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Contents

List of tables, figures, boxes and abbreviations:

Tables:

Figures:

Boxes:

Abbreviations:

AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
AMC	Association of Management Companies
AUP	Average unit price of a mutual fund
BoS	Bank of Slovenia
BRIC	Brazil, Russia, India, China
CCBM	Correspondent Central Banking Model
CSCC	Central Securities Clearing Corporation
DS	Debt securities
ECB	European Central Bank
ECBC	European Covered Bond Council
EFAMA	European Funds and Asset Management Association
EFTA	European Free Trade Association
EIOPA	European Insurance and Occupational Pensions Authority
EMF	European Mortgage Federation
EMU	Economic and Monetary Union
EONIA	Euro OverNight Index Average (weighted average interest rate for overnight credit)
ERM2	Exchange Rate Mechanism 2
ESCB	European System of Central Banks
EU 17	Euro area
EU 27	EU Member States
EURIBOR	Interbank interest rate at which representative banks in the euro area offer deposits to one another
Eurostat	Statistical Office of the European Communities
EU-SILC	European Union Statistics on Income and Living Conditions
FED	Board of Governors of the Federal Reserve System
FESE	Federation of European Securities Exchanges
HFRS	Housing Fund of the Republic of Slovenia
ICs	Investment companies

IFRS	International Financial Reporting Standards
IFs	Investment funds
IMF	International Monetary Fund
ISA	Insurance Supervision Agency
Leaseurope	European Federation of Leasing Company Associations
LJSE	Ljubljana Stock Exchange
LJSEX	Former Ljubljana Stock Exchange index calculated for entire market until October 2010
LTI	Loan-to-income ratio
LTV	Loan-to-value ratio
MCs	Management companies
MF	Mutual fund
MTS Slovenia	Part of the Euro MTS electronic trading platform for euro-denominated government and para-government benchmark bonds
NUTS	Nomenclature of territorial units for statistics
OECD	Organisation for Economic Co-operation and Development
OFIs	Other financial institutions
P/E	Price-to-earnings ratio
PDII	Pension and Disability Insurance Institute
PID	Authorised investment company (privatisation fund)
RTGS (system)	Real-Time Gross Settlement
S&P	Standard and Poor's
SAS	Slovenian Accounting Standards
SBI 20	Former Slovenian stock market index
SBI TOP	Blue-chip index at Ljubljana Stock Exchange
SI O/N	Interest rate on unsecured interbank euro-denominated overnight deposits between Slovenian credit institutions and euro area credit institutions
SKD	Standard classification of economic activities (national version)
SLA	Slovenian Leasing Association
Slonep	Slovenian real estate portal (www.slonep.net)
SMA	Securities Market Agency
SMARS	Surveying and Mapping Authority of the Republic of Slovenia
SORS	Statistical Office of the Republic of Slovenia
TARS	Tax Administration of the Republic of Slovenia
TR	Turnover ratio
Vzajemci.com	Portal of Slovenian mutual funds (www.vzajemci.com)
WFE	World Federation of Exchanges
Z-Doh	Personal Income Tax Act

NOTE: the demarcation of the banking system used for analytical purposes in this publication into homogeneous groups of banks, namely large domestic banks, small domestic banks and banks under majority foreign ownership, does not derive from the prevailing ownership of the bank. The demarcation is instead based on the features of their operations, in particular their funding structure.

CONCLUSIONS

After five years of the financial crisis, the Slovenian economy again slid into recession last year, partly as a result of the decline in economic growth across the EU. The reason for the second wave of the financial crisis in the euro area was not excessive public debt, with the exception of certain countries, but over-leveraging in the private sector. Similarly, the crisis in Slovenia revealed the weaknesses in the business models for the funding of banks and corporates, i.e. the banks' over-dependence on funding on the international financial markets and high debt-to-equity ratios in the corporate sector. The low level of equity means that there is a relatively low threshold for the coverage of realised unexpected business risks by corporate owners, and a larger likelihood that these risks will have to be assumed by creditors. Because domestic bank loans account for 59% of corporate debt, the banks are relatively heavily exposed to credit risk during a lengthy economic recession. Corporates face the problem of how to reduce their relatively high indebtedness during conditions of recession, increasing payment indiscipline and limited alternative financing. In this situation a contraction in corporate turnover and investment activity is expected, particularly in the absence of clear economic policy that would ensure a transparent, stable and encouraging institutional framework. The shallow and illiquid domestic capital market does not allow for large issues of corporate debt securities or equities. Unlike the few successful offerings of commercial paper by large enterprises, SMEs do not have any alternative financing possibilities. The SBI TOP displayed a falling trend for most of last year, and had one of the worst returns of any index in the region. Despite a positive finish to the year, the fall in share prices over several years is an indication of the deterioration in the economic situation and the resulting decline in corporate equity. Despite recording net repayments of bank loans in the amount of EUR 0.98 billion and aggregate profits of EUR 0.99 billion, corporates were unable to reduce leverage last year. Corporate leverage remains high, with a debt-to-equity ratio of 135%. An increase in corporate capital, and not merely the privatisation of selected government-owned firms, is one of the key conditions for reviving lending growth and the successful emergence from the economic recession.

Like the corporate sector, the banks have also been forced to restructure their funding. The banks' business models, which before the financial crisis were based on heavy funding on international financial markets and aggressive lending to increase or retain market share, proved to be inadequate. As a result of repayments of liabilities on the wholesale financial markets and their relatively low capital adequacy, the banks are facing a contraction in their balance sheets (more than 6% last year) and the tightening of credit standards during recession conditions. Last year the banks made net repayments of liabilities on the wholesale financial markets amounting to 10% of GDP, which they were only able to partly compensate for by increased borrowing at the Eurosystem. The forcible deleveraging at banks and corporates has resulted in the course and duration of the economic crisis becoming a problem increasingly endemic to Slovenia, which will not be resolved merely by waiting for a faster recovery in euro area export partners.

The banking sector ended the last financial year with the largest loss since the outbreak of the financial crisis. The main factors in the pre-tax loss of EUR 771 million were an increase of 32% in impairment and provisioning costs and a decline of 13% in net interest income. Given the deterioration in the quality of the credit portfolio and the contraction in credit activity, the banks' income risk is becoming an increasingly important systemic risk. Despite a fall in reference interest rates last year, the banks' rising funding costs have resulted in high lending rates for corporates, while the net interest margin is also declining. This is leading to two problems in the economy: the high cost of already limited corporate financing, which is having an adverse impact on competitiveness in the export sector, and the banks' limited capacity to generate capital internally, which is of key importance to ensuring capital adequacy over the long term.

The quality of the credit portfolio had stabilised at the banks by the end of last year. At the beginning of this year the proportion of the banking system's total classified claims that are more than 90 days in arrears reached 14.6%. However, there is relatively large variation in the aforementioned proportion of non-performing claims at the individual bank groups, an indication of the different approaches to the take-up and management of risks. The large domestic banks, in particular the banks under direct or indirect majority government ownership, are notable for the high proportion of non-performing claims, which speaks of ineffective corporate governance and the urgency of a rapid, systemic approach to addressing the banks' bad portfolio. It would be wrong to generalise the claim that the entire Slovenian banking system has failed to manage risk and that it needs government aid, as despite the adverse economic situation some banks have performed well, have increased their capital adequacy and are managing the quality of the credit portfolio. Last year the banks continued to restructure their investments to reduce risk, but growth in loans to households almost ceased entirely. With 3.8% of their classified claims more than 90 days in arrears, households remain relatively low-risk, partly as a result of the low level of indebtedness. Of the highest-risk investments, exposures to corporates in bankruptcy are increasing, and accounted for 5.2% of classified claims at the end of the year. It is vital that the resolution of bankruptcy proceedings is speeded up via improved insolvency legislation, although the annual rise in the number of bankruptcy proceedings initiated slowed. With the support of the Bank of Slovenia, the BAS and the CCI, last year the banks embarked on the more active addressing of non-performing claims against corporates whose current performance promises greater success in the event of restructuring. An efficient and effective approach to the operational transfer of the critical portion of the non-performing claims to one of the forms of bad bank allowed by the Government Measures to Strengthen the Stability of Banks Act would help to put in place the conditions for normalising credit growth and reducing the pressure for contagion to spread to other corporates less vulnerable in cyclical terms.

