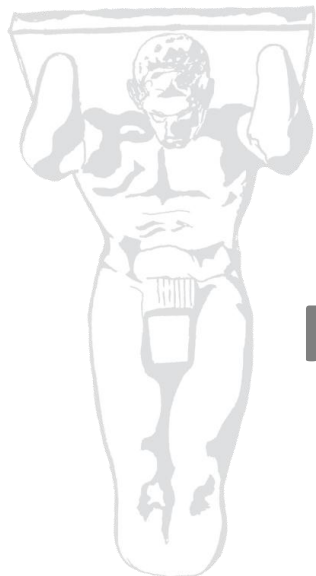


BANKA SLOVENIJE

EVROSISTEM

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# REGIONAL HIGH-LEVEL WORKSHOP ON NPLs RESOLUTION

## Experience of SLOVENIA

**Bucharest, 15 June 2016**

**Miha Kristl**

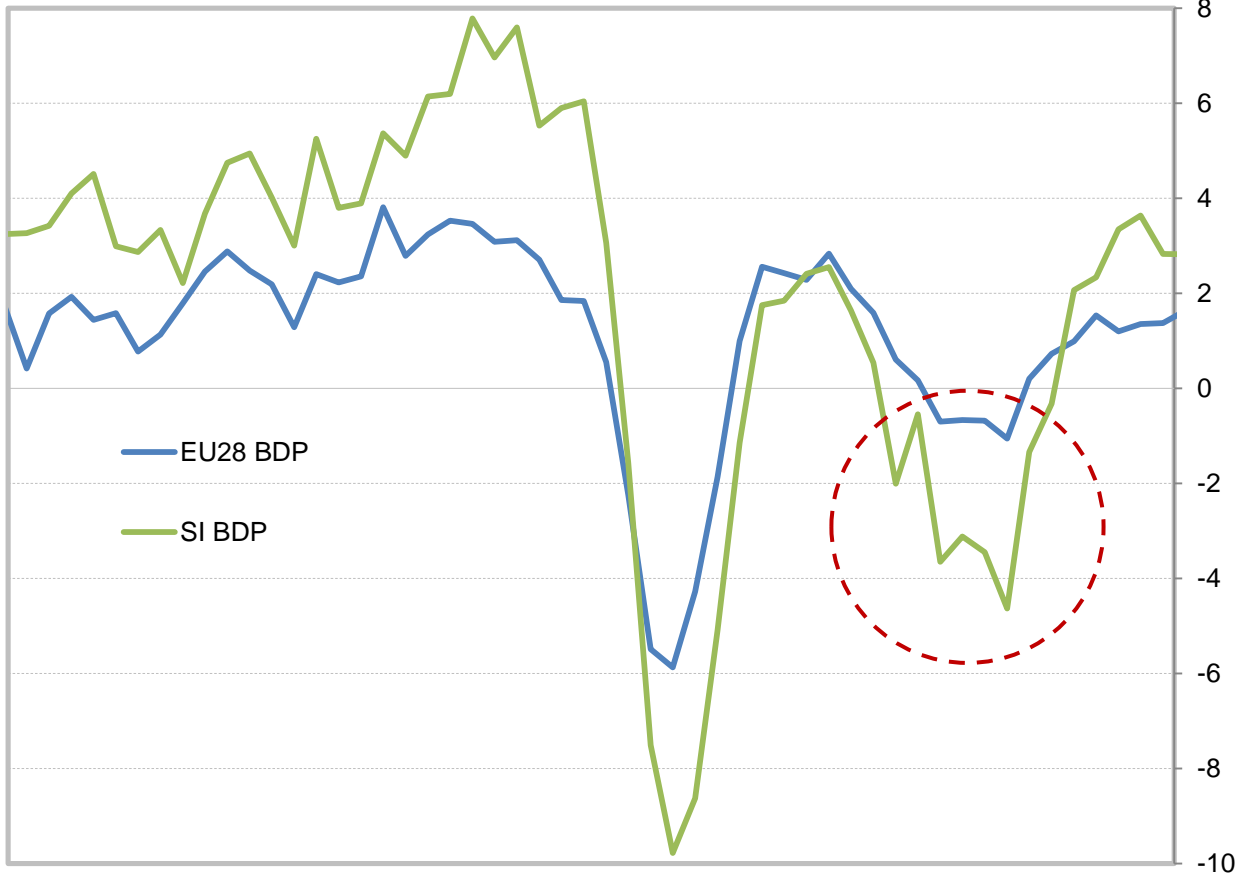
**Executive Director, Banking Supervision**

