Report on comprehensive review of the banking system and associated measures

1. Introduction

1.1 Macroeconomic situation in Slovenia

Before the start of the economic downturn in mid-2008, economic growth in Slovenia was among the highest in the euro area. However from the outbreak of the crisis GDP has declined by more than 10%. The high indebtedness of corporate sector and the constraints on financing meant that investment recorded the largest decline, at 50%. Household consumption also declined as the situation on the labour market deteriorated and fiscal consolidation measures were implemented. The sharp decline in domestic demand and the simultaneous growth in exports helped to create a current account surplus, which reached 7% of GDP in the second half of 2013. In the last year Slovenia has adopted several major reforms that will allow faster growth in economic potential in the future. At the same time in mid-2013 the majority of indicators were suggesting a stabilisation of the economic situation. The unemployment rate has been falling since the beginning of the year, and stood at 9.4% (ILO rate) in the third quarter.

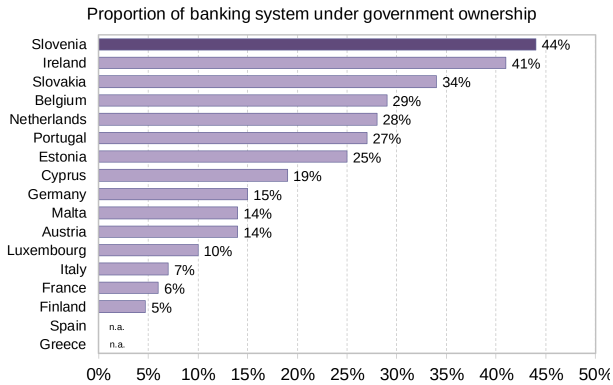
Table: Comparison of forecasts for Slovenia

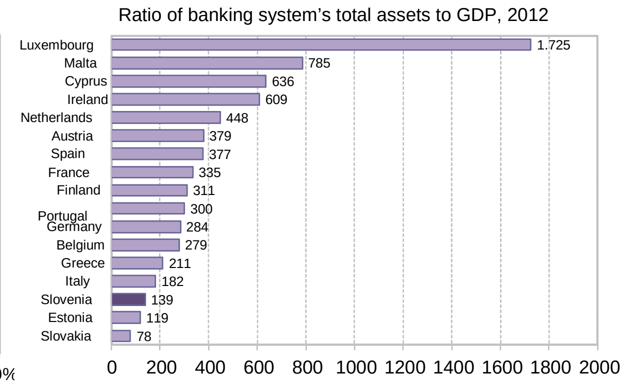
growth (real), %, unless stated otherwise	realisation	Bank of Slovenia October 2013			European Commission November 2013		
	Q3 2013	2013	2014	2015	2013	2014	2015
GDP	-0.6	-2.6	-0.7	1.4	-2.7	-1.0	0.7
Private consumption	-3.0	-3.8	-3.3	-0.6	-3.5	-2.6	-1.2
Gross fixed capital formation	-4.4	-3.3	-2.7	0.8	-2.4	-1.2	0.8
Net trade (percentage points)	1.9	1.8	2.0	2.0	1.1	1.4	1.4
Employment	-1.7	-2.6	-2.4	-0.4	-2.4	-1.3	-0.5
HICP (year-on-year growth, %)	2.2	2.2	1.7	1.5	2.1	1.9	1.5
Current account (% GDP)	6.8	6.1	6.8	7.7	5.0	6.0	6.5

Sources: Bank of Slovenia, European Commission

1.2 Review of the situation in the banking system

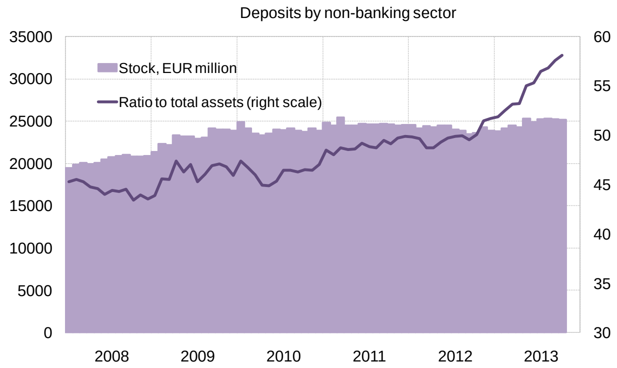
The Slovenian banking system is one of the smallest in the euro area. Total assets amounted to EUR 46 billion at the end of 2012, equivalent to 139% of GDP, the third lowest figure in the euro area. The banking system comprises 17 banks, three branches of foreign banks and three savings banks. Slovenia has the highest proportion of government ownership of the banking system in the euro area, at 44%.

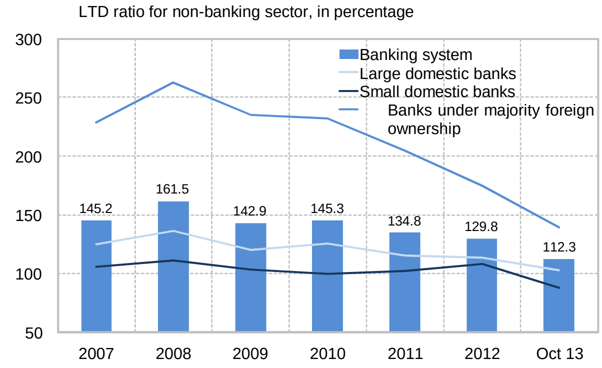




Source: ECB (CBD database)

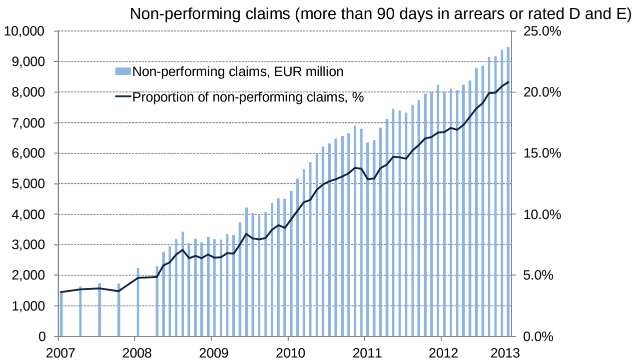
The financial crisis ended a period of high growth in bank lending, which was largely based on heavy borrowing from foreign banks. Bank funding has declined sharply since 2010 as a result of the uncertain situation on the international financial markets, and the downgrading of Slovenia's sovereign debt and Slovenian banks. The proportion of the banks' total liabilities accounted for by wholesale funding halved between 2007 and October 2013. By contrast, deposits have remained very stable throughout the economic recession.

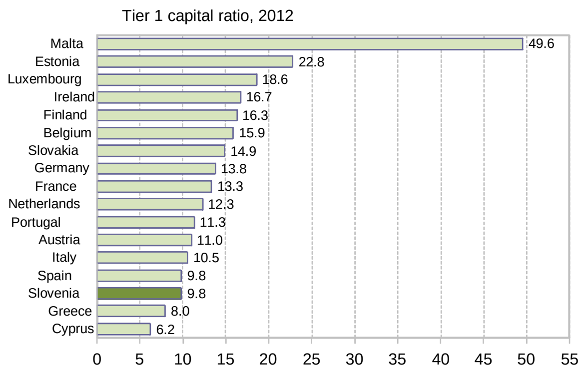




Source: Bank of Slovenia

The economic recession revealed deficiencies in the banks' risk management during the period of high economic growth. As corporate revenues declined and losses increased, the amount of non-performing claims began to increase. The proportion of non-performing claims more than 90 days in arrears or rated in the lowest categories (D and E) had reached 20.9% by October 2013, equivalent to EUR 9.5 billion. Claims to corporates account for the largest proportion of non-performing claims. The most notable are corporates in the construction and holding company sectors, which saw an extremely sharp increase in relative indebtedness during the time of plentiful credit. As the recession persisted, the difficulties with the repayment of bank loans spread to other sectors, and in recent times have in particular spread to corporates whose performance is based on domestic demand. Risk related to households sector remain among the lowest, as their non-performing claims accounting for just 3.2% of the banks' total non-performing portfolio.





Sources: Bank of Slovenia, ECB (SDW)

Given the deterioration in the quality of their credit portfolios, the banks have increased the creation of impairments and provisions. Impairments and provisions amounted to EUR 5.1 billion at the end of October, or 11.2% of the banks' total classified claims. Increased provisions and impairments were the decisive factor in the banking system's operating loss. This year is the fourth consecutive year that the banks have operated at a loss. The operating losses have had an adverse impact on capital adequacy. Insufficient capital increases, particularly at the banks under majority state ownership, resulted in maintaining the capital adequacy ratios solely by reducing capital requirements, reducing lending activity and reallocate their portfolios to less risky investments. Although this has ensured a stable level of capital, despite the high requisite impairments, the capital adequacy ratios remain below the average of comparable banks across the EU.

2. Purpose of the comprehensive review

Due to the deteriorating situation in the banking sector caused by several years of economic recession, and with the aim of ensuring financial stability the National Assembly adopted the Government Measures to Strengthen the Stability of Banks Act (ZUKSB) at the end of 2012, which set out possible measures that the government could take to strengthen the banks: capital increases, the purchase of claims and the transfer of claims to Bank Asset Management Company (BAMC), and guarantees by the Republic of Slovenia for liabilities of BAMC and special purpose vehicle (SPV) and a guarantee for requisite liquidity to banks as the last resort.

On the basis of the Council Recommendation from June 2013 on Slovenia's 2013 National Reform Programme and delivering a Council opinion on Slovenia's Stability Programme for 2012-2016, the European Commission requested the execution of an independent asset quality review (AQR) and stress tests (bottom-up and top-down) for a representative portion of the banking system as a prerequisite for the transfer of claims to the BAMC and the approval of state aid. The Bank of Slovenia and the Slovenian government therefore decided to conduct a comprehensive review of the banking sector with the aim of ensuring the implementation of measures to ensure financial stability. The Bank of Slovenia thus embarked on the aforementioned review in July 2013, in conjunction with the Ministry of Finance.

To ensure the complete independence and credibility of the review, the Bank of Slovenia engaged experienced international consultants and real estate appraisers, who conducted their reviews on the basis of tested methods and international standards used in comparable reviews that they were previously conducted within the EU.

3. Implementation of the comprehensive review

3.1 Objectives and scope

The objective of the comprehensive review was to assess the ability of the Slovenian banking system to withstand a sharp deterioration in macroeconomic and market conditions as projected for the future three-year period (2013 to 2015 inclusive) under the adverse scenario, and to determine the capital deficit that could potentially be disclosed for individual banks and thus for the system in the event of the realisation of a very conservative, very unlikely but still plausible scenario.

