

# PROJECT SILVER

## INVESTMENT OPPORTUNITY IN THE SLOVENIAN BANKING SECTOR

CORPORATE & INSTITUTIONAL BANKING

Project Silver – Investment opportunity

October 2018

**STRICTLY CONFIDENTIAL – PROFESSIONAL INVESTOR**



**BNP PARIBAS**

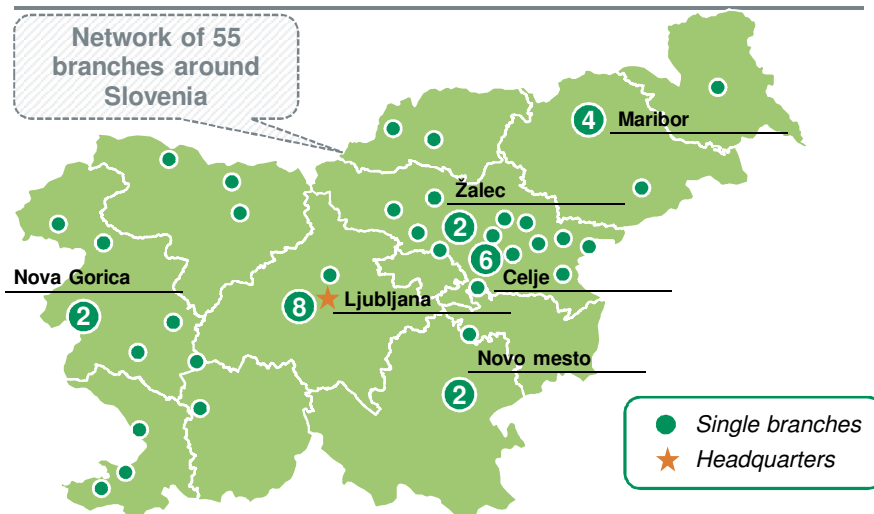
The bank for a changing world

#3 bank in Slovenia with c. 9.6% market share<sup>(1)</sup>

## Company overview

- Established in 1955, ABANKA is the **third largest bank in Slovenia<sup>(1)</sup>**, fully-owned by the Republic of Slovenia and managed by the Slovenian Sovereign Holding
- In addition to the holding company (Abanka d.d.), the Abanka Group's perimeter includes also its subsidiary Anepremičnine operating in the real estate and property management
- Integrated and comprehensive range of financial services** from traditional retail and corporate banking products to bancassurance and personal advisory
- Extensive network of 55 branches** throughout the country
- Credit score received by international rating agencies –** Fitch: BB+ / stable; Moody's: Ba1 / positive
- 1,035 employees<sup>(3)</sup>**

## Branch network



## Abanka Group's key financials (€m)<sup>(2)</sup>

	FY 31/12	2015	2016	2017	H1-17	H1-18
P&L	Net interest income	77	79	74	37	30
	Net fee & commission income	42	39	41	19	18
	Net banking income	143	132	120	63	64
	Administrative expenses and D&A	(85)	(79)	(76)	(36)	(35)
	Provisions & impairments	(9)	30	3	10	14
	PBT	49	84	47	36	43
<b>Net income</b>	<b>42</b>	<b>78</b>	<b>42</b>	<b>33</b>	<b>39</b>	
Balance sheet	Cash & cash balances with CB	281	344	412	349	440
	Debt securities AFS <sup>(4)</sup>	1,406	1,218	1,045	1,195	1,090
	Loans to non-bank customers	1,850	1,806	1,967	1,811	1,944
	<b>Total assets</b>	<b>3,830</b>	<b>3,615</b>	<b>3,654</b>	<b>3,606</b>	<b>3,708</b>
	Borrowings	345	134	129	155	180
	Deposits from non-bank customers	2,845	2,775	2,856	2,786	2,877
<b>Shareholders' equity</b>	<b>550</b>	<b>617</b>	<b>580</b>	<b>574</b>	<b>558</b>	
Capital	RWAs	1,962	1,867	2,051	1,962	2,123
	Total regulatory capital	452	495	504	504	491
Key ratios	Net interest margin <sup>(5, 12)</sup>	1.9%	2.1%	2.0%	2.1%	1.6%
	Cost / income ratio <sup>(6)</sup>	59.4%	59.7%	63.3%	57.7%	54.6%
	Cost of risk <sup>(7, 12)</sup>	(0.5%)	1.7%	0.1%	1.1%	1.4%
	Gross NPL ratio <sup>(8)</sup>	15.2%	13.5%	10.2%	11.7%	5.5%
	NPL coverage ratio <sup>(8)</sup>	89.1%	75.7%	80.8%	76.9%	79.9%
	RoAE <sup>(9, 12)</sup>	7.9%	13.3%	6.9%	10.9%	13.7%
	Loan / deposit ratio <sup>(10)</sup>	65.0%	65.1%	68.9%	65.0%	67.6%
CET 1 ratio <sup>(11)</sup>	23.0%	26.5%	24.6%	25.7%	23.1%	

