Valuation of Difference in Treatment (Valuation 3)

Sberbank banka d.d.

In the present version of the Valuation 3 Report, the SRB, following consultation with Sberbank banka d.d, has redacted certain information, pursuant to Articles 88 and 89 of Regulation (EU) No 806/2014, in order to protect confidential information covered by professional secrecy and personal data.

Index

Please note that rounding differences to the mathematically exact values (monetary units, percentages, etc.) may occur.

List of Abbreviations

Abbreviation	Designation
AAC	Asset Acquisition Company
AC	Amortized Cost
BA	Banking Act (Zakon o bančništvu, ZBan-3)
Bloomberg	Bloomberg L.P., New York City, USA
BS	Bank of Slovenia
CDR	Commission Delegated Regulation
CHF	Currency Swiss franc
CLO	Collateralized Loan Obligation
CPI	Consumer Price Index
CTA	Current Tax Assets
CVA	Credit Valuation Adjustment
DCF	Discounted-Cashflow
DGS	Deposit Guarantee Scheme
DTA	Deferred Tax Assets
DVA	Debit Valuation Adjustment
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EI	Equity investments
ELA	Emergency Liquidity Assistance
ERA	Employment Relationship Act (Zakon o delovnih razmerjih, ZDR 1)
EU	European Union
FOLTF	Failing or likely to fail
FTE	Full time equivalent
Fund	Deposit Guarantee Fund
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair Value through Profit or Loss
FWC	Framework Contract
FX	Foreign Exchange
GBV	Gross Book Value
GDP	Gross Domestic Product
GBV	Gross Book Value
IAS	International Accounting Standard

Abbreviation	Designation
IDW	Institute of Auditors ("Institut der Wirtschaftsprüfer")
IFRS	International Financial Reporting Standards
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LGL	Loss Given Loss
LSTA	Loan Syndications and Trading Association, New York City, USA
NBV	Net Book Value
NCWO	No Creditor Worse Off
NIP	Normal Insolvency Proceedings
NLB d. d.	Nova Ljubljanska Banka d.d.
NPE	Non-performing exposure
NPL	Non-performing loan
OCI	Other comprehensive income
OECD	Organization for Economic Co-operation and Development
P&L	Profit and loss
PD	Probability of Default
PEG	Price/Earnings to growth
PL	Portfolio of performing
POS	Point of Sale
PPI	Producer Price Index
Purchaser	Nova Ljubljanska Banka d.d.
RBS	Royal Bank of Scotland
RCF	Revolving credit facilities
RCWBA	Zakon o reševanju in prisilnem prenehanju bank, ZRPPB-1
RoS	Republic of Slovenia
Reuters	Thomson Reuters Group, New York City, USA
RTS	Regulatory technical standard
RWA	Risk Weighted Assets
S&P	S&P Global Ratings, New York City, USA
SLA	Service level agreement
SME	Small and Medium Enterprise
SRB	Single Resolution Board
SSM	Single Supervisory Mechanism
SRMR	Single Resolution Mechanism Regulation (Regulation (EU) No 806/2014)
S.W.I.F.T.	Society for Worldwide Interbank Financial Telecommunication

Abbreviation	Designation
Tariff	Tariff setting out compensation of insolvency administrators in general insolvency procedures
The Bank	Sberbank banka d.d.
VDR	Virtual data room
YoY	Year on year
ZFPPIPP	Zakon o finančnem poslovanju, postopkih zaradi insolventnosti in prisilnem prenehanju (Act on financial management, insolvency proceedings and compulsory winding-up)
ZOSRB	Zakon o organu in skladu za reševanje bank (Bank Resolution Authority and Fund Act)
ZPre-1	Zakona o prevzemih (Takeovers Act)
ZSJV	Zakon o sistemu jamstva za vloge (Deposit Guarantee Scheme Act)
ZTFI-1	Zakon o trgu finančnih instrumentov (Market in Financial Instru-ments Act)
ZUKSB	*Zakon o ukrepih Republike Slovenije za krepitev stabilnosti bank*, (Act Regulating Measures of the RoS to Strengthen the Stability of Banks)

List of Tables

List of Figures

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

Single Resolution Board

Treurenberg 22,

B-1049 Brussels,

Belgium

11 April 2024

Dear Board members,

This report (the **Report**) has been prepared in accordance with Article 20 of the Single Resolution Mechanism Regulation (**SRMR**). Accordingly, the Report is a fair, prudent and realistic assessment of the assets and, where applicable, liabilities of Sberbank banka d.d. (hereinafter "the **Bank**"). It has been independently prepared and is intended to inform the decision of the Single Resolution Board (**SRB**) whether to grant compensation to the shareholders of the Bank affected by the resolution action taken in respect of that entity, in accordance with Article 76(1)(e) SRMR.

The Report is addressed exclusively to our client, the SRB. The SRB is entitled to use the Report as agreed within the Framework Contract (**FWC**) between RSM Ebner Stolz (formerly "Ebner Stolz") and the SRB.

However, this report and the information contained herein should not be interpreted as, and should not be construed as, a recommendation for action and shall not be used for any other purpose than to inform the SRB's decision whether compensation shall be granted to the affected shareholders of the Bank in accordance with Article 76(1)(e) SRMR.

Neither RSM Ebner Stolz nor any of its affiliates, employees or partners accept any liability or responsibility other than agreed within the FWC or stemming from the pertinent legal framework and shall under no circumstances be liable or responsible for the SRB's or any third party's use of the information contained in the Report or the results of such use other than agreed within the FWC between RSM Ebner Stolz and the SRB.

As stated in Article 3 of Commission Delegated Regulation (**CDR**) (EU) 2018/344 of 14 November 2017 and Article 20(17) of SRMR, the scope of the report is to compare the actual treatment received by shareholders and creditors in resolution and to assess whether shareholders, creditors and the relevant Deposit Guarantee Scheme (**DGS**) would have received better treatment had the entity entered into normal insolvency proceedings at the time of the resolution decision.

In preparing the Report, RSM Ebner Stolz has acted as an independent valuer pursuant to Articles 37 et seq. of CDR 2016/1075.

Although the report identifies and/or analyses several legal claims and contingent claims against the Bank which, in accordance with Article 2(2) of CDR 2018/344, we have analysed through the expertise of a local legal specialist, the report in no way constitutes legal advice vis-à-vis third parties or prejudice to any of these claims or contingent claims.

On 28 February 2022, the Bank of Slovenia (**BS**) put the moratorium in force until end of 1 March 2022. On 1 March 2022 the decision to resolve the Bank was adopted. Hence, according to Article 1 of the CDR 2018/344 the reference date of the valuation (**Valuation Date**) is 1 March 2022. The Bank provided us with the financial information as of 28 February 2022. Due to the moratorium enacted by the BS, it is reasonable to assume that the financial information as of 28 February 2022 does not materially differ from the financial information as of 1 March 2022.

Accordingly, and as far as available, basis of preparation of this Report are the unaudited financial information as of the Bank's closing balance or opening balance as of 28 February 2022 or 1 March 2022, respectively, as provided to us. If necessary, the basis of preparation was complemented by financial information as of previous dates, especially as of 31 December 2021. Also, the additional information provided to us from the Bank was taken into account. Furthermore, we used financial and non-financial information from public sources, including digital and written information media (such as Bloomberg, OECD, Reuters, S&P Capital IQ or research reports).

Our work performed and described in this Report does not constitute an audit or review performed in accordance with international standards on auditing or international standards on review engagement or relevant national standards or practices. No due diligence or verification of figures or data was performed. Consequently, RSM Ebner Stolz does not express any assurance for the accuracy of the information referred to in the Report.

RSM Ebner Stolz has assumed that no information has been omitted that - if available- would have changed, limited or replaced our statements and conclusions in this report. Similarly, we have not verified the completeness, accuracy, truthfulness, authenticity, validity and integrity (or the existence of any other documentation or information that might alter the content or analysis thereof) of the information provided by the Bank and we have assumed that such information is accurate, true, reliable and complete in all respects. In the course of our work, no serious indications or evidence to the contrary came to our attention. Hence, we consider the information to be sufficient for the purpose of conducting a reliable valuation.

It is important to highlight that the information provided by the Bank shows a number of data gaps and inconsistencies that have negatively impacted our work and led to delays in the preparation of the Report. Such inconsistencies and data gaps affected different areas of our work and were solved through a significant number of contacts with the Bank. In case of data gaps or inconsistencies that could not be resolved, we made reasonable assumptions. None of the parties involved (i.e. the former shareholder and the creditors) will be unfairly, unjustly or unilaterally influenced by our assumptions, nor will they be unjustly or unilaterally favoured or disadvantaged.

The content and conclusions herein are based on hypothetical scenarios.

Some assumptions or forecasts could have developed differently and unforeseen events and circumstances could have occurred during the periods considered by RSM Ebner Stolz. These could have included material changes in the economic and/or political environment, significant increases or decreases in interest rates and/or material regulatory changes. Therefore, the outcome of any insolvency proceedings, if they were to take place, could have been different from the outcome included in this Report. RSM Ebner Stolz considers the hypothetical scenarios and assumptions developed in this analysis to be plausible, even if they seem remote or even exceptional or alternative scenarios could be developed.

RSM Ebner Stolz accepts no responsibility for the reliability of the information obtained to the extent it is inaccurate, incomplete or misleading, for matters not covered by the Report or for matters that remained unidentified. Beyond that we have no indications of error/fraud cases as at the Valuation Date that we would have to acknowledge. Furthermore, at the time of issuing the Report, we have no serious indications or evidence that any such matters exist which would alter the reliability of the Valuation.

We consider that the contact persons appointed by the purchaser of the Bank's business is the body responsible for the information and for the data that they made available to us.

Without prejudice to the generality of the foregoing, which applies to all areas of the report, we also refer to the relevant areas where a section entitled "Sources of Uncertainty" has been included with specific qualifications and assumptions.

For your convenience, the Report has been made available to you in electronic copy format.

Yours faithfully

[redacted] [redacted]

1. Executive Summary

Please note: Because this is a summary, we have omitted more detailed descriptions for the sake of clarity. References to the detailed explanations are given in parentheses.

Background of this Valuation

On 1 March 2022, following a failing or likely to fail (***FOLTF***) assessment by the European Central Bank (**ECB**) and the Bank of Slovenia's (**BS)** moratorium decision (27 February 2022; refer to section 3 (37) of the Resolution Decision[1]), the SRB took resolution action in respect of Sberbank banka d.d. (the **Bank**), resulting in transferring all shares issued by the Bank (section 4. of the Resolution Decision) to Nova Ljubljanska Banka d.d. (NLB d.d., hereinafter "the **Purchaser**").

As set out in section 4.3.4. of the **Resolution Decision**, the SRB exercised its powers to apply the **sale of business tool**. Eventually, all shares issued by the Bank (31,928,152 ordinary non-par value named dematerialised shares) were transferred to the Purchaser. In light of the Purchaser's binding offer, the consideration to be paid by the Purchaser was set to the amount of EUR 5,108,504.32. Upon instruction of the SRB, the expenses incurred by the SRB and BS in connection with the use of resolution tools or powers in the context of the resolution of the Bank at the amount of EUR 555,513.22 (SRB) and EUR 1,074.85 plus the negative interest accrued up to the time of the transfer of the net consideration to the former shareholders (BS)[2] were deducted from the positive consideration paid by the Purchaser.

According to Article 15 (1) (g) of the SRMR **no creditor shall incur greater losses** than would have been incurred if the Bank had been wound up under normal insolvency proceedings in accordance with the safeguards provided for in Article 29 of the SRMR. According to Article 76 (1)(e) of the SRMR, within the resolution scheme and when applying the resolution tools, the SRB may use the Single Resolution Fund only to the extent necessary to ensure the effective application of the resolution tools for *inter alia* the purpose of paying compensation to shareholders or creditors if, on the basis of Article 3 of Commission Delegated Regulation (**CDR**) 2018/344, they have incurred higher losses than they would have incurred, following a valuation pursuant to Article 20(16) of the SRMR, in a winding-up under normal insolvency proceedings (**NIP**) (section 2.).

Against this background, the Report provides a **valuation of the difference between the treatment of shareholders and creditors in the resolution, as compared to a normal insolvency proceeding** in a hypothetical scenario. In other terms, this valuation aims to assess whether the No-Creditor-Worse-Off (**NCWO**) principle has been breached.

[1] Decision of the Single Resolution Board: "Adoption of a resolution scheme in respect of Sberbank banka d.d.", 1 March 2022

[2] The consideration paid in EUR by the purchaser was deposited at the BS. Therefore, it has been subject to the applicable interest rate in accordance with the monetary policy of ECB (-0.5%). Thus, the negative interest accumulated as of the date of receipt of the payment by the Purchaser until the date of transfer was calculated by the BS, taking into account the date of transfer of the net proceeds to the former shareholders, and deducted from the net proceeds paid to the shareholders. Total ancillary expense incurred by the SRB and BS amount to EUR 565 598.72.

The report was prepared by us as an independent valuer. It examines if the NCWO safeguards were adhered to and aims to assist the SRB in its decision as to whether compensation should be paid to the affected shareholders of the bank (section 2.1.).

Valuation Approach

In this case, the Bank's creditors and the relevant DGS remained financially unscathed by the application of the sale of business tool. Only the Bank's former shareholder was financially involved when the shares were transferred to the Purchaser in exchange for the consideration. Against this background the **NCWO principle** would have been safeguarded if, in normal insolvency proceedings, the shareholder would have received less than the consideration (net of the deducted resolution expenses).

Accordingly, we provide an estimate if the proceedings under normal insolvency proceedings were sufficient to cover the former shareholders' consideration (net of the deducted resolution expenses) (section 2.1.).

Deviating from Article 2 (3) of CDR 2018/344 we have not identified **encumbered assets** and claims secured by those assets. The reason is that neither the DGS nor the creditors of the bank were financially affected in this resolution case. Therefore, the question of the appropriate treatment of preferred or subordinated creditors in connection with asset encumbrance does not apply, and an analysis of asset encumbrance is not necessary to illustrate a different treatment between resolution and counterfactual insolvency (section 2.1.).

The opening of normal insolvency proceedings for the Bank on 1 March 2022 would have led to an unplanned liquidation which would have resulted in the **discontinuance of its business**. Hence, the Bank's assets and liabilities may not any longer be valued under the assumption of a going concern. For example, typically goodwill or deferred tax assets may have zero value due to the discontinuance of the business (sections 2.8. and 5.0.).

Additionally, during NIP the Bank may not have the capacity to provide customers with the same level of service, reliability, or access to products and services that they were accustomed to. This can lead to customer dissatisfaction and a lower degree of trust in the Bank by both the customers as well as third parties. It is reasonable to assume that customers may decide to seek out another bank to avoid these risks and to ensure that their needs are being met (section 2.8.).

Indeed, similar cases from the past have led to corresponding observations. Historic NIPs of banks in Slovenia have demonstrated that customers often move to a financially stable bank to sustain and secure their banking operations (section 4.3.2.)

Overall, experience has taught us that it is reasonable to assume that the opening of normal insolvency proceedings for the Bank on 1 March 2022 would have resulted in a **value destructive process** (section 4.2.).

Historical Cases

Since introducing the euro in 2007, in Slovenia several banks were in distress and became subject to special administrations or measures, i.e.:

- In 2013 and 2014, Nova Ljubljanska bank, Nova Kreditna banka Maribor, Abanka and Bank Celje transferred bad debt and risk items to the Slovenian Bank Asset Management Company or the Slovenian state-owned company Družba za upravljanje terjatev bank d. d. (DUTB).
- From 2013 to 2015, for Factor banka and Probanka special administrations were appointed and the two banks initiated procedures for an early wind-up; in 2016 the banks were merged with the DUTB.

It must be mentioned that the above-stated measures do not refer to NIP, but – with respect to Factor banka and Probanka – to the implementation of a special liquidation vehicle/management, prior to adoption of the RCWBA. Still, this basically pursued a similar goal, namely the swift but value-preserving liquidation of assets (section 4.3.2.).

At the time of Factor banka and Probanka the principal legal framework was the Act Regulating Measures of the Republic of Slovenia to Strengthen the Stability of Banks ("**AMSSB**") – an *ad hoc*, quick-fix legislative tool adopted in the response to the financial crisis. The law also governed the setting up of the above-mentioned DUTB to which the bad assets from the remaining Slovenian banks were transferred. The AMSSB did not address the bank rescue and resolution in a comprehensive manner such as the RCWBA[3] or its predecessor[4] which both *inter* alia, implemented the Regulation (EU) No 806/2014 (SRMR). Most particularly, it lacked any explicit provisions on the principals of the proceedings including their duration, such as those found in the RCWBA which addresses this topic in several instances.

For example, in the context of the tool of sale of business, Article 120(3)5. (*Procedural requirements with regard to the sale of business*) amongst the relevant factors to be considered in marketing of sale of business, clearly refers to the need for a swift implementation of rescue measures.

The principle of timeliness is also emphasized in the context of compulsory liquidation whereas the RCWBA requires that the business of the bank (subject to the measures) should be wound-up by in a manner in which the creditors are repaid as quickly as possible (Article 172(1)3.). Additionally, the BS in the same context is required to abide the general rules which, *inter alia,* enable best possible terms as to the number of creditors' claims, and in the shortest possible term (Article 172(2)2.).

[3] i.e. Resolution and Compulsory Winding-Up of Banks Act, Official gazette of the RS No. 92/21, and 133/23, ZRPPB-1
[4] i.e. Resolution and Compulsory Winding-Up of Banks Act, Official gazette of the RS No. 44/16, 71/16 – dec. CC, 9/19, 72/19 – ZPSVIKOB, ZRPPB

Also, the BS, the liquidation manager, and other persons involved in the proceedings are required to implement their best efforts to effect the measures withing their authority in the shortest possible time (Article 172(2)3.).

Finally, the same principle is also emphasized in the context of factors to be considered with respect to marketing in applying the tools for liquidation of assets whereas the liquidation manager is, when using the tolls for liquidation, is required to the need for a swift implementation of liquidation measures.

Furthermore, the need for swift response and implementation of measures under the RCWBA is referred to also in the government's proposal of the RCWBA[5] in which the need for a swift implementation of measures is expressed both in the general principles of the law, i.e. *inter alia,* the principle of prevention of banking crises and assuring financial stability, and the principle of early action.[6]

We note that there is limited comparability between the cases at hand, due to the different regulatory frameworks arising from the fact that the proceedings in Slovenia took place before the adoption of the RCWBA. Nevertheless, certain conclusions can be drawn with relevance for the current case.

We summarise our main findings (section 4.3.2.) below:

1. As of February 2016, Factor Banka wound-up 67.5% and Probanka 72.5% if its portfolios (within three years).
2. For Nova KBM Group and Nova KBM d.d., the impairment of the distressed portfolios' transfer to BAMC was approximately 63% (a 37% recovery rate).
3. In general, liquidations are lengthy processes that involve high administrative effort even if backed up by an effective regime.
4. Liquidations involve the trade-off of quick liquidation vs. value-preserving liquidation.
5. Portfolios have to be managed by experts, data must be prepared and potential purchasers are to be found, which requires a lot of human and time resources.
6. Close to the end of the process, rather bad assets remain.

The cases at hand show that a liquidation within three years under the old insolvency regime in Slovenia was reasonable possible (probability of 10-50%). Due to provisions of the RCWBA aimed at a short and effective liquidation as described above, we generally expect liquidation procedures to accelerate and thus, consider a 3-year insolvency scenario as probable (probability >50%). At the same time, we have to point out that an insolvency scenario of much less than 3 years is considered remote (probability <10%).

[5] RCWBA proposal of 25 February 2021, EVA 2020-1611-0155.
[6] Ibid., Point 2.,2, p. 7.

The cases of Nova KBM Group and Nova KBM d.d. show that a swift and orderly resolution does not come free of charge, however. Here, discounts of around 63% had to be accepted in order to realise the liquidation in a reasonable time. The discounts for Probanka d.d. (45%) and Factor Banka d.d. (58%), as well as those of Abanka (63%) and NLB d.d. (72%) are in a similar range.

Due to the high quality of the Bank's portfolio, however, we do not expect overall discounts of such an amount (a mean discount of 60.2%). In this case we consider a discount at the lower end appropriate to ensure a realistic and prudent valuation of the loan (rump) portfolios. For further details, please refer to section 5.5.2.

Summarising, we conclude that no similar sized bank was put into NIP in Slovenia in the past. Hence, in many aspects the insolvency of the Bank would have been an **unprecedented event in Slovenia**. Nevertheless, when deriving our assumptions, we have taken into account the observations made during the aforementioned special administrations and measures, i.e., regarding the discontinuance of bank-typical services, the settlement of the credit portfolio and, consequently, the possible duration of a winding-up of the Bank (section 4.3.3.).

Contagion Effects

According to the SRB's assessment the Bank had critical functions (market share of [redacted]%[7]) in lending to SMEs. Therefore, NIP could cause a negative reaction by market participants leading to a disruption of the financial system, with the potential to lower the confidence in the banking system and harm the real economy.

Low confidence in the banking system and a financial disruption may lead to an increase of the risks associated with the financial sector and, hence, a general increase in risk premiums. Also, under such conditions market participants are expected to become more restrictive with regards to credit approvals or investments.

As an effect, it cannot be ruled out that aforementioned circumstances may further reduce the potential recoveries from the Bank's NIP. However, as such spill-overs and contagion effects are difficult to estimate and to the benefit of the shareholders these effects were not further quantified in the context of this valuation.

[redacted]

Valuation Date

In line with the ECB's FOLTF assessment of 27 February 2022, the SRB concluded on 1 March 2022 that the Bank was failing or likely to fail on the basis of Article 18.4.c of Regulation (EU) No 806/2014 (SRMR).

In accordance with Article 20(17)(a) SRMR and Article 1 of the CDR 2018/344, the date of the resolution decision (**1 March 2022**) is set as the **valuation date**. The Bank provided us with the financial information as of 28 February 2022. Due to the moratorium, it is reasonable to assume that the financial information as of 28 February 2022 do not materially differ from the financial information as of 1 March 2022 (section 2.4.1.).

Liquidation Scenario

We have considered alternative scenarios and possible strategies that a liquidator would apply to **maximise realisations and to satisfy creditors within a reasonable period of time**. Our analysis of such hypothetical scenarios depends on several assumptions. We have adopted a prudent approach and assumptions which we consider to be realistic and favourable to the affected shareholder in the insolvency scenarios:

- The liquidator's workout policy aims to maximise assets realisations over time while meeting the interest of all involved stakeholders.
- The creditors on the one hand aim to maximise their own recoveries and on the other hand to receive those recoveries as soon as possible. This is often accompanied by a trade-off, which leads to lower recoveries for lower insolvency ranks on the one hand, but faster recoveries for higher insolvency ranks on the other. This approach usually leads to higher discounts on the sale of assets and even to the fact that lower ranks may not receive any recoveries at all. On the other hand, a prolonged insolvency process increases the uncertainty and the risk of reduced future recoveries. Hence, a prolonged process does not per se increase the level of recoveries.
- The failure of a potentially systemic bank in Slovenia has no impact of market disruption and contagion effects which would further lower recoveries.
- Beyond the litigation claims which are disclosed in the financial information of the Bank, no additional litigation claims, which only occur because of the liquidation (e.g., claims for damages or labour disputes pursuant to the liquidation decision), have become imminent.

We have performed the valuation under a **compulsory liquidation scenario** (see section 3.2.). It is not sufficiently plausible for us to assume that the Bank's business can be continued and can be sold as a whole while it is undergoing NIP because NIP involves liquidating all assets, terminating accounts and closing off operations. Furthermore, the Bank may be faced with numerous legal, financial and regulatory issues that need to be addressed in order for the transaction to be successful. All of these factors would make it difficult or impossible for the Bank's business to be sold as a whole and as a going concern while it is undergoing NIP. Hence, we are limited to assume an orderly sale of single assets or portfolios for the insolvency scenarios (section 2.8.).

Eventually, we analyse the hypothetical disbursements of the net realisations to shareholders and creditors according to the assessment of the relevant (legal) framework by our local legal counsels as well as RSM Ebner Stolz's understanding of the insolvency ranking in the Slovenian jurisdiction.

We have estimated the outcome of the insolvency proceedings for the Bank on a legal entity basis, reflecting the nature of the insolvency process under the RCWBA (section 3.2.).

Liquidation Timeline

Generally, the liquidation timeline significantly determines how much value can be realized from the sale of assets for the benefit of the creditors.

The cases of Factor Banka d.d. and Probanka d.d. have demonstrated that a winding-up of some 60% or 70% of the initial portfolio within 2 or 3 years is not generally impossible (see section 4.3.2.).

However, the forceful winding-up of the Banks' portfolios with some 60,000 loans is a complex process because many loans have different terms and conditions associated with them. Analysing each of these agreements, managing the risk of defaults or taking decisions about guarantees will require significant human resources and time. Furthermore, the Bank must be mindful of its decision-makings' consequences in terms of litigation. Each of these elements further complicates the winding-up process.

From this perspective and in the light of the historic cases of Factor Banka und Probanka, a winding-up scenario of significantly less than three years is considered as remote (section 4.3.3.).

We have taken into account the following factors when determining the duration of the liquidation:

- The DGS (Deposit Guarantee Scheme) as one of the main creditors would not reject an insolvency plan or scenario that ensures a prompt and full repayment of the deposit guarantee compensation provided by the DGS.
- The BS is obliged by law to observe, whether the forced liquidation proceedings are conducted in such a way as to ensure the most favourable conditions regarding the amount of payment of creditors' claims and in the shortest possible time.
- Article 172(2)3 RCWBA explicitly states a duty of both the BS and the liquidator to enact actions in the process of compulsory liquidation of the Bank in the shortest possible time.
- The *ZFPPIPP,* which is used subsidiarily for issues not governed by the RCWBA, provides in Article 48 for a principle of speedy proceedings according to which the courts and the liquidators need to abide all the deadlines set under the law. The courts and other public institutions are required to prioritize any matters involving debtors subject to bankruptcy proceedings or of which outcome may affect the course of bankruptcy proceedings.

- Hence, the liquidator will try to satisfy as early as possible all creditors whose claims are not protected by the DGS or whose claim failure could pose a risk for the financial stability of the Slovenian economy (in particular claims >100 kEUR of individuals, SMEs and companies). Initially he puts emphasis on satisfying the claims over 100 kEUR made by individuals and SMEs, followed by the claims of the larger companies and, eventually, claims made by financial institutions.

Besides the incentives for a fast liquidation period resulting from the revised legal framework (section 4.3.1.) there are further arguments against a prolonged liquidation period. A longer liquidation period than the 7-year scenario would inevitably lead to higher liquidation costs, higher management and maintenance costs and increased uncertainty (i.e. macroeconomic risk) for the liquidator in terms of the levels of asset realisations. Against this background we considered that a liquidator would be unwilling to speculate as to possible upsides in the future which are highly uncertain.

In the past, we have observed that financial institutions prefer, in order to ensure minimising of unknown risk and maximising of short-term cash inflows, the quickest possible, even if not full, satisfaction to a higher but more protracted satisfaction in order to mitigate uncertainties (see explanation above).

In this respect, there are incentives in favour of rapid liquidation, even at the cost of higher losses for lower insolvency ranks. The law does not oppose this logic.

Accordingly, it can be assumed that in the creditors' meeting the creditors who prefer a fast and high satisfaction will not reject the corresponding insolvency plan.

At this point, we will anticipate our result, which proceeds are estimated from the liquidation of the Banks's assets in our Best Estimate. From this we have determined creditor waterfalls, specifically for the scenarios with a duration of three, five and seven years of the liquidation. From this, we can determine which scenarios best match the aforementioned conditions.

The following illustrates our analysis of a **possible creditor waterfall in the 3-year, 5-year and 7-year insolvency scenarios**:

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

Creditor Hierarchy Slovenia			Waterfall 3Y Scenario (kEUR)			
Rank	Item	Amount	Year 1	Year 2	Year 3	Claim at Insolvencies' end
12	Costs of insolvency	32.613	-16.307	-9.023	-7.284	-
11	Secured liabilities	39.255	-39.255			0
9	Covered deposits	572.324	-572.324			0
8	Deposits, not covered but preferential (BRRD art. 108) - Individuals/Micros/SMEs	286.404	-68.830	-168.721	-48.852	0
6,3	Deposits, not covered and not preferential - Corporates	213.902			-213.902	0
6,2	Deposits from institutions and banks other than intragroup liabilities	178.245			-129.006	49.239
6,1	Intragroup liabilities	36.700				36.700
5	Balance sheet liabilities arising from derivatives	3.714				3.714
Total		1.363.158	696.716	177.744	399.044	89.653

Table 1: Executive summary; Estimated creditor waterfall; 3-year best estimate scenario

Creditor Hierarchy Slovenia			Waterfall 5Y Scenario (kEUR)					
Rank	Item	Amount	Year 1	Year 2	Year 3	Year 4	Year 5	Claim at Insolvencies' end
12	Costs of Insolvency	39,434	-12,027	-11,633	-6,309	-5,521	-3,943	-
11	Secured Liabilities	39,255	-39,255					0
9	Covered Deposits	572,324	-572,324					0
8	Deposits, not covered but preferential (BRRD art. 108) - Individuals/Micros/SMEs	286,404	-73,110	-166,111	-47,183			0
6.3	Deposits, not covered and not preferential - Corporates	213,902			-84,210	-79,020	-50,672	0
6.2	Deposits from institutions and banks other than intragroup liabilities	178,245					-178,245	0
6.1	Intragroup liabilities	36,700					-4,027	32,673
5	Balance sheet liabilities arising from derivatives	3,714						3,714
Total		1,369,979	696,716	177,744	137,703	84,541	236,887	36,387

Table 2: Executive summary; Estimated creditor waterfall; 5-year best estimate scenario

Creditor Hierarchy Slovenia			Waterfall 7Y Scenario (kEUR)							
Rank	Item	Amount	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Claim at Insolvencies' end
12	Costs of Insolvency	48.566	-12.662	-12.315	-5.550	-5.204	-4.857	-4.510	-3.469	-
11	Secured Liabilities	39.255	-39.255							0
9	Covered Deposits	572.324	-572.324							0
8	Deposits, not covered but preferential (BRRD art. 108) - Individuals/Micros/SMEs	286.404	-72.475	-165.429	-48.500					0
6,3	Deposits, not covered and not preferential - Corporates	213.902			-83.653	-79.337	-50.912			0
6,2	Deposits from institutions and banks other than intragroup liabilities	178.245					-17.522	-42.031	-118.692	0
6,1	Intragroup liabilities	36.700							-23.587	13.113
5	Balance sheet liabilities arising from derivatives* (Line 0334)	3.714								3.714
Total		1.379.111	696.716	177.744	137.703	84.541	73.291	46.540	145.748	16.827

Table 3: Executive summary; Estimated creditor waterfall; 7-year best estimate scenario

Note: The “total” values shown in the creditor waterfall section correspond to the cash flows from asset liquidation according to our analysis (c.f. table 4). As an example, Table 1 shows that with assets’ realisations of 1,273,505 (c.f. Table 4, 3 years, best estimate), cash flows of kEUR 696,716, 177,744 and 399,044 would be repaid to creditors within the 3 years liquidation period, while an amount of kEUR 89,653 would remain unpaid at the end of the liquidation period. The above creditor waterfalls do not include the settlement of contingent liabilities for illustrative purposes, as they are spread across different insolvency tiers and arise at different times which are not yet foreseeable as at the Valuation Date. Thus, the settlement of contingent liabilities will increase the position “Claim at insolvencies’ end” by kEUR 26,257 (3-year scenario kEUR 115,920; 5-year scenario kEUR 65,644; 7-year scenario kEUR 43,084).

The claim by the DGS of kEUR 572,324 can be satisfied by selling highly liquid and actively traded assets as well as by natural amortization of the Banks' loan portfolio within one year and two months after the initiation of the insolvency proceedings.

As a result of our analyses, the 3-year and 5-year scenarios are the most plausible scenarios, as DGS, SMEs and individuals are satisfied most quickly and no contagion effects are to be expected. We classify the relevance of the scenarios as follows:

- 3-year scenario: “probable” (or likely to occur; >50%)
- 5-year scenario: “reasonably possible” (more than remote but less than likely; 10-50%)
- 7-year scenario: “remote” (chances are slight; <10%).

(see sections 2.6 and 2.7)

We note that we have not considered additional interest claims of creditors in the waterfall. Such claims are considered highly uncertain and rather unlikely in the insolvency scenario. Further, such claims would have to be settled from the insolvency proceeds thereby reducing the amount available to satisfy the shareholder (see section 6 and 7).

Estimated Cash Inflows and Expenses

We have adopted a **category-by-category approach for each class of assets** as categorized in the Bank's balance sheet. According to Article 4 of CDR 2018/344, for conducting the valuation we determined the (discounted) amount of expected cash flows from the recoveries of assets under normal insolvency proceedings (section 5.).

In particular cases and as an exception to Article 4(2) of CDR 2018/344, expected cash flows are not discounted. This is the case if it is reasonable to assume that the cash flows from liquid assets will be realized immediately after the opening of the compulsory liquidation and/or if the effects of discounting are not material for the valuation while being to the benefit of the shareholders.

For assets traded in an active market, we used the observed prices to reflect the expected cash flows from recoveries (Article 4(4) of CDR 2018/344). This primarily applies to liquid assets and assets recorded at IFRS Level 1 fair values.

According to Article 4(5)(a) of CDR 2018/344, for assets not traded in an active market we used prices observed in active markets where similar assets are traded, if available. This primarily applies to assets recorded at IFRS Level 2 fair values.

For other assets not traded in an active market, we considered a number of factors, especially the likelihood of the assets generating net cash inflows under normal insolvency proceedings (Article 4(5)(d) of CDR 2018/344). This primarily applies to less liquid assets which are typically recorded at amortized costs, such as loans.

Also, we deducted estimated cash outflows to cover contingent liabilities, consisting of litigation-related contingent liabilities as well as financial guarantees provided. The reason is that litigations are expected to continue or payments for guarantees may be claimed, even under hypothetical insolvency proceedings.

Additionally, we deducted the estimated costs under insolvency proceedings. These costs mainly include

- legal and professional fees paid to the administrator, counselors, accountant etc.;
- the general and administrative costs to manage and wind-up the loan portfolio, including financing costs, if identifiable;
- termination fees (employment and other contracts).

Also, insolvency costs are incurred which increase depending on the duration of the insolvency.

Scenario Analysis

As the cash flow valuations and costs estimates are subject to significant uncertainty, we performed sensitivity analysis for key value drivers (e.g. the valuation parameters for the loan portfolio or probabilities of expenses for legal contingencies) to provide a valuation range around the Best Estimate to form a Best Case Scenario and a Worst Case Scenario (section 5).

- The **Best Estimate Scenario** is the starting point which represents the reasonably expected recoveries of assets as well as payments for certain liabilities and expenses related to the insolvency proceedings. It is considered to reflect the common market participants' broad expectations about relevant economic developments and valuation parameters.
- In the **Best Case Scenario**, we assume that still favourable macroeconomic conditions would help keep credit default rates low.
- The **Worst Case Scenario** expresses a severely unfavourable economic environment in which many firms and households would become financially distressed to a point where credit default rates rise significantly.

Estimated Insolvency Proceeds

From a total balance sheet of kEUR 1,525,690, we estimate that the administrator would be able to realise total assets in a range of kEUR 1,239,099 (Worst Case, 3-year scenario) to kEUR 1,381,404 (Best Case, 7-year scenario). Please refer to the line "Total asset realizations" in the following table:

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

Valuation Ranges (kEUR)				
		Duration of Insolvency Proceedings		
Scenario		3 years	5 years	7 years
Best Case	Total asset realizations	1.287.268	1.350.706	1.381.404
	Costs of insolvency	-27.402	-33.787	-42.485
	Contingent Liabilities / Guarantees	-7.294	-7.294	-7.294
	Disbursement	**1.252.572**	**1.309.625**	**1.331.625**
Best Estimate	Total asset realizations	1.273.505	1.333.592	1.362.284
	Costs of insolvency	-32.613	-39.434	-48.566
	Contingent Liabilities / Guarantees	-26.570	-26.570	-26.570
	Disbursement	**1.214.322**	**1.267.588**	**1.287.148**
Worst Case	Total asset realizations	1.239.099	1.287.546	1.306.421
	Costs of insolvency	-36.254	-43.509	-53.076
	Contingent Liabilities / Guarantees	-46.505	-46.505	-46.505
	Disbursement	**1.156.340**	**1.197.532**	**1.206.840**

Table 4: Valuation ranges

Given that the Bank had liabilities of approx. kEUR 1,330,545 and taking into account the estimated casts of insolvency and the settlement of contingent liabilities, it becomes apparent that there will be a deficit to cover all of the Bank's liabilities in in all scenarios, except for the best case 7- year scenario. As we mentioned before, we consider a 7-year scenario as remote.

The claim by the DGS of kEUR 572,324[8] can be satisfied by selling highly liquid and actively traded assets as well as natural amortisation of the Banks' loan portfolio within one year and two months after the initiation of the insolvency proceedings (section 6.).

The key value drivers are the value adjustments of the loan portfolio (EUR 234.5mn including the reconciliation difference of the loan tape to the balance sheet item of kEUR 897) and the insolvency costs (EUR 32.6mn) (section 7).

[8] We received the figure kEUR 611,381 from the Bank upon request since we were not provided with a LDR as of the Resolution Date. However, our analysis of the deposit tape indicated that the DGS claim would amount to approx. kEUR 572,324.

Conclusion

Our conclusion is that the insolvency recovery amounts would not be adequate to cover all liabilities in none of the scenarios as illustrated in the table below:

Resolution vs. Best Case Insolvency Scenario (kEUR)									
Item	Sale of Business			3 years		5 years		7 years	
	Outstanding	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate
Asset Realisation				**1.287.268**		**1.350.706**		**1.381.404**	
Cost of insolvency				-27.402		-33.787		-42.485	
Cash outflows for Cont't liabilities	n.a.	n.a.	n.a.	-7.294		-7.294		-7.294	
Total realization for creditors				**1.252.572**		**1.309.625**		**1.331.625**	
Creditors / Liabilities	1.330.545	1.330.545	100,0%	**1.252.572**	**94,1%**	**1.309.625**	**98,4%**	**1.330.545**	**100,0%**
Shareholder's Equity	195.134	4.543	2,3%	**0**	**0,0%**	**0**	**0,0%**	**1.080**	**0,6%**
Total	**1.525.679**	**1.335.088**	**87,5%**	**1.252.572**	**82,1%**	**1.309.625**	**85,8%**	**1.331.625**	**87,3%**

Resolution vs. Best Estimate Insolvency Scenario (kEUR)									
Item	Sale of Business			3 years		5 years		7 years	
	Outstanding	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate
Asset Realisation				**1.273.505**		**1.333.592**		**1.362.284**	
Cost of insolvency				-32.613		-39.434		-48.566	
Cash outflows for Cont't liabilities	n.a.	n.a.	n.a.	-26.570		-26.570		-26.570	
Total realisation for all claims				**1.214.322**		**1.267.588**		**1.287.148**	
Creditors / Liabilities	1.330.545	1.330.545	100,0%	**1.214.322**	**91,3%**	**1.267.588**	**95,3%**	**1.287.148**	**96,7%**
Shareholder's Equity	195.134	4.543	2,3%	**0**	**0,0%**	**0**	**0,0%**	**0**	**0,0%**
Total	**1.525.679**	**1.335.088**	**87,5%**	**1.214.322**	**79,6%**	**1.267.588**	**83,1%**	**1.287.148**	**84,4%**

Resolution vs. Worst Case Insolvency Scenario (kEUR)									
Item	Sale of Business			3 years		5 years		7 years	
	Outstanding	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate
Asset Realisation				**1.239.099**		**1.287.546**		**1.306.421**	
Cost of insolvency				-36.254		-43.509		-53.076	
Cash outflows for Cont't liabilities	n.a.	n.a.	n.a.	-46.505		-46.505		-46.505	
Total realization for creditors				**1.156.340**		**1.197.532**		**1.206.840**	
Creditors / Liabilities	1.330.545	1.330.545	100,0%	**1.156.340**	**86,9%**	**1.197.532**	**90,0%**	**1.206.840**	**90,7%**
Shareholder's Equity	195.134	4.543	2,3%	**0**	**0,0%**	**0**	**0,0%**	**0**	**0,0%**
Total	**1.525.679**	**1.335.088**	**87,5%**	**1.156.340**	**75,8%**	**1.197.532**	**78,5%**	**1.206.840**	**79,1%**

Table 5: Resolution vs. Best Case Insolvency Scenario

We estimate a 3-year insolvency scenario to be probable, with that being the most relevant timeframe.