The reason for using such an extreme scenario is to assess the robustness of the Slovenian banking system even in a situation of the most adverse (hypothetical) stress developments. The results of the stress tests cannot in any sense be equated to the actual performance of the banks in the future.

Ten banks and banking groups were involved in the comprehensive review, which together constitute a representative sample of approximately 70% of the Slovenian banking system. Alongside the three systemically important banks and/or banking groups, NLB, NKBM and Abanka, also Gorenjska banka, Banka Celje, UniCredit Banka Slovenija, Hypo AlpeAdria-Bank, Raiffeisen banka, Probanka and Factor banka were included in the review on the basis of the predetermined criteria (e.g. size, the amount of NPLs, capital adequacy, risk profile and ownership structure). The last two were subsequently excluded from the stress test part of exercise as a result of the initiation of an orderly wind-down process in early September.

The comprehensive review of the banking system includes an asset quality review, and stress tests (bottom-up and top-down).

3.1.1 Asset quality review

The purpose of the **asset quality review** was the verification of data completeness and integrity, a review of individual loans and their rating classifications, a collateral valuation and the identification of shortfalls in impairments and provisioning.

3.1.2 Bottom-up stress tests

The objective of the **bottom-up stress tests** was to determine the capital deficit/surplus of individual banks and the banking system under the conditions of the baseline and adverse macroeconomic scenarios for the three-year projection period (2013-2015), while the starting points were the balance sheet figures for the end of 2012.
The bottom-up stress tests focused on the assessment of credit risk from performing, non-performing and restructured claims, and risks (credit risk and market risk) from investments in securities.

The credit portfolios assessed in the bottom-up stress tests include lending to the domestic private sector other than government loans and claims from off-balance-sheet liabilities to these sectors (itemised into exposures to SMEs, exposures to large enterprises, exposures to the construction sector, household exposures secured by residential real estate, other household exposures). The observed securities portfolio included securities classed as financial assets held for trading, financial assets available-for-sale and financial assets held to maturity (government bonds classed as financial assets held to maturity are not the subject of stress testing).

The bottom-up stress tests include three main elements of assessment as follows:

- **Estimate of expected losses encompasses**:
  - Losses from performing and non-performing claims and from restructured claims in various portfolios subject to observation;
  - Losses from investments in securities (treasury assets / financial assets)

- **Estimate of a bank's loss absorption capacity encompasses**:
  - The stock of impairments and provisions for the observed portfolio as at the end of 2012
  - The bank’s ability to generate a profit before the creation of impairments and provisions
  - A capital surplus over the minimum requirement for Core Tier 1 capital of 9% or 6% (under the baseline scenario and adverse scenario)

- **Estimate of expected capital shortfall/surpluss under the baseline and adverse scenarios which results from** the surplus/shortfall of expected losses above expected available loss absorption capacity

3.1.3 Top-down stress tests

The objective of the **top-down stress tests** was to provide a check against the results of the bottom up stress testing exercise but on less granular data. The underlying assuption was that independently forecasting expected losses top down using the same macroeconomic assumptions and the same starting point (EOY 2012, portfolios in scope etc.) as the bottom up stress testing exercise can help to explain the bottom up results via analysing and explaining the deviation between the two.

3.2 Organisation and parties involved

The scope, conditions and contractors for the AQR and stress tests were determined by an inter-institutional committee (appointed by the government and composed of representatives of the Bank of Slovenia, the Ministry of Finance, the Ministry of Economic Development and Technology and the Office of the Prime Minister) after consultations with the European Commission (EC) and the European Central Bank (ECB).

The firms selected to conduct the stress tests were Oliver Wyman (bottom-up) and Roland Berger Strategy Consultants (top-down). Deloitte and Ernst & Young were selected to conduct the asset quality review, while several independent real estate appraisers conducted the real estate valuations.

Terms of reference (TORs) setting out the scope and working method of individual parts were coordinated and agreed for all the areas included in the exercise (AQR, bottom-up stress tests, top-down stress tests, real estate valuation). The TORs are also an integral part of the contracts with the individual consultants.

The contracting authority for the asset quality review for seven banks and the stress tests for all the banks included in the review was the Bank of Slovenia, which also covered the costs. The banks included in measures under the ZUKSB (three banks) covered the costs of the asset quality review themselves.

The comprehensive review was coordinated and supervised by a Steering Committee comprising the Bank of Slovenia, the Ministry of Finance, and observers from the European Commission, the ECB and the European Banking Authority (EBA). The review was conducted in accordance with the methodology, procedures and assumptions set out and approved by the aforementioned Steering Committee, thus ensuring consistency and the uniform application of the methodology to all the banks and bank groups included in the review.

4. Macroeconomic scenarios

The European Commission drew up the macroeconomic scenarios in conjunction with the ECB as the basis for the assessment of the capitalshortfall: a baseline scenario (base case) and an adverse scenario (stress case). The Bank of Slovenia estimated the response of banking variables under the two scenarios on the basis of the macroeconomic projections for the two scenarios. The accuracy of the two sets of input data for the stress tests was confirmed by the Steering Committee.

Table: Macroeconomic scenarios

Macroeconomic Scenarios	**Actual**	**Baseline scenario**			**Adverse scenario**		
Change YOY (%), unless otherwise specified	**2012A**	**2013**	**2014**	**2015**	**2013**	**2014**	**2015**
EC/ECB forecasts							
GDP	**-2.3**	**-2.7**	**-1.5**	**0.1**	**-3.1**	**-3.8**	**-2.9**
Private Consumption	-2.9	-4.8	-3.5	-1.2	-5.3	-7.7	-6.5
GFCF	-9.3	-6.0	-2.7	1.0	-8.1	-13.1	-3.6
Net exports contribution to GDP growth	3.3	2.6	1.4	1.0	2.9	1.1	1.3
Employment	-1.3	-2.6	-1.4	-0.3	-2.7	-2.5	-1.8
Unemployment rate (as % of labour force)	8.9	11.3	11.5	11.5	11.4	12.6	14.0
EURIBOR (3m, in bps)	57	25	50	79	58	156	222
10 year government bond yields (in bps)	581	602	682	702	638	820	845
HICP	2.8	1.9	1.4	1.5	1.8	1.5	1.9
Residential house prices	-8.2	-9.6	-4.3	-2.4	-11.0	-12.2	-7.1
Current Account balance (levels as % of GDP)	2.7	5.0	5.4	6.0	5.3	7.2	6.1
General government gross debt (level as % of GDP)	54.1	64.1	66.2	69.6	64.7	71.5	84.4
Bank of Slovenia forecasts							
Credit volume (private non-banking sector, YoY growth rates)	-5.1	-7.2	-3.8	-1.9	-7.5	-6.5	-5.4
Deposits volume (private non-banking sector, YoY growth rates)	-1.3	1.0	0.8	0.8	0.6	-0.5	-0.6

The baseline scenario is based on the European Commission's spring forecast of macroeconomic developments, and has been revised downwards on the basis of macroeconomic figures for the first quarter of 2013. As a result of the further decline in investment, the scenarios envisage a further contraction in economic activity in 2013 and 2014 and a gradual rise in the unemployment rate. In the low credit demand environment and with banks net repaying their wholesale liabilities, lending to private non-banking sector is expected to decrease further.

Under the adverse scenario, Slovenia undergoes three years of severe economic recession. The drop in economic activity is reinforced by structural weaknesses in EU Member States, in particular the need to reduce sectorial and fiscal imbalances and to implement structural reforms. Against this backdrop, in Slovenia, investors start to demand higher risk premium for holding Slovenian government bonds than under the base scenario, which triggers a more general re-assessment of the risk premium on other assets which is reflected in a drop in stock prices by 25% and a drop in residential house prices by almost 27%.

The developments on the financial market have an adverse impact on expectations of domestic and foreign demand, as a result of which corporates reduce their investment expenditure and cut employment, which in turn induces households to limit their consumption. A decline in credit demand, both from corporates for the purpose of financing investments and from households for the purpose of financing current consumption and residential expenditure, together with constraints on credit supply caused by the banks' difficulty in ensuring stable funding, lead to a further decline in lending to the private non-banking sector.

In keeping with the purpose of the stress tests, the adverse scenario is built on very conservative assumptions the adverse scenario thus assumes an additional 9,5% decline in economic activity by the end of 2015, while the total decline since the outbreak of the crisis has ammounted to 10%. The conservative nature of the scenario is reflected even more in the projected decline in consumption. The cumulative decline of 18% in private consumption sharply exceeds the figure of 2.5% recorded between 2009 and 2012. The negative outlook for GDP components is reflected also in a decline in the Slovenian banking system's lending activity.

4.1 Basic assumptions of the stress tests

The banks' consolidated figures for the end of 2012 form the basis for the stress test calculations.

The stress tests cover a time horizon of three years (2013 to 2015 inclusive). The longer time horizon allows for a lengthier economic recession, which increases the banks' potential losses and their assessed capital requirements, and consequently provides for more accurate and more credible analysis.

The stress tests are based on current capital regulations, and do not yet take account of the CRD IV / CRR requirements. The sole exception is the treatment of deferred tax assets (DTAs), for which a phase-in approach has been taken for capital deductions in accordance with the CRR.

For the purposes of the stress tests the banks have to meet a Core Tier 1 capital ratio (as defined by the EBA) of 9% under the baseline scenario and 6% under the adverse scenario.

All mitigating measures planned by the management board (capital increases, transfer of credit risk from banks) for covering the potential capital deficit after the cut-off date (30 September 2013) are excluded from the calculation of the stress test results.

The overall calculation of stress test results is based on the Bank of Slovenia's definition of non-performing claims, which follows the EBA definition for the banking systems of EU Member States. Under this definition, all classified claims against customers rated D and E and classified claims against individual customers with a better rating whose repayments are being made more than 90 days in arrears are classed as non-performing claims. The number of days in arrears is counted from the first day that the amount in arrears exceeds 2% of the disbursed exposure (or contractual sums) to the debtor or EUR 50,000, provided that it is no lower than EUR 200.