- Pressure on the net interest income given the ongoing low interest rate environment
- Securities portfolio consists mainly of Government bonds
- Gross NPL ratio further reduced following the sale of a portfolio in March 2018
- Capital ratios consistently above the regulatory requirements, ways of optimisation may be considered

Source: Company information, annual and interim reports; Notes: (1) By total assets as of YE 2017; (2) Including consolidated subsidiary Aleasing d.o.o. sold to Banka Sparkasse in April 2018; (3) Abanka d.d., as of YE H1 2018. Additional 12 employees at Anepremičnine d.o.o., as of YE 2017 (4) Available for sale; (5) Net interest income / Avg. total assets; (6) Admin. expenses and D&A / Net banking income; (7) (Provisions and impairments) / Avg. loans to non-bank customers; (8) In accordance with the EBA methodology, 2015 data excluding other financial assets, H1 2017 data on a non-consolidated basis; (9) Net income / Avg. shareholders' equity; (10) Loans to non-bank customers / Deposits from non-bank customers; (11) As presented in Abanka Group's ARs; (12) HY data annualised



## A leading traditional and low risk banking platform with growth & optimisation potential

I

A leading banking group in Slovenia

- Providing a **comprehensive range of traditional products and services** to both corporate and retail clients
- Ranked **#3 bank** with **9.6% market share** by total assets
- **Profitable** and **well capitalised**
  - **Net profit: €39m** in H1 2018 (c. 20% increase YoY)
  - **CET1 ratio : 23.1%** as of H1 2018
- **Credit risk rating** (long-term): Fitch BB+ / stable, Moody's Ba1 / positive

II

High quality loan book & clean balance sheet

- **Well provisioned & balanced loan book**
- **Improved asset quality** with **NPL ratios** significantly **below market average**
  - **5.5% gross NPL ratio** as of H1 2018
- Focus on **"plain-vanilla" solutions** with no exposure to exotic products

III

Strong operations with significant scope for further gains

- Slovenian **pioneer in mobile banking**
  - **Leading platform** in the country
- **Broad distribution network & know-how base** with additional **rationalisation potential**
- Further product offering expansion: **IT & digitalisation** optimisation
- Enhanced **focus on more profitable non-interest** related income

IV

Unique clientele base spread across the country

- **Substantial existing retail clients base** with a significant number of primary accounts
  - **Unique customer retention & customer satisfaction**
  - **Significant growth & cross-selling potential**

V

Well positioned for a further market consolidation

- Given its strong **market share** and the **robust existing customer base**, Abanka Group is **best positioned** for further **market consolidation**
- **Strong experience of Abanka Group's management** team to consolidate the sector, as demonstrated by the merger with Banka Celje in 2014-2015

VI

Supportive macroeconomic environment

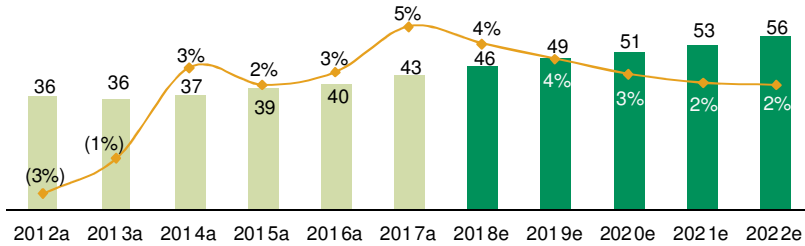
- Economy **expected to continue its strong real GDP growth** at c. 4.2% in 2018 and c. 3.5% in 2019
- Private consumption boosted by **strong real income growth** and **decreasing unemployment rates**

