PRESS RELEASE

Stop the Wipe-Out of Slovenian Bank Bonds, Mis-sold to Investors

12 February 2016 - In December 2013 the subordinated bondholders in five Slovenian banks (NLB, NKBM, Abanka, Probanka and Factor Banka) were bailed-in to refinance these struggling institutions. Subordinated bonds in a sixth bank (Banka Celje) were wiped out in December 2014.

In each case the bail-in consisted of a complete wipe-out of all subordinated bonds, including those sold to retail investors at the counters of said banks. Individual investors received no compensation and had no legal means to challenge the bail-in decisions.

There is plenty of evidence pointing to the fact that the retail investors were not adequately informed about the risks attached to the purchase of these bonds, due to their subordination and the impending enactment of retroactive bail-in legislation. Worse, the approved prospectus accompanying the sale and marketing of these bonds contained the explicit specification that risk of loss could only materialise in case of bankruptcy. In fact, the banks in question actively recommended these bonds to their retail clients.

Slovenia’s Finance Minister has defended the bail-in measures by referring to the fact that under EU state aid rules public funds can only be redirected to recapitalise banks after existing shareholders and holders of subordinated debt participate in the restructuring. The Bank Recovery and Resolution Directive (BRRD), however, only came into force on the 1st of January 2016, and the bail-in amendments to the Slovenian banking act are now being challenged on multiple grounds by VZMD, the Pan Slovenian Shareholders' Association and member of Better Finance.

With this situation dragging on for over two years now, Better Finance, the European Federation of Investors and Financial Services Users, just wrote an open letter[1] to the European Commission and the Slovenian government to address this situation and avoid further detrimental effects on individual savers and on the perception of the investment environment in the Republic of Slovenia.

Bail-in rules for Eurozone banks are part and parcel of the Bank Recovery and Resolution Directive (BRRD) and are designed to stop taxpayers from having to foot the bill for saving banks from bankruptcy. Instead, bail-in rules oblige private investors and depositors to automatically bear losses up to 8% of the bank's liabilities before any public support can be made available to bail them out.

However, banking resolutions that don’t respect the rights of individual investors and depositors carry significant social costs. Since the onset of the financial crisis, individual savers and investors have borne the brunt of these costs. Not only are they paying for bailouts in their capacity as taxpayers, they are also suffering losses due to financial repression and negative returns on bank savings.

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At the very least, assurance should be given that the bail-in of depositors is a measure of last resort. The EU has seen other bank bail-ins in the meantime, involving either a settlement with investors or at the very least negotiations towards such a settlement. The Republic of Slovenia has so far not initiated any such effort.

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[1] Letter to the EC and Government of Slovenia regarding the bail-in of subordinated bondholders

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