Over the stress test period the aforementioned definition increases the estimated losses of a bank, and simultaneously reduces the bank's loss absorption capacity, as only claims against D-rated customers less than 90 days in arrears are included as interest-bearing.
Other major assumptions that had an impact on the estimate of a bank's loss absorption capacity are given below:

- the banks can first use liquid assets (investments in securities) up to the amount of 15% of total assets to cover the deficit in funding deriving from the residual maturity of liabilities until the end of 2015, and only then seek new borrowing on the financial markets,

- after repaying the LTRO liabilities to the ECB in late 2014 or early 2015, the banks will continue to maintain debt at the ECB in the amount of no more than 3% of total assets (in line with their indebtedness with Eursystem before the disbursement of the LTROs).

5. Results of the stress tests

5.1 Results of stress tests for the system

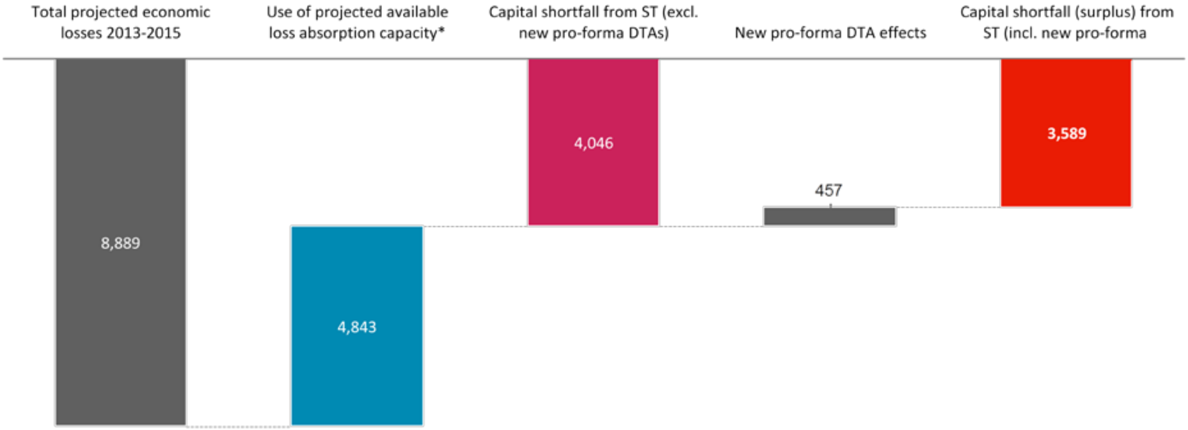
Were the scenarios (baseline and adverse) assuming an additional sharp deterioration in the macroeconomic situation in Slovenia to be realised, the potential capital shortfall in the banking system (the eight banks included in the comprehensive review) would range as follows at the end of the three-year period (end of 2015):

- under the **baseline scenario**, and a requirement of a **Core Tier 1 capital ratio of 9%**, between EUR 2,725 million (according to the top-down approach) and EUR 4,046 million (according to the bottom-up approach);
- under the **adverse scenario**, and a requirement of a **Core Tier 1 capital ratio of 6%**, between EUR 3,280 million (according to the top-down approach) and EUR 4,778 million (according to the bottom-up approach).

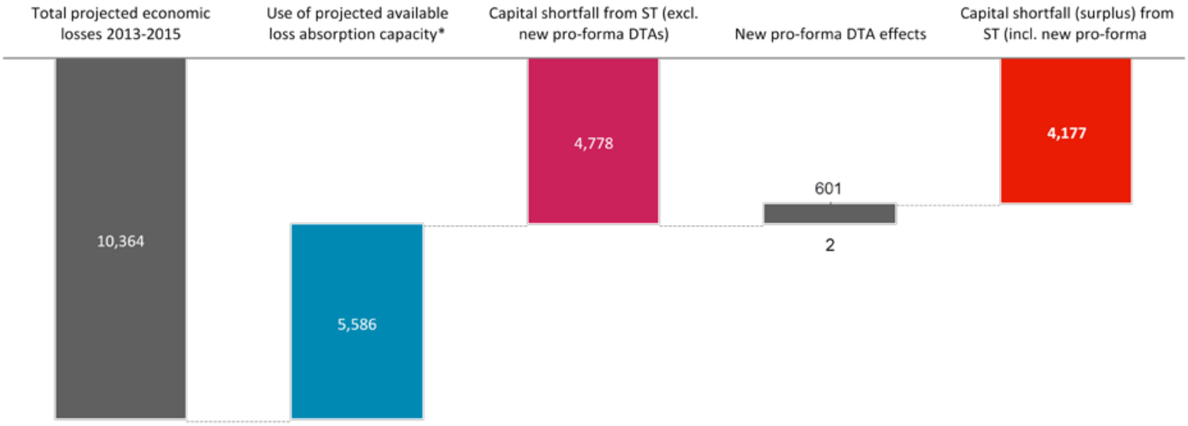
The capital shortfall is calculated under both approaches as the difference between the expected loss, which primarily derives from credit risk, and the banks' loss absorption capacity, which is the sum of the stock of impairments and provisions at the end of 2012 disclosed on the banks' balance sheets, the estimated profit before impairments in the next three years and the capital surplus over the minimum Core Tier 1 capital requirement.

Capital shortfall according to the bottom-up approach

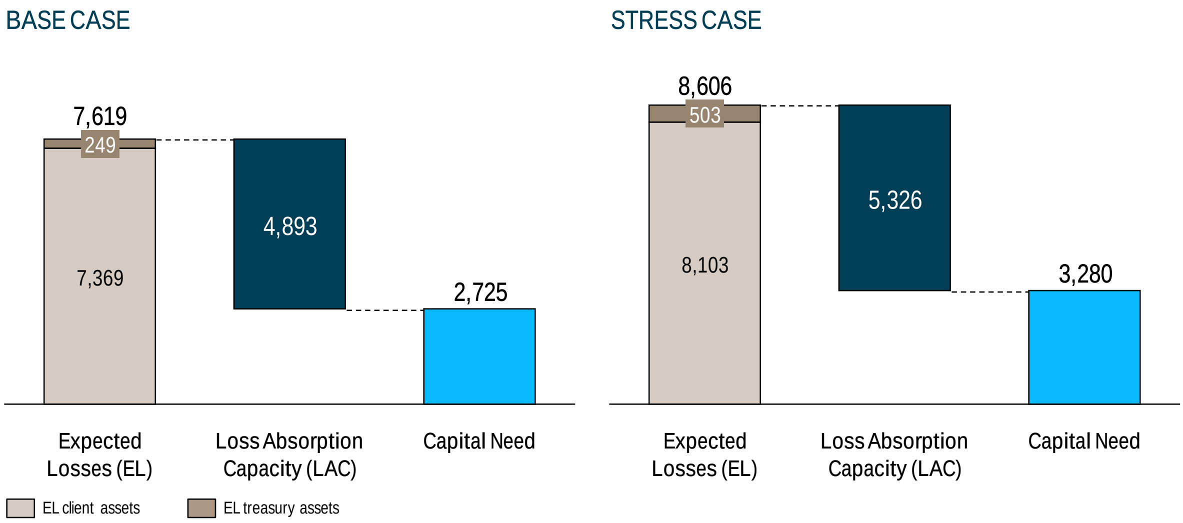
Base scenario
EUR MM



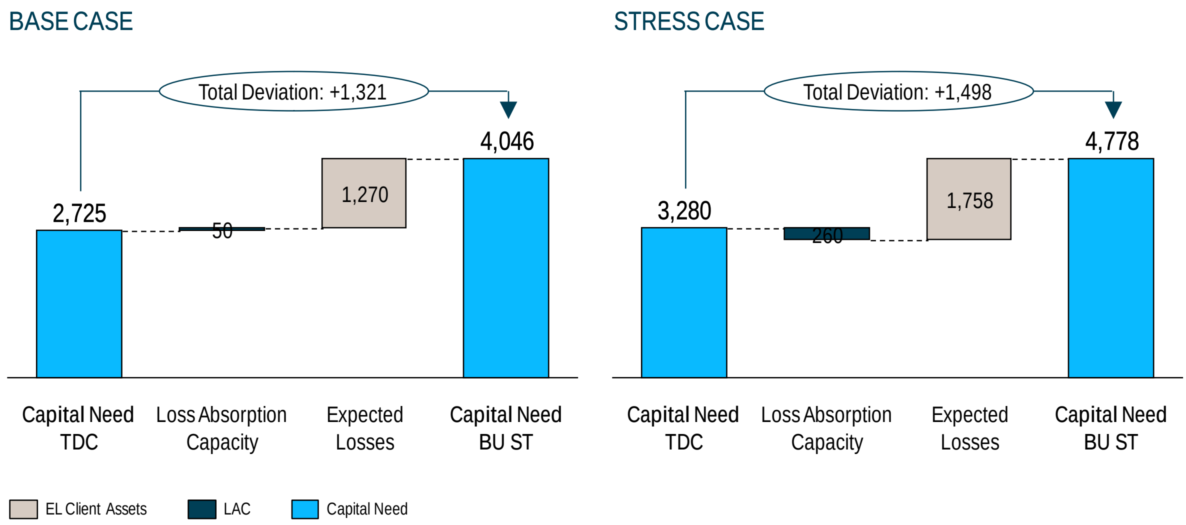
Adverse scenario
EUR MM



Capital shortfall according to the top-down approach



Comparison of capital shortfall according to the two approaches



The difference between the capital shortfall according to the two approaches is EUR 1,321 million under the baseline scenario, and EUR 1,498 million under the adverse scenario. The difference is primarily the result of the approach to the calculation of expected loss and to the lesser extent in the difference of the assesment in the absorbtion capacity.

However, it is important to stress that the results of bottom-up stress tests under the adverse scenario are used as key input to compute the banks'capital requirements. Indeed, the bottom-up results are the most accurate since they are estimated relying on more granular data.

5.2 Results of the bottom-up stress tests for each bank individually

The individual results of the bottom-up stress tests for each of the eight banks included in the comprehensive review are illustrated in the table below. A detailed examination of the estimates of the projected capital deficits/surpluses and certain other significant parameters of the stress tests (expected loss by sector, main components of loss absorption capacity) is given for each bank individually in the appendix to this report.

(EUR million)

Expected capital shortfall /surplus excluding DTAs at end of 2015		
	Baseline scenario	**Adverse scenario**
NLB	1.643	1.904
NKBM	887	1.055
Abanka	646	756
UniCredit Banka Slovenije	23	14
Banka Celje	327	388
Hypo Alpe Adria Banka	189	221
Gorenjska banka	249	328
Raiffeisen banka	83	113
Eight banks overall	4.046	4.779

According to the bottom-up approach, and given the assumption of a further sharp deterioration in the macroeconomic situation in Slovenia, all eight banks would have a capital shortfall at the end of 2015 under the baseline scenario and under the adverse scenario. The largest projected capital shortfalls would be realised by the three banks that have already requested government support under the ZUKSB (NLB, NKBM and Abanka). The projected capital shortfall at the aforementioned three banks under the adverse scenario accounts for 77.8% of the overall capital shortfall of the eight banks included in the stress tests (EUR 3,716 million). The projected capital shortfalls of the other five banks are smaller.