Firmly recovering following the 2013 crisis with strong loan and asset growth coupled with robust GDP growth

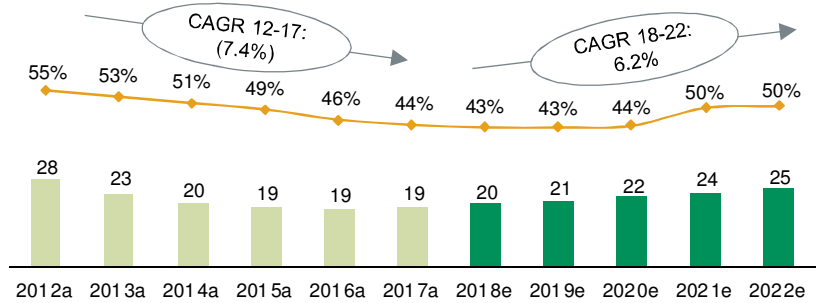
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## Supportive macro trends

Nominal GDP (€bn) and real GDP growth (%)



Loans to customers (€bn) and loans penetration (% GDP)



2

## Key themes and considerations

### Banking market is on the rise...

- The near-term outlook for Slovenia's banking sector is largely positive, as robust economic growth supports increased supply and demand of credit
- New credit underwriting procedures, new corporate governance requirements, and more stringent risk management procedures were implemented by the regulator in order to make loan underwriting more efficient
- Supported by the high level of domestic penetration, customer loans are estimated to grow by approximately 6% YoY from 2018 to 2022

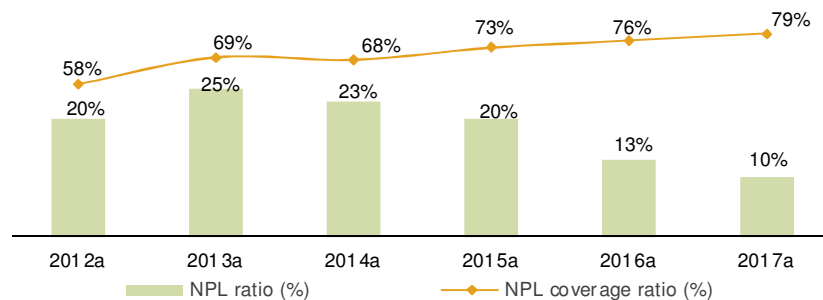
### ...supported by improved asset quality and raising profitability

- Asset quality continues to improve (bad loans ratio falling below c. 10% in 2017 – EBA computations) whilst capital adequacy ratios are overall strong
- The NPL ratio has been declining steadily since 2012 whilst NPL coverage ratio has significantly improved following the European trend
- Banks' profitability proves sustainable, with return on equity recovering from 2012 to 2014 low levels (average RoE >10% in 2017)

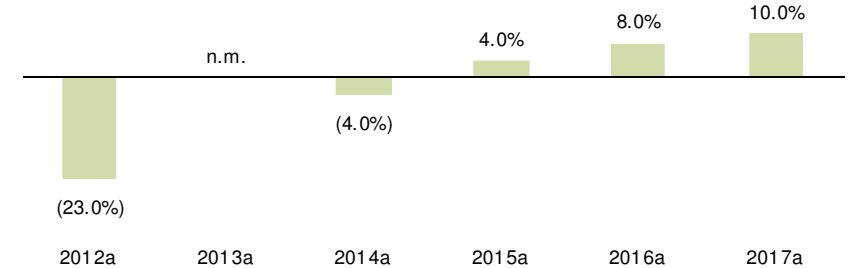
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## Asset quality and profitability indicators

Sector NPL ratio (%) and NPL coverage ratio (%)



Sector return on equity (%)



