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PUBLIC VERSION

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**Subject: State aid n° SA.37643 (2013/N) – Slovenia
Orderly winding down of Factor Banka d. d.**

Sir,

1 PROCEDURE

- (1) On 6 September 2013 the Commission temporarily approved as rescue aid the granting of State guarantees on new liabilities of Factor Banka d.d. ("the liquidity decision")¹.
- (2) In line with the commitments provided in the context of the liquidity decision, on 5 November 2013 Slovenia notified to the Commission an orderly winding down plan for Factor Banka d.d.
- (3) The Slovenian authorities updated that orderly winding down plan and submitted additional information between 5 November 2013 and 6 December 2013.
- (4) Slovenia exceptionally accepts that the decision be adopted in the English language for reasons of urgency.

¹ Commission decision of 6.9.2013 in State Aid Case SA.37315 "Rescue aid in favour to Factor Banka", OJ C 314, 29.10.2013, p. 2.

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2 DESCRIPTION OF THE MEASURE

2.1 The beneficiary

- (5) The beneficiary of the aid is Factor Banka d. d. ("the Bank"). The Bank is a universal bank incorporated and domiciled in Slovenia. It is the fifteenth-biggest bank in Slovenia and held total assets of approximately EUR 1 billion on 31 December 2012 (2,3% of the assets of the national banking system). The Bank's shares are not listed on any stock exchange, but the Bank's bonds have been admitted for trading on the Ljubljana Stock exchange and Luxembourg stock exchange.
- (6) Since its foundation the Bank's operations have been almost entirely focused on transactions with corporate clients. In 2010, the Bank started expanding the share of deposits by retail clients, which amounted to EUR 73,6 million at the end of 2010 and further increased to EUR 107,6 million by the end of 2012. In November 2012, the Bank took over KD Banka d.d. and as a result expanded its operations to offer services to retail clients (current accounts, credit cards). The Bank operates solely at its head office in Ljubljana where it has its only branch office. The Bank also finances certain corporations and projects abroad. The Bank operates in Slovenia (71% of total assets) and abroad (Croatia, Serbia, Bulgaria, Ukraine, Kosovo and Montenegro: 29% of total assets).
- (7) The main shareholders of the Bank are ACH d.d. (40,8%), CG Invest d.d. (10%) and NKBM (9,9%). Currently, its outstanding subordinated debt amounts to EUR 22,8 million.
- (8) Table 1 sets out the Bank's main financial figures (in thousand EUR):

TABLE 1	30 Sept 2013	31 Dec 2012
ASSETS	567,597	1,027,504
Cash and balances with the central bank	17,926	17,505
Financial assets held for trading	454	7,274
Available-for-sale financial assets	105,353	72,246
Loans	437,414	795,925
- Loans to banks	2,066	12,587
- Loans to customers	434,208	782,140
- Other financial assets	1,140	1,198
Held-to-maturity financial assets	0	89,039
Fixed assets	4,520	7,991
Investment property	348	1,064
Intangible assets	193	1,909
Investments in subsidiaries and associates	0	11,953
Tax assets	76	9,327
Other assets	1,313	3,051
Non-current assets held for sale and discontinued operations	0	10,220
TOTAL LIABILITIES AND CAPITAL	567,597	1,027,504
Financial liabilities from the central bank	169,145	136,362
Financial liabilities carried at fair value through profit and loss	2,374	2,603
Financial liabilities measured at amortised cost	642,466	801,191
- Deposits from banks	3,929	32,826
- Deposits from customers	353,409	396,882
- Loans from banks	156,957	199,237
- Debt securities	103,712	145,359
- Subordinated debt	23,240	25,613
- Other financial liabilities	1,219	1,274
Provisions	36,387	2,330
Tax liabilities	0	713
Other liabilities	572	661
TOTAL LIABILITIES	850,944	943,860
Share capital	11,577	11,577
Capital reserves	40,749	40,749
Revaluation surplus	-687	3,192
Reserves (including retained earnings)	28,139	49,674
Net profit/loss for the year	-363,125	-21,548
TOTAL CAPITAL	-283,347	83,644

