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C(2014) 9858 final

<p>In the published version of this decision, some information has been omitted, pursuant to articles 24 and 25 of Council Regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty, concerning non-disclosure of information covered by professional secrecy. The omissions are shown thus [...].</p>		<p style="text-align: center;">PUBLIC VERSION</p> <p>This document is made available for information purposes only.</p>
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**Subject: State aid SA.38522 (2014/N) – Slovenia
Restructuring aid for Banka Celje/Abanka**

Sir,

1. PROCEDURE

- (1) On 11 November 2013, the Slovenian authorities notified a rescue recapitalisation in favour of Abanka Vipa d.d. ('Abanka'). The Commission approved that measure on 18 December 2013¹ ('the rescue decision'), in light of commitments provided by the Slovenian authorities and in particular a commitment to submit a restructuring plan within two months of the rescue decision.
- (2) On 17 February 2014 the Slovenian authorities notified the restructuring plan for Abanka, registered with number SA.38228.

¹ Commission Decision in Case SA.37690 (2012/N), Rescue aid in favour of Abanka d. d., OJ C 37, 7.2.2014, p. 1.

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- (3) On 27 March 2014 the Slovenian authorities notified separately State aid measures in favour of Banka Celje d.d. ('Banka Celje'), registered with number SA.38522.
- (4) On 30 April 2014, the Slovenian authorities submitted a first restructuring plan for Banka Celje on a standalone basis. That plan was later updated as Slovenia had committed to merge Banka Celje with Abanka.
- (5) By decision of 13 August 2014² ('the restructuring decision'), the Commission approved the restructuring plan for Abanka in light of commitments provided by the Slovenian authorities and in particular a commitment to merge Abanka and Banka Celje ('Merged Entity') by [...] and submit a restructuring plan for the Merged Entity before 31 December 2014, once Banka Celje has been nationalised.³
- (6) On 15 October 2014, Slovenia notified the restructuring plan for Banka Celje for the period until the [...] and for the Merged Entity from [...] onwards. The restructuring plan for the Merged Entity fully incorporates the restructuring plan for Abanka. Therefore, the commitments applied to the Merged Entity partly mirror and complement the commitments already provided as regards Abanka. The restructuring plan and commitments for Abanka remain applicable until the merger effectively occurs [...].
- (7) A number of electronic mail exchanges and telephone conversations took place between the Commission and the Slovenian authorities between 27 March 2014 and 4 December 2014, in which additional information was requested and submitted.
- (8) For reasons of urgency, Slovenia accepts that exceptionally the present decision is adopted in the English language.

2. DESCRIPTION

2.1. The beneficiary of the aid

- (9) The beneficiary of the aid is Banka Celje. Abanka has already received aid in the past and approved by Commission decision on 13 August 2014.⁴ The beneficiary of the aid to be examined in this decision – Banka Celje – as well as Abanka will merge and continue their business activities in the Merged Entity from [...] onwards.

(a) Banka Celje

² Commission Decision in Case SA.38228 (2014/N) – Restructuring of Abanka Vipa Group - Slovenia, OJ C 393, 7.11.2014, p. 1.

* [...] Confidential information

³ See recital (54) of the restructuring decision.

⁴ Commission Decision in Case SA.38228 (2014/N) – Restructuring of Abanka Vipa Group - Slovenia, OJ C 393, 7.11.2014, p. 1

- (10) Banka Celje is the ninth-largest bank in Slovenia with total assets of EUR 1.8 billion at 31 December 2013 and a market share of 4%. The bank was established as a joint-stock company to perform all banking and some financial services.
- (11) The main products and services of Banka Celje include current accounts, overdrafts, deposits, loans, debit and charge cards as well as guarantees and payment services. Banka Celje employed 500 people at 31 December 2013. More than 45% of employees were employed within the branch network.
- (12) Banka Celje is the parent and the main operating company in the Banka Celje Group. The entire banking business is concentrated in the parent company, while the only wholly-owned subsidiary, Posest d.o.o. ('Posest'), is specialised in real estate.
- (13) On 31 December 2013, the subscribed capital of the bank comprised 508,629 ordinary shares. Banka Celje is owned by 706 Slovenian institutional and private investors. The Slovenian State holds an indirect interest in the bank through the State-controlled financial institutions Nova Ljubljanska Banka d.d. (41%), Slovenian Sovereign Holding (9%), Abanka Vipava d.d. (4%), Zavarovalnica Triglav (4%) and Nova Kreditna Banka Maribor (3%). The ten largest shareholders hold 79.61% of the share capital.
- (14) On 31 December 2013 Banka Celje had EUR 950 million of corporate loans and EUR 310 million of loans to retails. In terms of liabilities, EUR 1.27 billion were related to customer deposits. For the same period Banka Celje Group's total capital adequacy ratio was at 2.5% and its Common Equity Tier 1 ratio was 1.8%. The bank was rated by Fitch at B - in May 2013.

(b) The Merged Entity

- (15) Banka Celje will merge with Abanka by the end of 2015 in line with the commitments for Abanka as per the restructuring decision.⁵ Abanka is the third-largest universal bank in Slovenia with consolidated total assets amounting to EUR 3 billion on 31 December 2013.⁶ Following the merger, the Merged Entity will become the second-largest bank in Slovenia and will account for approximately [10-20]% of the Slovenian banking system measured by total assets.
- (16) Both Abanka and Banka Celje operate primarily in the Slovenian market. Abanka has minor leasing activities in Bosnia and Herzegovina as well as real estate property activities in Montenegro, while Banka Celje is active in the former Yugoslavia through its subsidiary Posest. According to the individual restructuring plans for Abanka and Banka Celje, both banks have decided to refocus their business to Slovenia and withdraw from foreign market operations.

⁵ See recital (5) of the restructuring decision.

⁶ See recitals (6) – (11) of the restructuring decision.

2.2. The events triggering the measures

- (17) Since the outset of the financial crisis, Banka Celje has been affected by an increasingly difficult operating environment due to unfavourable market conditions. The crisis exposed the weaknesses that the Slovenian banking industry developed during its boom years preceding the crisis. Banks had relied heavily on wholesale funding and had based their lending decisions on overvalued collaterals and optimistic growth forecasts of their borrowers. Access to cheap and abundant financing coupled with poor credit standards and excessive risk taking, practiced especially among the domestic banks, led to a surge in non-performing loans ('NPL') and net impairment expenses.
- (18) In October 2012 the proportion of NPL to overall bank loans in Slovenia reached 14% (amounting to EUR 7 billion or 19% of Gross Domestic Product). The corporate sector experienced the highest levels of NPL accounting for 24% of total loans. Within the corporate sector, a substantial share of NPL arose from large insolvent construction companies. The NPL of Slovenian domestic banks to private firms was approximately 30% of their total loans, compared to an average NPL ratio of 11% at foreign banks in that sector. The surge in NPL pushed the banks into financial distress, unprofitability and exacerbated loan contraction.
- (19) As the economic crisis progressed, Slovenian banks saw their access to wholesale funding dry up due to declining credit ratings. They responded by focusing more on domestic deposits. Although rates on deposits were initially at historical lows, intensified competition for deposits and rising government bond yields led to increased deposit rates from 2011-2013. Profitability was affected by higher NPL provisioning costs, lower net interest margins, a reduction in banking assets and relatively high operating costs. Those market developments rapidly weakened Banka Celje's financial position.
- (20) In addition to those general market developments, other internal factors also contributed to the difficulties of Banka Celje. They were related to the bank's growth strategy, deficiencies in the corporate governance system and weaknesses in risk management practices.
- (21) Corporate loans increased rapidly under a loan growth target of 15% on annualised basis. At the same time, 10% of the bank's total assets were invested in former Yugoslav countries and were mainly related to real estate projects. Investments in real estate projects in former Yugoslav markets preceding the financial crises were one of the major reasons for the increase in NPL in 2009-2013. The bank also started to invest into securities (mainly equity) in Slovenia. A significant share of those investments was made in related parties (cross ownership)⁷.
- (22) The corporate governance framework in Banka Celje has been to a large extent determined by the shareholding structure. The State-owned shareholders were

⁷ Investing in businesses directly or indirectly owned by parties related to Banka Celje's shareholders.

able to exercise effective control over the bank's operations through their majority voting rights in the Shareholder's Assembly and their ability to appoint members in Supervisory Board and Management Board and consequently direct the bank's strategy. The corporate governance structures were weak particularly in the areas of internal controls including improper segregation of duties.

- (23) The financial crisis revealed certain weaknesses in the risk management practices of Banka Celje. Bank of Slovenia concluded that there was lack of solid and reliable systems to manage credit risk and to monitor portfolios related to credit risk and bank exposures. In addition, policies and procedures for the measurement and management of all important factors and effects of credit risk were not properly prepared and followed.

3. THE AID MEASURES

- (24) To fully recapitalise Banka Celje and ensure its return to viability, Slovenia intends to implement two measures conditional on the implementation of the restructuring plan for the Merged Entity:
- (i) a State recapitalisation of EUR 190 million; and
 - (ii) a transfer of impaired assets to the Slovenian Bad Asset Management Company (BAMC)⁸ amounting to EUR 411.5 million at gross book value. The assets to be transferred had a net book value after impairments of EUR 113.4 million.

3.1. Recapitalisation of Banka Celje and capital raising measures

- (25) Banka Celje took part in the nation-wide Asset Quality Review and Stress testing exercise performed by the consulting firms Oliver Wyman and Ernst & Young in 2013. The results showed a potential capital shortfall by year 2015 of EUR 327 million under a base case scenario and EUR 388 million under a stress case scenario.
- (26) Consequently, Bank of Slovenia asked Banka Celje to prepare a detailed work plan to eliminate the capital shortfall by 31 January 2014 and take measures to close the capital gap by 30 June 2014. That deadline was later extended.
- (27) In 2013 the bank began the process for capital raising measures and identification of a strategic partner, which continued in 2014. As part of that process, KPMG performed a business valuation of the bank's equity as at 30 June 2013. It appeared that at that time there was no interest from potential investors.
- (28) In December 2013 all subordinated debt and certificates of deposit were recognized at fair value on the basis of IAS 39.⁹ Consequently, gains in the order of EUR 87.3 million were recognised by Banka Celje on revaluation of subordinated debt.

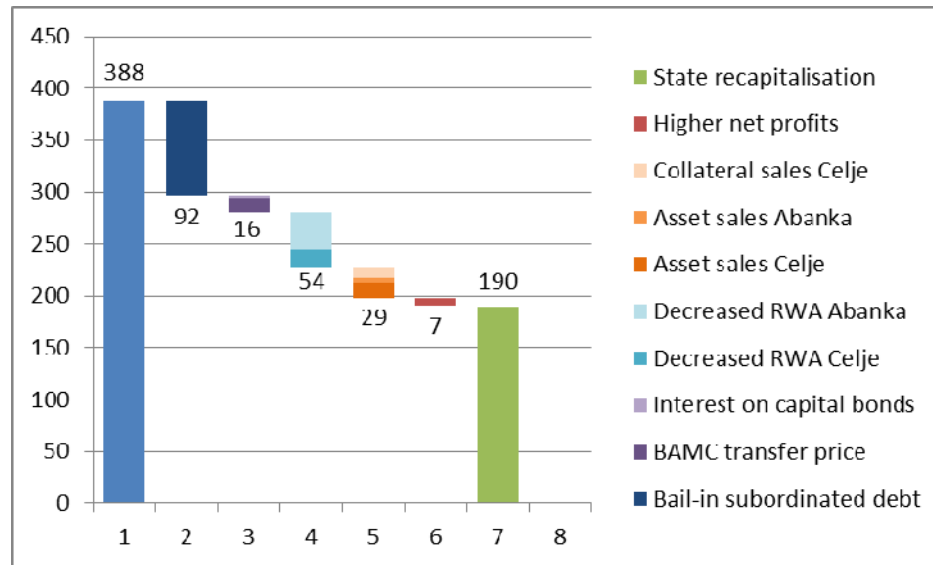
⁸ The BAMC was established in March 2013 as a State-owned entity with the task of facilitating the restructuring of banks and their portfolios with systemic importance that were facing severe solvency, capital adequacy problems.

⁹ International Accounting Standards.

- (29) In January 2014 an external consultant¹⁰ was commissioned to identify private investors interested in the recapitalisation of Banka Celje. The invitation to participate in the Banka Celje's recapitalisation process was submitted to 38 institutions. That process revealed that there was very limited interest from potential private investors and was therefore terminated. The main reason indicated for the negative investor reaction was the macroeconomic situation in Slovenia and the lack of interest in investments in the Slovenian banking sector.
- (30) On 11 March 2014, Bank of Slovenia requested Banka Celje to raise additional capital by 25 April 2014.
- (31) On 11 April 2014 at the Shareholder's meeting of Banka Celje, it was proposed to increase share capital by issuing new ordinary shares amounting to at least EUR 160 million. The invitation to subscribe to the new share issue was sent to the existing shareholders, the holders of subordinated debt as well as to some new investors but turned out to be unsuccessful.
- (32) In April 2014, Ernst & Young performed a valuation which indicated that the capital and subordinated debt of Banka Celje were not sufficient to cover existing losses.
- (33) Under those circumstances, due to the absence of any private solution, Banka Celje applied for State aid.
- (34) Following the submission of its standalone restructuring plan in April 2014, Banka Celje received the agreement of Bank of Slovenia on the extension of the deadline for the recapitalisation until a decision of the Commission had been received.
- (35) In December 2014, Slovenia has notified a recapitalisation in favour of Banka Celje in the amount of EUR 190 million to be implemented on a standalone basis but to be assessed in the context of the merger with Abanka. Based on a capital need of EUR 388 million identified in the stress test, the proposed recapitalisation of EUR 190 million results in a capital gap of Banka Celje of EUR 198 million that still to be filled.
- (36) Bank of Slovenia has provided the Commission with a list of additional capital measures that have to be taken into account to explain the EUR 198 million gap between the capital need identified in the stress test and the envisaged recapitalisation. That list contains the following measures:
- (a) Bail-in of subordinated debt (EUR 92 million of par value);
 - (b) The BAMC transfer (EUR 16 million through positive difference between transfer value and book value and interest income on capital bonds);

¹⁰ Raiffeisen Centrobank.

- (c) Over-performance in Risk-Weighted Assets ('RWA') reduction compared to the stress test scenario (EUR 54 million at the end of 2014);
- (d) Higher operating profits than planned in the stress test scenario (EUR 7 million in 2013 and 2014) and extra-ordinary profits through already executed asset and collateral sales (EUR 29 million in 2013 and 2014);



3.2. Transfer of impaired assets to the BAMC

- (37) The restructuring plan is based on a transfer of non-performing assets from Banka Celje to the BAMC.

a. Objective

- (38) Banka Celje will benefit from an impaired asset measure by transferring a portfolio of impaired assets to the BAMC. The aim of that measure is to remove uncertainty about the future value of the bank's most problematic asset portfolio and ensure that Banka Celje and the Merged Entity will concentrate on the implementation of the restructuring plan.

b. Set up and characteristics

- (39) Slovenia established the BAMC to support the stability of the banking sector. The overall objective of the BAMC is the management and orderly divestment of the assets it receives, maximising their recovery. In pursuing that activity, the BAMC contributes to the restructuring of the financial system, while minimising the use of public funds and avoiding market distortions as much as possible.
- (40) The BAMC may acquire or cover risks, in particular from assets, securities, derivatives, rights and obligations from approved loans or guarantees with the associated collateral. The BAMC will pay Banka Celje the established transfer value with State-guaranteed debt securities issued by the BAMC. The transfer value of the assets transferred to the BAMC will be set equal to their Real

Economic Value ('REV') as established by the Commission's external and independent experts in line with the State aid rules.

c. Scope of the transfer of impaired assets and loans

- (41) The Slovenian authorities have submitted a list of non-performing assets selected for the transfer to the BAMC by Banka Celje.
- (42) Banka Celje sent a list containing [90-100] clients connections for which loans are to be transferred and securities in seven private companies to be transferred to the BAMC with total gross exposure, before impairment provisions, of around EUR [400-450] million as of 30 September 2014.¹¹ The portfolio comprises EUR [350-400] million of loans (ca. EUR [100-150] million of exposure net of impairment provisions) and EUR [10-20] million of securities (ca. EUR [0-5] million net of impairment).
- (43) The loans to be transferred to the BAMC are divided into five customer segments: financial ([20-30]% of gross exposure), construction ([10-20]%), manufacturing ([10-20]%), consulting ([10-20]%) and other ([20-30]%). At 30 June 2014, around [60-70]% of loans and assets to be transferred to the BAMC (by gross exposure) have been rated 'E' (bankruptcy status) and [30-40]% rated 'D' (default). [10-20]% of the overall transferred loans and assets are considered performing (rated 'B' or 'C').
- (44) The Commission has conducted an assessment of the portfolio with the assistance of external experts.

d. The transfer value

- (45) The REV of the assets of Banka Celje, as assessed initially by Slovenia, amounted to EUR [150-200] million or [30-40]% of the gross book value of those assets compared to a net book value after impairments of EUR 113.4 million. Slovenia committed that the transfer value of the assets to the BAMC will be equal to their REV as established by the Commission's external experts in line with the State aid rules. In return of the asset transfer, Banka Celje will receive EUR 127 million of bonds from the BAMC in a single tranche with a maturity of 3.5 years.

e. Market price

- (46) Given that for most of the securities selected for transfer to the BAMC there is no active market, no market price has been provided by Slovenia. The Commission has requested external experts to also determine the current market value of the portfolio.