Source: EBA, Central Bank of Slovenia, BMI, EIU



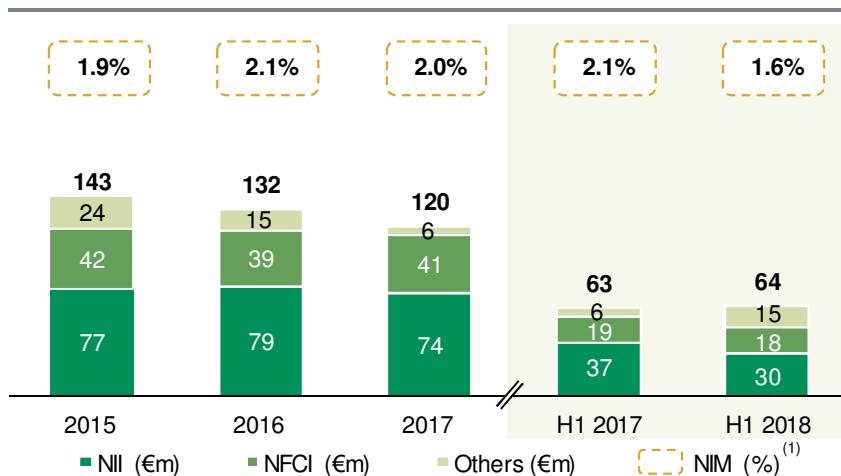
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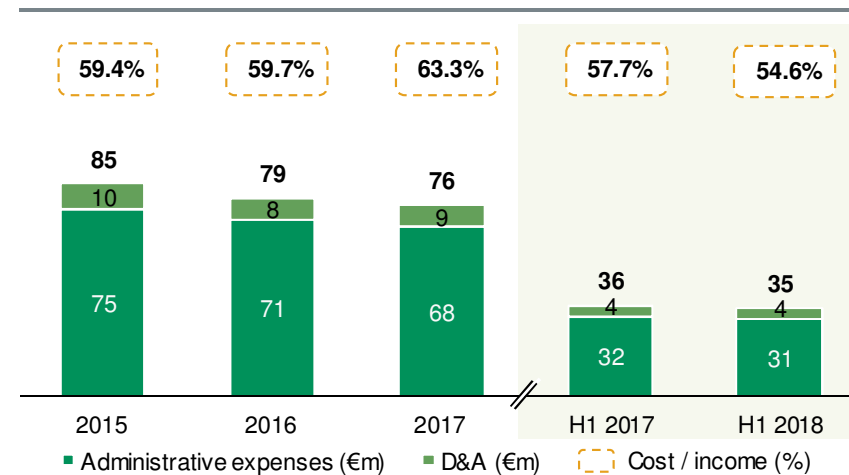
# Abanka Group's key performance indicators (1/2)