In the adverse economic situation it is vital to maintain the capital adequacy of the banks, and a contraction in turnover is not the right way to meet the capital requirements. Although the banks improved their capital structure and capital adequacy last year, the shortfall on the average capital adequacy across the EU increased slightly. The increased shortfall was not the result of a decline in capital, but primarily of differences in risk-weighted assets. With rare exceptions, Slovenian banks do not use internal risk assessment models, instead relying on the standardised approach, which retains greater consistency over time. Further evidence that the Slovenian banking system has retained better capital strength than indicated by direct comparisons of the capital adequacy ratios is the 8.1% ratio of equity to total assets in the banking system. Individual banks nevertheless need recapitalisation in order to operate normally. Inactive and irresponsible owners have delayed recapitalisation, thereby increasing capital risk and the need for additional capital.

The duration of the economic crisis and the contraction in lending, which have resulted in several years of aggregate losses and a deterioration in the quality of the credit portfolio, require the consolidation of the banking system while funding is restructured at the same time. Only a consolidated banking system with lower leverage at banks and corporates will form a healthy basis for the start of new credit growth.

Dr. Marko Kranjec
Governor

EXECUTIVE SUMMARY

The risks that the banks faced in 2012 and moving into 2013 were similar to those in the previous years following the outbreak of the economic crisis, although their relative significance has changed. Credit risk eased at the turn of the year, but remains significant primarily from the point of view of the transmission of effects into income risk and solvency risk. Refinancing risk remains systemically important, and there is a likelihood that it will increase at all banks groups given the urgent need to restructure funding. The deteriorating quality of the portfolio, together with the constraints on refinancing on foreign financial markets, is hampering the banks' ability to manage liquidity effectively. Macroeconomic risk is also significant in a situation of continuing negative or weak economic growth, with an adverse impact on demand for bank lending, on household disposable income, on insolvency and the number of bankruptcy proceedings, and hence on all other risks. For this reason, the development of systemic risks in the banking system is becoming increasingly difficult to foresee.

The rise in credit risk slowed at the turn of the year. The proportion of classified claims accounted for by non-performing claims more than 90 days in arrears has stabilised around 14.6% in recent months, while the stock of such claims has declined to below EUR 7 billion. The most vulnerable firms in the construction sector and the financial intermediation sector (holding companies) found themselves in difficulty soon after the outbreak of the crisis. They were followed by firms that were decisively dependent on them, and lacked sufficient commercial flexibility. The large domestic banks are notable for their high proportion of non-performing claims (18.3%), and have the largest concentration of stranded major investments.

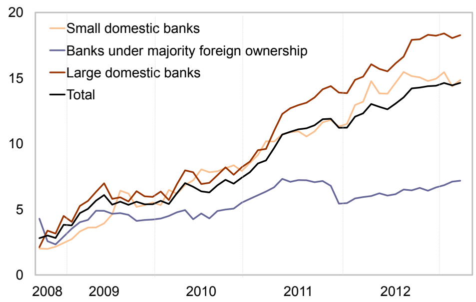
The banks accelerated the creation of impairments on non-performing claims, particular those with higher risk levels (OFIs). The coverage of non-performing claims by impairments stood at 42.2% in March, up 4.4 percentage points on the end of 2011. The indicator does not take account of collateral, the value of which amounts to 92% of the banks' non-performing claims.

In March almost half of non-performing claims against non-financial corporations, or EUR 2.6 billion, were against firms undergoing bankruptcy proceedings. Claims against construction firms in bankruptcy increased sharply last year, to EUR 1.3 billion or 40% of all claims against the construction sector. The corresponding figure for financial holding companies was a quarter. The long duration of insolvency proceedings means that these claims are remaining on the banks' balance sheets for several years. Should the banks' lending activity continue to contract, this proportion will rise even further if these claims are not resolved more quickly via write-offs and the transfer to one of the forms of bad bank allowed by the Government Measures to Strengthen the Stability of Banks Act adopted in October 2012. The banks slightly increased their write-offs towards the end of last year, but they amounted to just 6.1% of average non-performing claims over the entire year. Redeemed collateral was low last year, at just 2.8% of the value of non-performing claims.

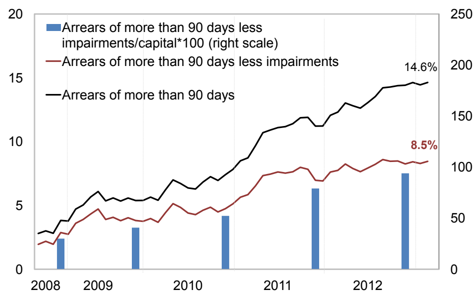
Together with the decline in net interest income, high impairment and provisioning costs resulted in the realisation of income risk. The banking system recorded a pre-tax loss for the third consecutive year, in the amount of EUR 771 million. The decline in interest income caused by the contraction in lending activity and the deterioration in the quality of the credit portfolio exceeded the decline in interest expenses caused by debt repayments and the greater reliance on cheaper funding at the ECB. Income risk also increased as a result of the large proportion of restructured loans to clients with poor credit ratings, while the credit portfolio of good clients was not expanded or at least renewed.

Over-leveraging in the corporate sector is one of the fundamental obstacles to the initiation of a new credit cycle.

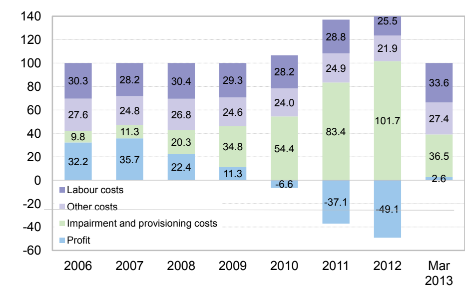
Proportion of the banks' classified claims more than 90 days in arrears by bank group, in percentages



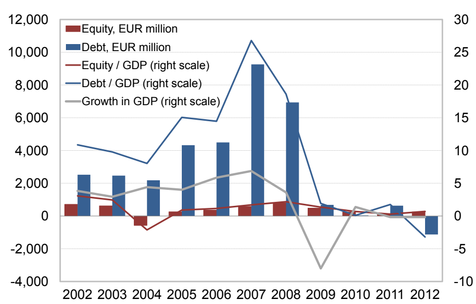
Proportion of the banks' classified claims more than 90 days in arrears including and excluding impairments, in percentages



Disposal of the banks' gross income, in percentages



Corporate financing via equity and debt, in EUR million and percentages of GDP



Leverage remains high at 135%, despite corporate deleveraging, particularly at banks. Generated cash flow at many corporates is not sufficient to service new borrowing and existing debt. Given the forecasts of further economic standstill, there are no prospects of any significant improvement. With the EURIBOR at record low levels, the prevalence of financing at variable interest rates means that corporates face the risk of an increase in the debt servicing burden. Under these conditions corporates are being rated with low creditworthiness at the banks, in which the lack of high-quality collateral is also a factor. Small enterprises in particular are notable for above-average leverage and difficulty in accessing financing at banks.

Corporate financing deteriorated in all sectors last year. The overall flow of corporate financing was negative for the first time since the outbreak of the crisis, in the amount of EUR 1.3 billion, largely as a result of a decline in bank loans. Corporates also made net repayments of loans raised at non-monetary financial institutions and loans from business-to-business financing. Having recorded high growth in 2011, the inflow of loans from foreign banks ended last year. Financing via loans was only offered by foreign corporates, primarily related parties with ownership links.

The inflow of equity into corporates amounted to EUR 486 million last year, mostly from the rest of the world. The earnings generated were not reinvested into corporates. In light of the relatively low capital inflows, low corporate profitability is a bad basis for strengthening the corporate capital base and for reducing the debt-to-equity ratio.