Although the projected capital shortfall from the stress test does not directly represent the amount of the requisite capital increase at an individual bank, the results of the bottom-up stress tests under the adverse scenario will serve as the starting point for the assessment of the requisite capital increase at individual banks. The immediate measures to strengthen the capital position of individual bank groups are itemised in detail below.

6. Measures

6.1 Immediate measures to strengthen the banks

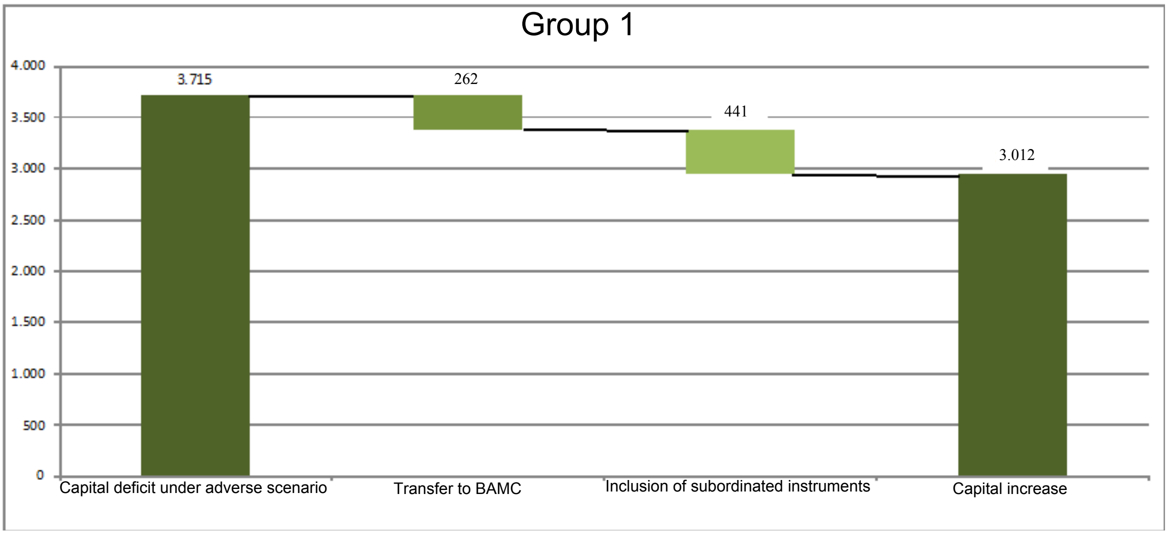
Measure 1: Determination of four approaches to restructuring and coverage of the capital deficit, and classification of the banks with regard to the results of the comprehensive review

The banks have been classified into four groups with regard to the measures taken to date by the Bank of Slovenia and with regard to the results of the comprehensive review. The actions of the banks, the Bank of Slovenia and the government will vary for each group.

Group 1: The banks that had unresolved Bank of Slovenia measures requiring a capital increase even before the beginning of the comprehensive review, and are in the process of having state aid approved	NLB, NKBM, Abanka
Group 2: The banks that may potentially have a capital shortfall by the end of 2015	Banka Celje, UniCredit Banka Slovenija, Gorenjska banka, , Hypo Alpe-Adria-Bank, Raiffeisen banka
Group 3: The banks that were not included in the comprehensive review	SID, Banka Koper, SKB, Banka Sparkasse, Sberbank, Deželna Banka, Delavska hranilnica, Hranilnica Vipava, Hranilnica Lon
Group 4: The banks that are subject to Bank of Slovenia extraordinary measures aimed at an orderly wind-down.	Factor banka, Probanka

The banks in Group 1 have already drawn up restructuring plans, which have been examined by the Bank of Slovenia and the European Commission (DG Comp) together with the results of the stress tests. Capital increases with the wipe out of qualified liabilities (towards shareholders and holders of hibrid and subordinated instruments) in capital will be executed immediately after the approval of state aid for the banks by the European Commission. The banks will also transfer the majority of their non-performing claims to the BAMC by the end of the year.

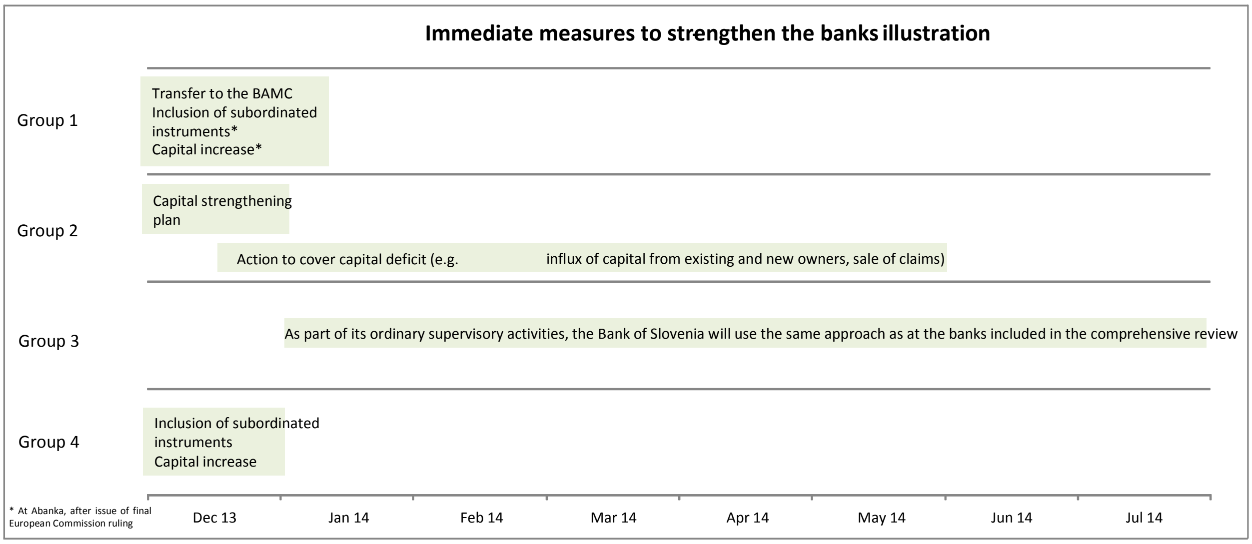
Calculation of requisite capital increase for banks in Group 1



Under the Bank of Slovenia measure the banks in Group 2 need by the end of January 2014 to draw up a capital strengthening plan that will demonstrate long-term viability, and to draw up measures to cover the capital deficit. Should their actions (primarily an influx of capital from existing owners, a search for new investors, the sale of claims and other assets, and other measures to strengthen capital adequacy) prove fruitless by 30 June 2014, they will be able to request state aid in accordance with European Commission rules.

As part of its ordinary supervisory activities, the Bank of Slovenia will provide an assessment of capital risk at the banks in Group 3 using the same approach as at the banks included in the comprehensive review.

The capital for the orderly wind-down will be provided for the two banks in Group 4 by the government. The capital increase from the government will be carried out by means of the wipe out of qualified liabilities.



Measure 2: Immediate capital increase at the banks in Group 1 in accordance with state aid rules: preparation of capital increase and restructuring plan in accordance with the requirements of the European Commission (DG Comp)

During their most recent capital increases NLB and NKBM drew up restructuring plans, which have been updated to include the results of the comprehensive reviews and the stress tests. The following had to be disclosed in their restructuring plans:

a) long-term viability
b) appropriate burden sharing
c) measures for preventing distortions of competition.

Abanka has now begun drawing up its restructuring plan.

The Bank of Slovenia will issue (or has already issued) the banks with extraordinary capital increase measures, which will include the wipe out of all qualified liabilities, a capital increase from the government and the transfer of non-performing claims to the BAMC.

Measure 3: Required burden sharing by shareholders and junior creditors

The National Assembly of the Republic of Slovenia has adopted a new Banking Act, which with the aim of burden sharing allows the Bank of Slovenia to pronounce a restructuring measure including the participation of shareholders and holders of hibrid and subordinated instruments, namely it can require them to contribute to bank restructuring. The measure is carried out on the basis of a decision by the Bank of Slovenia, where the principle is that creditors cannot be placed in a worse position than they would be in ordinary bankruptcy proceedings.

Measure 4: Transfer of non-performing claims to the Bank Asset Management Company (BAMC)

NLB and NKBM are obliged, along with their other activities to transfer a portion of their non-performing claims to the BAMC. The list of claims for transfer was reviewed by the external auditor, and approved by the inter-departmental committee in accordance with the ZUKSB and by the European Commission's DG Comp.

Measure 5: Capital increases at the banks

For the banks in Group 1, the money for the capital increases is being provided by the Government in line with the EU state aid rules and with the approval of the European Commission. At Abanka the capital increase will be carried out when the European Commission has issued a final ruling. Because the state aid approval process is not yet complete, Abanka has been issued with a temporary requirement for a capital increase to attain a capital adequacy of 9%. At all three banks the capital increase provided by the government will be an amount derived from the capital shortfall identified by the end of 2015 under the adverse scenario.

The banks in Group 2 will draw fresh capital from existing owners (including foreign parent companies) or new owners, or will use other measures to strengthen capital adequacy. Should they be unable to take measures to strengthen capital themselves, they will be able to request state aid within the framework of the ZUKSB in accordance with European Commission rules.