2.2 The events triggering the measure

- (9) The financial crisis has severely affected the Bank's operations. The Bank had to account additional impairments for financial assets and provisions for off-balance sheet liabilities because of the decreasing quality of its credit portfolio. Its capital adequacy ratio fell as a result and it encountered liquidity problems. In 2013 the Bank failed to find potential investors willing to recapitalise it. At the same time its liquidity situation worsened to the point where the Bank was unable to operate.
- (10) The Bank has faced liquidity pressure since the beginning of 2013 and its liquidity profile has deteriorated significantly during recent months. Since mid-August 2013 the Bank has been facing substantial deposit withdrawals. During August 2013 the Bank lost 4% of its deposit base. The adequacy of its liquidity reserves was substantially impaired and on 27 August 2013 the Bank's liquidity ratio fell below the

level required by the Bank of Slovenia. The Bank is subject to a daily monitoring of its liquidity position by the Bank of Slovenia.

- (11) The Bank of Slovenia has required the Bank to increase its capital buffers. On 31 August 2013 the deadline for the recapitalisation expired without appropriate action having been taken by the Bank's management or shareholders. While the Bank still met the capital requirements (as of November 2013 the Banks' Tier 1 Capital ratio was 7,84 % and its Solvency ratio was 9,15 %) in light of likely further losses on its loan portfolio and the lack of support from the Bank's shareholders, the Bank of Slovenia concluded that the Bank did not have a sustainable and viable business model.

2.3 The measures

- (12) As a consequence of the Bank's worsening situation and in order to stabilise the liability side of the Bank's balance sheet while proceeding to its orderly winding down, on 6 September 2013 Slovenia granted the Bank a State guarantee on newly issued debt (hereinafter "the Guarantee"). The Guarantee was issued to allow the Bank to draw a direct emergency loan (emergency liquidity assistance) from the Bank of Slovenia. The Commission temporarily approved the Guarantee on 6 September 2013. The maximum amount guaranteed was EUR 540 million which at the time represented 59% of the total assets of the Bank. The estimated duration of the direct emergency loan is one year with a maximum duration of three years.
- (13) In line with the requirement set forth in the liquidity decision, on 5 November 2013 Slovenia notified an orderly winding down plan to the Commission. That plan envisages additional aid in favour of the Bank, in the form of a State recapitalisation and liquidity support.
- (14) The State recapitalisation will be at most EUR 285 million. It will take form of conversion of existing State deposits into equity or a capital injection in the form of securities or cash contribution or a combination of the two.
- (15) The liquidity support will be at most EUR 400 million and would be granted until the end of the orderly winding down process (i.e. by 31 December 2016). That liquidity would be provided in the form of State guarantees under the same terms and conditions as the Guarantee approved in the liquidity decision² or in the form of State deposits.

2.4 The orderly winding down plan

- (16) On 6 September 2013 the Bank of Slovenia took over the control of the Bank and put it into special administration with the aim of preparing and organising an orderly winding down while minimising the cost for the State.
- (17) According to the orderly winding down plan, the main objective of the Bank's orderly winding down is to repay all ordinary creditors (excluding subordinated ones) so as to

² See recitals 8 to 13 of the liquidity decision.

maintain the trust of the public in the stability of the financial system. For that purpose, the Bank will ensure that repayments of contractually agreed amounts are made to all ordinary creditors (excluding subordinated ones) on maturity.