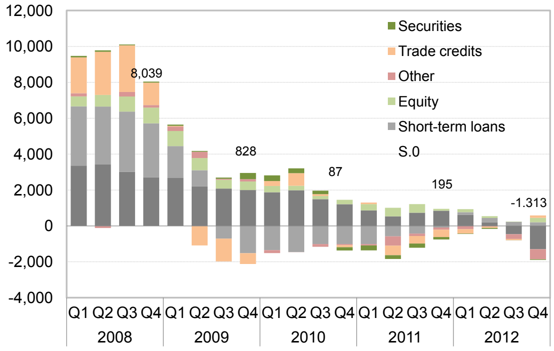
High indebtedness and low ratings of corporate creditworthiness by the banks are raising the cost of corporate financing at banks. The premiums on long-term loans rose last year to reach 3.9 percentage points in the final quarter, compared with an average of 3.3 percentage points in 2011. The cost of corporate financing is being raised by the deterioration in the quality of the credit portfolio and the banks' high funding costs.

Corporate lending rates are lowest at the banks under majority foreign ownership and highest at the small domestic banks. The spread between them on long-term loans averaged 0.8 percentage points over the year. Similar spreads were maintained last year in the banks' funding costs, as a reflection of the more favourable funding structure of the banks under majority foreign ownership in terms of the cost of individual elements of funding.

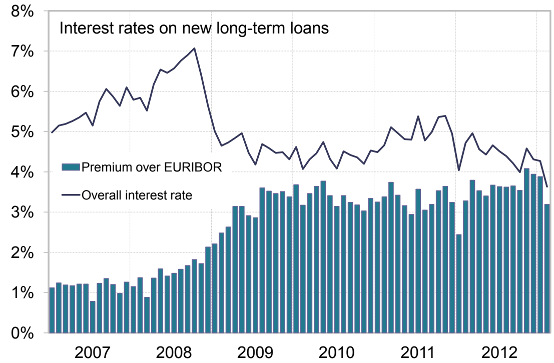
A change in funding structure meant that the bank's debt funding costs declined on average as a result of the cheaper funding obtained from the ECB. Funding on the wholesale markets was made more expensive by the downgradings of Slovenia's sovereign long-term debt and of Slovenian banks. Average funding costs are lowest at the banks under majority foreign ownership, but they also recorded the largest increase last year as a result of a significant increase in the proportion of funding accounted for by deposits by the non-banking sector. Deposits are more expensive funding for these banks compared with funding obtained at parent banks in the rest of the world, who are withdrawing from funding their subsidiary banks in Slovenia.

The banks under majority foreign ownership succeeded in increasing their market share of deposits by the non-banking sector in all depositor segments, even though their interest rates are lower than at competing banks. The main factor in the switching of deposits between banks is the shaken

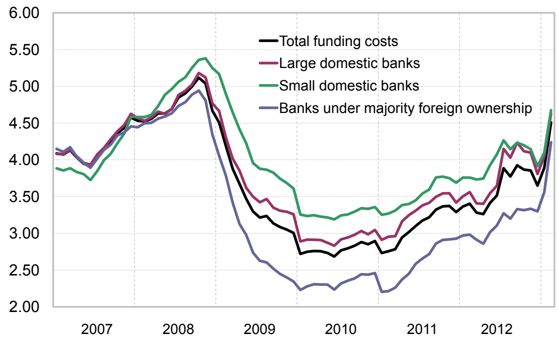
Corporate financing flows, annual moving sum, in EUR million



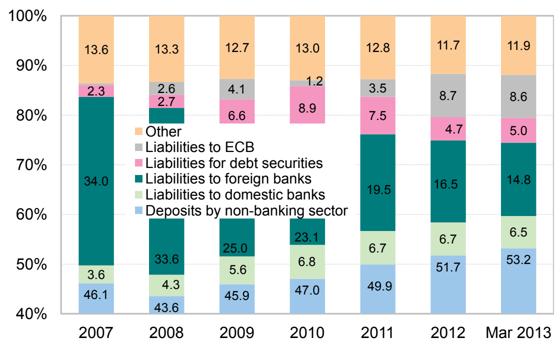
Interest rates on new corporate loans in percentages



Average funding costs by bank group in percentages



Breakdown of bank funding in percentages



confidence in the security of the domestic banking system, while a secondary factor is clients who switch their business because of the more favourable loans offered by these banks. In addition to household deposits, the banks are competing for government deposits and deposits by institutional investors. Last year the government reduced its deposits at banks and shortened the average length of its deposit terms, which had an adverse impact on the banks' long-term investments. This has also introduced additional liquidity risk into the banking system.

The banks repaid EUR 3.5 billion of debt on the wholesale markets last year, equivalent to 10% of GDP. The banks under majority domestic ownership simultaneously faced a decline in household deposits and government deposits, and an inability to fund themselves via issues of new debt securities. They mostly compensated for the loss of funding via borrowing at the Eurosystem in the tender for 3-year LTROs, thereby sharply reducing refinancing risk last year and this year. Liabilities to the Eurosystem increased to EUR 4 billion last year, the proportion of total funding that they account for increasing by 5.2 percentage points to 8.7%.

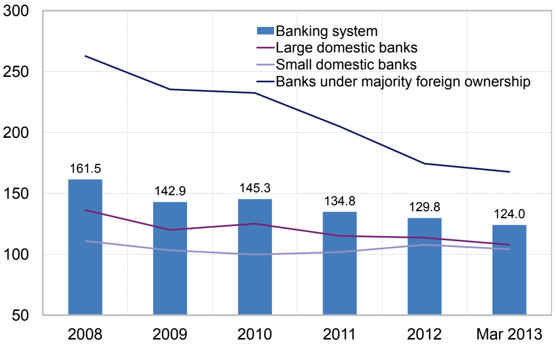
The increasing constraints on funding on the financial markets led to an increase in the importance of the funding that the banks succeed in obtaining via deposits on the domestic market. The LTD ratio for the non-banking sector, an indicator of the sustainability of bank funding, declined to 130% last year, as a reflection of lending adjusting to the available funding. The largest decline in the ratio, albeit to a level still significantly higher that at other banks, was at the banks under majority foreign ownership, where the high figure is primarily the result of the funding model based on reliance on parent banks. The change in the parent banks' behaviour towards subsidiary banks was reflected in a more aggressive approach to obtaining deposits on the local market.

Liquidity risk as measured by the first-bucket liquidity ratio was moderate last year, thanks to the funding obtained in LTROs at the ECB. The second-bucket liquidity ratio declined by 0.22 points last year to 0.94. The reasons for the decline were the maturing of issued securities and the elimination of loans with low ratings. The largest decline in the ratio was at the large domestic banks, where the aforementioned two factors were strongest.

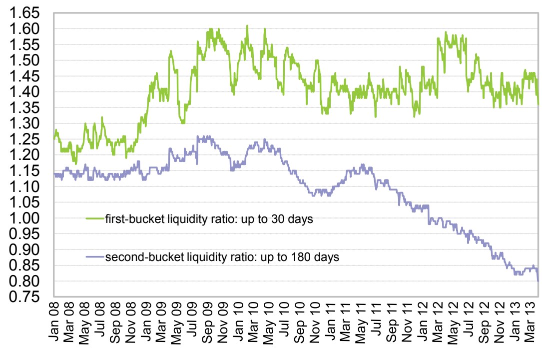
The large proportion of assets of domestic origin in the pool of eligible collateral at the Eurosystem entails greater exposure on the part of the banks to liquidity risk in the event of a sovereign downgrading, which would limit the amount of additional funding from the Eurosystem.

