



SLOVENIA'S EXPERIENCE WITH NPL RESOLUTION

IMRE BALOGH

CEO and Executive Director
Bank Asset Management Company

OeNB 81st East Jour Fixe: NPLs in CESEE

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ECONOMIC CONTEXT OF DUTB: SLOVENIAN ROLLER COASTER

2004 – 2008: SLOVENIAN ECONOMY AFTER EU ACCESSION

- Fast GDP growth and low unemployment rate
- Joining the Eurozone (2007)
- Excessive credit growth and corporate indebtedness

2009 – 2013: SLOVENIAN ECONOMY AFTER OUTBREAK OF GLOBAL FINANCIAL CRISIS

- Delayed reaction to global effects and „home-grown“ imbalances
- Sharp drop in GDP and employment
- Hike in budget deficit, public debt and financing risks/costs
- Sharp increase in corporate insolvency, banking sector losses and capital short fall, corporate NPL ratio peaking at 28%

2013 – 2014: ESTABLISHMENT OF DUTB AND BANK REHABILITATION

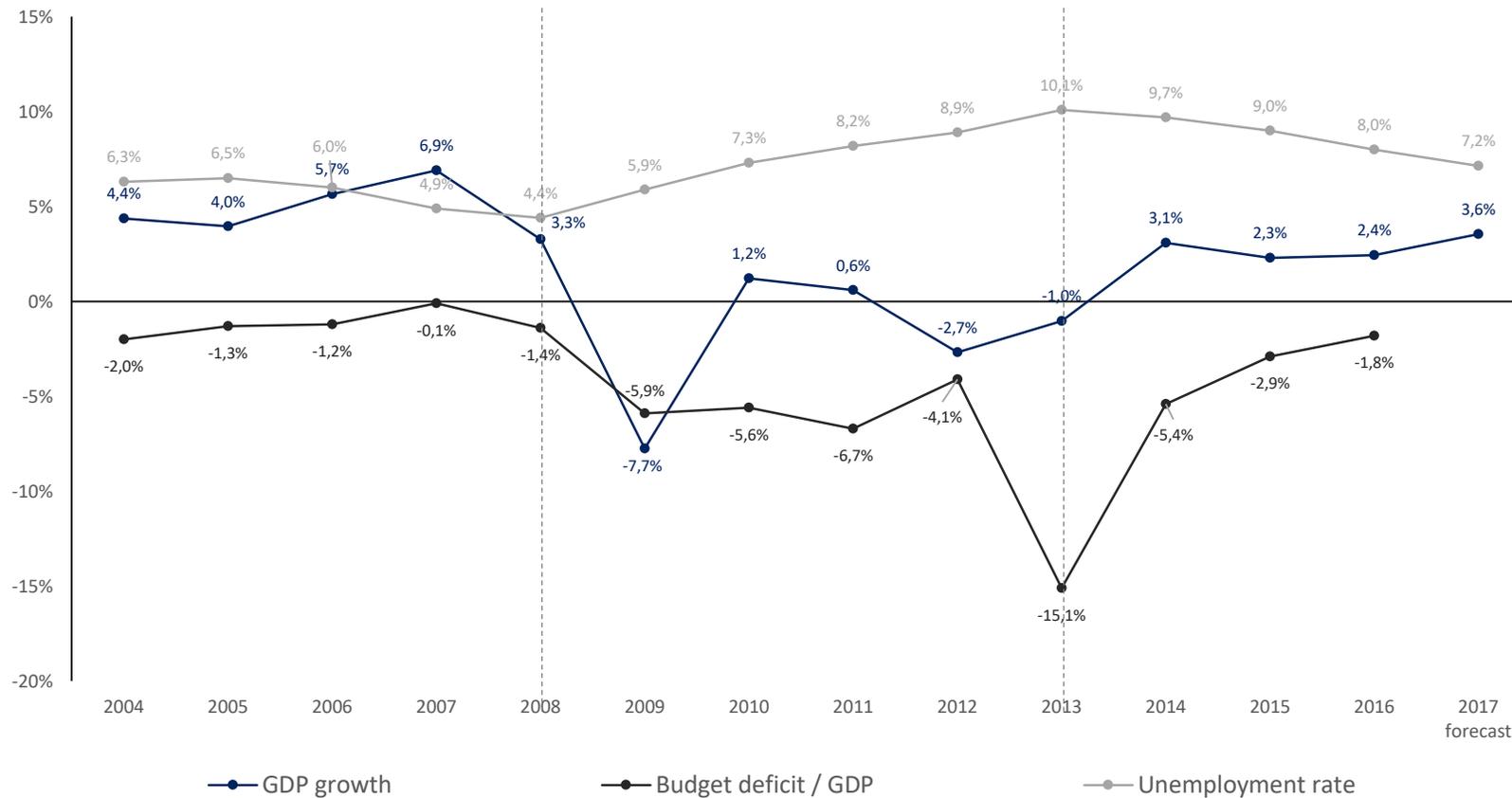
2014 – 2017: SLOVENIAN ECONOMY BOUNCING BACK

- Recovery of growth, reduction in unemployment and financing cost (CDS spread)
- Return to pre-crisis profitability levels
- Gradual reduction in corporate NPL ratio and leverage, largely creditless recovery until recently