4. THE RESTRUCTURING PLAN AND COMMITMENTS

- (47) The Slovenian authorities have submitted a restructuring plan covering the period from 1 January 2014 until 31 December 2015 for Banka Celje on a stand-alone

¹¹ An initial list of assets to be transferred was provided already in May 2014. It has since been updated, most recently on 16 October 2014.

basis and the period from 1 January 2016 until 31 December 2019 for the Merged Entity

- (48) The main pillars of the restructuring plan for Banka Celje and the Merged Entity are threefold, namely: i) enhanced corporate governance and risk management frameworks, ii) a shift of the business model from corporate lending to retail and small and medium-sized enterprises ('SME') lending, and iii) a restoration of the profitability drivers (e.g. decrease of NPL, risk-based credit pricing and a cost reduction programme). The restructuring plan includes financial projections under a base scenario and under a stress scenario for Banka Celje until 31 December 2015 and the Merged Entity until 31 December 2019.¹²
- (49) The restructuring plan of Banka Celje and the Merged Entity envisages measures to restore viability, mitigate distortions of competition and ensure own contribution and burden-sharing from Banka Celje and the Merged Entity until 31 December 2019. The major issues with regard to restoring Banka Celje and the Merged Entity's viability are: (i) the implementation of up-to-date corporate governance structures and arrangements to ensure that decisions are business-oriented; and (ii) the overhaul of the banks' credit policies and risk management processes, especially in the management of credit risk.

Definition of restructuring period

- (50) In the following, the 'restructuring period' means the period starting from the date of adoption of this decision and ending on 31 December 2019. The restructuring period is divided into the following two consecutive phases:
- the 'Pre-Merger Period' is defined as the period between the date of adoption of this decision and [...], i.e. the date at which the merger of Banka Celje and Abanka becomes effective;
 - the 'Post-Merger Period' is defined as the period between [...], the date at which the merger of Banka Celje and Abanka becomes effective and 31 December 2019, the end date of the restructuring period.

4.1 Restructuring plan

4.1.1 Restructuring plan pre-merger period for Abanka

- (51) During the pre-merger period defined in recital (50), the restructuring plan of Abanka described in Abanka's restructuring decision is applicable.¹³

4.1.2 Restructuring plan pre-merger period for Banka Celje

- (52) Banka Celje will discontinue equity trading for its own account and asset management for clients.
- (53) Insufficient risk-management and lack of knowledge of foreign markets have led to particularly high losses with foreign clients. Consequently, Banka Celje will

¹² According to financial projections performed by the bank.

¹³ Public decision available by following the following link:
http://ec.europa.eu/competition/state_aid/cases/251840/251840_1583043_100_2.pdf

not undertake any new credit activities with corporate clients incorporated outside Slovenia and/or that are not members of groups whose headquarter or final beneficiary is incorporated in Slovenia. Banka Celje will limit its activities with such clients to the orderly execution and management of existing credit contracts.

- (54) Banka Celje will reduce its balance sheet size to EUR [1000-1500] million by 31 December 2015 and apply new lending, governance and risk policies.
- (55) Banka Celje will divest or wind down subsidiaries and participations:
 - (a) Banka Celje will reorganize its subsidiary Posest into a special purpose vehicle ('SPV') focusing on the collection of non-performing loans in former Yugoslavia and, if necessary, in Slovenia. The divestment of Posest is deemed to be completed once that company has been liquidated or wound down or Banka Celje has concluded a binding sale and purchase agreement.
 - (b) Banka Celje will terminate its leasing and factoring activities.
 - (c) Banka Celje will close [0-5] non-profitable agencies and consolidate the staff from one office building into other premises [...].
- (56) Banka Celje will ensure that the RWA will be capped to EUR [1000-1500] million at [...]. Banka Celje will not engage in any new credit activities with corporate clients incorporated outside Slovenia.
- (57) Banka Celje will reduce its operating costs (including among others staff and administration costs as well as amortization) at the Group level (excluding one-off extraordinary costs of non-recurrent nature, e.g. restructuring expenses) to achieve either a cost-to-income ratio below [50-60]% in each year during the restructuring period, or – in case the cost-to-income ratio is above [50-60]% – absolute target levels of EUR [30-40] million by 31 December 2014 and EUR [30-40] million by 31 December 2015.
- (58) To ensure adequate participation of existing investors in Banka Celje's restructuring, the bank will write down in full its shareholders' equity and the outstanding subordinated debt prior to the recapitalisation.
- (59) The restructuring plan envisages a recapitalisation and a transfer of assets to the BAMC. The recapitalisation and the transfer of assets will improve the capital by increasing Banka Celje's Tier 1 ratio from 1.8 % at 31 December 2013 to 15.7% by 31 December 2014.
- (60) Banka Celje will clean its balance sheet through the transfer of a portfolio of impaired assets, including essentially NPL, to the BAMC in the context of an impaired assets measure. The transfer value of the assets will be equal to their REV as determined by the Commission with support of external experts in

compliance with the State aid rules set forth in the Impaired Assets Communication.¹⁴

- (61) As a result of the restructuring plan, and in particular the transfer of assets to the BAMC, Banka Celje's NPL ratio will decrease from 33.4% on 31 December 2013 to 19.2% immediately after the transfer. Total assets will decrease from EUR 1 816 million on 31 December 2013 to EUR 1 409 million on 31 December 2015 and RWA from EUR 1 378 million to EUR 1 171 million over the same period.
- (62) Banka Celje will not treat Slovenian State-owned companies more favourably than non-State-owned companies. Banka Celje will provide to the Monitoring Trustee an annual report comparing the lending conditions applied to State-owned companies and to similar private companies.

4.1.3 Restructuring plan post-merger period

- (63) The Merged Entity will conduct activities previously conducted by Abanka and Banka Celje and implement a more controlled way of lending with better risk management and corporate governance. The Merged Entity will focus on the provision of banking and insurance services related to individual and business customers as well as financial market services. The Merged Entity will have a sole focus on the Slovenian market and will pursue the withdrawal from market operations initiated by Abanka and Banka Celje.

Risk management and operational efficiency

- (64) The Merged Entity will reduce its group total balance sheet from EUR 4 865 million as at 31 December 2013¹⁵ to EUR [3000-3500] million by 31 December 2019.
- (65) The Merged Entity will ensure that the RWA will be capped according to the following schedule (outstanding volume, including credit, market and operational risk):
 - 31 December 2016: EUR [2500-3000] million
 - 31 December 2017: EUR [2500-3000] million
 - 31 December 2018: EUR [2500-3000] million
 - 31 December 2019: EUR [2500-3000] million
- (66) The Merged Entity will close additional branch offices in order to reach the total amount of [50-60] branch offices by [...] and limit the total amount of branch offices during the restructuring period to [50-60] in order to be able to respond to possible additional market demand.

¹⁴ Communication from the Commission on the treatment of impaired assets in the Community banking sector, OJ C 72, 26.03.2009, p. 1.

¹⁵ All 31 December 2013 values for the Merged Entity are calculated on a pro-forma basis as the sum of the equivalent values for Abanka and Banka Celje.

- (67) The Merged Entity will follow the engagements of Abanka and Banka Celje to not engage in equity trading for its own account, asset management for clients, or any new credit activities with corporate clients incorporated outside Slovenia.
- (68) The Merged Entity will reduce its operating costs at the Group level (excluding one-off extraordinary costs of non-recurrent nature, e.g. restructuring expenses) to achieve either a cost-to-income ratio below [50-60] % for each year during the restructuring period, or – in case the cost-to-income ratio is above [50-60] % – to absolute target levels of EUR [80-90] million by [...], EUR [70-80] million by 31 December 2017, EUR [60-70] million by 31 December 2018 and EUR [70-80] million by 31 December 2019.
- (69) The individual commitments for the winding down of subsidiaries, branches and participations of both banks are also applicable to the Merged Entity.
- (70) The Merged Entity will further review its incentive and remuneration policies in order to ensure that they do not encourage unreasonable risk-taking, are geared towards long-term and sustainable goals, and are transparent and compliant with the Committee of European Banking Supervisors Guidelines on remuneration policies and practices of 10 December 2010 published on the European Banking Authority's (EBA) website.¹⁶ The total remuneration to any board member and employee performing special work will be capped, in line with point 38 of the 2013 Banking Communication.¹⁷ Until 31 December 2019 such remuneration will not exceed the higher of 15 times the national average salary in Slovenia or 10 times the average salary of Abanka, Banka Celje [...] and the Merged Entity [...].
- (71) The Merged Entity will overhaul its risk management process and in particular the Merged Entity will price every new loan (considering as new loan any new business not related to an existing transactions) by using an appropriate internal pricing tool no later than [...] or (in the case of mass market retail and SME exposures) using appropriate internal pricing guidelines. Pricing for new loans will be considered adequate if the new loan contributes to achieve a positive Return on Equity ('RoE') before tax of at least [5-10]% in 2016 (from [...] onwards), [5-10]% in 2017 and [10-20]% in 2018 and 2019 on either the individual loan or on each client relationship.
- (72) The Merged Entity will also retreat from lending to financial holding companies, limit new lending to real estate projects to [5-10]% of the bank's capital, and limit concentration risks to single corporate clients groups to [5-10]% of the Merged Entity's capital.
- (73) The Merged Entity's net income will amount to EUR [20-30] million on 31 December 2019. The restructuring plans of Banka Celje and the Merged

¹⁶ See EBA's website: https://www.eba.europa.eu/cebs-archive/news-and-communications/view-news/-/asset_publisher/11F84J08jzXT/content/cebs-guidelines-on-remuneration-policies-and-practices

¹⁷ 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 ('the 2013 Banking Communication'), OJ C 216, 30.7.2013, p. 1.

Entity provide financial projections over the period 2014-2019 pointing to a Capital Adequacy Ratio of [10-20] % at 31 December 2019 and a RoE of [5-10]% at the end of the restructuring period. Those indicators however do not take into account the excess capital generated by the Bank over the restructuring period which the Merged Entity intends to pay partly back to the State through a capital repayment mechanism.¹⁸

- (74) The Merged Entity will not treat Slovenian State-owned companies more favourably than non-State-owned. The Merged Entity should provide to the Monitoring Trustee throughout the restructuring period an annual report comparing the lending conditions applied to State-owned companies and to similar private companies.

Change in corporate governance

- (75) The corporate governance commitments seek to ensure that the management board of the Merged Entity will have the sole powers and responsibilities for managing the day-to-day business of the bank independently and in the sole interest of the bank.
- (76) The arm's length principle will apply to the relationship between the Merged Entity and its shareholder, the Republic of Slovenia. Slovenia commits not to intervene in the appointment of supervisory board members and executives other than through the exercise of its shareholder rights under ordinary Slovenian corporate law. Two-thirds of the seats and voting rights on the supervisory board and its committees will be allocated to independent experts.
- (77) The Merged Entity will put in place an independent and objective internal audit function. The Merged Entity will follow a prudent and sound business policy geared towards sustainability while implementing the planned measures.

4.2 Commitments

- (78) As an integral part of the restructuring plan, Slovenia submitted a number of commitments that apply to both Banka Celje (during the pre-merger period) and to the Merged Entity (during the post-merger period). A detailed list of all commitments is provided in the Annex.
- (79) All the commitments shall apply throughout the restructuring period. Commitments cease to apply earlier if Slovenia sells all its shareholding in the Merged Entity after [...], unless an individual commitment states otherwise.
- (80) In order to ensure that the commitments for Banka Celje and the Merged Entity are implemented, a monitoring trustee will be appointed. The mandate of the monitoring trustee will apply throughout the restructuring period for Banka Celje and the Merged Entity.

Abanka's commitments during the pre-merger period

¹⁸ See recitals (86) and (166).

- (81) Before the date at which the merger of Banka Celje and Abanka becomes effective, all commitments of Abanka's restructuring decision remain applicable. After the merger becomes effective, the commitments of the restructuring decision will be replaced by the commitments applying to the Merged Entity.

'Behavioural' commitments for Banka Celje and the Merged Entity

- (82) Both Banka Celje and the Merged Entity will comply during the whole restructuring period with an acquisition ban and a ban on advertising and aggressive commercial practices.
- (83) The commitments of Banka Celje and the Merged Entity also include a coupon ban, a dividend ban and a capital repayment mechanism.
- (84) For both Banka Celje and the Merged Entity, the coupon ban applies only to capital instruments outstanding at the time of the present Decision, unless those payments stem from a legal obligation, and encompasses also a commitment not to call or buy back those instruments without prior approval of the Commission. Nevertheless, the coupon ban does not apply to newly issued capital instruments (meaning instruments issued after the adoption by the present Decision), provided any payment of coupons on such newly issued capital instruments will not create a legal obligation to make any coupon payments on the Merged Entity's securities existing at the moment of the adoption of the present Decision.
- (85) Under the capital repayment mechanism and dividend ban Banka Celje will not pay dividends for fiscal years 2014 and 2015.
- (86) Under the capital repayment mechanism and dividend ban the Merged Entity may pay dividends under certain conditions:
- (a) for fiscal years [...]and [...] it may pay the lower amount of (i) [...] of the excess capital above the applicable minimum CET1 capital requirement under Union and Slovenian law (including pillar 1 and 2) plus a capital buffer of [...] basis points of RWA, or (ii) the net income for the relevant year;
 - (b) for fiscal years [...]and [...] it may pay the lower amount of (i) [...]% of the excess capital above the applicable minimum CET1 capital requirement under Union and Slovenian law (including pillars 1 and 2) plus a capital buffer of [...] basis points; of RWA or (ii) the net income for the relevant year.
- (87) Any possible recapitalisation by Banka Celje or the Merged Entity of its subsidiaries via equity injections will be subscribed at the lowest of (i) [20-30]% discount to the share price (after adjustment for the 'dilution effect') immediately prior to the announcement of the capital injection, or (ii) the lowest price at which other shareholders of Banka Celje's subsidiaries will contribute to the recapitalisation of subsidiaries. The 'dilution effect' can be quantified using generally accepted market techniques (for instance, the theoretical ex-rights price ('TERP')).

Other commitments for Banka Celje and the Merged Entity

- (88) Based on the restructuring plans submitted for Banka Celje and the Merged Entity, Slovenia also commits to implement the following measures and actions to achieve the objectives listed in the restructuring plan of Banka Celje and the Merged Entity, namely:
- ensure adequate burden-sharing as described in recital (58);
 - divest and wind down subsidiaries, branches and participations of Banka Celje as described in recitals (55) and (66);
 - discontinue equity trading and asset management activities as described in recitals (52) and (67);
 - cap credit activities in terms of RWA as described in recitals (56) and (65);
 - discontinue operations with foreign corporate clients as described in recitals (53) and (67);
 - define and implement new corporate governance and remuneration policies as described in recitals (70), (75), (76) and (77);
 - overhaul risk management and credit policies as described in recitals (71) and (72);
 - recapitalise subsidiaries under strict conditions as described in recital (87);
 - reduce balance sheet as described in recitals (54) and (64);
 - reduce costs as described in recitals (57) and (68);
 - not treat more favourably Slovenian State-owned companies as described in recitals (62) and (74).