The banking system's overall capital adequacy improved last year to 11.9% on average. The banks primarily focused on improving their core Tier 1 capital ratio, which was up 1.1 percentage points to stand at 10%. The increase in the ratios was attained primarily by a reduction in capital requirements, via a contraction in lending activity and reallocation to lower-risk investments, while the operating loss reduced the ratios. Here it should be noted that Slovenian banks use significantly higher risk weights for investments, and therefore have larger capital requirements than in the euro area overall (6% of total assets, compared with 4% across the EU). The Slovenian banking system would require an increase in capital of between EUR 0.8 billion and EUR 1.4 billion to achieve an overall capital adequacy and a Tier 1 capital ratio equal to the EU average, or a reduction in

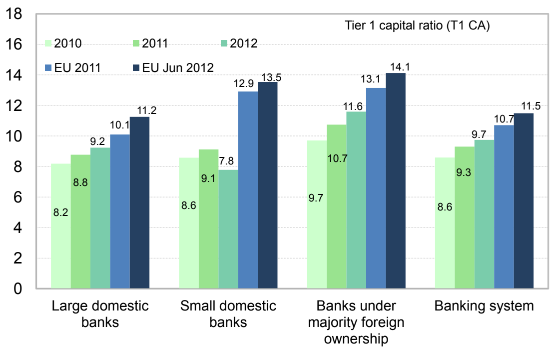
LTD ratio for the non-banking sector in percentages



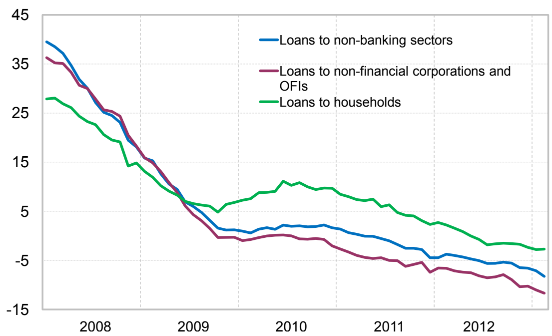
Daily liquidity ratios for the first and second buckets



Tier 1 capital ratio compared with the EU, figures on a consolidated basis in percentages



Year-on-year growth in loans to the non-banking sector in percentages



capital requirements. The ratio of regulatory capital to total assets at Slovenian banks is higher than the EU average.

Together with stricter credit standards, the banks' constraints in obtaining funding reduced the supply of loans, particularly loans for the corporate sector. Household loans only began contracting in year-on-year terms in the middle of last year, two and a half years after corporate loans, as a result of the banks refocusing on this lower-risk client segment and given the sufficient demand for household loans in previous years. The negative year-on-year growth in household loans from the second half of last year was primarily the result of reduced demand for loans and the banks' stricter credit standards for this client segment.

Household disposable income declined for the first time last year, by 1.7%, as a result of rising unemployment and a decline in the wage bill and other earnings. Household financial assets declined by 0.7%, but household financial liabilities declined even more, by 3%. Given their declining income and increasing uncertainty, households reduced their liabilities to all sectors. Consumer loans declined by 8.8% last year, while the stock of housing loans has been stagnating since the second half of last year.

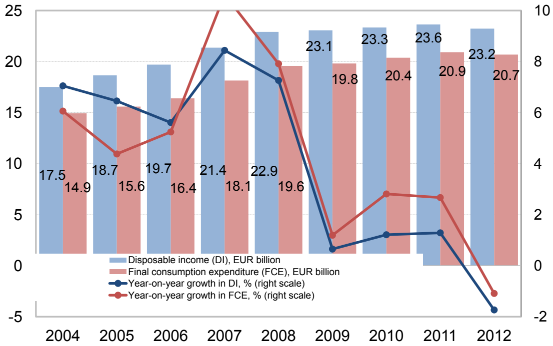
The proportion of total volume on the real estate market accounted for by new-build housing recorded a record low last year of 12.9%. Transactions in new-build housing were constrained by the reduced supply of new-build housing caused by bankruptcies of construction firms and the excessive prices relative to consumer purchasing power. Prices of used housing fell by 7.5% last year according to SORS figures, but the volume was relatively low. The housing affordability indicators as measured by prices of used housing and the LTV ratio at banks suggest a slight improvement in housing affordability for households. As a result of the decline in the standard of living, the greater caution shown by households in relation to additional borrowing and real estate prices that are still too high, last year new housing loans recorded its lowest figure of all the years since the outbreak of the crisis.

Any fall in real estate prices would entail additional impairment costs for the banks as a result of the need to revalue a substantial part of their collateral, the largest proportion of which is in the form of liens on real estate, and thus additional losses in the banking system.

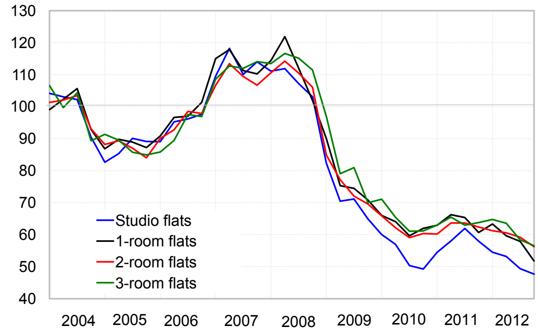
Volume and demand from investors remain low on the Slovenian capital market. Domestic investors are moving money from the domestic market to foreign capital markets, while non-residents are primarily interested in individual takeover targets. In light of the frozen domestic capital market and the constraints on foreign financial markets, the corporate and government sectors are increasing their financing via short-term instruments: the government via increased issues of treasury bills, and corporates via commercial paper, which last year amounted to EUR 130 million, although the low volume means they do not yet entail an alternative form of corporate financing.

Net withdrawals from mutual funds continued last year; the figure of EUR 109 million was the largest in the last four years. The main withdrawals were by households, which given their large ownership of the mutual funds sector entails additional liquidity risk for fund operators. Just over 73% of net withdrawals from mutual funds were from funds operated by banks, an indication of the increased lack of confidence in the banks.

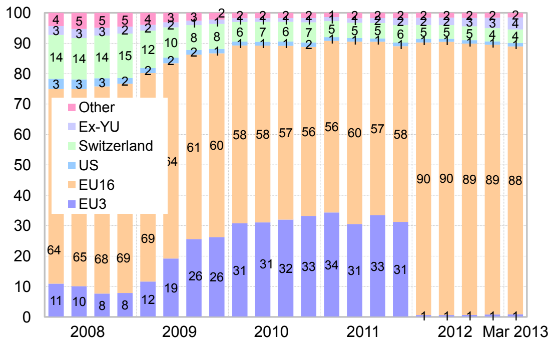
Disposable income and household final consumption expenditure in EUR billion and percentages



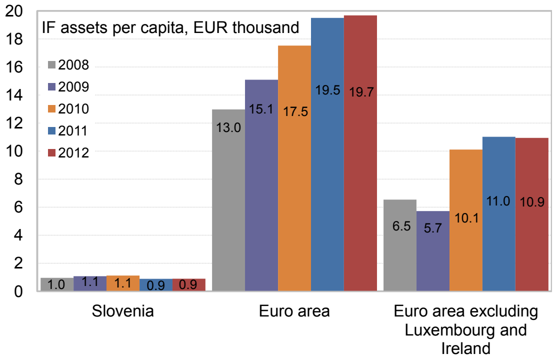
Housing accessibility index



Stock of non-residents' investments in securities of Slovenian issuers in EUR billion



Investment funds' assets under management per capita, comparison with euro area, in EUR thousand

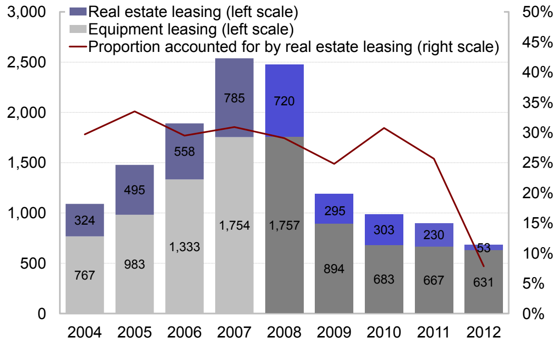


Last year 72% of mutual funds recorded a positive return, significantly more than in the previous year. The proportion of funds operating at a loss was nevertheless too high, in light of the high growth in global stock markets. The fragmentation of the capital market and the small size of assets under management, and the consequent high management fees, were also a factor.