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- 1 FINANCIAL CRISIS IN SLOVENIA**
- 2 BANK OF SLOVENIA APPROACH TO NPL RESOLUTION**
- 3 RESULTS & KEY TAKE AWAYS**

1

**Euro debt crisis hit Slovenia hard ...  
and called for extraordinary government measures**



**2013: EU + ECB Health Check**

Creation of BAMC  
Comprehensive Assessment

**End 2013: State Intervention**

Bail-in + state recapitalisation  
of top 4 banks  
Transfer of NPLs to BAMC  
Winding-down (orderly  
liquidation) of 2 banks

**2014: SSM Health Check**

Comprehensive Assessment  
(AQR + ST) in 2014

EU accession

EURO adoption

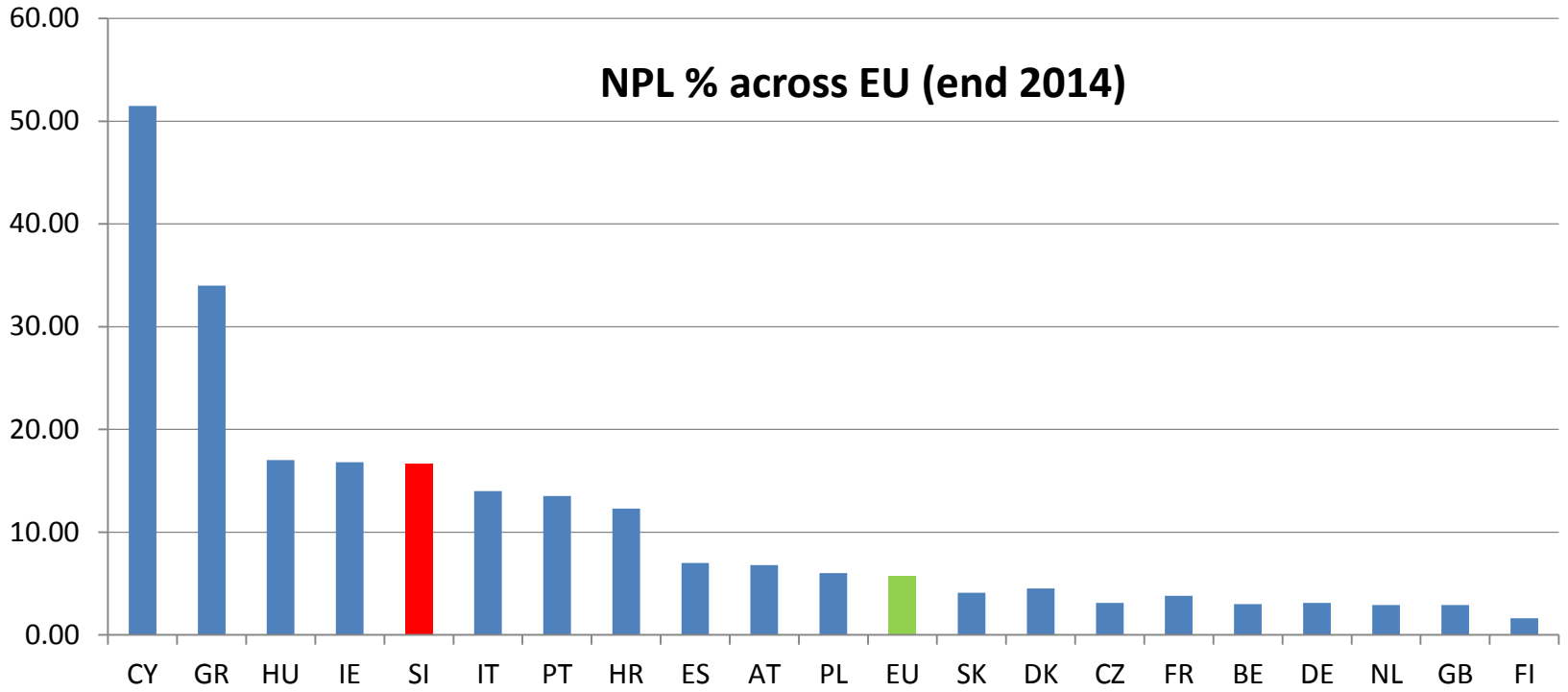
Lehman Brothers

EURO debt crisis

State intervention

1

**Despite NPL transfer to BAMC Slovenia was in 2014 still among the worst performers in terms of NPL**



Source: EBA, BoS

- 1. NPL transfer to BAMC **limited** (only state-recapitalised banks, only SLO companies...)
- 2. Fast deleveraging in the banking system (from EUR 48bn in 2008 → 37bn in 1Q2016)
- 3. **Several rounds of comprehensive assessment**

## 2 BANK OF SLOVENIA APPROACH TO NPL RESOLUTION

### GAP ANALYSIS

#### Institutional impediments

Costly and lengthy insolvency mechanisms, missing/inefficient economic policies



#### Economic disincentives

inadequate capital buffers, insufficient provisions, hidden losses



#### Operational impediments

lack of experience, expertise and resources in banks



#### Market infrastructure

No/limited market and infrastructure for distressed debt



### SOLUTIONS

- **Need for coordinated activities of key stakeholders**
- **Improvements in institutional framework**
  
- **Additional regulatory requirements/ guidelines**
- **Supervisory focus on bank`s capacity to recognise, manage and work-out NPEs**
  
- **Develop market infrastructure**

## 2 First focus was on improving institutional framework...

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### Coordination task force set-up (2013)

- MoF, Ministry of Economy, BoS, Bank Association, BAMC
- Addressing legislation and taxation issues

### Amendments of insolvency legislation (2013, further ammended in 2016)

- Introduction of **preventive restructuring**; pre-insolvency regime that enables an early rehabilitation of distressed enterprises