In our **Best Estimate** Scenario, insolvency proceeds are not sufficient to reimburse the shareholder at all, and liabilities are still affected (NCWO principle met under the actual resolution tool).

The **Best Case** Scenario shows higher proceeds from the realisation of assets, but liabilities still suffer a shortfall and no reimbursement to the shareholder is possible.

The **Worst Case** Scenario results in a reduction of asset realisations, with even more liabilities suffering a shortfall and no reimbursement to the shareholder.

Hence, it is reasonable to conclude that under the resolution the shareholder of the Bank in respect of which the resolution action has been effected has not incurred greater losses than he would have incurred if the Bank had been wound up under NIP (section 7).

2. Introduction

On 27 February 2022, the ECB assessed that the Bank was failing or likely to fail, implying that the Bank will not be able to pay its liabilities as they fall due in the near future, and communicated its assessment to the SRB (section3(32) et seq. Resolution Decision). On the same day, the SRB finalised its provisional Valuation 1.

On 1 March 2022, which will be referred to as the "Resolution Date", the SRB took resolution action (3(45) et seq. SRB Resolution Decision) in respect of the Bank, in its determination that the conditions for resolution were met, namely:

- The entity was likely to fail and there was no reasonable prospect that any alternative private sector measure or supervisory action would prevent its failure within a reasonable timeframe,
- Considering the nature of the Bank's activities, size and importance for the Slovenian economy overall, resolution action was necessary in the public interest.

The SRB decided that among the alternative resolution tools available under the SRMR, the sale of business tool in the form of transfer of shares was the most appropriate to achieve the resolution objectives (4.3.2 et seq. Resolution Decision).

[redacted]

2.1. Purpose of this Valuation

Article 20(16)-(18) of SRMR requires a "*Valuation of Difference in Treatment to assess whether shareholders and creditors would have been more favourably treated if the institution under resolution had entered into normal insolvency proceedings*". Generally, Valuation of Difference in Treatment is a safeguard of the rights of shareholders and creditors who were affected under the resolution scheme.

According to section 4.3.3.2. of the Resolution Decision, the SRB considered that the Purchaser could preserve the Bank's critical functions and contain the liquidity drain as well as that the BS confirmed that the Purchaser would be able to ensure the viability of the Bank. The resolution tool (sale of the Bank's business to the Purchaser) was not only aimed at the transfer of the whole business but also ensuring the entity's going concern.

Hence, as of the Resolution Date, the Bank's creditors and the relevant DGS remained financially unscathed by the sale of business tool. Only the Bank's former shareholder got financially involved when, as a consequence of the resolution, the shares were transferred to the Purchaser in exchange for the consideration. Considering this, it becomes obvious that the **NCWO principle** would have been followed if, in normal insolvency proceedings, the shareholders would have received less than the consideration paid (after deduction of expenses).

Accordingly, we refrain from the requirement stipulated in Article 2 (5)(b) of the CDR 2018/345 to estimate the proceeds each creditors' class would receive if the Bank would have been wound-up under normal insolvency proceedings as this would not offer further evidence with regard to the NCWO principle. Instead, we provide an analysis if the recoveries under normal insolvency proceedings were sufficient to cover the former shareholder's consideration (net of the deducted resolution expenses). The NCWO criteria is met if, in normal insolvency proceedings, the shareholder would have received less than the consideration obtained in resolution (net of the resolution expenses).

Deviating from Article 2 (3) of CDR 2018/344 we have not identified **encumbered assets** and claims secured by those assets. Asset-encumbrance secures the Banks refinancing so that in case of normal insolvency proceedings, a portion of the Banks' assets would have to be allocated to specific creditors. Consequently, creditors of unsecured bonds/deposits would ultimately be referred to the allocation ratio from the remaining and often less valuable insolvency estate.

In this case, claims by depositors against the DGS are not affected: They are compensated within the limit set by the deposit insurance system, independently from the insolvency estate, although the recovery claim by the DGS would be affected by asset-encumbrance.

Finally, in NIP any asset-encumbrance would ultimately affect the remaining investors in unsecured financing facilities. This is because fewer assets are available and of a lower quality than secured assets such as covered bonds or securities in repurchase agreements. Accordingly, the loss in case of insolvency for unsecured creditors increases with rising encumbrance.

It should be reiterated that neither the DGS nor the creditors of the bank were financially affected in this resolution case. Therefore, the question of preferred or subordinated satisfaction of creditors in connection with asset encumbrance is not relevant for at the case at stake, an analysis of asset encumbrance is not necessary to illustrate a different treatment between resolution and counterfactual insolvency.

Generally, **Valuation of Difference in Treatment** is required to determine:

- The treatment that Shareholders and Creditors in respect of which resolution actions have been effected (affected Shareholders and Creditors) would have received if the Bank had entered into NIP when the resolution authority, in this case the SRB, decided to apply the resolution strategy (counterfactual treatment).
- The treatment that affected Shareholders and Creditors received in resolution (actual treatment).
- The difference between the actual treatment and the counterfactual treatment.

Pursuant to Article 20(18) SRMR, the valuation shall:

- Assume that the institution under resolution with respect to which the resolution action or actions have been affected would have entered NIP at the time when the resolution decision was taken.
- Assume that the resolution action or actions had not been effected.
- Disregard any provision of extraordinary public financial support to the institution under resolution.

If it is determined by the valuation report that the shareholder (and creditors) have suffered greater losses as a result of the resolution action than they would have suffered in NIP, they shall be entitled to compensation for the difference.

2.2. Legal and Regulatory Framework for Valuation of Difference in Treatment

In this case, the SRB is the resolution authority. Accordingly, we have complied with the SRMR and CDR 2018/344, which was adopted on 14 November 2017 and came into force on 29 March 2018. The SRMR and CDR 2018/344 provide the general legal framework for the preparation of the report and set technical standards for the Valuation of Difference in Treatment.

2.3. Scope of the Report

As already noted above, according to Article 3(a) of the CDR 2018/344 we, as an independent valuer, must assess how shareholders and creditors would have been treated if the entity had initiated NIP at the resolution decision date and compare this with the outcome of the resolution tool (sale of business in the form of a share transfer from the shareholders to the Purchaser).

In this case, the Bank's creditors and the relevant DGS remained financially unscathed by the sale of business tool. Accordingly, we will only compare the actual treatment of the shareholder (receiving the cash consideration after the deduction of expenses) with the disbursements in a hypothetical insolvency scenario (counterfactual treatment).

Also, it is not necessary to assess the hypothetical contribution or the treatment of the DGS in a hypothetical insolvency scenario.

2.4. Sources of Information and Key Dates

The purpose of this section is:

- To provide a summary of the information gathering process,
- To describe our approach to the information gathered.

2.4.1. Information Request and Valuation Date

We requested directly from the Bank a variety of information that were essential for preparing our assessment on the Valuation of Difference in Treatment. The initial contact was initiated on 20 June 2022, and continued throughout the whole process. In total, we sent ten information request lists and various individual requests. The data was uploaded to a VDR by the Bank.

On 28 February 2022, the Bank of Slovenia (**BS**) put the moratorium in force until end of 1 March 2022. On 1 March 2022 the decision to resolve the Bank was adopted. Hence, according to Article 20(17)(a) SRMR and Article 1 of the CDR 2018/344 the reference date of the valuation (**Valuation Date**) is 1 March 2022. The Bank provided us with the financial information as of 28 February 2022. Due to the moratorium, it is reasonable to assume that the financial information as of 28 February 2022 does not materially differ from the financial information as of 1 March 2022.

Accordingly, and as far as available, the basis of preparation of this Report is the unaudited financial information as of the Bank's closing balance or opening balance as of 28 February 2022 or 1 March 2022, respectively. If necessary, the basis of preparation was complemented by financial information as of previous dates, especially as of 31 December 2021.

In accordance with Article 1 of the CDR 2018/344 this valuation is based on both information available on the Resolution date and on information that could reasonably have been known at the Resolution date. The categories of information obtained include:

- financial information - including audited financial statements and management accounts, both at a consolidated and legal entity level;
- details of the Bank's assets - including details of the loan book and collateral data set as at the Valuation Date;
- a list of all claims and contingent claims;
- details of the real estate portfolio;
- details of current tax assets (CTA) and deferred tax assets (DTA) items;
- derivative contracts;
- details of the equity and fixed income data tape and the justification of their valuation;
- details of pending legal proceedings;
- information required to estimate the costs of liquidation - including details as to the Bank's cost base including key contracts and leases
- detailed employee information - including salaries and bonuses; and
- Liability Data Report (LDR), MREL TLAC Report as of 31 December 2021.

Furthermore, we used financial and non-financial information available from public sources, including digital and written information media (such as Bloomberg, S&P Capital IQ or research reports).

2.4.2. Description of our Approach to the Information disclosed

We were in regular contact with a dedicated team of the Bank throughout the valuation process to obtain, understand and analyse the requested information, including clarifying uncertainties in the data required for the valuation.

We encountered several challenges and delays in the process, including:

- Issues in terms of requests for greater detail than the Bank was ordinarily used to prepare,
- Questions concerning quality, depth and the consistency of the data,
- Lack of certain information.

The problem solution required a significant number of interactions with the Bank.

The most significant data gap relates to the Banks' creditor structure, namely the unavailability of a LDR as of the Valuation Date, which forced us as valuer to make reasonable assumptions concerning the utilisation of the DGS and the disbursement order to creditors and the shareholder.

Where we were unable to obtain information or data was not reliable, we have:

- used appropriate assumptions or substitute proxies which we derived from different market analyses and/or observations of other bank insolvency cases on the Slovenian market,
- focused on the most material items only in terms of their potential impact on affected Shareholder.

As necessary, such assumptions or substitute proxies are described in detail in the relevant sections of this Report.

This process inevitably led to delays in carrying out our work. Both the interactions and the identification of solutions took a lot of effort and time. This also increased the number of assumptions we had to make. The possible materiality of these assumptions varies from rather insignificant (as for the approximation of intra-year lifetime PD) to material (derivation of the LDR as of the Valuation Date).

Below we provide an overview of relevant assumptions and their expected impact on the valuation:

- As we were not provided with an LDR as at the Valuation Date, we have interpolated this data on the basis of the LDR as of Q4/021 and as of Q1/2022. At the same time, we performed a detailed analysis of the deposit tape to validate the results of our interpolation. It should be noted that the LDR is considered an essential document for deriving the creditors' waterfall and materially incorrect assumptions regarding the LDR may affect both the asset realisation strategy and the assumed duration of the liquidation. However, we are not aware of any material weaknesses in the figures we have produced and therefore consider the impact on the outcome of the valuation to be minor.
- Moreover, we were unable to construct a reliable creditors hierarchy according to the Liability Data Report and the MREL TLAC reporting. This does not negatively affect the outcome of the valuation concerning the situation of the shareholder. However, we are limited to allocate the recoveries from the hypothetical insolvency to the creditors as a whole, irrespective of their insolvency rankings. The reason is that the shareholder has a residual claim to the net assets remaining after satisfying the creditors from the estate created after the NIP have been completed, irrespective of their insolvency rankings.
- While analysing the loan tape, we identified a significant number of missing cash flows (for 231 claims) within the Bank's documentation (GBV approx. kEUR 78,790). These cash flows related exclusively to loans at maturity (approx. kEUR 78,622) and cash flows on the valuation date itself (approx. kEUR 168). We consider the cash flows on the valuation date itself to be immaterial and have assumed timely settlement. For the bullet loans, we calculated the cash flows from interest payments, but disregarded any interest rate changes during the term. We assume that future possible changes in interest rates will have rather insignificant effects on the valuation, as a significant portion of the bullet loans will be settled in the medium term. However, it should be mentioned that changes in interest rates may, in principle, have a significant impact on the cash flows of bullet loans, as these consist exclusively of interest payments until their redemption at maturity. Accordingly, significant short-term increases in interest rates could also have a significant impact on the cash flows from the bullet loans until their maturity. For detailed information, please refer to section 5.5.2.
- The Bank provided us with a lifetime PD matrix for our analysis of the loan tape. In order to make this analysis as detailed as possible, we have calculated changes within the lifetime PD itself using linear extrapolation. We expect immaterial effects of this assumption on the valuation.

As of to date, there is no indication that any of the aforementioned measures had material influence on the overall result of the valuation.

There are specific areas worth mentioning where we faced significant difficulties, e.g., in reconciling the unaudited financial statements made available to us as of 28 February 2022 with the information provided by the Bank concerning individual assets. In cases where the underlying information for individual balance assets stated deviations from the financial statements, we took the higher value into account to the benefit of the shareholder and creditors.

In case of data gaps and inconsistencies concerning the loan tape we made assumptions to take apparently missing cash flows into account (e.g., missing interest payments). This approach leads to a higher value of the loan portfolio to the benefit of the shareholder and creditors.

2.5. Macroeconomic Context for the Liquidation

We took into account the macroeconomic environment (as it was anticipated at the Valuation Date) of the liquidation scenarios, e.g., appropriate benchmarks for loan probabilities of default (PDs), losses given default (LGDs) or realisable values for real estate collaterals.

The projection for the economy of Slovenia, which was published by the BS [9], expected an economic growth of 4% for 2022, 3.3% for 2023 and 2.6% for 2024. This included, but was not limited to, the following considerations:

- Main driver of the economic growth represented the private consumption and with this the households. Because of the Covid-19 containment measures, households forced savings and reached a savings ratio of 22.6 % in 2020 (9 percent points higher than in 2019). Due to the ending of the containment measures and the high savings, a high growth of households' consumption was expected. Also, the gross household disposable income was expected to increase.;
- The unemployment rate was expected to decline below its record level from 2008;
- The investment activity by the Government was expected to make a large (but sharply declining) contribution in the first two years of the economic forecast.

The Winter 2022 Economic Forecast projected that, following a notable expansion, the EU economy would grow by 4.0% in 2022 and 2.8% in 2023. Growth in the euro area was also expected at 4.0% in 2022, moderating to 2.7% in 2023. The EU as a whole would reach its pre-pandemic level of GDP in the third quarter of 2022 and all Member States were projected to have passed this milestone by the end of 2022 (European Commission 2022)[10].

In comparison to the EU 28, the Slovenian economy aimed to grow more rapidly.

The inflation in Slovenia was expected to average at 3.8 % in 2022, mainly driven by the increasing energy prices and prices for other industrial goods at the end of 2021. Nevertheless, inflation was expected to slow down over the rest of the projection horizon, as energy prices were expected to stabilize and bottlenecks in the supply chain were expected to decline[11].

Within the EU, after reaching a record rate of 4.6% in the fourth quarter of 2021, inflation in the euro area was projected to peak at 4.8% in the first quarter of 2022 and remain above 3% until the third quarter of the year. As the pressure from supply constraints and high energy prices faded, inflation was expected to decline to 2.1% in the final quarter of the year, before moving below the European Central Bank's 2% target throughout 2023. Overall, inflation in the euro area was forecasted to increase from 2.6% in 2021 (2.9% in the EU) to 3.5% (3.9% EU) in 2022, before declining to 1.7% (1.9% EU) in 2023. (European Commission 2022)[12].

[9] Available online here: https://bankaslovenije.blob.core.windows.net/publication-files/macroeconomic-projections-for-slovenia-december-2021.pdf
[10] Winter 2022 Economic Forecast: Growth expected to regain traction after winter slowdown, 10 February 2022, available here: https://ec.europa.eu/commission/presscorner/detail/en/ip_22_926
[11] Winter 2022 Economic Forecast: Growth expected to regain traction after winter slowdown, 10 February 2022, available here: https://ec.europa.eu/commission/presscorner/detail/en/ip_22_926
[12] Ibid.

In our opinion, however, it cannot be ruled out that the assessments of BS and EC are by nature too optimistic due to the lack of proximity to the Valuation Date and the rapidly changing framework conditions as at the end of February 2022.

Our analysis of data from Eurostat, OECD, the World Bank and Bloomberg suggested that the trend of rising inflation, possibly rising interest rates, higher volatility on international loan markets and possibly also rising insolvency rates would continue or even intensify in 2022 in comparison to 2021.

According to Eurostat, the change in the Consumer Price Index (CPI) in Slovenia rose to approx. 9.6% by 01 March 2022. A continuation of this trend could not be ruled out, at least with regard to the Producer Price Index (PPI). Following the OECD, the PPI in Slovenia rose by 17.5% year on year (YoY) until 01 March 2022, which allowed conclusions to be drawn about possible effects on the CPI **(OECD 2022)**[13]**.** Nevertheless, this does not constitute that similar inflation rates were to be expected in the CPI. We took this fact and the associated loss of purchasing power into account regarding PDs' and LGDs' upward potential for loans to customers, overdrafts and similar.

On 16 December 2021 in its press release "Monetary policy decisions", the ECB announced that interest rates would remain on their current levels:

"The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. In support of its symmetric 2% inflation target […], the Governing Council expects the key ECB interest rates to remain at their present or lower levels until it sees inflation reaching 2% […] it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term. This may also imply a transitory period in which inflation is moderately above target." (European Central Bank 2021)[14]

However, on 3 February 2022, Reuters published its article "ECB opens door to 2022 rate hike in policy turnaround" and expressed concerns that interest rates could not remain at their low level:

"Sources close to the discussion said a sizeable minority of policymakers had urged the Bank to act on Thursday, possibly by announcing a faster reduction in bond purchases, before agreeing to wait until March. According to the sources, policymakers were clear that a rate hike this year should no longer be ruled out given inflation risks and uncertain forecasts" (Reuters 2022)[15].

This development caused us to take into account increased risks in connection with variable-interest loans via the adjustment of PD and LGD of the borrowers as the debtor is required to pay higher interest rates which causes either a prolonged repayment period or higher annuities (e.g., planning uncertainty or miscalculation of financing). At the same time, this assumption influences the borrowers' willingness to migrate to other banks, as they are likely to take advantage of the opportunity to take out long-term fixed-rate loans in anticipation of rising interest rates.

[13] Available online here: https://data.oecd.org/price/producer-price-indices-ppi.htm
[14] Available online here: https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.mp211216~1b6d3a1fd8.en.html
[15] Available online here: https://www.reuters.com/business/ecb-seen-hold-may-acknowledge-inflation-risks-2022-02-02/

Furthermore, following Eurostat data, insolvency filings by companies in Slovenia fell to a notable low in 2020 and 2021. In 2020, about 14.5% fewer insolvencies were filed as compared to 2017, and in 2021 about 22.8% without 2017 being a relatively high outlier. This fact is probably due to the law change as of 2 April 2020: “suspension of the obligation to file for insolvency and to initiate mandatory composition proceedings if the insolvency is due to the Corona crisis. Insolvency cases (except auctions) were initially classified as urgent (from 13.3), but then as non-urgent (from 31.3), cancelling all hearing dates.” (European E-Justice 2021)[16] As of the valuation date, we had no further information on the termination of this measure. This at least allowed the conclusion that after the end of the measure, insolvencies might be "caught up" or stabilise at pre-pandemic levels, therefore insolvency rates in Slovenia might rise again and thus affect the Bank's corporate debtors and associated NPL ratios. This led us to the conclusion that we need to consider additional risks in the PD and LGD of corporate borrowers and at the same time draw conclusions with reference to the conversion of PL to NPL during the insolvency period (see section 5.5.2.)

In order to determine possible discounts for a certain part of the loan portfolio to be sold, we analysed the international market for Collateralized Loan Obligations (CLOs) (Federal Reserve System 2019)[17]. According to a market analysis "February Wrap: Volatility hits loan market, dragging YTD returns into red" (PitchBook 2022)[18] published by Pitchbook Data, Inc.[19] on the Valuation Date (01 March 2022), the CLO market suffered heavy losses in the context of the Russian invasion of Ukraine. Accordingly, this development represented the worst performance of the S&P/LSTA Leveraged Loan Index (-0.51% in February 2022) and the LL100 index (-0.54% in February 2022) since the Corona Pandemic sell-off in March 2020. This development, as well as the existing uncertainty and volatility in the CLO market, prompted us to take a rather cautious approach with regard to loan sell-off-related sales discounts in order to meet the requirements of a realistic and prudent valuation.

In summary, this means that we expect increased risks with regard to the loan portfolio, the quantification of which remains uncertain at the Valuation Date. Therefore, we explicitly mention that our quantifications are estimates, which are, however, based on observable market mechanisms and forecasts of relevant market participants. In principle, however, fundamental indicators suggest that inflation will worsen in the course of 2022 or at least remain unchanged. At the same time, it is expected that the ECB will raise interest rates successively in response to rising inflation figures. This combination is expected to have a negative impact on the solvency of all debtor classes. Likewise, in combination with possible catch-up effects in the context of corporate insolvencies, this could further erode the quality of the loan portfolio.

[16] Available online here: https://ejustice.europa.eu/37843/DE/covid19_impact_on_civil_and_insolvency_matters?SLOVENIA&member=1

[17] Collateralised Loan Obligations (CLOs) are structured securities primarily backed by pools of leveraged loans to corporates. CLO securities are issued by special-purpose vehicles (SPVs) established to hold diversified portfolios of leveraged loans. Loans held in CLO issuers' portfolios include varying degrees of credit risk, called "tranches," and are actively managed by third-party asset managers (Available online here: https://www.federalreserve.gov/econres/notes/feds-notes/collateralized-loan-obligations-in-the-financial-accounts-of-the-united-states-20190920.html)

[18] Available online here: https://pitchbook.com/news/articles/volatility-loan-market-ytd-returns-february-2022

[19] PitchBook Data inc. is a financial data and software company with offices in London, New York, San Francisco and Seattle and provides global business professionals with comprehensive data on the private and public markets.

Credit markets are expected to come under high pressure. At the same time as volatility is rising, uncertainty on the markets is increasing and corresponding yields are falling into negative figures.

In the light of the Russian invasion of Ukraine and the uncertainty surrounding the duration and impact of this conflict, it is not possible as of the Valuation Date to foresee how long this trend may continue. This led us to evaluate particularly the loan portfolio with special caution and to adopt a conservative approach as part of a realistic and prudent valuation. As a result, we have adopted adjustments to PD and LGD, which we explain in more detail later in the report (section 5.5.2.).

2.6. Best point estimates and value ranges

According to Article 6(a) of CDR 2018/344 we provide a "best point estimate of the values", and where appropriate, value ranges of the assets, certain liabilities and expenses related to the insolvency proceedings.

We have prepared three scenarios (Best Estimate, Best Case and Worst Case) to illustrate the possible ranges of valuation results.

Estimating the probabilities of scenarios is highly subjective. We have applied generally accepted accounting guidelines to assess the probabilities that a contingent loss or liability will occur from a future event. For a guidance we refer to the FASB Accounting Standards codification ASC 450-20.

Still, ASC 450-20 does not provide quantitative thresholds. "Probably" is not intended to be interpreted as "virtual certain".

Generally, "probable" or "likely" to occur are understood as a higher threshold than "more likely than not" or ">50% chance of occurrence".

Even though FASB guidance does not contain a quantitative discussion on "remote", the term is commonly used to signify a probability of 10% or lower [20]

Interpretive Guidance from AICPA Statement of Position 96-1 states that "reasonably possible" covers the range from "remote" to "probable". Hence, we conclude that the range would be "more than 10% to 50%".

Based on the preceding explanations, the likelihood of occurrence is categorised as follows:

- **Probable:** The future event or events are likely to occur (probability greater than 50%)
- **Reasonably possible:** The chance of the future event or events occurring is more than remote but less than likely (probability greater than 10% up to 50%)
- **Remote:** The chance of the future event or events occurring is slight (probability 10% or lower).

[20] Deloitte: "Roadmap - Contingencies, Loss Recoveries, and Guarantees", March 2023

Best Estimate Scenario

The Best Estimate Scenario indicates the reasonably expected recoveries of assets as well as payments for certain liabilities and expenses related to the insolvency proceedings. Based on an analysis of appropriate and valid historical data, observations and drawn conclusions from the macroeconomic forecast (see section 2.5.), the Best Estimate is considered to reflect the common market participants' broad expectations about relevant economic developments and valuation parameters. The observation time is as of the valuation date, meaning that future events that cannot reasonably be anticipated on the valuation date are not reflected in the Best Estimate Scenario. Also, unduly optimistic or pessimistic assumptions are not incorporated. In the light of the macroeconomic developments, the Best Estimate Scenario expresses a mildly unfavourable economic environment. We consider the Best Estimate Scenario as the probable scenario.

Still, as the valuation and the herein estimated cash flows are subject to significant uncertainty, we performed sensitivity analysis for key value drivers (e.g., the valuation parameters for the loan portfolio or probabilities of expenses for legal contingencies) to provide a valuation range around the Best Estimate in the form of a Best Case Scenario and a Worst Case Scenario, respectively.

Best Case Scenario

In the Best Case Scenario, we assume still favourable macroeconomic conditions, despite growing headwinds as illustrated in section 2.5. of this Report. An optimistic outcome is considered as reasonably possible, especially, if the end of the Russia-Ukraine war is within sight, sanctions start to roll back, inflation cools down and monetary policy continues to be fairly loose. These factors would contribute towards a favourable economic development and would help to keep credit default rates low.

Worst Case Scenario

Compared to the Best Case Scenario, the Worst Case Scenario assumes an unfavourable macroeconomic development. A rather pessimistic outcome is considered as reasonably possible as the Best Case scenario, as a scenario of the continuance of the Russia-Ukraine war including sanctions against Russia, supply chain disruptions, elevated commodity prices, relatively high inflation rates and a tightening monetary policy. The Worst Case Scenario expresses a severely unfavourable economic environment in which many firms and households would become financially distressed to a point where credit default rates rise significantly.

For details on how these scenarios are reflected in the loan portfolio please refer to section 5.5.2.

2.7. Sberbank banka d.d. Balance Sheet as of the Valuation Date

As noted in section 2.4.1. of this Report, our work is based on the unaudited financial information as of the Bank's closing balance or opening balance as of 28 February 2022 or 1 March 2022, respectively, as provided to us by the Bank.

Assets (kEUR)	
Item	Book Value
Cash and cash equivalents	270.562
Financial assets held for trading	4.788
Non-trading financial assets mandatorily at fair value through profit or loss	332
Financial assets measured at fair value through other comprehensive income	69.397
Financial assets measured at amortised cost	1.166.188
- Debt securities	*13.425*
- Loans and advances to banks	*4.554*
- Loans and advances to customers	*1.144.851*
- Other financial assets	*3.358*
Investments in subsidiaries, associates and joint ventures	292
Tangible assets	11.368
- Tangible assets	*10.904*
- Investment property	*464*
Intangible assets	1.424
Tax assets	505
- Current taxes	*46*
- Deferred taxes	*459*
Other assets	822
Total Assets *)	**1.525.678**

*) excluding reconciliation item "Cash and cash equivalents"

Table 6: The Bank's balance sheet as of the valuation date - assets

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

Liabilities and Equity (kEUR)	
Item	**Book Value**
Financial liabilities held for trading	4,701
Financial liabilities measured at amortised cost	1,318,925
- deposits from banks and central banks	*24,937*
- deposits from non-bank customers	*1,072,652*
- loans from banks	*190,008*
- debt securities	*0*
- subordinated liabilities	*0*
- other financial liabilities	*31,328*
Provisions	3,676
Tax liabilities	2,249
- current tax liabilities	*2,249*
- deferred tax liabilities	*0*
Other Liabilities	994
Total liabilities	**1,330,544**
Share capital	133,140
Share premium	27,248
Accumulated other comprehensive income	96
Reserves from profit	6
Retained earnings	33,933
Profit / loss for the year	711
Total Equity	**195,134**
Total Liabilities and Equity	**1,525,678**

Table 7: The Bank’s balance sheet as of the valuation date - liabilities and equity

2.8. Methodological Approach taken

In reviewing the basis for our valuation work, we have considered the requirements of Delegated Regulation (EU) 2018/344 (CDR 2018/344) and the SRMR.

We have considered the insolvency scenario of the Bank on a legal entity basis, reflecting the winding-up process, which would apply under the Slovenian Insolvency Law.

During the winding-up process, the Bank is expected not be able to provide customers with the same level of service, reliability, or access to products and services that they are accustomed to experiencing. This can lead to customer dissatisfaction and a lower degree of trust in the Bank by both, the customers as well as third parties. Historically, winding-ups of similar banks have revealed that customers often transfer their business to more reliable, financially stable banks in order to ensure that their needs are met (see section 4.3.2. et seq. for details).

At the same time, it is important to realise that NIP involves the liquidation of all assets, termination of accounts and the closure of operations, meaning that the Banks' business is often too complex to be sold as a whole or as a going concern. It may be challenged by legal, financial, and regulatory issues that need to be addressed before the transaction can be successful, making an orderly sale of single assets or asset portfolios a probable approach.

At best, it is thinkable that particular business units of the Bank could be sold. However, from our valuer's perspective it is not feasible to identify particular business units and assess their potential values. This would require a large number of assumptions to be made, particularly regarding which assets, (outstanding) liabilities, contracts, rights and obligations, as well as employees, corporate functions and processes would need to be allocated to the business unit being sold or separated from the other business units. In addition, there are various operational dependencies on other business units and it is not foreseeable for us as the valuer how the elimination of these operational connections with the overall company could affect the value of the business unit.

In addition, hardly surmountable difficulties would arise in regard to the valuation of the business unit. These difficulties in valuation arise both for the sale of individual business units and for the valuation in the event of a sale of a bank as a whole. Below, we provide a brief overview of other possible valuation methods for banks and the accompanying difficulties that would arise in our case.

- The asset based approach involves valuing a bank's assets individually and deducting outstanding liabilities in order to determine the net asset value or the value of shareholders' equity. The approach comprises a comparison of the market values of a bank's assets to their book values and is essentially in line with our approach of individually valuing all assets and potential contingent liabilities.

- In the market approach, a value is determined using multiples (such as price-earnings ratio or price-to-book value ratio) of comparable banks. The main difficulty here is that this approach does not take into account the specific characteristics of a bank (such as its market position, refinancing advantage within the banking group, growth prospects or regulatory capital requirements), but instead lumps many banks together. Furthermore, this approach assumes that the peer group of listed comparable banks would have a similar focus on retail lending, whereas many listed banks have a business mix of retail banking, investment banking, private banking, and trading.
- In the income approach, a net present value is determined from future free cash flows to equity, annual surpluses, or dividends. A necessary basis for this would be a projection of future cash flows or earnings, for example based on a business plan for the business unit or the bank as a whole, after the initiation of the compulsory liquidation. However, such a business plan does not exist and cannot be sensibly created by us based on assumptions.
- There are also other approaches, such as the Contingent Claim Valuation. However, these approaches do not sufficiently consider regulatory requirements and there is little practical relevance.

Hence, we are limited to assume that the procedure would provide for the disposal of assets on a portfolio basis or piecemeal. This assumption takes a balanced perspective with neither advantage nor disadvantage to the shareholder. The reason being that our approach, based on the asset based approach, relies the most on available facts and values (especially book values or fair values according to the Notes to the Financial Statements) and the least on future speculative assumptions. We summarise the reasons for this in section 4.

Taking the above into account, we have reflected a liquidator's probable approach in our valuation. Typically, a liquidator pursues two objectives. Firstly, the aim to conduct a fast liquidation, and secondly, the target to maximise the proceeds. However, a quick sale of assets requires accepting higher discounts. Hence, speed and maximising proceeds are frequently in conflict with each other.

In this context, the DGS may play a prominent role. The DGS sets aside a relatively large amount to refund the secured deposits to the depositors as quickly as possible. As a result, the DGS will urge the liquidator to realise the amount required for the repayment of the funds it has set aside.

The pressure of having a strict schedule imposed by the DGS can come in conflict with the need to find an attractive market price for assets that will ensure unsecured and unguaranteed creditors receive fair returns. The liquidator has to balance the time available and the realisable value of the assets in order to take the most effective decisions that can be approved by all stakeholders. In this context, we simulate the time periods, in which individual creditor categories can expect to be satisfied with a certain amount from the ongoing NIP. Based on this, we draw conclusions on which hypothetical insolvency plans would probably be more or less acceptable for the different creditor categories in terms of achieving a quick and substantial satisfaction of their claims. Furthermore, we draw conclusions regarding our hypothesis, which insolvency durations represent probable scenarios.

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

We have applied specific assumptions for each asset class to our valuation methods in order to estimate the liquidation value (in cash) based on the liquidator's expected liquidation strategy, as further described in section 4.2.

In addition, we have estimated the costs of the liquidation process that would reduce the net recoveries to creditors (i.e. liquidation fees, staff costs, operating costs and potential contract termination costs - see section 4.4.).

We have also assessed contingent claims which are potentially not fully reflected in the Bank's balance sheet but could arise in the insolvency proceedings and would further decrease recoveries to shareholders and creditors (i.e. legal contingencies - see section 5.12.1.).

Where information was unavailable, we made hypotheses and assumptions from detailed analysis when certain information was unavailable (see section 2.4.2.).

We strictly adhered to the requirements of Article 4 of the CDR 2018/344 - Determination of the treatment of shareholders and creditors under normal insolvency proceedings. Specifically, we have considered the expected cash flows arising from asset realisations and costs during the liquidation period on a discounted basis based on our envisaged liquidation scenario.

On this basis, we have examined if the NCWO principle has been met. The insolvency proceeds would be distributed among equity and liability holders according to the creditor hierarchy determined by the Slovenian jurisdiction.

3. Insolvency Scenario

Below, we describe the hypothetical insolvency scenario under NIP. For detailed information and references to the legal framework, please refer to Section 9 Annex 2.

3.1. Legal Framework for Insolvency

In Slovenia the NIP of a banking institution is governed by the RCWBA as main legal act which entered into force in 2016 and has been updated on 23 June 2021.

According to Article 5(42) RCWBA NIP in Slovenia are defined as the procedure for forced liquidation of the bank in accordance with the RCWBA or the procedure of preventive restructuring, forced settlement, forced liquidation and bankruptcy. This can be initiated against a business company or an individual in accordance with the law governing financial operations, insolvency proceedings and forced termination (*Zakon o finančnem poslovanju, postopkih zaradi insolventnosti in prisilnem prenehanju*, the "**ZFPPIPP**")[21].

The procedures for the forced liquidation of a bank are according to Article 168 (1) RCWBA the compulsory liquidation procedure and bankruptcy proceedings.

In case the BS would assess that the resolution measures for the relevant bank would not achieve the resolution objectives in terms of safeguarding the public funds by reducing reliance on the extraordinary public financial support (Art. 27 (1)3 RCWBA), it shall initiate the compulsory liquidation proceedings (Art. 74(1) RCWBA, which transposes Article 32b BRRD). With regard to the resolution measures it should be noted that in line with Article 153(1) RCWBA the use of the resolution measures shall be assessed by way of comparison of the treatment of the shareholders and the creditors which those would get in the context of a normal insolvency proceedings. This is further articulated in Article 153(4) RCWBA which provides that the assessment referred to in Article 153(1) RCWBA should, *inter alia*, include information about the most likely treatment of shareholders and creditors or the deposit guarantee scheme, if normal insolvency proceedings were initiated over the institution in question at the time of adoption of the decision on initiation of resolution measures (pursuant to Article 91 RCWBA).

The ZFPPIPP is the general legal act regulating insolvency proceedings.

RCWBA in relation to ZFPPIPP contains dedicated provisions concerning the subject matter (*lex specialis*). However, ZFPPIPP is used as a subsidiary legal act and applied only when RCWBA does not address a certain matter.

Based on the counterfactual assumption of the opening of normal insolvency proceedings and pursuant to Article 20(18) SRMR, we conclude that a compulsory liquidation of the Bank would be the relevant insolvency scenario.

[21] Official Gazette of the RS, no. 176/21, 178/21, 203/20, 43/21, 101/21, 196/21.

3.2. Normal Insolvency Proceedings

For the purpose of the Report, we have concluded that a compulsory liquidation and forceful winding-up of the Bank under the RCWBA (comprising of two consecutive phases, i.e., a forceful liquidation which is followed by bankruptcy proceedings) is the appropriate basis, because:

- Article 20 (18) of SRMR states that a Valuation of Differences in Treatment[22] should be performed assuming that the entity has entered into NIP (under the national law);
- The applicable national law in this instance is the RCWBA which provides a two-step termination of a bank:
  - First, a compulsory liquidation, followed by
  - bankruptcy proceedings (Article 168 RCWBA).

3.2.1. Phase I: Compulsory Liquidation Proceedings

Compulsory liquidation proceedings against the Bank are proceedings for winding-up the Bank as a legal entity which are carried out by the BS to close the Bank's operations and settle its liabilities to creditors arising from contracts for the provision of banking services, financial services and ancillary financial services performed by the Bank based on the authorisation to provide banking services under the BA. As mentioned before, in case the BS would assess that the resolution measures for the relevant bank would not achieve the resolution objectives in terms of safeguarding the public funds by reducing reliance on the extraordinary public financial support (Art. 27, para. 1, pt. 3 of RCWBA), it shall initiate the compulsory liquidation proceedings (Art. 74, para. 1 of RCWBA).

As the liquidation phase begins, the court appoints a liquidator whose main task is to recover the assets of the Bank, realise them and distribute the proceeds to the creditors and shareholder. This should be done as quickly and efficiently as possible, taking into account the court proceedings required and, in particular, the nature of the insolvency proceedings, which are likely to affect the overall speed and efficiency.

After the initiation of the compulsory liquidation proceedings the Bank may only carry out regular business necessary for the performance of the Bank's activities under the conditions of compulsory liquidation, and settle its obligations from these business relationships, while observing the requirements and restrictions in accordance with RCWBA. The latter business relationships include those transactions and actions that are necessary to maintain the value of the Bank's assets or to prevent a decrease in value or to ensure more favourable conditions for the liquidation of the Bank's assets, including the possibility of selling parts of the business or the business as a whole. (Banka Slovenije 2021)[23].