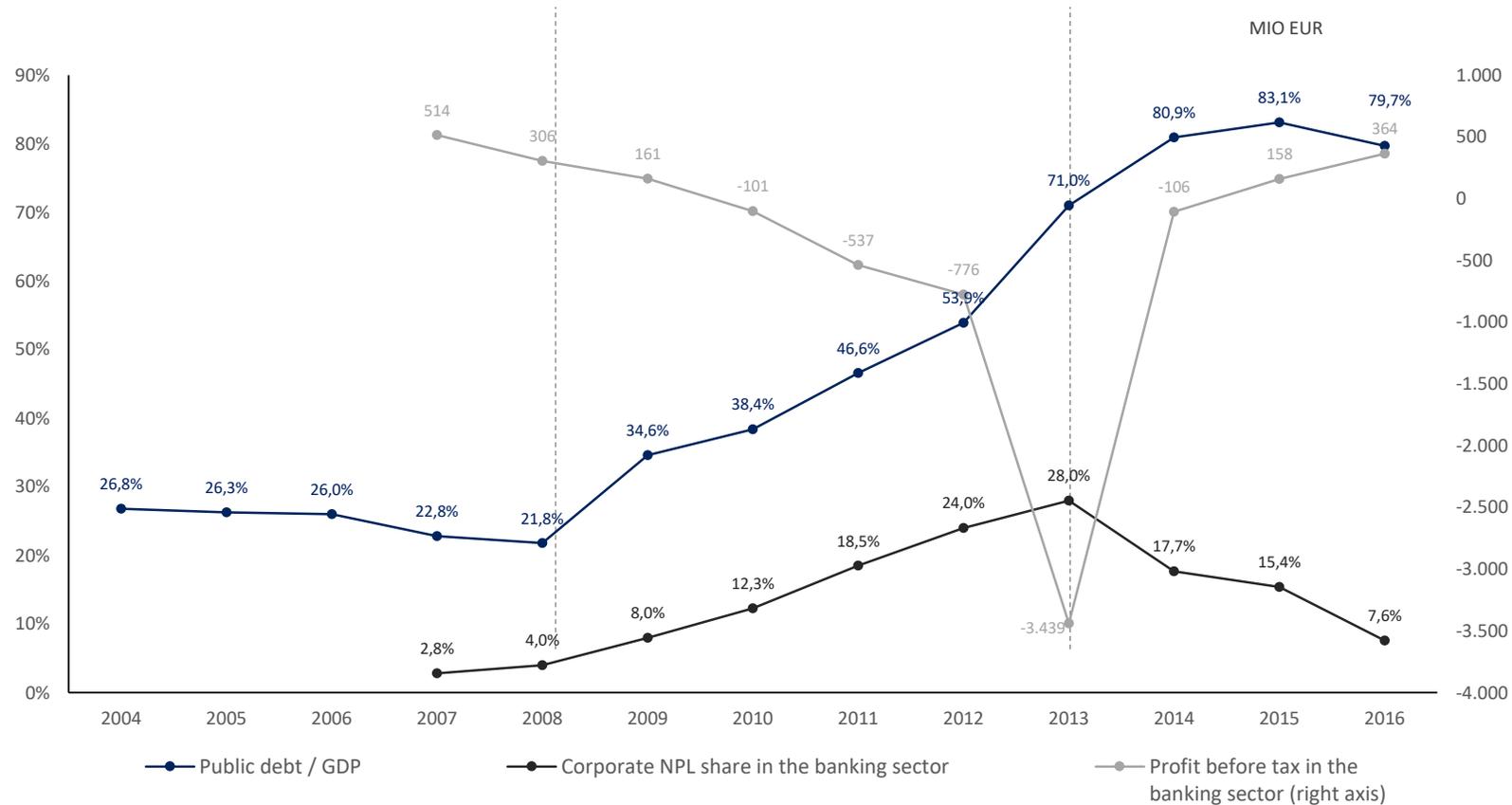
ECONOMIC CONTEXT OF DUTB: SLOVENIAN ROLLER COASTER

Slovenia financials	2008	Cumulative (c) or average (a) 2009-2013	2013	Cumulative (c) or average (a) 2014-2016
GDP growth	3,3%	-9,5% (c)	-1,0%	8,0% (c)
Budget deficit / GDP	-1,4%	-7,5% (a)	-15,1%	-3,4% (a)
Unemployment rate	4,4%	8,1% (a)	10,1%	8,9% (a)
Public debt / GDP	21,8%	48,9% (a)	71,0%	81,2% (a)
Corporate NPL share in the banking sector	4,0%	20,7% (a)	28,0%	13,6% (a)
Profit before tax in the banking sector (in € million)	306	-4.692,5 (c)	-3.439	415,9 (c)

ECONOMIC CONTEXT OF DUTB: SLOVENIAN ROLLER COASTER



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MILESTONES IN BANK REHABILITATION

- Capital injections into NLB and NKBM totaling € 0.7 billion (2011-2012).
- Government Measures to Strengthen the Stability of Banks Act (2012).
- Establishment of DUTB with 100% state ownership (March 2013).
- AQR and stress test for 8/10 systemic banks according to ECB & EBA methodology, supervised by Steering Committee: BoS, MoF, ECDGComp, EC FIN, ECB, EBA (July – November 2013).
- Transfer values (REV) based on independent assessment performed in AQR/ST.
- Recapitalization of the 6 banks through €3.4 billion equity injection by the state (in addition to capital injections in 2011-12), plus € 0.6 billion implicit state aid embedded in transfers to DUTB (2013-2014), extraordinary measures to terminate existing equity and subordinated debt (€0.6 billion).

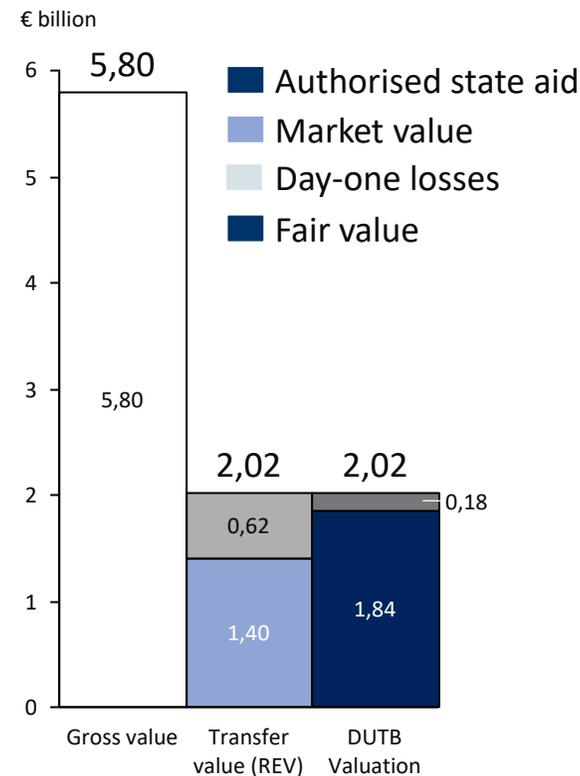
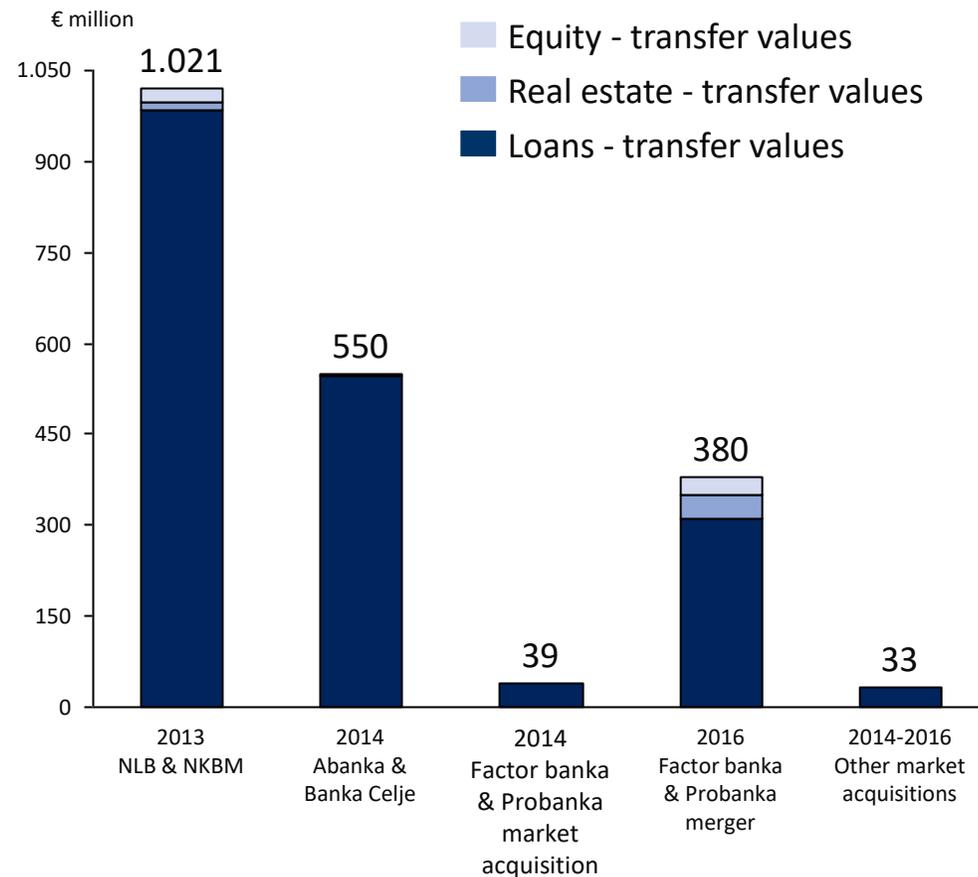
MILESTONES IN BANK REHABILITATION