- Also the creditor can initiate and control the reorganization procedure of insolvent debtor
- Improved possibility for creditors to achieve **mandatory debt-to-equity conversion**, existing shareholders can be squeezed out
- Additional simplification for micro companies

### Agreed Principles for for debt restructuring (2014)

- based on the "London Approach" devised by the Bank of England
- optimisation of "burden sharing" of all stakeholders by coordinated approach
- avoiding the bankruptcy of companies without proper analyses and consideration

## 2 ... followed by BoS supervisory focus on NPE resolution

### REGULATORY MEASURES:

#### Reporting to Banka Slovenije (June 2014)

- Upgrade of loan register to follow-up loans at transaction level
- Cash flow reporting for largest restructured exposures, BoS follow-up on top 30 MRAs

#### Guidelines for impairments of restructured loans (Dec 2014)

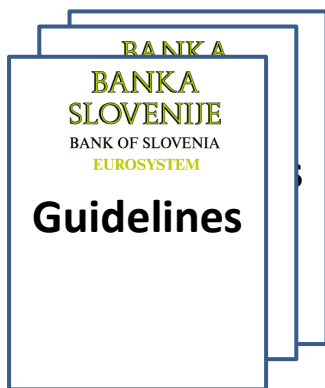
- BoS clarified expectations regarding potential, gradual reduction of impairments for restructured loans

#### Guidelines for NPE management (May 2015)

- EWS GL
- NPL management GL

#### Guidelines for SME restructuring (Nov 2015, update in progress)

- Approach for SME NPLs (framework with simplified debt-restructuring options based on few criteria: size, indebtedness and viability)
- close cooperation with banks and Bank Association



## 2 ... followed by BoS supervisory focus on NPE resolution

### SUPERVISORY MEASURES:

**Horizontal off-site analysis** of banks' compliance with issued GL

- Both (1) EWS and (2) NPL management
- Findings communicated to individual banks (with fixed timeframe to fix the deficiencies)

### NPL Strategies

- Banks requested to prepare a 3-year NPL Strategy (annual update required)
- Has to include **forecasts for the selected list of indicators + operational plans** and description of measures to achieve the targets
- NPL Strategy has to be approved by the banks' SB

**On-site inspections** to follow-up on the progress and compliance

### Supervisory dialogue with banks' senior management

- Monitoring the execution of NPL Strategies
- Monitoring of banks' implementation and compliance with guidelines (part of on-site supervision of banks)

