Co. (19. 3. 2013 – 31. 8. 2014, 3.652.000 EUR)

SINTEGRA LAB d.o.o. (19. 3. 2013 – 31. 8. 2014, 115.000 EUR):

Designing a corporate communication strategy for BAMC that would include:

- Annual media communication strategy.
- Public communication strategy.
- Media communication protocol for the members of the Board defining the ways of proactive media communications and reactive responses to journalists questions. All activities under item I. will be performed by SINTEGRA LAB in cooperation with BAMC communication manager.

Counselling and support for the Management Board media and public communications.

Counselling and training for public appearance and media communication for speakers selected in Board communication strategy.

Counselling to the Board on crisis communication.

Development and implementation of new communication tools for effective media communication.

Regular reporting in three-month intervals to the member of the Board in charge for communications.



Any Questions?