- (18) The orderly winding down will be completed within three years from the appointment of the special administration, i.e. by 31 December 2016. During that period the Bank's operations and assets will be restructured with the objective of selling them to the extent possible, in order to minimise losses. After 31 December 2016 the remainder will be put into run down or transferred to the Bank Asset Management Company ("BAMC"). The Bank will reduce its balance sheet total from approximately EUR 848 million in September 2013 to EUR 436 million by 31 June 2014 and to zero by 31 December 2016 when the liquidation phase will be completed.
- (19) Slovenia estimates that within the three-year period for the implementation of the orderly winding down the Bank will manage to realise a significantly higher yield from the realisation of its assets (loans, securities, fixed assets, etc.) than it would be the case under immediate liquidation or bankruptcy. The orderly winding down should therefore result in lower loss, capital needs and related cost for the State.
- (20) In order to carry out the orderly winding down, the orderly winding down plan includes the full write-off of shareholders' equity and subordinated debts. It also foresees the recapitalisation by the State of a maximum amount of EUR 285 million described in recital (14) and the State liquidity facility of a maximum of EUR 400 million described in recital (15).
- (21) The recapitalisation of the Bank will follow a two-step approach. First the equity of all shareholders and all subordinated debts will be fully wiped out. Only then will the State proceed with the capital injection in the Bank.
- (22) Slovenia submitted the following commitments as an integral part of the orderly winding down plan:
- (23) Reduction of the balance sheet: the Bank will reduce its total balance sheet size from approximately EUR 848 million in September 2013 to EUR 436 million by 30 June 2014 and to zero by 31 December 2016 when the liquidation phase will be completed.
- (24) Reduction of branches and employees full time equivalents (FTEs): the Bank will reduce its current organizational structure by: (i) reducing from one branch/office as of September 2013 to no branch/office by 31 December 2014 (the Bank will operate only at its headquarter) and (ii) reducing from 84 FTEs as of September 2013 to 50 FTEs by 30 June 2014.
- (25) Limitation on new lending:
 - (i) Contractually committed but not yet paid-out amounts will be limited to the strict minimum.
 - (ii) There will be no additional financing to existing customers which is not contractually committed except when it is strictly necessary to preserve the value of the loan collateral, or otherwise related to minimising capital losses or enhancing the expected recovery value of a loan.
 - (iii) There will be no additional financing to new customers which is not contractually committed.

- (26) Management of existing assets: The Bank undertakes to manage the assets which are to be divested, liquidated or wound down, in an orderly manner but minimizing the cost for taxpayers. The Bank will manage existing assets in a way that maximises the net present value (NPV) of the assets. Specifically, if a client cannot respect the terms of its loan, the Bank will only restructure the lending terms (deferral or partial waiver of repayments, conversion of (part of) the claim in capital, etc.) if such a restructuring would enhance the NPV of the loan. The same principle applies as regards mortgage loans. In particular, the Bank may restructure its mortgage assets via the following variations to the terms of existing mortgages: (a) a change of deal (e.g. by offering a new fixed rate); (b) transferring existing mortgages to new properties; (c) transferring equity (e.g., adding a borrower to the mortgage or removing one).
- (27) Limitation of new deposits: The Bank will not take deposits from new customers. The Bank will also not take deposits from existing customers with the exceptions of transactions arising from already concluded contracts and deposits which represent additional collateral for the already concluded loans and other transactions (e.g. guarantees).
- (28) Limitation on transactional products: The Bank may provide transactional products (i.e., current accounts, transactions, cards, payments, etc.) only to existing customers.
- (29) Limitation on pricing policies: The pricing policy of the Bank will be designed to encourage customers to find more attractive alternatives. In other words (i) the level of the interest rate/fee paid by the Bank to customers should be below the average of the market and (ii) the level of the interest rate/fee paid by customers to the Bank should be above the average of the market. Not more than 10% of products offered by the Bank (in nominal amount) will deviate from that rule.
- (30) Burden-sharing measures: The equity of the shareholders and subordinated debts of the Bank will be fully wiped out.
- (31) Slovenia also commits to a series of behavioural measures:
- (32) Ban on coupon payments: until the burden-sharing measures have been fully implemented, the Bank will not make any payments to subordinated debt holders.
- (33) Dividend ban: until the burden-sharing measures have been fully implemented, the Bank will not make any dividend payments.
- (34) Bans on advertising and aggressive commercial strategies (advertisement ban): the Bank will not carry out any advertising activities related to the State aid to the Bank and to the State ownership in the Bank (or to any competitive advantages arising in any way from the aid to the Bank or the State ownership in the Bank) and the Bank will not employ any aggressive commercial strategies which would not be pursued without State aid.
- (35) Acquisition ban: the Bank will not acquire any stake in any undertaking. That commitment covers both undertakings which have the legal form of a company and pool of assets which form a business. The acquisition ban will not apply to acquisitions in the regular course of the orderly winding down of operations in the management of existing claims towards ailing firms.
- (36) Reporting: until the end of the liquidation period (i.e. until 31 December 2016), Slovenia undertakes to send to the Commission a semi-annual progress report. The