Divestiture process

- (89) The Republic of Slovenia will fully divest its shareholding in the Merged Entity through a competitive, non-discriminatory, open and transparent bidding process to one or more purchasers independent and unconnected to the Merged Entity and to the Republic of Slovenia by no later than [...].

5 POSITION OF SLOVENIA

- (90) Slovenia agrees that the recapitalisation of Banka Celje and the transfer of impaired assets to the BAMC constitute State aid measures in favour of Banka Celje within the meaning of Article 107(1) TFEU. Slovenia is of the view that those measures are compatible with the internal market under Article 107(3)(b) TFEU.

- (91) Slovenia submits that the restructuring plan of Banka Celje and the Merged Entity complies with all conditions set forth in the Restructuring Communication¹⁹ as supplemented by the 2013 Banking Communication.
- (92) In particular, Slovenia is of the opinion that the restructuring plan of Banka Celje and the Merged Entity ensures the restoration of long-term viability of the Merged Entity without reliance on State resources, provides sufficient own contribution to the restructuring costs and limits competition distortions.
- (93) In order to ensure prudent decision-making processes in managing the activities of Banka Celje and the Merged Entity, Slovenia has provided specific commitments to strengthen their corporate governance arrangements and structure.

6 ASSESSMENT

6.1 Existence and amount of State Aid

- (94) In the restructuring decision on Abanka²⁰, the Commission concluded that the measures implemented in favour of Abanka constituted State aid. The newly notified restructuring plan does not contain any new aid measures in favour of Abanka. Therefore in this decision, the Commission will focus its assessment of the existence of aid on the two new measures notified in favour of Banka Celje (i.e. the recapitalisation and the transfer of impaired assets to the BAMC) which are to be implemented before its merger with Abanka.
- (95) Article 107(1) TFEU provides that 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 is, insofar as it affects trade between Member States, incompatible with the internal market.
- (96) As the recapitalisation of Banka Celje will be provided directly by Slovenia, the Commission concludes that the measure is financed through State resources.
- (97) The recapitalisation allows Banka Celje to obtain capital in a fragile financial and operational situation where due to the uncertainty surrounding Banka Celje's particular situation as well as the situation of the Slovenian banking sector more generally it would be impossible to find such capital on the market. Banka Celje's attempts to raise capital from private investors were not successful.²¹
- (98) The Commission considers that there are clear indications that the transaction does not comply with the Market Economy Investor Principle, specifically the failure by Banka Celje to raise capital from private investors and the fact that Slovenia has notified the measures as State aid. Therefore, the Commission

¹⁹ Commission's Communication of 23 July 2009 on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules, OJ C 195, 19.8.2009, p. 9.

²⁰ See recital (5).

²¹ See recitals (29) and (31).

concludes that the recapitalisation must be regarded as providing an advantage to Banka Celje. Moreover, that advantage is selective since it only benefits Banka Celje.

- (99) Given that Banka Celje is and will be active in the financial sector, which is open to intense international competition, any advantage from State resources to the bank has the potential to affect intra-Union trade and to distort competition.
- (100) Therefore the recapitalisation of Banka Celje constitutes State aid within the meaning of Article 107(1) TFEU.
- (101) As regards the transfer of impaired assets to the BAMC, the Commission considers that the measure involves State resources. Slovenia created the BAMC to support banking sector stability, helping troubled banks to transfer their risky assets off their balance sheet at a price over current market value. The envisaged transfer of impaired assets from Banka Celje to the BAMC will limit the risks the bank has to take in order to clean up its balance sheet and implement the restructuring plan of the Merged Entity.
- (102) In order to assess the existence of aid in the transfer of assets to the BAMC, the Commission's external and independent experts have independently determined the current market value of the portfolio to be transferred as well as the REV. The proposed transfer value of the portfolio is equal to the REV which is higher than the current market value. Under those conditions, the transaction cannot be considered to be in line with the Market Economic Operator Principle. Therefore, the measure constitutes a selective advantage to Banka Celje.
- (103) That advantage strengthens Banka Celje's position compared to that of its competitors. The measure must therefore be regarded as liable to distort competition and affect trade between Member States, given that Banka Celje is and will be active in the financial sector, which is open to intense international competition.
- (104) As regards the aid amount in the transfer of impaired assets to the BAMC, footnote 2 to point 20(a) of the Impaired Assets Communication defines the aid amount in an asset relief measure as the difference between the transfer value of the assets and the market price. In the case of Banka Celje, the transfer price is going to be set at the REV of EUR 127.0 million while the market price has been estimated at EUR 64.3 million. Therefore, the maximum aid granted to Banka Celje as a result of the transfer of impaired assets to the BAMC amounts to EUR 62.7 million.
- (105) As a result, the total aid to be granted to Banka Celje as a result of the recapitalisation of EUR 190 million and the transfer of impaired assets to the BAMC (resulting in an aid of EUR 62.7 million) amounts to EUR 252.7 million, representing 23% of Banka Celje's RWA as of 31 December 2013.

6.2 Compatibility of the aid

6.2.1. Legal basis for the compatibility assessment

- (106) Article 107(3)(b) TFEU empowers the Commission to find that aid is compatible with the internal market if it is intended 'to remedy a serious disturbance in the economy of a Member State'. The Commission has acknowledged that the global financial crisis can create a serious disturbance in the economy of a Member State and that measures supporting banks are apt to remedy that disturbance. This has been successively detailed and developed in the seven Crisis Communications.²² The 2013 Banking Communication applies to State aid measures notified from 1 August 2013 onwards. Slovenia has notified the State aid measures in favour of Banka Celje after that date. Therefore the provisions of the 2013 Banking Communication apply to the compatibility assessment of the restructuring plan for Banka Celje [...] and the Merged Entity [...] The specific provisions of the Impaired Asset Communication as adapted by the 2013 Banking Communication apply to the compatibility assessment of impaired asset measures.
- (107) The Commission's various approvals of the measures undertaken by the Slovenian authorities to combat the financial crisis²³ confirm the presence of a serious disturbance in the Slovenian economy. Therefore, the legal basis for the compatibility assessment of the measures covered by the restructuring plan (namely the recapitalisation and the transfer of impaired assets to the BAMC) is Article 107(3)(b) TFEU.

6.2.2. Compatibility assessment

- (108) As regards the compatibility of the recapitalisation provided to Banka Celje and the transfer of assets to the BAMC, Slovenia has notified them as restructuring aid. In view of the merger of Banka Celje with Abanka, the Commission assesses that aid on the basis of the restructuring plan for Banka Celje and the Merged Entity examined in the light of the Restructuring Communication as supplemented by the 2013 Banking Communication. Here, the Commission will also consider any modifications to the restructuring plan of Abanka.

²² Communication on the application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis ('2008 Banking Communication'), OJ C 270, 25.10.2008, p. 8; Communication on the recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition ('Recapitalisation Communication'), OJ C 10, 15.1.2009, p. 2; the Impaired Assets Communication; the Restructuring Communication; Communication from the Commission on the application, from 1 January 2011, of State aid rules to support measures in favour of financial institutions in the context of the financial crisis ('2010 Prolongation Communication'), OJ C 329, 7.12.2010, p. 7, Communication from the Commission on the application, from 1 January 2012, of State aid rules to support measures in favour of financial institutions in the context of the financial crisis ('2011 Prolongation Communication'), OJ C 356, 6.12.2011, p. 7 and 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.

²³ See e.g. Rescue recapitalisation in favour of NLB SA.32261 (2011/N), OJ C 189, 29.06.2011, p. 2; Second recapitalisation of NLB and Restructuring of NLB SA.34937 (2011/N) SA.33229 (2012/N), OJ C 361, 22.11.2012, p. 18; Recapitalisation of NKBM SA.35709, OJ C 162, 07.06.2013, p. 5.

- (109) As regards the compatibility of the specific features of the transfer of impaired assets from Banka Celje to the BAMC, the Commission assesses that measure with regard to the Impaired Assets Communication as adapted by the 2013 Banking Communication.

6.2.3. Compatibility with the Impaired Assets Communication as adapted and complemented by the 2013 Banking Communication

- (110) It is necessary to assess the compatibility of the transfer of impaired assets to the BAMC on the basis of the Impaired Assets Communication as adapted and complemented by the 2013 Banking Communication. The Impaired Assets Communication defines impaired asset relief as any measure which 'free[s] the beneficiary bank from (or compensate[s] for) the need to register either a loss or a reserve for a possible loss on its impaired assets and/or free regulatory capital for other uses' and sets out criteria for the compatibility of such measures with the internal market. Those compatibility criteria comprise: (i) the eligibility of the assets; (ii) transparency and disclosure of impairments; (iii) the management of the assets; (iv) the correct and consistent approach to valuation; and (v) the appropriateness of the remuneration and burden-sharing.

a. Eligibility of assets

- (111) As regards the eligibility of the assets, section 5.4 of the Impaired Assets Communication indicates that asset relief requires a clear identification of impaired assets and that certain limits apply in relation to eligibility to ensure compatibility.
- (112) The Impaired Assets Communication however further sets out that a balance needs to be found between meeting the objective of immediate financial stability and the need to ensure the return to normal market functioning, which would plead in favour of flexibility when identifying classes of assets. In particular, whilst the Impaired Assets Communication cites as eligible assets those that have triggered the financial crisis (the Impaired Assets Communication explicitly refers to US mortgage-backed securities), it also allows for the possibility to 'extend eligibility to well-defined categories of assets corresponding to a systemic threat upon due justification, without quantitative restrictions'.
- (113) As regards the present case, the impaired assets measure is targeted at non-performing assets mostly related to defaulted loans to financial sector, construction, manufacturing and consulting businesses. Those assets are therefore in line with the eligibility criteria of the Impaired Assets Communication.

b. Transparency and disclosure

- (114) As regards transparency and disclosure, section 5.1 of the Impaired Assets Communication requires full ex-ante transparency and disclosure of impairments by eligible banks on the assets which will be covered by the asset relief measures, based on an adequate valuation, certified by recognised independent experts and validated by the relevant supervisory authority. The Impaired Assets Communication requires that disclosure and valuation should take place prior to government intervention.

(115) As regards the impaired assets measure of Banka Celje, the Commission notes that independent consultants have been engaged by Slovenia to review the quality of assets in the context of the Slovenian Asset Quality Review 2013 exercise and that the valuation of the assets has been performed by the Bank of Slovenia. An initial list of assets to be transferred was provided already during the notification for aid to Banka Celje on a stand-alone basis in April 2014.²⁴ It has since been updated with several submissions, most recently on 16 October 2014. Slovenia has thus provided sufficient transparency and disclosure on the entirety of Banka Celje's impaired assets to be transferred to the BAMC.

c. Management of the assets

(116) As regards the management of assets, section 5.6 of the Impaired Assets Communication stipulates the necessity of ensuring a clear functional and organisational separation between the beneficiary bank and its assets, notably as to their management, staff and clientele. The Communication provides in that respect that such arrangements should allow the bank to focus on the restoration of viability and to prevent possible conflicts of interest.

(117) The non-performing assets of Banka Celje will be managed by the BAMC, which is fully independent from Banka Celje. It can therefore be concluded that the separate asset management is in line with the requirements of the Impaired Assets Communication.

d. Valuation

(118) Section 5.5 of the Impaired Assets Communication notes that a correct and consistent approach to valuation is of key importance to prevent undue distortions of competition. The main aim of valuation is to establish the REV of the assets. That value constitutes the benchmark level in so far as a transfer of impaired assets at that value indicates the compatibility of aid – it creates a relief effect because it is in excess of the current market value, but keeps the aid amount to the minimum necessary.

(119) The Bank of Slovenia assessed the portfolio according to the methodology defined in the BAMC bylaws. Slovenia has provided a note from the Bank of Slovenia explaining how the final transfer value of the asset transfer to the BAMC was calculated.

(120) The Commission has scrutinized the valuation and, in particular, the underlying general methodology in order to ensure a consistent approach at Union level. For that purpose, the Commission has contracted external experts, to:

- (a) provide technical support on the valuation of the portfolio to be transferred, assessing how the existing materials submitted by Banka Celje could be used to assess the REV;

²⁴ See recital (4).

- (b) estimate the REV and current market value of the portfolio earmarked to be transferred.
- (121) With the support provided by the external experts the Commission assessed the REV of the portfolio. The assets of Banka Celje earmarked for transfer to the BAMC consist mainly of exposures that are either defaulted or highly likely to default. Only [0-5]% of all exposures can still be considered performing.
- (122) A probability of default/loss given default (PD/LGD) approach was used where the loss given default (LGD) was calculated by determining the value of the underlying collateral and the difficulty in realising that value in a liquidation scenario. The detailed valuation results from the 2013 asset quality review performed by the Bank of Slovenia were used as a basis. Probability of defaults (PDs) for the non-defaulted exposures were calculated based on the official rating transition matrix determined by the Bank of Slovenia. The methodology used to calculate the REV contains sufficient stress to include an appropriate level of remuneration to the BAMC for the wind-down of the assets to be transferred.
- (123) The Commission concludes that the REV of the portfolio is 30.9% of the outstanding gross exposure value equivalent to EUR 127.0 million and its current market value is 15.6% of the outstanding gross exposure value equivalent to EUR 64.3 million.
- (124) Therefore the amount of aid considered is the difference between the REV and the market value, i.e. EUR 62.7 million.

e. Burden-sharing and remuneration

- (125) As regards burden-sharing, section 5.2 of the Impaired Assets Communication repeats the general principle that banks ought to bear the losses associated with impaired assets to the maximum extent so as to ensure equivalent shareholder responsibility and burden-sharing. Thus, the assets should be transferred at a price that matches or remains below their REV.
- (126) As Slovenia undertakes to transfer the impaired assets of Banka Celje at or below the REV established by the Commission and its external experts, the Commission considers that the pricing proposed by Slovenia ensures sufficient burden-sharing and is therefore in line with the Impaired Assets Communication.

Conclusion on the impaired assets measure

- (127) In light of the above, the Commission considers that the transfer of impaired assets to the BAMC meets all the conditions and requirements of the Impaired Assets Communication as adapted and complemented by the 2013 Banking Communication.

6.2.4. Compatibility with the Restructuring Communication supplemented by the 2013 Banking Communication

- (128) Due to the specificities of the case, the Commission will assess in this section (a) the restructuring plan for Banka Celje on a stand-alone basis for [...], (b) the

restructuring plan for the Merged Entity for the period from [...]and (c) the modifications of the restructuring plan of Abanka for the entire period 2015 to 2019.

- (129) According to point (31) of the 2013 Banking Communication, any restructuring plan involving restructuring aid will, with the exception of the requirements on capital raising and burden-sharing, continue to be assessed on the basis of the Restructuring Communication.
- (130) According to the Restructuring Communication and the 2013 Banking Communication, first, the restructuring plan has to demonstrate that the restructuring process a beneficiary of State aid is undergoing is suitable to restore its long-term viability. Secondly, the aid amount must be limited to the minimum necessary and both shareholders and subordinated creditors must contribute to reducing the capital shortfall to the maximum extent. Thirdly, measures need to be in place to limit distortions of competition created by artificially supporting the market power of the beneficiary and to ensure a competitive banking sector. Finally, monitoring and procedural issues need to be addressed.

(i) Restoration of long-term viability

- (131) As set out under the Restructuring Communication, the Member State needs to provide a comprehensive restructuring plan which demonstrates how the long-term viability of the beneficiary will be restored without State aid within a reasonable period of time, but within a maximum of five years. Long-term viability is achieved when a bank is able to compete in the marketplace for capital on its own merits in compliance with the relevant regulatory requirements. For a bank to do so, it must be able to cover all its costs and provide an appropriate RoE, taking into account the risk profile of the bank. The return to viability should mainly derive from internal measures and be based on a credible restructuring plan.
- (132) Slovenia has submitted its intention to merge Banka Celje with Abanka in line with the commitment taken in the Abanka restructuring decision. The latest date at which the merger has to take effect is [...]. Before that date, restructuring plans and commitments are provided separately for both entities. For the period from [...] to 31 December 2019, a restructuring plan for the Merged Entity has been provided by Slovenia.²⁵
- (133) The restructuring plan shows a return to viability for the Merged Entity at the end of the restructuring period. The return to viability is largely based on the expected improvement in the quality of the portfolio and the reduced need for additional impairments and provisioning resulting mainly from the planned transfer of impaired assets to the BAMC. The Merged Entity will also have an improved operational efficiency resulting from cost reduction and risk management measures. To ensure the Merged Entity's viability, the financial plan takes into account measures implemented in favour of both Abanka (as approved

²⁵ See recital (6).

in the restructuring decision) and Banka Celje (transfer of impaired assets to the BAMC to the amount of EUR 411.5 million gross book value and the recapitalisation of EUR 190 million).

