

1. Why was the measure to appoint a special administration issued?

The purpose of appointing the special administration at Factor banka d.d. and Probanka d.d. is to carry out an orderly winding down with the aim of ensuring the repayment of all ordinary creditors. To that end, the Bank of Slovenia will provide liquidity support on the basis of collateral in the form of assets (in part the bank's assets and in part the government guarantee scheme).

Whenever a bank is unable to establish long-term successful operations, an orderly winding down must be carried out. Because credit institutions cannot be liquidated in accordance with typical procedures due to the threat posed to financial stability, state aid is required for the orderly winding down of a credit institution.

2. What does the measure to appoint a special administration mean for a bank's operations?

A special administration assumes authorisations and powers related to the governance and representation of a bank, from the day the decision on the appointment of **special administration** is delivered to the bank.

On the day the decision regarding an emergency management board is issued, all powers and authorisations held by members of a bank's management board and supervisory board and the powers of the general meeting cease to be in force. The Bank of Slovenia exercises the powers of a bank's supervisory board for the duration of the **special administration**.

The emergency management board at Probanka d.d. and Factor banka d.d. will manage the banks' current transactions, in terms of completing transactions, as the banks will be subject to an orderly winding down. An orderly winding down means that a bank's assets are sufficient to cover the timely and full settlement of all mature liabilities to ordinary creditors.

3. Are the deposits of natural persons secured?

The deposits of all ordinary creditors, including natural persons, are secure, regardless of the amount, and will be repaid in full.

The Bank of Slovenia will provide the bank liquidity support, while the Slovenian government will ensure solvency. The bank will settle all mature liabilities on an ongoing basis.

4. Why did the Bank of Slovenia wait until now to act?

In the past the Bank of Slovenia issued a number of measures against the banks and gave shareholders and the management board the opportunity to stabilise the banks' operations. Emergency measures are measures that are implemented when all other possibilities to rescue a bank have been exhausted, and are urgent to prevent the destabilisation of the banking and financial system.

5. Will the bank conclude new transactions, i.e. approve new loans and accept deposits?

When an orderly winding down begins, the bank will no longer be permitted to initiate new transactions or offer services to new customers. This does not, however, mean that corporate restructuring transactions will not be continued. The **special administration** will also be bound to begin the process of selling the bank's assets for the purpose of repaying creditors.

6. What does the measure to appoint a special administration mean for the assets of companies and sole traders?

Companies and sole traders that are a bank's ordinary creditors will have uninterrupted access to the bank's assets. The holders of hybrid and other subordinated debt instruments with characteristics similar to equity instruments will participate in burden-sharing. Burden-

sharing among shareholders and subordinated creditors limits state aid to the lowest level required and reduces necessary expenditure from the state budget.

7. Are contractually agreed conditions valid for deposits?

Contractually agreed conditions for deposits remain unchanged.

8. What will happen with customers whose liabilities (e.g. loans) to a bank mature ten years from now or customers who have concluded long-term (multi-year) deposits with a bank?

When a **special administration** is appointed and an orderly winding down carried out, the bank's loans will be repaid under the same conditions, i.e. at the maturity agreed in the relevant loan agreement. The **special administration** may agree on the transfer and/or sale of transactions to other banks. This does not, however, mean a change in the conditions relating to customers' liabilities.

Customers may request the repayment of deposits under the conditions set out in the relevant agreements, typically at maturity, or earlier if so stated in an agreement or agreed to by the bank and customer.

9. What does the measure to appoint a special administration mean for the holders of subordinated financial instruments?

During an orderly winding down, the bank will not pay dividends or coupons on hybrid equity instruments, except when the liability for such payment derives from a legal obligation. Moreover, the bank will not exercise call options associated with such instruments and will not execute any capital management transactions (e.g. purchases) arising from such instruments or any similar instruments without the prior consent of the European Commission.