report will summarise the progress achieved in the implementation of the orderly winding down plan. The report will be submitted every six months, no later than 30 November 2014 for the first half of the current year and no later than 31 May 2015 for the second half of 2014.

- (37) Those commitments will take effect upon the date of adoption of the current decision. They apply throughout the liquidation period, i.e. 31 December 2016, unless otherwise stated.

3 POSITION OF THE SLOVENIAN AUTHORITIES

- (38) The Slovenian authorities accept that the notified measures (the Guarantee temporarily approved under the liquidity decision, as well as the recapitalisation and the liquidity support notified on 5 November 2013 in the context of the orderly winding down of the Bank) constitute State aid. They request the Commission to verify if such aid is compatible with the internal market on the basis of Article 107(3)(b) of the Treaty on the Functioning of the European Union ("the TFEU"), as it is necessary in order to remedy a serious disturbance in the Slovenian economy.
- (39) The Slovenian authorities consider that the Bank's business model is not sustainable and viable, and propose an orderly winding down of the Bank.
- (40) The Slovenian authorities consider that the cost of winding down of the Bank by 31 December 2016 would be significantly lower than an immediate liquidation or bankruptcy proceedings. According to them the deficit to cover all the Bank's liabilities in the case of an immediate winding down would be EUR 428 million, whereas in the event of an orderly winding down, it would be EUR 284.7 million. The effect of an orderly winding down is thus less onerous for the Member State, by EUR 143.3 million.
- (41) The Slovenian authorities also consider that the aid is limited to the minimum necessary to ensure the orderly winding down of the bank and avoid its abrupt bankruptcy. The orderly winding down plan contains sufficient measures limiting the distortion of competition and includes sufficient burden-sharing.
- (42) Finally, the Slovenian authorities provided a set of commitments as an integral part of the orderly winding down plan (see the Annex).

3.1 Existence of State aid

- (43) The Commission first has to assess whether the notified measures (the Guarantee temporarily approved under the liquidity decision, as well as the recapitalisation and the liquidity support notified on 5 November 2013 in the context of the orderly winding down of the Bank) constitute State aid within the meaning of Article 107(1) TFEU. According to that provision, State aid is any aid granted by a Member State or through State resources in any form whatsoever which distorts, or threatens to distort, competition by favouring certain undertakings, in so far as it affects trade between Member States. The Commission in that context observes that the Slovenian authorities do not dispute that each of the notified measures constitutes State aid.

- (44) The Commission established in its liquidity decision that the Guarantee constitutes State aid. Therefore the Commission will limit its current assessment to the measures notified on 5 November 2013 in the context of the orderly winding down plan.
- (45) The Commission observes that the recapitalisation and the liquidity support are both granted by the Republic of Slovenia and are directly financed through State resources.
- (46) The recapitalisation and the liquidity support both confer an advantage on the Bank. In particular, they allow the Bank to obtain capital and to stabilize the liability side of its balance sheet. In the circumstances in which the Bank finds itself, no private operator acting on the basis of market logic would provide it with capital or liquidity support. Since the recapitalisation and the liquidity support are available only to the Bank, they each confer a selective advantage on it.
- (47) The Commission finds that the recapitalisation and the liquidity support distort competition as they allow the Bank to obtain capital and liquidity necessary to avoid insolvency and disorderly liquidation.
- (48) The Commission finds that the recapitalisation and the liquidity support are also both likely to affect trade between Member States as the Bank competes both on the Slovenian market, where some of the Bank's competitors are subsidiaries and branches of foreign banks, and in other Member States.
- (49) On the basis of the foregoing, the Commission considers that the recapitalisation and the liquidity support fulfil all the conditions laid down in Article 107(1) TFEU and that they qualify as State aid to the Bank.