[22] The valuation shall indicate the subdivision of the creditors in classes in accordance with the priority of claims referred to in Article 17 and an estimate of the treatment that each class of shareholders and creditors would have been expected to receive, if an entity referred to in Article 2 were wound up under normal insolvency proceedings. That estimate shall not affect the application of the 'no creditor worse off' principle referred to in Article 20 (18) of SRMR.

[23] Paragraphs 1 and 2 Article 198 RCWBA.

Compulsory liquidation proceedings include the use of the following two instruments (Banka Slovenije 2021)[24]:

- Sale of business,
- Exclusion of assets.

The BS shall issue a decision regarding the use of the above instruments (Banka Slovenije 2021)[25] and the liquidator shall adopt any reasonable measures to carry out the liquidation of assets under market conditions, taking into account the circumstances of the case and the assessed liquidation value of the assets (Banka Slovenije 2021)[26].

Sale of business

Articles 206-210 of the RCWBA govern the sale of the Bank's business (or parts of it). By using this instrument, all or individual assets, rights or obligations of the Bank in compulsory liquidation are transferred to a transferee, including contractual relationships regarding the performance of the Bank's services. The transferee provides the Bank with appropriate consideration in connection with the transfer.

The sale of business instrument can be used multiple times to ensure additional transfers to the same or different transferees (Banka Slovenije 2021)[27].

Exclusion of assets

Articles 211-214 of the RCWBA provide that BS establishes one or more companies within the framework of the asset exclusion instrument, to which the Bank's assets, rights and obligations are transferred, including contractual relationships entered into by the Bank in the provision of banking, financial and additional financial services, for the separate management of transferred assets and liabilities due to the sale of these assets as a whole. (Banka Slovenije 2021)[28]

The transfer of assets to the asset acquisition company (AAC) is carried out as 1) payment of the founding capital of the asset acquisition company or 2) appropriate monetary consideration in relation to the transferred assets.

BS shall use the asset exclusion instrument in particular if 1) the situation in a certain market for these assets is such that the liquidation of such assets could have a negative impact on one or more financial markets, or 2) if the transfer to the asset acquisition company is necessary to ensure the highest possible income from the liquidation (Banka Slovenije 2021)[29].

[24] However, other activities can also be carried out to ensure the repayment of the bank's creditors (Article 171 RCWBA).
[25] Paragraph 1 Article 203 RCWBA.
[26] Article 170 RCWBA in connection to Article 203 RCWBA.
[27] Paragraph 1 Article 206 RCWBA.
[28] Paragraph 1 Article 211 RCWBA.
[29] Paragraph 2 Article 211 RCWBA.

We consider the asset exclusion instrument to be irrelevant in this case for several reasons. Firstly, there is no indication that the sale of individual assets would lead to market disruptions. The largest asset position is the customer loan portfolio, for which there is no active, liquid market that could potentially suffer disruptions due to sudden oversupply. The other assets (e.g., securities or properties) are relatively small in number and value, making their sale in respective markets negligible, and thus no market disruptions are expected there either.

Secondly, an AAC, from the perspective of maximising the proceeds from the liquidation is not considered reasonable. The AAC could only provide the Bank with founding equity securities due to a lack of initial liquidity. However, these securities do not represent liquidity that can be distributed to creditors. At best, the liquidator could sell these equity securities to generate liquidity, but from an economic standpoint (analysing the assets in the AAC), this is unlikely to result in significantly different proceeds compared to directly selling the assets to an investor.

Against this background, we consider the option of Asset Exclusion to be remote and will not pursue the asset exclusion approach. Accordingly, the business sale instrument, namely the sale of assets either in small portions or large tranches, is considered to be a relevant option during the compulsory liquidation.

Payments to creditors

The liquidator is required to utilize the liquid assets of the Bank, generated as a result of measures to liquidate its assets, for covering the expenses of the forced liquidation process and for settling the Bank's liabilities to its creditors, unless such repayment to creditors is excluded or restricted by law.

Also, the liquidator regularly settles the bank's overdue liabilities against the available liquid assets and special liquid assets, taking into account the restrictions set by the BS regarding the operation of the Bank in the process of forced liquidation.

Termination of compulsory liquidation proceedings

Pursuant to Article 223 RCWBA, the BS shall issue a decision to terminate compulsory liquidation proceedings when, on the basis of the liquidator's report, it determines that the Bank's liabilities to its counterparties for the performance of banking services in compulsory liquidation proceedings have:

- Either been satisfied in full or
- in part and that, simultaneously, the Bank has no more assets available for liquidation with a view to repaying its remaining liabilities arising from the performance of banking activities.

Experience with bank liquidations in the past has shown that at least the processing of claims for and against the Bank (e.g., refer to the legal contingencies in Section 5.12.) can take longer than the actual liquidation. Accordingly, it should be assumed that a Bankruptcy phase must be taken into account at least for the processing of claims, if not for remaining assets also.

3.2.2. Phase II: Bankruptcy Proceedings

Initiation of bankruptcy proceedings concerning a bank

Pursuant to Article 225 RCWBA, the court's decision to initiate bankruptcy proceedings against a Bank shall be based exclusively on the proposal of the BS. The BS shall submit a proposal to initiate bankruptcy proceedings (along with the decision to terminate compulsory liquidation proceedings) to the competent court. The court shall issue the decision to initiate bankruptcy proceedings against the Bank on the business day following the date of receipt of the request of the BS.

As mentioned before, the provisions of the ZFPPIPP are used as a subsidiary legal act only when RCWBA does not set out dedicated rules for banks.

For more information, please refer to Annex 2.

Methods of sale

Each individual asset sale must be preceded by 1) its valuation (by a certified appraiser) – the assessment of the value of the asset must be made on the basis of the market value and the liquidation value[30] in accordance with the standards of assessment of the value determined by the law governing auditing; and 2) the evaluation of the most appropriate method of sale (to maximise proceeds therefrom; this could include market research, public invitation for unbinding bids, etc.) (Republika Slovenjie 2008)[31] Assets that are subject to rights of extrajudicial enforcement are not sold in this manner.

In accordance with the subsidiary use of the ZFPPIPP, namely Article 329, the available methods of asset-sale used in the bankruptcy proceedings of the Bank (determined, in each case, by the relevant court resolution (decision) on the sale) are:

- Public auction: provided court approval, a public auction may be repeated one or several times (where the asking price is lowered by a maximum of 10% each time),
- Tender, *i.e.*, public invitation for submitting bids,
- If the method(s) above are not successful, the court resolution on the sale may determine that the asset be sold by way of direct negotiations with one of the potential purchasers who has submitted an unbinding bid (during the initial process of evaluating the optimal method of sale).

The liquidation manager is required to invite at least three bidders to enter direct negotiations. However, invitations to submit bids may also be sent to individual/particular bidders, provided that this does not result in favouring or discriminating of other potential bidders.

Each sale and purchase agreement is executed with a statutory condition subsequent – pending court approval (pursuant to the liquidator's proposal).

Creditor Hierarchy

The proceeds from the realisation of assets will be disbursed according to the creditor hierarchy according to the insolvency jurisdiction in Slovenia. Basis for our conclusions are the existing European and Slovenian legal frameworks, together with expert commentary of local law specialists.

[30] Liquidation value is the likely price of an asset when it is allowed insufficient time to sell on the open market, thereby reducing its exposure to potential buyers. Liquidation value is typically lower than fair market value.
[31] Article 326 ZFPPIPP.

The table below sets out a summary of the creditor hierarchy pursuant to Art. 230 par. 2 RCWBA:

Creditor Hierarchy		
Rank	Label of the claim	Legal basis
12	Outstanding costs of compulsory liquidation proceedings and the costs of bankruptcy proceedings ("Costs of Liquidation")	Art. 230, para. 1 and 2 (1st sentence) of the Resolution and Compulsory Winding-Up of Banks Act (Zakon o reševanju in prisilnem prenehanju bank, Official Gazette of the RS no. 92/21, ZRPPB-1) (the "RCWBA")
11	Priority Claims	Art. 230, para. 2 (pt 1) RCBWA Art. 169 of the RCWBA in connection with Art. 21 of the Financial Operations, Insolvency Proceedings, and Compulsory Dissolution Act (Zakon o finančnem poslovanju, postopkih zaradi insolventnosti in prisilnem prenehanju (ZFPPIPP))
10	Guaranteed Deposits	Art. 230, para. 2 (pt. 2) RCBWA Art. 230, para. 3 RCBWA
9	Claims with original maturity of less than seven days	Art. 230, para. 2 (pt. 3) RCBWA
8	Eligible deposits	Art. 230, para. 2 (pt. 4) RCBWA
7	Other eligible deposits	Art. 230, para. 2 (pt. 5) RCBWA
6	Bank deposits which are not deemed to be eligible or claims referred to in rank 5	Art. 230, para. 2 (pt. 6) RCBWA
5	Unsecured claims except claims for debt securities and similar instruments issued by a bank	Art. 230, para. 2 (pt. 7) RCBWA
4	Unsecured claims arising from debt instruments and other similar financial instruments issued by the bank, other than debt instruments referred to in rank 3	Art. 230, para. 2 (pt. 8) RCBWA
3	Unsecured claims arising from debt instruments which meet the requirements	Art. 230, para. 2 (pt. 9) RCBWA
2	Subordinated claims	Art. 230, para. 2 (pt. 10) RCBWA Art. 230, para. 4 RCBWA
1	Claims for instruments of ownership	Art. 230, para. 2 (pt. 11) RCBWA

Table 8: Creditor hierarchy in Slovenia

For more information, please refer to Annex 1.

Closing of bankruptcy proceedings

Within one month of the final distribution, the liquidator shall draw up its final report, listing 1) the total liquidation value of the bankruptcy estate; 2) the final recovery rate for creditors and 3) the proposal for (the final part of its) compensation. On those grounds, the court will issue a resolution on the closing of bankruptcy, which may be appealed by the creditors. The Bank is removed from the public court/business register.

3.2.3. Role and Purpose of the Liquidator

The liquidator's ultimate objective is to carry out the asset realisation within a reasonable period of time.

In **compulsory liquidation**, the liquidator is responsible for the liquidation of assets (by means of compulsory liquidation instruments/tools[32], as provided in Article 203 RCWBA) and repaying the creditors of the Bank. According to Article 172 RCWBA the BS and the liquidator shall exercise their powers to ensure that the liquidation actions are performed within the shortest possible time.

According to Article 193 RCWBA, the liquidator must deliver to the BS within four months after the initiation of the compulsory liquidation proceeding, among others:

- A compulsory liquidation plan (the Bank's financial position and compulsory liquidation plan).
- A proposal for the use of financial resources for compulsory liquidation procedures and instruments, including a proposal for the use of funds under the deposit guarantee system for the payment of guaranteed deposits or for other compulsory liquidation measures that ensure depositors maintain access to guaranteed deposits.

The compulsory liquidation plan and amendments to the plan require approvals from the BS.

In **bankruptcy**, the ZFPPIPP requires the liquidator to act in a diligent fashion to obtain the best value in the circumstances for the Bank's assets; however, he is not required to speculate on uncertain outcomes. Moreover, he needs to take account of creditors' wishes to receive repayment of amounts due in a reasonable period.

The general obligation of the liquidator in the bankruptcy liquidation proceedings, under Article 320 ZFPPIPP, is to carry out actions for the realisation of the bankruptcy estate immediately upon the drawing up of his/her opening report, and to carry out these actions within the time limits specified in the conduct plan of bankruptcy proceedings.

For more information, please refer to Annex 3.

[32] These are 1) sale of the Bank's business, and/or 2) separation of assets.

4. Liquidation and Asset Realisation Strategy

An essential part of our analysis is to depict the overall strategy that a liquidator is likely to apply to recover value from the Bank's assets and to disburse the proceeds to shareholders and creditors.

As this is a hypothetical situation for which there is no precedent under the RCWBA[33] in the Slovenian market for an institution of the size and complexity of the Bank, it is necessarily highly subjective and requires the exercise of professional judgement based, inter alia, on our expertise regarding the following:

- Consideration of legal requirements for the strategy,
- Liquidation scenario including the duration of the liquidation,
- Asset realisation strategy, including the liquidator's risk appetite,
- Applicable insolvency law and practice in the relevant jurisdiction, which may influence factors such as the expected disposal period or recovery rates[34],
- Consideration whether the financial condition of the entity would have affected the expected cash flows, including through restrictions on the administrator's ability to negotiate terms with potential purchasers (European Commission 2017)[35],
- Prices observed in respect to active markets where similar assets are traded, i.e. financial assets classified at IFRS Level 2 fair values in the Banks' balance sheet,
- Prices observed in NIP or otherwise distressed transactions involving assets of a similar nature and condition; i.e. prices of the loan portfolio in fire sale circumstances,
- The likelihood of an asset generating net cash inflows under NIP; i.e. principal and interest payments from loans to customers,
- The length of a given disposal period shall reflect the implications of the applicable insolvency law, including the expected length of the liquidation process, or the characteristics of the relevant assets (European Commission 2017)[36]; i.e. the wind-up and sale of the loan portfolio,
- Liquidation costs,
- Macroeconomic expectations, contingent liabilities and possible legal uncertainties that have not been subject to court decisions yet.

[33] The only precedents were the special administrations and wind-ups of Factor banka and Probanka which took place before the implementation of the RCWBA. See below for further details on these cases.
[34] Article 4(3)(a) CDR 2018/344.
[35] Article 4(6) CDR 2018/344.
[36] Article 4(5) CDR 2018/344

4.1. Consideration of Legal Requirements for the Strategy

Previously, in Section 3 of this report, we have outlined the essential requirements for bank wind-ups according to Slovenian law. From this, important but unpredictable factors can be concluded. Specifically, these are questions about price discoveries in asset realisation, diligent management of the assets, what distribution of proceeds to creditors is conceivable and how the phases of compulsory liquidation and bankruptcy are distributed in time.

Price discovery

Regarding the question to what extent the type of price discovery matters and which proceeds are derived from auctions, tenders or direct negotiations, no reliable historical data from comparable cases is available. To obtain a best estimate of the expected sale proceeds, we use the Equivalent Value Theory.[37]

The Equivalent Value Theory is an approach to compare auctions and other price discoveries such as fixed-priced negotiations. It states that in expectation, all bidders in an auction will pay the same price, namely the price that the second highest bidder is willing to pay. This means that all auction formats, be it English auctions, limited payment auctions or commitment auctions will yield the same price in expectation, namely the amount that the second highest bidder pays. The Equivalent Value Theorem is evidence that auctions are not necessarily preferable to fixed price ones or direct negotiations. This is because, in both an auction and a direct negotiation the bidder will at most pay the market value of the asset.

From this one can infer that the estimated value can also be set as the best estimator for the expected achievable price, regardless of the form of transaction performance.

In an auction, bidding buyers generally achieve the market price of the asset, as there are several bidders competing against each other. In contrast, in a tender the price is usually lower, as the seller typically evaluates and screens the individual offers, and only selects the best offer. In this respect we assume to the benefit of the shareholders that also in tenders no expected prices are achieved that lie beneath the expected price achieved in an auction or direct negotiation.

[37] Ralf Peters, Internet-Okonomie, 2010

Diligent management of the assets

For some assets, market prices or market benchmarks are available, which makes pricing relatively easy and fast, e.g. for IFRS Level 1 securities. In contrast, the essential asset that is not readily marketable is the customer credit portfolio. This must be prepared for sale, e.g. in tranches of the same customer, creditworthiness, types of collateral, etc.

First, the liquidator must make an assessment of the fair market value achievable. Subsequently, a certain amount of time must usually elapse to find interested parties. In addition, potential buyers will not buy "a pig in a poke" and subject the (partial) portfolio to a due diligence prior to submitting an offer. Subsequently, the respective contracts for the transaction must be drafted.

Until the completion of all these actions, the liquidator has to administer the credit portfolio, in particular receive interest and regular and early repayments, which are a significant part of the liquidation proceeds to be distributed to the creditors.

Distribution of funds to creditors

It is worth noting that no direct mandate is made for the distribution of liquidation proceeds to creditor classes in the compulsory liquidation process, while the aforementioned creditor hierarchy applies in bankruptcy. However, as the BS must agree to the liquidation and distribution plan, it is highly likely that approval is only granted if the creditor hierarchy is similarly applied. There appears to be no rationale for deviating from this otherwise and thus to favour certain creditors over others disproportionately.

Compulsory liquidation vs. bankruptcy

At first, the question of whether assets should be realized in compulsory liquidation or bankruptcy is pertinent. However, upon further inspection, it seems natural to assume that the potential issue of proceeds from liquidation in Phase I or Phase II is secondary.

We have previously established that in both phases, the liquidator has the same duties, that is to obtain the best possible result in the shortest possible time, to collect the fruits of the assets until realization (mostly, interest and repayment of the loan portfolio), and finally to satisfy creditors according to the creditor hierarchy.

From an economic point of view, compulsory liquidation and bankruptcy, or Phase I and Phase II, are not significantly different, at least not with regard to the collection of proceeds, their distribution to creditors, and the timeframe of the Bank's closure.

Therefore, for the following analysis, we can forego differentiating between the two phases. One exception is that we must assume different costs for closing both phases.

4.2. Basic Considerations for Asset Valuation and Realisation

The liquidation would proceed on the basis of a disposal of the entity's assets either in portfolios or piecemeal.

The aim of the liquidation stage is to maximise asset recoveries for the purposes of repaying creditors. An insolvent liquidation process is by its nature value destructive (assets sold at distressed prices, costs of the process are high, etc.); this is exacerbated in the case of an unplanned process as such.

We summarise our assumptions for realisation strategies and the valuation approach below:

- **Cash and cash equivalents** (kEUR 270,573) consist of 100% liquid assets which should be collected immediately. Russian exposure is entirely devalued to zero.
- **Derivatives / Financial assets held for trading** (kEUR 4,788) are entirely Level 2 Fair Value assets and are sold over the respective liquidation period applying the market value approach.
- **Equity and debt instruments** (kEUR 83,154) entirely consist of Level 1 Fair Values and are sold over the respective liquidation period applying the market value approach.
- **Loan portfolio** (kEUR 1,149,405): Performing loans (PL) will be run off until the end of the liquidation period, followed by a sale of the remaining book. PLs are valued at the discounted gross value of anticipated realisations during liquidation plus interest payments received. The remainders are sold with the application of a prospective investor's discount rate according to market standards. Non-performing loans (NPL) will be sold shortly after the beginning of the liquidation and valued at market value approach. Loans to (Bela-)Russian banks are devalued to zero.
- **Investments in subsidiaries** (kEUR 292) are devalued to zero.
- **Property, plant and equipment** (kEUR 11,368) mainly consist of inventory as well as investment property and are valued at market value.
- **Intangible assets** (kEUR 1,424) mainly consist of software as well as licenses. It is expected that no or only minimal value can be recovered.
- **Tax assets** (kEUR 506) are devalued to zero.
- **Other assets** (kEUR 822) are collected immediately and valued at their Fair Value.

4.3. Possible Duration of the Liquidation Proceedings

4.3.1. Past Bankruptcy Proceedings in Slovenia

In developing the bankruptcy liquidation scenario, we have used as a reference an empirical analysis (Cepec, Ogledalo slovenskega insolvenčnega prava 2016)[38] concerning the bankruptcy proceedings of companies, performed in 2016, comparing bankruptcy proceedings from 2008 to 2013. It shows that on average, bankruptcy proceedings take two years and 19 days without a distribution of the bankruptcy estate, while proceedings involving the distribution of the bankruptcy estate took on average 4.4 years.

According to a more recent study (The World Bank 2019)[39], the general bankruptcy proceedings in Slovenia took on average 0.8 years. However, according to data prepared by the Ministry of Judiciary, in 2015, bankruptcy proceeding without a distribution took on average 1 year and with a distribution 3.6 years. For comparison, in 2014 the average duration of a bankruptcy procedure without a distribution was 1.1 years, while the average duration of a bankruptcy proceeding with a distribution was 3.9 years.

It should be noted that the comparability of the above data to this Resolution case is limited, as the companies included in the studies were not banks and banks generally undergo a compulsory liquidation in addition to and before bankruptcy proceedings. Additionally, there is no differentiation regarding the size or total assets of the companies. Nevertheless, the results give a certain impression of the timeframe within which winding-ups (either in compulsory liquidation or in bankruptcies) can generally occur in Slovenia.

However, we anticipate that for any large and complex insolvency proceeding such as the Bank, a very quick process may lead to distressed prices and low realisations whereas a longer process would allow a more orderly work out of the Bank's assets (which tend to be more complex compared to other bankruptcy scenarios). The most significant asset is its loan portfolio. According to our analysis the loan portfolio amortises relatively well over time, resulting in substantial cash inflows from interest and repayments over an extended period of time. On the other hand it must be considered that the uncertainty and risk concerning future insolvency proceeds increase over time. In addition, a prolonged insolvency process will create further operational and management costs.

[38] Cepec Jaka, Ogledalo slovenskega insolvenčnega postopka: pravno-empirična analiza učinkovitosti insol-venčnih postopkov nad gospodarskimi družbami v Sloveniji, 2016, p. 116.
[39] The World Bank, 2020, p. 58.

4.3.2. Comparison to other failed Bank Cases

We have considered whether other Slovenian liquidation or winding-up cases could provide insight into the hypothetical liquidation scenario for the Bank. This assessment is meant to estimate how long it will take to discontinue traditional bank services, unwind the loan portfolio, and, consequently, determine the duration of the liquidation process.

We must note that there is limited comparability between the cases at hand, due to the different regulatory frameworks arising from the fact that the proceedings in Slovenia took place before the adoption of the RCWBA. As stated above, the goals and principles of the RCWBA are to perform the forced liquidation procedure in the shortest possible time (Article 172 RCWBA).

Factor Banka d.d. and Probanka d.d.

The most recent wind-ups date back to the financial crisis aftermath in the period 2013-2016 when two Slovenian banks, i.e., Factor banka d.d. (European Commission 2013)[40] (Factor banka) and Probanka d.d. (European Commission 2013)[41] (Probanka) were wound-up and merged into a special government set-up Bank Asset Management Company (a so called “bad bank” (BAMC)). In both cases the banks’ assets were eventually transferred to a new entity (the bad bank) which in its essence resembles the instrument of separation of assets under the Article 203 of the (now valid) RCWBA, which was followed by winding-up of both banks as is comparable to winding-up after the conclusion of the bankruptcy proceedings under the RCWBA.

In the cases of Factor Bank and Probanka, the Ministry of Finance, on the initiative of the BS and based on the decision of the Government on 6 September 2013 has, in order to prevent negative effects on the stability of the financial system in the Republic of Slovenia (**RoS**) and to prevent the consequences of the bankruptcy of both banks and to secure the deposits of all ordinary creditors, implemented state aid measures in both banks (Banka Slovenije 2016)[42].

Relevant information from the analysis of the two cases concerns, among other things, the time needed to wind-up a large proportion of the portfolio and the associated development of book values. The plans to wind-up Factor Banka started on 4 November 2013 and Probanka on 21 October 2013. We summarise our main findings below:

- All activities related to investment banking were wound up at Factor banka until 28 February 2014 (four months duration) and at Probanka until 7 December 2015 (26 months duration).
  Activities in connection with products or services in the field of dealing with the population for residents and non-residents (i.e., cancellation of business with personal loans, savings, student accounts, cancellation of card services, card deposits and electronic banking were wound up at Factor banka until 28 February 2014 (four months duration).

[40] For an English summary of the matter, please see the EU Commission decision on granting state-aid, available here: https://ypfsresourcelibrary.blob.core.windows.net/fcic/YPFS/250530_1507714_138_6.pdf
[41] For an English summary of the matter, please see the EU Commission decision on granting state-aid, available here: https://ec.europa.eu/competition/state_aid/cases/250529/250529_1513866_140_2.pdf
[42] May 2016, available online here (in Slovene): https://www.bsi.si/publikacije/sanacija-bank-20132014/porocilo-o-prenehanju-factor-banke-in-probanke-maj-2016, p. 9.

- Activities related to payment services, including the cancellation of transaction accounts of legal entities, entrepreneurs, private individuals and civil law entities were wound up at Factor banka until 30 June 2014 (eight months duration).
- Probanka wound up pension fund management activities until 31 March 2015 (29 months duration).
- Activities in connection with personal banking services, including the cancellation of personal loans, savings and transaction accounts and card services were wound up at Probanka until 30 October 2014 (12 months duration) or 31 March 2015 (17 months duration).
- Activities related to payment services, including the cancellation of transaction accounts of legal entities were wound up at Probanka until 31 March 2015 (17 months duration).

After one or two years, in early 2015 the winding-up of the two banks started to slow down since their remaining assets mainly consisted of defaulted loans, non-marketable (due to poor liquidity) shares and a real estate portfolio. As of February 2016, these “rump asset portfolios” of Factor banka amounted to 32.5% and total remaining assets of Probanka amounted to approx. 27.5% of initial total assets.

Early termination of contracts (bank guarantees)

According to the BS report on the liquidation of these two banks, bank guarantees issued by Probanka were not terminated, but transferred to another bank, whereas there is no information available for Factor banka.

In addition, the BS report notes that Factor banka (arguably both banks, as the report referred to “the banks”) did not pay out any deposits which were deposited by the clients as a security for bank guarantees. The liabilities emanating from the latter were regarded as future contingent liabilities and paying out (or setting-off) deposits representing security for such bank contingent liabilities would result in the termination of the underlying security. According to the reasoning of the BS this would further result in both banks losing security for the guarantees issued by them and, hence, would be unacceptable.

Historical data, which is however limited to two abovementioned cases, shows that the BS did not consent to the termination of bank guarantees of the two banks in the forceful liquidation. Moreover, the deposits by the banks' clients, granted as security for such guarantees were not paid out to the creditors, but remained with the bank.

Nova KBM Group and Nova KBM d.d.

In order to obtain more information about the economic value of distressed portfolios in the Slovenian market, we analysed the case of Nova KBM group and Nova KBM d.d.

In December 2012, the Parliament of the RoS adopted the Act Defining the Measures of the RoS to Strengthen Bank Stability. One of the measures was the foundation of the BAMC.

In 2013, the Nova KBM Group transferred assets at the gross amount of EUR 1,032mn to the BAMC. In exchange for transferring the assets, Nova KBM received from the BAMC state-guaranteed bonds worth EUR 390mn (NovaKBM 2013)[43].

From the present case, we note that the impairment at the time of the distressed portfolios' transfer to BAMC was approximately 62%.

We have to point out that the above mentioned cases relate to the implementation and winding up of special vehicles (e.g. "bad banks") which differs from a NIP. The basic idea of a bad bank is to recapitalise the related bank and to remove certain assets from the banking sector.[44]

NIP on the other hand, aim to recover as many values as possible in a reasonable period of time to satisfy the involved stakeholders.

Since both approaches pursue different goals and strategies in detail, it can be assumed that they will also differ in the time frame required as well as in the corresponding recoveries. Nevertheless, conclusions can be drawn because both approaches aim to liquidate assets or terminate business relations. In total the following lessons can be learned, especially in the light of missing precedents that reflect the exact situation of the Bank:

1) Both are lengthy processes that involve administrative effort,
2) Both involve the trade-off of a quick liquidation vs. a value-preserving liquidation,
3) Portfolios have to be managed by experts, data must be prepared and potential purchasers are to be found,
4) Close to the end of the process, rather bad assets remain.

[43] Nova KBM Group and Nova KBM d.d. Annual report 2013; p.200
[44] Available online here: https://www.ifo.de/DocDL/ifosd_2009_13_1.pdf

4.3.3. Conclusions to be drawn

From the consideration of the cases shown, we draw conclusions for the expected duration of the insolvency proceedings.

For the purpose of the valuation, we have assessed three scenarios. For each of these we analyse the treatment that affected Shareholders of the Bank would have received under a bankruptcy liquidation proceeding.

The forceful winding-up of the Bank with some 60,000 loans is a rather complex process because many loans have different terms and conditions associated with them. Analysing each of these agreements, understanding the legal framework and negotiating the best possible resolution will require significant human resources and time. Additionally, the Bank must assess and manage the risk of defaults, take decisions about guarantees, and prioritize certain loans over others.

Then, the liquidator must make an assessment of the fair market value achievable, find interested parties and allow the potential acquirers to perform a due diligence prior to submitting an offer. Eventually, the respective contracts for the transaction must be drafted.

Furthermore, the Bank must be mindful of its decision-makings' consequences in terms of litigation. Each of these elements further complicates the winding-up process. Under this perspective and as the historic cases of Factor Banka und Probanka have demonstrated, **a winding-up scenario of significantly less than 3 years is considered as remote.**

In our valuation, we have considered liquidation scenarios of 3, 5, and 7 years as working hypotheses. The assessment of how to evaluate the probabilities of each scenario primarily depends on the following factors:

- First and foremost, it is assumed that the DGS (Deposit Guarantee Scheme) as one of the main creditors would not reject an insolvency plan or scenario that ensures a prompt and full repayment of the deposit guarantee compensation provided by the DGS.
- Additionally, depositors who are not compensated by the DGS because their deposits exceed the deposit insurance limit of EUR 100,000 play a significant role. These include households, micro-enterprises, and SMEs, referred to as "not covered but preferential" deposits according to Article 108 BRRD. Also, deposits from corporates exceeding the compensation limit of EUR 100,000 are relevant in this case, and they are classified as "not covered and not preferential," unlike the aforementioned deposits.
- In both cases, it can be assumed that these groups of depositors would only not reject an insolvency plan if a reasonably fast and full satisfaction of their claims is guaranteed. Such an insolvency plan is also in the public interest to avoid contagion effects and overall economic disadvantages resulting from the default of these creditor groups.
- We note that there is no suspension of payment of interest under Slovenian law. The law does prescribe the same interest rate applicable to all creditors. Hence the compensation for delays in repayment is proportionate to the amount of claim. According to the NIP

rules (Article 256. of the ZFPPIPP), the interest rate applicable to creditors' claims is changed as of the start of the bankruptcy proceedings as follows:

(i) the contractual or default interest rate for claims which were due before the start of the bankruptcy proceedings is changed as of the start of the proceedings so that the *prescribed interest rate* applies (as of the start of the bankruptcy proceedings);

(ii) for claims not accruing interest before being due and not being due at the start of bankruptcy proceedings, the *prescribed interest rate* applies as of the due date.

The *prescribed interest rate* is set by law (Statutory Default Interest Rate Act) and is defined as the ECB interest rate on the main refinancing operations plus 8%.[45]

As stated in Section 7 below, such interest claims of the creditors would rank prior to the shareholders claims and therefore they would reduce the amount of proceeds available to the shareholders.

- Deposits from financial institutions are typically not covered by deposit insurance. Our experience shows that financial institutions prefer a swift repayment of their claims, even if it involves comparatively high write-offs, rather than waiting for a lengthy resolution process, especially considering the higher uncertainties associated with delayed repayments.

For this purpose, the creditor hierarchy, the claims assigned to each creditor group, and the liquidation proceeds in each scenario need to be analyzed. Finally, we examined how the liquidation proceeds will be distributed among the aforementioned creditor groups in these scenarios. From this analysis, we can infer which liquidation plan is least likely to be rejected by the relevant creditors and therefore should be classified as the most probable.

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[45] For the sake of completeness, the RCWBA is slightly different in this respect. According to Article 186. (governing forced liquidation)

(1) The interest rate of the contractual interest does not change with the start of the forced liquidation procedure and runs until the contractual maturity of these obligations of the bank. After the contractual due date of the creditors' claims, interest accrues on the bank's obligations in the amount of the *prescribed interest rate*, unless the agreed contractual interest rate of late payment interest is lower than the *prescribed interest rate*.

(2) If the contractual due date of the claim against the bank occurred before the start of the forced liquidation of the bank, after the start of the forced liquidation of the bank, the contractual interest rate of late payment interest (if any) shall be changed to the *prescribed interest rate*, unless the contractual interest rate of late payment interest is lower than the p*rescribed interest rate*.

(3) These consequences from the first and second paragraphs do not apply to the mutual obligations of the bank and creditors based on a settlement or an offsetting agreement.

As a preview of the results from Sections 6 and 7, we classify the scenarios as follows:

- **3-year scenario: "probable" (>50%)**
- **5-year scenario: "reasonably possible" (10-50%)**
- **7-year scenario: "remote" (<10%)**

This would be supported by the fact that large parts of Factor Banka d.d.’s and Probanka d.d.’s portfolios were wound up within three years (29 months at the most), while the assumption of an insolvency scenario of more than five years seems difficult to justify to creditors and the public with regard to the winding-up of the Bank, as this would represent a significantly longer duration of the liquidation as for Factor banka’s and Probanka’s main portfolio.

A longer liquidation period than the 7-year scenario would inevitably lead to higher liquidation costs, higher management and maintenance costs and increased uncertainty (i.e., macroeconomic risk) for the liquidator in terms of the levels of asset realisations. Against this background we considered that a liquidator would be unwilling to speculate as to possible upsides in the future which are highly uncertain.

We note that there is no suspension of payment of interest under Slovenian law which could create differing considerations for the different creditors’ classes. Instead, the law does prescribe the same interest rate applicable to all creditors. Hence the compensation for delays in repayment is proportionate to the amount of claim.

According to the NIP rules (Article 256. of the ZFPPIPP), the interest rate applicable to creditors' claims is changed as of the start of the bankruptcy proceedings as follows:

(i) the contractual or default interest rate for claims which were due before the start of the bankruptcy proceedings is changed as of the start of the proceedings so that the prescribed interest rate applies (as of the start of the bankruptcy proceedings);

(ii) for claims not accruing interest before being due and not being due at the start of bankruptcy proceedings, the prescribed interest rate applies as of the due date.

The prescribed interest rate is set by law (Statutory Default Interest Rate Act) and is defined as the ECB interest rate on the main refinancing operations plus 8%.

4.4. Liquidation Costs

This section will provide an overview of the basis for our assumptions. Further detail is provided in section 5.11. "Costs of Winding-up".

We assume that under liquidation the following main costs are likely:

- The costs incurred in connection with the performance of the tasks and powers of the BS, mainly:
    - Assets and liabilities valuation by an expert
    - Hiring of other independent experts cooperating with the planning and implementation of measures
    - Compensation of liquidation manager
    - Execution of instruments and exercise of powers for forceful liquidation
- Other costs of execution of liquidation instruments and payments of creditors, such as:
    - Legal fees (attorneys)
    - Accounting and audit fees
    - Costs of independent appraisers
    - Costs of brokerage
    - Costs of expert knowledge
- Costs of other Bank liabilities relating to administration, incurred after the start of forceful liquidation
    - Personnel cost
    - Office space and utilities

      Cost of service provider (ICT et al.)

4.4.1. Remuneration Costs

Renumeration costs include the remuneration of the liquidator, the Bank's lawyers during the insolvency proceedings and other consulting experts, which we will discuss in more detail in section 5.11.1.

We note that the actual remuneration would have been agreed by the court. It usually depends on various aspects, in particular the complexity of the insolvency proceeding.

It is useful to use other banking procedures (compulsory liquidation or bankruptcies) as a benchmark. This may be possible for cases in other EU countries, but this does not take into account that the respective remuneration of the liquidator is subject to the respective national law. Furthermore, the comparison of insolvency costs between different countries is made difficult by the fact that in Slovenia the costs of the liquidator/administrator are capped by the fee structure, whereas they are not in some other countries. Furthermore, in other countries the liquidators have more freedom to bring in external advisors for support.

In the case of Factor banka d.d., the plan of restructuring submitted to the BS at the beginning of the orderly winding-up process, the costs of procedure were assessed to amount to EUR 16mn (Delo 2016)[46]. More precise information; however, has not been disclosed to the public.

[46] Interview with the Chairman of the special management of Factor banka Mr. Klaus Schuster: Bančnik se mora vedno vprašati, ali bi odobril kredit, če bi bil to njegov denar; Delo, 12 February 2016, available here (in Slovene): https://old.delo.si/sobotna/bancnik-se-mora-vedno-vprasati-ali-bi-odobril-kredit-ce-bi-bil-to-njegov-denar.html.

However, this case does not fall under the insolvency law applicable to our Valuation. We are therefore left only with estimates derived from the applicable fees ordinance, see section 5.11. for details and the estimated costs.

Liquidator's Remuneration

According to Article 177 RCWBA, the remuneration of the liquidator shall be determined by the BS depending on the size of the bank, the complexity of the bank's activities, the type and volume of its assets and the number of the bank's creditors and their characteristics. In determining the individual liquidator's remuneration, the BS shall take into account the volume of the tasks to be performed by the liquidator in the management of the bank's assets in compulsory liquidation proceedings.

The Rules on the tariff determining the remuneration of administrators of insolvency proceedings and compulsory liquidations, and on the reimbursement of costs to which administrators are entitled[47] determine the insolvency administrator remuneration. The remuneration is based on the following:

- Preparation of the opening report (based on the value of the assets as shown in the opening balance sheet of the insolvent debtor): see the table as set out in Article 5 of the Rules,
- Examination of claims (based on the number of examined claims): see the table as set out in Article 6 of the Rules,
- Realisation and distribution of the estate (based on the amount of the realised assets subject to distribution): see the table as set out in Article 7 of the Rules.

The remuneration is based on the total amount of the assets as disclosed in the insolvency opening balance sheet (Article 5 (2) of the Rules) but is capped to a maximum amount of kEUR 140. In insolvency proceedings concerning a Bank the insolvency administrator remuneration shall be granted an increase of 15% (Article 4 of the Rules).

Furthermore, the insolvency administrator is entitled (subject to the approval of the respective court in each individual insolvency proceeding) to be reimbursed for the following expenses: transportation costs, daily allowance, meals and accommodation and office expenses (Article 17 et seq. of the Rules).

According to Article 224 RCWBA, the provisions of the ZFPPIPP relating to bankruptcy proceedings against companies shall apply to liquidation proceedings against banks in case RCWBA does not provide dedicated provisions.

Other costs are also incurred for the enforcement of liquidation instruments and payments to creditors.

[47] The Rules are available on the following webpage (in Slovene): http://www.pisrs.si/Pis.web/pregledPredpisa?id=PRAV9099.

4.4.2. Costs arising from the Termination of Contracts

The Bank is a contracting party to a large number of lease and rental agreements, senior management contracts and other material contracts. In the course of its liquidation, it is reasonable to assume that these will be terminated but the Bank will incur the costs of an early termination.

A general regulation on the earlier termination of contracts is set in Article 184 RCWBA which provides a dedicated regime for banks for the withdrawal from rental and lease agreements upon the commencement of compulsory liquidation proceedings.

With regard to the costs of early termination of those rental and lease contracts it should be further noted that:

- As a result of the initiation of forceful liquidation, the Bank has a right to terminate rental and lease agreements with a notice period of 1 month, whereas the deadline starts with the first day of the following month in which the notice was given and expires on the last day of such month. This right of early termination applies irrespective of any other statutory or contractual regulation (“**General Rules”**) of the rent/lease relationship.
- According to the RCWBA, the Bank should not be liable for any direct costs of early termination.
- However, the rule from the preceding paragraph does not preclude the Bank from being liable for any damages incurred by the opposing contractual party which the latter would incur due to the termination right being enforced or overriding the General Rules.
- In practice, such damage (if any at all) would likely primarily consist of loss in rent/profit incurred by the opposing contractual party, at least for the time in which it should reasonably be able to find a new lessee. The assessment is of course fact contingent and depends on the actual circumstances of a particular contractual relationship.
- For the purpose of the valuation, a rule of thumb may be applied under which the maximum damages should not exceed X-times, which depends on the scenario at hand, the monthly rent under each particular agreement.
- Such damages would not be subject to the creditors’ waterfall, but would likely be regarded as costs of procedure, incurred after the start of the liquidation.