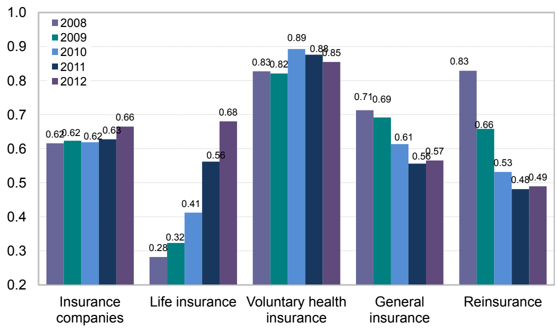
The stock of leasing business declined by 7% last year as a result of a decline in new real estate business, the termination of agreements and write-offs. Leasing companies focused on equipment leasing last year, real estate leasing business declining sharply by 14%. The deterioration in clients' debt servicing capacity has brought a rise in the number of ordinary market leases. A deterioration in investments, lower asset valuations and high leverage are significant risks for the leasing sector. Leasing companies have more commercial and ownership links with foreign banks than with domestic banks, the latter reducing their ownership of the sector as non-strategic in the restructuring process. Leasing companies operated at a loss last year for the fourth consecutive year.

Insurers recorded an increase of 18.4% in net profit last year, increasing their total assets and maintaining gross written premium at its level of 2011. The claims ratio improved for voluntary health insurance and deteriorated for life insurance and general insurance. The largest decline was in life insurance, as a result of longer lifespans and early redemption of pension insurance. The withdrawals of savings after the 10-year period continued in the voluntary pension insurance sector, while the number of policyholders, including those whose policies are in suspension, fell by 7.3%. Risk aversion is reducing the results in unit-linked life insurance, which is diminishing in importance in the life insurance sector. The proportion of claims that are secured by credit insurance is increasing, to 58% of export credits and 29% of internal trade credits. Given the decline in household lending, the ratio of the sum insured to the stock of consumer and housing loans declined significantly, to 5% and 1% respectively.

Volume of new leasing business in EUR million, and proportion accounted for by real estate leasing in percentages



Claims ratios for major types of insurance



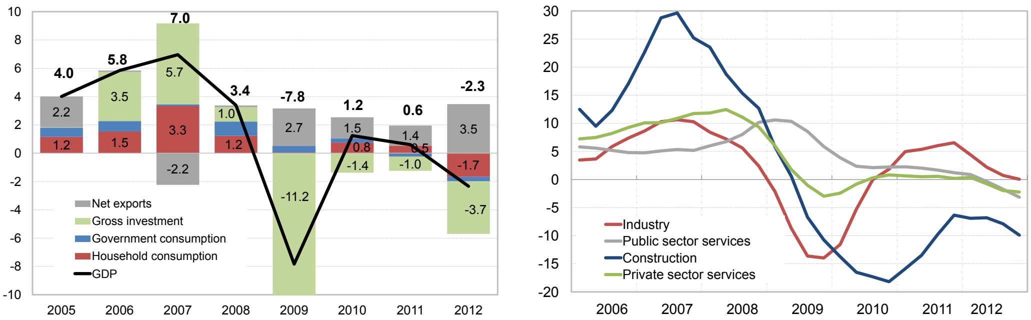
1 ECONOMIC TRENDS AND SECTORAL OVERVIEW

In the economy the main risk of a decline in economic activity remains falling domestic demand and foreign demand. The risk of a decline in domestic demand is subject to the pressure of increased uncertainty in the economy in connection with rising unemployment and austerity measures, which are directly reducing households' disposable income and final consumption. Austerity in the government sector, which is also under pressure from foreign investors, will further reduce domestic consumption. Limited access to resources and the over-leveraged corporate sector remain major risks on the output side.

Economic activity declined in 2012 as a result of a decline in domestic demand and investment.

After two years of growth, GDP declined again in 2012, by 2.3%, as a result of a decline in investment and household consumption. The uncertainty produced by rising unemployment and declining purchasing power is reducing household consumption. The decline in government consumption caused by austerity measures is an important factor in the decline in household consumption and GDP. The decline in domestic consumption is an important factor in the decline in value-added in service sectors in particular. The situation in industry is more favourable, primarily as a result of export growth. Alongside low demand, limited financing is a major factor in the ongoing decline in investment. Net exports acted to raise GDP, primarily as a result of the decline in imports caused by reduced domestic demand.

Figure 1.1: Year-on-year growth in selected macroeconomic aggregates (left) and year-on-year growth in value-added by sector (right) at constant prices in percentages

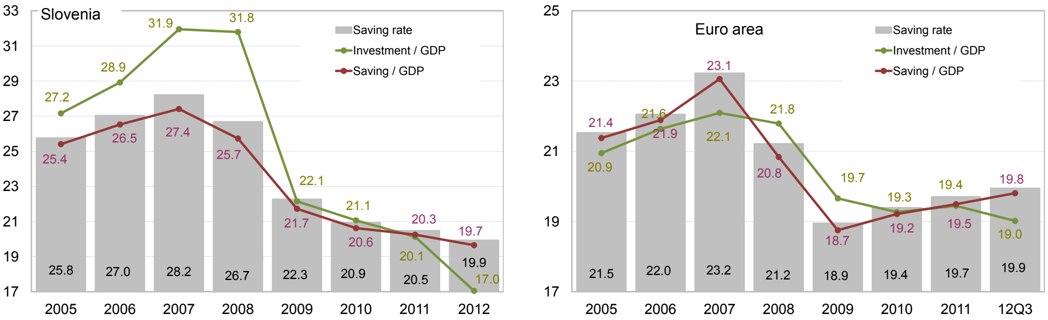


Note: Year-on-year growth is calculated as four-quarter moving sums
Source: SORS

The low levels of investment and consumption are increasing the uncertainty surrounding the economic recovery.

Given the relatively high uncertainty in the economy in connection with the fiscal consolidation measures, the fall in employment, the constraints on financing, and falling foreign demand, domestic demand is expected to remain limited and investment low.[1] The uncertainty surrounding employment opportunities and the resulting income risk for households are reducing household consumption. Alongside limited domestic demand, constraints on financing are also resulting in low corporate investment activity.

Figure 1.2: Saving rate, and ratios of investment and saving to GDP in percentages for Slovenia (left) and for the euro area (right)



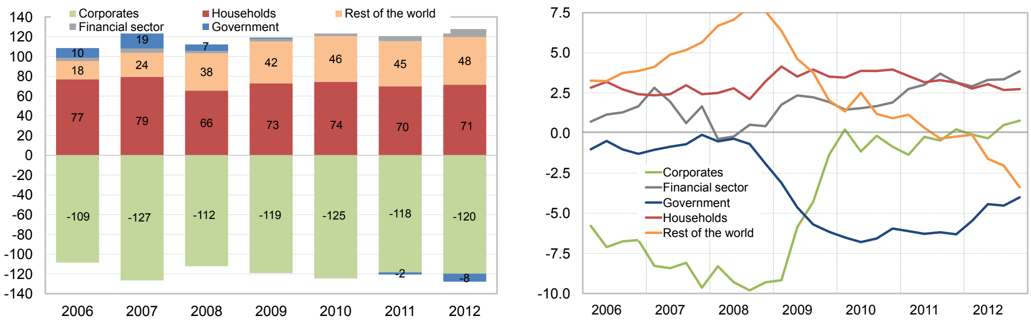
Sources: Bank of Slovenia, SORS, ECB, Eurostat

[1] Forecasts of macroeconomic variables from the Macroeconomic Developments and Projections, April 2013, Bank of Slovenia.

Slovenia disclosed a surplus in saving over investment in 2012.

The savings-investment gap (calculated from the sectoral national accounts) for 2012 reveals a surplus of saving over investment of 2.6% of GDP. Until now national investment has generally been larger than saving. The reasons for the reversal are the decline in corporate and government investment and the repayment of liabilities to the rest of the world. The adverse economic situation means that national saving is also declining, but by less than investment. The decline in household purchasing power has resulted in a larger proportion of income going to final consumption. In 2012 the national saving rate equalised with the euro area average, which unlike that of Slovenia has been displaying a rising trend since 2009.