- Transfer of €5 billion distressed assets from 4 systemic domestic banks to DUTB (2013-2014) on the basis of bilateral agreements.

Criteria:

- *Claims exceeding EUR 500.000 (principal and accrued interests) towards corporate clients registered in Slovenia*
 - *Non core real-estate and equities*
 - *If one bank transfers its exposure towards a client, all banks have to follow*
- DUTB was not involved in the process of selection of transferred assets and their pricing
 - Orderly wind-down of Probanka and Factor banka (2013- 2015), merged into DUTB (2016).
 - Government guarantees totaling €2.6 billion for repayment of DUTB, Factor banka and Probanka liabilities.

BANK REHABILITATION IN FIGURES



- **€5,8 billion** contractual (gross) value of transferred / merged assets
- **€2,0 billion** assets transfer value (REV-based)
- **€623 million** above market value (documented in EC state aid decisions)
- **€179 million** above fair value (DUTB valuation)

DUTB'S ROLE IN ECONOMIC RECOVERY

CORPORATE EXPOSURES TRANSFERRED OR MERGED INTO DUTB IN 3 STAGES CONSTITUTED:

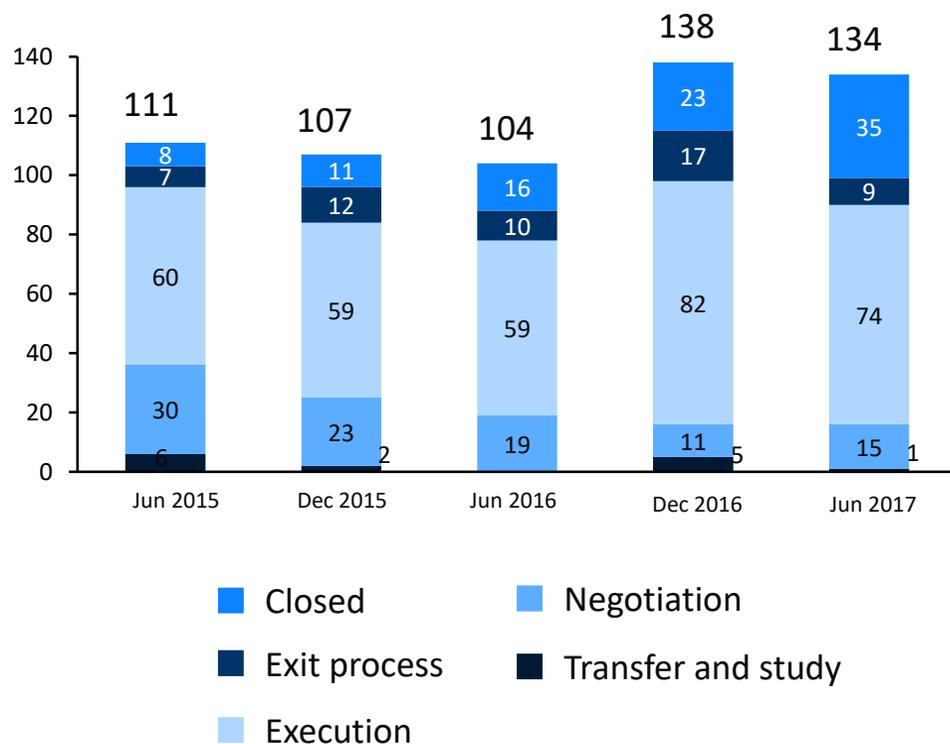
- **25% of gross loans** to domestic corporates and sole proprietors (in November 2013, right before the first tranche of transfer)
- **60% of NPLs** of domestic corporates as of November 2013
- **16% of Slovenian GDP** in 2013
- **Liabilities of corporates** with min. 10-12% share of GDP and employment (conservative, rough expert estimate)

RESULTS HALF WAY THROUGH:

- **Unlocked € 1.1 billion worth of frozen /misused assets** and recycled them for more efficient use in the economy.
- **Cashed more than 50% of its assets** and **repaid €983 million** debt.
- **Partially relieved recapitalized banks** from the burden of NPLs and took leadership role in a number of high impact restructurings.
- **Reduced the guarantee exposure of the Republic of Slovenia** from initial €2.6 billion (including Factor banka and Probanka) to current € 0.9 billion.
- **Provided 14% average annual return on equity** via profit stream plus paid €84 million in guarantee fees and interest surplus to the budget and public sector entities.