- (134) Point 10 of the Restructuring Communication requires that the proposed restructuring measures remedy the entity's weaknesses. The restructuring plan explains the internal factors causing Banka Celje difficulties. The main causes are related to the aggressive growth strategy pursued up to 2011, which contributed to a high concentration of loans to individual corporate customers. Loans were granted under generally loose credit and collateral standards, with poor risk management practices, which resulted in the accumulation of large portfolio of non-performing loans. Expansion, insufficient cost adjustments and weak corporate governance contributed further to the difficulties of the bank. In addition the general slowdown of the Slovenian economy had a negative impact on Banka Celje's performance.
- (135) Between 2010 and 2014, the NPL ratio increased from 5.7% to 38.7%. Banka Celje had accumulated losses of EUR 25 million in 2012 and EUR 126 million in 2013, thus consuming capital and bringing the Tier 1 ratio to 2.5% by 31 December 2013 far below the minimum level required by the Bank of Slovenia.
- (136) Therefore, five major issues must be tackled for the return to long-term viability. First, the bank's corporate governance must be enhanced to ensure that economically justified business decisions are taken exclusively by the bank's management and that the State will not influence the day-to-day business. Second, the bank must improve its pricing policies and risk management framework so that margins are preserved and losses minimized. Third, the bank must rebalance its activities towards less risky activities. Fourth, the bank must repair its capital base. Fifth, the bank must improve its operational efficiency to secure a sufficient level of profitability. The problems facing Abanka and addressed in its stand-alone restructuring plan were similar to the ones outlined above for Banka Celje.²⁶
- (137) Finally, as Abanka and Banka Celje implement the merger plan, it will be necessary to make progress along the lines of the identified synergies. The business models and respective strengths of Abanka and Banka Celje seem complementary, leaving room for mutual improvements both in cost and risk management as well as in the revenue dimension. In that respect, the Commission notes positively that the notified restructuring plan includes only well-identified and quantified synergies on the cost side while leaving aside the revenue dimension entirely so that the restructuring plan can be accepted as a conservative estimate.

a) Strengthening the corporate governance framework

²⁶ See recital (107) of the restructuring decision.

- (138) The commitments provided in the context of the restructuring of Banka Celje individually in 2015 and then the Merged Entity guarantee independence of the board and management to set lending criteria. They also ensure that the pricing of loans will be based on a pricing policy establishing minimum RoE rules for all loans, thereby limiting the possibility for the Bank to lend below market price to firms as a result of external influences or to related parties.
- (139) The commitments on a new corporate governance framework aim at properly addressing and remedying the weakness of Banka Celje's corporate governance.²⁷ The new framework establishes adequate safeguards to prevent conflicts of interest. It also ensures that strategy and decisions are business-oriented and are neither biased by objectives other than value maximisation nor subject to improper external influence. Planned changes to the corporate governance will make the bank less vulnerable to external influence and at the same time will introduce more market discipline through enhanced control and transparency in management decisions.
- (140) The Merged Entity will further review its incentive and remuneration policies in order to ensure that they do not encourage unreasonable risk-taking and are geared towards long-term and sustainable goals. The total remuneration to any board member and employee performing special work will be capped, until 31 December 2019, in line with points (37) to (39) of the 2013 Banking Communication.
- (141) In addition, in line with the objective of maintaining the Merged Entity as a profit- and business-oriented undertaking operating in the open market, Slovenia has committed to fully divest its shareholding in the Merged Entity by [...] to purchaser(s) independent of and unconnected to Abanka, Banka Celje, the Merged Entity and the State. If the State shareholding in the Merged Entity is not fully sold by that date, Slovenia will grant the divestiture trustee an exclusive mandate to sell the State's shareholding in the Merged Entity (or the remainder thereof) by [...] at no minimum price.
- (142) As a result, the commitments and the restructuring plan properly address and remedy the main weaknesses of Banka Celje's corporate governance policy. They establish adequate safeguards to prevent conflicts of interest, ensure that the Merged Entity's strategy and decisions are business-oriented and are neither biased by objectives other than value maximisation nor subject to improper external influence. The planned changes to the bank's organisational structure and corporate governance will make the bank less vulnerable to external influence and at the same time will introduce more market discipline through enhanced control and transparency in management decisions. Those measures will contribute to the viability of the Merged Entity in the long term.

b) Strengthening the pricing policies and the risk management framework

²⁷ See recitals (70), (75), (76) and (77).

- (143) The commitments will enhance pricing policies and risk management in particular through a number of measures aiming at protecting the best business interests of the bank. Those measures cover the scoring of clients and related lending, the assessment of collateral, the pricing of the new production, the control of the credit process by the credit risk department, and the review of the rating system used by the bank.
- (144) In particular the pricing of new loans will lead by 31 December 2019 to a positive RoE before tax of at least [10-20]% on each client relationship. That pricing will be progressively phased in, starting at [5-10]% RoE before tax on each client relationship in [...] and increasing to [10-20]% in [...] and [...].
- (145) The bank's vulnerabilities are also addressed with the limitation of lending in certain sectors. Banka Celje and later the Merged Entity will not grant new lending to financial holding companies (parent), other than the financial holding companies (parent) clients remaining with Banka Celje or Abanka after the transfer to the BAMC, limit new lending to real estate projects to [10-20]% of the bank's capital, and limit concentration risks to single corporate clients groups to [10-20]% of the Bank's capital.
- (146) The inadequate credit, client and collateral assessment in the past will be addressed via the implementation of refined client credit rating and collateral management processes.
- (147) Banka Celje and later the Merged Entity will also document all restructuring decisions and include in the documentation a comparison with alternative solutions (such as execution of collateral and termination of the engagement) demonstrating that the solution which maximizes the net present value for the bank is chosen.
- (148) The resulting improvements in the bank's pricing policies and risk management framework is appropriate and necessary in order to implement a more rigorous credit policy on new lending and a more conservative provisioning policy. They address the weaknesses of Banka Celje that caused its low profitability as a result of the poor quality of its loan portfolio, high concentration risk, an excessive level of NPL and a high cost of credit and provisioning. By addressing those causes of weaknesses, those measures contribute to the long-term viability of the Merged Entity.
- c) *Rebalancing the business towards less risky activities*
- (149) Several measures will help rebalancing the balance sheet of the bank towards less risky activities.
- (150) Banka Celje will transfer a portfolio of impaired assets to the BAMC. The size of the portfolio transferred (gross book exposure of EUR 411.5 million) will enable Banka Celje to focus on the management of the performing loans, while releasing resources for the workout of the remaining non-performing loans.
- (151) The commitment to reduce and cap the RWA ensures that the risk associated with credit exposures will decrease over the restructuring period and release

capital resources. Under the new business model, Banka Celje and later the Merged Entity will also introduce a stricter origination and collateral policy. Banka Celje and later the Merged Entity will reduce the concentration risk per client, decrease the lending activity of the Merged Entity to large corporates and real estate projects, where it accumulated high NPL in the past, and focus on lending activity towards retail and SME sectors where the Merged Entity will already have a large network.

- (152) The results of the Asset Quality Review and Stress test of the Slovenian banking sector in 2013 were taken into account when assessing the capital needs of Slovenian banks. The restructuring plan incorporates the results of the Asset Quality Review and Stress test.
- (153) Banka Celje and later the Merged Entity commit to withdrawing from [...] activities as well as from equity trading on its own account.
- (154) Those measures will contribute to rebalance the risk profile and balance sheet of the Merged Entity and improve its capital adequacy. The resulting business model will be more sustainable and less risky

d) Repairing the capital base

- (155) The restructuring plan envisages a State recapitalisation for viability purposes in the amount of EUR 190 million. After recapitalisation and transfer of assets to the BAMC, the Tier 1 ratio of Banka Celje under the Capital Requirements Regulation (CRR)²⁸ will reach [10-20]% by 31 December 2014. After the merger with Abanka, the Tier 1 ratio of the Merged Entity will further increase to [10-20]% by 31 December 2019 at the end of the restructuring plan.²⁹
- (156) The recapitalisation will cover capital needs identified in the Asset Quality Review and Stress test and will immediately improve the capital adequacy of Banka Celje and later the Merged Entity. The Commission accepts the arguments put forward by the Bank of Slovenia to explain the reduction in capital requirement from EUR 388 million as identified in the Slovenian stress test at the end of 2013 and the EUR 190 million of recapitalisation as notified by Slovenia.³⁰

e) Restoring long-term profitability

- (157) According to the restructuring plan and addressing the weakness in foreign market knowledge and risk management systems badly adapted to foreign operations, Banka Celje and, subsequently, the Merged Entity will refocus on its core market in Slovenia essentially pursuing retail and SME activities. That shift

²⁸ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012. OJ L 176, 27.6.2013, p. 1.

²⁹ The projected ratio of 16.2% does not take into account the commitment to repay excessive capital to the State between 2016 and 2019 depending on the capital requirements set by the supervisor at the time.

³⁰ See recital (36).

in corporate strategy together with results from the transfer of assets to the BAMC will contribute to the restoration of long-term profitability.

- (158) The net interest margin of Banka Celje and the Merged Entity will be improved by ensuring that new lending will be adequately priced. In particular, pricing for new loans will contribute to achieving a positive RoE before tax of at least [5-10]% in [...] (from [...]on), [5-10]% in 2017, [10-20]% in 2018 and 2019 on either the individual loan or on each client relationship.
- (159) Banka Celje and then the Merged Entity will also document all restructuring decisions. It will include in the documentation a comparison with alternative solutions such as execution of collateral and termination of the engagement. It will demonstrate that the solution which maximizes the net present value for the bank is chosen.
- (160) The Merged Entity is also planning a far-reaching cost-reduction programme. According to that programme, the operating costs amounting to EUR [90-100] million in 2014 (pro-forma sum of Abanka and Banka Celje) will be reduced in order to achieve either a cost-to-income ratio of [50-60]% or in absolute terms a reduction to EUR [70-80] million by 31 December 2017 and to EUR [70-80] million by 31 December 2019. As specific measures, Banka Celje has committed to closing three non-profitable agencies (Kozje, Hmeljarska, and Vodnikova) and consolidating the staff from one office building into others by 31 December 2015.
- (161) In 2019, at the end of the restructuring period, the Merged Entity projects that its net income will amount to EUR [20-30] million corresponding to a RoE after tax of [5-10]% and a Tier 1 ratio of [10-20]%.
- (162) The Commission notes that the RoE at the end of the restructuring period is low compared to other banks in restructuring. However, after a detailed analysis of the restructuring plan the Commission believes that the following three points have to be taken into consideration:
 - (a) Provisioning. The current levels of expenses related to loan loss provisions and impairments built into the plan amount to roughly [0-5]% of the total loan book annually. That level seems slightly on the high side, both compared to international peers and in view of the recent improvement in the macro-economic situation of Slovenia. It also does not take into account the commitments to further improve the bank's corporate governance and risk management frameworks.
 - (b) Income. The figures of interest income in the restructuring plan do not take into account the commitment on RoE pricing of loans to be adjusted to [5-10]% by 2019 whereas current pricing is targeted at around [5-10]%. Also, no revenue opportunities have been taken into account in the merger plan. Both effects lead to interest income projections which are on the conservative side, in particular towards the end of the restructuring period.

- (c) Capital. The capital figures are calculated based on an amount of capital maintained at a level appropriate to sustain a stress situation in line with the results of the Asset Quality Review and Stress test and therefore are well above the regulatory minimum. Those projections do not take into account the effects of the commitment on capital repayment designed to prevent a build-up of excess capital in the Merged Entity.
- (163) Effects (a) and (b) could lead to upwards adjustments of RoE in 2018 of between [0-5] percentage points. Effect (c) could increase the RoE by up to [10-20]% depending on the precise capital requirements in place for the Merged Entity by the end of 2019. In combination, those three effects point to a likely RoE of between [5-10]% and [5-10]% at the end of the restructuring period which is appropriate for a bank with the Merged Entity's risk profile and a sound funding basis in the current economic and regulatory environment.
- (164) The Commission therefore considers that the restructuring plan is apt to restore the long-term viability of the Merged Entity.
- ii) Own contribution and burden-sharing*
- (165) The Restructuring Communication supplemented by the 2013 Banking Communication indicates that an appropriate contribution by the beneficiary is necessary to limit the aid to a minimum and to address distortions of competition and moral hazard. To that end, it provides (i) that both the restructuring costs and the amount of aid should be limited and (ii) that there should be a maximum burden-sharing by existing shareholders and subordinated creditors.
- (166) The restructuring plan of the Merged Entity does not contain any elements that suggest that the aid exceeds the means required to cover the costs resulting from the restoration of viability. The capital shortfall which needs to be covered by the recapitalisation measure of Banka Celje was determined on the basis of the Asset Quality Review and Stress test in line with point (28) of the 2013 Banking Communication. That recapitalisation estimation is based in particular on an asset evaluation which shows such a level to be necessary and sufficient to sustain a stress situation. The asset quality review and stress tests give further certainty on the appropriate level of capital needed. The amount of the recapitalisation will make it possible for Banka Celje to cover the capital shortfall and to meet market expectations in the context of the merger. In addition, a capital repayment mechanism will be in place to limit the build-up of excess capital in the Merged Entity, under which the Merged Entity will have to pay dividends for the fiscal years [...] and [...]calculated on increasing percentage of any excess capital. The capital repayment mechanism ensures that excess capital above minimum regulatory capital requirements will not excessively incentivise the Merged Entity to enter into new business before repaying the State.
- (167) Adequate burden-sharing will normally entail contributions by hybrid capital holders and subordinated debt holders, after losses are first absorbed by equity. Hybrid capital and subordinated debt holders must contribute to reducing the capital shortfall to the maximum extent. Such contributions can take the form of either a conversion into Common Equity Tier 1 or a write-down of the principal

of the instruments. In any case, cash outflows from the beneficiary to the holders of such securities must be prevented to the extent legally possible.

- (168) As regards Banka Celje, the commitments of Slovenia regarding the burden-sharing of subordinated debt holders comply with the Restructuring Communication supplemented by the 2013 Banking Communication. To ensure adequate burden-sharing and participation of the existing investors in the restructuring, the equity holders and all subordinated debt holders were written down in full prior to the recapitalisation. To that end, Bank of Slovenia has, through a specific order, frozen all the subordinated-debt issued by the bank, of which instruments that were to mature before the adoption of the decision. Those subordinated debt instruments maturing before the date of adoption of the decision are also subject to the bail in. After the recapitalisation the State will become the sole shareholder.
- (169) The Commission has also already established that the transfer of impaired assets to the BAMC is adequately remunerated.³¹
- (170) As regards covering the restructuring costs associated with the implementation of the restructuring plan through internal measures, Banka Celje will carry out cost-cutting measures resulting in a decrease of its operating costs at the level of Banka Celje in the Pre-Merger Period and at the level at the Merged Entity in the Post-Merger Period. The restructuring plan and the commitments also provide for restrictions to be applied, until 31 December 2019, to the total remuneration of any board member and employee performing special work.
- (171) In addition to those structural measures, Slovenia also committed to a behavioural measure entailing a coupon ban, an acquisition ban and a ban on advertising and aggressive commercial practices which will also contribute to provide appropriate burden-sharing.
- (172) In that regard the Commission notes that the coupon ban does not apply to newly issued capital instruments (meaning instruments issued after the adoption of the present Decision), provided any payment of coupons on such newly issued capital instruments will not create a legal obligation to make any coupon payments on Banka Celje's securities and Merged Entity's securities existing at the moment of the adoption of this Decision³². The Commission accepts that limitation of the coupon ban in order to allow the bank to raise fresh capital on the market in line with point 26 of the Restructuring Communication. The issuance of capital instruments after the date of adoption of this Decision will allow the Merged Entity to raise additional funding and capital, while not

³¹ See recital (122).