Figure 1.3: Net financial position of economic sectors in terms of stock (left) and annual transactions (right) as a percentage of GDP



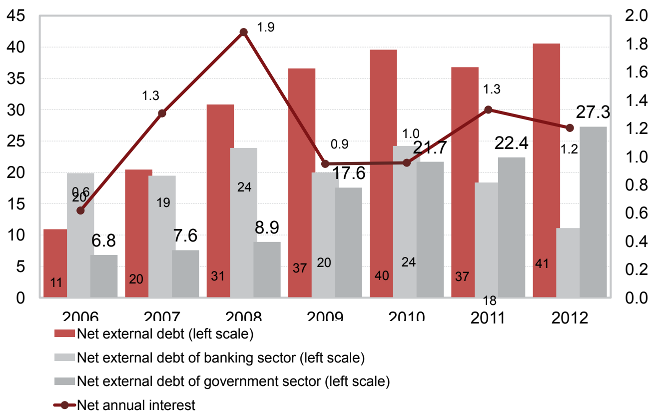
Sources: Bank of Slovenia, SORS

Non-financial corporations moved into a balanced position in 2012.

The national economy's current net financial position in transactions (calculated from the financial accounts) was positive in 2012. This entails the net repayment of financial liabilities to the rest of the world. Non-financial corporations moved into a neutral net position, as a result of a decline in investments and current borrowing. Austerity measures also brought a reduction in the government sector's financial deficit, while financial corporations maintained a surplus of 3.8% of GDP.

Rest of the world

Figure 1.4: Net external debt of Slovenia and the government sector, net annual interest paid and annual property income as a percentage of GDP



Note: The difference between the net external debt and the net financial position against the rest of the world in the financial accounts is the result of differences in methodology. The external debt does not include equity, for example.

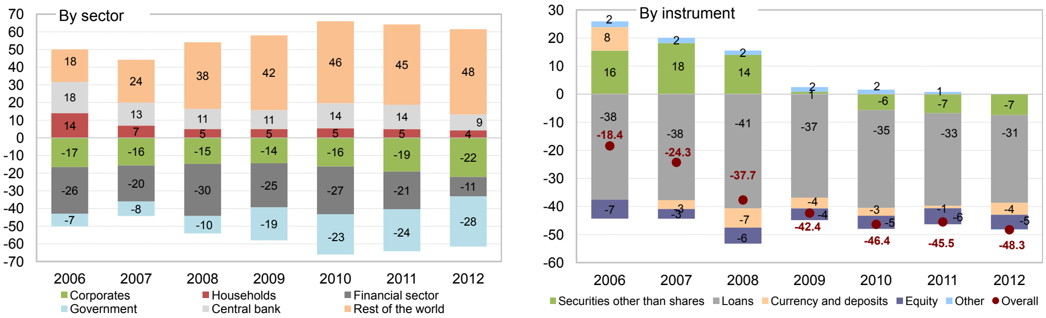
Source: Bank of Slovenia, SORS

The increase in Slovenia's net external debt is the result of the issue of government bonds and the banks' participation in ECB auctions.

Despite repayments of liabilities to the rest of the world, the net external debt increased by just over EUR 1 billion in 2012, to 41% of GDP. Net repayments of bank debt to the rest of the world continued in 2012, as a result of the limited access to funding on the international financial markets. The net external debt increased by EUR 1.5 billion as a result of the issue of a 10-year bond on the US market in mid-October 2012. Another contribution to the increase in the net external debt came from the banking sector's participation in ECB auctions (an increase of EUR 1.8 billion). According to the financial accounts methodology, Slovenia's dependence on foreign financing stood at 48% of GDP at the end of 2012 (the difference from the net external debt derives primarily from the inclusion of capital investments). Net liabilities to the rest of the world from equity have remained at the level of 5% of GDP, an indication of the continuing lack of interest in Slovenia on the part of foreign investors.

Although there were downgradings for banks and long-term sovereign debt and the net external debt increased, the debt servicing burden declined slightly in 2012, as a result of the fall in market interest rates and the acquisition of funding in ECB auctions. Given the low level of market interest rates and the instability in ratings, there is a risk of a rise in borrowing costs in the rest of the world.

Figure 1.5: Net financial position against the rest of the world by economic sector (left) and by instrument (right) as a percentage of GDP



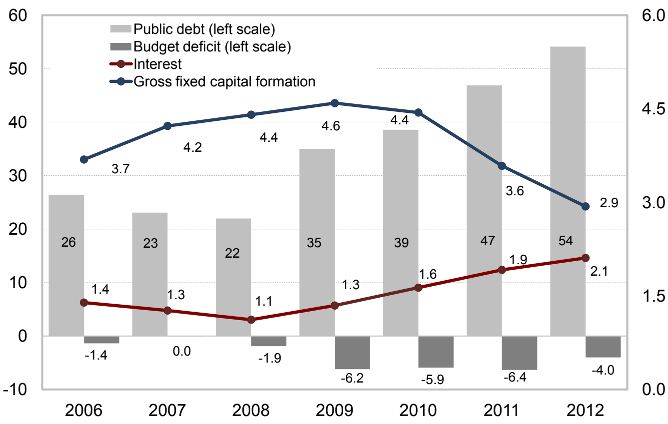
Source: Bank of Slovenia

Government sector

The public debt increased to 54% of GDP in 2012, largely as a result of the issue of long-term bonds on the US market in the amount of EUR 2.25 billion. The level of public debt is still within the official limits of the Maastricht criteria, and significantly lower than the euro area average. The increase is however a cause for concern. Through austerity measures the government succeeded in stemming the widening of the budget deficit, which reached 4% of GDP in 2012. A pension reform was adopted in early 2013, and will improve the long-term sustainability of the public finances. The cost of servicing the public debt increased in 2012 as a result of the downgrading of long-term sovereign debt and the rise in the public debt. Expenditure on interest increased to more than 2% of GDP. It is vital to continue fiscal consolidation to raise investor confidence, thereby improving access to foreign financial markets.

At 54% of GDP, Slovenia's public debt remains significantly lower than the euro area average of more than 90%.

Figure 1.6: Public debt, budget deficit, interest payments and gross government investment as a percentage of GDP



Source: SORS

1.2 Country risk

Country risk ratings

Long-term sovereign debt and certain banks were downgraded last year and in the early part of this year. The most recent changes were in February 2013, when S&P revised Slovenia's rating from A with a negative outlook to A- with a stable outlook. The latest assessments of Slovenia's country risk by the major rating agencies are as follows: Moody's: Ba1, negative outlook; S&P: A-, stable outlook: and Fitch: A-, negative outlook.

Slovenia was downgraded last year.

In its most recent rating of February 2013, S&P cited the government's progress in fiscal consolidation and Slovenia's open and relatively wealthy economy without external imbalances, but also cited the rapidly rising debt burden caused by the announcement of government support for the banks and the uncertain situation for economic growth. The agency further cites policy-implementation risks to successful fiscal consolidation.

S&P states two main factors in support of its rating for Slovenia: a) Slovenia's history of fiscal prudence with a moderate level of debt aside from the recent increases; and b) the open and relatively good economy without external imbalances. In its assessments the agency cites the following principal weaknesses of Slovenia: a) the rapidly rising debt burden in connection with the difficulties of government-owned banks, b) political instability, which is undermining the effectiveness, stability and predictability of policy, and c) the low level of wealth compared with the median of countries with similar ratings.