As regards banking services contracts, the RCWBA provides for a specific regulation of termination rights.

The RCWBA refers to the definition of banking services as per the BA. According to the latter, banking services comprise of:

- banking services,
- financial services, and
- additional and other financial services,

whereas the issuing of bank (and other) guarantees falls under the notion of financial services. In short, contracts governing bank guarantees may be subsumed under the notion of banking services contracts under the RCWBA.

In line with Article 190 RCWBA, a bank which is subject to a forceful liquidation, must fulfil its obligations emanating from a banking services contract (and hence from a bank guarantee) in line with the underlying contract.

RCWBA provides for an exception to this rule according to which the bank may rescind the contract (irrespective of the contractual provision, or provisions of the law, to the contrary) if it obtains a consent from the BS to do so. According to the RCWBA, the BS may give its consent to termination if the termination of such a contract (or types of contracts) results in “more favourable conditions to reach the goals of the forceful liquidation”.

The law fails to specify the notion of 'more favourable conditions' for reaching the forceful liquidation goals, however, the goals themselves are set out in Article 172 RCWBA, which are to:

- maintain access of deposit holders to their deposits;
- maintain to the greatest extent possible access of consumers to basic banking services;
- when access to deposits cannot be maintained, ensure a timely payment of creditor claims (taking into account the ranking of claims) and
- maintain or increase the bank assets value in order to pay the bank's liabilities to the greatest extent possible.

There is no relevant court decision or regulatory practice which would provide further guidance on the above conditions and terms, i.e. in which exact circumstances the BS would give its consent to the bank to terminate a bank guarantee contract. Hence, for the purpose of the valuation, it is sensible to adopt the default rule, i.e. that the bank guarantee contracts are not terminated as a consequence of forceful liquidation procedure.

For the sake of completeness, we note three additional provisions of the RCWBA with respect to the Bank’s right of termination of contracts.

First, in case a bank terminates a banking services contract pursuant to the BS’s consent, such termination has no effect over the opposite contracting party’s right to claim damages emanating from such a termination. However, such damages claim is subject to ranking of claims whereas it has no priority.

Second, if the deadline for the fulfilment of bank’s obligation under a banking services /a bank guarantee contract, whereas the deadline is agreed amongst the parties to be an essential term of the contract, expires after the start of forceful liquidation, and the bank fails to fulfil its obligation within the specified deadline, it shall be deemed that the contract is rescinded by the expiration of such deadline, and the other contracting party shall have no right to claim performance of the bank’s obligations.

Finally, the RCWBA provides that a forceful liquidation of a bank shall not have any effects to the rights of bank's contracting parties to subsume the occurrence of a forceful liquidation over a bank under an event of default, or other event having similar effects, which gives the contracting party the right 1) to enforce the financial collateral or set-off in line with the Financial Collateral Act (Zakon o finančnih zavarovanjih, the "**ZFZ**") , or 2) of termination, moratorium, amendment, compensation, or set-off.

Based on the above, the guarantees granted by the bank are not automatically void due to the opening of liquidation. As mentioned, the bank could terminate the guarantees/contracts where guarantees were issued only with a consent of the BS. However, even in such case, the bank would remain liable for damages to its clients due to termination of such contracts.

In terms of damages amount, these would likely correspond to the amount of the bank guarantee(s) which would be terminated. Unlike concerning damages caused by the termination of lease/rent contracts, the RCWBA hereby explicitly stipulates that such damages claims are subject to the creditors waterfall.

With regard to the historical data/statistics, the only comparable bank liquidations in Slovenia were forceful liquidations of Factor banka and Probanka which we discussed in section 4.3.2.

Employee Cost

It is reasonable to assume that a significant number of employees would no longer be required once the liquidation has begun because the Bank would no longer accept deposits or initiate other new business activities. In the following, we set out the key issues for collective dismissals under Slovenian labour jurisdiction.

The Employment Relationship Act (Zakon o delovnih razmerjih, ZDR-1, (ERA), Official Gazette of the RS, no. 91/2008) contains a dedicated chapter concerning the termination of employment contracts in insolvency proceedings, compulsory winding-up proceedings and other cases where the employer is being wound-up. According to Article 104 of ERA, in bankruptcy or compulsory liquidation proceedings, the insolvency administrator may, by giving 15 days' notice, terminate the employment contracts of employees whose work has become unnecessary as a result of the commencement of bankruptcy or compulsory liquidation proceedings with the employer.[48]

According to Article106 of ERA, employees whose employment contract is terminated in bankruptcy proceedings or compulsory liquidation proceedings shall be entitled to a severance pay. Severance pay is determined in accordance with the following provisions of Article 108 of ERA. The basis for calculating the severance pay is the average monthly salary which the employee received, or would have received if he had been working, during the three months preceding the termination of the employment contract (the "Base Salary"). The employee shall be entitled to a severance payment of:

- 1/5 of the Base Salary for each year of service with the employer, if he/she has been employed by the employer for more than 1 year up to 10 years,
- 1/4 of the Base Salary for each year of service with the employer if he/she has been employed by the employer for more than 10 years up to 20 years or
- 1/3 of the Base Salary for each year of service with the employer if he/she has been employed by the employer for more than 20 years.

In any case, the amount of the severance pay is limited to 10 times the Base Salary.[49]

[48] Before terminating the employment contracts of a large number of employees, the insolvency administrator has to beforehand consult with the employer's trade unions on the criteria for determining redundancies and, when drawing up a redundancy scheme, on possible ways of preventing and limiting the number of dismissals and on possible measures to prevent and mitigate the adverse consequences of the termination of the employment contracts. Furthermore, in the event of the termination of employment contracts of a large number of workers, also the Employment Service of Slovenia needs to be notified.

[49] For the sake of completeness, we note that the law allows for a different regulation by way of a collective agreement, however, the relevant Collective agreement on the Slovenian banking sector (*Kolektivna pogodba dejavnosti bančništva Slovenije,* Official Gazette of the RS, no. 5/11, 14/13, 4/14, 95/14, 46/16, 24/18, 46/20 and 17/22) does not include such a provision.

Operating Costs

We expect that during the liquidation, the branches would be closed except for the head office, which should remain open to deal with customers. In particular, the head office would collect outstanding loans, realize other assets and handle claims and other liquidation procedures. To a large part, related costs include communications, maintenance of premises and equipment as well as other operating costs. Details are set out in section 5.11. below.

The operating costs depend on the duration of the liquidation process. However, we expect a linear decrease of operating costs over time due to the decreasing need for certain services and running costs.

5. Liquidation Valuation: Analysis of Results

5.0. Explanatory Note: Accounting principles

5.0.1. Valuation Under a Going Concern Assumption

The starting point of our valuation are the Bank's financial statements which have been prepared in accordance with the IFRS as adopted by the European Union.

After the resolution decision as of 1 March 2022 and the transfer of all shares of the Bank to NLB, the Bank resumed its operations on 2 March 2022. The Bank's management assessed that the changed ownership should cause no disruptions to depositors or clients and that the Bank will remain a going concern institution. Against this background, the preparation of the financial statements and the measurement of the individual financial instruments are based on the going concern assumption. Thus, in accordance with IFRS 9, financial assets are measured at either:

- Amortized cost (AC),
- Fair value through other comprehensive income (FVTOCI), or
- Fair value through profit or loss (FVTPL).

Amortized cost is an accounting method under which all financial assets must be reported in the balance sheet at their amortized value which is equal to their acquisition costs total minus their principal repayments and any discounts or premiums minus any impairment losses and exchange differences.

Financial assets are measured at AC if they are held to collect contractual cash flows ("held to collect"), and those cash flows consist solely of principal and interest on the principal amount outstanding. After initial recognition, they are subject to impairment and are measured at the amortized cost using the effective interest method.

For non-financial assets, e.g., tangible assets such as property, plant and equipment, amortized costs are the equivalent of the assets' acquisition costs minus/plus depreciation/appreciation.

Fair value is a market-based valuation. The objective of a fair value measurement is to estimate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. In other terms, the fair value provides a proxy for the observed market price.

IFRS 13 specifies a fair value hierarchy with respect to the quality of the inputs and assumptions used to measure financial and non-financial assets. This hierarchy gives the highest priority to observable market data from independent sources when available, and the lowest priority to unobservable market data inputs that reflect individual assumptions.

The fair value hierarchy comprises the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets. Level 1 includes listed equities, debt instruments, derivatives, units of investment funds, and other unadjusted market prices of assets and liabilities. When an asset or liability may be exchanged in multiple active markets, the principal market for the asset or liability must be determined. If no principal market is available, the most advantageous market must be determined for the asset or liability.
- Level 2 inputs include prices quoted for similar assets or liabilities in active markets and prices quoted for identical or similar assets, and liabilities in markets that are not active. Thus, inputs are observable, either directly (i.e., prices) or indirectly (i.e., derived from prices).
- Level 3 inputs are not based on observable market data. In case relevant observable inputs are not available, unobservable inputs are used. Unobservable inputs must reflect the assumptions that market participants would use when pricing an asset or liability.

The Bank also reports contingent liabilities, defined as:

- A possible obligation arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not totally under control.
- A current obligation that arises from past events but is not recognized because use of resources aimed at producing economic benefits will likely not be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities must be treated differently depending on their probability of occurrence.

- If the possibility of future outflows of resources due to legal obligations is probable the contingent liability must be disclosed as a liability. The presentation in the annual financial statements is based on the rules for accounting for liabilities and provisions and the disclosure in the notes (“likely”).
- If the possibility of future outflows of resources due to legal obligations is more likely than not, a note is to be made to the financial statements (“possible”).
- If the possibility of future outflows of resources due to legal obligations is remote, the contingent liability does not have to be disclosed or recognized (“remote”).

Accordingly, only contingencies that are assessed as "likely" are reported as a liability in the Bank's balance sheet with the probable amount.

5.0.2. Valuation Under Liquidation

Our valuation is based on the assumption that the Bank will be wound up under normal insolvency proceedings. In the event of a compulsory liquidation, the going concern assumption cannot be maintained and assets must be valued differently. For valuation purposes, we must assume that the assets will no longer serve to continue the business operations but, therefore, will typically generate expected cash flows from their collection (i.e., short-term receivables, interest and loan repayments) or sale at the best price possible. If neither of these options are feasible, the expected recovery amount is assumed to be zero. Against this background, this approach is based on expected cash flows discounted to the Valuation Date as stipulated by Article 4(1) CDR 2018/344.

In the case of non-current assets of the Bank, it should be noted that these are often subject to company-specific use or are custom-made for the Bank. Certain assets, such as tax assets, have a value in use in a going concern scenario and, thus, a benefit exclusively for the Bank itself, but not for any third parties. In the event of liquidation, such assets are therefore of very little or no value.

As soon as the going-concern premise is no longer given due to liquidation and the Bank is forced to liquidate its assets, the Bank might have to accept a lower selling price for the assets than under normal circumstances. If a sale takes place under compulsion, the price that may be realised in the process is usually lower than an agreed price between a willing buyer and a willing seller, under normal conditions without pressure.

Assets that are company-specific or show company-specific signs of use are usually valued using IFRS Level 2 or 3 inputs. The price determined by using IFRS Level 2 or 3 inputs must be understood as an approximate value that might not be achieved in an actual transaction, especially under insolvency proceedings.

In the event of a liquidation, contingent liabilities must be recognized as liabilities if cash outflows for the related obligation must be expected in the assessment period. In our valuation under insolvency proceedings, we must therefore also take those contingencies into account. For further details on the recognition of contingent liabilities, see section 5.12.

5.1. Cash and Cash Equivalents

Overview

The table listed below states the different items of cash and cash equivalents as of 28 February 2022. In total cash and cash equivalents amount to kEUR 270,573 according to a breakdown provided by the Bank. We note a difference between the total amount shown in the Bank's balance sheet and the information provided by the Bank for valuation purposes. However, this difference amounts to ca. EUR 11k and is considered immaterial.

These items are classified as short-term and highly liquid assets according to their nature which are convertible to known amounts of cash.

Cash and Cash Equivalents (kEUR)	
Item	**Book Value**
Nostro account with central bank	169.694
SEPA payments insurance account with central bank	23.000
Credit pool (collateral) with central bank	17.517
Cash in hand	13.910
Mandatory reserve with central bank	12.033
BIPS technical account with central bank	11.467
Nostro accounts with other banks	10.949
TIPS technical account with central bank	7.523
Collateral for derivatives business	4.480
Reconciliation difference	-11
Total	**270.562**

Table 9: Cash and cash equivalents - overview

The following table provides an overview in terms of the located cash and cash equivalents of the Bank:

Cash and Cash Equivalents (kEUR)	
Item	**Book Value**
Slovenia	255.143
Russia	4.030
Germany	3.760
Netherlands	2.980
Croatia	2.129
Austria	1.090
Other countries	1.441
Reconciliation difference	-11
Total	**270.562**

Table 10: Cash and cash equivalents - breakdown by countries

We took out further analyses on the aforementioned cash items into consideration. Caused by the Russian military intervention in Ukraine on 24 February 2022 and the sanctions imposed on the Russia as a consequence thereof, the recovery rates of all cash and cash equivalents located in Russia are assumed to be zero. The reasons are considerable uncertainties arising from the European sanctions (European Council 2022)[50] against the Russian financial sector (as of the Valuation Date) and the direct naming of Sberbank as a sanctioned entity, such that it cannot be predicted if and when cash inflows from Russian exposures may be realised by the Bank.

In addition, the following positions with affiliated foreign entities as stated in the following overview are classified as failed or likely to fail:

[50] https://www.consilium.europa.eu/en/policies/sanctions/

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Cash and Cash Equivalents (kEUR)	
Item	**Book Value**
Sberbank Europe AG, Vienna, Austria	1,089
Sberbank CZ	823
Sberbank Hungary	135
Total	**2,047**

Table 11: Cash and cash equivalents - Sberbanks

- **Sberbank Europe AG:** As of 1 March 2022, the SRB decided that resolution is not necessary; Insolvency procedures will be carried out according to national law; (Single Resolution Board 2022)[51].
- **Sberbank CZ:** As of 28 February 2022, the Czech National Bank launched steps towards the revocation of the banking licence of Sberbank CZ a.s.; (Czech National Bank 2022)[52].
- **Sberbank Hungary:** As of 1 March 2022, the Magyar Nemzeti Bank has revoked the domestic credit institution's operating licence and has ordered its winding-up; (Magyar Nemzeti Bank 2022)[53].

Based on these assumptions the expected recoveries from cash and cash equivalents are, overall, kEUR 6,077 lower than their book values in all three scenarios.

Methodological Approach and Hypothesis Explanation

According to the Bank's financial statement as of 31 December 2021, cash equivalents are highly liquid assets that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Therefore, according to Article 4(4) of CDR 2018/344, we use the book value as a proxy for the observed price, except where the circumstances laid out below hamper the marketability of these assets.

Russian exposure is valued at zero in all three scenarios. Therefore, the expected recoveries from cash and cash equivalents are kEUR 4,030 lower than their book values.

As we know from the information received by the Bank, also affiliated companies have significant issues with their liquidity and are classified as failed or likely to fail, thus we expect a zero recovery rate from all cash amounts held with affiliated companies. Based on these assumptions the expected recoveries from cash and cash equivalents are kEUR 2,047 lower than their book values in all three scenarios.

[51].https://www.srb.europa.eu/en/content/sberbank-europe-ag-croatian-and-slovenian-subsidiaries-resume-operations-after-being-sold
[52] https://www.cnb.cz/en/cnb-news/press-releases/CNB-launches-steps-to-revoke-the-licence-of-Sberbank-CZ/
[53].https://www.mnb.hu/en/pressroom/press-releases/press-releases-2022/winding-up-proceedings-to-start-at-sberbank-hungary-and-its-austrian-parent

Outcome of Valuation

Based on the aforementioned facts on cash and cash equivalents, the expected cash flows from these assets are an amount equivalent to their fair value which equals its remaining NBV.

Valuation of Cash and Cash Equivalents (kEUR)				
Item	Book Value	Adjustments		
	Feb 22	3 years	5 years	7 years
Cash and Cash Equivalents	270,573	-6,077	-6,077	-6,077

Table 12: Cash and cash equivalents - valuation

Sources of Uncertainty

Caused by the above mentioned restrictions on cash and cash equivalents, this item might be subject to an increasing risk of a future decline in value.

5.2. Financial Assets Held for Trading

Overview

Financial Assets held for trading as of 28 February 2022 include currency futures/forward contracts, currency options, interest rate swaps and futures/forward contracts relating to securities, which are held for trading purposes. These are classified as assets and liabilities that are not designated as a hedge accounting tool, including those embedded derivatives separated from hybrid financial instruments. According to the Bank, financial assets held for trading are not netted against liabilities held for trading. They are classified at IFRS level 2 fair values in the Bank's balance sheet. Changes in value are recognized in the income statement.

Financial Assets held for Trading (kEUR)		
Item	Book Value	
	kEUR	%
FX Swap	2,741	57%
IRS	1,544	32%
CAP	355	7%
FX Forward	148	3%
Total	**4,788**	**100%**

Table 13: Financial assets held for trading - overview

Methodological Approach and Hypothesis Explanation

The valuation of financial assets held for trading is done according to the handbook “Valuation Handbook for Financial Markets Products”, provided by the Bank. This handbook explains the Bank’s models used for determining the value of the respective instruments. However, the models do not consider market frictions (e.g. bid-ask spreads) or adjustments for any other than market risk, e.g. credit risk or liquidity risk. In particular, the models do not account for any CVA/DVA adjustments. Market data relevant for valuation is retrieved from the databases from Bloomberg L.P., New York City, USA (Bloomberg) and Thomson Reuters Group, New York City, USA (Reuters).

Since the Bank has recognized these assets as IFRS Level 2, we determine their amount of expected cash flows according to Article 4 (5) of CDR 2018/344. We therefore assumed that the expected cash flows will be an amount equivalent to the fair value as a proxy for the market price as of 28 February 2022. Possible reductions of the recovery rates due to close-out costs are considered to be immaterial and are disregarded in the valuation to the benefit of the shareholder.

Outcome of Valuation

The following table represents the values of financial assets held for trading in the different scenarios:

Valuation Financial Assets held for Trading				
Item	Book Value		Adjustments	
	Feb 22	3 years	5 years	7 years
FX Swap	2.741	0	0	0
IRS	1.544	0	0	0
CAP	355	0	0	0
FX Forward	148	0	0	0
Total	**4.788**	**0**	**0**	**0**

Table 14: Financial assets held for trading - valuation

5.3. Non-trading Financial Assets Mandatorily at Fair Value Through Profit and Loss

Overview

This item only consists of one financial asset namely a 0.01% participation in Krka d.d. (founded 23 April 1954). This enterprise is a globally represented Slovenian pharmaceutical group with its headquarters located in Novo mesto and production sites located in Slovenia, Germany, Croatia, Austria, Poland and Russia. The shares of Krka d.d. have been traded on the Ljubljana Stock Exchange since 10 February 1997. The Bank records this item at IFRS Level 1 fair value, meaning that the fair value is derived from observed market prices.

Non-trading financial assets mandatorily at fair value through profit and loss			
ISIN	Quantity	Price per share (EUR)	Fair Value (kEUR)
SI003110212	4,000	83.00	332

Table 15: Non-trading financial assets mandatorily at FVTPL

Methodological Approach and Hypothesis Explanation

Due to the fact that the shares in Krka d.d. are traded at the Ljubljana stock exchange, which represents an active market, we use the observed price according to Article 4(4) of CDR 2018/344. In our judgement the expected cash flows will be an amount equivalent to their market price as recorded in the financial statements.

Outcome of Valuation

For this item, we expect a recovery equivalent to its fair value in all scenarios.

Sources of Uncertainty

We have no indication that that there are specific circumstances which significantly hamper the marketability of this asset for the purposes of Article 4 (4) of CDR 2018/344. Accordingly, we assume that there is no reason to account for significant sources of uncertainty.

5.4. Financial Assets measured at Fair Value through Other Comprehensive Income

Overview

The item of financial assets measured at fair value through other comprehensive income consists of equity and debt instruments as of 28 February 2022.

Financial Assets at Fair Value through OCI (kEUR)	
Item	Book Value
Equity Instruments	16,174
Debt Instruments	53,223
Total	**69,397**

Table 16: Financial assets at FVTOCI

Equity instruments consist of the following:

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

Equity Instruments (kEUR)	
Item	**Book Value**
Shares and interest of non-financial companies	**23**
- Bankart d.o.o., Ljubljana	*11*
- S.W.I.F.T. Belgium	*12*
Slovenian Resolution Fund	**16,151**
Total	**16,174**

Table 17: Equity instruments - overview

The amount of kEUR 16,151 has been contributed by the Bank in 2015 for its interest in the Slovenian Resolution Fund (RoS) caused by the Bank Resolution Authority and Fund Act, in force since 31 December 2014 (Official Gazette 97/14). The contribution is accounted for as a bank's investment. This amount represents the Bank's share of 1.3% of all guaranteed deposits in RoS. The fund is managed by the BS. Pursuant to article 18 para. 2 (pt. 1) Official Gazette 97/14, the capital contributed by the Bank to the Fund shall be paid out if bankruptcy or compulsory liquidation proceedings are duly opened against the Bank. In addition, the Fund will cease its operations on 31 December 2024 (Official Gazette 97/14 Article 6), which is why it can be assumed in any case that the Banks' contribution to the fund will be paid out in 2025 at the latest.

An overview of debt instruments as of 28 February 2022 is set out as follows:

Debt Instruments (kEUR)	
Item	**Book Value**
Bonds issued by the Republic of Slovenia	43,221
Bonds issued by Italian governments	10,002
Total	**53,223**

Table 18: Debt instruments - overview

Methodological Approach and Hypothesis Explanation

The Bank records these assets at IFRS Level 1 fair value, meaning that the fair value is derived from observed market prices. Hence, we use the observed price according to Article 4(4) of CDR 2018/344 except for the equity share in the Slovenian resolution fund which cannot be classified as assets traded on active markets (pursuant to Article 4(5) CDR). However, in our judgement the expected cash flows from all items will be an amount equivalent to their fair values, equalling the amount disclosed in the financial statements.

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

Outcome of Valuation

For this item, we expect a recovery equivalent to its fair value in all scenarios:

Valuation Equity Instruments (kEUR)				
Item	Book Value		Adjustments	
	Feb 22	3 years	5 years	7 years
Shares and interest of non-financial companies	23	0	0	0
- Bankart d.o.o., Ljubljana	*11*	*0*	*0*	*0*
- S.W.I.F.T. Belgium	*12*	*0*	*0*	*0*
Slovenian Resolution Fund	16,151	0	0	0
Total	**16,174**	**0**	**0**	**0**

Table 19: Equity instruments - valuation

Valuation Debt Instruments (kEUR)				
Item	Book Value		Adjustments	
	Feb 22	3 years	5 years	7 years
Bonds issued by the Republic of Slovenia	43,221	0	0	0
Bonds issued by Italian governments	10,002	0	0	0
Total	**53,223**	**0**	**0**	**0**

Table 20: Debt instruments - valuation

Sources of Uncertainty

We have no indication that in the case of the equity share in the Slovenian resolution fund estimated values differ from the price that could be obtained in a transfer of these assets in an active market pursuant to Article 4(4) of CDR 2018/344. Accordingly, we assume that there is no reason to account for significant sources of uncertainty.

5.5. Financial Assets at Amortized Costs

5.5.1. Overview

As detailed in the table below, the NBV of financial assets measured at amortised cost as of 28 February 2022 was kEUR 1,166,188 and comprised the following sub-categories:

Financial Assets measured at amortized cost (kEUR)	
Item	Book Value
Loans and advances to customers	1,144,851
Debt Securities	13,425
Loans and advances to banks	4,554
Other financial assets	3,358
Total	**1,166,188**

Table 21: Financial assets measured at amortized cost

Details on the composition of Financial Assets measured at amortized costs are set out below.

5.5.2. Loans and advances to customers

The loan tape provided by the Bank contains the loans and advances to customers:

Loans and advances to customers (kEUR)		
Item	Gross Book Value	Net Book Value
Performing loans	1,135,117	1,119,023
Non-performing loans	50,315	24,931
Total loans according to loan tape	1,185,432	1,143,954
- Difference to balance sheet		897
Total Loans according to Balance Sheet		**1,144,851**

Table 22: Loans and advances to customers according to balance sheet

Within our analysis of the loan tape, we found that it is not fully reconcilable to the balance sheet item loans and advances to customers (difference of kEUR 897). Therefore, as a part of a prudent and realistic valuation, we considered the amount within the loan tape (kEUR 1,143,954) as the starting point for our analysis and thus, devalued the associated position by kEUR 897.

In general, our review of the loan tape did not reveal any indications of material individual commitments that would have to be written off immediately, i.e., major loans with reference to Russia or Belarus. We consider six loans to Russian borrowers (GBV: kEUR 110) to be immaterial and, thus, not subject to an individual asset quality review.

5.5.2.1. Methodological Approach and Hypothesis Explanation

Typically, the loans and advances to customers are not traded in an active market. Hence, we need to consider a number of factors according to Article 4(5) of CDR 2018/344, especially the likelihood of the assets generating net cash inflows under normal insolvency proceedings. Generally, the net cash flows from loans are the proceeds from repayments and interest payments less the expected credit losses, liquidation of collateral or the sale of loan portfolios to investors.

Pursuant to Article 4(2) of CDR 2018/344, the expected cash flows are discounted at rates reflecting the timing associated with the expected cash flows.

5.5.2.2. Reclassification to original loan tape data

Taking the increasing deterioration of the macroeconomic conditions into account (we refer to section 2.5.), we presume that defaults will occur. Prior to the valuation of the individual loans, we reclassified the PLs and NPLs. In doing so, we reclassified those PLs with a one-year PD greater than or equal to 50% as NPL.

This reflects the assumption that loans exceeding this threshold will migrate to NPL status in the short term. Insofar as the one-year PD is greater than or equal to 50%, it is more likely than not that loans will become non-performing in the near future. These loans are highly speculative and subject to substantial risks.

According to the Global Corporate Average Cumulative Default Rates (1981-2021) from S&P Global Ratings Research and S&P Global Market Intelligence's CreditPro a one-year PD of 26.55% corresponds to a rating of CCC, which is equivalent to an extremely poor credit rating and in acute danger of default (S&P Global Ratings 2022)[54].

Consequently, it could have been argued that loans with a one-year default probability of 26.55% could also be transferred to the NPL status. However, our analysis shows that the volume of such loans is immaterial. To the benefit of the shareholder, we have refrained from reclassifying these exposures.

Following this reclassification, the book values develop as follows:

Loans and advances to customers (kEUR)		
Item	Book Value	
	Before reclassification	After reclassification
Performing loans	1,119,023	1,118,646
Non-performing loans	24,931	25,308
Total	**1,143,954**	**1,143,954**

Table 23: Loans and advances to customers

[54] See S&P Global Ratings: Default, Transition, and Recovery: 2021 Annual Global Corporate Default And Rating Transition Study p. 64.

5.5.2.3. Clustering

After reclassification, we have divided these loans into clusters. For each cluster the methodological approach to valuation is consistent.

Loans and advances to customers (kEUR)	
Item	Book Value
I) Performing loans	**1,118,646**
1) Corporates	710,223
a) Loans to customers	*638,694*
b) Short-term	*59,262*
c) Factoring	*12,267*
2) Individuals	408,423
a) Loans to customers	*99,185*
b) Mortgages	*288,839*
c) Short-term	*20,399*
II) Non-performing loans	**25,308**
1) Secured	21,695
2) Unsecured	3,613
Total	**1,143,954**

Table 24: Loans and advances to customers - overview

PLs were segmented by type of borrower, namely corporates and individuals.

Corporates

We allocated the corporate loans cluster into the following subcategories:

Loans to customers can be categorized into investment loans, project financing, syndicated loans, trade financing and working capital loans.

We distinguished between loans to customers with variable or fixed interest rates.

As described in section 4.3., the winding up of Factor Banka started on 4th November 2013 and of Probanka on 21st October 2013 and a large part of the portfolios along with different banking activities were wound up within a short period of time.

Additionally, it has been stated in section 3 that the liquidator's duty is to liquidate assets and claims while also terminating contracts. Therefore, it cannot be the objective of the liquidator to remain as a lender in the financial market, especially not lending credit or indirectly granting credit through prolongations. Hence, we assume that fixed interest rate credit contracts would not be prolonged and terminated and borrowers are asked to pay off the remaining debt and switch to another bank.

Otherwise, it would be necessary to accept the approach that such credits that expire during the fixed interest rate period would be extended. This would require various assumptions to be made, which would be accompanied by many uncertainties at the expiry date, e.g. the interest rate applicable, the development of the debtor's creditworthiness or the duration of the (new) fixed rate period. As a result, we have applied the procedure described above, which is also common practice.

We have identified four credit contracts totaling a GBV of 9 kEUR whose fixed interest rate period ends within the insolvency periods. We regard these credits as immaterial and consequently not subject to a separate evaluation contrasting the evaluation method employed for the remaining other credits.

Besides that, considerations have been made for possible migration effects. The background is that it might be more beneficial for certain fixed interest rate debtors to repay the existing credit prematurely, pay an early repayment fee and secure better credit conditions with another bank in view of the prevailing interest rate.

The following figure illustrates the favourable development of the ECB's interest rate for main refinancing operations in the period from January 2006 to February 2022:

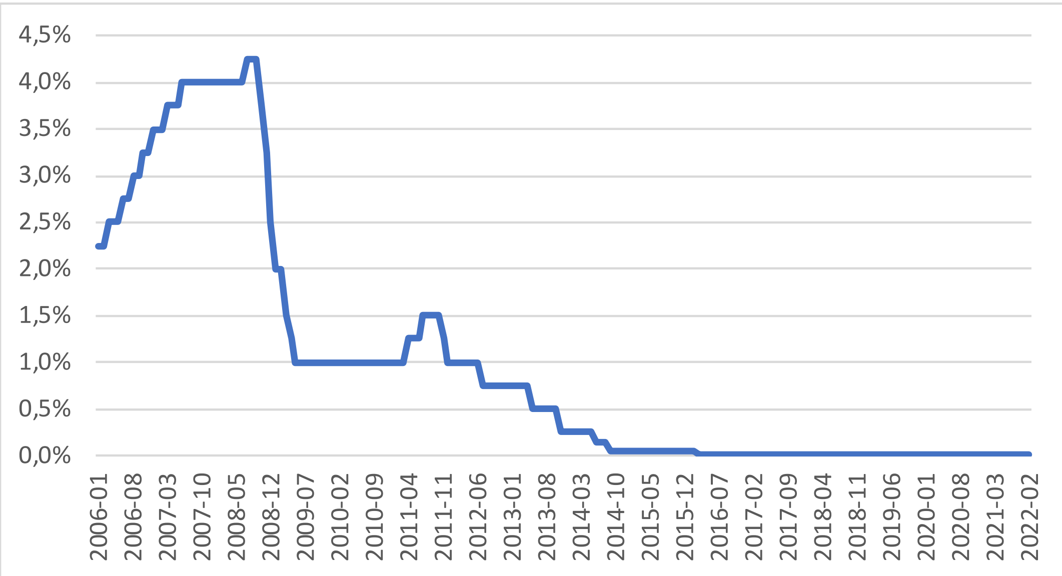

Figure 1: ECB interest rate for main refinancing operations / end-of-month rate. (Deutsche Bundesbank 2022)[55]

An early termination of the credit and a related switch to another bank is regularly only possible if the borrower possesses a sufficiently good credit rating, therefore being acceptable for other banks. This should be the case if the one-year PD is lower than 2%, which is regarded investment grade by rating agents (S&P Global Ratings 2022). Higher one-year PDs indicate poorer creditworthiness.

[55] See German Federal Bank: ECB interest rate for main refinancing operations / end-of-month rate.

Furthermore, the fixed interest rate of the loan has to have been agreed before March 2016 because afterwards no reduction of interest rates have occurred according to the ECB interest rate curve. It is likely that the borrower would not benefit from an early cancellation of the credit if they had signed the loan agreement after March 2016.

Such considerations, however, are only relevant to four credits with a total value of 4,100 kEUR. These were agreed in May and November 2013 and 2015, when the ECB interest rate for main refinancing operations was already very low with 0.5%, 0.3% and 0.1% respectively. An early termination of the credit would only result in slightly more favorable interest rates. Owing to the transaction costs associated with this, we consider it unlikely that the borrower would switch to another bank institution. Moreover, these four credits do not play a major role in the evaluation and hence, a separate evaluation regarding the migration of these credits is omitted.

We summarised the product types current accounts, credit cards and revolving loans in the category **"short-term**". We assume that the companies will leave the Bank very soon after the insolvency proceedings have been opened, as they need a solid banking relationship for their daily business. We assume that these items will be repaid at an amount equivalent to their GBVs.

Factoring contracts will also be redeemed at the GBV.

Individuals

We have allocated the loans to individuals into the sub-categories loans to customers (car loans and consumer loans), mortgages and short-term products.

Again, we have separated **loans to customers** as well as **mortgage loans** into variable and fixed-rate loans in order to identify those loans that will be redeemed after the fixed-interest period has expired. We found that even the shortest fixed-interest period for mortgage loans is more than 7 years. Consequently, we expect that none of these loans will migrate to another bank within the insolvency period.

Based on our observations in the banking sector, we assume that households, unlike companies, are not willing to make the effort to migrate if interest savings are only small. Therefore, we consider migration on a material scale as unlikely.

We have summarised the current accounts and credit cards in the category **short-term**. As in the corporates segment, we assume that these items will be repaid at an amount equivalent to their GBVs.

Non-performing Loans

No detailed information especially concerning prices for NPLs in Slovenia, was either made available to us or received from publicly available sources, e.g., BS or annual reports from other banks.

We have, therefore, applied different approaches and used different sources to calculate prices or discounts, respectively, for NPL of a bank in Slovenia.

Firstly, we have considered the results of historical bank failures in Slovenia as described in section 4.3.2. These historical cases show haircuts in a rather broad range between 45% and 90%. However, it has to be considered that these assets did not only consist of NPLs, but of inhomogeneous portfolios with different asset types and qualities, e.g. collateralised and non-collateralised loans, securities, etc.

Further, one has to note that these historical transactions relate to a different economic environment and the comparability of parameters may be limited.

To use more up-to-date information, we have referred to the results of the Banca d'Italia publication "Bad Loan Recovery Rates in 2020" (Banca D'Italia 2021)[56]. Italy and Slovenia are both part of the European Union and the eurozone, which means that they share the same financial regulations. Furthermore, both countries have open investment opportunities, making them attractive to international investors. They witnessed significant levels of foreign direct investment from the US and other nations, creating a strong market for international players and also benefit from the ECBs' monetary policy decisions, meaning that any changes in the exchange rate are likely to impact the financial markets of both countries. Accordingly, we expect that the Slovenian financial market will most probably see similar international players like in Italy. Against this background, we deem this case study for the Italian financial market suitable to provide an appropriate estimate for the Slovenian financial market as well.

According to the above study, the average price for bad loans sold in 2020 was 24% of the gross book value at the time of the sale. The price averaged 35% for bad loans secured by collateral and 10% for other (unsecured) loans. On this basis the average discount would be 76%, thereof 65% for secured and 90% for unsecured NPL.

Further, we have considered the information published by the EBA in its quarterly Risk Dashboard Q4/2021[i]. In the Risk Dashboard the EBA discloses coverage ratios for NPL for the different countries in the EU.

For Slovenia the EBA states a NPL coverage ratio of 53.6%. As can be seen from the Risk Dashboard the ratio has increased since Q1/2021 reflecting the increasing negative macroeconomic outlook (see section 4.2.2.).

[56] A. L. Fischetto, I. Guida, A. Rendina, G. Santini, M. Scotto di Carlo: "Bad loan recovery rates 2020", published in "Notes on Financial Stability and Supervision No. 27", November 2021 by Banca d'Italia.

Given the (historic) evidence that actual provisions for NPL are regularly not sufficient to cover the full loss when the loans are actually sold, we consider a discount calculated on this basis of appr. 54% as not appropriate for our valuation. Further, while already disclosing a negative macroeconomic trend as of the end of Q4/2021, the EBA data cannot take into account the specific implication of the war of Russia against the Ukraine and the resulting sanction with their negative impact on the macroeconomic environment for the years 2022 and following (see also section 2.5.).

In this context we have also considered the country dispersion of NPL as published in the EBA Risk Dashboard as of 31 December 2021. While the average ratio of NPL amounts to appr. 2.0% of the total loan portfolio of European banks and the NPL ratio in comparable countries like Italy or Croatia amounts to appr. 3.6%, banks in Slovenia only show a NPL ratio of 2.4%. This is a clear indication that the volume of NPL will increase in the coming years.

In addition, the appropriate discount needs to reflect the fact that potential buyers will ask for an additional discount to reflect the fact that the liquidator will not be able to provide the usual warranties and representations and the depth of due diligence of potential buyers will be limited in the context of an insolvency scenario.

Based on the available information and further considerations we conclude that an average discount of [redacted]% for the NPL portfolio will be appropriate for a prudent valuation.

This discount is below the average within the range of comparable discounts between 45% and 90% of the historical cases above. It also reflects recent discount levels together with the unfavorable economic environment and the specifics of the insolvency process the liquidator has to face when offering the portfolios in the market.

5.5.2.4. Discounted cash-flow ("DCF") model

Our DCF model is based on the following assumptions:

- Within the insolvency scenarios, the Bank collects the scheduled cash flows consisting of interest and principal payments. These cash flows have been discounted to the valuation date using their specific discount rates.
- Near the end of the insolvency proceedings, the loans which, according to the Bank's interest and redemption schedule, still have a residual debt are sold with the acceptance of a discount. Cash flows from these proceeds have been discounted to the valuation date using their specific discount rates.

During the periods of the different insolvency scenarios, we discounted the scheduled monthly cash flows to the valuation date using a discount factor for matching maturities (derived from spot rates). Furthermore, we have considered administrative costs, which have been deducted from the cash flows and cost of risk, that have been determined at the valuation date.

To the benefit of the shareholder, regulatory capital costs are not applied, as after the initiation of insolvency proceedings the Bank is no longer obligated to back loans with regulatory capital.

The procedure described can be, simplified, expressed as the following DCF-formula:

$$NPV = \sum_{t=0}^{T} \frac{CF_t - aC_t}{(1 + CR_t)^{t-t_0}} - CoR_{t_0}$$

Notations:

NPV	Net Present Value as of 28.02.2022
CF	Cash Flow (principal payment + interest payment)
aC	Administrative Costs
CR	Capitalisation Rate (safe alternative investment yield + average refinancing costs):
CoR	Cost of Risk
t	Point in time when principal and interest is paid (with t_0 = 28.02.2022)
T	Total number of cash flows

Cash Flow (principal payment + interest payment)

We were provided with an interest and redemption schedule by the Bank, which comprises principal and interest payment both for fixed-interest and variable-interest loans. According to the bank, the contractual interest rate including the variable interest rate (valid as of 28 February 2022 per individual contract) was the basis for the interest payments within the cash flows, i.e. no changes in the variable interest rates were taken into account for the future interest payments.