³² Other decisions refer to similar commitments: see recital (218) of Commission Decision the Case Restructuring of Royal Bank of Scotland and participation in the Asset Protection Scheme C(2009)10112 final, OJ C 119, 07.05.2010, p. 1, recital (165) of Commission Decision in the Case Restructuring of Lloyds Banking Group C(2009)9087 final, OJ C 46, 24.02.2010, p. 2, recital (151) of Commission Decision in the Case Restructuring of NLB C(2013)9632 final, not yet published and recital (132) of Commission Decision in the Case Restructuring of NKBM C(2013)9634 final, OJ C 120, 23.04.2014, p. 1

triggering the payment of coupons on existing securities, in particular subordinated debts. By virtue of the limitation of the coupon ban, the Merged Entity will be in a position to issue capital instruments eligible as a Tier 1 capital, which may potentially reduce the capital it needs in the form of equity. In that respect, it must be recalled that coupons must be optional and cannot be mandatory for debt instruments to qualify as Tier 1 capital. The limitation of the coupon ban does not undermine the useful effect of a coupon ban of the kind contemplated by the Restructuring Communication because the commitment that the payment of coupons on new capital instruments will not create a legal obligation to make any coupon payments on existing securities will prevent any unnecessary outflow of capital.

- (173) In addition any possible recapitalisation (pre-merger and post-merger) of subsidiaries via equity injections will be subscribed at (i) a [20-30]% discount to the share price (after adjustment for the 'dilution effect' quantified using generally accepted market techniques) immediately prior to the announcement of the capital injection, or (ii) the lowest price at which other shareholders of those subsidiaries contribute to the recapitalisation.
- (174) Accordingly, the full write-down of shareholders' equity and outstanding subordinated debts of Abanka, cost reduction measures, divestment commitments result in a sufficient own contribution by Banka Celje and the Merged Entity to the costs of its restructuring and ensure appropriate burden-sharing.
- (175) For those reasons, the Commission concludes that the restructuring plan provides for an appropriate own contribution and burden-sharing.

iii) Measures limiting the distortions of competition

- (176) Section 4 of the Restructuring Communication requires that the restructuring plan contains measures limiting distortions of competition. Such measures should be tailor-made to address the distortions on the markets where the beneficiary bank operates post-restructuring. The nature and form of such measures depend on two criteria: first, the amount of the aid and the conditions and circumstances under which it was granted and, second, the characteristics of the markets on which the beneficiary will operate. Furthermore, the Commission must take into account the extent of the beneficiary's own contribution and burden-sharing over the restructuring period.
- (177) Banka Celje will receive State aid in the form of a recapitalisation and an impaired asset measure amounting to EUR 252.7 million in total, equivalent to 18.3% of its RWA as of 31 December 2013. The need to implement measures to limit potential distortions of competition is necessary in particular given the amount of aid and the market positions of Banka Celje and the Merged Entity.
- (178) The Merged Entity consisting of Abanka and Banka Celje will become the second-largest bank in the Slovenian market. However, measures to limit effects on competition (a) have already been assessed and approved by the Commission in the decision on Abanka, (b) will be considered here for Banka Celje separately and (c) to account for additional effects due to the merger.

- (179) To limit distortions of competition, Banka Celje will reduce its balance sheet by [20-30] % to EUR 1.4 billion and its RWA by [10-20]% to EUR 1.2 billion between 31 December 2013 and 31 December 2015, thereby considerably reducing its market presence.
- (180) Banka Celje will concentrate on its core business and completely withdraw from leasing and factoring activities in Slovenia and abroad liberating market share in favour of competitors. Banka Celje will further reduce its market presence outside its core banking activities by divesting/actively winding down its fully-owned subsidiary Posest engaged in real-estate business outside of Slovenia. Posest is only allowed to continue operating during the restructuring period for collateral management purposes. Banka Celje will discontinue asset management for clients and trading on own account.
- (181) Finally, Banka Celje will continue its core banking activities with a smaller balance sheet and implement an enhanced risk-adjusted pricing policy ensuring a minimal RoE at client connection level of [5-10]% to avoid capturing market share from other banks through structural mispricing of risk.
- (182) From [...], to limit further any distortions of competition, Slovenia has committed to keeping the size of business of the Merged Entity constant up to the end of the restructuring period avoiding any growth both in balance sheet and RWA. Over the period between 31 December 2013 and 31 December 2019, the Merged Entity will reduce its balance sheet by [20-30]% and the RWA by [20-30]% leading to a significantly smaller market presence compared to the combined market shares of Abanka and Banka Celje.
- (183) To further reduce its market presence, the Merged Entity will reduce its branches by 12% (8 branches) and will continue abstaining from non-core activities such as real estate business, factoring and leasing as well as asset management for clients and trading on own account. The Merged Entity will also continue adhering to the enhanced risk-adjusted pricing policy and steadily increase the minimal RoE level to 10% by 2018. This will prevent competition distortions by limiting barriers of entry for new competitors.
- (184) Finally, the Merged Entity will use potential excess capital from [...] onwards to remunerate the State for the aid measures received. This measure will prevent the bank from benefiting from an excessive capital base which would put it in an advantageous situation compared to its competitors. As such, the capital repayment mechanism which is designed to limit the build-up of excess capital which represents a further appropriate measure for limiting the distortion of competition.
- (185) In addition to those structural measures, Slovenia also committed to behavioural constraints. The Commission welcomes a ban on advertising State support and on aggressive commercial practices, thus preventing Banka Celje and the Merged Entity using the aid for anti-competitive market conduct. Slovenia committed also to an acquisition ban for the entire restructuring period, designed to ensure that, the beneficiary will not use the State aid received to acquire any stake in any

undertaking (that covers both undertaking which have the legal form of a company and pool of assets which form a business).

- (186) Taking into account that mix of measures and commitments, the Commission considers that there are sufficient safeguards to limit distortions of competition in spite of the sizeable market presence of the Merged Entity.

6.2.5. Monitoring of the restructuring plan

- (187) Pursuant to section 5 of the Restructuring Communication supplemented by the 2013 Banking Communication, regular reports are required to allow the Commission to verify that the restructuring plan is being implemented properly. Slovenia will appoint a monitoring trustee who will provide the Commission with semi-annual monitoring reports.
- (188) To ensure proper implementation of the restructuring plan throughout its duration, the Slovenian authorities will take all the necessary measures to ensure that the Banka Celje and the Merged Entity comply with the commitments listed in the Annex.
- (189) Moreover, the correct implementation of the restructuring plan and the full and correct implementation of all commitments contained in the Annex to this Decision will be continuously monitored by the monitoring trustee who will be independent and sufficiently qualified. The monitoring trustee will have unrestricted access to all information needed to monitor the implementation of the Decision. The Commission or the monitoring trustee may ask the beneficiary and the Merged Entity for explanations and clarifications. Slovenia, Banka Celje, Abanka and the Merged Entity are to cooperate fully with the Commission and the monitoring trustee with regard to all enquiries associated with monitoring.

6.2.6. Conclusion on the restructuring plan

- (190) The Commission finds that the restructuring plan of Banka Celje and of the Merged Entity is compatible with the internal market pursuant to Article 107(3)(b) TFEU.
- (191) After the implementation of the merger by [...], the commitments for Abanka as assessed in the restructuring decision of 13 August 2014 will cease to apply as Abanka will cease to exist as a stand-alone entity. For the post-merger period, the restructuring plan of the Merged Entity reflects the key aspects of the restructuring plan of Abanka (in particular in terms of size of the balance sheet, growth, volumes, margins, etc.), with the adjustments resulting from the merger with Banka Celje.
- (192) The Commission concludes that commitments applied to the Merged Entity are sufficiently similar to those that apply to Abanka stand-alone and preserve the balance of the original Abanka commitments in terms of return to viability, burden-sharing and mitigation of competition distortions, whilst properly taking into account the effects of the merger of Abanka with Banka Celje.

6.2.7 Conclusion on the compatibility of the measures

(193) The Commission concludes that the recapitalisation of EUR 190 million and the transfer of impaired assets to the BAMC (resulting in aid of EUR 62.7 million) constitute restructuring aid in favour of Banka Celje. In view of the assessment of the restructuring plan of Banka Celje and of the Merged Entity and commitments undertaken by Slovenia, the Commission concludes that Banka Celje and the Merged Entity will be restructured in a manner that ensures its long-term viability, involves adequate burden-sharing and sufficiently addresses competition distortions. The Commission considers that the recapitalisation and the transfer of impaired assets to the BAMC and the submitted restructuring plan fulfil the criteria of the Impaired Assets Communication and the Restructuring Communication, as amended and supplemented by the 2013 Banking Communication. The recapitalisation of Banka Celje and the transfer of impaired assets to the BAMC are compatible with the internal market for reasons of financial stability on the basis of Article 107(3)(b) TFEU, in light of the commitments set out in the Annex to this Decision. Finally, the modifications of the commitments of Abanka starting after its merger with Banka Celje are compatible with the internal market pursuant to Article 107(3)(b) TFEU.

CONCLUSION

The Commission has accordingly decided, in view of the commitments undertaken by the Republic of Slovenia regarding the merger of Abanka and Banka Celje and the restructuring of the Merged Entity, to consider the recapitalisation of EUR 190 million and the transfer of impaired assets to the BAMC (resulting in aid of EUR 62.7 million) to be compatible with the internal market pursuant to Article 107(3)(b) of the Treaty on the Functioning of the European Union.

The Commission notes that for reasons of urgency Slovenia exceptionally accepts the adoption of the Decision 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:

<http://ec.europa.eu/competition/elojade/isef/index.cfm>

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

Margrethe VESTAGER
Member of the Commission

Commitments

SA.38522 - Restructuring aid for Banka Celje/Abanka

The Republic of Slovenia ('Slovenia') ensures that Banka Celje and its affiliates ('Celje'), Abanka Vipava and its affiliates ('Abanka') and the merged Abanka-Celje entity (the 'Merged Entity') will implement the restructuring plan submitted on 15 October 2014. 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 the said restructuring plan.

0/ Restructuring period

The restructuring period will start on the date of adoption of the Decision approving the restructuring plan by the European Commission (the 'Commission') and will end on 31 December 2019. The restructuring period is divided into the following two phases:

- The period between the date of adoption of the Commission's decision and the date at which the merger of Celje and Abanka becomes effective (the 'Pre-Merger Period'). For the purpose of these commitments, the merger becomes effective on [...]. Legally, the merger will become effective by the date the merger is registered by the Court Register. This is presumed to occur during the first [...].
- The period between the date at which the merger of Celje and Abanka becomes effective and 31 December 2019, the end date of the restructuring period (the 'Post-Merger Period').

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

I/ Abanka commitments during the Pre-Merger Period

(1) Commitments of Commission decision of 13 August 2014

All commitments of Commission's decision of 13 August 2014 in State aid case SA.38228 - 'Restructuring of Abanka Vipava Group' are applicable³³.

(2) Abanka Pre-merger activities

Abanka will engage with Celje in pre-merger activities, mainly consisting of the preparation of the Information Technology (IT) integration and migration, strategy and organization including leadership and Human Resources structure, reporting lines, joint market presence and operation,

³³ Public decision available by following the following link: http://ec.europa.eu/competition/state_aid/cases/251840/251840_1583043_100_2.pdf

communication and marketing strategies, new procedures and policies of the Merged Entity (of which, credit risk policy, provisioning policy, arrears management policy, claims and litigation policy, ...).

The merger of Abanka and Celje becomes effective no later than [...].

II/ Celje commitments during the Pre-Merger Period

(3) Balance sheet evolution

According to the content of the restructuring plan, Celje will reduce its total group balance sheet from EUR 1.8 billion as of 31 December 2013 to EUR [0.-5] billion by 31 December 2015, and the legal environment relevant for the balance sheet total.

If this target is exceeded by more than [10-20]%, Celje shall refrain from undertaking any new balance sheet enlarging activities until the respective reduction target is achieved.

(4) Reduction of costs

Celje's operating costs amounted to EUR 33.9 million in 2013 at the Group level. Celje will reduce its operating costs (including among others staff, administration and other costs, and amortization) at the Group level (excluded one-off extraordinary costs having non-recurrent nature, i.e. restructuring expenses) to achieve either a cost-to-income ratio below [50.-60]% in each year during the restructuring period, or in case the cost-to-income ratio is above [50.-60]% to EUR [30-40] million by 31 December 2014 and EUR [30-40] million by the 31 December 2015.

If the annual inflation in the period 2014-2015 exceeds 2.5%, the operating cost targets will be adjusted to accommodate for the difference between inflation rate projections in the restructuring plan and actual inflation in the particular year.

(5) Divestment and winding down of subsidiaries, branches and participations

(5.1) Posest subsidiary

In order to wind down its portfolio, Banka Celje will reorganize its subsidiary Posest into a special purpose vehicle (SPV) focused on the sanitization³⁴ of loans in former Yugoslavia. In line with this decision, Posest is going to acquire, maintain and/or renovate, manage, prepare for sale, and sell the real estate in question. Posest will acquire assets exclusively for the sanitization of loans. In particular it will not acquire real estate assets which are not concerned by loan sanitization.

In addition to managing distressed real estate in the former Yugoslavia, the company will be used in the same way for Slovenian cases where it makes sense for the Bank to foreclose on the assets.

Posest will continue to offer its property and equipment appraisal services in addition to the aforementioned activities. Once the real estate portfolio is wound down and the current leasing business expires, Posest will be closed or merged with the Bank.

³⁴ In the following document, 'sanitization' means that the bank will intensively work on the collection of non-performing loans from the Ex-Yugoslav market. The bank will use the services of its subsidiary (e.g. auction participation, etc.) to limit, to the largest extent possible, additional losses for the bank.

The divestment/active winding down of Posest is deemed to be completed once the respective company has been liquidated or wound down or Celje has concluded a binding sale and purchase agreement (although conditional to regulatory approval by relevant supervisor) for the respective participation with one or more Purchasers that are independent from and unconnected to Celje. In any case businesses shall be sold in a manner consistent with the Commitments.

(5.2) Leasing and Factoring businesses

By 31 December 2015, the company will have started to wind down its leasing and factoring business and will not enter into any new leasing and/or factoring contracts.

(5.3) Banka Celje branches and premises

Additionally, Celje will:

- Close [0-5] non-profitable agencies by [...], namely Kozje, Hmeljarska, and Vodnikova.
- Consolidate the staff from [0-5] office building into others by [...]. The staffs to be relocated are currently working at Vodnikova ulica 2.

(6) Equity trading:

Celje will discontinue equity trading for its own account by 31 December 2014.

(7) Asset management:

Celje will not engage in asset management for clients.

(8) Cap on credit activities in terms of Risk Weighed Assets

On 31 December 2013, the risk weighted assets ('RWA') at group level amounted to EUR 1 378 million. Celje will ensure that the RWAs will not exceed the following amounts (outstanding volume in EUR million, including credit, market and operational risk):

- [...];
- [...];

If RWAs of Celje at group level exceed these targets, Celje commits to submit to the Commission, less than one month after the breach is observed, a contingency plan showing its ability to achieve the relevant target. In addition, if any of those targets are exceeded by more than [10-20] %, Celje shall immediately refrain from undertaking any new credit activities in Slovenia until the respective reduction target is achieved.

(9) Discontinuation of business with foreign corporate clients

Celje will not undertake any new credit activities with corporate clients incorporated outside Slovenia and/or that are not members of groups whose headquarter or final beneficiary is incorporated in Slovenia. Celje will limit its activities with such clients to the orderly execution and management of existing credit contracts.

Trade and export financing for Slovenian companies in relation to foreign countries and treasury operations with foreign banks are not subject to this limitation.

(10) Corporate governance and remuneration policies

Celje will implement up-to-date corporate governance structures in accordance with the EU Capital Requirements Directive IV (CRDIV) and Slovenian domestic legislation. The related necessary changes to Celje internal rules have to be implemented in three months after the adoption of the decision of the Commission on the joint restructuring plan for Abanka and Banka Celje. In particular:

(i) the management board of Celje will have the sole powers and responsibilities for managing the day-to-day business of Celje independently and in the sole interest of the bank. Neither the supervisory board nor the shareholders' assembly or any representatives of shareholders may issue any instructions to the management board or interfere otherwise with the day-to-day management of the bank. Due to Celje's corporate governance failures in the past, Slovenia must ensure that the aforementioned sole powers and responsibilities of the management board will be honoured.