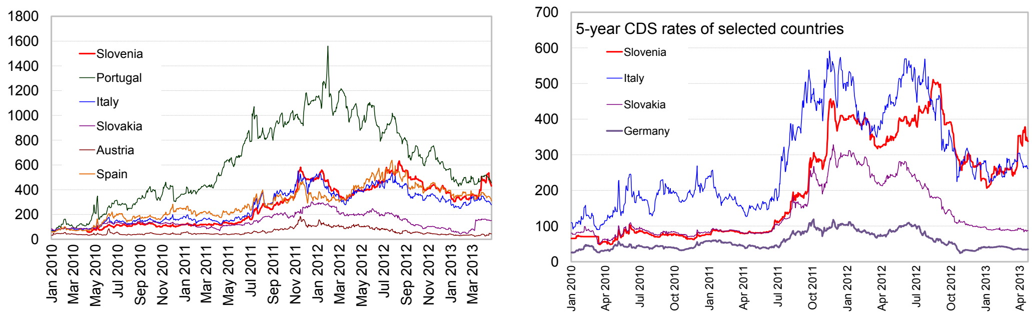
Moody's cites similar attributes for Slovenia: a) the high level of economic development and per capita income; b) the export-oriented economy; and c) the manageable (but growing) level of indebtedness. The weaknesses that it cites are: a) the risks to the public finances from the crisis in the banking sector; b) the rising costs of borrowing and limited access to the international financial markets; and c) the fiscal imbalances caused by the recession. In April Moody's further downgraded the long-term sovereign debt to Ba1 with a negative outlook.

Risk premium on Slovenian government securities

The risk premiums on Slovenian government securities over the German benchmarks fluctuated significantly in 2012. They rose in the first quarter of 2013.

The downgrading of the long-term sovereign debt was also reflected in the required yield on 10-year Slovenian government bonds. The required yields and the premiums on the sovereign debt of Slovenia and the periphery countries fell after the ECB measures taken last summer. The premiums on Slovenian bonds over the German benchmarks fell further after the successful issue of US-dollar 10-year bonds in October 2012. Towards the end of the year the premiums fell to slightly below 400 basis points over the yield on 10-year German government bonds. The premiums rose again towards the end of March and in the first half of April, when they reached 537 basis points over the German benchmark, primarily as a result of speculation on the financial markets that Slovenia would be the next EU Member State to request a bailout. There was a renewed fall after the successful issue of 18-month treasury bills in April, to more than 100 basis points below the peak.

Figure 1.7: Premiums on 10-year government bonds of Slovenia and selected countries over the German benchmark in basis points (left), and 5-year credit default swap rates in percentages (right)



Source: Bloomberg

2 HOUSEHOLD SECTOR

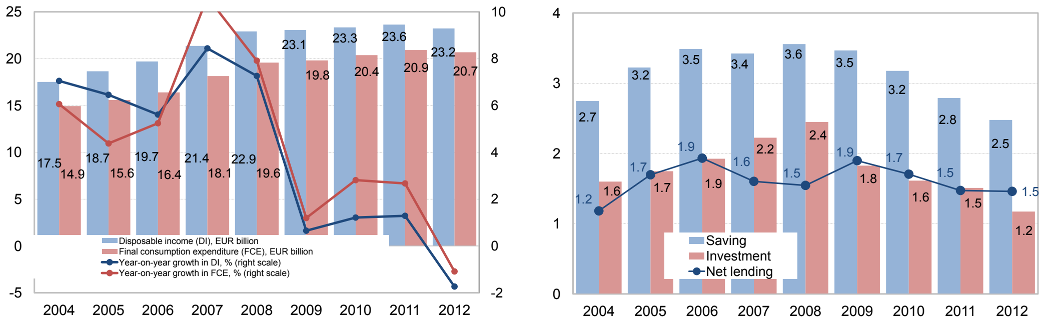
There is high uncertainty in the household sector.

The adverse economic situation, which in the household sector has been reflected in high unemployment and a decline in purchasing power, is significantly reducing household consumption and household saving. The main risk to the household sector is the high uncertainty in connection with unemployment and the decline in disposable income. Household deposits at banks have been increasing again since the end of 2012, while consumer loans have continued to decline and housing loans have stagnated. The aggregate figures do not indicate that Slovenian households are over-indebted. Analysis of the micro data for the period between 2006 and 2009 confirms that there was no excessive raising of housing loans at the most vulnerable households.

Households recorded a nominal decline in final consumption and saving in 2012, as a result of the decline in disposable income.

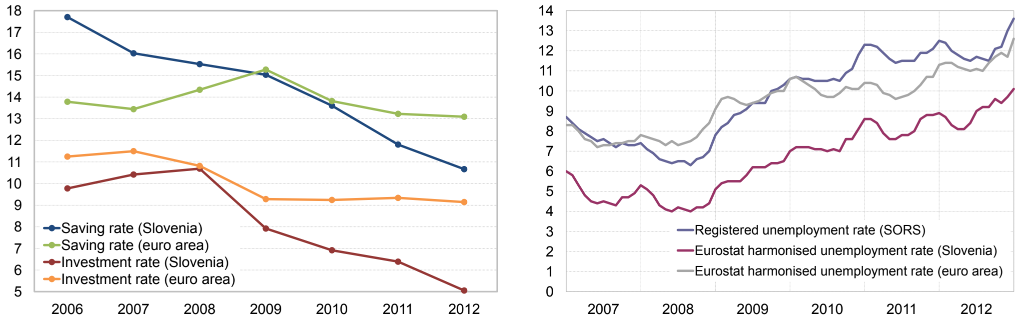
Households saw their annual disposable income decline by 1.7% in 2012, the first such decline in the period since 1995 during which the data has been available. The nominal decline in household disposable income is the direct result of rising unemployment and government austerity measures, which have been reflected in a decline in the wage bill and cuts in social assistance. The adverse situation in the economy and the decline in economic activity resulted in a rise in registered unemployment to over 13%, which is still lower than the euro area average. With the decline in disposable income, households also reduced their final consumption in 2012, by just over 1%. In addition, households also reduced their saving by 11%. The ratio of saving to disposable income declined to 10.7% as a result of disposable income falling by more than final consumption. The gap with the average household saving rate across the euro area widened further. Alongside the aforementioned adverse situation in the economy, the expectation of a further fall in real estate prices is reducing household investment, which is having a positive impact on net lending. There was no significant change in 2012 in the amount of household saving that is available to other sectors relative to the previous year.

Figure 2.1: Disposable income and household final consumption expenditure in EUR billion and percentages (left), and saving, investments and net borrowing of households in EUR billion (right)



Source: SORS

Figure 2.2: Household saving rate and investment rate (left) and unemployment rate (right) in percentages



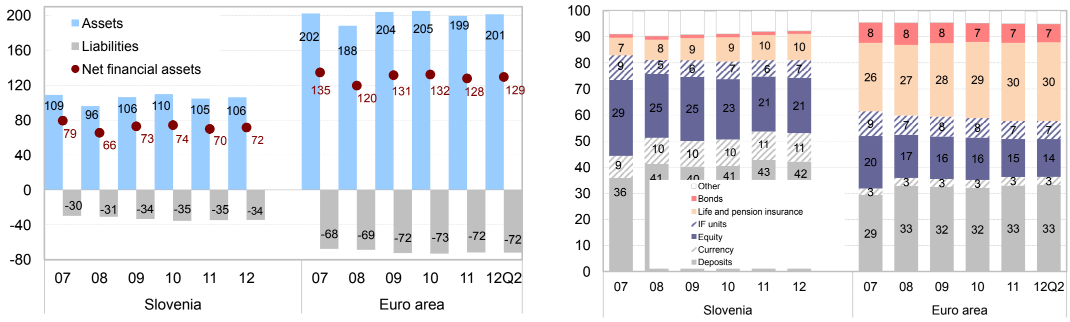
Sources: SORS, Eurostat, ECB

2.1 Household financial assets

The net financial assets of Slovenian households exceed their disposable income by around 9%.

The financial assets of Slovenian households declined by just under 1% in 2012, to reach EUR 37.6 billion or 106% of GDP. The ratio of household financial assets to GDP in the euro area overall is almost double this. The net financial assets of Slovenian households are also comparably lower than those of households in the euro area overall, despite their significantly lower indebtedness. Slovenian households have less safety reserves in the form of financial assets. The decline in Slovenian households' financial liabilities in 2012 was larger than the decline in financial assets, as a result of which their net financial assets increased. The Surveying and Mapping Authority (SMARS) estimated households' real estate assets at around EUR 75 billion in 2010, almost at the level of their financial assets, and a significant contribution to the safety reserves.[1] The net financial assets of Slovenian households are around 9% larger than their disposable income.