Administrative Costs

The Bank has informed us that the administrative costs are 0.08% p.a. for the total loan portfolio. To check if this information is plausible, we used the audited annual financial statement of 31 December 2021. The administrative expenses for the financial year 2021 amounted to kEUR 27,387. Putting this amount in relation to the average value of the loan portfolio, the annual cost ratio is 0.8%. The average of both ratios is 0.4%, which we consider to be appropriate for our valuation purposes.

Capitalisation Rate (safe alternative investment yield + average refinancing costs)

The capitalisation rate is defined as the return on an alternative investment that is adequate for the investment in the loans to be valued.

As already described under the general principles, the present valuation is carried out according to the security equivalence method. According to this method, the uncertainty components are already largely considered in the numerator of the valuation calculation (i.e. the cash flows). Only the remaining uncertainty components attributable to risks from refinancing are still to be reflected in the denominator, i.e., in the capitalisation interest rate.

The capitalisation rate is therefore predominantly determined by the risk-free reinvestment yield. As a representative yield for the risk-free alternative investment from a bank's point of view, we have used the Euro-Swap Curve based on the 3M6M Euribor as it can be retrieved daily from Bloomberg in the designation "GC S45". The yield curve at the valuation date is set out below[57]:

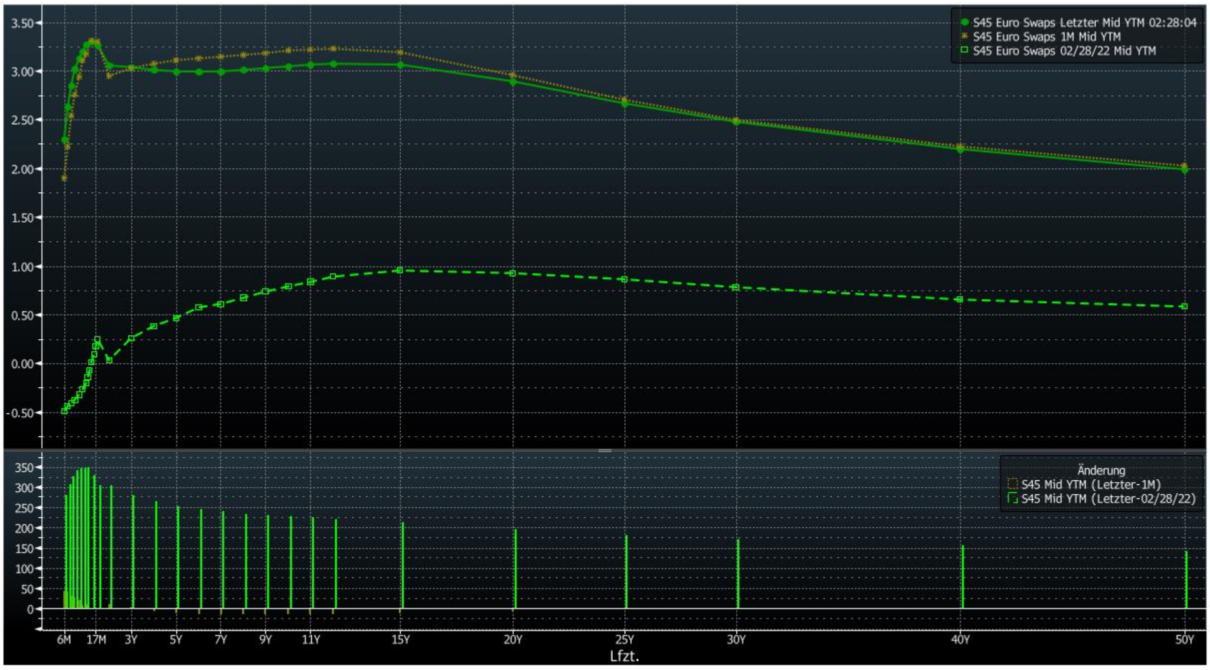

Figure 2: Yield curve at the valuation date; Bloomberg

Since the yield curve largely provides spot rates on an annual basis, we have determined the monthly spot rates by means of interpolation.

We were informed that the Bank can refinance its short-term obligations in the market at an average price of Euribor plus [redacted] % and long-term obligations at an interest swap rate plus [redacted] %. Since the loans we value using the DCF-model generally have longer maturities, only the interest swap rate plus [redacted] % rate becomes relevant. For simplification reasons and to the benefit of the shareholder, we have applied an average funding spread of [redacted]%.

[57] See Bloomberg: GC S45.

To derive the total discount rate, we added the funding spread of [redacted] % to the respective spot rates specific to the term of the respective cash flows from the Euro-Swap Curve.

Cost of Risk

We determined the cost of risk as the lifetime expected loss as at the valuation date and calculated them per loan:

$$EL = GBV \times cum\_PD \times LGD$$

Notations:

EL Expected Loss
GBV Gross Book Value
cum_PD (cumulated) Probability of Default
LGD Loss Given Default

Based on PD-matrices for different segments, that were provided to us by the Bank, we determined the maturity-specific cumulated probability of default depending on the residual maturity and the borrower's rating or the number of days the loan is already overdue.

Sale of the residual portfolio

The valuation assumes the sale of the remaining loans towards the end of the insolvency process. We refer to the “rump portfolio” as that part of the loan tape which has not been amortised naturally by the end of the liquidation period and is therefore sold in its entirety at the end of the NIP.

In previous cases of Slovenian banks which ran into difficulties we observed that significant discounts had to be accepted at the time of the asset transfer to BAMC or DUTB.

The impairments were in the range from:

- 45% in case of Probanka d.d. and 58% in case of Factor Banka d.d. both having transferred a rump portfolio, which comprised loans from defaulters, non-marketable (poor liquidity) shares and a real estate portfolio in 2016.
- 63% in case of Nova KBM Group in 2013 (we refer to chapter 3.2. Comparison to other failed Bank Cases)
- 63% in case of Abanka having sold bad debt/assets of 229 customers in 2014
- 72% in case of NLB d.d. having sold 1,427 credit receivables to BMAC in 2013[58]

[58] All figures were taken from the annual financial statements.

To calculate an appropriate discount for the rump portfolio we have applied the following considerations:

Firstly, we note that the nature and composition of the "historical" portfolios is inhomogeneous what is also reflected in the significant range of discounts. It is reasonable to assume that the discounts increase with the relevance of NPL in the portfolio.

Secondly, based on our assessment of the macroeconomic development, we expect that the appetite of potential buyers of a loan portfolio of this size will be limited.

Thirdly, it can be expected that the quality of rump portfolio will have deteriorated over time when the sale will take place. As described in connection with the sale of NPL and explained in our macroeconomic assessment (see section 2.5.) we expect an increase both in the level of NPL as well as the required discounts in the years 2022 and following. This will be fueled by

- the increasing interest rates in the EU,
- the significant losses and high volatility in the credit (e.g., CLO) markets,
- the expectation of increasing insolvencies in the markets back to pre- pandemic levels after the suspension of the obligation to file for insolvency caused by the effects of corona will end.

Fourthly, the appropriate discount needs to reflect the fact that potential buyers will ask for an additional discount because the liquidator will not be able to provide the usual warranties and representations and the depth of due diligence of potential buyers will be limited in the context of an insolvency scenario.

Finally, we expect that "Accelerated Sale Adjustments" to reflect the market's absorptive capacity and potential buyers' behavior need to be considered when estimating the appropriate discount. Market participants will notice the need of the liquidator to sell a large portfolio in a reasonable timeframe and will also consider the considerable operational costs required to manage the portfolio after acquisition.

Based on the above considerations, we have applied a discount of [redacted] % on the residual GBV of the loan portfolio (the "rump portfolio") in all scenarios. This corresponds to the level of discount observed in the case of Probanka d.d. which is lowest discount observable in the past. After having determined the purchase price that a buyer would probably be willing to pay, we eventually discounted this amount to the valuation date. It is important to note that no further haircuts have been applied to the discount rate to reflect the increased inherent risk in the rump portfolio. Instead, these risks have been considered in the expected cash flows resulting from the sale of the portfolio.

5.5.2.5. Sensitivity and Scenario Analysis

Approach

According to Article 6(a) of CDR 2018/344 we provide a best point estimate for the value of the loan portfolio, and where appropriate, value ranges. The value of the loan portfolio represents the recoveries / expected cash flows from running off and winding-up the portfolio. In the following we illustrate how the value ranges have been derived.

In practice, the usual procedure is to identify the key parameters and assumptions to which the valuation is most sensitive. In the next step, value ranges can be derived through varying the key parameters for different scenarios under model conditions.

At a basic level, sensitivity tests vary one single parameter while all other factors remain constant. As this approach gives an indication on the value's sensitivity to a given parameter, it would ignore the effects from the variation of multiple key parameters. In a more sophisticated approach, scenario analyses vary multiple parameters simultaneously.

Our analysis suggests that the valuation gap between the loan portfolio's GBV and its Net Present Value is mainly driven by the cost of risk and the proceeds from the transfer of the residual portfolio at the end of the insolvency proceedings. Furthermore, both factors are the main sources of uncertainty. On the contrary, due to the fairly low discount rates as at the valuation date the effect of discounting is rather limited. Similarly, the administration costs are a less relevant factor for the valuation adjustments. Furthermore, they are a minor source of uncertainty since they are, to a wide extent, predetermined based on market observation or data from the Bank.

This corresponds with the common practice to quantify the cost of risk or expected loan losses by a limited set of key parameters, i.e., the credit ratings including credit migration risk, probabilities of default (PD) and loss given default (LGD).

Scenarios

Probability of Default

Our approach is to analyze how varying PDs in the Best Case, Best Estimate, and Worst Case Scenarios affects the calculated value of the credit portfolio. The basic principle is to simulate a rating shift as is regularly applied by banks for their stress tests for credit risk. In other words, we have assumed different PD curves in each scenario.

Corporates and SMEs

This rating shift can be simulated through a shift in rating classes ("rating notches") for corporates. and SMEs.

As of the Valuation Date we lack specific and reliable data on default trends in Slovenia.

To estimate those default trends for the year 2022, we used, among others, a study about global annual default trends from Moody’s (published on 8 February 2022), which we consider suitable due to its diversified and sound approach. Under their baseline scenario, Moody's Credit Transition Model forecasts that the trailing 12-month global default rate for speculative-grade corporate issuers will gradually rise to 2.4% by the end of the year. Moody’s has also developed a pessimistic default scenario and a more optimistic scenario, given the high degree of economic uncertainty. The default rate could surge to 9.1% in a most pessimistic scenario. In the optimistic scenario, the default rate could be approximately 2.0% (Moody's 2022)[59].

According to S&P's Global Credit Outlook 2022, European speculative-grade defaults are expected to remain fairly low through 2022 with default rates at 2.5% (baseline scenario). In a pessimistic scenario the rate could rise to 5% (S&P Global Ratings 2022)[60].

Compared to this, the average one-year PD, weighted by GBV, of the Bank’s performing loan portfolio of non-financial corporations is roughly 1.4%. From S&P’s and Moody’s outlooks we conclude that it is reasonable to assume an increase in PDs in our Best Case, Best Estimate and Worst Case Scenarios.

Doing so, the Best Estimate or Worst Case Scenarios reflect a mildly or severely unfavourable economic environment, respectively, in which credit ratings tend to deteriorate. This corresponds with our observation that banks would typically assume a rating downgrade by two or four rating classes (“notches”) for their ICAAP stress tests to reflect mild or severe economic downturns, respectively.

[59] See Moody’s: Default Trends – Global: Annual default study: After a sharp decline in 2021, defaults will rise modestly this year.
[60] See S&P: Global Credit Outlook 2022 - Aftershocks, Future Shocks, And Transitions.

The Best Case Scenario reflects favourable macroeconomic conditions that would help keep credit default rates low, however, we have to bear in mind that downside risks for credit conditions will become imminent. Considering this, we assume a rating migration down by only one notch such that the portfolio average PD are expected to be closer to the Moody's forecast of some 2%.

In case of a rating migration by one rating class, the average PD increases to [redacted]% (Best Case), a deterioration by two rating classes leads to an average PD of [redacted]% (Best Estimate) and a migration of four rating classes results in an average PD amounting to [redacted]% (Worst Case).

Individuals and Micros

For individuals (households and mortgages) and micros the lifetime PDs are determined by the number of days the loan is already overdue ("days past due"). From information provided by the Bank we understand that the lifetime PDs are the cumulative PDs, representing the risk of defaulting in a given period. Based on that we estimated the marginal PDs for each lifetime period.

Again, the cumulative PD is the likelihood that a borrower will default **up to** the specific period. In contrast, the marginal PD is the likelihood, that the borrower will default **in** the specific period. Simplified, the cumulative PD is:

$$CPD^T = 1 - \prod_{t=1}^{T}(1 - MPD_t)$$

Notations:

CPD^T	*Cumulative PD in T*
MPD_t	*Marginal PD in t*
T	*Duration of Specific Period*
t	*Specific Period*

The following table shows the lifetime/cumulative PDs for non-delinquent micro- loans, as stated by the bank (original cumulative PD) and the derived marginal PD. According to our analysis, the marginal PD increases from 1.55% in the first year to [redacted]% in the sixth year and stays high thereafter. In the next step, we have recalculated the lifetime/cumulative PDs for simulation purposes but assumed that the marginal PD had the highest value of [redacted]% from the first year on and remained constant for all subsequent years:

Marginal PD - Micros			
Horizon	Orginal cumulative PD	Marginal PD	New cumulative PD calculated with marginal PD = 3.6%
1	1.55%	[redacted]	[redacted]
2	3.57%	[redacted]	[redacted]
3	5.60%	[redacted]	[redacted]
4	8.54%	[redacted]	[redacted]
5	11.82%	[redacted]	[redacted]
6	15.00%	[redacted]	[redacted]
7	18.06%	[redacted]	[redacted]
8-30	21.01% - 64.77%	[redacted]	[redacted]

Table 26: Marginal PD - micros

Our analysis suggest that the marginal PD is lower but increasing during the first few periods but remains constant in the later periods.

We repeated the same procedure for individual loan agreements (mortgages) as stated by the bank (original cumulative PD) and the derived marginal PD. The marginal PD increases from 0.62% in the first year to [redacted]% in the sixth year and stays high thereafter. Next, we assumed that the marginal PD had the highest value of [redacted]% from the first year on and remained [redacted] for all subsequent years:

Marginal PD - Individuals (Mortgages)			
Horizon	Orginal cumulative PD	Marginal PD	New cumulative PD calculated with marginal PD = 1.24%
1	0.62%	[redacted]	
2	1.43%		
3	2.29%		
4	3.38%		
5	4.57%		
6	5.75%		
7	6.92%		
8-30	8.07% - 30.06%		

Table 27: Marginal PD - individuals (mortgages)

For more information on the application of these marginal PDs, please refer to the summary below.

Loss Given Default

We have evaluated the disclosures on the bad loan management of other Slovenian banks in the past. From that we conclude that the expected cash flow generated from the liquidation of pledged mortgaged property depends on a customer's willingness to actively cooperate in the out-of-court settlement or not. If so, one bank calculated expected credit losses on the basis of 70% to 80% (or a 20% - 30% discount) of the appraised value of pledged property and a liquidation period of between six months and one year. If the out-of-court settlement was not successful, 50% (or a 50% discount) of the appraised value of pledged property and a liquidation period of five years were taken into account.[61]

When considering to accelerate the winding-up of the Bank's defaulting loans we need to bear in mind that the Bank cannot delay the liquidation of pledged collateral. Hence, it is reasonable that the Bank would have to accept a discount on the appraised value of the collateral. In a Best Case, most collateral realizations can be settled out-of-court, leading to an average discount of [redacted]% of the appraised value. In a Worst Case, most realizations cannot be settled out-of-court, meaning a discount of [redacted]% of the appraised value. In a Best Estimate, chances for an out-of-court settlement are even, meaning an average discount of [redacted]% (medium range of [redacted]%) of the appraised value.

Accordingly, we have adjusted the value of the loan collateral in the scenarios by different discounts, which leads to an increase in the LGD. The weighted average LGD of the Bank's performing loan portfolio is approximately [redacted]%. If the value of the loan collateral is adjusted by [redacted]%, the LGD rises to [redacted]%; if the value of the loan collateral declines by [redacted]%, the LGD increases to [redacted]% and an adjustment by [redacted]% entails a LGD of [redacted]%.

In summary, our assumptions for the scenarios are as follows:

[redacted]

[61] See Nova KBM Group, Annual Reports 2013 and 2016

[redacted]

[redacted]

5.5.2.6. Outcome of Valuation

In the **Best Case** Scenario our valuation results in the following value adjustments to the loan portfolio:[62]

Loans and advances to customers (kEUR)				
Item	Book Value	Adjustment		
	Feb 22	3 years	5 years	7 years
I) Performing loans	1,118,646	-210,058	-146,619	-115,922
1) Corporates	710,223	-100,923	-64,416	-51,355
a) Loans to customers	*638,694*	*-101,342*	*-64,835*	*-51,775*
b) Short-term	*59,262*	*307*	*307*	*307*
c) Factoring	*12,267*	*112*	*112*	*112*
2) Individuals	408,423	-109,135	-82,204	-64,567
a) Loans to customers	*99,185*	*-11,992*	*1,151*	*6,213*
b) Mortgages	*288,839*	*-97,287*	*-83,499*	*-70,924*
c) Short-term	*20,399*	*145*	*145*	*145*
II) Non-performing loans	25,308	-9,800	-9,800	-9,800
1) Secured	21,695	-7,150	-7,150	-7,150
2) Unsecured	3,613	-2,649	-2,649	-2,649
Total	1,143,954	-219,857	-156,419	-125,721

Table 25: Loans and advances to customers - Adjustment Best Case Scenario

These adjustments lead to the following economic values:

Loans and advances to customers (kEUR)				
Item	Book Value	Economic Value		
	Feb 22	3 years	5 years	7 years
I) Performing loans	1,118,646	908,588	972,027	1,002,724
1) Corporates	710,223	609,300	645,807	658,868
a) Loans to customers	*638,694*	*537,352*	*573,859*	*586,919*
b) Short-term	*59,262*	*59,569*	*59,569*	*59,569*
c) Factoring	*12,267*	*12,379*	*12,379*	*12,379*
2) Individuals	408,423	299,288	326,219	343,856
a) Loans to customers	*99,185*	*87,193*	*100,336*	*105,398*
b) Mortgages	*288,839*	*191,552*	*205,340*	*217,915*
c) Short-term	*20,399*	*20,544*	*20,544*	*20,544*
II) Non-performing loans	25,308	15,508	15,508	15,508
1) Secured	21,695	14,545	14,545	14,545
2) Unsecured	3,613	964	964	964
Total	1,143,954	924,097	987,535	1,018,233

Table 26: Loans and advances to customers - Economic Value Best Case

[62] Please note that the economic values are derived from the loan GBVs while the adjustments are derived from the economic values minus the Bank NBVs.

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

In our **Best Estimate** Scenario we have calculated the following adjustments:

Loans and advances to customers (kEUR)				
Item	Book Value		Adjustment	
	Feb 22	3 years	5 years	7 years
I) Performing loans	**1,118,646**	**-223,820**	**-163,733**	**-135,042**
1) Corporates	710,223	-110,869	-76,961	-65,262
a) Loans to customers	*638,694*	*-111,289*	*-77,380*	*-65,681*
b) Short-term	*59,262*	*307*	*307*	*307*
c) Factoring	*12,267*	*112*	*112*	*112*
2) Individuals	408,423	-112,951	-86,772	-69,780
a) Loans to customers	*99,185*	*-12,970*	*136*	*5,072*
b) Mortgages	*288,839*	*-100,126*	*-87,053*	*-74,997*
c) Short-term	*20,399*	*145*	*145*	*145*
II) Non-performing loans	**25,308**	**-9,800**	**-9,800**	**-9,800**
1) Secured	21,695	-7,150	-7,150	-7,150
2) Unsecured	3,613	-2,649	-2,649	-2,649
Total	**1,143,954**	**-233,620**	**-173,533**	**-144,841**

Table 27: Loans and advances to customers - Adjustment Best Estimate Scenario

Taking these adjustments into account, the economic values develop as follows:

Loans and advances to customers (kEUR)				
Item	Book Value		Economic Value	
	Feb 22	3 years	5 years	7 years
I) Performing loans	**1,118,646**	**894,826**	**954,913**	**983,604**
1) Corporates	710,223	599,354	633,262	644,961
a) Loans to customers	*638,694*	*527,405*	*561,314*	*573,013*
b) Short-term	*59,262*	*59,569*	*59,569*	*59,569*
c) Factoring	*12,267*	*12,379*	*12,379*	*12,379*
2) Individuals	408,423	295,472	321,651	338,643
a) Loans to customers	*99,185*	*86,215*	*99,321*	*104,257*
b) Mortgages	*288,839*	*188,713*	*201,786*	*213,842*
c) Short-term	*20,399*	*20,544*	*20,544*	*20,544*
II) Non-performing loans	**25,308**	**15,508**	**15,508**	**15,508**
1) Secured	21,695	14,545	14,545	14,545
2) Unsecured	3,613	964	964	964
Total	**1,143,954**	**910,334**	**970,421**	**999,113**

Table 28: Loans and advances to customers - Economic Value Best Estimate

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

In our **Worst Case** Scenario we have anticipated the following adjustments to the loan portfolio:

Loans and advances to customers (kEUR)				
Item	Book Value		Adjustment	
	Feb 22	3 years	5 years	7 years
I) Performing loans	**1,118,646**	**-258,227**	**-209,780**	**-190,905**
1) Corporates	710,223	-127,212	-96,660	-86,458
a) Loans to customers	*638,694*	*-127,631*	*-97,079*	*-86,877*
b) Short-term	*59,262*	*307*	*307*	*307*
c) Factoring	*12,267*	*112*	*112*	*112*
2) Individuals	408,423	-131,015	-113,120	-104,447
a) Loans to customers	*99,185*	*-17,493*	*-4,821*	*-1,398*
b) Mortgages	*288,839*	*-113,667*	*-108,443*	*-103,193*
c) Short-term	*20,399*	*145*	*145*	*145*
II) Non-performing loans	**25,308**	**-9,800**	**-9,800**	**-9,800**
1) Secured	21,695	-7,150	-7,150	-7,150
2) Unsecured	3,613	-2,649	-2,649	-2,649
Total	**1,143,954**	**-268,026**	**-219,579**	**-200,704**

Table 29: Loans and advances to customers - Adjustment Worst Case Scenario

The adjustments result in the following economic values:

Loans and advances to customers (kEUR)				
Item	Book Value		Economic Value	
	Feb 22	3 years	5 years	7 years
I) Performing loans	**1,118,646**	**860,419**	**908,866**	**927,741**
1) Corporates	710,223	583,011	613,563	623,765
a) Loans to customers	*638,694*	*511,063*	*541,615*	*551,817*
b) Short-term	*59,262*	*59,569*	*59,569*	*59,569*
c) Factoring	*12,267*	*12,379*	*12,379*	*12,379*
2) Individuals	408,423	277,408	295,303	303,976
a) Loans to customers	*99,185*	*81,692*	*94,364*	*97,787*
b) Mortgages	*288,839*	*175,172*	*180,396*	*185,646*
c) Short-term	*20,399*	*20,544*	*20,544*	*20,544*
II) Non-performing loans	**25,308**	**15,508**	**15,508**	**15,508**
1) Secured	21,695	14,545	14,545	14,545
2) Unsecured	3,613	964	964	964
Total	**1,143,954**	**875,928**	**924,375**	**943,250**

Table 30: Loans and advances to customers - economic value worst case

5.5.3. Debt Securities

Overview

The item debt securities consists of two industrial bonds.

Debt Securities (kEUR)	
Item	**Book Value**
Debt instrument [redacted]	8,201
Debt instrument [redacted]	5,224
Total	**13,425**

Table 31: Debt securities - overview

These bonds have a fixed coupon of 2.8% ([redacted], maturity date 25 November 2024) and 3.9% ([redacted], maturity date 02 November 2023).

Methodological Approach and Hypothesis Explanation

Like loans and advances to customers, the debt securities are not traded in an active market. Therefore, the same methodological approach was adopted for debt securities, i.e., with regard to estimating and discounting the net cash inflows.

In the first step, we calculated the interest payments receivable for the bonds at hand for each year until maturity and then discounted these in turn with the yield curve as of the valuation date (European Central Bank n.d.)[63]to the valuation date. In the next step, we discounted the cash flows from the settlement of the bonds with their nominal value from the maturity date to the valuation date.

From our point of view, there is no indication to assume that the bonds will not be redeemed on the maturity date and therefore we have not applied any markdowns.

Outcome of Valuation

Debt Securities (kEUR)				
Item	**Book Value**		**Adjustments**	
	Feb 22	3 years	5 years	7 years
Debt instrument [redacted]	8,201	816	816	816
Debt instrument [redacted]	5,224	396	396	396
Total	**13,425**	**1,212**	**1,212**	**1,212**

Table 32: Debt securities - valuation

[63]Available online: https://sdw.ecb.europa.eu/quickview.do;jsessionid=7A59104BABDE8AF5DA414C10B6EE7658?SERIES_KEY=165.YC.B.U2.EUR.4F.G_N_A.SV_C_YM.SR_1Y&resetBtn=+Reset+Settings&start=&end=&trans=N

Due to the level of interest to be received and the lower yield curve as of the valuation date, the economic value of the bonds from the perspective of the valuation date increases by kEUR 1,212 in all scenarios.

Sources of Uncertainty

There is always the risk that bonds will not be serviced, although this risk may be considered low even if the bonds are unrated. However, this cannot be completely ruled out due to the possible unfavourable macroeconomic developments that we already discussed in section 2.5. of this report.

5.5.4. Loans and advances to banks

Overview

As per 28 February 2022 loans and advances to banks consists of the following items:

Loans and advances to banks (kEUR)	
Item	Book Value
[redacted]	194
[redacted]	4.380
Reconciliation item	-20
Total	**4.554**

Table 33: Loans and advances to banks - overview

Please note a mismatch between the total amount shown in the Bank's balance sheet and the information provided by the Bank for valuation purposes (kEUR 20). However, this mismatch is not material because the expected cash flows are zero (see below).

Methodological Approach and Hypothesis Explanation

Like the loans and advances to customers and debt securities, these loans are not traded in an active market. Therefore, the same methodological approach was taken as for the loans and advances to customers, i.e., with regard to estimating and discounting the net cash inflows.

Caused by the Russian-Ukrainian war from 24 February 2022 on and due to the sanctions imposed by the EU and U.S. it is rather unlikely that recoveries from the Russian and Belarussian [redacted] entities can be reasonably expected. Also, from a practical perspective, it seems rather unlikely that these entities would be willing to inject money to [redacted] while they could hardly expect any benefit. Therefore, the expected recoveries from these loans and advances to banks are zero in all scenarios.

Outcome of Valuation

Valuation Loans and advances to banks (kEUR)				
Item	Book Value		Adjustments	
	Feb 22	3 years	5 years	7 years
[redacted]	194	-194	-194	-194
[redacted]	4,380	-4,380	-4,380	-4,380
Total	**4,574**	**-4,574**	**-4,574**	**-4,574**

Table 34: Loans and advances to banks - valuation

5.5.5. Other financial assets

Overview

The book value of other financial assets as of 28 February 2022 is kEUR 3,358.

Other Financial Assets (kEUR)	
Item	**Book Value**
Other financial assets	3,358

Table 35: Other financial assets - overview

According to the notes in the financial statements as of 31 December 2021 these assets mainly comprise receivables for fees, accrued income for banking products, receivables for financial assets sold, trade receivables and receivables from business relationships.

We understand that this item is to a large extent short-term in nature and related to the ongoing business activities of the Bank.

Methodological Approach and Hypothesis Explanation

We analysed whether book values could form the basis for a valuation of the other financial assets. Therefore, we have reviewed the item in terms of its composition:

- The item appears to be a collective item for current receivables (e. g. credit card receivables, interim account - euro cash on the move, receivables in the clearing of ATM etc.).
- We have not identified any high-risk items (in terms of default risk) and therefore, due to the short-term nature of the items included, we do not see the need to make any adjustments.

Outcome of Valuation

Other Financial Assets (kEUR)				
Item	**Book value**	**Adjustments**		
		3 years	**5 years**	**7 years**
Other financial assets	3,358	0	0	0

Table 36: Other financial assets - valuation

In summary, we therefore assumed that the expected cash flows will be an amount equivalent to the book values in all scenarios.

5.6. Investments in Subsidiaries, Associates and Joint Ventures

Overview

This item exclusively includes the Bank's 100% owned subsidiary Privatinvest d.o.o., Ljubljana. As of 28 February 2022, the book value of this equity investment is kEUR 292.

Investments in subsidaries, associates and joint ventures (kEUR)	
Item	Book Value
Privatinvest d.o.o.	292

Table 37: Investments in subsidiaries, associates and joint ventures - overview

The main activity of Privatinvest is acting as real estate agency / intermediary. For the year 2021 the company recorded a loss of kEUR 131.

We considered the potential contagion effect resulting from the subordination of the Bank's intra-group debt, leading to a write-down of the corresponding intra-group assets in the subsidiaries. We assume that a liquidation of the Bank and a collapse of the entire Sberbank Europe AG group would have severe consequences for Privatinvest d.o.o. and wipe out its entire franchise value, forcing it ultimately to open insolvency proceedings. The main reason is the severe reputation damage of the Bank and the Sberbank Europe AG group. Under these circumstances it is not reasonable to assume that the subsidiary may continue a profitable business as real estate agency/ intermediary.

Methodological Approach and Hypothesis Explanation

This asset is not traded in active markets and, according to Article 4(5)(b) of CDR 2018/344, we must consider prices in comparable distressed transactions involving assets of similar nature and condition.

As we assume that an insolvency of the Bank will also lead to an insolvency of Privatinvest d.o.o., we estimate that there will be no material recoveries on this equity investment.

Outcome of Valuation

Investments in subsidaries, associates and joint ventures (kEUR)				
Item	Book value	Adjustments		
		3 years	5 years	7 years
Privatinvest d.o.o.	292	-292	-292	-292

Table 38: Investments in subsidiaries, associates and joint ventures - valuation

We assume that the recovery from the investment in Privatinvest d.o.o. will be zero in all scenarios.

5.7. Property Plant and Equipment

Overview

We obtained a data tape for all tangible assets of the Bank as of 28 February 2022 with a value of kEUR 11,368. The following table summarises its composition.

Property Plant and Equipment (kEUR)	
Item	Book Value
Tangible assets	**10,904**
- Tangible assets	*6,328*
- IFRS 16	*4,518*
- Not activated investments	*58*
Investment property	**464**
Total	11,368

Table 39: Property, plant and equipment - overview

For the accounting of property, plant and equipment the Bank uses the cost model (cost less accumulated depreciation). Impairment is only recorded when a triggering event occurs. Depreciation begins when the relevant item is in use.

Here, not activated investments are shown as on balance. These are identified as assets that already have been bought and activated but not yet put in use and therefore are not yet depreciated. Since we deem the amount of kEUR 58 as not material for the valuation, to the benefit of the shareholder we assume a recovery in full.

Depreciation is done by use of the straight-line method over the useful lifetime. For the following items the useful times applied by the Bank are as follows:

- **Buildings:** up to 40 years
- **Computer equipment:** from 3 to 5 years
- **Motor vehicles:** from 4 to 8 years
- **Other equipment:** from 2 to 10 years

Tangible assets also include land which is not depreciated.

Investment Property held earns rentals for capital appreciation (IAS 40). This item is stated at fair value determined by a certified appraiser. Fair values are based on market values and relevant gains or losses are recognised in the income statement. According to the information given by the Bank, the changes in value only have been booked in March 2022. Therefore, our assessment is based on the book values as disclosed at the balance sheet date as of 28 February 2022.

In the following, we break down tangible assets from above into groups for further valuation purposes.

Tangible Assets (kEUR)	
Item	Book Value
Real Estate and land plots	4,601
Furniture	1,307
Other	389
Vehicle fleet	31
Total	6,328

Table 40: Tangible assets - overview

Leased items can be classified as follows:

IFRS 16 Leases (kEUR)	
Item	Book Value
Construction	4,119
IT and Software	307
Vehicles	92
Total	4,518

Table 41: IFRS 16 leases - overview

Methodological Approach and Hypothesis Explanation

These assets are not traded in active markets and, according to Article 4(5) of CDR 2018/344, we must consider prices in comparable distressed transactions involving assets of similar nature and condition.

It is reasonable to assume that the most appropriate strategy to maximise recoveries from the property, plant and equipment (i.e. tangible assets) is to sell the real estate property subsequently in piecemeal until the end of each insolvency scenario and other tangible assets as a bulk within 1 or 2 years after the initiation of the insolvency proceedings. This reflects our understanding of the evolution and absorptive capacity of the Slovenian real estate market (Republic of Slovenia 2021)[64] and the Bank's portfolio.

The book value of the Bank's real estate properties amounts to kEUR 4,601. The Bank provided us with a table disclosing the book values of four real estate properties (totalling kEUR 4,423) along with recent property valuations. Taking into account hidden losses and hidden reserves, we conclude from the property valuations that the total value of the real estate properties amounts to kEUR 4,378. In a simplified approach and to the benefit of the shareholder, we are not accounting for the future depreciation, hence, assuming that the expected cash flows will be an amount equivalent to their recent book values.

For furniture (kEUR 1,307), others (kEUR 389) and vehicle fleet (kEUR 31) we estimated a recovery rate of [redacted] of the book values in each insolvency scenario, considering that there is no secondary market for these items.

[64] Available online here: https://www.stat.si/StatWeb/en/News/Index/9872

For IFRS 16 leases (TEUR 4,518), we have assumed an economic value of zero in all insolvency scenarios, as essentially construction rights for leased objects are activated and the economic value will be zero after termination of the corresponding leases by the Bank. Consequently, the expected cash flows are zero.

Investment property is held to earn rentals or for capital appreciation. It is stated at a fair value, which is based on current market prices and determined by a certified appraiser. For investment property we assume expected cash flows equivalent to the book values / fair values, as shown in the following table:

Investment Property (kEUR)	
Item	Book Value
[redacted]	207
[redacted]	142
[redacted]	109
[redacted]	6
Total	464

Table 42: Investment property - overview

Outcome of Valuation

The Bank's real estate assets are estimated to realise the following recoveries in three already mentioned liquidation scenarios:

Valuation of Property, Plant and Equipment (kEUR)				
Item	Book Value		Adjustments	
	Feb 22	3 years	5 years	7 years
Tangible Assets	**6.386**	**-1.554**	**-1.554**	**-1.554**
- *Real estate*	4.601	0	0	0
- *Furniture*	1.307	-1.176	-1.176	-1.176
- *Other*	389	-350	-350	-350
- *Vehicle fleet*	31	-28	-28	-28
- *Not activated investments*	58	0	0	0
IFRS 16 Leases	**4.518**	**-4.518**	**-4.518**	**-4.518**
Investment Property	**464**	**0**	**0**	**0**
Total	11.368	-6.072	-6.072	-6.072

Table 43: Property, plant and equipment - valuation

To the benefit of the shareholders, discounting effects are not considered to be material in all scenarios.

Sources of Uncertainty

The realisations from the real estate assets are dependent on the strategy concerning the timeline of sales and assumptions around the macroeconomic forecast.

5.8. Intangible Assets

Overview

Intangible assets as of 28 February 2022 mainly comprise computer software and licenses.

Intangible Assets (kEUR)	
Item	**Book Value**
Computer software	732
Licences	361
Not activated investments	324
Investment in software leasing	7
Total	**1,424**

Table 44: Intangible assets - overview

The Bank uses the cost model for measuring intangible assets. This item is amortized over its useful lifetime (software: up to 4 years and licences from 4 to 10 years). Impairment only is made if respective indicators exist.

The item "Not activated investments" relates to assets that have already been bought and recognized in the balance sheet but not yet put in use and therefore not yet been depreciated.

Methodological Approach and Hypothesis Explanation

These assets are not traded in active markets and, according to Article 4(5)(b) of CDR 2018/344, we must consider prices in comparable distressed transactions involving assets of similar nature and condition.

We have considered the following factors, which are relevant to the liquidation scenarios:

- **Computer software:** The liquidator would continue to use this in the liquidation (including existing systems, etc.); recoveries from the sale of these assets would be dependent on potential buyers. As the software is customized for the Bank, there are unlikely to be many buyers as these are likely to have their own customized software according to the market in which they operate. At the end of each insolvency scenario the corresponding recoveries are zero.
- **Licences:** The expected cash flows of licenses are related to a stable operational business on a going concern basis. Considering the Bank would lose its banking licence there would be no ongoing operational business.
- **Not activated investments:** The recoveries from not used intangible assets is zero in case of an insolvency.

Outcome of Valuation

An older IT system is not expected to be implemented by a potential buyer especially in the event of an insolvency. Based on this assumption, we consider that the recoveries in any of the liquidation scenarios would be zero.

Valuation of Intangible Assets (kEUR)				
Item	Book Value	Adjustments		
	Feb 22	3 years	5 years	7 years
Computer software	732	-732	-732	-732
Licences	361	-361	-361	-361
Not activated investments	324	-324	-324	-324
Investment in Software leasing	7	-7	-7	-7
Total	**1,424**	**-1,424**	**-1,424**	**-1,424**

Table 45: Intangible assets - valuation

Sources of Uncertainty

Since we cannot fully evaluate the applicability of banking specific software in Slovenian language for potential buyers there might be a small value which should be considered as immaterial.

5.9. Tax Assets

Overview

Tax assets as of 28 February 2022 were as follows:

Tax Assets (kEUR)	
Item	Book Value
Deferred Tax Assets	459
Current Taxes	46
Total	**505**

Table 46: Tax assets - overview

The valuation of deferred tax assets is essentially based on the recoverability of tax assets according to the provisions defined in the Slovenian Tax Legislation.

According to the information received from the Bank we expect no future recovery of the deferred tax assets during the insolvency process. It is also unlikely that tax losses carried forward can be utilised by way of offsetting against future tax profits in the insolvency. Hence, we assume a value of zero to the tax assets in all three insolvency scenarios.

Methodological Approach and Hypothesis Explanation

Tax assets are not traded in an active market. According to Article 4(5) of CDR 2018/344, we especially must consider the likelihood of the tax assets generating net cash inflows under normal insolvency proceedings.

No special rules on CTA/DTA are neither stipulated by the RCWBA, nor by the general Slovenian insolvency law.

Deferred tax assets and tax credits reduce a company's taxable income in the future. However, it is very unlikely that a company in insolvency proceedings would generate future profits. Hence, it is not reasonable to assume that a company in insolvency will benefit from the tax assets. Also, there is not an active market for tax assets. Consequently, there are no cash flows or recoveries to be expected from the Bank's deferred tax assets.

Outcome of Valuation

As noted above, we expect no cash flows or recoveries from the Bank's deferred tax assets.

To the benefit of the shareholders, we account for a recovery equivalent to the book value of current taxes which we deem to be not material for the valuation.