3.2 Compatibility of the aid

- (50) As regards compatibility with the internal market of the Guarantee, the recapitalisation and the liquidity support provided to the Bank (collectively referred to hereafter as "the orderly liquidation aid"), the Commission will first determine whether the aid can be assessed under Article 107(3)(b) TFEU, i.e. whether the aid remedies a serious disturbance in the economy of Slovenia. Subsequently, the Commission, applying that legal basis, will assess whether the orderly liquidation aid is compatible with the internal market.
- (51) The Commission has already recognised in its liquidity decision that the insolvency and disorderly liquidation of the Bank would have posed a threat to financial stability³.
- (52) The orderly liquidation aid serves the same purpose as the rescue aid, namely allowing an orderly winding down and maintaining confidence while avoiding negative spill-over effects such as possible bank runs. In the period since the liquidity decision was adopted, the situation on the financial markets has not improved sufficiently to allow an uncontrolled failure or regular bankruptcy. As a result, the Commission considers that the same legal basis is appropriate to assess the orderly liquidation aid also for the purpose of this Decision.

³ See Section 4.2.1 *Legal basis for the compatibility assessment* of the liquidity decision.

- (53) Therefore the Commission will assess whether the orderly liquidation aid is compatible with the internal market under Article 107(3)(b) TFEU.
- (54) The 2013 Banking Communication⁴, and in particular its Section 6, sets out the State aid rules applicable to the liquidation of financial institutions in the current circumstances. According to those rules, in order to be compatible with Article 107(3)(b) TFEU, the liquidation of a financial institution has to, among others:
- (i) be designed in such a way so that to limit liquidation cost to the minimum necessary;
 - (ii) contain sufficient measures limiting the distortion of competition;
 - (iii) include sufficient own contribution by the beneficiary (burden-sharing);

i. Limitation of liquidation costs

- (55) The Commission notes that the orderly liquidation to be implemented by 31 December 2016 is the least costly option for the Member State⁵. The counterfactual scenario (i.e. immediate liquidation or bankruptcy) is estimated by Slovenia to increase the liquidation costs by EUR 143.3 million. The Commission has no reason to question that assessment of the Slovenian authorities. Moreover, the Commission notes that immediate liquidation or bankruptcy as opposite to an orderly winding down would involve a fire sale of assets. Therefore the Commission considers an orderly liquidation the least costly option for the State.
- (56) The orderly winding down plan includes annual and semi-annual projections of the realisation of the Bank's credit portfolio and other assets as well as of its balance sheet and profit and loss accounts. The Slovenian authorities estimated the volume of the capital and liquidity needed based on the projected dynamics of the orderly winding down of its assets, impairments and operating losses including a buffer for adverse market conditions.
- (57) Therefore the Commission considers the orderly liquidation aid to be limited to the minimum necessary.

ii. Limitation of competition distortion

- (58) The Commission notes that to minimise the distortion of competition caused by the State aid, Slovenia has limited the winding down period to three years.
- (59) In addition, to ensure the Bank's active and efficient exit from the market it will gradually reduce its balance sheet from EUR 848 million as of 6 September 2013 to EUR 436 million by 30 June 2014 and to zero by 31 December 2016 (when the liquidation period will be completed). More than half of the Bank's balance sheet reduction will already occur by 31 December 2014.

⁴ Communication from the Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis, OJ C216, 30.7.2013, p. 1.

⁵ See recitals 18 and 19.

