VALDIS DOMBROVSKIS
Vice-President of the European Commission

Brussels, August 4th, 2016
Ares (2016) 3365066

Dear Honourable Member,

Thank you for your letter of 11 July 2016 in which you request the Commission to look at its position on the 2013 bank recapitalisations in Slovenia, also in view of recent police searches in the premises of the Slovenian Central Bank.

In your letter, you indicate that in early autumn 2013, Slovenian banks (in particular NLB and NKBM) still had positive accounting equity and you also refer to the Commission's enhanced State aid burden-sharing rules as laid down in the 2013 Banking Communication[1].

As regards the latter, you correctly point out that the 2013 Banking Communication makes clear that the Commission - when assessing the compatibility of an aid measure for a bank in crisis - expects enhanced burden-sharing as of 1 August 2013. Point 41 of the Banking Communication indeed explains that "hybrid capital and subordinated debt holders must contribute to reducing the capital shortfall to the maximum extent" and that "such contributions can take the form of either a conversion into Common Equity Tier 1 or a write-down of the principal of the instruments".[2] This enhanced burden-sharing helps to reduce the need for State aid and is therefore meant to protect taxpayers.

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1 *Communication from the Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis ('Banking Communication'), OJ C 216, 30.7.2013, p. 1.*

2 *Please note that he European Court of Justice confirmed in its preliminary ruling in the Kotnik case that the Commission has not gone beyond its powers with burden-sharing rules (paragraphs 55-60). In that same ruling, the Court also concluded that the 2013 Banking Communication does not infringe upon property rights (paragraphs 61-80) (cfr. Case C-526/14: http://curia.europa.eu/juris/document/document.jsf;jsessionid=[illegible]Mb40Rch0SaxuTb[illegible]?text=&docid=181842&pageIndex=0&doclang=en&mode=lst&dir=&occ=first&part=1&cid=389549).*

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As regards the context in which the recapitalisations of the Slovenian banks took place, I would first like to draw your attention to the report Macroeconomic Imbalances Slovenia 2013 of 10 April 2013[3], which concluded that Slovenia was facing excessive economic imbalances. In this context, Slovenia had to carry out an asset quality review and a stress test (AQR/ST) of the Slovenian banking sector.[4]

It is true that common equity of NLB and NKBM was indeed positive in the intermediate financial statements of September 2013. However, these figures derived from some broad accounting rules and did not necessarily reflect the real economic value of equity. Many banks in Slovenia (and elsewhere in the EU) failed at the time to fully recognise the losses relating to non-performing loans. The book values of the equity of these banks were therefore significantly overestimated.

The results of the AQR/ST of 4 December 2013 showed the vulnerabilities of the banking sector and triggered additional impairments for NLB and NKBM. The Bank of Slovenia in its assessment used the AQR/ST results as an input. The comprehensive assessment published by the ECB on 26 October 2014 confirmed the impairments imposed by the Bank of Slovenia to NLB and NKBM in December 2013 and required even higher amounts.

The newly identified impairments resulted in significantly negative equity for both NLB and NKBM. Consequently, the Republic of Slovenia, as the main shareholder of the banks concerned, recapitalised the companies. Slovenia notified those State aid measures - and the underlying restructuring plans - to the European Commission. The two State aid decisions of 18 December 2013 (NLB[5] and NKBM[6]) approved the abovementioned aid amounts and the restructuring plans. More detailed information on that process can be found in those decisions.

Yours faithfully

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Valdis DOMBROVSKIS

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[3] http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp142_en.pdf.

[4] *The methodology of the Slovenian AQR/ST was largely consistent with other AQR/ST performed earlier in other Member States (Spain, Ireland) as well as with the SSM's Comprehensive Assessment.*

[5] http://ec.europa.eu/competition/state_aid/cases/245268/245268_1518816_267_2.pdf.

[6] http://ec.europa.eu/competition/state_aid/cases/248544/248544_1522847_264_2.pdf.