## Solid overall financial performance with upside potential

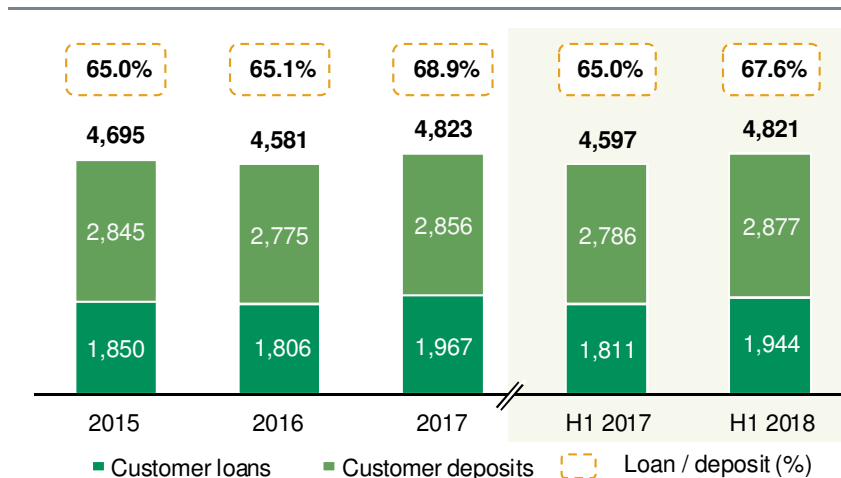
Revenue stream breakdown



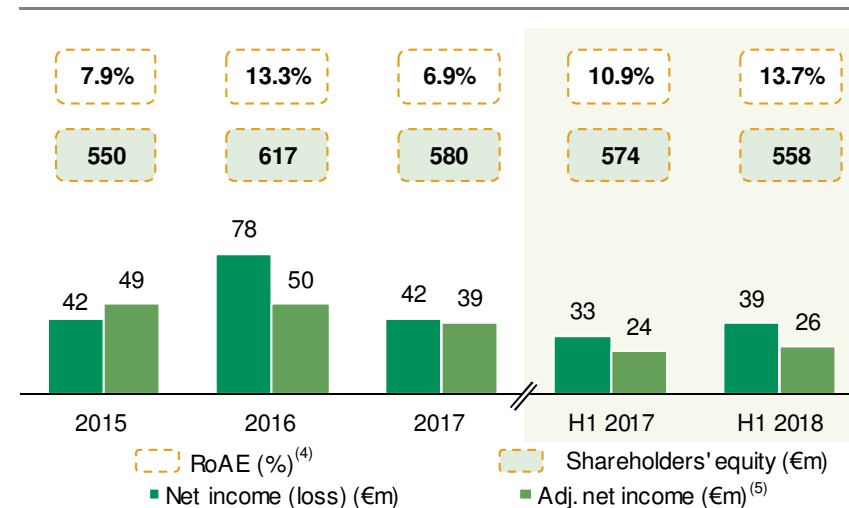
Cost / income (%)<sup>(2)</sup>



Loan / deposit (%)<sup>(3)</sup>



Profitability



Source: Company information, annual and interim reports; Notes: (1) Net interest income / Avg. total assets; (2) (Administrative expenses and D&A) / Net banking income; (3) Loans to non-bank customers / Deposits from non-bank customers; (4) Net income / Avg. shareholders' equity; (5) Excl. loan loss provisions and impairments