Measure 6: Provision of liquidity loan as last resort

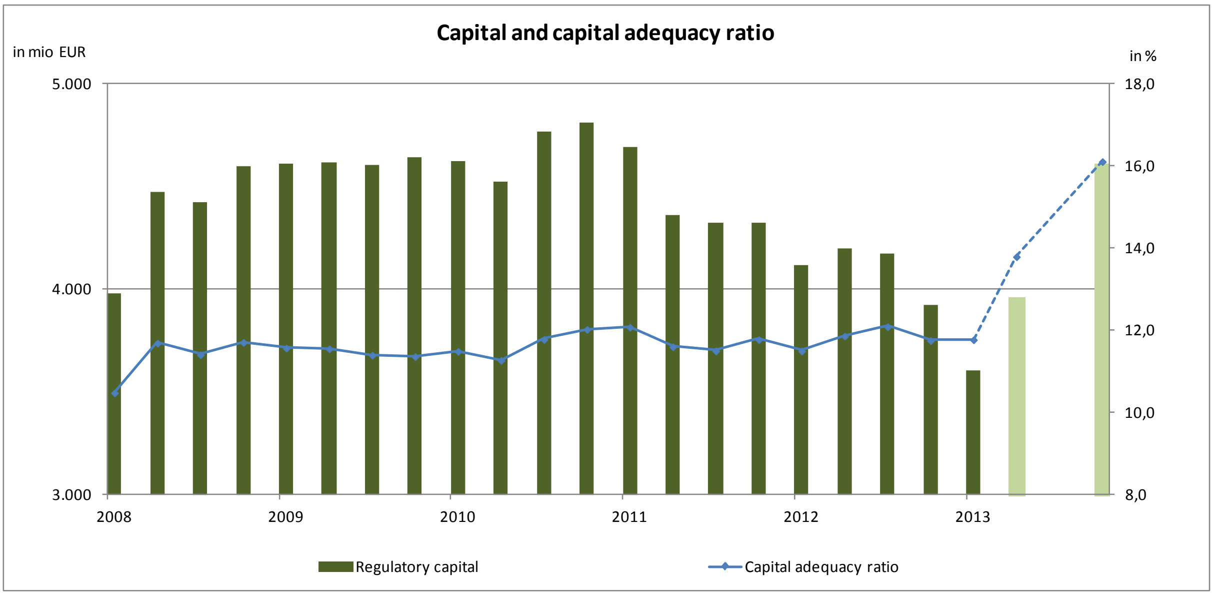
The Bank of Slovenia is ready to ensure the solvency of banks facing temporary liquidity difficulties by acting as a lender of last resort. The Bank of Slovenia issues loans of last resort in accordance with ECB rules.

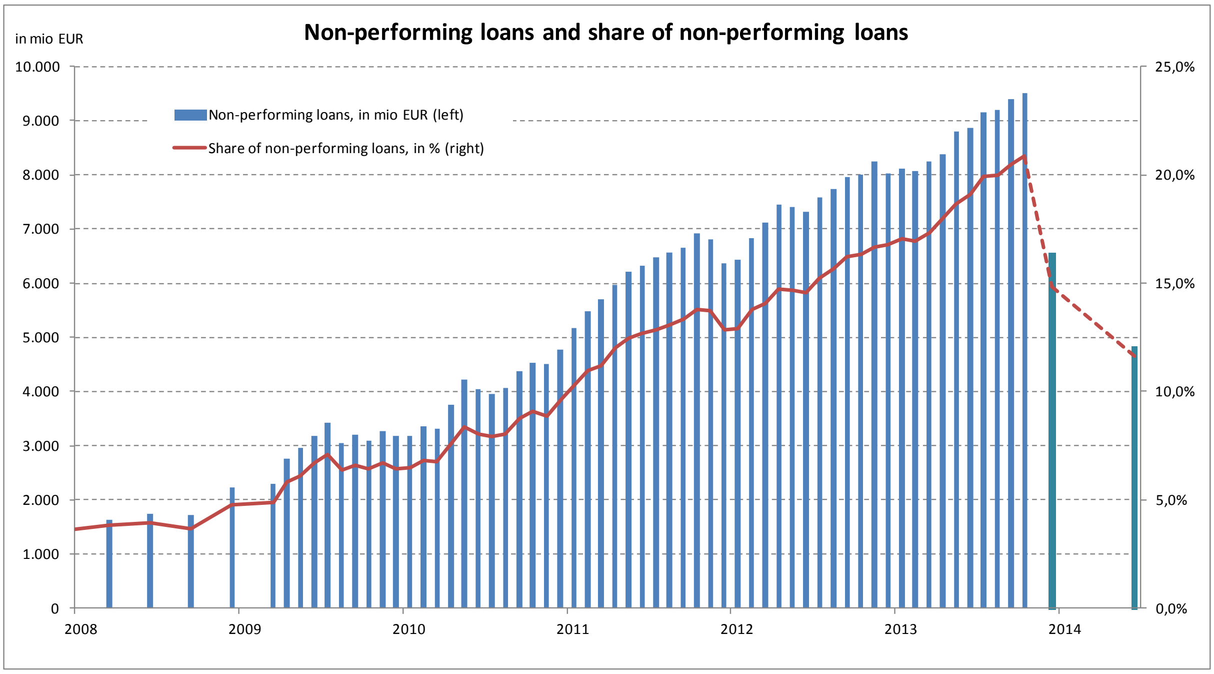
Measure 7: Further activities of the Bank of Slovenia

The Bank of Slovenia has sent all the banks a letter drawing attention to the findings of the asset quality review with regard to credit portfolio approval and monitoring procedures. In conjunction with the Slovenian Institute of Auditors (SIR) it sent the banks additional guidelines for the valuation of financial assets and real estate collateral, and for the treatment of restructured loans.

As in previous years, the Bank of Slovenia intends to carry out similar stress tests at all the banks in 2014. Under the single supervisory mechanism, stress tests will also be conducted at NLB, NKBM and SID banka by the ECB.

6.2 Estimated capital adequacy of the banking system and level of non-performing loans immediately after the execution of measures

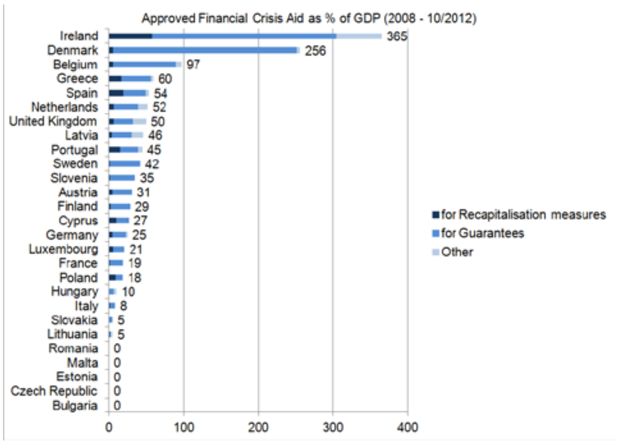


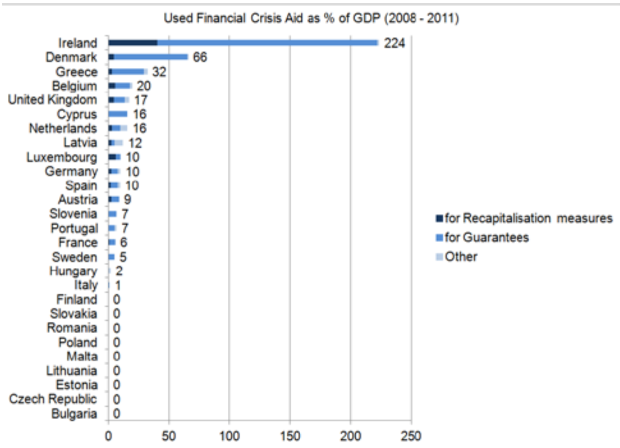


6.3 Overall projected fiscal effects

in mio EUR	Capital increase in cash	Capital increase in non-cash contribution	Capital increase Total
NLB	1.140	411	**1.551**
NKBM	619	251	**870**
Abanka	348	243	**591**
Total	**2.107**	**905**	**3.012**
Factor banka	160	109	**269**

Probanka	160	16	**176**
Total	**320**	**125**	**445**





6.4 Strengthening of the Banking Supervision Department

Banking supervision is being reformed at the European Union level, which will also impact supervision in Slovenia. Of key importance is the transition to the **Single Supervisory Mechanism** (SSM). The regulation outlining the Single Supervisory Mechanism (Council Regulation (EU) No. 1024/2013) entered into force at the beginning of November 2013. The European Central Bank (ECB) will assume supervisory tasks in full in November 2014. Until that time, the competent national authorities of Member States will carry out the comprehensive assessment of credit institutions, the supervision of which will be assumed directly by the ECB.

The comprehensive assessment will comprise three parts: an assessment of banking risks, an asset quality review and stress tests. The comprehensive assessment will include 130 credit institutions, including three Slovenian banks: NLB, NKBM and SID banka. With the assumption of responsibilities by the ECB, supervision will be carried out on the basis of standard methodologies in all Member States. This will result in further stability and transparency, and investor confidence in the banking system.

Due to all of the new tasks that the new legislation imposes on the banking supervisor and the adaptation required due to the establishment of the Single Supervisory Mechanism, supervision must be enhanced, both in terms of additional human resources and in terms of changes to the organisational structure and processes.

The existing supervisory manual, which covers the processes, procedures and methodology of supervision, will be harmonised to a great extent with the SSM supervisory manual, including for those banks that will not be included directly in the SSM. Planned improvements to the existing methodology primarily relate to the introduction of quantitative indicators and qualitative estimates in the assessment of the banks’ risk profile.

The system of micro-prudential risk indicators will be expanded and supplemented with macro-prudential risk indicators. The system of indicators will serve as the basis for monitoring the position of specific banks and the banking system as a whole, supervision, measures in line with legally defined powers, in terms of both micro-prudential and macro-prudential supervision, and potential decisions on the use of resolution mechanisms.

The merging and upgrading of loan registers for corporates (curretnly run by the Bank of SLovenia) and retail customers (currently run by a private company owned by banks) In the future the central loan register (CLR) must facilitate the effective exchange of data to a limited extent with other loan registers in the EU and between the users of the Slovenian CLR, with the aim of improving risk management.

Also envisaged is the reform of the financial system in the direction of a single supervisor. A new structure of supervisory bodies could be established following the adoption of Solvency II rules in the new Act Governing Insurance and Stabilisation of the Banking System.

6.5 Consolidation

The structure of bank funding, the accumulated losses, the continuous deterioration of the quality of the credit portfolio and the accelerated deleveraging by the banks raise the issue of a sustainable size of the Slovenian banking sector, both in terms of the number of banks and the size of assets under management. The consolidation of the banking sector is urgent in the current conditions in Slovenia, where the further contraction of the banking system, due to the restructuring and divestment of non-banking activities, and weak economic growth can be expected.

The consolidation of the banking sector must focus primarily on ensuring capital stability, the dispersion of risks, a stable structure of funding and increased profitability, which would allow the banks to generate internal capital flows via retained earnings. Successful consolidation, with an improvement in the capital adequacy of the banks, and the improved dispersion of risks would mitigate the negative effects on lending activity. Sufficiently capitalised banks would find it easier to access the wholesale funding market at acceptable prices. Lower funding costs would allow the banks to operate with a higher net interest margin, which would increase the profitability of the banking sector. The consolidation of the banking sector is also expected to bring synergies related to cost-efficiency through lower operating costs.