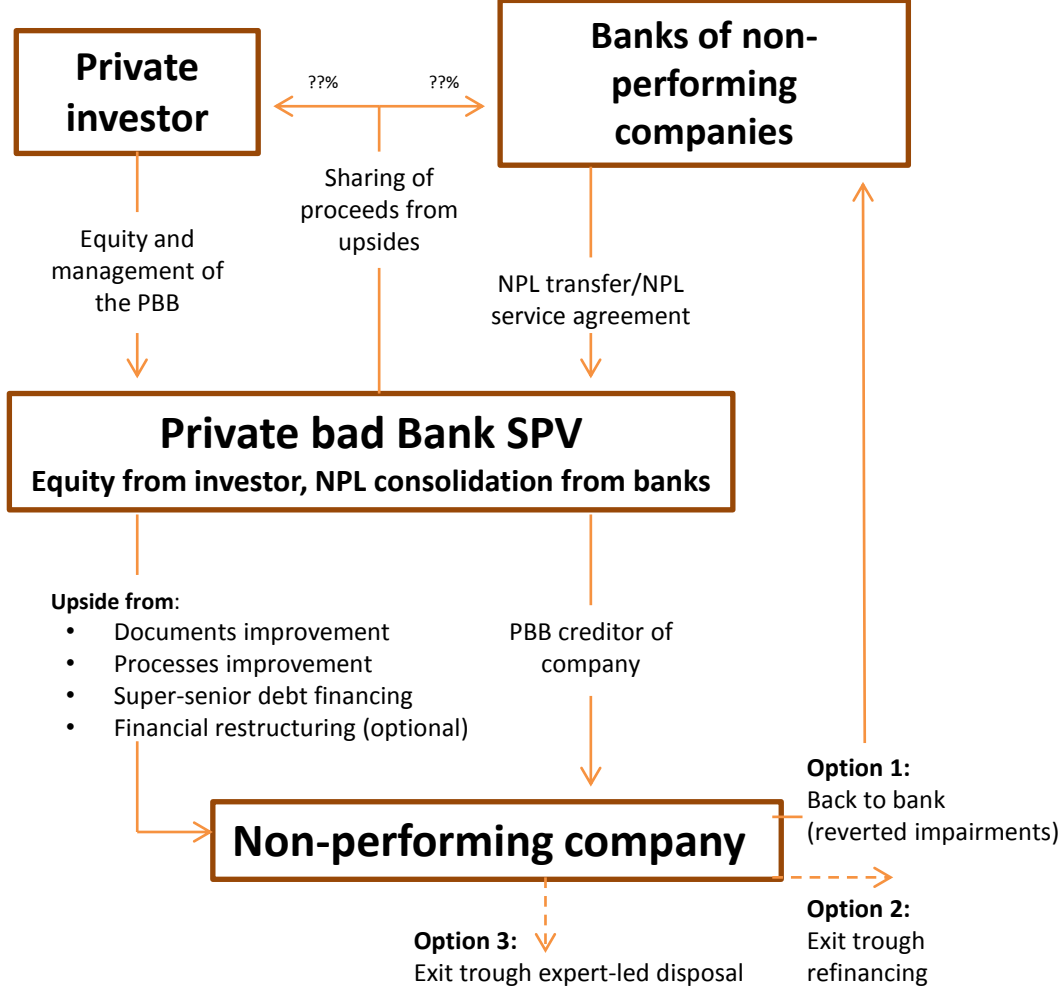




## 2 Improving market infrastructure remains a challenge

### Establishment of SPV ("Private bad bank") for non-performing loans:

- Exclusively private funds
- Mainly focusing on MidCaps and larger SMEs + NPLs from SEE countries
- Sufficient interest from banks, especially smaller banks
- NPL servicing platform (IT, back-office...) to be carved out from one of the banks in liquidation
- Planned for end 2015
- Currently pending – up to BAMC to decide



Source: Structuring a Private Bad Bank in Slovenia – Discussion paper

### 3 KEY MILESTONES of NPL management

1

State intervention:

1. recapitalisation of banks
2. transfer of NPLs to BAMC
3. orderly wind-down of 2 banks