(ii) apart from supervising and monitoring by the Supervisory Board, no other corporate body or unit shall issue instructions to the Management Board; in particular, there shall be no direct or indirect instruction by any shareholder or by the State to the Management Board. This shall also apply to the Assembly General Meeting, whose decision taking competence shall be limited to the catalogue of decisions as stated by the law and in the statutes. Furthermore, individuals who use their influence on a company to induce members of the Management Board to act in a manner which causes damage to the company or its shareholders must reimburse the company for the resulting damage.

(iii) the arm's length principle shall apply to the relationship between the bank and its shareholders, in particular Slovenia;

(iv) all members of the supervisory board shall pass the 'fit and proper test' conducted by the appointed body or supervisor of the Bank³⁵, i.e. they shall be reliable and avail of the necessary professional skills to properly assess and monitor Celje's business. Slovenia will not intervene in the appointment of supervisory board members and executives over and above its own nominees and its shareholder rights under ordinary Slovenian corporate law;

(v) two thirds of the seats and voting rights on the supervisory board and its committees shall be allocated to independent experts, i.e. persons who are neither currently employed nor have been employed 24 months prior to their appointment by the Slovenian government and who do not currently hold nor have held 24 months prior to their appointment a leadership or managing function within a Slovenian political party;

(vi) Celje will ensure an effective, independent and objective internal audit function. For this purpose, the internal audit function will report and be answerable only to the Management Board and Supervisory board's Audit Committee, where at least one member has recent and relevant financial experience. Further, the findings and recommendations

³⁵ This procedure must be in line with the valid version of the Slovenian Banking Act and is thus subjected to change in the case of the change of the aforementioned Slovenian Banking Act.

by the internal audit function shall receive proper attention and be discussed in the Management Board/Audit Committee, followed by an appropriate action plan to address identified problems. Decision not to act on findings by the internal audit function shall be well substantiated and reported to the Monitoring Trustee.

(vii) Celje will follow a prudent, sound business policy geared towards sustainability while implementing the planned measures. Celje will further review its internal incentive schemes and remuneration policy and take steps to ensure that they do not encourage unreasonable risk-taking, that they are geared towards long-term and sustainable goals, and are transparent. The remuneration of board members and leading employees of the bank shall particularly take into account the relevant person's contribution to the bank's economic position and the necessity of market-oriented salary levels so as to be able to employ particularly suitable individuals who can achieve a sustainable business development. Celje's remuneration policies and practices will be compliant with the EBA Guidelines on Remuneration Policies and Practices published on the 10 December 2010. The variable annual remuneration will be limited as follows:

- (a) management board: [0-5] monthly salaries;
- (b) employees performing special work³⁶ employed in the front office function: [0-5] monthly salaries;
- (c) employees performing special work employed in other functions: [0-5] monthly salaries

The payment of at least 50% of the variable remuneration for the management board as defined in point 10(vii) (a) above will be deferred over the period of two years.

The payment of at least 50% of the variable remuneration for employees performing special work as defined in points 10(vii)(b) and (c) above may be deferred over the period of two or three years according to the final decision of the Supervisory Board of Celje.

(viii) Notwithstanding the commitment of item 10(vii) above, in any case, for the whole restructuring period, the total remuneration to any board member and employee performing special work will be restricted to an appropriate level. The total remuneration of any such individual will not exceed 15 times the national average salary in Slovenia or 10 times the average salary of Banka Celje d.d. The restriction to total remuneration referred to above will apply until the end of the restructuring period.

(ix) After informing the monitoring trustee, Celje may adjust the above maximum limit for the annual remuneration in line with Slovenian inflation.

(x) To the extent legally possible, Celje shall remunerate members of its bodies and committees, employees and essential agents in line with the following principles:

³⁶ Employees performing special work are beside (1) the management board, (2) executive directors on the second level management, (3) director of internal audit function, (4) director of risk management function on the third level of management, (5) directors on the third level of management in those functions, where executive directors are not appointed according to the final decision of the management board.

- (a) the relevant person's contribution to Celje's economic position, especially in the context of previous business policies and risk management; and
- (b) the necessity of a market-oriented salary, so as to be able to employ particularly suitable persons who can achieve sustainable growth.

(xi) Slovenia will ensure that each state-owned bank shall remain a separate economic unit with independent powers of decision within the meaning of the EC Merger Regulation and the Jurisdictional Notice. In particular, Slovenia ensures that:

- (a) any confidential, commercially sensitive or personal information provided to government bodies and marked as such will be treated accordingly and not circulated to other banks and undertakings in which the state has a stake;
- (b) the government will manage and maintain its stake in Celje separately from the management of its interests in any other bank in which the state has a stake;
- (c) the exercise of any rights held by the state and the management of the state's interests in any banks shall be on a commercial basis and shall not prevent, restrict, distort or significantly lessen nor impede effective competition. Any disposal of the state's shareholding must be conducted in a transparent, open and competitive process.

(11) Risk management and credit policies

Celje will overhaul its risk management process and in particular Celje will:

(11.1) price every new loan (considering as new loan any new business not related to an existing transactions) by using an appropriate internal pricing tool no later than [...] or (in the case of mass market retail and SME exposures) using appropriate internal pricing guidelines. Pricing for new loans will be considered adequate if the new loan contributes to achieve a positive Return on Equity before tax ('RoE') of at least [5-10] % from[...] on either the individual loan or on each client relationship. The calculation of the RoE of a client relationship can include interest income, fees as well as other combined products of the same client. The calculation of RoE on client level and pricing according to minimum RoE has to be implemented no later than 1 January [...] on standalone level. Banka Celje's methodology will be aligned with Abanka's methodology on 1 January [...].

- a) For the purpose of this calculation, the volume weighted average of all loans with a single client (since the date of adoption of this decision), other fee business or banking transactions contributing to the profitability of the relationship with the same client can be taken into account, so that a new loan might generate a lower return if it is compensated by revenues of other fee business or banking transactions. New loans will have a credit documentation demonstrating a pre-deal calculated RoE for the either the individual loan or other live exposure on single client including fee business or banking transactions. In the case of mass market retail and SME transactions, this pre-deal calculated RoE may be replaced by a verification that the transaction is in line with internal pricing guidelines and a centralized demonstration that pricing guidelines assure a return on equity of [0-5] % from [...].
- b) Any deviation from the pricing resulting in a lower price level will be documented. This documentation will include robust commercial reasoning for the

deviation and will be presented to the Monitoring Trustee. The total amount of deviations will not exceed the amounts defined in paragraph (11.13).

c) Credit deals not falling under this pricing policy regime: Transactions with related parties (i.e. group members and employees), restructuring cases (of 'C', 'D' and 'E' rated clients with a delay in payments of more than 90 days) and all money market transactions.

(11.2) adapt the credit rating process such that a financial statement analysis and a credit scoring indicating at the very least leverage and performance parameters such as return on capital, EBIT Interest Coverage, Debt/EBITDA, Debt / (Debt+Equity) etc. will be taken into account before engaging on a new credit exposure with any business client. Celje should at least annually review the rating of customers to which the Bank has an overall exposure exceeding EUR 1 million.

(11.3) document all restructuring decisions i.e. all new credit deals with non-performing corporate clients with an exposure over EUR [10000-15000] and include in the documentation a comparison with alternative solutions such as execution of collateral and termination of the engagement, demonstrating that the solution which maximizes the net present value for the bank is chosen. Unless a RoE of at least [5-10] % can be obtained, restructuring decisions will be such that the bank is able to terminate the engagement at least every [...]. Where Celje does not have the exclusive right to accept, propose or approve restructuring agreements or to take restructuring decisions it shall exercise its rights according to the above principles. A list of all recent restructuring decisions will be regularly provided to the Monitoring Trustee (at least every 6 months). The documentation of any restructuring decision will be presented to the Monitoring Trustee upon request.

(11.4) ensure that all credit officers approving credits to SME and corporate clients will have attended an internal training on credit rating process and established pricing methodologies no later than [...];

(11.5) the banks will jointly engage in the further development of estimation models for the probability of default which will be based on a benchmarked statistical regression approach and integrated into the merged bank's information system. This will assist the bank in the loan underwriting as well as the risk monitoring and management process.

(11.6) not grant new lending to financial holding companies (parent), other than Celje's remaining financial holding companies (parent) clients, after the transfer to BAMC;

(11.7) not grant new lending to clients rated [...] (internal rating based on rating methodology and scale verified by the Central Bank of Slovenia), except financial restructuring cases in line with the provisions of point (11.3).

(11.8) limit new lending to real estate development projects (as a sub-sector) in total to 10% of Celje's capital. The refinancing of existing loans in that sub-sector is allowed up to the current exposure amount (after transfer to BAMC) without counting towards the limit on new lending;

(11.9) limit total net exposure to single corporate client groups to [5-10]% of Celje's capital. There can be up to [5-10] exceptions to this rule. Among these [5-10] exceptions, exposure to

corporate client groups in which the majority (more than [50-60]%) of exposure relates to [...] clients is allowed only if they have existing exposures that already exceed 10% of Celje's capital and for which the bank has prepared an exposure reduction plan or if these exceptions appear through downgrade or restructuring according to commitments (11.3) and (11.7) and count towards the limit of five exceptions. In such a case, Celje has to put in place a corrective plan, ultimately reducing Celje's exposure to this group. Aggregated corporate client groups connected with the Republic of Slovenia in accordance with Article 4(39) of the Capital Requirements Regulation (CRR) are not subject to the above limitation. However, each sub-group belonging to the overall client group related to the Republic of Slovenia is subject to the above limitation at the individual sub-group level.

(11.10) limit exposures to related parties and to persons in a special relationship with Celje³⁷ by requiring the approval from the Supervisory Board, in line with the requirements of the valid Slovenian Banking Act.

(11.11) implement a refinement of its collateral management process by no later than 31 December 2015 ensuring that:

a) collateral is revalued at minimum frequencies in accordance with Articles 207 to 209 of the Capital Requirements Regulation (CRR)

b) collateral will only be accepted based on clearly defined rules with haircuts applied to the market value of the collateral based on the risk involved in realising the market value in a liquidation scenario. A corresponding grid will be defined and used in the lending business by [...]. Particular focus will be put on haircuts regarding collateral where there is positive correlation between the credit quality of the obligor and the value of the collateral in the meaning of CRR, Article 207.2 as well as collaterals which are accepted not at first lien level.

c) there is a collateral management system in place allowing all necessary information to be viewed and accessed on a per-loan as well as an aggregated basis including but not limited to information such as collateral type and description, current valuation and valuation history, last date of revaluation, lien, etc. In line with this commitment, the banks will cooperate in the development of an upgraded collateral records application (CEZ) necessary for the further reduction of the required capital due to quality collateral held by the banks.

(11.12) implement a refinement of its customer behaviour monitoring including an early warning system for all corporate clients by 31 December 2015.

(11.13) should the Monitoring Trustee (as defined in recital (21)) reveal a failure on behalf of Celje to comply with any of the provisions of Commitment (11), Celje shall provide the Monitoring Trustee, within one month after the breach of the said commitment, with a remedial plan indicating which actions it has taken and intends to take in order to avoid a breach in the following quarter. The plan will be submitted in time for the Monitoring Trustee to report on it in its next semi-annual report to the Commission.

³⁷ Persons in a special relationship with the bank are defined in the valid Slovenian Banking Act.

Should the remedial plan not deliver the expected results and objectives, Celje will limit for a term of twelve months – starting the quarter following the reporting of such breach of Commitments – the new lending volume per reporting period to [60-70]% of the new lending volume of the reporting period in which the Commitment was breached. This does not apply to an individual breach of the Commitment under points (11.1), (11.2), (11.3) and (11.11) provided that a further investigation by the Monitoring Trustee reveals that such breach can be considered an isolated error or omission and that there is no evidence hinting that a total volume per client of more than EUR [20-30] million of deals is affected by such breach.

(11.14) the collection activities will be transitioned to Celje's collection department. Dedicated employees of Celje will ensure that proper action is taken with loans in arrears.

(11.15) Celje will ensure a restructuring department capable of managing the entire bank's non-performing loan restructuring cases by 30 June 2015. The main task of the restructuring department will be to maximize the recovery of sub-or non-performing assets.

(12) Non-favourable treatment of Slovenian State-owned companies

Slovenian State-owned companies will by no means be treated more favourably than non-state-owned companies (non-discrimination). Celje should provide to the Monitoring Trustee an annual report comparing the lending conditions applied to state-owned companies and to similar private companies.

(13) Bans on advertising and aggressive commercial strategies

Slovenia will impose a ban on advertising related to the state support to Celje and to the state ownership in Celje (or to any competitive advantages arising in any way from the aid to Celje or the state ownership in Celje) and to prevent Celje from employing any aggressive commercial strategies which would not be pursued without state support.

(14) Coupon ban

Slovenia will ensure that Celje will refrain during the restructuring period from making any payments on capital instruments, unless those payments stem from a legal obligation, and not to call or buy back those instruments without prior approval of the Commission. Coupons on capital instruments held by the state may be paid, unless such payments would trigger coupon payments to other investors that otherwise would not be mandatory. This commitment not to pay coupons during the restructuring period does not apply for newly issued instruments (meaning instruments issued after the final Commission's approval of the restructuring plan), provided any payment of coupons on such newly issued instruments will not create a legal obligation to make any coupon payments on Celje's securities existing at the moment of the adoption of the Commission's Restructuring Decision.

(15) Burden sharing

Celje will implement adequate burden sharing for the subordinated debt instruments presented in the table below.

Instrument	Nominal value	IR	in EUR thousands
			Book value 31 October 2014
BCE 10 - subordinated	37 000	5.00	0
BCE 11 - innovative	15 145	2.39	0
BCE 12 - subordinated	12 147	6.50	0
BCE 16 - subordinated	24 478	8.00	0
CD - subordinated	250	1.34	0
CD - subordinated	3 000	5.28	0
Capital			33 038
TOTAL	92 020		33 038

(16) Capital repayment Mechanism and dividend ban

Celje will not pay dividends for the fiscal years 2014 and 2015.

Without prejudice to the competences of Bank of Slovenia as supervisor of Celje, the dividend disbursement shall be, totally or partially, suspended if, on the basis of a reasoned request by Celje endorsed by the Monitoring Trustee, it is considered that it would endanger the solvency position of the bank in the following years.

(17) Acquisition ban

Slovenia ensures that Celje will not acquire any stake in any undertaking. This covers both undertaking which have the legal form of a company or pool of assets which form a business.

- (a) Exemption requiring Commission's prior approval: notwithstanding the acquisition prohibition, Celje may, after obtaining the Commission's approval, acquire businesses if in exceptional circumstances, it is deemed necessary to restore financial stability or to ensure effective competition³⁸;
- (b) Exemption not requiring Commission's prior approval: Celje may acquire stakes in undertakings provided that the purchase price is less than [0-5]% of Celje's total assets as of 31 December 2013 in each individual case and that the cumulative purchase prices paid by Celje for all such acquisitions over the whole restructuring period is less than [0-5]% of Celje's total assets as of 31 December 2013.
- (c) Activities not falling under the acquisition ban: 1) Acquisitions that take place in the ordinary course of the banking business in the management of existing claims towards ailing firms, including debt to equity swaps; 2) Disposals and restructuring within Celje Group, including buy-outs of minority shareholders.

³⁸ See point 41 of the Commission communication on the return to viability and the assessment of the restructuring measures in the financial sector in the current crisis under the State aid rules, OJ C 195, 19.8.2009, p. 9.

(18) Transfer of assets to the BAMC

The transfer value of the assets transferred to the Slovenian Banks Asset Management Company (BAMC) will be equal to their Real Economic Value (REV) established by the Commission's experts in line with the state aid rules.

(19) Recapitalisation of subsidiaries

(19.1) Recapitalisation of subsidiaries via equity injections will be subscribed at the lower of (i) [20-30]% discount to the share price (after adjustment for the 'dilution effect') immediately prior to the announcement of the capital injection, or (ii) the [...] other shareholders of Celje's subsidiaries will contribute to the recapitalisation of subsidiaries. The 'dilution effect' can be quantified using generally accepted market techniques (for instance, the theoretical ex-rights price (TERP)). For non-listed subsidiaries, the market value of the shares should be established using an appropriate market-based valuation approach (including a peer group multiplier approach or other generally accepted valuation methodologies).

(19.2) In case the capital injection takes the form of hybrids instruments, those instruments will contain alternative coupon satisfaction mechanism and the provision determining the conversion rate of the hybrid into equity capital at the [20-30] % discount to TERP (established analogically as in case of equity injection stipulated in (19.1)). The commitment in this point applies only in cases where shareholders of Celje's subsidiaries other than Celje do not participate in the capital increase or subscription of hybrid instruments in the existing shareholding proportions.