The Bank of Slovenia believes that, in the context of current conditions and expectations, the consolidation of the banking sector is a natural process that will also be supported in the scope of the regulator's powers. A total of 21 banks (and three savings banks) were operating in Slovenia when the financial crisis broke at the end of 2008. Today that number stands at 20, with two other banks in the process of orderly wind-down. The number of banks is expected to decline to 15 or 16 by the end of 2015 in the scope of continuing consolidation. In that context, the size of the banking system would remain at 140% of GDP. The reduced number of banks will increase efficiency and contribute to economies of scale. The impetus for consolidation must thus come primarily from the owners of banks, both domestic and foreign private investors, and the government as the largest owner of the banks under majority domestic ownership.

6.6 Improvement of the legislative framework

In 2012 and 2013, a few key acts were adopted that facilitated the implementation of measures to strengthen financial stability:

- **The Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act (Official Gazette of the Republic of Slovenia, No 105/12; hereinafter ZUKSB)** entered into force on 28 December 2012 and the implementing regulation based thereon that regulates the management of non-performing loans and other risk-weighted asset items of a bank. The Bank Asset Management Company (BAMC), the objective of which is the implementation of measures under this Act in such a way to ensure the efficient use of public funds and the recovery of budget funds, the stimulation of lending to the non-financial sector, the establishment of conditions for the sell off of the government's capital investments in banks, was established on the basis of this Act.

- **The Act Amending the Banking Act (Official Gazette of the Republic of Slovenia, No 105/12) (hereinafter: ZBan-1J)** entered into force on 28 December 2012. The objective of the ZBan-1J is to establish a special legal regime for resolving banking system issues resulting from limited possibilities for securing appropriate sources of funding, in particular for ensuring capital adequacy. The Act follows the principles emphasised by the European Commission in its draft directive establishing a framework for rescuing and restructuring credit institutions and investment firms. In accordance with the ZBan-1J, the Bank of Slovenia as a bank supervisor may adopt measures against a specific bank that breaches risk management and capital requirement regulations. The Bank of Slovenia may adopt measures also in case circumstances arise that may identify the likelihood of the occurrence of such breaches. In addition, the Bank of Slovenia may act if it believes the stability of the financial system is jeopardised.

- **The Act Amending the Banking Act (Official Gazette of the Republic of Slovenia, No 96/13) (hereinafter: ZBan-1L)** entered into force on 23 November 2013. The Act primarily relates to contingency measures that the Bank of Slovenia can impose on a bank, if increased risk arises in connection therewith and no circumstances are present that indicate that the reasons for the increased risk will likely be eliminated in a reasonable period. Contingency measures shall be imposed due to the reorganisation of a bank such that, either (i) conditions that allow the bank to operate successfully long-term in accordance with the act governing banking and other applicable regulations are re-established, or (ii) procedures are initiated for the gradual winding-up of a bank. Even prior to the adoption of this Act, four emergency measures were available to the Bank of Slovenia: (a) appointment of an emergency administration for the bank, (b) sale of all the bank's shares, (c) increase in the bank's share capital, and (d) transfer of the bank's assets. This Act introduced a new contingency measure that may be used by the Bank of Slovenia and which relates to reducing share capital, and the cancellation or conversion of the bank's hybrid financial instruments and subordinate debt into ordinary bank shares to the extent to ensure the coverage of its losses or to attain the required capital adequacy. Here, the principle must be followed that no individual creditor, through this measure suffers losses greater than he would have suffered had the bank become bankrupt. The new contingency measure also complies with the Commission Communication on the Application of State Aid Rules to Support Measures in Favour of Banks in the Context of the Financial Crisis from 1 August 2013. Contingency measures that are deemed reorganisation measures in particular with respect to the reduction in share capital and cancellation or conversion of hybrid financial instruments and subordinate liabilities into ordinary bank shares are also listed in the draft directive establishing a framework for rescuing and restructuring credit institutions and investment firms.

Recently, in addition to these acts, also other amendments to the Banking Act and regulations that **enhance corporate governance** have been adopted. The new Regulation on the diligence of members of the management and supervisory boards of banks and savings banks imposes the following: (1) the determination of criteria for defining significant direct or indirect business contacts for the purpose of identifying conflicts of interest, (2) the detailed definition of tasks and the composition of a remuneration committee, and detailed criteria for determining the significance of a bank for the purpose of appointing a remuneration committee, and (3) the determination of criteria and procedures for the assessment of a bank in terms of the suitability of management or supervisory board members or already appointed members holding such office. The amended regulation transposed the EBA guidelines on the assessment of the suitability of members of the management or supervisory body and key function holders (EBA/GL/2012/06) into Slovenian legislation.

The new Banking Act (ZBan-2) is expected to enter into force in the first quarter of 2014. The main purpose of the new act is to implement (i) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amendments to Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRDIV) and to also define the elements of prudential requirements specified in (ii) 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 (CRR).

The objectives of ZBan-2 are as follows: (1) further strengthening of the bank's capital with capital shock absorbers for preventing future shocks associated with own or systemic risks; (2) enhanced requirements regarding the system of governance at banks, including additional requirements in respect of corporate governance and the remuneration system; (3) greater transparency of bank operations through additional disclosure requirements, and (4) assessment of macro-prudential or systemic risks that complement micro-prudential supervision.

The ZBan-2 is expected to also include the required adjustments for implementing procedures in connection with the regulation outlining the Single Supervisory Mechanism (Council Regulation (EU) No. 1024/2013) and the Bank Recovery and Resolution Directive (BRRD).

Crisis management framework: The Slovenian framework for crisis management of banks shall completely adapt to future uniform regulations that will be prescribed by the BRRD and the Single Resolution Mechanism (SRM) laid down by the Regulation (EU). The framework shall outline the required measures, procedures and authorisations with which banks will be rescued in a manner that prevents financial instability and at the lowest possible cost for taxpayers. The government shall set out in more detail the authorities for performing functions and tasks associated with the rescue and ensure that the present crisis management system, this involving the rescuing and restructuring of institutions within Slovenia's financial system and in the scope of cross-border cooperation with other EU member states, will adapt to the above-specified EU framework for crisis management. The authority responsible for such rescuing shall have to modify its organisation in such a manner to ensure the separation of the supervising function from the rescue-related tasks, thus facilitating rapid action and avoiding a conflict of interest.

6.7 Measures of the banking supervisor and cooperation with other authorities

The Bank of Slovenia has issued a variety of measures in particular in the area of credit risk, which is a key banking risk and an absolute priority of supervisor activities, and to the members of management and supervisory boards.

In the period between 2006 and mid-2013, the largest number of measures (almost 900) were issued in the area of credit risk, which became increasingly strict over the years.

For reasons of frequent **deficiencies identified in the area of risk management and governance, which appeared as a result of inappropriate organisation and governance of banks as well as a lack of supervision over the work of the management board**, 30 measures were issued since 2008 in the area of governance - this being directly connected with the work of management boards and supervisory boards. In addition, 11 members of supervisory boards were issued dismissal proposals resulting from an identified conflict of interest and a variety of measures (from admonishments to revocation of authorisations to hold office). These were also issued to 13 members of management boards, in particular due to breaches of regulations or bad practices in managing the bank.

Measures in the area of bank governance– work of management and supervisory boards

Year	**2012**	**2011**	**2010**	**2009**	**2008**
TOTAL	6	4	17	2	1

Whenever the Bank of Slovenia has identified a suspected criminal offence when conducting prudential supervision, it has filed criminal complaints before the relevant prosecution authorities. Below is a table showing criminal complaints filed with prosecution authorities over the last five years:

Criminal complaints filed by the Bank of Slovenia by year

Year	**Authority**	**Number of complaints**
2013[1]	National Bureau of Criminal Investigation / Ministry of the Interior District State Prosecutor's Office	4 1
2012	Ljubljana Police Directorate	1
	National Bureau of Criminal Investigation	3
2011	District State Prosecutor's Office in Ljubljana	2
	District State Prosecutor's Office in Maribor	1
2010	Ljubljana Police Directorate	1
2009	Office of the State Prosecutor General of the Republic of Slovenia	1
TOTAL		**14**

In addition to the above complaints filed with the prosecution authorities directly by the Bank of Slovenia, in its reviews the Bank of Slovenia also identified examples of bad practice in governance and decision-making where criminal offences could possibly have been committed. In several cases, during its supervision of banks the Bank of Slovenia has imposed a measure ordering a bank to conduct a special investigation with the aim of ascertaining damage and criminal offences in the bank's operations, and any criminal liability on the part of individuals, and to take the requisite action based on the findings. Such a measure was imposed on five banks.

[1] Figures to 30 September 2013

6.8 Establishment of macro-prudential supervision

- **Regulation**

The Act on the Macro-Prudential Supervision of the Financial System was adopted to strengthen the legal basis for macro-prudential supervision and the management of systemic risks in the financial system. The aforementioned act will facilitate improved supervision over financial institutions that, due to ownership or other cross-links, operate in different segments of the financial system and contribute to the development of systemic risks. The aim is to protect the stability of the entire financial system. A financial stability committee will formulate a macro-prudential supervision policy and dictate guidelines in the area of macro-prudential supervision to be implemented by supervisory authorities.

- **Macro-prudential measures**

Due to increasing profitability risk as a result of rising liability interest rates, the Bank of Slovenia has taken the aforementioned risk into account in the scope of the internal capital adequacy assessment process since March 2012 – **Measure to limit interest rates on deposits by the non-banking sector**. The purpose of the measure was to limit competition between the banks for deposits by the non-banking sector through the raising of deposit interest rates. Relatively high interest rates on deposits result in an increase in funding costs, which the banks pass through in part to higher interest rates on loans.

The banks' dependence on wholesale sources of funding (e.g. liabilities to foreign banks and issued debt securities) increased significantly during the period of high growth: the proportion of total assets accounted for by wholesale funding reached 38% in the third quarter of 2008. The unstable structure of funding prior to the emerging financial crisis was reflected in the LTD ratio for the non-banking sector, which jumped to 162%. In the context of a deep recession in Slovenia and the freezing of the European wholesale funding market, the Slovenian banking sector was forced to make harsh adaptations with the repayment of debt to the rest of the world, which slowed lending activity and increased the costs of financing the economy.