PROGRESS IN PORTFOLIO STRUCTURE

RESTRUCTURING CASE:



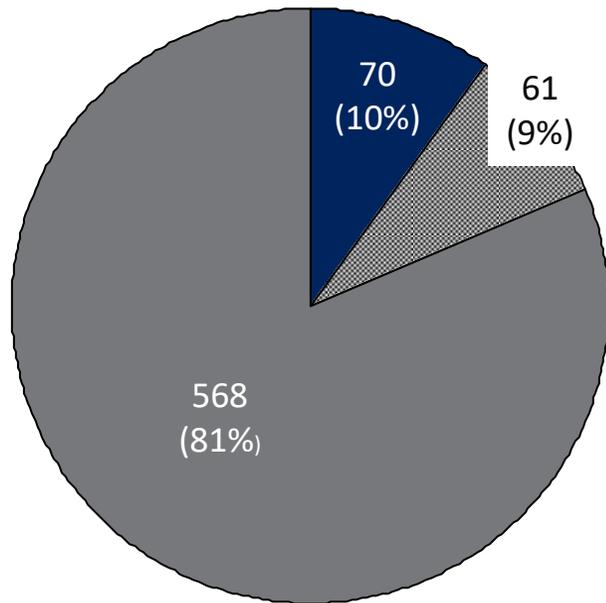
SALES AND REFINANCING:

2013 - H1 2017	Number of sales completed	Of these foreign buyers	Average number of interested buyers per case	Average number of due diligences performed	Total contractual value (in € million)
Loans	57	18	2,5	2,3	301
Equity & bonds	33	9	4,8	3,8	72
Total	90	27	3,1	2,5	374

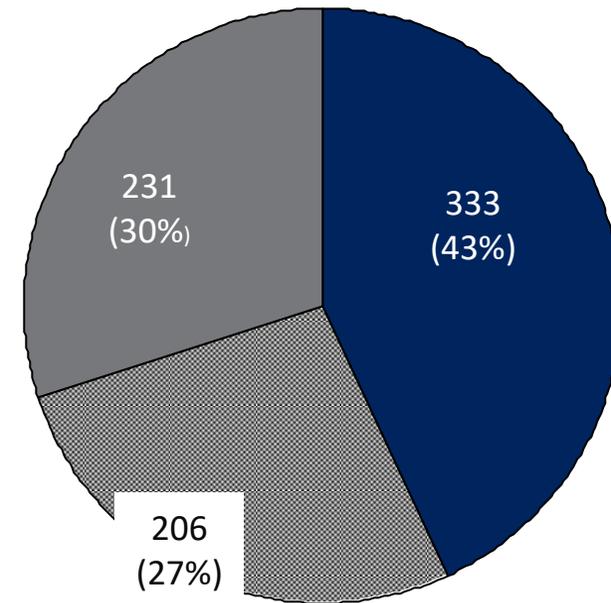
Fully refinanced exposures towards 6 debtors with the total (transferred) gross exposure of **€116 million**.

CURRENT PORTFOLIO DISTRIBUTION

LOAN PORTFOLIO BY NUMBER:



LOAN PORTFOLIO BY VALUE:
(in € million)



- Restructuring
- Mixed
- Recovery

DUTB CORPORATE GOVERNANCE AND OPERATIONS

OUR MAIN CHALLENGES

- Corporate governance described as **system in evolution**, responding to changing circumstances rather than a snapshot
- Due to **100% state ownership** and DUTB's economic significance very complex stakeholder structure to manage
- Develop and maintain business and **result-oriented** corporate culture.
- Sustain autonomous, fast, professional **decision making**.
- Maintain **integrity** of organization under enormous stress and temptations.
- Develop into **self-improving** organization despite limited lifetime.

CORPORATE GOVERNANCE FRAMEWORK

WELL REGULATED EXTERNAL FRAMEWORK

GOVERNMENT AS 100% SHAREHOLDER

- Tasks and responsibilities of the DUTB AGM exercised by the Government as the sole shareholder
- The Ministry of Finance:
 - monitors the work of DUTB (the compliance of DUTB operations with ZUKSB)
 - can not be actively involved in DUTB individual business decisions

ONE-TIER BOARD

- Board of Directors as strategic decision-making body
- Separated tasks of Executive and Non-Executive Directors
- Defend the professional autonomy of executive management from external / political interference

CREDIT AND INVESTMENT COMMITTEES

- Effective and fast decision making structure
- Clearly layered 3-level system with segregated responsibilities
- Empowerment of lower lever for large number of smaller tickets / simplified decisions
- Strong controls for executive level over high impact larger tickets (80+% of volumes)

CORPORATE GOVERNANCE FRAMEWORK

ETHICAL MODUS OPERANDI THROUGHOUT THE ENTIRE ORGANIZATION

INTERNAL CONTROLS THROUGHOUT EVERY PROCESS AND ENTIRE COMPANY

Defense lines with responsibility / reporting line to the Board of Directors:

- Internal audit
- Compliance and AML department
- Corporate security

ETHICAL AND QUALITY STANDARDS

- Ethic Intelligence: Anti corruption compliance certificate in 2015, renewal and upgrade in progress
- Personal integrity plan for employees
- ISO qualification in progress
- „Whistleblowing“ system
- No cases in personal portfolio from past jobs

CLEAR SEGREGATION OF ROLES COMBINED WITH TEAM STRUCTURE

- Strictly segregated roles of units in organizational structure
- Bank-like horizontal process controls and full 4-eye principle
- Balanced with teamwork to foster flexible operations and proactive approach
- Clear responsibilities on all decision-making levels
- Management of assets in largely homogenous asset classes

