

# Experience in the Regulation of Non- Performing Loans. Activities of BAMC.

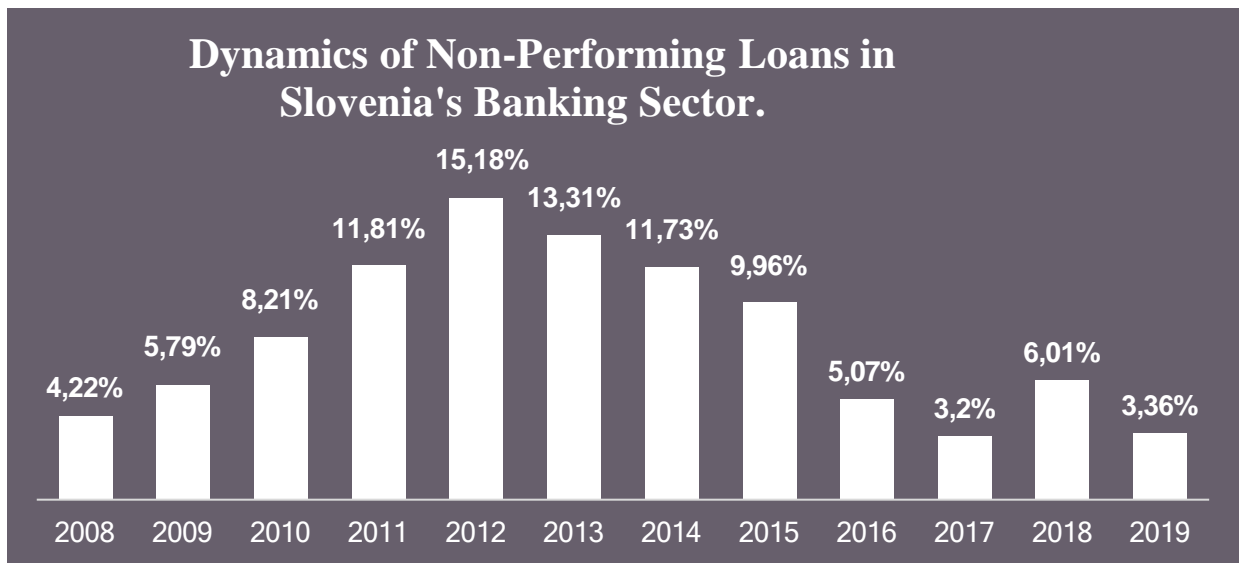


**FUND OF PROBLEM LOANS**  
ACQUISITION. MANAGEMENT. SALE.

# I. Prerequisites for the Creation of BAMC

At the end of 2008 – less than two years after Slovenia adopted the euro – uncertainty caused by the Global Financial Crisis halted the inflow of foreign capital into the country. This, in turn, led to a decrease in lending to the corporate sector.

Despite a series of measures taken by the government and the European Commission, which helped return moderate economic growth in 2010, the country fell back into recession in 2011 due to the rise in non-performing loans.



*Source: The Global Economy*

According to some experts, the threat to Slovenia's sovereign credit rating, caused by the rise in non-performing loans, and the growing crisis, would force the government to seek assistance from the so-called "Troika" – the European Commission, the European Central Bank, and the IMF.

Contrary to concerns, at the end of 2012, the government announced the creation of a state-owned asset management company – the Bank Assets Management Company (BAMC), which was tasked with managing the stressed assets of banks for a period of 5 years. After this period, the remaining assets were to be transferred to the management of the Slovenian sovereign holding company.

Ultimately, Slovenia did not need the Troika's assistance. However, it had to extend BAMC's operation until 2022 to complete the asset management and disposal processes.

## II. CreationBAMC

The Bank Assets Management Company (BAMC) was established on March 20, 2013, as a joint-stock company fully owned by the state. To finance its activities, BAMC issued state-guaranteed bonds.

In accordance with the law defining the measures of the Republic of Slovenia to strengthen the stability of its banking sector (ZUKSB), the mission of BAMC is aimed at:

**Stabilizing Slovenia's financial sector** by purchasing non-performing assets from systemically important banks.

**Minimizing the burden on taxpayers** in the repayment of BAMC's bond obligations by restructuring and managing the assets acquired by BAMC from the banks, with the goal of maximizing their value.