- (60) As part of that process, the Bank will also close its branch and reduce its FTEs from 84 in September 2013 to 50 FTEs by 30 June 2014. The Bank only had a small market share in the Slovenian market before any aid was granted (approximately 2,3%) and at the end of the liquidation period the Bank will fully exit the market.
- (61) Further, the Bank will limit new lending exclusively to contractually committed amounts. Moreover, the Bank will not provide new or existing customers with any additional financing that is not contractually committed except when it is strictly necessary to preserve the value of the loan collateral, or to minimise losses. The Bank will manage remaining assets with the objective of divesting, liquidating or winding them down in an orderly manner with a view to minimising cost for taxpayers. The Bank will provide transactional products to existing customers only. In addition the Bank will not take any deposits from new costumers. It will not take deposits from existing customers either, except under the conditions listed in recital (28). The Commission notes that the Bank will continue to carry out only limited activities, which will be allowed only during the orderly winding down phase to minimise impairments while treating creditors fairly.
- (62) The Commission positively notes that in line with point 75 of the 2013 Banking Communication the pricing policy of the Bank will be designed to encourage customers to find more attractive alternatives.
- (63) In that respect the Commission considers that the distortions of competition stemming from the market presence of the Bank during its orderly winding down are limited.

iii. Own contribution and burden-sharing

- (64) The Commission observes that, in line with the 2013 Banking Communication, the equity of the Bank's shareholders and the Bank's subordinated debts will be fully wiped out. As a result, the State aid provided to the Bank in the form of the recapitalisation and the liquidity support will not benefit shareholders and subordinated debt holders, thereby minimising moral hazard. The Commission positively notes that the contribution of shareholders and subordinated debt holders is achieved to the maximum extent possible, thus ensuring adequate burden-sharing.
- (65) The State recapitalisation will only be implemented after the complete implementation of the wipe-out of the shareholders' equity and subordinated debts. All existing shareholders and subordinated debt holders therefore fully contribute to the orderly winding down costs of the Bank prior to the granting of the State support. The State will own 100% of the Bank's shares after the recapitalisation.
- (66) In addition the Commission notes that Slovenia commits that the Bank will suspend dividend and coupon payments on outstanding hybrid instruments and subordinated debts unless those payments are legally due. Finally, Slovenia also commits to an advertising ban and an acquisition ban.

Conclusion on the compatibility of the orderly liquidation aid

(67) Therefore, taking into consideration the recapitalisation and liquidity needs of the Bank (for the amount of EUR 285 million and EUR 400 million respectively) notified on 5 November 2013 as well as the Guarantee of EUR 540 million temporarily approved in the liquidity decision and the need to maintain financial stability in Slovenia, the Commission considers that the measures comprising the orderly liquidation aid are compatible with the internal market under Article 107(3)(b) TFEU.

CONCLUSION

- The measure notified by the Republic of Slovenia consisting of Guarantee of EUR 540 million, approved as rescue aid in the liquidity decision, and the measures notified on 5 November 2013 in the context of the orderly winding down of the Bank in form of a recapitalisation of EUR 285 million and liquidity assistance of EUR 400 million constitute State aid pursuant to Article 107(1) TFEU.
- All those measures notified by the Republic of Slovenia in favor of the Bank are compatible with the internal market for reasons of financial stability on the basis of Article 107(3)(b) TFEU in light of the 2013 Banking Communication.
- The Commission notes that Slovenia exceptionally accepts that the adoption of the decision be in the English language.

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site:

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Your request should be sent by registered letter or fax to:

European Commission
Directorate-General for Competition
State Aid Greffe
B-1049 Brussels
Fax No: (+32)-2-296.12.42

Yours faithfully,
For the Commission

Joaquín ALMUNIA
Vice-President

ANNEX

Commitments of Slovenia in favour of Factor Banka

The Republic of Slovenia ("Slovenia") ensures that the Bank and its affiliates will implement the liquidation plan submitted on 5 November 2013 (which was subsequently modified). In connection with this, Slovenia commits to implement in particular the measures and actions and to achieve the objectives listed below (the "Commitments") which are integral part of said liquidation plan.

The Commitments shall take effect upon the date of adoption of the European Commission's ("Commission") decision approving the liquidation plan.

The Commitments apply throughout the liquidation period unless the individual Commitment states otherwise.