CORPORATE GOVERNANCE FRAMEWORK

KNOWLEDGE CENTER AND SALES VEHICLE FOR NPLs

WELL DEFINED SALES RULES

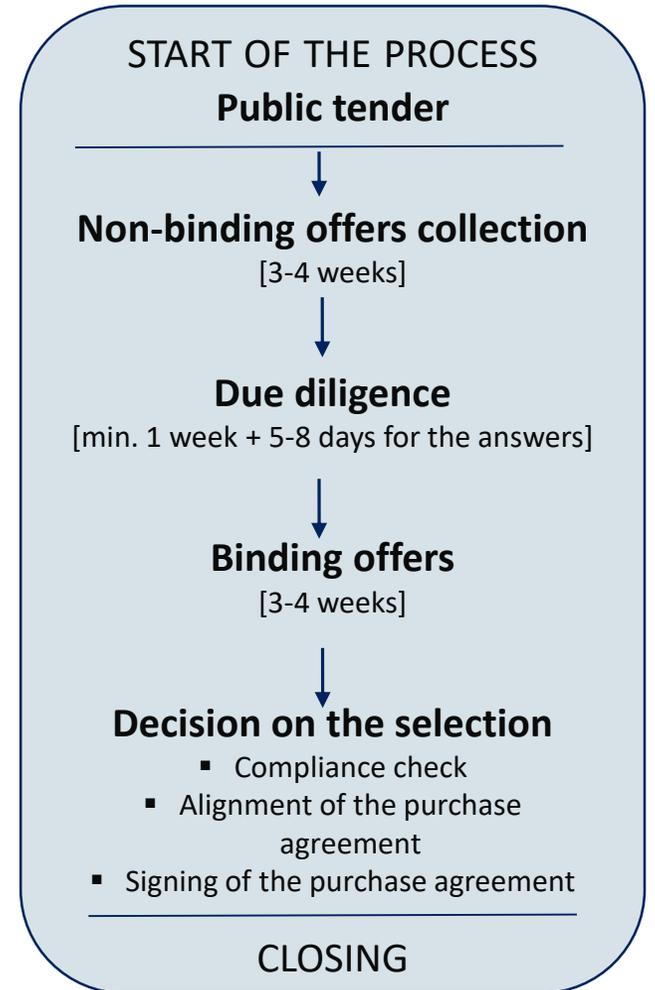
- Transparent standardized sales process
- KYC and The Law on Prevention of Money Laundering and Financing of Terrorism: prevention of primary and secondary sale to former owners/executives of distressed debtors or to „blacklisted“ investors

EFFICIENT SALES PROCESS

- Fast decision making, flexibility and independence
- Equal treatment of every investor in tenders (competitive bidding process, sufficient time for each phase, equal information)
- Supported by deal flow management, marketing and investor relations management

RENOWNED KNOWLEDGE CENTER

- Expert for NPL management and corporate restructuring
- High demand from the market for DUTB employees
- Internal and external best practice sharing
- Performance and development oriented human resources management