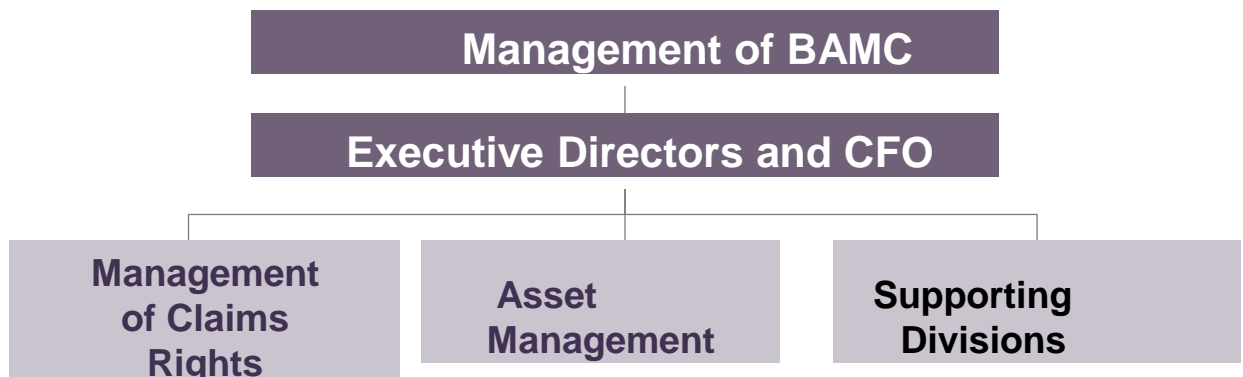
**Strengthening confidence in the financial system** and ensuring operations in line with the highest international corporate governance standards.

**Ensuring and stimulating the long-term restructuring of the Slovenian economy.**

As a state-owned entity, BAMC was designated a single-tier corporate governance system.

The **Board of Directors** of BAMC consists of 7 members: 4 non-executive directors appointed by the Ministry of Economy, and 3 executive directors selected through an open application process. **Executive Directors** are responsible for developing BAMC's financial plan. **Non-executive Directors** are tasked with evaluating the company's business strategy.

Additionally, one of the executive directors oversees the operational activities of BAMC. In general, executive directors play a significant role in managing BAMC, particularly in key areas such as:



### III. Asset Purchase and Valuation

The selection of banks for cooperation with BAMC was carried out in two stages:

**First Stage:** A government interdepartmental committee (composed of 8 members – representatives from the central bank and the government) assessed the sufficiency of the bank's capital level to meet regulatory requirements for the next 12 months, as well as the degree of its impact on the stability of the financial system.

**Second Stage:** The banks developed a business strategy for the government, demonstrating the sufficiency of their capital and liquidity.

To conclude asset purchase agreements, a commercial bank, the Bank of Slovenia (the central bank of the Republic of Slovenia), or BAMC itself would submit an application to the interdepartmental committee. The application included the business strategy of the respective bank as well as information about the assets offered for transfer to BAMC.

To finalize the transaction between BAMC and commercial banks, the government sent a letter to the Directorate-General for Competition of the European Commission, providing information about the planned asset purchase deals and requesting an approval opinion. At this stage, BAMC began the process of accepting the assets approved for purchase from the bank onto its balance sheet.

In December 2013, BAMC completed asset purchase deals with a total nominal value of 3.3 billion euros from two systemically important banks – NLB and NKBM – for 1 billion euros, financed through the issuance of state-guaranteed bonds.

However, BAMC did not participate in determining the purchase (or transfer) price of these assets, which was based on the results of Asset Quality Reviews (AQR) and stress tests conducted by the Bank of Slovenia, the Ministry of Finance, the European Commission, the ECB, and the European Banking Authority.

Despite assurances from the European Commission that the future costs of BAMC's asset financing and management were considered when calculating the transfer price, BAMC had to revalue the purchased assets and announce its intention to seek compensation for the relevant costs from the banks or their owners.



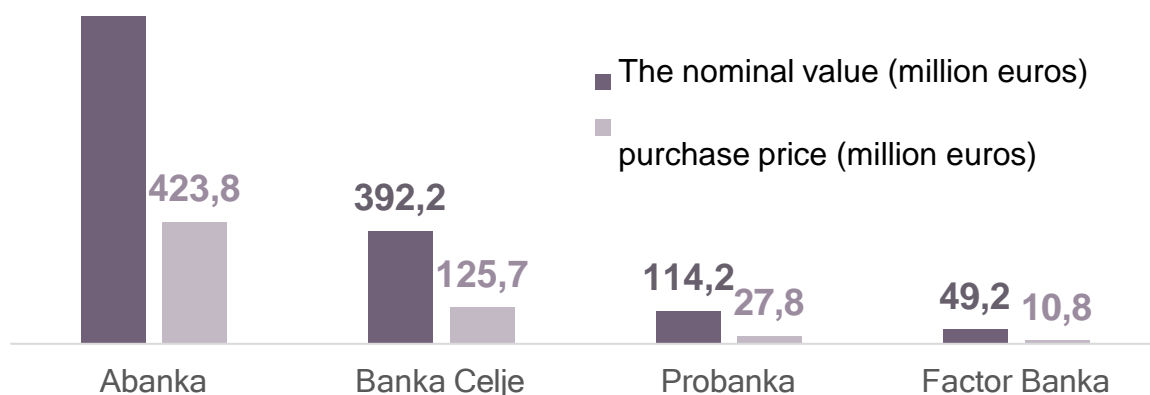
BAMC's approach to evaluating the purchased assets was based on calculating the **fair value** of the assets, rather than their "real economic value," which was calculated by the European Commission based on cash flows and broader time horizons.