Shareholders and the holders of a bank's subordinated bonds and other subordinated financial instruments will only be repaid if state aid will not be required for the repayment of ordinary creditors and/or the potential amount of repayment depends on the assessment of the European Commission. The rules regarding the granting to state aid entered into effect on 1 August 2013 and were published in the Official Journal of the European Union C 216/13 of 30 July 2013.

10. Do the supervisory board and general meeting of shareholders still hold the power to make decisions regarding a bank?

No. With the appointment of a **special administration**, neither body has the power to manage the bank, as the powers of the supervisory board and general meeting are exercised by the Bank of Slovenia.

11. Will a measure appointing special administration be implemented at any other bank?

No. The liquidity positions of other banks and savings banks are stable.

12. Will the Bank of Slovenia issue a similar measure against another bank?

The conditions at other banks do not warrant emergency measures by the Bank of Slovenia.

13. From where will funds be secured for guarantees and where will the government secure funds to cover its share of costs?

Funds have been reserved for this purpose in the budget. The banks' capital will be increased via the conversion of existing Slovenian government deposits at an individual bank, and if required, via additional payments by the Slovenian government of instruments taken into account in the calculation of a bank's capital.

14. Will the banks/Bank of Slovenia have at their/its disposal sufficient cash reserves, and how large are the Bank of Slovenia's cash reserves?

Yes. The Bank of Slovenia has the necessary mechanisms and stocks in place.

15. What is the difference between an orderly winding down and bankruptcy?

Orderly winding down involves a "functioning bank". The bank's assets will be sold off gradually. In the event of bankruptcy, a bank's authorisation to provide banking services is revoked and only guaranteed deposits are repaid, while the claims of other creditors, including the holders of subordinated financial instruments, are repaid from the bankruptcy estate, typically in low proportions.

16. Who are ordinary creditors?

Ordinary creditors are a bank's depositors, regardless of whether they are natural persons or legal entities, including non-guaranteed deposits (e.g. funds on transaction accounts, fixed-term deposits, savings accounts, safes, claims from securities-related services, etc.), bond holders and lenders. What is important is that the repayment of their claims is not subordinated to repayments from other debt instruments.

While the **special administration** is in place, the bank's other liabilities to creditors associated with ensuring the bank's continuing operations (e.g. employees, suppliers, contractors, etc.) will also be settled on a regular basis.

17. What will happen to bond holders?

All bond holders will be repaid, except the holders of hybrid and other subordinated debt instruments with characteristics similar to equity instruments.

18. How, when and on the basis of what references were members of the special administration selected? Are they prepared to assume responsibility for potential errors they may make in the orderly winding down process?

The selected members of the **special administration** have the necessary references, as they are appropriately qualified and have the required banking experience. When appointing a bank's **special administration**, the Bank of Slovenia must take into account the conditions required for the appointment of a member of a management board.

In its work at a bank, an emergency management board must take into account valid regulations, best business practices and the highest professional and ethical principles of banking operations and governance, the bank's internal acts and the Bank of Slovenia's instructions. The emergency management board is liable to the bank for damages resulting from intentional conduct or negligence in exercising the powers given to it based on the decision regarding its appointment or as the result of acts that exceed those powers.

19. Can a bank in the process of being wind down be acquired by another bank ?

Yes.

20. Will the Bank of Slovenia exercise the responsibilities of members of the management board and supervisory board relieved of their functions?

Through its decision on the appointment of a **special administration**, the Bank of Slovenia has ordered the aforementioned body to report every suspected criminal act by the former members of the management board and supervisory board to the appropriate authorities.

21. When was the problem (insufficient liquidity) that triggered the measures identified? How large is the liquidity deficit and what consequences could it have for other banks in the system? Is the bank still solvent?

Questions and answers

The liquidity conditions at the two banks have deteriorated over the last few months. Likewise efforts to increase their capital were also unsuccessful. The Bank of Slovenia therefore established a **special administration** to stabilise conditions at the banks and thus in the banking system. The Slovenian government will ensure the banks' solvency, while the Bank of Slovenia will provide liquidity. No negative effects are thus expected for other banks. The confidence in the Slovenian banking system is crucial.