2

Insolvency legislation upgraded

3

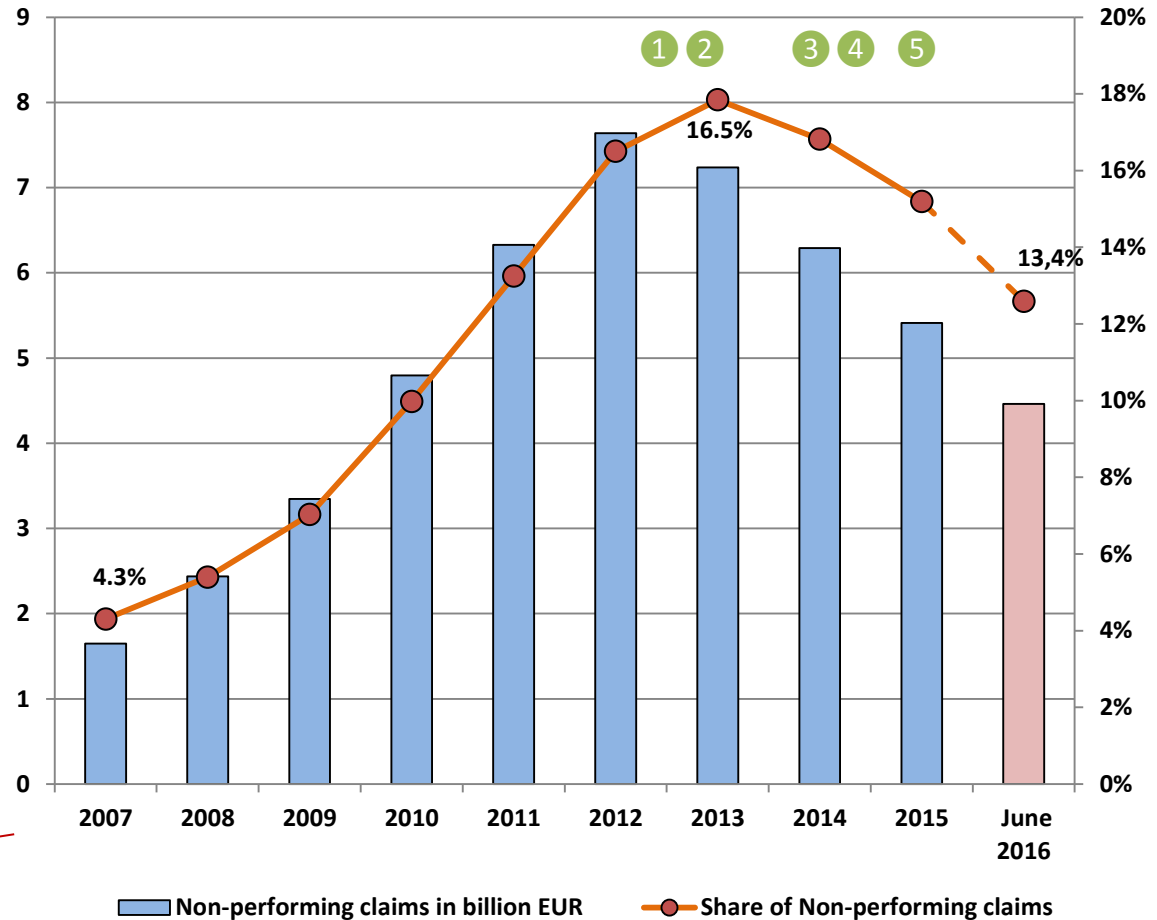
Bank Association issues  
Restructuring Principles  
(for large enterprises)

4

BoS guidelines and  
recommendations  
  
Additional supervisory  
measures

5

~~Establishment of private NPL SPV~~



### **3 KEY TAKE AWAYS**

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- **Timely recognition**
  - **Transparency about the size of the problem**
  - **Cooperation and coordination of all stakeholders and activities**
- **Work at the system level**
  - **Legal framework and judicial practices**
  - **Establishment of bad asset management company**
  - **Continuous identification and removal of impediments for the process**
- **Active role of the central bank both at the macro & micro level**
  - **Guidelines**
  - **NPL Strategies**
  - **Continuous monitoring and supervisory dialogue**
- **Use of best practices (domestic and international)**
- **Proportionality of requirements in line the complexity of the institution**