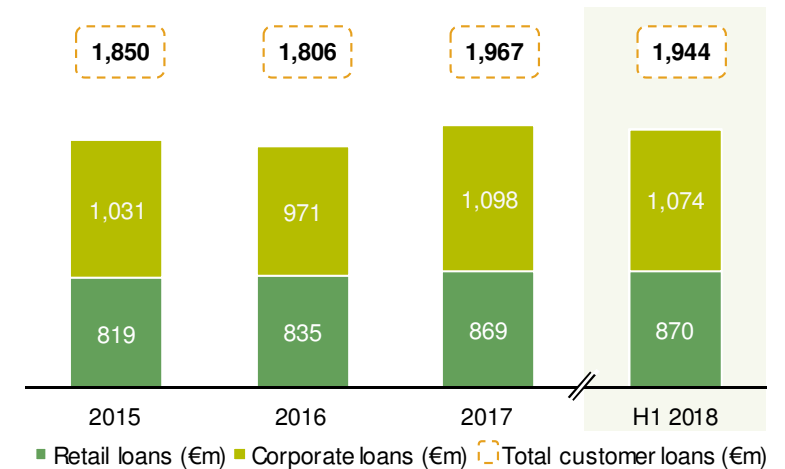


## Well balanced loan portfolio

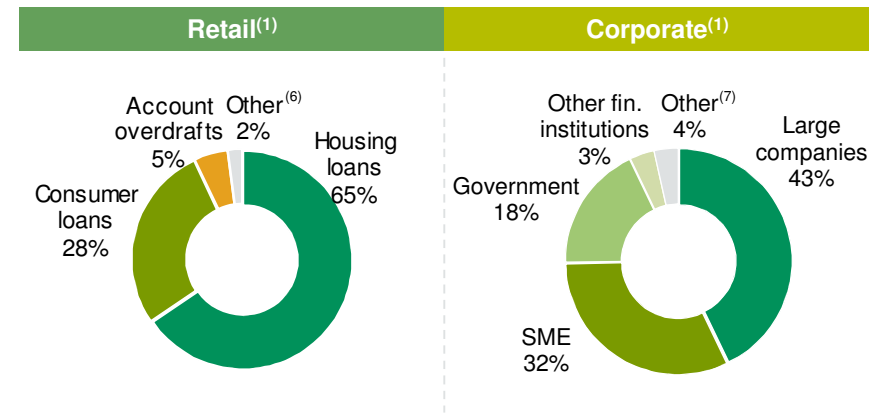
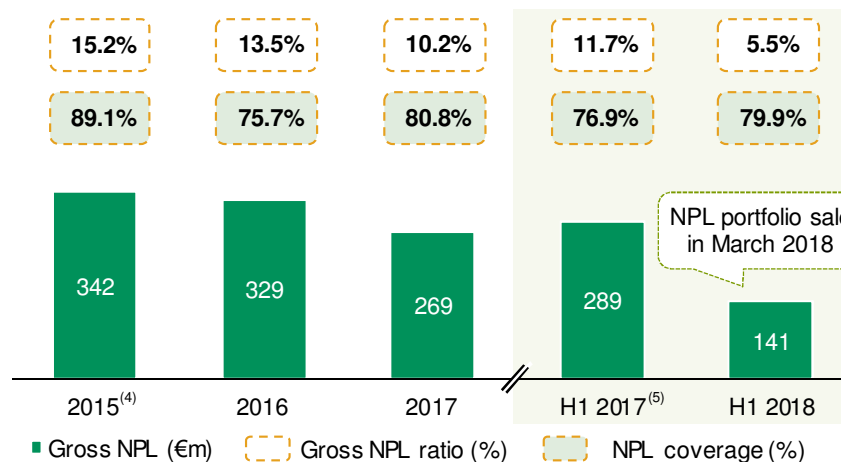
### Business segments overview<sup>(1)</sup>

Retail banking	Corporate banking
<ul style="list-style-type: none"> <li>Serves individuals through a palette of deposit accounts and consumer lending products</li> <li>Market share loans to individuals: 9.5%<sup>(2)</sup></li> <li>Market share deposits from individuals: 11.5%<sup>(2)</sup></li> <li>Net loans: €870m</li> </ul>	<ul style="list-style-type: none"> <li>Serves SMEs and large enterprises</li> <li>Full range of banking services</li> <li>Market share loans to businesses: 8.6%<sup>(2)</sup></li> <li>Market share deposits: 8.6%<sup>(2)</sup></li> <li>Net loans: €1,074m</li> </ul>

### Stable & diversified loan book



### Decrease in the NPLs stock<sup>(3)</sup>



Source: Company information, annual and interim reports, Notes: (1) As of H1 2018; (2) For Abanka d.d.; (3) Using the methodology applied by the EBA in accordance with which "cash balances with the central banks", "demand deposits with banks" and "other financial assets" are included in total loans; (4) Excluding other financial assets; (5) On a non-consolidated basis; (6) Including payments & credit cards; (7) Including sole proprietors and non-profit institutions serving households



- In line with the commitments of the Republic of Slovenia to the European Commission, Slovenian Sovereign Holding (“SSH”) has initiated the privatisation process of Abanka d.d. (“Abanka”)
- The envisaged transaction perimeter includes the sale of 100% of shares in Abanka and its subsidiaries
- BNP Paribas Corporate Finance is acting as exclusive financial advisor to SSH
- The sale process is expected to consist of two phases:
  - In the first phase, subject to execution of a confidentiality agreement with SSH and Abanka, potential investors will receive a confidential Information Memorandum together with a Process Letter and will be invited to submit a non-binding offer
  - In the second phase, short-listed parties will be invited to perform due diligence (including access to a virtual data room, Q&A process, participation in a management presentation and expert sessions) and to submit a binding, fully-financed offer
- BNP Paribas Corporate Finance is the sole point of contact for all potential investors. Under no circumstances should recipients of this document or their representatives contact the management or employees of Abanka and / or SSH in connection with this sale process, without prior written authorisation of BNP Paribas Corporate Finance
- All enquiries should be addressed to [dl.silver2018@uk.bnpparibas.com](mailto:dl.silver2018@uk.bnpparibas.com) or to one of the following representatives of BNP Paribas Corporate Finance:



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