As a result, BAMC developed an internal asset valuation methodology based on the value of "underlying" assets (such as collateral in the form of real estate), which was verified by an external auditor.

The results of BAMC's asset revaluation were significantly lower than the calculations made by the European Commission, which forced BAMC to recognize losses of 40 million euros.

In 2014, BAMC completed asset purchase transactions with four additional banks.

1142,8



The purchase price of the assets from **Probanka** and **Factor Banka** was determined by BAMC independently, based on its internal asset valuation methodology. In contrast, the assets from **Abanka** and **Banka Celje** were re-evaluated by the European Commission.

After completing the process of accepting the assets, BAMC conducted a revaluation of the assets from **Abanka** and **Banka Celje** according to its own methodology, resulting in the company recognizing losses.

According to BAMC's annual reports, the total amount overpaid by the organization for the assets, compared to their market value, was **623 million euros**.

## IV. Asset Management

In order to ensure maximum repayment of debt by borrowers, as well as to enhance their long-term efficiency and competitiveness, BAMC conducts financial restructuring of debtors, which also includes business restructuring or operational restructuring. At the same time, restructuring is carried out only for borrowers who are willing to cooperate with BAMC and generate sufficient cash flows

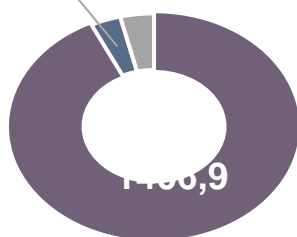
In the absence of economic feasibility in carrying out restructuring or if the borrower refuses to cooperate, BAMC resorts to a strategy of enforcing collateral with the aim of further sale.

This strategy is also applied to debtors who have previously undergone bankruptcy procedures. It should be noted that a significant portion of the assets acquired by BAMC goes through the enforcement procedure, as they were already considered "non-viable" at the time of transfer. In some cases, the company may decide to sell the problematic claim along with the collateral to a third party.

Assets under management by BAMC in 2014 million euros.

51,3

57

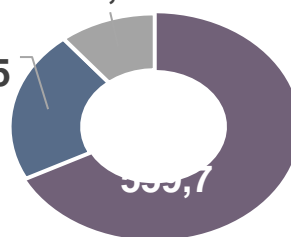


Claims Rights

Assets under management by BAMC in 2018, million euros.

89,9

180,5



Real Estate

Equity Interests

In addition, BAMC implements measures aimed at maximizing the value of assets, including: **Asset pooling** (grouping assets together for more efficient management and sale) **Improving the current condition of assets** (such as developing land plots or infrastructure, conducting renovations, recovering lost loan documentation, etc.) These efforts help enhance the value of the assets acquired and facilitate their successful disposal or management, contributing to BAMC's mission of stabilizing the Slovenian financial system and maximizing the return on public investments.

## V. Asset Disposal

The ultimate goal of BAMC, as a project company, is the sale of all assets acquired from banks. According to the legislation (ZUKSB), BAMC must generate cash flows of at least 10% of the estimated value of the transferred assets annually.

The asset realization process by BAMC is based on two key principles: ensuring transparency and maximizing the sale price.

BAMC generally sells assets individually. However, in the absence of demand for certain assets, BAMC groups them into pools.

To enhance sales effectiveness, an individual marketing strategy is developed for each real estate asset, which is approved by BAMC's investment committee. To promote sales, BAMC places relevant advertisements on its website, in the media, or uses real estate agents.

Moreover, to provide potential investors with full access to information about the assets being sold, BAMC utilizes a virtual data room (Datasite).

Former borrowers and affiliated persons are not allowed to participate in the asset purchase process. In this regard, and to prevent money laundering, potential buyers are required to disclose their beneficial owners.

Due to the specific nature of the portfolio or demand from international investors, loans are primarily sold through direct sales. Sales at public auctions are conducted only if there are 3-4 bidders.

Real estate assets of BAMC are typically sold through auctions using an auction platform provided by local vendors, ensuring transparency in the process.

The material was prepared by the Corporate Development Department of JSC "Problem Loans Fund".

Expert: Abildaeva Dina.

Sources: Yale University, annual reports of BAMC for 2013-2018, BAMC business strategy for 2019-2022, World Bank.