(20) Abanka-Celje Pre-Merger activities

Celje will engage in pre-merger activities with Abanka including but not limited to the preparation of IT integration and migration, strategy and organization including leadership and Human Resources structure reporting lines, joint market presence and operation, communication and marketing strategies, new procedures and policies of the Merged Entity (e.g. credit risk policy, provisioning policy, arrears management policy, claims and litigation policy, etc.). The merger of Abanka and Celje becomes effective no later than [...].

(21) Pre-merger appointment of a Monitoring trustee

Slovenia and Celje shall appoint a Monitoring Trustee who is to report to the Commission on compliance by Slovenia and by Celje with the Commitments listed in this document. The Monitoring Trustee shall be independent of Celje and shall possess the necessary qualifications to carry out its mandate, for example as an investment bank or consultant or auditor, and shall not be subject to a conflict of interests throughout the exercise of his mandate.

The Trustee shall be remunerated by Celje in a way that does not impede the independent and effective fulfilment of its mandate.

Proposal by Slovenia and Celje

- No later than four weeks after the Decision date, Slovenia shall submit a list of two or more Trustees whom Slovenia and Celje propose to appoint as the Monitoring Trustee to the Commission for approval, with an indication which of those is Slovenia's and Celje's preferred choice. The proposal shall contain sufficient information for the Commission to verify that the proposed Trustee fulfils the requirements set out above and shall include:

- The full terms of the proposed mandate, which shall include all provisions necessary to enable the Monitoring Trustee to fulfil its duties under these Commitments;
- The outline of a work plan which describes how the Monitoring Trustee intends to carry out its assigned tasks.

Approval or rejection by the Commission

- The Commission shall have the discretion to approve or reject the proposed Trustees and to approve the proposed mandate subject to any modifications it deems necessary for the Trustee to fulfil its obligations. If only one name is approved, Slovenia and Celje shall appoint or cause to be appointed, the individual or institution concerned as Trustee, in accordance with the mandate approved by the Commission. If more than one name is approved, Slovenia and Celje shall be free to choose the Trustee to be appointed from among the names approved. The Trustee shall be appointed within one week of the Commission's approval, in accordance with the mandate approved by the Commission.

New proposal by Slovenia and the Celje

- If all the proposed Monitoring Trustees are rejected, Slovenia and Celje shall submit the names of at least two more Trustees within one week of being informed of the rejection, in accordance with the requirements and the procedure set out above.

Trustee nominated by the Commission

- If all further proposed Monitoring Trustees are rejected by the Commission, the Commission shall nominate a Trustee, whom Slovenia and Celje shall appoint, or cause to be appointed, in accordance with a trustee mandate approved by the Commission.

Functions of the Monitoring Trustee

- The Monitoring Trustee shall assume its specified duties in order to ensure compliance with the Commitments of Celje. The Commission may, on its own initiative or at the request of the Trustee or Slovenia, give any orders or instructions to the Monitoring Trustee in order to ensure compliance with the Commitments.

Duties and obligations of the Monitoring Trustee

The Monitoring Trustee shall:

- i. Propose in its first report to the Commission a detailed work plan describing how it intends to monitor compliance with the Commitments.
- ii. Monitor the compliance with the Commitments.
- iii. Propose such measures as the Monitoring Trustee considers necessary to ensure the Slovenia's and Celje 's compliance with the Commitments;
- iv. Provide to the Commission, Slovenia and Celje a written draft report in English no later than by each 30 November for the first six months of the current calendar year and no later than 31 May for the last six months of the preceding calendar year giving Slovenia, Celje and the Commission the opportunity to submit comments within 5 working days. The report shall cover the compliance with the Commitments. Within 5 working days of receipt of the comments by Slovenia, Celje and the Commission, the Monitoring Trustee shall prepare a final report and submit it to the Commission, taking into account, if

possible and at his sole discretion, the comments submitted. Only afterwards the Trustee is also to send a copy of the final report to Slovenia and Celje. If the draft report or the final report contains any information that may not be disclosed to Celje, only a non-confidential version of the draft report or the final report is to be sent to Celje. Under no circumstances is the Trustee to submit any version of the report to Slovenia and Celje before submitting it to the Commission.

- v. In addition to these reports, immediately after having identified a breach of commitment, the Monitoring Trustee shall report in writing to the Commission, sending Slovenia and Celje a non-confidential copy at the same time.

Duties and obligations of Slovenia and the Celje

- Slovenia and Celje shall provide and shall cause its advisors to provide the Monitoring Trustee with all such cooperation, assistance, managerial, administrative support and information as the Monitoring Trustee may reasonably require to perform its tasks.

Replacement, discharge and reappointment of the Monitoring Trustee

- If the Trustee ceases to perform its functions under the Commitments or for any other good cause, including the exposure of the Monitoring Trustee to a conflict of interest:
 - i. The Commission may, after hearing the Monitoring Trustee, ask Slovenia to replace the Trustee or,
 - ii. Slovenia and Celje, with the prior approval of the Commission, may replace the Monitoring Trustee.
 - iii. If the Monitoring Trustee is removed, the Monitoring Trustee may be required to continue in its function until a new Monitoring Trustee is in place to which the Monitoring Trustee has effected a full hand over of all relevant information. The new Monitoring Trustee shall be appointed in accordance with the procedure referred above.

Beside the removal, the Monitoring Trustee shall cease to act as Monitoring Trustee only after the Commission has discharged it from its duties after all the Commitments with which the Monitoring Trustee has been entrusted have been implemented. However, the Commission may at any time require the reappointment of the Monitoring Trustee if it subsequently appears that the relevant remedies might not have been fully and properly implemented.

III/ Merged Entity commitments during the Post-Merger period

(22) Abanka-Celje merger

The merger of Abanka and Celje will be effective no later than [...].

(23) Reduction of the balance sheet

According to the content of the restructuring plan, the Merged Entity will reduce its group balance sheet total from pro-forma EUR 4 864.8 million as of 31 December 2013, to:

- 31 December 2016: EUR [3500-4000] million
- 31 December 2017: EUR [3500-4000] million
- 31 December 2018: EUR [3000-3500] million

- 31 December 2019: EUR [3000-3500] million

(24) Reduction of costs

The Merged Entity's operating costs amounted to pro-forma EUR 93.8 million in 2013 at the Group level. The Merged Entity will reduce its operating costs at the Group level (excluding one-off extraordinary costs having non-recurrent nature, i.e. restructuring expenses) to achieve either a cost-to-income ratio below [50-60]% for each year during the restructuring period, or in case the cost-to-income ratio is above [50-60]% to EUR [80-90] million by 31 December 2016, EUR [70-80] million by 31 December 2017, EUR [60-70] million by 31 December 2018 and EUR [60-70] million by 31 December 2019.

If the annual inflation during the period 2016-2019 exceeds 2.5%, the operating cost targets will be adjusted to accommodate for the difference between inflation rate projections in the restructuring plan and actual inflation in the particular year.

(25) Divestment and winding down of subsidiaries, branches and participations

(25.1) the individual commitments for the winding down of subsidiaries, branches and participations of both banks are in effect also for the Merged Entity.

(25.2) in addition to the individual commitments, the Merged Entity will close additional branch offices in order to reach the total amount of [60-70] branch offices by 31 December 2016, i.e. a closure of [5-10] branch offices. The Merged Entity will limit the total amount of branch offices during restructuring period to [60-70] in order to be able to respond to possible additional market demand.

(26) Equity trading:

The Merged Entity will not engage in equity trading for its own account.

(27) Asset management

The Merged Entity will not engage in asset management for clients.

(28) Cap on credit activities in terms of RWAs

The risk weighted assets ('RWA') on pro-forma group level amounted to EUR 3 476 million on 31 December 2013. The Merged Entity will ensure that the RWAs will be capped according to the following schedule (outstanding volume in EUR million, including credit, market and operational risk):

- 31 December 2016: EUR [2500-3000] million
- 31 December 2017: EUR [2500-3000] million
- 31 December 2018: EUR [2500-3000] million
- 31 December 2019: EUR [2500-3000] million

If RWA of the Merged Entity at group level exceeds these targets, the Merged Entity commit to submit to the Commission, less than one month after the breach is observed, a contingency plan showing its ability to achieve the relevant target. In addition, if any of those targets are exceeded

by more than [10-20] %, the Merged Entity shall immediately refrain from undertaking any new credit activities in Slovenia until the respective reduction target is achieved.

(29) Discontinuation of business with foreign corporate clients

The Merged Entity will not undertake any new credit activities with corporate clients incorporated outside Slovenia and/or that are not members of groups whose headquarter or final beneficiary is incorporated in Slovenia. The Merged Entity will limit its activities with such clients to the orderly execution and management of existing credit contracts.

Trade and export financing for Slovenian companies in relation to foreign countries and treasury operations with foreign banks are not subject to this limitation.

(30) Corporate governance and remuneration policies

(i) The management board of the Merged Entity will have the sole powers and responsibilities for managing the day-to-day business of the Merged Entity independently and in the sole interest of the bank. Neither the supervisory board nor the shareholders' assembly or any representatives of shareholders may issue any instructions to the management board or interfere otherwise with the day-to-day management of the bank. Slovenia must ensure that the aforementioned sole powers and responsibilities of the management board will be honoured.

(ii) apart from supervising and monitoring by the Supervisory Board, no other corporate body or unit shall issue instructions to the Management Board; in particular, there shall be no direct or indirect instruction by any shareholder or by the State to the Management Board. This shall also apply to the Assembly General Meeting, whose decision taking competence shall be limited to the catalogue of decisions as foreseen by the law and in the statutes. Furthermore, individuals who use their influence on a company to induce members of the Management Board to act in a manner which causes damage to the company or its shareholders must reimburse the company for the resulting damage.

(iii) the arm's length principle shall apply to the relationship between the bank and its shareholders, in particular Slovenia;

(iv) all members of the supervisory board shall pass the 'fit and proper test' conducted by the appointed body or supervisor of the Bank³⁹, i.e. they shall be reliable and avail of the necessary professional skills to properly assess and monitor the Merged Entity's business. Slovenia will not intervene in the appointment of supervisory board members and executives over and above its own nominees and its shareholder rights under ordinary Slovenian corporate law;

(v) two thirds of the seats and voting rights on the supervisory board and its committees shall be allocated to independent experts, i.e. persons who are neither currently employed nor have been employed 24 months prior to their appointment by the Slovenian government and who do not currently hold nor have held 24 months prior to their appointment a leadership or managing function within a Slovenian political party;

³⁹ This procedure must be in line with the valid version of the Slovenian Banking Act and is thus subjected to change in the case of the change of the aforementioned Slovenian Banking Act.

(vi) the Merged Entity will ensure an effective, independent and objective internal audit function. For this purpose, the internal audit function will report and be answerable only to the Management Board and Supervisory board's Audit Committee, where at least one member has recent and relevant financial experience. Further, the findings and recommendations by the internal audit function shall receive proper attention and be discussed in the Management Board/Audit Committee, followed by an appropriate action plan to address identified problems. Decision not to act on findings by the internal audit function shall be well substantiated and, upon request, reported to the Monitoring Trustee.

(vii) the Merged Entity will follow a prudent, sound business policy geared towards sustainability while implementing the planned measures. The Merged Entity will further review its internal incentive schemes and remuneration policy and take steps to ensure that they do not encourage unreasonable risk-taking, that they are geared towards long-term and sustainable goals, and are transparent. The remuneration of board members and leading employees of the bank shall particularly take into account the relevant person's contribution to the bank's economic position and the necessity of market-oriented salary levels so as to be able to employ particularly suitable individuals who can achieve a sustainable business development. The Merged Entity's remuneration policies and practices will be compliant with the EBA Guidelines on Remuneration Policies and Practices published on the 10 December 2010. The variable annual remuneration will be limited as follows:

- (a) management board: [0-5] monthly salaries;
- (b) employees performing special work⁴⁰ employed in the front office function: [0-5] monthly salaries;
- (c) employees performing special work employed in other functions: [0-5] monthly salaries

The payment of at least 50% of the variable remuneration for the management board as defined in point 30(vii) (a) above will be deferred over the period of two years.

The payment of at least 50% of the variable remuneration for employees performing special work as defined in points 30(vii)(b) and (c) above may be deferred over the period of two or three years according to the final decision of the Supervisory Board of the Merged Entity.

(viii) Notwithstanding the commitment of item (vii) above, in any case, for the whole restructuring period, the total remuneration to any board member and employee performing special work will be restricted to an appropriate level. The total remuneration of any such individual will not exceed 15 times the national average salary in Slovenia or 10 times the average salary of the Merged Entity. The restriction to total remuneration referred to above will apply until the end of the restructuring period.

⁴⁰ Employees performing special work are beside (1) the management board, (2) executive directors on the second level management, (3) director of internal audit function, (4) director of risk management function on the third level of management, (5) directors on the third level of management in those functions, where executive directors are not appointed according to the final decision of the management board.

(ix) After informing the monitoring trustee, the Merged Entity may adjust the above maximum limit for the annual remuneration in line with Slovenian inflation.

(x) To the extent legally possible, the Merged Entity shall remunerate members of its bodies and committees, employees and essential agents in line with the following principles:

- (a) the relevant person's contribution to the Merged Entity's economic position, especially in the context of previous business policies and risk management; and
- (b) the necessity of a market-oriented salary, so as to be able to employ particularly suitable persons who can achieve sustainable growth.

(xi) Slovenia will ensure that each state-owned bank shall remain a separate economic unit with independent powers of decision within the meaning of the EC Merger Regulation and the Jurisdictional Notice. In particular, Slovenia ensures that:

- (a) any confidential, commercially sensitive or personal information provided to government bodies and marked as such will be treated accordingly and not circulated to other banks and undertakings in which the state has a stake;
- (b) the government will manage and maintain its stake in the Merged Entity separately from the management of its interests in any other bank in which the state has a stake;
- (c) the exercise of any rights held by the state and the management of the state's interests in any banks shall be on a commercial basis and shall not prevent, restrict, distort or significantly lessen nor impede effective competition. Any disposal of the state's shareholding must be conducted in a transparent, open and competitive process.

(31) Risk management and credit policies

The Merged Entity will overhaul its risk management process and in particular the Merged Entity will:

(31.1) price every new loan (considering as new loan any new business not related to an existing transactions) by using an appropriate internal pricing tool no later than [...] or (in the case of mass market retail and SME exposures) using appropriate internal pricing guidelines. Pricing for new loans will be considered adequate if the new loan contributes to achieve a positive Return on Equity before tax ('RoE') of at least [5-10] % in 2016 (from 1 January 2016 on), [5-10] % in 2017 and [5-10] % in 2018 and 2019 on either the individual loan or on each client relationship. The calculation of the RoE of a client relationship can include interest income, fees as well as other combined products of the same client. The calculation of RoE on client level and pricing according to minimum RoE has to be implemented no later than [...] on standalone level.

- a) For the purpose of this calculation, the volume weighted average of all loans with a single client (since the date of adoption of this decision), other fee business or banking transactions contributing to the profitability of the relationship with the same client can be taken into account, so that a new loan might generate a lower return if it is compensated by revenues of other fee business or banking transactions. New loans will have a credit documentation demonstrating a pre-deal calculated RoE for the either the individual loan or other live exposure on single client including fee business or banking transactions. In the case of mass market retail and SME transactions, this pre-deal calculated RoE may be replaced by a verification that the transaction is in line with internal pricing guidelines and

a centralized demonstration that pricing guidelines assure a return on equity of [5-10] % in 2016 (from 1 January 2016 on), [5-10] % in 2017, and [5-10] % in 2018 and 2019.

b) Any deviation from the pricing resulting in a lower price level will be documented. This documentation will include robust commercial reasoning for the deviation and will be presented to the Monitoring Trustee. The total amount of deviations will not exceed the amounts defined in paragraph (31.11).

c) Credit deals not falling under this pricing policy regime: Transactions with related parties (i.e. group members and employees), restructuring cases (consisting of 'D' and 'E' rated clients as well as 'C' rated clients with a delay in payments of more than 90 days) and all money market transactions.