Valuation of Tax Assets (kEUR)				
Item	Book Value		Adjustments	
	Feb 22	3 years	5 years	7 years
Deferred Tax Assets	459	-459	-459	-459
Current Tax Assets	46	0	0	0
Total	**505**	**-459**	**-459**	**-459**

Table 47: Tax assets - valuation

5.10. Other Assets

Overview

A breakdown of other assets as of 28 February 2022 is illustrated in the following table. Mainly this item consists of deferred expenses in the amount of kEUR 591 which accounts for 71.9% of the whole balance sheet item.

Other Assets (kEUR)	
Item	Book Value
Deferred Expenses	591
Claims advance non-financial payments	102
Other accrued Income	75
Inventories	48
Claims for other Taxes	6
Total	822

Table 48: Other assets - overview

Methodological Approach and Hypothesis Explanation

We have no indication that the other assets are traded in an active market. According to Article 4(5) of CDR 2018/344, we especially must consider the likelihood of other assets generating net cash inflows under normal insolvency proceedings.

According to our understanding and the nature of this item the largest portion is short-term related to the ongoing business activities of the Bank. No further information is available whether the individual assets are measured at fair value or amortised cost. We have neither evidence of hidden reserves nor of hidden losses. Accordingly, we assume cash flows / recoveries from the other assets equivalent to their book value.

Outcome of Valuation

In summary, we assume cash flows / recoveries from the other assets equivalent to their book value:

Valuation of Other Assets (kEUR)				
Item	Book Value		Adjustments	
	Feb 22	3 years	5 years	7 years
Deferred Expenses	591	0	0	0
Claims advance non-financial payments	102	0	0	0
Other accrued Income	75	0	0	0
Inventories	48	0	0	0
Claims for other Taxes	6	0	0	0
Total	822	0	0	0

Table 49: Other assets - valuation

Sources of Uncertainty

A source of uncertainty is if the Bank will have a future economic benefit from the deferred expenses (kEUR 591). As we deem this item to be not material for the valuation, we disregard this issue to the benefit of the shareholder.

5.11. Costs of Winding-up

Overview

Winding-up of the Bank would have been the most complex insolvency process of a bank ever experienced in Slovenia. Moreover, we note the inherent uncertainties in estimating the costs of a process which extends over a number of years. This necessarily involves subjective judgements including how stakeholders (staff, customers, service providers, etc.) will behave or situations will develop. Significant lengthy and costly litigation on a variety of issues is inevitable.

We have considered the following costs which would arise in a liquidation of the Bank:

- Forceful liquidation fees and costs,
- Bankruptcy fees and costs,
- Employee related costs,
- Contracts' termination costs,
- Operating costs.

It should be noted that the cost of bankruptcy is partially based on rudimentary estimates, country-specific assumptions and domestic legal expert's judgement. Against this background, there is no direct comparability with bankruptcy costs in other countries.

These costs would constitute claims against the estate and would have a payment priority ahead of other creditors (see section 3.2.2.).

Costs of Winding-Up (kEUR)									
	3 year Scenario			5 year Scenario			7 year Scenario		
Item	Best Case	Best Estimate	Worst Case	Best Case	Best Estimate	Worst Case	Best Case	Best Estimate	Worst Case
Liquidation fees and costs	5.816	7.446	9.250	7.014	9.068	11.295	7.955	10.432	13.084
Employee related costs	11.160	11.632	12.105	11.387	11.871	12.355	11.578	12.072	12.566
Contracts termination costs	816	3.926	5.290	816	3.926	5.290	816	3.926	5.290
Operating costs	9.609	9.609	9.609	14.569	14.569	14.569	22.136	22.136	22.136
Total Costs	27.402	32.613	36.254	33.787	39.434	43.509	42.485	48.566	53.076

Table 50: Costs of liquidation

5.11.1. Forceful liquidation costs

Article 222 (1) of the RCWBA determines the following costs of a forceful liquidation:

Costs incurred by the BS

Asset and liabilities valuation by an independent expert

As a benchmark for costs of valuation, a previous example by BS may be used. Namely, in the aftermath of the financial crisis in early 2010s the BS and the Ministry of Finance of the RoS performed stress tests, which included valuations of assets and liabilities of the Slovenian banking sector.

As evident from the report published on the website of the BS (Banka Slovenije 2013)[65], the costs of assets valuation (*Asset Quality Review*) including appraisal of real estate security amounted to ca. EUR 8,974mn. According to the report, the valuation related to 70.8% of the then Slovenian banking market by balance sheet value.

As of December 2021, the Bank represented 3.6% of the Slovenian banking market by balance sheet value (Banka Slovenije 2021)[66]. Under the assumption that the costs of valuation of assets of 3.6% of total Slovenian banking market (by balance sheet value) would be proportionately lower, this would result in costs amounting to ca kEUR 323. Adjusted for inflation (Inflation Tool 2022)[67] this would result in an estimate of kEUR 392 and rounded up to **kEUR 400**.

Hiring of other independent experts cooperating with planning and implementation of measures if implementation requires special knowledge and experience

This point is not further specified in the law, and there are few practical examples for guidance. However, compared to the scope of work above and the figures thereunder, a rough estimate may be made that the costs relating to this item should not exceed **kEUR 500**.

Compensation of the liquidation manager

With regard to the liquidation manager Article 177(1) RCWBA provides that the BS shall appoint one or more liquidation managers.

Concerning the number of managers that would have been appointed in a scenario of a forceful liquidation of the Bank we first reviewed the composition of its management at the time the Bank was fully operational. The Bank had four members of the management board: a president, vice president/deputy and two members of board.

Given that the Bank is not fully operational once in forceful liquidation, one may make an assumption that the number of liquidation managers should be lower than the number of members of the

[65] https://bankaslovenije.blob.core.windows.net/uploaded/Finan%C4%8Dna%20stabilnost%2FStresni%20testi%2Fstroski%20skrbnega%20pregleda%20_Sporocilo.pdf
[66] Data taken from Annual report of Sberbank Slovenia d.d. for 2021 (published on ajpes.si) and Bank of Slovenia monthly reports on total balance sheet of Slovenian banking market, available here (https://www.bsi.si/en/publications/monthly-report-on-bank-performance).
[67] https://www.inflationtool.com/euro/2013-to-present-value?amount=323000&year2=2022&frequency=yearly

management board when the bank was still fully operational. Hence, we would assume that forceful liquidation would require 2 or at most 3 liquidation managers.

Further, with regard to the amount of compensation of a liquidation manager, the RCWBA is rather vague/descriptive as it only provides that the manager's compensation shall be determined by the BS based on the size of the Bank, the complexity of its operations, the tasks, type and scope of the Bank's assets and the number and types of the Bank's creditors.

However, the tariff setting out compensation of insolvency administrators (Banka Slovenije 2008)[68] in general insolvency procedures (**Tariff**)[69] is more specific, and it may serve as guidance since, according to the RCWBA, the tasks of a liquidation manager are comparable to the tasks of an insolvency administrator.

According to the Tariff, an administrator is entitled to compensation for three major items/insolvency administration tasks, i.e. 1) compensation for the insolvency opening report, 2) compensation for review/testing of claims, and 3) compensation for assets sale and proceeds distribution.

Items 1) and 2) are capped while there is some more leeway regarding item 3). It depends whether the assets are sold as whole or in separate transactions.

In terms of figures, the caps/estimates are:

Ad 1): kEUR 34 (Art. 5(7) in connection with Article 4 of the Tariff);

Ad 2): kEUR 23 (Art. 6(1) in connection with Article 4 of the Tariff);

Ad 3): kEUR 138 (Article 7(1) and 7(3) in connection with Article 4 of the Tariff), assuming that the assets are sold as a whole – which should be comparable to a situation of realisation of the forceful liquidation instruments, i.e. where a transfer of assets is made to another or a new entity, and hence a sensible assumption[70].

Other notable costs include costs of operational expenditure which are either reimbursed item by item or as a lump-sum of 1% of the amount under 2) above.

To sum up, the total capped costs relating to an individual insolvency administrator are just above kEUR 195, which for the purpose of this exercise may be rounded up to kEUR 200.

[68] Rules on the tariff determining the remuneration of administrators of insolvency proceedings and compulsory liquidations, and on the reimbursement of costs to which administrators are entitled (Pravilnik o tarifi za odmero nagrade upravitelja v postopkih zaradi insolventnosti in prisilne likvidacije ter stroških, do povrnitve katerih je upravitelj v teh postopkih upravičen (Uradni list RS, št. 91/08, 119/08, 53/09, 92/14, 66/22 in 103/22))
[69] Note that all amounts under the Tariff are net of 22% VAT.
[70] If assets are sold separately, costs of a single sale/transaction depend on the value of assets and are capped at kEUR 115.

As already mentioned, we would assume that the costs of a liquidation manager should be comparable to those of an insolvency manager. Under the further assumption that the BS would appoint 2 to3 liquidation managers, their total costs should range from **kEUR 400 – 600**.

<u>Execution of instruments and exercise of powers for forceful liquidation</u>

With respect to the execution of forceful liquidation instruments, there are two instruments specified by the RCWBA, i.e. transfer of assets or exclusion of assets, which should essentially translate to a spin-off of the assets into a newly established entity.

Referring to comparable transactions, these costs should roughly range between **kEUR 750 to 1,500**.

<u>Compensation of (liquidation) managers in line with the RCWBA</u>

The provisions of the law with regard to this point are somewhat unclear as the costs of compensation of liquidation managers are already included under the costs of BS (see above). Hence, we did not account for an additional figure in respect of this item.

<u>Other costs of execution of liquidation instruments and payments of creditors</u>

The below estimate represents a reasonable assessment based on experience in the local market:

- Costs of attorneys: kEUR 250 – 400
- Costs of accounting kEUR 150 – 250
- Costs of independent appraisers kEUR 50 – 100
- Costs of brokerage (if assets are subject to sale on regulated markets such as stock exchange): kEUR 25 – 50
- Costs of other expert knowledge: kEUR 50 – 150

Total other costs of execution of liquidation instruments: **kEUR 525– 950.**

<u>Costs of other bank liabilities relating to administration, incurred after the start of forceful liquidation</u>

The law provides no further guidance on which type of administration costs are to be recorded under this provision. By way of an educated guess, we would allocate to this item a figure of **kEUR 400 – 500**.

In **total**, the above stated costs would be estimated to: **kEUR 2,975 – 4,450.**

Any other costs not mentioned above (e.g. rents, maintenance costs, salaries of staff, etc) will be accounted for in addition to the above.

5.11.2. Bankruptcy costs

As we have already shown in Sections 3 and 4, it may not be possible to clearly distinguish between the compulsory liquidation phase and the bankruptcy phase to determine which assets are sold during the liquidation or only during the bankruptcy. Experiences with bank liquidations in the past have shown that at least the processing of claims for and against the Bank (e.g., refer to the legal contingencies in Section 5.12.1) can take longer than the actual liquidation. Accordingly, it should be assumed that a Bankruptcy phase must be taken into account at least for the processing of claims, if not also for the sale of the remaining assets.

In terms of costs of bankruptcy proceedings over the remaining assets, these can be benchmarked against 1) the total assets value[71], or 2) against the total compensation of the bankruptcy manager.

With regard to the first method, reference can be made to The World Bank data / Doing Business Archive, which quotes the costs in the amount of 4% of the total bankruptcy estate (The World Bank 2019)[72]. With regard to the second method, the total costs may be benchmarked against the compensation received by the bankruptcy administrator. According to a study published in 2018 (Cepec, Nagrade upraviteljev kot sredstvo za doseganje ex post učinkovitosti insolvenčnih postopkov 2018)[73] the bankruptcy administration cost amount to:

- 50% of total bankruptcy costs in an average bankruptcy scenario; or
- 37% of total bankruptcy costs in a bankruptcy which results in sale of assets and division of profits amongst the creditors.

Assuming that the bankruptcy administrator would receive the highest/capped amount of compensation under the Tariff (and further assuming the Bank's remaining assets are sold in a single transaction), the above would translate to total bankruptcy costs of:

- kEUR 400 if the bankruptcy proceedings in the case at hand matches an average bankruptcy scenario; or
- kEUR 540 if the bankruptcy proceedings in the case at hand results in sale of assets and division of profits amongst the creditors.

In addition, the above two figures may be checked against the 4% (of bankruptcy estate/assets value) benchmark under different scenarios of asset valuations. For the sake of simplicity, and subject to the plausibility check mentioned in the preceding sentence, the estimate may be roughly rounded to **kEUR 5,000 – 7,500**.

Unlike the estimate regarding forceful liquidation, the costs estimate for a bankruptcy procedure is given with respect to all/total costs of bankruptcy proceedings, i.e. including costs such as rent, maintenance, salaries, etc. We adjusted these costs by 10% of employee related costs, contract

[71] In this case the bankruptcy estate would represent the value of assets remaining after the transfer of bank's ongoing business concern to another bank, or via spin-out to a new entity.
[72] https://archive.doingbusiness.org/en/data/exploreeconomies/slovenia#DB_ri
[73] Cepec, J. (2018). Nagrade upraviteljev kot sredstvo za doseganje ex post učinkovitosti insolvenčnih postopkov. E-zbornik Dnevi insolvenčnega prava 2018 (str. 71-82). Ljubljana: Planet GV

termination costs and operating costs, since we assume that the bankruptcy procedure will be opened concerning roughly 10% of the Bank's total assets to which we allocate the costs incurred, to avoid double counting.

5.11.3. Total costs estimate (forceful liquidation plus bankruptcy)

Based on above, a revised cost estimate, applying the above presented methods and assumptions, amounts to:

Total Costs Estimates (kEUR)		
Item	**from**	**up to**
Forceful liquidation	2,975	4,450
Bankruptcy	5,000	7,500
Total	**7,975**	**11,950**

Table 51: Total costs estimates - forceful liquidation and bankruptcy

It should be noted that the estimation of the cost of bankruptcy is partially based on rudimentary estimates and that in Slovenia, bankruptcy costs are capped to a certain extent. Against this background, direct comparability with bankruptcy costs in other countries is limited.

In detail, these cost items are as follows:

Best Estimate Liquidation fees and costs (kEUR)			
Item	**3 years**	**5 years**	**7 years**
Forceful liquidation	**3,713**	**5,854**	**7,996**
Valuation by an independent expert	*400*	*667*	*933*
Other independent experts	*500*	*833*	*1,167*
Liquidation manager	*500*	*500*	*500*
Exercise of powers for forceful liquidation	*1,125*	*1,875*	*2,625*
Other costs of execution of forceful liquidation	*738*	*1,229*	*1,721*
Costs of other bank liabilities	*450*	*750*	*1,050*
Bankruptcy costs	**3,733**	**3,213**	**2,437**
Bankruptcy costs	*6,250*	*6,250*	*6,250*
Adjustment for double counting	*-2,517*	*-3,037*	*-3,813*
Total Costs	**7,446**	**9,068**	**10,432**

Table 52: Best estimate liquidation fees and costs

Best Case Liquidation fees and costs (kEUR)			
Item	**3 years**	**5 years**	**7 years**
Forceful liquidation	**2,975**	**4,692**	**6,408**
Valuation by an independent expert	*400*	*667*	*933*
Other independent experts	*500*	*833*	*1,167*
Liquidation manager	*400*	*400*	*400*
Exercise of powers for forceful liquidation	*750*	*1,250*	*1,750*
Other costs of execution of forceful liquidation	*525*	*875*	*1,225*
Costs of other bank liabilities	*400*	*667*	*933*
Bankruptcy costs	**2,841**	**2,323**	**1,547**
Bankruptcy costs	*5,000*	*5,000*	*5,000*
Adjustment for double counting	*-2,159*	*-2,677*	*-3,453*
Total Costs	**5,816**	**7,014**	**7,955**

Table 53: Best case liquidation fees and costs

Worst Case Liquidation fees and costs (kEUR)			
Item	**3 years**	**5 years**	**7 years**
Forceful liquidation	**4,450**	**7,017**	**9,583**
Valuation by an independent expert	*400*	*667*	*933*
Other independent experts	*500*	*833*	*1,167*
Liquidation manager	*600*	*600*	*600*
Exercise of powers for forceful liquidation	*1,500*	*2,500*	*3,500*
Other costs of execution of forceful liquidation	*950*	*1,583*	*2,217*
Costs of other bank liabilities	*500*	*833*	*1,167*
Bankruptcy costs	**4,800**	**4,279**	**3,501**
Bankruptcy costs	*7,500*	*7,500*	*7,500*
Adjustment for double counting	*-2,700*	*-3,221*	*-3,999*
Total Costs	**9,250**	**11,295**	**13,084**

Table 54: Worst case liquidation fees and costs

5.11.4. Employee related Costs

We considered the liquidator’s staffing requirements for employees assisting the liquidation process, incentives to be paid to hold key staff and the costs for the collective dismissal process to downsize the Bank.

According to an employee data tape obtained from the Bank, there were 375 employees employed as of 28 February 2022.

For staff to be retained, we considered the current gross levels of remuneration and the operational requirements for the liquidation process according to information provided by the Bank. Based on our experience, we consider that some level of incentive payment will have to be made to retain key individuals and to facilitate their ongoing cooperation during the liquidation.

Our Best Estimate is summarised below:

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

Employee Related Costs (kEUR)			
Item	**3 years**	**5 years**	**7 years**
Remuneration	9,450	9,673	9,884
Incentive	1,417	1,451	1,483
Collective Dismissals	765	747	705
Total Costs	**11,632**	**11,871**	**12,072**

Table 55: Employee related costs

Remuneration

We estimated the remuneration of staff to be retained during the liquidation phase, taking into account a payroll average for employees based at the headquarter plus social costs (ca. kEUR 9,450 to kEUR 9,884).

We have applied different methodologies for the calculation of the valuation range. For example, a linear reduction of staff over the insolvency period and regular salary adjustments during the insolvency period based on the macroeconomic indicators in Slovenia.

Incentives

Excellence in winding-up portfolios includes attracting and retaining the right talent. In the past, bad banks hired lifelong experienced bankers as well as young and ambitious professionals. Considering this, financial incentives are an important factor to attract and retain the right talent. (McKinsey & Company 2012)[74]

We consider that an incentive calculated at [redacted]% of the base salaries cost would be appropriate in these circumstances to hire and to retain key employees needed for the liquidation and an efficient process (Best Estimate). In a Worst Case Scenario it would need an incentive of [redacted]%. This incentive is applied from 2022 on until the end of the liquidation process. (ca. kEUR 1,417 to kEUR 1,483).

Collective dismissals

In the context of a liquidation proceeding, the collective dismissal would be phased over time to eventually cover all employees. This would be set out in the liquidation plan. In all three liquidation scenarios, most of the dismissals would take place in the first six months following the Bank entering into liquidation. Total costs would depend on the duration of the liquidation. Furthermore, in longer liquidation scenarios we have considered the ordinary termination of a part of the workforce.

Further, we have considered workers' seniority, average payrolls and professional categories in arriving at our estimated cost of the collective dismissal process. For more detailed information, please refer to section 4.4.

The costs of collective dismissal will range between kEUR 705 and kEUR 765.

[74] McKinsey Working Papers on Risk, Number 31

5.11.5. Contract Termination Costs

The Bank is a party to a number of different contractual arrangements. As a result of the liquidation, certain of the respective services this will no longer be required, and the Bank will have to bear the costs of their termination. Some of these contracts contain a change of ownership clause. For the purpose of our analysis, we have focussed on material contracts only. In the cases without a defined contract period, we assumed an ordinary notice period. In addition, in cases where no cash flow information and no contract term were documented, we used the contract value as the basis for our calculation. For this reason, the results are to be interpreted as a conservative value assessment but nevertheless higher contract termination costs might be incurred.

We also reviewed other contractual arrangements, from which we only identified to be material Microsoft, IBM, Oracle Licenses and Group systems - SLA and maintenance.

We note that a liquidator would as far as possible seek to reduce the amounts payable; given the above, we do not consider that this would be material to the overall result of our analysis.

In calculating the contract termination costs, we have strictly adhered to the applicable regulations from Article 184 RCWBA.

Accordingly, the Bank can terminate leasing contracts with a notice period of one month. At the same time, additional costs are incurred to compensate the lessor for lost profits until the lessor finds a new lessee within a reasonable period of time. We have modelled the respective scenarios based on our experience and the experience of local specialists. In the Best Estimate Scenario, the Bank has to compensate [redacted] months of lost profits, in the Worst Case Scenario [redacted] months and in the Best Case Scenario the Bank does not have to pay any compensation.

The contract termination costs are estimated to range between kEUR 816 and kEUR 5,290.

5.11.6. Operating Costs

The main operating costs (such as IT, consulting and other communication services) during the liquidation period would be the costs derived from real estate necessary to wind-up operations as well as fixed and variable running costs.

The starting point of our analysis are the costs of materials and services incurred by the Bank in the year 2021, as stated in the Bank’s annual financial statements as of 31 December 2021. Typically, we would expect the following items to be recurrent in the years during the insolvency proceedings:

Costs of Materials and Services (kEUR)	
Item	**FY 2021**
Information technology system	4,865
Consulting. Auditing, legal consulting and notarial	1,690
Other services	1,196
Postal and other communication services	738
Maintenance, management and protection of PPE	153
Total Costs	**8,642**

Table 56: Costs of materials and services

The IT system will remain the main cost element because we deem the Bank's data availability and quality to be crucial to allow effective portfolio management, including fast portfolio sales.

On the other hand, we assumed that some costs incurred in 2021, e.g., for rent, business materials or seminars, will not be necessary during the insolvency proceedings.

Further, we have assumed that during the liquidation process no branches but only the headquarter would remain in use to deal with the realisation of assets. We expect the liquidator to keep administrative costs to a minimum in the course of the liquidation in order to increase realisations for creditors and the shareholder. Consequently, the liquidator will, as far as possible, reduce certain services that are no longer needed at a certain point. As an effect, the costs can be reduced gradually.

In the 3-year scenario we expect a significant time pressure and a highly concentrated work, hence, there would only be slow a reduction of costs. In contrast, we consider a gradual reduction of costs by 50% in the 5- and 7-year scenarios to be reasonable.

Costs of Materials and Services (kEUR)									
Item	**FY 2021**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Total**
Total Costs (kEUR)	8,642								
Total costs (% of FY 2021)	100%								
3 years (% of FY 2021)		100%	83%	67%					
3 years (kEUR)		8,642	7,202	5,761					**21,605**
5 years (% of FY 2021)		90%	85%	80%	70%	50%			
5 years (kEUR)		7,778	7,346	6,914	6,049	4,321			**32,408**
7 years (% of FY 2021)		90%	85%	80%	75%	70%	65%	50%	
7 years (kEUR)		7,778	7,346	6,914	6,482	6,049	5,617	4,321	**44,506**

Table 57: Costs of materials and services - development

Accordingly, we have estimated general expenses (common services, IT, office supplies, insurance, security, etc.) during the liquidation of kEUR 21,605 in the 3-year scenario, of kEUR 32,408 in the 5-year scenario and of kEUR 44,506 in the 7-year scenario.

To exclude double counting of administrative costs, we deduct the administrative costs already included in the valuation of the loan portfolio.

Operating Costs (kEUR)			
Item	**3 years**	**5 years**	**7 years**
General and administrative costs	21.605	32.408	44.506
Adjustment for administration costs loan valuation	-11.996	-17.839	-22.371
Total Costs	**9.609**	**14.569**	**22.136**

Table 58: Operating costs - adjustment for double counting

5.12. Contingent Liabilities

Contingent liabilities include those that are recognised in the Bank's financial statement as liabilities or provisions as well as those that are shown as off-balance sheet items. Off-balance sheet contingent liabilities are obligations for which future cash outflows are deemed possible but less probable.

We have described the relevant legal framework applying to claims/liabilities as a consequence of the start of forceful liquidation.

By way of general NIP rule, creditors' claims which are contingent/subject to condition will cease to exist if they the condition does not materialize until the final assets distribution plan (Article 260 ZFPPIPP).

Further, according to Article 362(2)2 ZFPPIPP, reservations need to be made for conditional claims/contingent liabilities for any claims where the condition did not materialize as at the moment of the first assets distribution plan. This is subject to realization of all of the bankruptcy estate (Article 373(1) ZFPPIPP.

Therefore, and by way of simplification, reservations need to be made for conditional claims/contingent liabilities which have not materialized by the first assets distribution plan. The conditions to which conditional claims/contingent liabilities are subject need to be fulfilled before the entire bankruptcy estate is realized, otherwise they cease to exist.

The regulation under the RCWBA is different.

According to Article 183 RCWBA, by starting the forced liquidation procedure, the bank acquires the right to withdraw from the offers it made before the start of the forced liquidation procedure, if the bank has not yet received a statement from the addressee that it accepts the offer by the start of the forced liquidation procedure.

Article 184 RCWBA determines the bank acquires the right to cancel the rental and lease agreements, which it concluded before the compulsory liquidation procedure was started, with a one-month notice period and regardless of the general rules set out by law or contract on the right to cancel the rental or lease the contract that would be used if the bank, as lessee or lessor, had not been subject to compulsory liquidation proceedings.

According to Article 187(1) conditional claims which have not materialized by the start of the forced liquidation cease to exist. However, according to Article 187(2) this does not affect the right of the creditor to claim damages under the general contractual liability rules from the bank due to the shortening of the time for the condition to realize

Regarding contracts on the provision of bank services the following applies (Article 190 RCWBA)

(1) The bank fulfils its obligation to the creditor based on the contract on the provision of bank services in accordance with the contract on the provision of these services, unless it exercises the right of withdrawal in accordance with the next point below.

(2) The bank may withdraw from the contract on the provision of bank services, which determines the bank's obligation, regardless of other conditions regarding withdrawal from the contract, which are determined by the contract or another law, if it obtains the consent of the BS for withdrawal from the contract. BS gives its consent to the exercise of the right of withdrawal in relation to an individual contract or a certain type of contract, if its exercise achieves more favourable conditions for achieving the goals of forced liquidation.

Points (1) and (2) above do not affect the right of the bank or the other contracting party to exercise the right to withdraw from the contract on the provision of bank services under the conditions specified in the contract or the regulations applicable to withdrawal from this contract, unless the bank has already exercised the right of withdrawal in relation to this contract on the basis of the law / point (2) above.

(6) The exercise of the right of withdrawal in accordance with this article does not interfere with the right of the other party to the contract to demand from the bank compensation for the damage suffered by the party as a result of the termination of the contract on the basis of the exercise of the right of withdrawal under the RCWBA. The damage that belongs to the counterparty shall be paid according to the rules of RCWBA on the payment of creditors' claims (i.e. applicable claim rankings / creditor waterfall).

(7) If the deadline for fulfilling the bank's obligations under the contract on the provision of bank services, which is determined as an essential component of this contract, expires after the start of the compulsory liquidation procedure and the bank does not fulfil its obligations within this deadline, the contract is considered to have expired the deadline for fulfilment is terminated, and the other contracting party has no right to insist on the fulfilment of the obligation.

(8) Irrespective of other provisions of this article, the rules regarding withdrawal specified in the agreement shall apply to agreements on equalization and compensation for withdrawal from the contract.

(9) The provisions of this article shall apply mutatis mutandis to mutually unfulfilled contracts that do not regulate the provision of bank services. If, on the basis of a mutually unfulfilled contract, the counterparty must fulfil its obligation to the bank first, regardless of the other provisions of this article, this party acquires, by starting the process of forced liquidation of the bank, the right to refuse its fulfilment until the bank fulfils its fulfilment or does not provide adequate insurance.

Therefore, and by way of simplification, reservations need to be made for conditional claims/contingent liabilities which have not materialized by the first assets distribution plan. The conditions to which conditional claims/contingent liabilities are subject need to be fulfilled before the entire bankruptcy estate is realized, otherwise they cease to exist.

For more information, please refer to Annex 4.

As noted in Annex 4, there is no relevant court or regulatory practice which would provide further guidance on the above conditions and terms, i.e. in which exact circumstances would the BS give its consent to the bank to terminate a bank guarantee contract. Hence, for the purpose of the valuation, it would make sense to adopt the default rule, i.e. that the bank guarantee contracts are not terminated as a consequence of forceful liquidation procedure.

The above provisions are not applicable with regard to legal contingencies from ordinary business activities as disclosed in the financial statements.

Since future expenditures cannot be entirely ruled out, all potentially relevant contingent liabilities must be identified and assessed in respect of the possible related cash outflows (Article 2 (2) of CDR 2018/344). According to the information provided for us, the Bank's contingent liabilities consist of litigation-related contingent liabilities and financial guarantees provided.

Accordingly, the cash outflows would primarily result from the settlement of pending claims against the Bank or the consideration to be paid to a potential acquirer for assuming the risks from financial guarantees provided.

The estimation of the cash flows primarily relies on expert judgement, historical information and probability-weighted cash flows in the different scenarios.

In this light, the potential cash outflows can be considered as the Bank's liability, however, it remains rather vague which creditors' class the contingent liabilities should be allocated to. In any case, contingent liabilities would rank above the shareholder, who is the only one affected by the resolution of the Bank. Therefore, we apply a simplified approach and subtract the potential cash outflows for contingent liabilities from the proceeds from assets realisations. In other terms, the potential cash outflows reduce the insolvency estate which would be disbursed to the creditors and shareholders.

Below we summarise the outcome of the following two sections, concerning the results of the valuation of legal contingencies and financial guarantees:

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

Contingent Liabilities (kEUR)				
Item	Book value of Provisions	Adjustments Best Case	Best Estimate	Worst Case
Legal Contingencies	[redacted]			
Financial Guarantees				
Total	1.896	5.398	24.674	44.609

Table 59: Contingent Liabilities

Total contingent liabilities (sum of book value of provisions plus the adjustment for the corresponding scenario) therefore amount to kEUR 7,294 in a Best Case Scenario, kEUR 26,570 in a Best Estimate Scenario and kEUR 46,505 in a Worst Case Scenario.

5.12.1. Legal Contingencies

Overview

According to the financial statements as of 31 December 2021, the Bank has recognised contingent liabilities, pending lawsuits in the amount of kEUR [redacted] and provisions in the amount of kEUR [redacted]. The lawsuits consist of 23 - so called - “CHF lawsuits” and eight “other lawsuits”.

Legal contingencies		
Item	Claim value of lawsuits	Book value of Provisions
Lawsuits	[redacted]	
CHF-lawsuits (known)		
Other lawsuits		

Table 60: Legal contingencies - overview

The management board considers the provisions to be sufficient to cover possible future obligations arising from these lawsuits.

Assessment of CHF-lawsuits

The background of the CHF lawsuits is that the Bank granted loans denominated in CHF to private individuals (the plaintiffs). After the Swiss government abandoned the currency peg with the Euro, the EUR - CHF exchange rate increased and the repayments of the CHF loans in EUR became much more expensive for the plaintiffs. Therefore, the plaintiffs claim that the Bank did not with due care explain all the risks associated with borrowing in foreign currency and exchange rates fluctuations, especially given the fact that they are private persons.

The debtors claim the alleged over-payments of the loans from the Bank, which in principle equals the amount resulting from delta between the fluctuation of the exchange rates at the time of signing of the agreement and the time of repayments. The courts are yet to decide on the method of calculation of such compensation as so far, the majority of the practice is addressing merely the question of validity of the loan contracts.

The Bank’s legal department has conducted an analysis of the lawsuits regarding the probability of a negative outcome for the Bank. For all CHF lawsuits, the Bank estimates the probability of a negative outcome as less than 50%. According to the Bank’s information, provisions for CHF lawsuits were therefore formed in the amount of 10% of the lawsuit value in accordance with internal guidelines and the assessment of the legal department. The recognized lump-sum provision of 10% amounts to kEUR [redacted]

We were provided with short summaries on each lawsuit prepared by the Bank. The summaries include the subject matter of the lawsuit, the progress and the status of the proceedings at the time of the assessment. Also, the bank's legal department has assessed the probability of a negative outcome for the bank.

According to our analysis of the documentation provided, none of the cases have been decided against the Bank. We therefore consider the probability of less than 50% determined by the Bank as plausible and see no necessity to make any adjustments to the existing provisions in the Best Case and in the Best Estimate Scenarios.

In the Worst Case Scenario, we assume that the cases will be decided against the bank, resulting in claims in excess of the existing provisions. As it remains uncertain at the time of our valuation whether the effects determined by the Bank will occur, we apply 50% of the estimated amount to the benefit of the shareholder in the Worst Case.

Impact of 2022 CHF law

On 2 February 2022, the National Assembly of the Republic of Slovenia passed a “Law on limitation and distribution of foreign exchange risk between creditors and borrowers concerning loan agreements in Swiss francs” (CHF Law). The law entered into force on 26 February 2022 and requires lenders to restructure consumer loans denominated in CHF or containing a currency clause in CHF that were concluded between 28 June 2004 and 31 December 2010. Among other things, lenders are required to retroactively introduce an exchange rate cap for all such agreements for CHF loans concluded in the period.

According to the Banks’ annual financial statements as of 31 December 2021, the Bank expects a negative impact of approx. 3.4 percentage points on the total capital adequacy ratio based on a preliminary assessment. We assume that the adjustment on the total capital adequacy ratio results from losses of approx. kEUR [redacted] reducing the own funds down to kEUR [redacted].

As of the Valuation Date, it is uncertain whether the effects identified by the Bank will become effective. As at the valuation date we consider it as likely as not that the CHF lawsuits will come into force to the full disadvantage of the Bank, in other terms we assume that chances and risks in connection with the CHF lawsuits are even. Hence, we apply an adjustment 50% of the estimated amount (kEUR [redacted]) in the sense of a prudent valuation in the Best Estimate Scenario.

In the Best Case Scenario we assume that the CHF law has no impact on the Bank.

In the Worst Case Scenario we recognise the full amount determined by the Bank (kEUR [redacted]) as an adjustment.

Other Lawsuits

The other lawsuits include eight litigation cases concerning, for example, mortgage loan cost.

The Bank provided us with a summary of the amounts in dispute and the provisions already recognized for this purpose.

The Bank’s legal department has conducted an analysis of the lawsuits regarding the probability of a negative outcome for the Bank. For each legal case, the analysis illustrates the plaintiff, the claim, results of court hearing and court rulings as well as the legal experts’ judgments on the probability of a negative outcome of the litigation including the chances of success and the need for provisions.

According to the Bank’s analysis four of those cases were rated as “small risks” (probability <50%) and four other cases as “medium risk” (probability >50%) of a negative outcome for the Bank. The Bank has recognised provisions of kEUR [redacted] in total.

Our legal experts inspected the Bank’s analysis of its legal contingencies. We investigated the Bank’s assessment of the likelihood of a negative outcome of the cases based on the documents provided to us. We also analysed whether the corresponding provisions have been correctly calculated.

Overall, we consider the bank's assessment of the other lawsuits to be plausible in a Best Case Scenario.

In three of these litigation cases, the court has already ruled in favor of the plaintiff at first instance and the bank has appealed. We have concluded, considering a prudent valuation, that the provisions should be adjusted to the amount in dispute for the “medium risk” cases in a Best Estimate Scenario. This results in an adjustment (increase of existing provisions) of kEUR [redacted]. We assume that the other lawsuits, classified as “small risk” in terms of probability, are not expected to materialize. Accordingly, we consider no additional provisions necessary for these cases in a Best Estimate Scenario.

In a Worst Case Scenario, we expect that all cases are court ruled to the disadvantage of the Bank and additional provisions concerning all cases in dispute will be required. As it remains uncertain at the time of our valuation whether the effects identified by the Bank will become effective, we apply 50% of the estimate amount to the benefit of the shareholder in the Worst Case. Taking into account the provisions raised by the Bank, this results in an adjustment of kEUR [redacted].

We note that the analysis of legal contingencies provided by the Bank also reports further potential lawsuits. However, no provisions have been recognised for these cases yet. According to the documents, these cases are related to obligations from nostro-transactions of Sberbank's subsidiaries (Switzerland, Russia, Hungary, Czech Republic, and Sberbank Europe AG). Based on the documents submitted to us, we note that the Bank classifies these subsidiaries as failed or at risk of failure. In particular, the sanctions imposed in connection with Russia's military action against Ukraine have led to capital and liquidity problems at the intercompany level.

For this reason, we consider the payment claims at the intercompany level to be worthless and, hence, have fully written down the corresponding cash items of kEUR 2,047 in all three scenarios. For further information, please refer to section 5.1.

Outcome of Valuation

Based on the facts on legal contingencies and our assumptions, we have arrived at the following valuation result

Legal Contingencies (kEUR)					
Item	Value of lawsuits	Book value of provisions	Adjustments		
			Best Case	Best Estimate	Worst Case
CHF-lawsuits (known)	[redacted]				
CHF Law					
Other lawsuits					
Total					

Table 61: Legal contingencies - outcome of valuation

In the **Best Case Scenario**, none of the Bank's outstanding lawsuits (neither CHF lawsuits nor other lawsuits) will be settled to material disadvantages of the Bank. There are no adjustments to be made, but the provisions remain unchanged.

For our **Best Estimate** we assume that additional provisions in the amount of kEUR [redacted] (as described above) would be required for the recognized lawsuits. Additionally, we have considered further provisions of 50% of the estimated amount resulting from the application of the CHF law.

In a **Worst Case Scenario** we expect that all cases of existing law suits are court ruled to the disadvantage of the Bank and assume that additional provisions in the amount of kEUR [redacted] (as detailed above) would be required. Further, provisions in the full amount of kEUR [redacted] relating to the application of the CHF law have been considered.

5.12.2. Financial Guarantees

Overview

Off-balance sheet items consist of guarantees, credit/guarantee lines and letters of credit in the amount of kEUR 249,971.

Methodological Approach and Hypothesis Explanation

As described in sections 4.3.2 and 4.4, guarantees are not automatically void due to the opening of liquidation. The Bank could terminate the guarantees/contracts only with the consent of the BS. Historical data shows that the BS did not consent to the termination of bank guarantees of the two banks Factor Banka d.d. and Probanka d.d. in the forceful liquidation. We assume that this appeals as well to the liquidation proceedings of the Bank.

It is practical to assume that the Bank will incur cash outflows if guarantees are being called. Alternatively, the Bank could transfer the guarantees to another party and pay a compensation for the relief from the risk.

In order to estimate the potential cash outflows that could result from a possible claim or a transfer of risk, we used the applicable credit conversion factor as defined in Article 111 CRR. Further, we calculated the expected loss on the basis of these amounts which were probability weighted with the lifetime PD and the recovery rate. These parameters were modified to reflect the Best Case, Best Estimate and Worst Case Scenarios as described in section 5.5.2.

Furthermore, as of 28 February 2022 provisions for off-balance liabilities amount to kEUR 422, which we have considered in our valuation.

Outcome of Valuation

We have distinguished between a Best Case, Best Estimate and Worst Case Scenario. Regarding the assumptions made we refer to the cases described in section 5.5.2. We have calculated the following adjustments resulting from additional possible claims.

Financial Guarantees (kEUR)					
Item	Off-Balance Book Value	Book value of Provisions		Adjustments	
			Best Case	Best Estimate	Worst Case
Financial Guarantees	249.971	422	5.398	6.072	7.545

Table 62: Financial guarantees

6. Estimated Asset Realisations

Generally, following any resolution decision - in this case, the application of the sale of business tool – it must be considered whether the Bank's affected shareholder and/or creditors would have received better treatment if the entity had entered normal insolvency proceedings under Slovenian insolvency law (NCWO principle).

In this resolution case and as already noted in section 2. of this Report, only the Bank's shareholder was financially affected by the application of the sale of business tool. Accordingly, our assessment of the NCWO principle can be confined to an analysis if, in NIP, the shareholder would have received less than the consideration (net of the resolution expenses) received in resolution.