The Bank of Slovenia therefore adopted **measures to maintain a sustainable future LTD ratio for the non-banking sector below 125% at the level of the banking system**, and to stabilise the structure of bank funding.

7. Conclusion of the Bank of Slovenia

The Bank of Slovenia assesses that the calculated estimates of the banks' capital shortfall based on both stress test approaches are very conservative. Stress tests using the bottom-up approach, measured as a deficit in Core Tier 1 capital in the adverse scenario over a three-year period, result in a shortfall of EUR 4.8 billion. This result confirms that three-quarters of expected losses can be expected from the operations of the three largest banks, which have been hit hardest to date by the financial crisis. The Bank of Slovenia also finds that the results reliably confirm the low expected losses from credit risk associated with the household sector, while exposure to the segment of small enterprises is somewhat higher. Exposure is highest to the segment of large enterprises and to the real estate developers, which has been hit hardest by the crisis. This fact provides an opportunity for the gradual recovery of the segment that most drives the economy. Credit risk losses can be expected over the next three years primarily in the part of the portfolio that has already been recognised in the portfolio of non-performing claims or was identified as such during the asset quality review and based on the EBA's final draft technical standards on NPLs and Forbearance reporting requirements. These losses are already covered in part by previously created impairments.

Stress tests using the bottom-up approach are based fully on an independent asset quality review. The asset quality review process, which proved demanding for the banks, identified a relatively high proportion of loans reclassified from lower-risk to higher-risk ratings, as well as assets that the banks previously treated as high-quality to the category of non-performing claims. A high level of credibility of the aforementioned process was also ensured by the use of conservative assumptions for incomplete assessments of input data.

The fact that the assessment of the capital shortfall over the next three years was carried out in a conservative and prudent manner is confirmed by an assessment of these results through stress tests carried out using the top-down approach. This assessment explains the source of discrepancies in assessments of the capital deficit under both approaches. Although the assessed capital shortfall using the top-down approach is lower at EUR 3.3 billion taking into account conservative assumptions based on more aggregate data from the Bank of Slovenia's loan register and is based on a different approach, this confirms the high level of conservatism in the assessments deriving from the bottom-up approach.

Further enhancement of the credibility of the aforementioned assessment is the Bank of Slovenia's calculation of the capital shortfall published in May 2013 in the amount of EUR 2.4 billion applying conditions from the adverse scenario.[1] In spite of the same starting point, the Bank of Slovenia performed a calculation at the end of 2012 for just two years using data that was not used as the basis for the asset quality review performed six months later, and using a different macroeconomic scenario that simulated a shorter but deeper recession. Despite the relatively better comparability of the results of the capital shorfall under both assessments using the top-down approach, the bottom-up approach was confirmed as credibilble by the aforementioned assessment.

The Bank of Slovenia will use the assessed deficit in Core Tier 1 capital of EUR 4.8 billion for the purpose of calculating capital requirements. The conservatism of the aforementioned assessment is confirmed by two independent assessments; the top-down stress test approach and the Bank of Slovenia's assessment. The Bank of Slovenia's aim in applying the conservative assessment of the banks' capital deficit is to ensure the stability of the banks and a sufficient level of capital to revive lending to the non-banking sector in the context of medium-term conditions of weak economic growth. In order to ensure real long-term improvement in conditions at the banks and in the economy overall, it is very important that the performance of stress tests and the definition of the capital deficit be followed by the implementation of measures, not only to strengthen the banking system, but also relating to economic and fiscal policy.

[1] http://www.bsi.si/iskalniki/sporocila-za-javnost.asp?VsebinaId=15881&MapaId=137#15881

ANNEX: RESULTS OF THE COMPREHENSIVE REVIEW BY BANK

Abanka

Stress Test profile 2012	€ MM	% of total 2012 assets
Existing loan loss provisions and impairments (EOY 2012)	410	11%
Profit before provisions (EOY 2012)	44	1%
Risk Weighted Assets (EOY 2012)	2 920	81%
	€ MM	**EOY 2012 CT1 ratio**
Core Tier 1 Capital (EOY 2012)	154	5%

	Base Case		Adverse Case	
Expected losses 2013 – 2015	**€ MM**	**% of 2012 assets in scope**	**€ MM**	**% of 2012 assets in scope**
Current credit book (EOY 2012)	985	34%	1 140	39%
SME	243	40%	279	46%
Large Corporates	596	39%	684	44%
Real Estate Developers	106	51%	115	56%
Retail Mortgages	13	5%	28	11%
Retail Others	27	9%	34	11%
New credit book 2013 – 2015	17	n.a	17	n.a
Treasury assets	43	8%	77	15%
Total losses 2013 – 2015	**1 045**	**n.a**	**1 234**	**n.a**

	Base Case	Adverse Case
Expected available loss absorption capacity	**€ MM**	**€ MM**
Existing loan loss provisions and impairments (EOY 2012)	410	410
Profit before provisions 2013 – 2015	55	55
Capital buffer[1] (EOY 2015)	-66	13
Total loss absorption capacity (EOY 2015) [2]	**399**	**478**

	Base Case		Adverse Case	
Expected capital need / surplus (EOY 2015)	**€ MM**	**% of total 2012 assets**	**€ MM**	**% of total 2012 assets**
Capital shortfall incl. generation of new pro-forma DTAs	585	16%	675	19%
Capital shortfall excl. generation of new pro-forma DTAs	646	18%	756	21%

[1] EOY 2012 CT1 Capital in excess of EOY 2015 capital requirement based on estimated EOY 2015 RWAs

[2] Excluding pro-forma DTAs

Banka Celje

Stress Test profile 2012	€ MM	% of total 2012 assets
Existing loan loss provisions and impairments (EOY 2012)	176	8%
Profit before provisions (EOY 2012)	36	2%
Risk Weighted Assets (EOY 2012)	1 773	78%
	€ MM	**EOY 2012 CT1 ratio**
Core Tier 1 Capital (EOY 2012)	150	8%

	Base Case		Adverse Case	
Expected losses 2013 – 2015	**€ MM**	**% of 2012 assets in scope**	**€ MM**	**% of 2012 assets in scope**
Current credit book (EOY 2012)	537	31%	636	37%
SME	236	44%	267	50%
Large Corporates	199	28%	242	35%
Real Estate Developers	75	47%	87	55%
Retail Mortgages	11	7%	21	12%
Retail Others	16	9%	19	11%
New credit book 2013 – 2015	12	n.a	14	n.a
Treasury assets	17	7%	33	14%
Total losses 2013 – 2015	567	**n.a**	683	**n.a**

	Base Case	Adverse Case
Expected available loss absorption capacity	**€ MM**	**€ MM**
Existing loan loss provisions and impairments (EOY 2012)	176	176
Profit before provisions 2013 – 2015	28	40
Capital buffer[1] (EOY 2015)	36	79
Total loss absorption capacity (EOY 2015) [2]	**240**	**295**

	Base Case		Adverse Case	
Expected capital need / surplus (EOY 2015)	**€ MM**	**% of total 2012 assets**	**€ MM**	**% of total 2012 assets**
Capital shortfall incl. generation of new pro-forma DTAs	289	13%	339	15%
Capital shortfall excl. generation of new pro-forma DTAs	327	14%	388	17%

[1] EOY 2012 CT1 Capital in excess of EOY 2015 capital requirement based on estimated EOY 2015 RWAs

[2] Excluding pro-forma DTAs

Gorenjska banka

Stress Test profile 2012	€ MM	% of total 2012 assets
Existing loan loss provisions and impairments (EOY 2012)	157	9%
Profit before provisions (EOY 2012)	24	1%
Risk Weighted Assets (EOY 2012)	1 497	84%
	€ MM	**EOY 2012 CT1 ratio**
Core Tier 1 Capital (EOY 2012)	266	18%

	Base Case		Adverse Case	
Expected losses 2013 – 2015	**€ MM**	**% of 2012 assets in scope**	**€ MM**	**% of 2012 assets in scope**
Current credit book (EOY 2012)	523	**40%**	592	**45%**
SME	253	66%	268	70%
Large Corporates	209	31%	250	37%
Real Estate Developers	58	48%	69	57%
Retail Mortgages	0	0.1%	0	0.3%
Retail Others	4	4%	5	5%
New credit book 2013 – 2015	16	n.a	18	n.a
Treasury assets	38	7%	79	15%
Total losses 2013 – 2015	**578**	**n.a**	**688**	**n.a**

	Base Case	Adverse Case
Expected available loss absorption capacity	**€ MM**	**€ MM**
Existing loan loss provisions and impairments (EOY 2012)	157	157
Profit before provisions 2013 – 2015	22	11
Capital buffer[1] (EOY 2015)	151	193
Total loss absorption capacity (EOY 2015) [2]	**329**	**361**

	Base Case		Adverse Case	
Expected capital need / surplus (EOY 2015)	**€ MM**	**% of total 2012 assets**	**€ MM**	**% of total 2012 assets**
Capital shortfall incl. generation of new pro-forma DTAs	207	12%	274	15%
Capital shortfall excl. generation of new pro-forma DTAs	249	14%	328	18%

[1] EOY 2012 CT1 Capital in excess of EOY 2015 capital requirement based on estimated EOY 2015 RWAs

[2] Excluding pro-forma DTAs

Hypo Alpe Adria Bank

Stress Test profile 2012	€ MM	% of total 2012 assets
Existing loan loss provisions and impairments (EOY 2012)	67	4%
Profit before provisions (EOY 2012)	14	1%
Risk Weighted Assets (EOY 2012)	1 547	81%
	€ MM	**EOY 2012 CT1 ratio**
Core Tier 1 Capital (EOY 2012)	148	10%

	Base Case		Adverse Case	
Expected losses 2013 – 2015	**€ MM**	**% of 2012 assets in scope**	**€ MM**	**% of 2012 assets in scope**
Current credit book (EOY 2012)	309	20%	374	24%
SME	134	33%	157	38%
Large Corporates	46	15%	62	20%
Real Estate Developers	121	44%	144	53%
Retail Mortgages	4	1%	6	2%
Retail Others	4	2%	5	2%
New credit book 2013 – 2015	8	n.a	9	n.a
Treasury assets	3	5%	9	17%
Total losses 2013 – 2015	**319**	**n.a**	**393**	**n.a**

	Base Case	Adverse Case
Expected available loss absorption capacity	**€ MM**	**€ MM**
Existing loan loss provisions and impairments (EOY 2012)	67	67
Profit before provisions 2013 – 2015	23	25
Capital buffer[1] (EOY 2015)	40	80
Total loss absorption capacity (EOY 2015) [2]	**130**	**172**