A. Reduction of the balance sheet:

The Bank will reduce its total balance sheet size from approximately EUR 848 million in September 2013 to EUR 436 million by 30 June 2014 and to zero by 31 December 2016 when the liquidation phase will be completed.

B. Reduction of branches and employers full time equivalent (FTE):

The Bank will reduce its current organizational structure by applying the following measures:

- (i) Reduction from one branch/office in September 2013 to zero branch/office by end of 2014 (the Bank will operate its activities only at headquarter of the Bank) and
- (ii) Reduction from 84 FTEs in September 2013 to 50 FTEs by 30 June 2014. During the process of orderly winding down, the number of FTEs would be reduced further.

C. Principles of operation of Factor Banka:

(i) Limitation on new lending:

- a) Contractually committed but not yet paid-out amounts to be limited to the strict minimum.
- b) No additional financing to existing customers which is not contractually committed except when it is strictly necessary to preserve the value of the loan collateral, or otherwise related to minimising capital losses and/or enhancing the expected recovery value of a loan.
- c) No additional financing to new customers which is not contractually committed.

(ii) Management of existing assets:

The Bank undertakes to manage the assets with the objective of being divested, liquidated or wound down, in an orderly manner but minimizing the cost for taxpayers. The Bank will manage existing assets in a way that maximises NPV of the assets. Specifically, if a client cannot respect the terms of his loan, the Bank will only restructure the lending terms (deferral or partial waiver of repayments, conversion of (part of) the claim in capital, etc.) if such a restructuring would lead to enhancing the present value of the loan. As regards mortgage loans this principle also applies. In

particular, the Bank will be allowed to restructure its mortgage assets via the following variations to the terms of existing mortgages: (a) a change of deal (e.g. by offering a new fixed rate); (b) transferring existing mortgages to new properties; (c) transferring equity (e.g., adding a borrower to the mortgage or removing one); or (d) as otherwise obliged by any law.

(iii) Limitation of new deposits:

The Bank will not take deposits from new customers. The Bank will not take deposits from existing customers either with the exception of the transactions arising from the already concluded contracts, and deposits which will represent additional collateral for the already concluded loans and other transactions (e.g. guarantees).

(iv) Limitation on transactional products:

The Bank may provide transactional products (i.e., current accounts, transactions, cards, payments, etc.) only to existing customer.

(v) Limitation on pricing policies:

The pricing policy of the Bank will be designed in a way so that to encourage customers to find more attractive alternatives. In other words (i) the level of the interest rate/fee paid by the Bank to customers should be below the average of the market and (ii) the level of the interest rate/fee paid by customers to the Bank should be above the average of the market. Not more than 10% of products offered by the Bank (in nominal amount) will deviate from this rule.

D. Burden sharing measures:

Shareholders and holders of subordinated debt of the Bank will be fully wiped out.

E. Behavioural measures:

(i) Ban on coupon payments: until the burden sharing measures have been fully implemented, the Bank will not make any payments to subordinated debt holders.

(ii) Dividend ban: until the burden sharing measures have been fully implemented, the Bank will not make any dividend payments.

(iii) Bans on advertising and aggressive commercial strategies (advertisement ban): imposed in order to ban any advertising activities related to the State aid to the Bank and to the State ownership in the Bank (or to any competitive advantages arising in any way from the aid to the Bank or the state ownership in the Bank) and to prevent the Bank from employing any aggressive commercial strategies which would not be pursued without State aid.

(iv) Acquisition ban: imposed to ensure that the Bank will not acquire any stake in any undertaking. This covers both undertakings which have the legal form of a company and pool of assets which form a business. Activities which do not fall under the acquisition ban are (i) acquisitions in the regular course of the orderly winding down of operations in the management of existing claims towards ailing firms; (ii) disposals and restructuring within the Bank, including buy-outs of minority shareholders.

- (v) Reporting: until the end of the restructuring period, Slovenia undertakes to send to the Commission a semi-annual progress report. The report shall summarise the progress achieved in the implementation of the liquidation plan. The report shall be submitted every six months, no later than 30 November for the first half of the current year and no later than 31 May for the second half of last year.