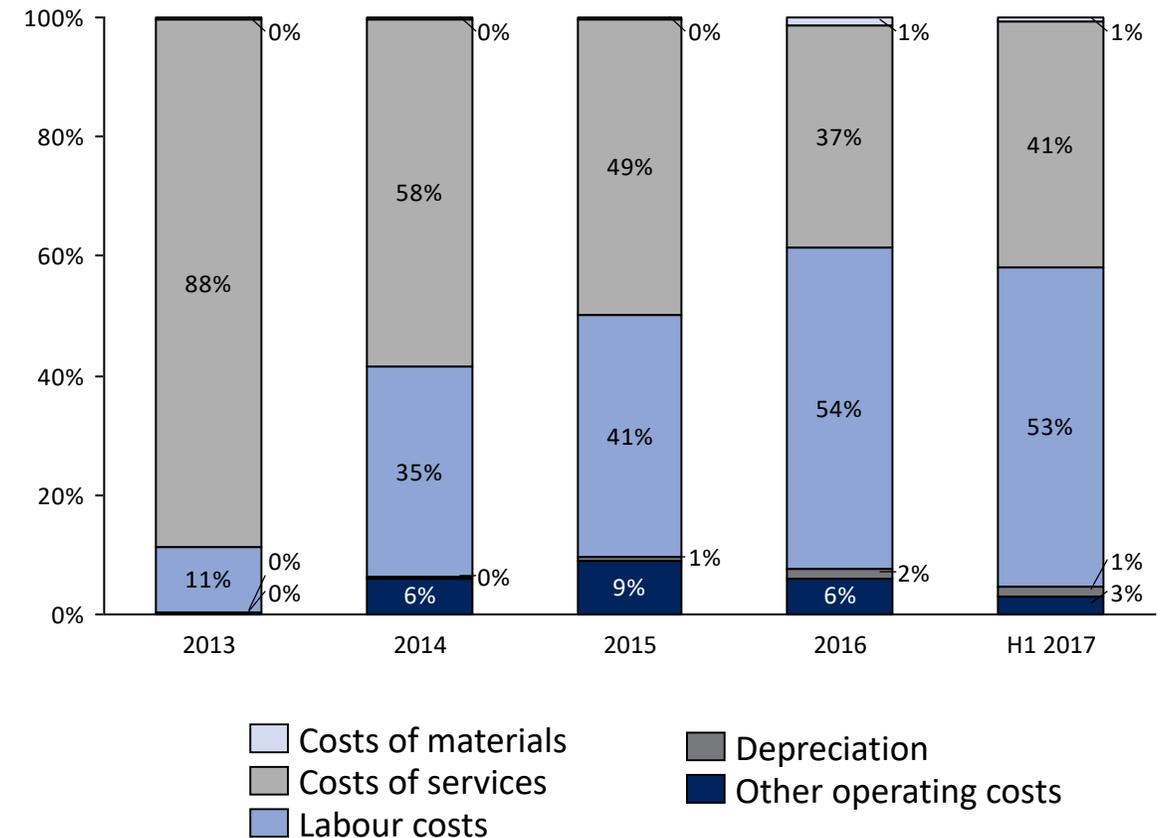


MANAGING HR CHALLENGES

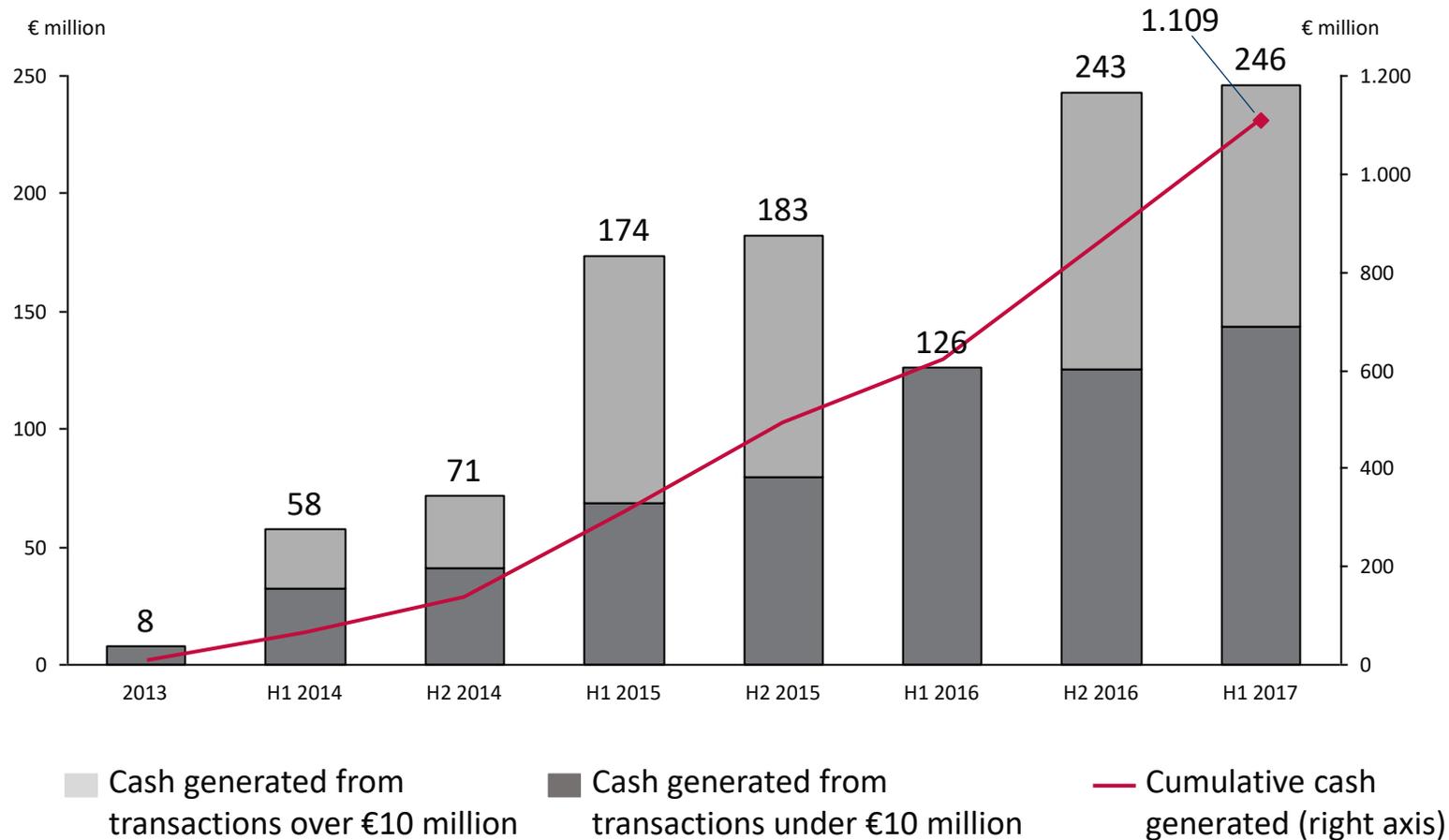
- **Project type** organization with limited life span → keep fluctuation of quality staff at acceptable level
 - **Tensions** between internal perception of mission and external image („bad bank“)
 - **Shock of 3-way merger:** mix of corporate cultures, extra operational burden, fundamental organizational and process changes, portfolio reallocation, internal competition for jobs → redundancy 20+%, mid-management replacement / renewal in competitive selection process
 - Develop and run a measurable performance oriented **evaluation system**
 - Preserve accumulated **knowledge** base
 - Maintain **cooperative spirit** under circumstances of constant downsizing
- **Norms based staffing model is key for managing labour efficiency**, dilemma for the future:
 - a) Maintain current (stock-type) norms based staffing model (more even pace of redundancies, slow-down of sales in favor of managing assets) *OR*
 - b) Switch to flow-based norms (maintain strong momentum, but higher upfront FTEs and costs with faster decline later, shorten organizational lifetime)
 - **Providing hope and perspective**
 1. for the organization: expansion into new fields
 2. for the individuals:
 - improved future employment opportunities
 - education to strengthen competitiveness in job market
 - outplacement with a human face, support in job search

PRINCIPLES OF COST MANAGEMENT

- Basic operating cost / assets one of key **company-level KPIs**
- Changing proportion of out sourcing over-time: **insource if sustainable** cost savings achieved
- **Large fluctuation** in transaction, litigation and RE management expenses
- All material contracts / orders subject to **periodic renewal** via public procurement / competitive tenders