	Base Case		Adverse Case	
Expected capital need / surplus (EOY 2015)	**€ MM**	**% of total 2012 assets**	**€ MM**	**% of total 2012 assets**
Capital shortfall incl. generation of new pro-forma DTAs	164	9%	189	10%
Capital shortfall excl. generation of new pro-forma DTAs	189	10%	221	12%

[1] EOY 2012 CT1 Capital in excess of EOY 2015 capital requirement based on estimated EOY 2015 RWAs

[2] Excluding pro-forma DTAs

Results of Hypo Alpe Adria Bank excluding the Brush III transaction

Stress Test profile 2012	**€ MM**	**% of total 2012 assets**
Existing loan loss provisions and impairments (EOY 2012)	67	4%
Profit before provisions (EOY 2012)	14	1%
Risk Weighted Assets (EOY 2012)	1 547	81%
	€ MM	**EOY 2012 CT1 ratio**
Core Tier 1 Capital (EOY 2012)	148	10%

	Base Case		**Adverse Case**	
Expected losses 2013 – 2015	**€ MM**	**% of 2012 assets in scope[1]**	**€ MM**	**% of 2012 assets in scope[1]**
Current credit book (EOY 2012)	170	13%	212	17%
SME	86	27%	104	33%
Large Corporates	34	12%	49	18%
Real Estate Developers	41	39%	48	46%
Retail Mortgages	4	1%	6	2%
Retail Others	4	2%	5	2%
New credit book 2013 – 2015	8	n.a.	9	n.a.
Treasury assets	3	5%	9	17%
Additional losses due to Brush III transfer	47	n.a.	47	n.a.
Total losses 2013 – 2015	**227**	**n.a.**	**278**	**n.a.**

	Base Case	**Adverse Case**
Expected available loss absorption capacity	**€ MM**	**€ MM**
Existing loan loss provisions and impairments[2] (EOY 2012)	28	28
Profit before provisions 2013 – 2015	34	44
Capital buffer[3] (EOY 2015)	51	90
Total loss absorption capacity (EOY 2015) [4]	**113**	**162**

	Base Case		**Adverse Case**	
Expected capital need / surplus (EOY 2015)	**€ MM**	**% of total 2012 scope[1]**	**€ MM**	**% of total 2012 scope[1]**
Capital shortfall incl. generation of new pro-forma DTAs	101	6%	99	6%
Capital shortfall excl. generation of new pro-forma DTAs	114	7%	116	7%

[1] % average loss rates based on assets as of EY2012, which were not transferred via Brush III
[2] EOY 2012 Loan loss provisions and impairments for non-Brush III assets
[3] EOY 2012 CT1 Capital in excess of EOY 2015 capital requirement based on estimated EOY 2015 RWAs
[4] Excluding pro-forma DTAs

NKBM

Stress Test profile 2012	€ MM	% of total 2012 assets
Existing loan loss provisions and impairments (EOY 2012)	675	13%
Profit before provisions (EOY 2012)	70	1%
Risk Weighted Assets (EOY 2012)	4 324	81%
	€ MM	**EOY 2012 CT1 ratio**
Core Tier 1 Capital (EOY 2012)	327	8%

	Base Case		Adverse Case	
Expected losses 2013 – 2015	**€ MM**	**% of 2012 assets in scope**	**€ MM**	**% of 2012 assets in scope**
Current credit book (EOY 2012)	1 570	39%	1 793	44%
SME	563	56%	615	61%
Large Corporates	628	45%	731	52%
Real Estate Developers	268	64%	294	70%
Retail Mortgages	21	5%	37	8%
Retail Others	91	12%	116	15%
New credit book 2013 – 2015	51	n.a	54	n.a
Treasury assets	45	7%	100	15%
Total losses 2013 – 2015	**1 665**	**n.a**	**1 947**	**n.a**

	Base Case	Adverse Case
Expected available loss absorption capacity	**€ MM**	**€ MM**
Existing loan loss provisions and impairments (EOY 2012)	675 (666)	675 (671)
Profit before provisions 2013 – 2015	93 (93)	92 (92)
Capital buffer[1] (EOY 2015)	19 (19)	129 (129)
Total loss absorption capacity (EOY 2015) [2]	**787 (778)**	**896 (892)**

	Base Case		Adverse Case	
Expected capital need / surplus (EOY 2015)	**€ MM**	**% of total 2012 assets**	**€ MM**	**% of total 2012 assets**
Capital shortfall incl. generation of new pro-forma DTAs	795	15%	936	18%
Capital shortfall excl. generation of new pro-forma DTAs	887	17%	1 055	20%

[1] EOY 2012 CT1 Capital in excess of EOY 2015 capital requirement based on estimated EOY 2015 RWAs

[2] Excluding pro-forma DTAs

NLB

Stress Test profile 2012	€ MM	% of total 2012 assets
Existing loan loss provisions and impairments (EOY 2012)	2 206	15%
Profit before provisions (EOY 2012)	318	2%
Risk Weighted Assets (EOY 2012)	11 055	77%
	€ MM	**EOY 2012 CT1 ratio**
Core Tier 1 Capital (EOY 2012)	969	9%

	Base Case		Adverse Case	
Expected losses 2013 – 2015	**€ MM**	**% of 2012 assets in scope**	**€ MM**	**% of 2012 assets in scope**
Current credit book (EOY 2012)	4 059	36%	4 552	40%
SME	2 145	50%	2 343	55%
Large Corporates	1 236	36%	1 400	40%
Real Estate Developers	364	62%	405	69%
Retail Mortgages	70	5%	113	9%
Retail Others	245	15%	290	18%
New credit book 2013 – 2015	76	n.a	83	n.a
Treasury assets	89	6%	173	12%
Total losses 2013 – 2015	**4 225**	**n.a**	**4 808**	**n.a**

	Base Case	Adverse Case
Expected available loss absorption capacity	**€ MM**	**€ MM**
Existing loan loss provisions and impairments (EOY 2012)	2 206	2 206
Profit before provisions 2013 – 2015	226	249
Capital buffer[1] (EOY 2015)	150	449
Total loss absorption capacity (EOY 2015) [2]	**2 582**	**2 904**

	Base Case		Adverse Case	
Expected capital need / surplus (EOY 2015)	**€ MM**	**% of total 2012 assets**	**€ MM**	**% of total 2012 assets**
Capital shortfall incl. generation of new pro-forma DTAs	1 464	10%	1 668	12%
Capital shortfall excl. generation of new pro-forma DTAs	1 643	11%	1 904	13%

[1] EOY 2012 CT1 Capital in excess of EOY 2015 capital requirement based on estimated EOY 2015 RWAs

[2] Excluding pro-forma DTAs

Raiffeisen banka

Stress Test profile 2012	€ MM	% of total 2012 assets
Existing loan loss provisions and impairments (EOY 2012)	56	4%
Profit before provisions (EOY 2012)	9	1%
Risk Weighted Assets (EOY 2012)	694	49%
	€ MM	**EOY 2012 CT1 ratio**
Core Tier 1 Capital (EOY 2012)	63	9%

	Base Case		Adverse Case	
Expected losses 2013 – 2015	**€ MM**	**% of 2012 assets in scope**	**€ MM**	**% of 2012 assets in scope**
Current credit book (EOY 2012)	160	20%	197	25%
SME	19	24%	23	29%
Large Corporates	90	21%	113	27%
Real Estate Developers	13	65%	15	76%
Retail Mortgages	4	3%	7	6%
Retail Others	34	23%	38	26%
New credit book 2013 – 2015	4	n.a	6	n.a
Treasury assets	14	9%	22	14%
Total losses 2013 – 2015	**178**	**n.a**	**225**	**n.a**

	Base Case	Adverse Case
Expected available loss absorption capacity	**€ MM**	**€ MM**
Existing loan loss provisions and impairments (EOY 2012)	56	56
Profit before provisions 2013 – 2015	22	22
Capital buffer[1] (EOY 2015)	18	34
Total loss absorption capacity (EOY 2015) [2]	**95**	**112**

	Base Case		Adverse Case	
Expected capital need / surplus (EOY 2015)	**€ MM**	**% of total 2012 assets**	**€ MM**	**% of total 2012 assets**
Capital shortfall incl. generation of new pro-forma DTAs	72	5%	97	7%
Capital shortfall excl. generation of new pro-forma DTAs	83	6%	113	8%

[1] EOY 2012 CT1 Capital in excess of EOY 2015 capital requirement based on estimated EOY 2015 RWAs

[2] Excluding pro-forma DTAs

UniCredit Banka

Stress Test profile 2012	€ MM	% of total 2012 assets
Existing loan loss provisions and impairments (EOY 2012)	126	4%
Profit before provisions (EOY 2012)	40	1%
Risk Weighted Assets (EOY 2012)	1 933	69%
	€ MM	**EOY 2012 CT1 ratio**
Core Tier 1 Capital (EOY 2012)	236	12%

	Base Case		Adverse Case	
Expected losses 2013 – 2015	**€ MM**	**% of 2012 assets in scope**	**€ MM**	**% of 2012 assets in scope**
Current credit book (EOY 2012)	305	15%	369	18%
SME	92	55%	101	61%
Large Corporates	120	12%	145	15%
Real Estate Developers	39	49%	47	59%
Retail Mortgages	25	4%	43	7%
Retail Others	30	17%	33	18%
New credit book 2013 – 2015	7	n.a	7	n.a
Treasury assets	1	0.2%	10	3%
Total losses 2013 – 2015	**313**	**n.a**	**386**	**n.a**

	Base Case	Adverse Case
Expected available loss absorption capacity	**€ MM**	**€ MM**
Existing loan loss provisions and impairments (EOY 2012)	126	126
Profit before provisions 2013 – 2015	88	111
Capital buffer[1] (EOY 2015)	75	135
Total loss absorption capacity (EOY 2015) [2]	**290**	**372**

	Base Case		Adverse Case	
Expected capital need / surplus (EOY 2015)	**€ MM**	**% of total 2012 assets**	**€ MM**	**% of total 2012 assets**
Capital shortfall incl. generation of new pro-forma DTAs	13	0.4%	-2	-0.1%
Capital shortfall excl. generation of new pro-forma DTAs	23	1%	14	0.4%

[1] EOY 2012 CT1 Capital in excess of EOY 2015 capital requirement based on estimated EOY 2015 RWAs

[2] Excluding pro-forma DTAs