(31.2) adapt the credit rating process such that a financial statement analysis and a credit scoring indicating at the very least leverage and performance parameters such as return on capital, EBIT Interest Coverage, Debt/EBITDA, Debt / (Debt+Equity) etc. will be taken into account before engaging on a new credit exposure with any business client. The Merged Entity should at least annually review the rating of customers to which the Bank has a cumulative exposure exceeding EUR 1 million.

(31.3) document all restructuring decisions i.e. all new credit deals with non-performing corporate clients with an exposure over EUR [10000-15000] and include in the documentation a comparison with alternative solutions such as execution of collateral and termination of the engagement, demonstrating that the solution which maximizes the net present value for the bank is chosen. Unless a RoE of at least [5-10] % can be obtained, restructuring decisions will be such that the bank is able to terminate the engagement at least every [5-10] months. Where the Merged Entity does not have the exclusive right to accept, propose or approve restructuring agreements or to take restructuring decisions it shall exercise its rights according to the above principles. A list of all recent restructuring decisions will be regularly provided to the Monitoring Trustee (at least every 6 months). The documentation of any restructuring decision will be presented to the Monitoring Trustee upon request.

(31.4) the banks will jointly engage in the further development of estimation models for the probability of default which will be based on a benchmarked statistical regression approach and integrated into the merged bank's information system. This will assist the bank in the loan underwriting as well as the risk monitoring and management process. By [...], the risk team of the Merged Entity will provide the Commission with a plan defining key milestones for additional development or improvement of risk models.

(31.5) not grant new lending to clients rated [...] (internal rating based on rating methodology and scale verified by the Central Bank of Slovenia), except refinancing of existing engagements, new financing of financial restructuring cases or new financing with adequate seniority to other obligations of the debtor in line with the provisions of point (31.3).

(31.6) limit new lending to real estate development projects (as a sub-sector) in total to [5-10]% of the Merged Entity's capital. The refinancing of existing loans in that sub-sector is allowed up to the current exposure amount (after transfer to BAMC) without counting towards the limit on new lending;

(31.7) limit total net exposure to single corporate client groups to [5-10] % of the Merged Entity's capital. There can be up to [5-10] exceptions to this rule. Among these [5-10] exceptions, exposure to corporate client groups in which the majority (more than 50%) of exposure relates to [...] rated clients is allowed if they have existing exposures that already exceed [5-10] % of the Merged Entity's capital and for which the bank has prepared an exposure reduction plan or if these exceptions appear through downgrade or restructuring according to commitments (31.3) and (31.5) and count towards the limit of ten exceptions. In such a case, the Merged Entity has to put in place a corrective plan, ultimately reducing the Merged Entity's exposure to this group.

Aggregated corporate client groups connected with the Republic of Slovenia in accordance with Article 4(39) of the Capital Requirements Regulation (CRR) are not subject to the above limitation. However, each sub-group belonging to the overall client group related to the Republic of Slovenia is subject to the above limitation at the individual sub-group level.

(31.8) limit exposures to related parties and to persons in a special relationship with the Merged Entity⁴¹ by requiring the approval from the Supervisory Board, in line with the requirements of the valid Slovenian Banking Act.

- (31.9) ensure the refinement of its collateral management process, ensuring that
- a) collateral is revalued at minimum frequencies in accordance with Articles 207 to 209 of the Capital Requirements Regulation (CRR)
 - b) collateral will only be accepted based on clearly defined rules with haircuts applied to the market value of the collateral based on the risk involved in realising the market value in a liquidation scenario. A corresponding grid should be defined and used in the lending business. Particular focus will be put on haircuts regarding collateral where there is positive correlation between the credit quality of the obligor and the value of the collateral in the meaning of CRR, Article 207.2 as well as collaterals which are accepted not at first lien level.
 - c) there is a collateral management system in place allowing all necessary information to be viewed and accessed on a per-loan as well as an aggregated basis including but not limited to information such as collateral type and description, current valuation and valuation history, last date of revaluation, lien, etc. In line with this commitment, the banks will cooperate in the development of an upgraded collateral records application (CEZ) necessary for the further reduction of the required capital due to quality collateral held by the banks.

(31.10) a refinement of its customer behaviour monitoring is implemented including an early warning system for all corporate clients.

(31.11) should the Monitoring Trustee (as defined in recital (39)) reveal a failure on behalf of the Merged Entity to comply with any of the provisions of Commitment (31), the Merged Entity shall provide, one month after the breach of commitment is observed, the Monitoring Trustee with a

⁴¹ Persons in a special relationship with the bank are defined in the valid Slovenian Banking Act.

remedial plan indicating which actions it has taken and intends to take in order to avoid a breach in the following quarter. The plan will be submitted in time for the Monitoring Trustee to report on it in its next semi-annual report to the Commission.

Should the remedial plan not deliver the expected results and objectives, the Merged Entity will limit for a term of twelve months – starting the quarter following the reporting of such breach of Commitments – the new lending volume per reporting period to [60-70] % of the new lending volume of the reporting period in which the Commitment was breached. This does not apply to an individual breach of the Commitment under points (31.1), (31.2), (31.3) and (31.9) provided that a further investigation by the Monitoring Trustee reveals that such breach can be considered an isolated error or omission and that there is no evidence hinting that a total volume per client of more than EUR [20-30] million of deals is affected by such breach.

(31.12) the collection activities will be transitioned to the Merged Entity's collection department. Dedicated employees will ensure that proper action is taken with loans in arrears.

(31.13) the Merged Entity will ensure a restructuring department capable of managing the entire bank's non-performing loan restructuring cases. The main task of the restructuring department will be to maximize the recovery of sub-non-performing assets.

(32) Non-favourable treatment of Slovenian State-owned companies

Slovenian State-owned companies will by no means be treated more favourably than non-state-owned companies (non-discrimination). The Merged Entity should provide to the Monitoring Trustee throughout the restructuring period an annual report comparing the lending conditions applied to state-owned companies and to similar private companies.

(33) Bans on advertising and aggressive commercial strategies

Slovenia will impose a ban on advertising related to the state support to the Merged Entity and to the state ownership in the Merged Entity (or to any competitive advantages arising in any way from the aid to the Merged Entity or the state ownership in the Merged Entity) and to prevent the Merged Entity from employing any aggressive commercial strategies which would not be pursued without state support.

(34) Coupon ban

Slovenia will ensure that the Merged Entity will refrain during the restructuring period from making any payments on capital instruments, unless those payments stem from a legal obligation, and not to call or buy back those instruments without prior approval of the Commission. Coupons on capital instruments held by the state may be paid, unless such payments would trigger coupon payments to other investors that otherwise would not be mandatory. This commitment not to pay coupons during the restructuring period does not apply for newly issued instruments (meaning instruments issued after the final Commission's approval of the restructuring plan), provided any payment of coupons on such newly issued instruments will not create a legal obligation to make any coupon payments on the Merged Entity's securities existing at the moment of the adoption of the Commission's Restructuring Decision.

(35) Capital repayment mechanism and dividend ban

Based on the audited year-end accounts the Merged Entity may pay in form of dividend disbursement the following amounts to its shareholders:

- (i) For the fiscal year [...] and [...]: the lower amount of (i) 50% of the excess capital above the applicable minimum CET1 capital requirement under European and Slovenian law (including pillar 1 and 2) plus a capital buffer of 100 basis points of RWA, or (ii) the net income for the relevant year.
- (ii) For the fiscal year [...] and [...]: the lower amount of (i) 100% of the excess capital above the applicable minimum CET1 capital requirement under European and Slovenian law (including pillars 1 and 2) plus a capital buffer of 100 basis points; of RWA or (ii) the net income for the relevant year.

Without prejudice to the competences of Bank of Slovenia as banking supervisor of the Merged Entity, the dividend disbursement shall be, totally or partially, suspended if, on the basis of a reasoned request by the Merged Entity endorsed by the Monitoring Trustee, it is considered that it would endanger the solvency position of the bank in the following years.

(36) Acquisition ban

Slovenia ensures that the Merged Entity will not acquire any stake in any undertaking. This covers both undertaking which have the legal form of a company and pool of assets which form a business.

- (a) Exemption requiring Commission's prior approval: Notwithstanding this prohibition, the Merged Entity may, after obtaining the Commission's approval, acquire businesses if that is in exceptional circumstances necessary to restore financial stability or to ensure effective competition⁴²;
- (b) Exemption not requiring Commission's prior approval: the Merged Entity may acquire stakes in undertakings provided that the purchase price is less than [0-5] % of the Merged Entity's total assets as of 31 December 2013 in each individual case and that the cumulative purchase prices paid by the Merged Entity, Abanka and Celje for all such acquisitions over the whole restructuring period (including the restructuring periods of Abanka and Celje stand-alone) is less than [0-5] % of the Merged Entity's pro-forma total assets as of 31 December 2013.
- (c) Activities not falling under the acquisition ban: 1) Acquisitions that take place in the ordinary course of the banking business in the management of existing claims towards ailing firms, including debt to equity swaps; 2) Disposals and restructuring within the Merged Entity, including buy-outs of minority shareholders.

(37) Recapitalisation of subsidiaries

(37.1) Recapitalisation of subsidiaries via equity injections will be subscribed at the lower of (i) [20-30]% discount to the share price (after adjustment for the 'dilution effect') immediately prior to the announcement of the capital injection, or (ii) the lowest price at which other shareholders of the Merged Entity's subsidiaries will contribute to the recapitalisation of subsidiaries. The 'dilution effect' can be quantified using generally accepted market techniques (for instance, the theoretical ex-rights price (TERP)). For non-

⁴² See point 41 of the Commission communication on the return to viability and the assessment of the restructuring measures in the financial sector in the current crisis under the State aid rules, OJ C 195, 19.8.2009, p. 9.

listed subsidiaries, the market value of the shares should be established using an appropriate market-based valuation approach (including a peer group multiplier approach or other generally accepted valuation methodologies).

(37.2) In case the capital injection takes the form of hybrids instruments, those instruments will contain alternative coupon satisfaction mechanism and the provision determining the conversion rate of the hybrid into equity capital at the [20-30]% discount to TERP (established analogically as in case of equity injection stipulated in (37.1)). The commitment in this point applies only in cases where shareholders of the Merged Entity's subsidiaries other than the Merged Entity do not participate in the capital increase or subscription of hybrid instruments in the existing shareholding proportions.

(38) Divestiture of the State's shareholding

(38.1) The Republic of Slovenia will fully divest its shareholding in the Merged Entity through a competitive, non-discriminatory, open and transparent bidding process to one or more purchasers independent and unconnected to the Merged Entity and to the Republic of Slovenia.

(38.2) To carry out the disposal, Slovenia shall start approaching potentially interested buyers for the Merged Entity by [...]. It shall sign a sale and purchase agreement with a prospective purchaser by no later than [...]

(38.3) If the Merged Entity is not fully sold by the above date, Republic of Slovenia shall grant the Divestiture Trustee (as defined in paragraph (40)) an exclusive mandate to sell at no minimum price by [...]the State's shareholding (or the remainder thereof). If, by [...], the general conditions in the banking sector in the EU remain under stress, Slovenia may request a prolongation of the end date for disposal of the Merged Entity.

(38.4) Should Slovenia sell all its shareholding in the Merged Entity after [...]all commitments will cease to apply from the sales date onward, with the exception of the commitment to restrict to an appropriate level the total remuneration of all board member and employee performing special work according to paragraph (30)(viii) which will apply and be complied with [...].

IV/Monitoring and Divestiture Trustee during the Pre-Merger period and during the Post-Merger period

(39) Monitoring Trustee

Slovenia and the Merged Entity shall appoint a Monitoring Trustee who is to report to the Commission on compliance by Slovenia and by the Merged Entity with the Commitments listed in this document. The Monitoring Trustee shall be independent of the Merged Entity and shall possess the necessary qualifications to carry out its mandate, for example as an investment bank or consultant or auditor, and shall not be subject to a conflict of interests throughout the exercise of his mandate.

The Trustee shall be remunerated by the Merged Entity in a way that does not impede the independent and effective fulfilment of its mandate.

Trustee nomination

Slovenia and the Merged Entity may appoint a Trustee without prior approval of the European Commission only if the appointed Trustee is the existing Trustee of either Abanka or Banka Celje. In case Slovenia and the Merged Entity do not opt to appoint an already existing Trustee, then the decision to choose a new one is subjected to the same procedure as described under section 20 of these Commitments.

The Merged Entity may only have one Monitoring Trustee.

Functions of the Monitoring Trustee

- The Monitoring Trustee shall assume its specified duties in order to ensure compliance with the Commitments. The Commission may, on its own initiative or at the request of the Trustee or Slovenia, give any orders or instructions to the Monitoring Trustee in order to ensure compliance with the Commitments.

Duties and obligations of the Monitoring Trustee

The Monitoring Trustee shall:

- i. Propose in its first report to the Commission a detailed work plan describing how it intends to monitor compliance with the Commitments.
- ii. Monitor the compliance with the Commitments.
- iii. Propose such measures as the Monitoring Trustee considers necessary to ensure the Slovenia's and the Merged Entity 's compliance with the Commitments;
- iv. Provide to the Commission, Slovenia and the Merged Entity a written draft report in English no later than by each 30 November for the first six months the then current calendar year and no later than 31 May for the last six months of the preceding calendar year giving the Commission, Slovenia and the Merged Entity the opportunity to submit comments within 5 working days. The report shall cover the compliance with the Commitments. Within 5 working days of receipt of the comments by the Commission, Slovenia and the Merged Entity, the Monitoring Trustee shall prepare a final report and submit it to the Commission, taking into account, if possible and at his sole discretion, the comments submitted. Only afterwards the Trustee is also to send a copy of the final report to Slovenia and to the Merged Entity. If the draft report or the final report contains any information that may not be disclosed to the Merged Entity, only a non-confidential version of the draft report or the final report is to be sent to the Merged Entity. Under no circumstances is the Trustee to submit any version of the report to Slovenia and the Merged Entity before submitting it to the Commission.
- v. In addition to these reports, the Monitoring Trustee shall report in writing to the Commission immediately after having identified a breach of commitment, sending Slovenia and the Merged Entity a non-confidential copy at the same time.

Duties and obligations of Slovenia and the Merged Entity

- Slovenia and the Merged Entity shall provide and shall cause its advisors to provide the Monitoring Trustee with all such cooperation, assistance, managerial, administrative support and information as the Monitoring Trustee may reasonably require to perform its tasks.

Replacement, discharge and reappointment of the Monitoring Trustee

- If the Trustee ceases to perform its functions under the Commitments or for any other good cause, including the exposure of the Monitoring Trustee to a conflict of interest:
 - i. The Commission may, after hearing the Monitoring Trustee, ask Slovenia to replace the Trustee or
 - ii. Slovenia and the Merged Entity, with the prior approval of the Commission, may replace the Monitoring Trustee;
 - iii. If the Monitoring Trustee is removed, the Monitoring Trustee may be required to continue in its function until a new Monitoring Trustee is in place to which the Monitoring Trustee has effected a full hand over of all relevant information. The new Monitoring Trustee shall be appointed in accordance with the procedure described in recital (39);
 - iv. Beside the removal, the Monitoring Trustee shall cease to act as Monitoring Trustee only after the Commission has discharged it from its duties after all the Commitments with which the Monitoring Trustee has been entrusted have been implemented. However, the Commission may at any time require the reappointment of the Monitoring Trustee if it subsequently appears that the relevant remedies might not have been fully and properly implemented.

(40) Divestiture Trustee

- Slovenia must propose to the European Commission for approval, no later than one month before the deadlines specified in commitments (25) and (38) a list of one or more persons whom it proposes to appoint as Divestiture Trustee following the appointment procedure as described in recital (39).
- The Divestiture Trustee must be appointed within one week of the European Commission's approval in accordance with the mandate approved by the European Commission;
 - i. Slovenia must grant comprehensive powers of attorney to the Divestiture Trustee to effect the disposal of the businesses specified in commitments (25) and (38) and
 - ii. to take all actions and declarations which the Divestiture Trustee considers necessary or appropriate to achieve the disposal, including the appointment of advisors to assist with the disposal.
- The Merged Entity must provide the Divestiture Trustee with all such co-operation, assistance and information as the Divestiture Trustee may reasonably require to perform its tasks; and
- The Divestiture Trustee shall be remunerated by the Merged Entity and in a way that does not impede the independent and effective fulfilment of the Divestiture Trustee's mandate.

Ljubljana, 28.11.2014