OPERATIONS – CASH GENERATION

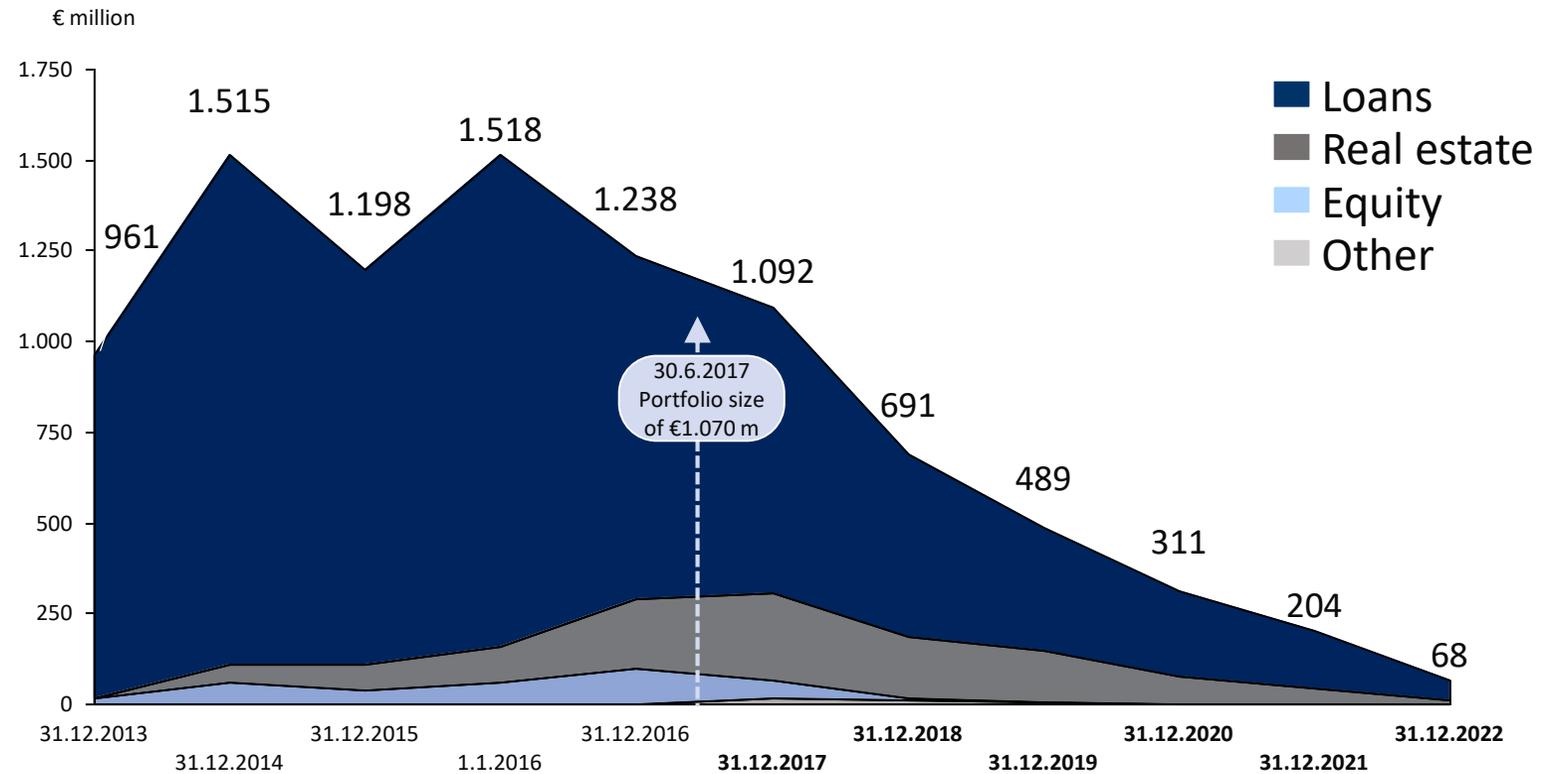


**€1,1 billion
cash generated**

- >50% of assets liquidated)
- in 3,5 years
- through both larger and smaller transactions

PORTFOLIO DEVELOPMENT

Past portfolio development and rundown plan for DUTB's lifespan



SALES MANAGEMENT

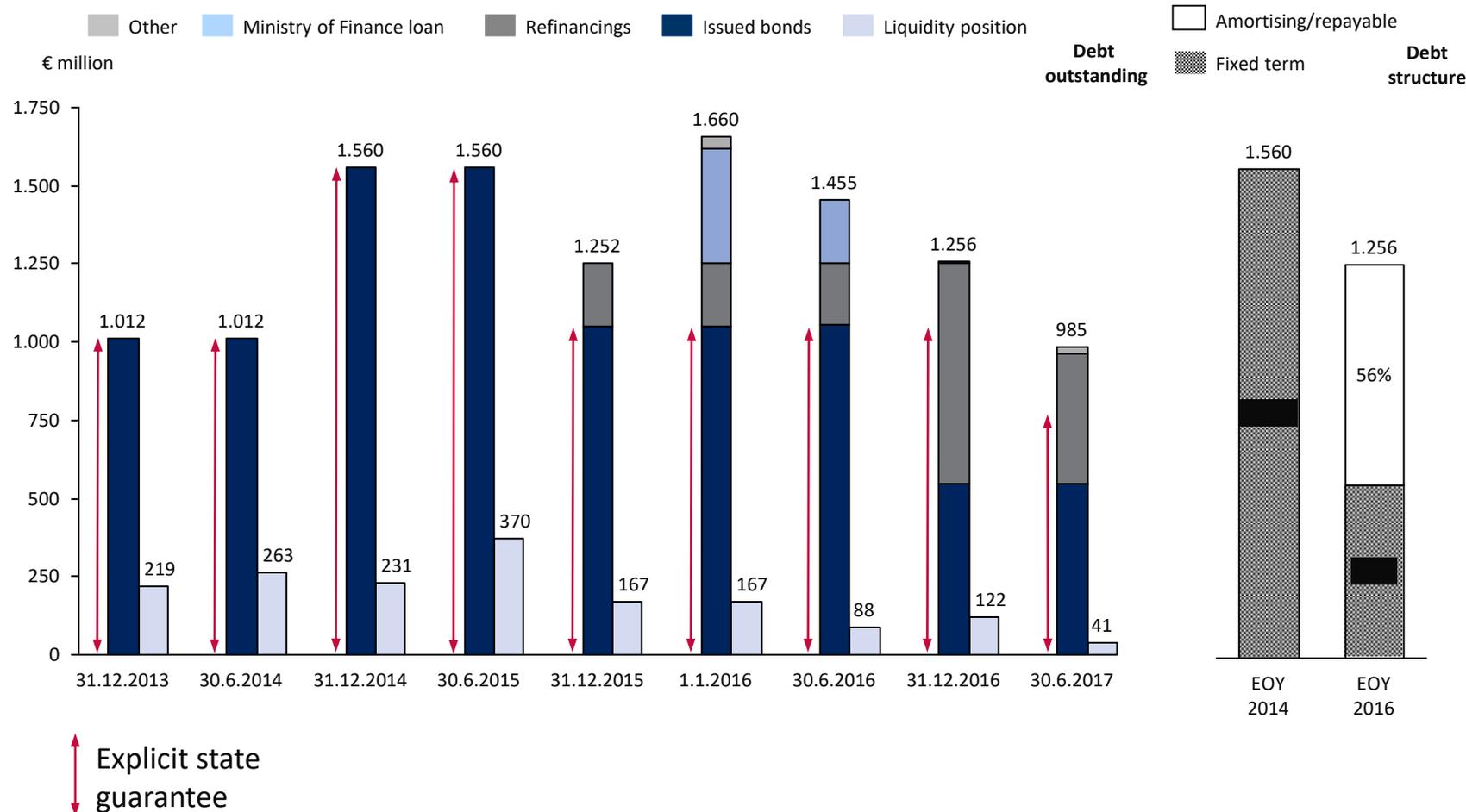
„Easy-to-sell“ assets running out, tail risk grows over time → Crucial to maintain cash-flow generation momentum to slim / shorten tail

METHOD

- **New initiatives in 2017:**
 - package sales
 - refinancing drive for restructured / bankable companies
 - accelerated repossessions of real-estate suitable for fit-for-sale minor investments or
 - for joint-venture developments
- Development of **Investor Database**
- **Marketing-supported**, focused investor targeted sales initiatives to create sense of urgency
- **Linking cash-flow generation** performance measurement with **bonus system** plus pipeline management: internal pull/push for sales drive