For the purposes of this analysis, we have prepared an analysis of the estimated recovery amount in an insolvency scenario.

Based on our category-by-category approach, we estimate the realizations for each asset class in the insolvency scenario. The adjustments mainly account for accelerated terminations of contracts, wind-ups and sales.

Below, we set out the outcome of our analysis showing the **estimated realisation values** for each type of asset portfolio in a 3-year, 5-year or 7-year liquidation scenario:

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

Estimated Asset Realisations and Insolvency Proceeds (kEUR)						
		Chapter	Book Value	Estimated realisation values		
Case	Assets / items		Feb 22	3 years	5 years	7 years
All cases	Cash and cash equivalents	5.1	270.573	264.496	264.496	264.496
	Financial assets held for trading	5.2	4.788	4.788	4.788	4.788
	Non-trading financial assets mandatorily at fair value through profit or loss	5.3	332	332	332	332
	Financial assets measured at fair value through other comprehensive income	5.4	69.397	69.397	69.397	69.397
	Debt securities (FAAC)	5.5.3	13.425	14.636	14.636	14.636
	Loans to banks (FAAC)	5.5.4	4.554	0	0	0
	Other financial assets (FAAC)	5.5.5	3.358	3.358	3.358	3.358
	Investments in subsidiaries, associates and joint ventures	5.6	292	0	0	0
	Tangible assets	5.7	11.368	5.296	5.296	5.296
	- tangible assets		*10.904*	*4.832*	*4.832*	*4.832*
	- investment property		*464*	*464*	*464*	*464*
	Intangible assets	5.8	1.424	0	0	0
	Tax assets	5.9	505	46	46	46
	- current taxes		*46*	*46*	*46*	*46*
	- deferred taxes		*459*	*0*	*0*	*0*
	Other assets	5.10	822	822	822	822
	Total assets other than loans and advances to customers		380.838	363.171	363.171	363.171
Best Case	Loans and advances to customers (FAAC)		1.144.851	924.097	987.535	1.018.233
	Costs of insolvency			-27.402	-33.787	-42.485
	Contingent Liabilities / Guarantees			-7.294	-7.294	-7.294
	Total insolvency proceeds		1.525.690	1.252.572	1.309.625	1.331.625
Best Estimate	Loans and advances to customers (FAAC)		1.144.851	910.334	970.421	999.113
	Costs of insolvency			-32.613	-39.434	-48.566
	Contingent Liabilities / Guarantees			-26.570	-26.570	-26.570
	Total insolvency proceeds		1.525.690	1.214.322	1.267.588	1.287.148
Worst Case	Loans and advances to customers (FAAC)		1.144.851	875.928	924.375	943.250
	Costs of insolvency			-36.254	-43.509	-53.076
	Contingent Liabilities / Guarantees			-46.505	-46.505	-46.505
	Total insolvency proceeds		1.525.690	1.156.340	1.197.532	1.206.840

Table 63: Estimated asset realisations and insolvency proceeds

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

From a total balance sheet of kEUR 1,525,690, we estimate that the administrator would be able to realise total assets in a range of:

Estimated Asset Realisations and Insolvency Proceeds (kEUR)						
		Chapter	Book Value	Estimated realisation values		
Case	Assets / items		Feb 22	3 years	5 years	7 years
	Total assets other than loans and advances to customers		380.838	363.171	363.171	363.171
Best Case	Loans and advances to customers (FAAC)		1.144.851	924.097	987.535	1.018.233
	Costs of insolvency			-27.402	-33.787	-42.485
	Contingent Liabilities / Guarantees			-7.294	-7.294	-7.294
	Total insolvency proceeds		1.525.690	1.252.572	1.309.625	1.331.625
Best Estimate	Loans and advances to customers (FAAC)		1.144.851	910.334	970.421	999.113
	Costs of insolvency			-32.613	-39.434	-48.566
	Contingent Liabilities / Guarantees			-26.570	-26.570	-26.570
	Total insolvency proceeds		1.525.690	1.214.322	1.267.588	1.287.148
Worst Case	Loans and advances to customers (FAAC)		1.144.851	875.928	924.375	943.250
	Costs of insolvency			-36.254	-43.509	-53.076
	Contingent Liabilities / Guarantees			-46.505	-46.505	-46.505
	Total insolvency proceeds		1.525.690	1.156.340	1.197.532	1.206.840

Table 64: Estimated asset realisations and insolvency proceeds - summary

As noted in section 5.12. of this Report, we deduct estimated cash outflows to cover contingent liabilities and obligations from guarantees arising from the loan portfolio off-balance exposure.

Additionally, we deduct the estimated costs under insolvency proceedings.

In summary, we estimate the following net proceeds which would be disbursed to creditors and shareholder:

Valuation Ranges (kEUR)				
		Duration of Insolvency Proceedings		
Scenario		3 years	5 years	7 years
Best Case	Total asset realizations	1.287.268	1.350.706	1.381.404
	Costs of insolvency	-27.402	-33.787	-42.485
	Contingent Liabilities / Guarantees	-7.294	-7.294	-7.294
	Disbursement	**1.252.572**	**1.310.371**	**1.331.625**
Best Estimate	Total asset realizations	1.273.505	1.333.592	1.362.284
	Costs of insolvency	-32.613	-39.434	-48.566
	Contingent Liabilities / Guarantees	-26.570	-26.570	-26.570
	Disbursement	**1.214.322**	**1.267.588**	**1.287.148**
Worst Case	Total asset realizations	1.239.099	1.287.546	1.306.421
	Costs of insolvency	-36.254	-43.509	-53.076
	Contingent Liabilities / Guarantees	-46.505	-46.505	-46.505
	Disbursement	**1.156.340**	**1.197.532**	**1.206.840**

Table 65: Valuation ranges

Given that the Bank had liabilities of approx. kEUR 1,330,545, and taking into account the estimated costs of insolvency and the settlement of contingent liabilities, it becomes apparent that there will be a deficit to cover all of the Bank's liabilities in in all scenarios, except for the best case 7-year scenario.

For our analysis, it is also relevant in approximately which years the assets will be realized. This is in order to answer the question of when the individual classes of creditors can be satisfied from the expected proceeds. We are not assuming a linear asset realization path here, but rather different liquidation dates ranging from "immediately after the start of the liquidation" (e.g., realization of cash and cash equivalents and customer migration[75]), "ongoing" (in particular collection of interest and payments) to "shortly before completion of the liquidation" (in particular sale of the rump loan portfolio). Below we present the asset realization paths in the Best Estimate Scenarios:

Asset Realisation Path 3-Year Insolvency Scenario (kEUR)			
Item / Realisation until years' end	Year 1	Year 2	Year 3
Cash and cash equivalents	264.496		
Financial assets measured at fair value through other comprehensive income	69.397		
Debt securities (FAAC)	14.636		
Other assets	11.271	723	2.648
Loans to customers (FAAC)			
Amortisation	228.916	177.022	137.703
Migration	92.492		
Sales	15.508		258.693
Total	696.716	177.744	399.044
Cumulative Total	696.716	874.461	1.273.505

Table 66: Asset realisation path 3-year insolvency scenario (Best Estimate)

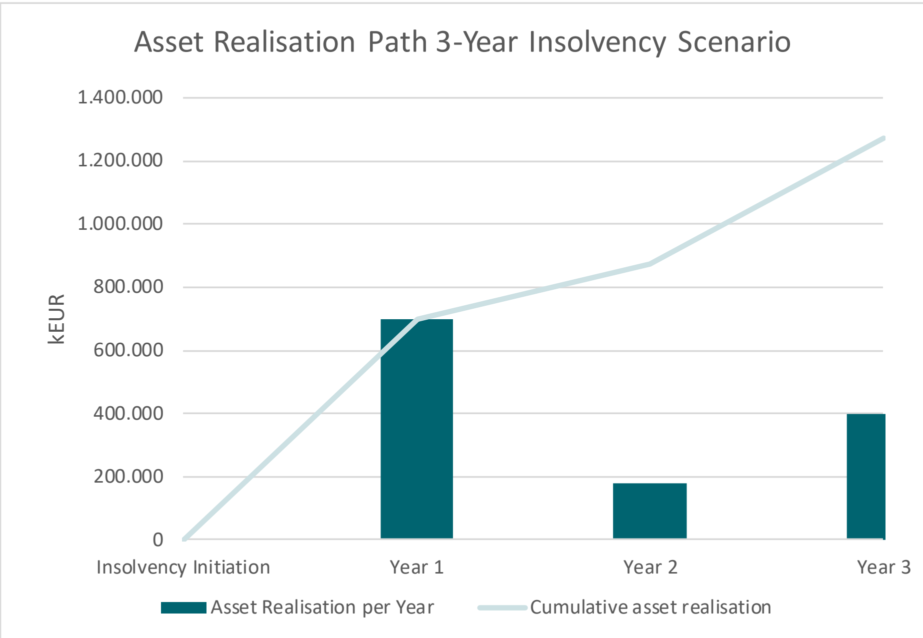

Figure 3: Asset realisation path 3-year insolvency scenario (Best Estimate)

[75] This item refers to customer migration (Section 5.5.2.3) not to reclassification from PL to NPL

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

Asset Realisation Path 5-Year Insolvency Scenario (kEUR)					
Item / Realisation until years' end	Year 1	Year 2	Year 3	Year 4	Year 5
Cash and cash equivalents	264.496				
Financial assets measured at fair value through other comprehensive income	69.397				
Debt securities (FAAC)	14.636				
Other assets	11.271	723			2.648
Loans to customers (FAAC)					
Amortisation	228.916	177.022	137.703	84.541	73.291
Migration	92.492				
Sales	15.508				160.948
Total	696.716	177.744	137.703	84.541	236.887
Cumulative Total	696.716	874.461	1.012.164	1.096.704	1.333.592

Table 67: Asset realisation path 5-year insolvency scenario (Best Estimate)

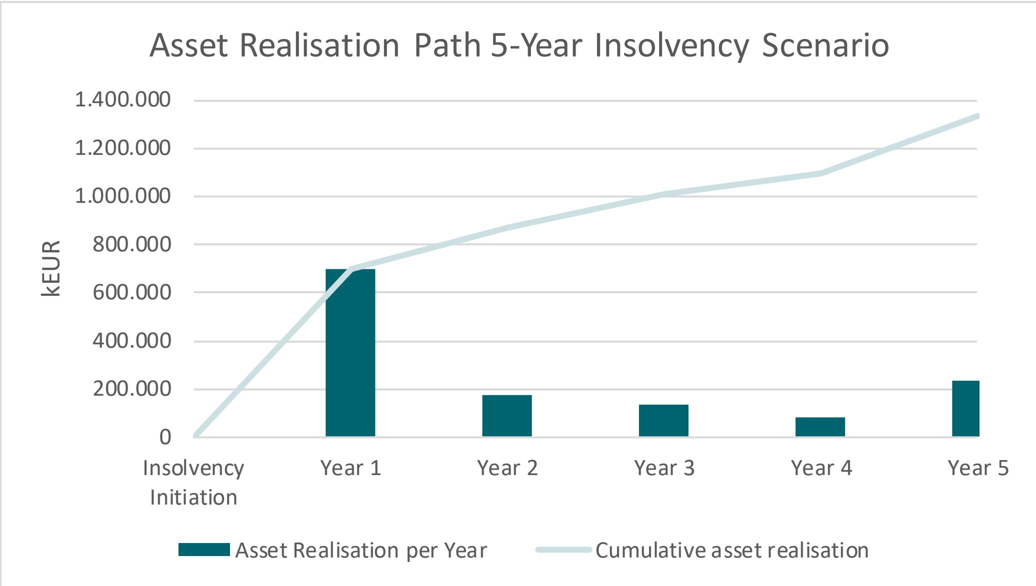

Figure 4: Asset realisation path 5-year insolvency scenario (Best Estimate)

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

Asset Realisation Path 7-Year Insolvency Scenario (kEUR)							
Item / Realisation until years' end	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Cash and cash equivalents	264.496						
Financial assets measured at fair value through other comprehensive income	69.397						
Debt securities (FAAC)	14.636						
Other assets	11.271	723					2.648
Loans to customers (FAAC)							
Amortisation	228.916	177.022	137.703	84.541	73.291	46.540	41.821
Migration	92.492						
Sales	15.508						101.279
Total	696.716	177.744	137.703	84.541	73.291	46.540	145.748
Cumulative Total	696.716	874.461	1.012.164	1.096.704	1.169.996	1.216.536	1.362.284

Table 68: Asset realisation path 7-year insolvency scenario (Best Estimate)

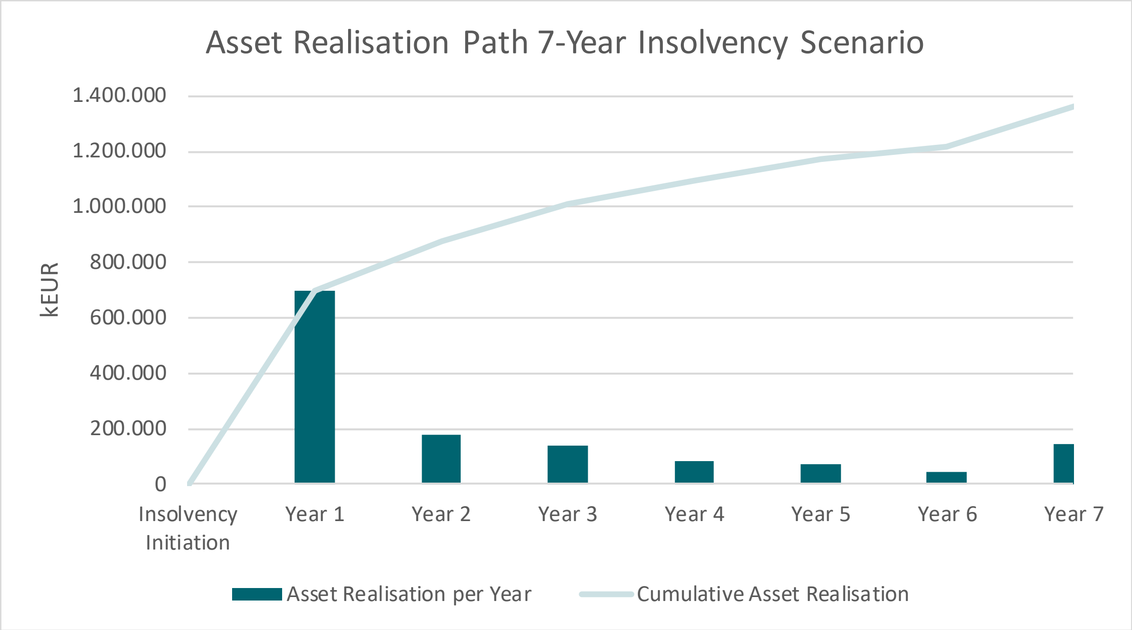

Figure 5: Asset realisation path 7-year insolvency scenario (Best Estimate)

7. Estimated Recoveries to Shareholders

Based on our valuation, we have assessed whether shareholders or creditors would have received better treatment in any insolvency scenario rather than under the resolution (NWCO principle). This would apply in any case if the payout from the hypothetical insolvency scenario for the shareholder exceeded the purchase price paid of EUR 5.11mn reduced by the resolution costs of approx. kEUR 566, in total EUR 4.54mn.

As noted in section 2. of this report, only the Bank's shareholder but not the Bank's creditors or the relevant DGS were directly financially affected by the application of the sale of business tool.

Accordingly, we refrain from the requirement stipulated in Article 4 (8) of CDR 2018/344 to allocate the hypothetical proceeds resulting from the valuation for each creditor in accordance with the priority levels in normal insolvency proceedings, as identified according to Article 2 of CDR 2018/344. Instead, we provide an estimate if the proceedings under NIP would have exceeded the consideration (net of resolution expenses) paid to the former shareholder.

Resolution process: actual treatment received

Following the application of sale of business tool under resolution, the consideration to be paid to the affected shareholders was EUR 4.54mn, i.e. EUR 5,108,504.32 less the expenses incurred by the SRB in the amount of EUR 555,513.22 and less the expenses of EUR 1,074.85 plus the negative interest accrued up to the time of the transfer of the net consideration to the former shareholders (EUR 9,010.65) incurred by the BS.

The shortfalls of the shareholder and the creditors are set out below:

Shortfalls under Resolution				
Creditor	**Book Value**	**Net Consideration**	**Shortfall**	
	kEUR	kEUR	kEUR	%
Creditors *	1,330,545		0	0.0%
Shareholder **	195,134	4,543	-190,591	-97.7%
Total	**1,525,679**		**-190,591**	**-12.5%**

Table 69: Shortfalls under resolution

* Liabilities as reported in (preliminary, unaudited) balance sheet as of 28 February 2022.

** Total equity as reported in (preliminary, unaudited) balance sheet as of 28 February 2022.

Under resolution, neither the creditors suffered a shortfall, nor was the Slovenian DGS called upon.

Insolvency proceeding

Below we analyze how the insolvency proceeds are distributed to the individual classes of creditors. Here, not only does the question arise to what extent the individual classes of creditors can be satisfied, but also in which periods the individual classes of creditors can expect the payouts.

In this regard, we refer to our remarks in section 4.3., according to which certain classes of creditors (in particular DGS, private households and SMEs) are interested not only in being satisfied as much as possible, but also as early as possible. Also, as we discussed there may be trade-offs, namely that some creditors may be willing to give up part of their claims in the interest of an early satisfaction (e.g., credit institutions).

The aim of the analysis is to estimate the potential shortfall for the individual classes of creditors and to make a statement which insolvency scenarios appears plausible.

The starting point of the analysis is the creditor hierarchy. In that respect, we asked the Bank to provide the Liability Data Report (LDR) and the MREL TLAC reporting as of the valuation date. The Bank could only provide the data as of 31 December 2021:

LDR as of 31 December 2021	
Item	Outstanding Amount (in kEUR)
Liabilities excluded from bail-in	706.077
Covered deposits (BRRD art. 44/2/a)	611.381
Secured liabilities - collateralized part (BRRD art. 44/2/b)	93.000
Fiduciary liabilities, if protected in insolvency (BRRD art. 44/2/d)	327
Employee liabilities (BRRD art. 44/2/g/i)	650
Critical service liabilities (BRRD art. 44/2/g/ii)	309
Tax and social security authorities liabilities, if preferred (BRRD art. 44/2/g/iii)	410
Liabilities not excluded from bail-in	819.950
Deposits, not covered but preferential (BRRD art. 108)	340.556
Deposits, not covered and not preferential	456.101
Balance sheet liabilities arising from derivatives	3.714
Non-financial liabilities	3.577
Residual liabilities	16.003
Own funds	187.186
Common Equity Tier 1 Capital	*187.186*
o/w capital instruments/share capital	*133.140*
o/w instruments ranking pari passu with ordinary shares	*27.248*
Total liabilities & own funds including derivative liabilities	1.713.214
Leverage exposure	1.870.802

Table 70: The Bank's LDR as of 31 December 2021

Accordingly, we were limited to estimate the credit hierarchy as of the resolution date based on the LDR as of 31 December 2021 and the balance sheet as of 28 February 2022. On this basis we analyzed the development of relevant financial information between both reporting dates:

Cash and Deposits (kEUR)				
Source	**Item**	**31 Dec 2021**	**28 Feb 2022**	**+/-**
Balance Sheet	Cash, cash balances at central banks and other demand deposits at banks	456,153	270,562	-185,591
	Total Liabilities, thereof:	1,525,875	1,330,544	-195,331
	- deposits from non-bank customers	1,273,925	1,072,652	-201,273
LDR	Total Liabilities	1,526,028	not availalable	

Table 71: LDR - Cash and deposits

It remains unclear how the individual positions under the LDR have actually developed until 28 February 2022. However, we considered that the Bank had to face a significant outflow of customer deposits, which led to a decrease in the LCR and eventually was one of the key reasons for the Bank's resolution. We can thus reasonably assume that this outflow of customer deposits has been reflected in the cash position and the customer deposits position. This is also reflected in the development of the respective balance sheet items, which have each decreased by around EUR 0.2mn.

Additionally, the Bank provided us with a file containing an overview of the customer deposits on an individual customer basis so that we could estimate which deposits fall under the protected deposits up to EUR 100,000 (i.e., lead to a claim of the DGS in case of insolvency). Moreover, we estimated which of the non-protected deposits are attributable to certain creditor classes (private households, SMEs, corporates, financial institutions).

Our analysis leads us to the following estimated creditor hierarchy[76]:

Creditor Hierarchy Slovenia		
Rank	Item	Amount
12	Costs of Insolvency	32,613
11	Secured Liabilities	39,255
9	Covered Deposits	572,324
8	Deposits, not covered but preferential (BRRD art. 108) - Individuals/Micros/SMEs	286,404
6.3	Deposits, not covered and not preferential - Corporates	213,902
6.2	Deposits from institutions and banks other than intragroup liabilities	178,245
6.1	Intragroup liabilities	36,700
5	Balance sheet liabilities arising from derivatives	3,714
Total		1,363,158

Table 72: Creditor hierarchy with amounts

[76] Please note that, for illustration purposes, the following creditor waterfalls do not include contingent liabilities since they spread over various insolvency ranks and arise

We have to emphasize that our analysis has faced material obstacles, which may have an impact on the liquidation strategy itself, since one aim is to determine a strategy to satisfy the DGS within the liquidation process. Still, this assessment does not influence the result whether the NCWO principle was breached.

Furthermore, intragroup liabilities of approximately kEUR 36,700 (31 December 2021) are included in the item creditors as well. We note that the treatment of receivables and liabilities within a group of insolvent entities has not been harmonized in all countries. Generally, most jurisdictions do not take a consolidated view and apply the appropriate national law separately for each entity within the group.

Against this background, it remains uncertain if and to what extent the claims of intragroup entities will have to be satisfied. As a result of the lack of reliable information we assume that the Bank will be required to satisfy its intragroup liabilities.

This assumption represents a balanced perspective. In this perspective, neither the shareholder nor the stakeholders are advantaged or disadvantaged. This perspective also takes into account the concept that it would be difficult to justify shareholders benefiting from a failure to satisfy intragroup liabilities.

We have not considered additional interest claims of creditors in the construction of the waterfall. Principally creditors can claim additional interest if their claims are not settled as they become due in the course of the insolvency proceedings. However, due to the fact that in the majority of insolvency proceedings even the principal claims are not fully settled, there is a low incentive for creditors to assert additional claims and incur additional (administrative and legal) cost given the small probability of success. Based on this evidence it is rather unrealistic to calculate a reasonable amount of such claims.

Beyond this argument it must be noted that these additional claims would have to be settled from the insolvency proceeds. As they rank prior to the shareholders claims, their settlement would reduce the amount of proceeds available for the shareholder. The omission of these additional creditors in the construction of the waterfall is therefore in the interest of the shareholder.

Disbursements to Creditors

We have examined how the liquidation proceeds will be distributed among the aforementioned creditor groups in these scenarios ("Creditors Waterfall").

As already mentioned before, an important aim is to determine the claim of the DGS, which should be satisfied within the first year of the liquidation proceedings. Thus, a liquidator would seek to adjust his strategy for this aim and to settle the claim of the DGS (kEUR 572,324[77]) as well as higher ranking claims (kEUR 39,255 Secured liabilities and kEUR 16,307 Costs of insolvency) before the end of the first year of liquidation.

[77] We received the figure kEUR 611,381 from the Bank upon request since we were not provided with a LDR as of the Resolution Date. However, our analysis of the deposit tape indicated that the DGS claim would amount to approx. kEUR 572,324.

Additionally, we considered the liquidators aim to minimise adverse effects on the Slovenian economy by speeding up asset sales until all claims against SMEs and Corporates, which are not covered by the DGS, are recovered and distributed.

We refer to Section 6. for the detailed realization paths. We illustrate the creditor waterfall in the tables below:

3-year scenario (Best Estimate)

Creditor Hierarchy Slovenia			Waterfall 3Y Scenario (kEUR)			
Rank	Item	Amount	Year 1	Year 2	Year 3	Claim at Insolvencies' end
12	Costs of insolvency	32.613	-16.307	-9.023	-7.284	-
11	Secured liabilities	39.255	-39.255			0
9	Covered deposits	572.324	-572.324			0
8	Deposits, not covered but preferential (BRRD art. 108) - Individuals/Micros/SMEs	286.404	-68.830	-168.721	-48.852	0
6.3	Deposits, not covered and not preferential - Corporates	213.902			-213.902	0
6.2	Deposits from institutions and banks other than intragroup liabilities	178.245			-129.006	49.239
6.1	Intragroup liabilities	36.700				36.700
5	Balance sheet liabilities arising from derivatives	3.714				3.714
Total		1.363.158	696.716	177.744	399.044	89.653

Table 73: Estimated creditor waterfall; 3-year Best Estimate Scenario

For the 3-year scenario (Best Estimate), it can be concluded that:

- DGS would have no reason to reject this insolvency plan as the prompt and full repayment of the deposit guarantee compensation is to be expected.
- Households, micro-enterprises, and SMEs ("not covered but preferential" deposits) can expect a full repayment of their claims of some 83% within 2 years and the remaining 17% in the third year.
- Corporates ("not covered but preferential" deposits) can expect a full repayment in the third year.
- Financial institutions are likely to be repaid in the third year but would suffer a shortfall of some 28%.

We must note that the BS will only agree to those liquidation plans which fulfil the following three aims:

1) conformity with the law;
2) appropriate to the case at hand; and
3) in accordance with the objectives of the BS and DGS.

By law (Article 172 RCWBA), the liquidator must ensure swift and value-preserving liquidation of the Bank's assets while, in line with the objectives of the BS, ensuring the avoidance of contagion effects which could harm the financial stability of the domestic economy. In addition, the liquidation plan must have the short-term objective of satisfying the claim of the DGS in order to obtain its approval.

In the case at hand we note, that in a 3-year insolvency scenario the unprotected claims by Individuals, SMEs and corporates are fully satisfied within the liquidation procedure. In our view, this fulfils the objective of preventing contagion effects on the real economy.

In the past, we have observed that financial institutions prefer the quickest possible, even if not full, satisfaction to a higher but more protracted satisfaction, for several reasons. One reason is to mitigate uncertainty: financial institutions are constantly exposed to uncertainty in the financial market. This uncertainty can arise from various factors such as changes in economic conditions, market volatility, regulatory changes, and unforeseen events. Also, by opting for quicker satisfaction, financial institutions can improve their liquidity position. They can use the funds received to finance other profitable ventures, providing a higher return on investment. This also helps in diversifying their portfolio and reducing the concentration of risks. Furthermore, the capital tied up in the liquidation / insolvency estate causes opportunity costs, i.e., the cost of forgoing an alternative investment opportunity. A quick satisfaction allows the financial institutions to capitalise on new opportunities sooner than in a protracted liquidation scenario.

Summarising, we consider all the above-mentioned requirements fulfilled in the present 3-year insolvency scenario.

5-year scenario (Best Estimate)

Creditor Hierarchy Slovenia			Waterfall 5Y Scenario (kEUR)					
Rank	Item	Amount	Year 1	Year 2	Year 3	Year 4	Year 5	Claim at Insolvencies' end
12	Costs of Insolvency	39,434	-12,027	-11,633	-6,309	-5,521	-3,943	-
11	Secured Liabilities	39,255	-39,255					0
9	Covered Deposits	572,324	-572,324					0
8	Deposits, not covered but preferential (BRRD art. 108) - Individuals/Micros/SMEs	286,404	-73,110	-166,111	-47,183			0
6.3	Deposits, not covered and not preferential - Corporates	213,902			-84,210	-79,020	-50,672	0
6.2	Deposits from institutions and banks other than intragroup liabilities	178,245					-178,245	0
6.1	Intragroup liabilities	36,700					-4,027	32,673
5	Balance sheet liabilities arising from derivatives	3,714						3,714
Total		1,369,979	696,716	177,744	137,703	84,541	236,887	36,387

Table 74: Estimated creditor waterfall; 5-year Best Estimate Scenario

In contrast, the 5-year scenario (Best Estimate) suggests the following:

- DGS would have no reason to reject this insolvency plan as the prompt and full repayment of the deposit guarantee compensation is to be expected.
- Again, households, micro-enterprises, and SMEs ("not covered but preferential" deposits) can expect a repayment of their claims of some 82% within 2 years and the remaining 18% in the third year.
- Corporates ("not covered but preferential" deposits) can still expect a full repayment, however, have to wait until the fifth year.
- Financial institutions are likely to be repaid in full within the fifth year.
- Intragroup liabilities suffer a shortfall of 97%.

Here, the trade-off is evident, whereby Corporates would have to wait longer for their money in favor of better satisfaction of a lower insolvency rank for Financial Institutions (see Section 4.3.3.).

Given that contagion effects might arise from Corporates having to wait longer for their money, the 3-year-scenario is seen as more favorable than the 5-year-scenario. It is also not apparent why the BS should agree to an insolvency plan that makes unprotected corporates wait longer for their money, only to benefit of financial institutions.

The relevance of the 3-year scenario is also supported by the historic cases of Factor Banka d.d.'s and Probanka d.d.'s which portfolios were wound up within 29 months at the most i.e. less than 3 years.

In our opinion it is also reasonable to consider the 3-year scenario as the most appropriate scenario, since it is in conformity with the law, namely (1) it ensures a swift and value-preserving liquidation of the Bank's assets, (2) it is in line with the objectives of the BS, ensuring the avoidance of contagion effects which could harm the financial stability of the domestic economy (3) it is in line with the requirement that the liquidation plan must have the short-term objective of satisfying the claim of the DGS in order to obtain its approval. Further, the 3 -year scenario is in line with the preferred timeline set out in the new insolvency law in Slovenia.

In this light, the 3-year scenario is seen to be superior to, and thus more likely than the 5-year scenario.

7-year scenario (Best Estimate)

Creditor Hierarchy Slovenia			Waterfall 7Y Scenario (kEUR)							
Rank	Item	Amount	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Claim at Insolvencies' end
12	Costs of Insolvency	48.566	-12.662	-12.315	-5.550	-5.204	-4.857	-4.510	-3.469	-
11	Secured Liabilities	39.255	-39.255							0
9	Covered Deposits	572.324	-572.324							0
8	Deposits, not covered but preferential (BRRD art. 108) - Individuals/Micros/SMEs	286.404	-72.475	-165.429	-48.500					0
6.3	Deposits, not covered and not preferential - Corporates	213.902			-83.653	-79.337	-50.912			0
6.2	Deposits from institutions and banks other than intragroup liabilities	178.245					-17.522	-42.031	-118.692	0
6.1	Intragroup liabilities	36.700							-23.587	13.113
5	Balance sheet liabilities arising from derivatives* (Line 0334)	3.714								3.714
Total		1.379.111	696.716	177.744	137.703	84.541	73.291	46.540	145.748	16.827

Table 75: Estimated creditor waterfall; 7-year Best Estimate Scenario

In comparison, the 7-year scenario (best estimate) suggests the following:

- DGS would have no reason to reject this insolvency plan as the prompt and full repayment of the deposit guarantee compensation is to be expected.
- Again, households, micro-enterprises, and SMEs ("not covered but preferential" deposits) can expect a full repayment of their claims of some 84% within 2 years and the remaining 16% in the third year.
- Corporates ("not covered but preferential" deposits) can expect a full repayment, however, would have to wait until the fifth year for full repayment.
- Financial institutions are likely to be repaid in the sixth and seventh year.
- Intragroup liabilities would suffer a shortfall of 36%.

Again, the trade-off is evident, whereby Corporates would have to wait longer for their money in favour of better satisfaction of a lower insolvency rank for Financial Institutions (see Section 4.3.3.) which would not be in conformity with the law, as said above.

With respect to the timing of repaying the Corporates, the 5-year-scenario is seen as more favorable than the 7-year-scenario, for the same reasons as stated before. We can also see here that while the longer scenario offers a better satisfaction of the lower insolvency ranks, it comes at the cost of Corporates having to wait much longer for their money. Accordingly, the 5-year-scenario is seen to be superior to, and thus more likely than the 7-year scenario.

From the previous considerations, which scenarios can be considered superior to the other scenarios and thus more likely, we can deduce the following order of probabilities:

- **3-year scenario: "probable" (>50%)**
- **5-year scenario: "reasonably possible" (10-50%)**
- **7-year scenario: "remote." (<10%)**

We have also taken these considerations into account for the Best Case and Worst Case Scenarios.

Since insolvency proceedings are lower in all Worst Case Scenarios than in a Best Estimate Scenario, it is obvious that nothing changes in terms of the assessment of which insolvency periods are to be classified as more or less likely.

In the Best Case Scenarios, higher insolvency proceeds emerge than in the best estimate. These additional proceeds may lead to an earlier satisfaction of individual creditor classes. But even here, the trade-off is observed that individual creditor classes would have to agree to an insolvency plan in which they would have to wait longer for their money in order to allow a lower creditor class a higher satisfaction rate. Therefore, also in the Best Case Scenario the considerations apply that the shorter insolvency durations are more likely than the longer insolvency durations.

The table below shows the assumed costs of insolvency (highest ranking), followed by the outstanding amount and shareholders' equity as stated in the balance sheet as of the valuation date:

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

Resolution vs. Best Case Insolvency Scenario (kEUR)									
Item	Sale of Business			3 years		5 years		7 years	
	Outstanding	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate
Asset Realisation				**1.287.268**		**1.350.706**		**1.381.404**	
Cost of insolvency				-27.402		-33.787		-42.485	
Cash outflows for Cont't liabilities	n.a.	n.a.	n.a.	-7.294		-7.294		-7.294	
Total realization for creditors				**1.252.572**		**1.309.625**		**1.331.625**	
Creditors / Liabilities	1.330.545	1.330.545	100,0%	**1.252.572**	**94,1%**	**1.309.625**	**98,4%**	**1.330.545**	**100,0%**
Shareholder's Equity	195.134	4.543	2,3%	**0**	**0,0%**	**0**	**0,0%**	**1.080**	**0,6%**
Total	**1.525.679**	**1.335.088**	**87,5%**	**1.252.572**	**82,1%**	**1.309.625**	**85,8%**	**1.331.625**	**87,3%**

Resolution vs. Best Estimate Insolvency Scenario (kEUR)									
Item	Sale of Business			3 years		5 years		7 years	
	Outstanding	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate
Asset Realisation				**1.273.505**		**1.333.592**		**1.362.284**	
Cost of insolvency				-32.613		-39.434		-48.566	
Cash outflows for Cont't liabilities	n.a.	n.a.	n.a.	-26.570		-26.570		-26.570	
Total realisation for all claims				**1.214.322**		**1.267.588**		**1.287.148**	
Creditors / Liabilities	1.330.545	1.330.545	100,0%	**1.214.322**	**91,3%**	**1.267.588**	**95,3%**	**1.287.148**	**96,7%**
Shareholder's Equity	195.134	4.543	2,3%	**0**	**0,0%**	**0**	**0,0%**	**0**	**0,0%**
Total	**1.525.679**	**1.335.088**	**87,5%**	**1.214.322**	**79,6%**	**1.267.588**	**83,1%**	**1.287.148**	**84,4%**

Resolution vs. Worst Case Insolvency Scenario (kEUR)									
Item	Sale of Business			3 years		5 years		7 years	
	Outstanding	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate	Recovery Amount	Recovery Rate
Asset Realisation				**1.239.099**		**1.287.546**		**1.306.421**	
Cost of insolvency				-36.254		-43.509		-53.076	
Cash outflows for Cont't liabilities	n.a.	n.a.	n.a.	-46.505		-46.505		-46.505	
Total realization for creditors				**1.156.340**		**1.197.532**		**1.206.840**	
Creditors / Liabilities	1.330.545	1.330.545	100,0%	**1.156.340**	**86,9%**	**1.197.532**	**90,0%**	**1.206.840**	**90,7%**
Shareholder's Equity	195.134	4.543	2,3%	**0**	**0,0%**	**0**	**0,0%**	**0**	**0,0%**
Total	**1.525.679**	**1.335.088**	**87,5%**	**1.156.340**	**75,8%**	**1.197.532**	**78,5%**	**1.206.840**	**79,1%**

Table 76: Resolution vs. Valuation

Conclusion

The insolvency recovery amounts would not be adequate to cover the shareholder’s equity and all liabilities in any of the Best Estimate Scenarios.

It is reasonable to conclude that the affected shareholder has not incurred greater losses in resolution than he would have incurred if the entity had been wound up under NIP.

In detail:

- We estimate a **3-year insolvency scenario** to be probable, with that being the relevant timeframe.
  In our **Best Estimate** Scenario, insolvency proceeds are not sufficient to reimburse the shareholder at all, and liabilities are still affected (NCWO principle met under the actual resolution tool).
  The **Best Case** Scenario shows higher proceeds from the realisation of assets, but liabilities still suffer a shortfall and no reimbursement to the shareholder is possible.
  The **Worst Case** Scenario results in a reduction of asset realisations, with even more liabilities suffering a shortfall and no reimbursement to the shareholder.

- The same pattern is observed in the **5-year scenario**. No reimbursement to the shareholder is possible in all cases of the 5-year scenario.

- Only, in the best case of the remote **7-year scenario** a reimbursement to the shareholder would be possible. However, the reimbursement amount is significantly lower than the consideration (net of the deducted expenses) received from the affected shareholders in resolution.

As already mentioned, liquidation proceedings are estimated to run for 3 years, 5 years or 7 years, whereas - from our point of view - 3 years are the most reasonable time frame. For more granular information on the duration of liquidation proceedings, please refer to section 4.3.

Next, we illustrate the key determinants for the shortfalls of shareholder and creditors in the 3-year Best Estimate Scenario:

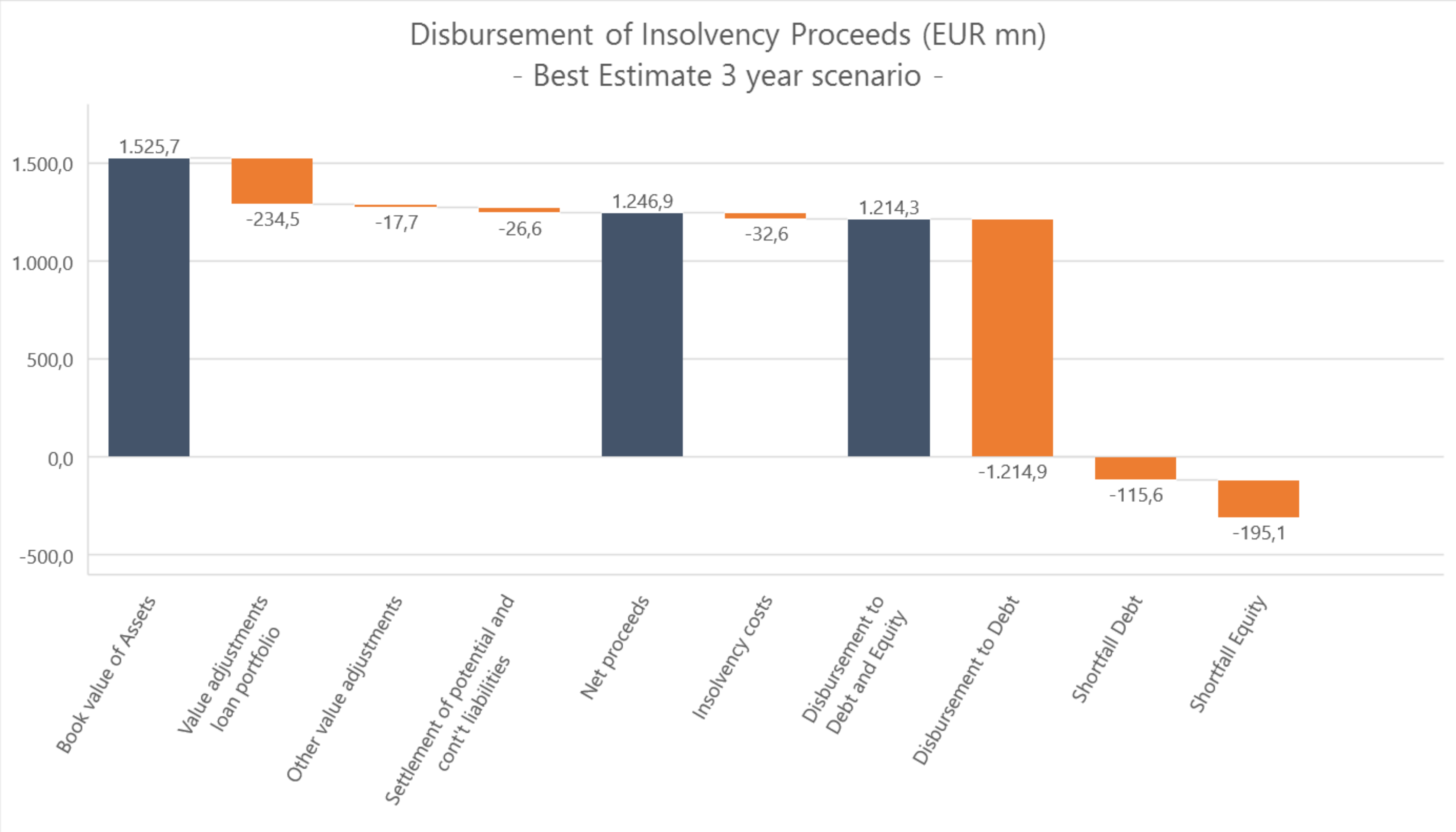

Figure 6: Disbursement of insolvency proceeds; 3-year Best Estimate Scenario

Valuation 3 - Valuation of Difference in Treatment - Sberbank banka d.d.

The key value drivers are the value adjustments of the loan portfolio (EUR 234.5mn including the not reconcilable difference of the loan tape to the balance sheet item of kEUR 897) and the insolvency costs (EUR 32.6mn). Eventually, the disbursement of the net recovery amount of EUR 1,214.3mn would not even cover all liabilities.

Regardless of the actual insolvency ranking, our analysis concludes that under the actual resolution no shareholder was worse off than in a hypothetical insolvency.

It is also reasonable to conclude that the Slovenian DGS incurred no losses neither under the resolution tool nor in a Best Estimate Scenario.

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Appendix

Annex 1: Explanation of the Creditor Hierarchy (Art. 230 para. 2 RCWBA)

<u>Outstanding costs of compulsory liquidation proceedings and the costs of bankruptcy proceedings (Costs of Liquidation) – **Rank 12**</u>

Payments from the bankrupt's estate are first made to settle the outstanding costs of compulsory liquidation proceedings and the costs of bankruptcy proceedings.

<u>Priority Claims – **Rank 11**</u>

Priority claims (*prednostne terjatve*) include:

- salaries and wage compensations for the last three months prior to initiation of insolvency proceedings,
- compensations for accidents related to work, and occupational diseases,
- unpaid compensations for termination of working relationship prior to initiation of bankruptcy proceedings,
- salaries and wage compensations for employees whose work is no longer necessary due to the initiation of bankruptcy proceedings for the period from the initiation of bankruptcy proceedings until the expiration of the notice period,
- compensations to employees who had their employment contract terminated by the bankruptcy administrator, since their work became unnecessary due to the initiation of bankruptcy proceedings or during the proceedings,
- taxes and duties which shall be charged at the same time as the payments referred to in the preceding points one to five,
- compensation for unused annual leave for the current calendar year, and
- claims arising from loans granted under the Act Governing Rescue and Restructuring Aid for Companies and Cooperatives in Difficulty and guarantees given for such loans.

<u>Guaranteed (Covered) Deposits (*zajamčene vloge*) – **Rank 10**</u>

These claims shall be asserted by the Deposit Guarantee Fund in the insolvency proceedings (*subrogacija*) and shall include the claims of the Deposit Guarantee Fund against the Bank arising from:

- the payment of DGS in accordance with the law governing the DGS, where depositors' claims shall be transferred to the Deposit Guarantee Fund in the amount of deposit paid or
- the payment of a contribution provided by the Deposit Guarantee Fund in the event of the Bank's resolution or compulsory liquidation in accordance with the RCWBA.

<u>Claims with original Maturity of less than seven Days – **Rank 9**</u>

These claims are held by:

- an institution other than those belonging to the same group, or
- payment or settlement systems or operators of or participants in these systems if the

claims arise from the resolution entity's involvement in a payment or settlement system and the settlement in such system is subject to the final settlement of orders in the event of insolvency or other membership termination procedure, as defined by the Act governing payment services and systems or the Act governing the financial instruments market.

Eligible Deposits[78] (*upravičene vloge*) – **Rank 8**

- Eligible deposits (*upravičene vloge*) are held by depositors who are natural or legal persons that meet the criteria for micro, small and medium-sized enterprises (as defined by the Companies Act), in amounts exceeding guaranteed deposits (*zajamčene vloge*) including deposits that could be deemed eligible if they had not been paid into a third country branch.

Other eligible Deposits – **Rank 7**

Other eligible deposits are deposits which are not included in Rank 8 or Rank 10.

Bank Deposits which are not deemed to be eligible, or claims referred to in Rank 9– **Rank 6**

These include:

- deposits by banks and investment firms and other financial institutions made on their behalf and for their account,
- deposits by insurance undertakings, reinsurance undertakings and insurance holding companies,
- deposits by undertakings for collective investment in transferable securities, including investment undertakings of the closed-ended type,
- deposits by pension funds and pension companies,
- deposits by states and central banks and deposits by entities that are direct or indirect users of the state budget and
- deposits by local communities and deposits by direct and indirect users of the budgets of local communities.

Unsecured claims except claims for debt securities and similar instruments issued by a bank – **Rank 5**

Unsecured claims arising from debt instruments and other similar financial instruments issued by the bank, other than debt instruments referred to in rank 3 – **Rank 4**

Unsecured claims arising from debt instruments which meet the requirements – **Rank 3**[79]

[78] Article 6 RCWBA

[79] The debt instruments referred to in Ranks 3 to 4 shall be bonds and other forms of negotiable debt and instruments creating or evidencing debt. Debt instruments with a floating interest rate based on a widely used reference rate and debt instruments which are not denominated in the issuer's domestic currency, provided that the principal, repayments and interest are denominated in the same currency, shall not be considered debt instruments with embedded derivative features solely because of the aforementioned characteristics.

These requirements are as follows:

- their original contractual maturity is at least one year,
- they are not derivatives, nor do they have built-in characteristics of derivatives,
- the contractual documents or prospectus related to their issue expressly state that in the event of proceedings for compulsory winding-up of a Bank claims for these instruments shall be recovered after the claims referred to in ranks 4 to 12 and before the subordinated claims referred to in rank 2.

Subordinated Claims – **Rank 2**

Subordinated claims which, by virtue of a contractual arrangement between the parties, are to be paid after the claims referred to in ranks 3-12.

These subordinated claims shall be further divided into priority classes and shall be repaid from the overall bankrupt's estate in the following order:

1) subordinated claims not classified into any category referred to in points 2) or 3) below,
2) claims for instruments that were issued by a Bank and meet the conditions for Tier II capital instruments of a Bank and other subordinated claims repaid simultaneously with claims for Tier II capital instruments with regard to the contractual arrangement for the Bank's insolvency,
3) claims for instruments that were issued by a Bank and meet the conditions for a bank's Additional Tier 1 capital instruments and other subordinated claims repaid simultaneously with claims for Additional Tier 1 capital instruments with regard to the contractual arrangement for the Bank's insolvency.

Claims for Instruments of Ownership – **Rank 1**

Claims arising from equity instruments, including claims arising from instruments issued by the Bank and qualifying as instruments of the Bank's common equity core capital, and other subordinated claims which, according to the contractual arrangement in the event of the compulsory winding-up of the Bank, shall be repaid at the same time as claims arising from equity instruments. The Banks shareholder’s claims which are relevant for the Report are included in this category.

Annex 2: Explanation of Wind-up Scenario and Duration

a) Background of Wind-up

By way of an overview, the BS is the competent authority in Slovenia to perform tasks and exercise powers concerning resolution as well as competent to decide on measures for compulsory liquidation of banks. The decision of BS to adopt resolution measures concerning a relevant bank depends on whether the conditions for resolution (pursuant to Art. 68 of RCWBA) are fulfilled. In case the BS would assess that the resolution measures for the relevant bank would not achieve the resolution objectives in terms of safeguarding the public funds by reducing reliance on the extraordinary public financial support (Art. 27, para. 1, pt. 3 of RCWBA), it shall initiate the compulsory liquidation proceedings (Art. 74, para. 1 of RCWBA).

There are two types of compulsory winding up for banks (Art. 168 of RCWBA), namely: (A) compulsory liquidation proceedings; and (B) bankruptcy proceedings.

(A) Compulsory Liquidation Proceedings

The process of compulsory liquidation of a bank is the first step in the process of winding-up a bank as a legal entity, carried out by the BS, in order to conclude the bank's business and to pay its obligations to creditors under contracts for the provision of banking services, financial services and additional financial services, which was performed by the bank on the basis of a license for the provision of bank services in accordance with the law governing banking. (Banka Slovenije 2021)[80]

The initiation of the compulsory liquidation proceedings

In accordance with Article 173 in connection with Article 74(1) of the RCWBA the compulsory liquidation proceedings shall be commenced based on the relevant decision of the BS, which is issued *ex officio* if:

(i) the ECB has in accordance with Regulation 1024/2013/EU and the law governing banking, revoked the Bank's license to provide banking services, or
(ii) in accordance with the law governing banking, the Bank's license to provide banking services has been terminated

The decision to initiate the compulsory liquidation proceedings includes (Banka Slovenije 2021)[81]:

- ascertainment that the reasons for the initiation of the compulsory liquidation proceedings of the Bank are given in accordance with RCWBA;
- the appointment of one or more administrators in the process of compulsory liquidation proceedings of the Bank, specifying the identification data of the administrator (Banka Slovenije 2021)[82];
- restrictions on the Bank's operations that occur on the basis of RCWBA or are determined by the BS.

[80] Article 171 RCWBA.
[81] Article 174 RCWBA.
[82] The required identification data of the administrator is specified in Paragraph 3 Article 176 RCWBA.

After the initiation of the compulsory liquidation proceedings the Bank may only carry out regular business necessary for the performance of the Bank's activities under the conditions of compulsory liquidation, and settle its obligations from these business relationships, while observing the requirements and restrictions in accordance with RCWBA. The latter business relationships include those transactions and actions that are necessary to maintain the value of the bank's assets or to prevent a decrease in value or to ensure more favourable conditions for the liquidation of the bank's assets, including the possibility of selling part of the business as a whole. (Banka Slovenije 2021)[83]

Compulsory liquidation proceedings include the use of the following two instruments (Banka Slovenije 2021)[84]:

- sale of business;
- exclusion of assets.

The BS shall issue a decision regarding the use of the above instruments (Banka Slovenije 2021)[85] and the liquidator shall adopt any reasonable measures to carry out the liquidation of assets under market conditions, taking into account the circumstances of the case and the assessed liquidation value of the assets (Banka Slovenije 2021)[86].

[83] Paragraphs 1 and 2 Article 198 RCWBA.
[84] However, other activities can also be carried out to ensure the repayment of the bank's creditors (Article 171 RCWBA).
[85] Paragraph 1 Article 203 RCWBA.
[86] Article 170 RCWBA in connection to Article 203 RCWBA.

Sale of Business

Articles 206-210 of the RCWBA govern the sale of Bank's business as a going concern. By using this instrument all or individual assets, rights or obligations of the Bank in compulsory liquidation are transferred to the transferee, including contractual relationships regarding the performance of the Bank's services, and the transferee provides the Bank with appropriate consideration in connection with the transfer. The business sale instrument can be used multiple times to ensure additional transfers to the same or different transferees (Banka Slovenije 2021)[87]. In such a scenario the transferee needs to have the relevant licenses (incl. a banking license) for the purchase of the Bank as a going concern (Banka Slovenije 2021)[88].

Exclusion of Assets

Articles 211-214 of the RCWBA provide that BS establishes one or more companies within the framework of the asset exclusion instrument, with the Bank's assets, to which the bank's assets, rights and obligations are transferred, including contractual relationships entered into by the Bank in the provision of banking, financial and additional financial services, for the separate management of transferred assets and liabilities due to the sale of these assets as a whole. (Banka Slovenije 2021)[89]

BS shall use the asset exclusion instrument in particular if (i) the situation in a certain market for these assets is such that the liquidation of such assets could have a negative impact on one or more financial markets, or (ii) if the transfer to the asset acquisition company is necessary to ensure the highest possible income from the liquidation. (Banka Slovenije 2021)[90]

The competent bodies in compulsory liquidation proceedings

The BS, the liquidator and other competent bodies and persons who, on the basis of the law or a special authorization, perform actions in the process of compulsory liquidation proceedings of the bank must, in the process of exercising their powers, strive to have the actions performed in the shortest possible time. (Banka Slovenije 2021)[91]

The legal framework for the compulsory liquidation strategy

According to Article 193 RCWBA, the liquidator must deliver to the BS within four months after the initiation of the compulsory liquidation proceeding, the following:

a) an action plan to wind up the Bank's operations, including determination of instruments for liquidating the Bank's assets (Banka Slovenije 2021)[92], which includes an overview of the main activities to be carried out in the asset liquidation process, and a list of the anticipated deadlines for the completion of activities,
b) list of the bank's recognised liabilities to its creditors,
c) assessment of costs and fees in respect to implementing compulsory liquidation measures (including costs due to unforeseen events),

[87] Paragraph 1 Article 206 RCWBA.
[88] Paragraph 2 Article 207 RCWBA.
[89] Paragraph 1 Article 211 RCWBA.
[90] Paragraph 2 Article 211 RCWBA.
[91] Point 3 Paragraph 2 Article 172 RCWBA.
[92] Sale of business or sale of assets in accordance with Article 171 RCWBA.

d) assessment of unforeseen events that may affect the bank's obligations or the implementation of compulsory liquidation measures,
e) a proposal for the use of financial resources that can be used for compulsory liquidation procedures and instruments, including a proposal for the use of funds under the deposit guarantee system for the payment of guaranteed deposits (*zajamčene vloge*) or for other compulsory liquidation measures that ensure depositors maintain access to guaranteed deposits (*zajamčene vloge*).

With respect to the above / the compulsory liquidation plan (report on the bank's financial position and a compulsory liquidation plan), the liquidator shall start implementing the compulsory liquidation plan on the approval of the BS. The liquidator shall notify BS of all circumstances affecting the implementation of the compulsory liquidation plan and suggest possible amendments to the plan. The amended plan shall be implemented when the BS approves the amendments.

And with respect to point 2. above / List of the Bank's liabilities to the creditors as at the date of commencement of compulsory liquidation proceedings, the liquidator shall submit to BS a list of the bank's liabilities to its creditors as at the date of the commencement of the compulsory liquidation proceedings within two months of the commencement of the proceedings and shall take these liabilities into account in the repayment in compulsory liquidation proceedings. (Banka Slovenije 2021)[93]

Concerning the termination of bank's operations, the liquidator shall enter into transactions and perform other activities for the provision of banking services under the contracts concluded by the Bank before the commencement of compulsory liquidation proceedings. After the commencement of compulsory liquidation proceedings, the liquidator shall terminate the legal transactions entered into by the Bank before the commencement of compulsory liquidation proceedings and settle the Bank's liabilities arising from these transactions subject to the provisions of Subchapter 3.2.7 of Chapter 3 (*Repayment of creditors*) of RCWBA and the restrictions referred to in Article 200 of RCWBA.

In addition, the following documents need to be included to the compulsory liquidation plan:

- a list of outstanding on-balance-sheet and off-balance-sheet liabilities shown in the statements and other records kept by the Bank, with an indication of the liabilities to individual creditors ranked by priority for repayment in the event of the bankruptcy of the Bank;
- updated financial statements as at the date prior to the commencement of compulsory liquidation proceedings, drawn up in accordance with the International Financial Reporting Standards;
- an independent assessment of the value of the Bank's assets made in accordance with the International Valuation Standards by assuming a compulsory sale (liquidation valuation);
- an opening balance sheet as at the date of the commencement of the compulsory liquidation proceedings, drawn up in accordance with accounting solutions for companies in bankruptcy, as deter-mined by the Slovenian Accounting Standards.[94]

[93] Article 194 RCWBA.
[94] Article 193 RCWBA

The liquidator should also prepare and submit to the tax authority the tax return as at the date prior to the commencement of the compulsory liquidation proceedings, with the contents and within the deadlines specified by the act governing tax procedure and the act governing taxation. The liquidator is not responsible for irregularities in the financial statements above and in the final tax statement prepared on the basis thereof if the cause of irregularities is attributable to the Bank's (senior) management, or false/incomplete documentation.

The valuation of the Bank's assets should be made by an independent appraiser. Further, the valuation serves as the basis for determining an appropriate instrument for liquidation of the Bank's assets in compliance with the objectives of compulsory liquidation and for defining the assets, rights and obligations to be transferred or eliminated by means of liquidation instruments, including the determination of the amount of any consideration paid by the recipient for the transfer.

The liquidator should start implementing the compulsory liquidation plan subject to the approval of the BS. The liquidator is required to notify the BS of all circumstances affecting the implementation of the compulsory liquidation plan and suggest possible amendments to the plan (which are always subject to approval of the BS).

Termination of compulsory Liquidation Proceedings

Pursuant to Article 223 RCWBA, the BS shall issue a decision to terminate compulsory liquidation proceedings when, on the basis of the liquidator's report, it determines that the Bank's liabilities to its counterparties for the performance of banking services in compulsory liquidation proceedings have:

- either been satisfied in full or
- in part and that, simultaneously, the Bank has no more assets available for liquidation with a view to repaying its remaining liabilities arising from the performance of banking activities.

<u>(B) Bankruptcy Proceedings</u>

Initiation of Bankruptcy Proceedings concerning a Bank

Pursuant to Art. 225 of RCWBA, the court's decision to initiate bankruptcy proceedings against a bank shall be based exclusively on the proposal of the BS. The BS shall submit a proposal to initiate bankruptcy proceedings (along with the decision to terminate compulsory liquidation proceedings) to the competent court. The court shall issue the decision to initiate bankruptcy proceedings against the bank on the business day following the date of receipt of the request of the BS.

For the purposes of decision-making on initiating bankruptcy proceedings against the Bank, it shall be deemed that the level of the Bank's assets will not be sufficient to cover the claims of all its creditors and that the Bank is unable to meet its outstanding obligations regularly and no evidence to the contrary shall be allowed. Furthermore, no appeal shall be allowed against the court's decision to initiate bankruptcy proceedings against a bank.

Pursuant to Article 226 of RCWBA, Sub-chapter 3.3 (*Bankruptcy*) of RCWBA (Articles 224-230) an insolvency administrator ("**Receiver**") shall be appointed by the court on the proposal of the BS. The Receiver shall be a body in bankruptcy proceedings and shall perform the activities of an administrator in bankruptcy in accordance with the ZFPPIPP. The BS shall appoint one or more Business Administrators with experience in banking. The Business Administrator shall co-operate with the Receiver in the management and realisation of the Bankrupt's estate and shall act in accordance with the BS' instructions in the performance of his/her activities.

Lodging of Claims

Creditors are required to lodge any claims against the bank, within three months of the initiation of the bankruptcy proceedings / 'the call'; the same is true for joint-and-several debtors, co-debtors, sureties, guarantors and their (conditional) recourse claims. Claims not lodged within the deadline cease to exist. Secured claims must be filed as (i) claim; and (ii) security (i.e., the asset that is the subject of the right of separation; this is not necessary for mortgages publicized in the land register).

Holders of (proprietary) rights must also lodge their rights of exclusion (i.e., on assets that do not form a part of the bankruptcy estate).

Notwithstanding the provisions of the ZFPPIPP, the Deposit Guarantee Fund (the "**Fund**") shall, in connection with the claims lodged in bankruptcy proceedings, submit to the Receiver a request for the payment of guaranteed (covered) deposits under the DGS paid by the Fund to individual depositors under the DGS pursuant to ZSJV when the Fund's claims towards the Bank have not been satisfied in compulsory liquidation proceedings:

- if guaranteed deposits were paid before the commencement of bankruptcy proceedings: within 15 days of the commencement of bankruptcy proceedings,
- if guaranteed deposits were paid after the commencement of bankruptcy proceedings: within eight days of the payment of the guaranteed deposits to the repayment bank.

Furthermore, the Fund shall submit to the Receiver a list of eligible deposits that are taken into account in determining each depositor's guaranteed deposit, including the data on depositors, in accordance with ZSJV. Notwithstanding the provisions of the ZFPPIPP, depositors' claims for guaranteed deposits placed with the Bank shall be deemed to have been lodged in bankruptcy proceedings on the date when the deposit guarantee fund submits a list of eligible deposits to the Receiver (Banka Slovenije 2021)[95].

(Preliminary) Assessment of lodged Claims

The Receiver must, within one month (once extendable for one month) after the deadline for the lodging of claims expires (i.e., three months after "the call"), declare to either (i) contest the lodged claims or (ii) acknowledge the lodged claims (i.e., not contest them). On that basis, the Receiver compiles a basic list of assessed claims to be settled in bankruptcy. Creditor of contested claims may engage in proving the existence of those claims (and/or the adjacent security interests) within regular litigation proceedings (delaying or even impairing recovery) by filing a suit within one month of the court resolution on the assessment of claims.

[95] Article 227 RCWBA.

Creditors may file an objection either (i) against the basic list of assessed claims (within 15 day of the list's publication) or (ii) against a claim/collateral lodged by a different creditor (within one month of the list's publication). The Receiver must publish a revised list of assessed claims – taking into account the objections filed, if any – within eight days of the expiration of the longer of the objection deadlines. Creditors may file an objection against such revised list of assessed claims within 15 days after its publication.

Afterwards, the court is subjected to instructive deadlines (differing depending on the pre-ceding course of events) to decide on a resolution on the assessment of claims. After such resolution is passed, the Receiver will draw up a final list of assessed claims. [96]

Liquidation of Assets and Distribution of Proceeds

The Receiver must, within four months after the opening of bankruptcy prepare the opening report, which must include:

- a description and evaluation of the (assets included in the) bankruptcy estate;
- a bankruptcy and liquidation execution plan and
- an estimation of the costs attributable to bankruptcy.

Immediately after that, the Receiver must begin with the execution of the plan, i.e., the liquidation of the bankruptcy estate.

Liquidation of assets forming the bankruptcy estate

Methods of sale[97]

These are the methods of sale used in a bankruptcy proceeding. Each individual asset sale must be preceded by (i) its valuation (by a certified appraiser) – market value and liquidation value basis; and (ii) the evaluation of the most appropriate method of sale (in order to maximize proceeds therefrom; this could include market research, public invitation for unbinding bids, etc.). Assets that are subjects of rights of extrajudicial enforcement are not sold in this manner (see 1.2.2(v) above). The available methods of sale (determined, in each particular case, by the relevant court resolution on the sale (pursuant to the Receiver's proposal and an opinion of the creditor's committee)) are:

1. public auction, where the debtor is bound to sell to the highest bidder (the auction may be executed as an "English" (open ascending price auction), or a "Dutch" (open descending price auction) type auction); provided court approval, a public auction may be repeated one or several times (where the asking price is lowered by a maximum of 10% each time);

2. tender, i.e. public invitation for submitting bids, where the debtor is bound to sell to the highest bidder, provided the bid is higher than the starting/minimum price (if two or more bids are of the same value, the sale is executed with the bidder offering a shorter payment deadline);

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[96] Article 204 RCWBA
[97] Article 181 RCWBA

3. if the method(s) in 1 and 2 above are not successful, the court resolution on the sale may determine that the asset be sold by way of direct negotiations with one of the potential purchasers who has submitted an unbinding bid (during the initial process of evaluating the optimal method of sale).

Each sale and purchase agreement is executed with a statutory condition subsequent – pending court approval (pursuant to the Receiver proposal).

The deadline for the payment of the purchase price must not be longer than 3 months after the conclusion of the sale and purchase agreement. Both the court resolution on the method of sale and the approval of a sale and purchase agreement may be appealed by the creditors.

If (a) the asset being sold is serving as security (i.e. is the subject of a right of separation) to a secured claim; and (b) the estimated purchase price (reduced by the attributable costs) does not suffice for the full repayment of the secured creditor's (relevant) claim, the court must:

a. before issuing a resolution on the sale – (in addition to acquiring the opinion of the creditor's committee) acquire the opinion or approval of the relevant secured creditor (i.e. the holder of the right of separation); and

b. before issuing a resolution on the approval of the sale and purchase agreement – (in addition to acquiring the opinion of the creditor's committee in certain cases) acquire the opinion or approval of the relevant secured creditor.

Closing of Bankruptcy

Within one month of the final distribution, the Receiver draws up its final report, listing the total liquidation value of the bankruptcy estate; the final recovery rate for creditors; (and the proposal for (the final part of its) compensation. On those grounds, the court will issue a resolution on the closing of bankruptcy, which may be appealed by the creditors. The bank is removed from the public court/business register.

Annex 3: Role and Competencies of the Liquidator

Pursuant to Art. 174 et seq. of RCWBA, the liquidator (likvidacijski upravitelj)[98] is appointed with the decision of BS to open the compulsory liquidation proceedings. BS may also decide to appoint one or more liquidators. Upon the service of a decision to initiate compulsory liquidation proceedings against a bank, the bank's management members and procuration holders shall forthwith transfer their duties to the liquidator. [99] The liquidator assumes the powers and competences to manage and represent the bank upon the commencement of compulsory liquidation proceedings (Art. 177 of the RCWBA).

Duties and powers of the liquidator

Art. 178 and 179 of RCWBA set out the duties and powers of a liquidator. Generally, the liquidator has to perform his/her tasks conscientiously, honestly and with due professional care, safeguard the interests of creditors and take into account the aims and principles of compulsory liquidation proceedings against a bank.[100] Moreover, Art. 172 of RCWBA sets a general principle of compulsory liquidation proceedings according to which the BS, the liquidator and other persons and bodies in charge of performing actions in compulsory liquidation proceedings against a bank under the law or under a special authority shall exercise their powers to ensure that such actions are performed within the shortest possible time.

The liquidator is responsible for the liquidation of assets (by means of compulsory liquidation instruments) and repaying the creditors of the bank. It shall take all necessary measures to achieve the objectives of compulsory liquidation, namely to (i) implement measures to liquidate the assets by using compulsory liquidation tools; (ii) implement measures to repay the bank's creditors; and (iii) perform other acts in compulsory liquidation proceedings required to achieve the goals from (i) and (ii).

When the BS appoints more than one liquidator in a compulsory liquidation proceeding, the liquidators shall represent the bank jointly and conduct their business as its management body in compulsory liquidation proceedings. In its decision on the appointment of a liquidator, the BS may define the powers and duties of the liquidator for the independent representation and conduct of the bank's business. The BS may amend, restrict or revoke the powers of each liquidator or dismiss each liquidator and appoint a new one. The BS shall give the liquidator binding instructions regarding his/her work. Furthermore, the liquidator's powers stretch also to other EU member states.[101]

According to Art. 193 of RCWBA, the liquidator must deliver to BS within 4 months after the initiation of the compulsory liquidation proceeding the following:

(A) compulsory liquidation plan (the bank's financial position and compulsory liquidation plan);

(B) tax statements; and

[98] The liquidator shall have the professional qualifications, knowledge, skills and personal characteristics necessary to perform the duties of a compulsory liquidator of a bank, and have the relevant experience to conduct liquidation proceedings and manage the assets of a bank or a company of comparable size and sphere of activity as the bank.
[99] The information concerning the liquidators and that the bank is in the compulsory liquidation proceeding are registered in the court register (*sodni register*).
[100] The liquidator is subject to the provisions of the Integrity and prevention of Corruption Act.
[101] According to Art. 180 RCWBA, the liquidator may exercise it's powers concerning the administration of the bank's assets in the territory of an EU member state in which the bank has a subsidiary or directly provides services, except for the purpose of taking enforcement measures or deciding on matters which, under the law of that EU member state, is within the competence of the local authorities or courts.

(C) list of the bank's recognised liabilities to its creditors.

The latter (item under point (C)), according to Art. 194 of RCWBA, shall be delivered to BS within 2 months after the initiation of the compulsory liquidation proceeding.

A) Compulsory liquidation plan (report on the bank's financial position and a compulsory liquidation plan)

The report on the bank's financial position and a compulsory liquidation plan should contain the following:

(i) an action plan to wind up the bank's operations, including by using the tools for liquidating the bank's assets, which includes an overview of the main activities to be carried out in the asset liquidation process, and a list of the anticipated deadlines for the completion of activities;

(ii) a list of the bank's recognised liabilities to its creditors in accordance with Article 171 of the RCWBA (c.f. point (5.1.2 (C));

(iii) the estimated costs associated with the implementation of compulsory liquidation measures and other costs incurred in the compulsory liquidation proceedings, including contingency costs;

(iv) an assessment of unforeseeable events that could affect the bank's liabilities or the implementation of compulsory liquidation measures; and

(v) a proposal for the use of financial assets in compulsory liquidation procedures and tools, including a proposal for the use of assets in the framework of the deposit guarantee scheme, for the payment of guaranteed deposits or for other compulsory liquidation.

Furthermore, the compulsory liquidation plan shall include the following documents:

(i) a list of outstanding on-balance-sheet and off-balance-sheet liabilities shown in the statements and other records kept by the bank, with an indication of the liabilities to individual creditors ranked by priority for repayment in the event of the bankruptcy of the bank;

(ii) updated financial statements as at the date prior to the commencement of compulsory liquidation proceedings, drawn up in accordance with the International Financial Reporting Standards;

(iii) an independent assessment of the value of the bank's assets made in accordance with the International Valuation Standards by assuming a compulsory sale (liquidation valuation); and

(iv) an opening balance sheet as at the date of the commencement of the compulsory liquidation proceedings, drawn up in accordance with accounting solutions for companies in bankruptcy, as determined by the Slovenian Accounting Standards.

The liquidator shall start implementing the compulsory liquidation plan on the approval of the BS. The liquidator shall notify the BS of all circumstances affecting the implementation of the compulsory liquidation plan and suggest possible amendments to the plan. The amended plan shall be implemented when the BS approves the amendments.

B) Tax statements

Furthermore, the duty of the liquidator is to submit to the tax authority a **tax return** dated as at the date prior to the commencement of the compulsory liquidation proceedings.

C) A list of the bank's liabilities to the creditors as at the date of commencement of compulsory liquidation proceedings

The liquidator shall submit to BS a list of the bank's liabilities to its creditors as at the date of the commencement of the compulsory liquidation proceedings within two months of the commencement of the proceedings and shall take these liabilities into account in the repayment in compulsory liquidation proceedings as:

- a list of the bank's liabilities to its creditors in connection with the fulfilment of a contract for the provision of banking services. The latter shall contain: (i) the sum of the total liabilities for which no collateral right relating to the bank's property has been established in favour of the counterparty, ranked by priority for repayment in the event of the bankruptcy of the bank; and (ii) the sum of the total liabilities for which no collateral right relating to the bank's property has been established in favour of a counterparty.

- a list of the bank's other liabilities to its creditors. The latter shall contain the following information: (i) identification data on creditors; (ii) for each creditor the sum of the total of claims held by a creditor and ranked by priority for repayment in the event of the bankruptcy of the bank, the sum total of secured claims held by a creditor; and (iii) for each individual claim: the legal basis for the occurrence of the claim, the principal amount of the claim, the interest rate and maturity date, data on whether the claim is secured or not (data on a secured claim shall also include data on the bank's assets for which a collateral right has been established).

The list of claims is subject to written objections raised by the creditors (Art. 195 et seq. of RCWBA). The liquidator shall inform the BS of the objections received and shall make a proposal on the merits. The BS has the right to uphold or change the liquidator's proposal.

Termination of operations

Concerning the termination of bank's operations, please refer to Annex 2.

Remuneration of the liquidator

Concerning the remuneration costs, the relevant sources are scarce. There were two cases of banks being wound-up, namely Factor banka d.d. and Probanka d.d. which underwent an orderly wind-up procedure in the period 2013-2016 (see below answer to the question no. 8), i.e. before the current RCWBA (as well as BRRD) has been adopted. Therefore, the comparability of these cases with the Sberbank case is limited.

According to Art. 177 of RCWBA, the remuneration of the liquidator shall be determined by the BS depending on the size of the bank, the complexity of the bank's activities, the type and volume of its assets and the number of the bank's creditors and their characteristics. In determining the individual liquidator's remuneration, the BS shall take into account the volume of the tasks to be performed by the liquidator in the management of the bank's assets in compulsory liquidation proceedings.

In the case of Factor banka d.d., in the plan of restructuring submitted to the BS at the beginning of the orderly wind-up process, the costs of procedure were assessed to amount to 16 mil €[102]. More precise information however has not been disclosed to the public.

Remuneration of the insolvency administrator

According to Art. 224 of RCWBA, the provisions of the ZFPPIPP relating to bankruptcy proceedings against companies shall apply to bankruptcy proceedings against banks in case RCWBA does not provide dedicated provisions.

The Rules on the tariff determining the remuneration of administrators of insolvency proceedings and compulsory liquidations, and on the reimbursement of costs to which administrators are entitled (the Rules, Official Gazette of the RS no. 66/22; *Pravilnik o tarifi za odmero nagrade upravitelja v postopkih zaradi insolventnosti in prisilne likvidacije ter stroških, do povrnitve katerih je upravitelj v teh postopkih upravičen*)[103] determine the insolvency administrator remuneration. The remuneration is based on the following:

1. preparation of the opening report (based on the value of the assets as shown in the opening balance sheet of the insolvent debtor): see the table as set out in Art. 5 of the Rules;
2. examination of claims (based on the number of examined claims): see the table as set out in Art. 6 of the Rules; and
3. realisation and distribution of the estate (based on the amount of the realised assets subject to distribution): see the table as set out in Art. 7 of the Rules.

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[102] Interview with the Chairman of the special management of Factor banka Mr. Klaus Schuster: Bančnik se mora vedno vprašati, ali bi odobril kredit, če bi bil to njegov denar; Delo, 12 February 2016, available here (in Slovene): https://old.delo.si/sobotna/bancnik-se-mora-vedno-vprasati-ali-bi-odobril-kredit-ce-bi-bil-to-njegov-denar.html.

[103] The Rules are available on the following webpage (in Slovene): http://www.pisrs.si/Pis.web/pregledPredpisa?id=PRAV9099.

In insolvency proceedings concerning a bank the insolvency administrator remuneration shall be granted an increase of 15 per cent (Art. 4 of the Rules).

Furthermore, the insolvency administrator is entitled (subject to the approval of the respective court in each individual insolvency proceeding) to be reimbursed for the following expenses: transportation costs, daily allowance, meals and accommodation and office expenses (Art. 17 et seq. of the Rules).

Annex 4: Effects of Forceful Liquidation to Contingent Liabilities of the Bank (such as Guarantees and Similar)

The RCWBA provides for a specific regulation of termination rights with respect to banking services contracts (in the context of a forceful liquidation).

The RCWBA refers to the definition of banking services as per the Banking Act (Zakon o bančništvu (ZBan-3)). According to the latter, banking services comprise of (i) banking services, (ii) financial services, and (iii) additional and other financial services, whereas the issuing of bank (and other) guarantees falls under the notion of financial services. In short, contracts governing bank guarantees may be subsumed under the notion of banking services contracts under the RCWBA.

In line with Art. 190 of the latter, a bank which is subject to a forceful liquidation, must fulfil its obligations emanating from a banking services contract (and hence from a bank guarantee) in line with the underlying contract.

RCWBA provides for an exception to this rule according to which the bank may rescind the contract (irrespective of the contractual provision, or provisions of the law, to the contrary) if it obtains a consent from the BS to do so. According to the RCWBA, the BS may give its consent to termination if the termination of such a contract (or types of contracts) results in 'more favourable conditions to reach the goals of the forceful liquidation'.

The law fails to specify the notion of 'more favourable conditions' for reaching the forceful liquidation goals, however, the goals themselves are set out in Art. 172. of the RCWBA, which are to:

- (vi) maintain access of deposit holders to their deposits;
- (vii) maintain to the greatest extent possible access of consumers to basic banking services;
- (viii) when access to deposits cannot be maintained, ensure a timely payment of creditor claims (taking into account the ranking of claims); and
- (ix) maintain or increase the bank assets value in order to pay the bank's liabilities to the greatest extent possible.

There is no relevant court or regulatory practice which would provide further guidance on the above conditions and terms, i.e. in which exact circumstances would the BS give its consent to the bank to terminate a bank guarantee contract.

Hence, for the purpose of the valuation, it would make sense to adopt the default rule, i.e. that the bank guarantee contracts are not terminated as a consequence of forceful liquidation procedure.

For the sake of completeness, we note three additional provisions of the RCWBA with respect to bank's right of termination of contracts.

First, in case a bank terminates a banking services contract pursuant to the BS's consent, such termination has no effect over the opposite contracting party's right to claim damages emanating from such a termination. However, such damages claim is subject to ranking of claims whereas it has no priority.

Second, if the deadline for the fulfilment of bank's obligation under a banking services /a bank guarantee contract, whereas the deadline is agreed amongst the parties to be an essential term of the contract, expires after the start of forceful liquidation, and the bank fails to fulfil its obligation within the specified deadline, it shall be deemed that the contract is rescinded by the expiration of such deadline, and the other contracting party shall have no right to claim performance of the bank's obligations.

Finally, the RCWBA provides that a forceful liquidation of a bank shall not have any effects to the rights of bank's contracting parties to subsume the occurrence of a forceful liquidation over a bank under an event of default, or other event having similar effects, which gives the contracting party the right (i) to enforce the financial collateral or set-off in line with the Financial Collateral Act (Zakon o finančnih zavarovanjih, ZFZ)[104], or (ii) of termination, moratorium, amendment, compensation, or set-off.

Based on the above, the guarantees granted by the Bank are not automatically void due to the opening of liquidation. As mentioned, the bank could terminate the guarantees/contracts based on which the guarantees were issued only with a consent of the BS.

However, even in such case, the bank would remain liable for damages to its clients due to termination of such contracts.

In terms of damages amount, these would likely correspond to the amount of the bank guarantee(s) which would be terminated. Unlike with the damages caused by termination of lease/rent contracts, the RCWBA hereby explicitly stipulates that such damages claims are subject to creditors waterfall.

[104] The Financial Collateral Act is the national implementing act of the Directive 2002/47/EC of the European Parliament and of the Council of 6 June 2002 on financial collateral arrangements.