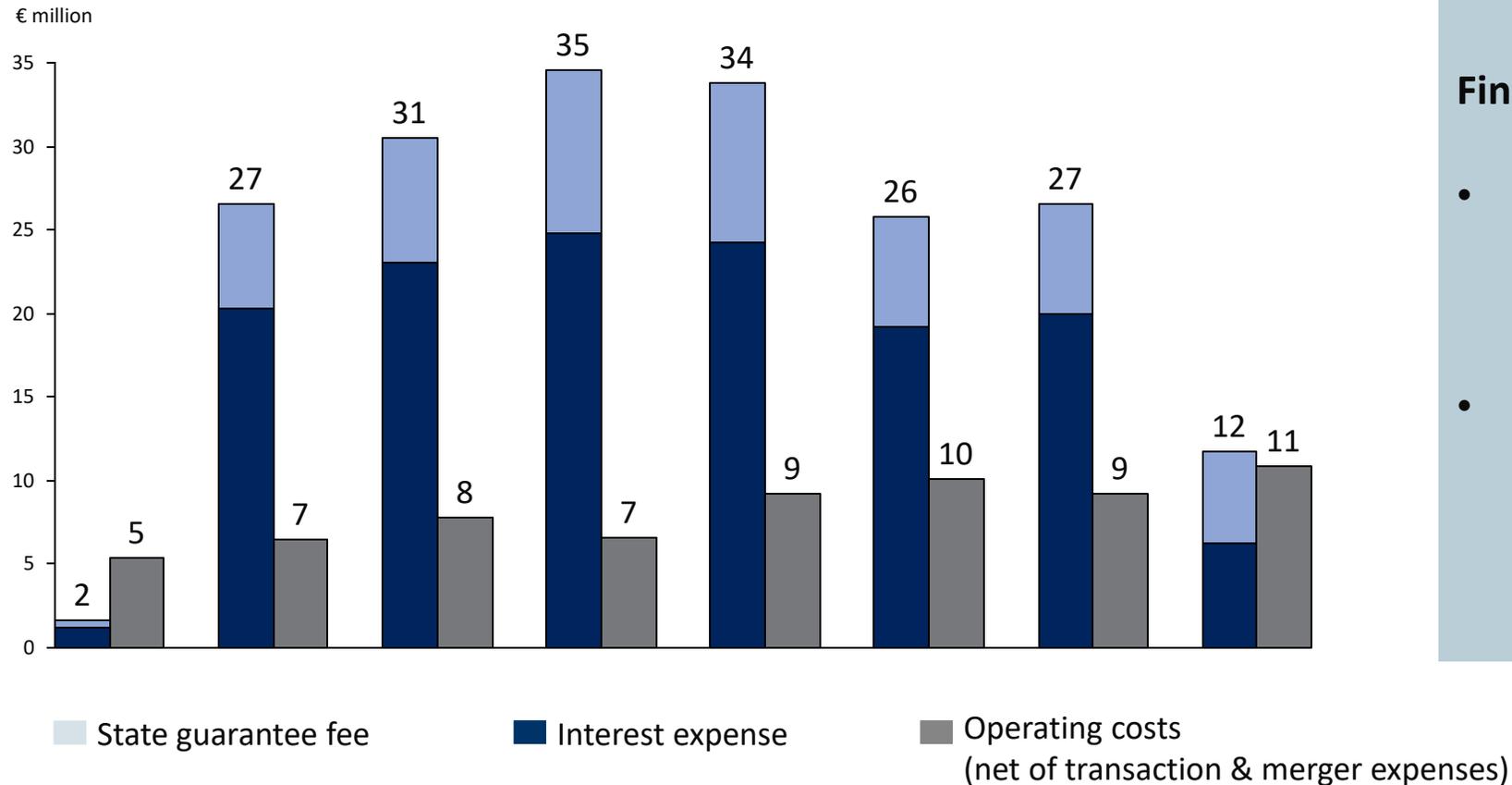
DEBT STRUCTURE AND MANAGEMENT

Debt outstanding reducing and changing in structure



- **2013-2015** High-cost fixed-term debt, accumulating intra-year liquidity
- **2016-2017** Mixture of fixed maturity and amortising/repayable debt, tighter liquidity management

FINANCING vs OPERATING COSTS

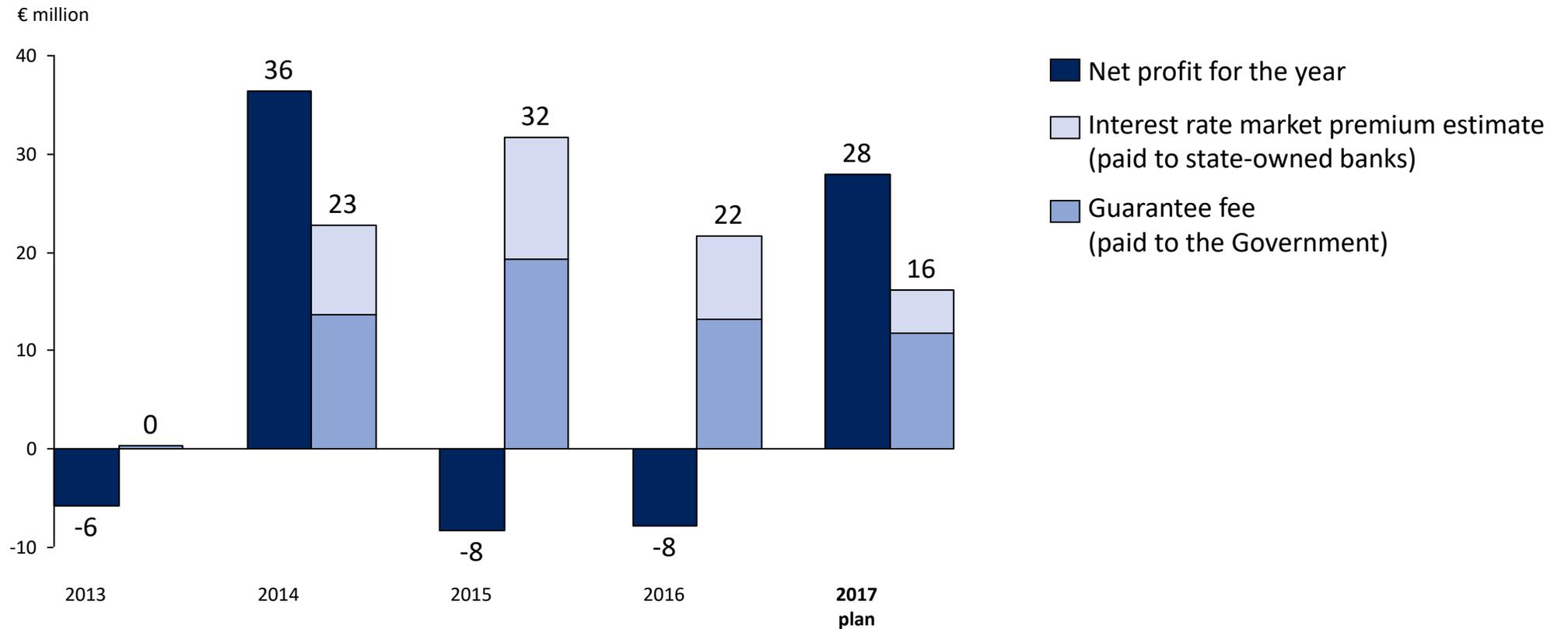


Financing costs:

- initial excessive burden gradually reduced
- decreasing from a multiple of operating costs to equal level

RETURN

More than just net profit provided for the state



EQUITY MOVEMENT & RETURN TO TAXPAYERS

Equity movements through owner's decisions and company operations