Figure 2.3: Financial assets, liabilities and net financial position of households as a percentage of GDP (left) and breakdown of household financial assets (right) in Slovenia and the euro area



Sources: Bank of Slovenia, SORS, ECB

Slovenian households reduced all forms of financial asset (transactions) in 2012.

Last year Slovenian households reduced all forms of financial asset, most notably bank deposits, bonds, equity and pension fund assets. A pension reform was adopted in 2012, which allows for a wider range of investment strategies with regard to the risk level of individual age groups. According to expectations, savings from voluntary pension insurance should begin to rise over the long term relative to the stock in the compulsory pension system. Important roles will be played in this process by a rise in the financial awareness of Slovenian households and by transparency in the actions of voluntary supplementary pension insurance providers. Value changes last year resulted in an increase in household assets, primarily as a result of positive year-on-year changes in domestic and foreign stock market indices.

Table 2.1: Stock of household financial investments by instrument

	2006	2007	2008	2009	2010	2011	2012
Total, EUR million	31,979	37,706	35,788	37,837	39,063	37,858	37,594
annual growth, %	13.1	17.9	-5.1	5.7	3.2	-3.1	-0.7
change in stock, EUR million	3,707	5,727	-1,918	2,048	1,227	-1,205	-264
as % GDP	103.0	109.0	96.1	106.4	109.7	104.7	106.0
	Annual growth, %						
Currency	17.3	-6.0	8.8	5.3	5.6	5.0	-0.6
Deposits	6.6	9.6	9.5	2.7	4.0	2.3	-2.1
Bonds	-1.3	-0.4	-1.8	0.7	-2.6	-0.4	-18.7
Equity	17.7	32.8	-20.3	5.8	-2.7	-11.6	0.2
Investment funds	34.6	39.9	-45.3	24.2	11.1	-9.6	5.9
Life insurance	27.3	17.4	2.3	18.8	11.8	1.1	8.6
Pension insurance	26.1	26.7	14.4	17.4	13.9	-0.5	-4.2
Other	5.3	21.2	3.6	0.6	0.9	-11.8	-3.4

Source: Bank of Slovenia

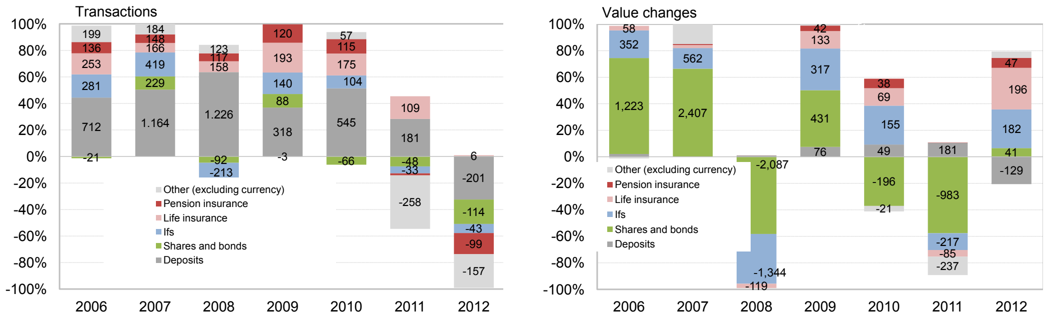
Household deposits at banks declined in 2012. Household deposits resumed positive growth in the first two months of 2013.

Bank deposits account for the largest proportion of Slovenian households' financial assets, at 42%. Household deposits at Slovenian banks declined by 0.3% in 2012. Deposits declined from August to October, but recorded positive growth in the final two months of 2012 and the first two months of 2013. The decline in household saving as a result of high

[1] Takes account of residential buildings, including holiday homes and appurtenant land, irrespective of owner. It is assumed that the vast majority are owned by private individuals. The SMARS ascribed a generalised market value to real estate under its methodology. It should be noted that the valuation was relatively high, and that real estate in Slovenia has lost value significantly since 2010.

unemployment and the fall in net wages was a factor in the decline in deposits, while the decline in the observed months was also the result of government measures in connection with social transfers. Assets invested at banks in the proportion entailed by the expected return also have an impact on the entitlement to social transfers and the amount thereof. There were no major switches between different forms of saving.

Figure 2.4: Breakdown of transactions (left) and value changes (right) in individual forms of household financial asset in EUR million and percentages



Note: Value changes are changes in market prices and exchange rates, and other changes (reallocation of financial instruments/sectors, changes in methodology, write-downs of claims/debts).

Source: Bank of Slovenia

Confidence in the security of the domestic banking system will also have a significant impact on developments in deposits.

Over a one-year period there was a notable reallocation of deposits from the domestic banks to the banks under majority foreign ownership, which was not related to changes in interest rates. The average interest rate on deposits of more than 1 year at the banks under majority foreign ownership was 0.3 percentage points lower than the 4.1% recorded by the large domestic banks last year. The factors include the lower lending rates at the banks under majority foreign ownership and the resulting transfer of all household business, and the decline in household confidence. The developments in deposits in the future will depend primarily on the economic situation (unemployment, disposable income) and confidence in the stability of the banking system. Other factors that could reduce volatility and withdrawals of deposits are reduced tax rates over longer saving periods, the preparation of an informative calculation by the Centre for Social Work for potential social transfer recipients and the strengthening of confidence in the security of the banks under direct and indirect government ownership.

Table 2.2: Slovenian household deposits at banks

	2006	2007	2008	2009	2010	2011	2012	Feb 2013
Deposits, EUR million	10,852	11,909	13,688	14,312	14,832	15,084	15,040	15,212
annual growth, %	8.3	9.7	14.9	4.6	3.6	1.7	-0.3	1.1
annual increase, EUR million	836	1,057	1,779	623	520	253	-44	172
large domestic banks	502	629	1,325	432	132	-11	-412	35
small domestic banks	123	188	232	182	154	63	58	92
banks under majority foreign ownership	210	240	222	9	235	206	309	45
LTD ratio, %	50.5	58.1	57.7	59.3	62.6	62.7	61.6	60.2

Note: The bank figures shown are statistical figures, not book-keeping figures. The values are therefore comparatively higher. The figures for February 2013 refer to the first two months of the year alone.

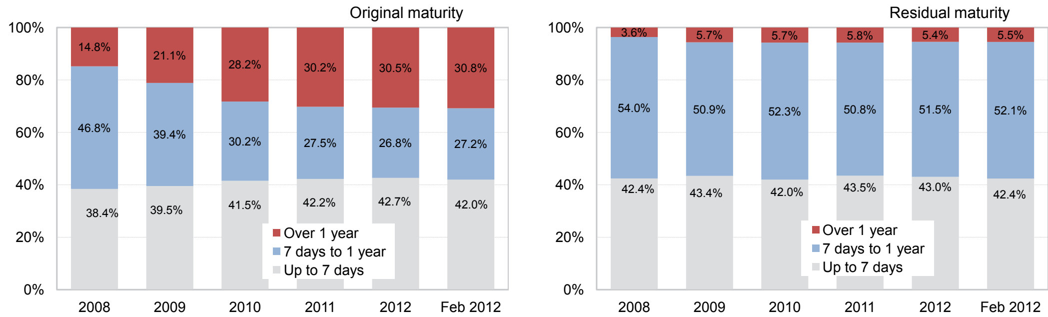
Source: Bank of Slovenia

The banks are primarily trying to obtain long-term funding from households.

There has been no significant change in the average maturity of deposits. Deposits of more than 1 year account for just under 31% of the total in terms of original maturity, but just 5.5% in terms of residual maturity. Households often opt for deposit terms of just over 1 year, thereby exploiting the spread in interest rates between long-term deposits and short-term deposits, which stood at 1.8 percentage points in Slovenia in 2012, but just 0.5 percentage points across the euro area. This spread is actually narrowing in the euro area overall. The large spread between interest rates on short-term and long-term deposits at Slovenian banks and the spread of 1.3 percentage points between interest rates on long-term deposits at Slovenian banks and the euro area average are an indication of an encouraging environment for long-term saving and of the Slovenian banks' need for long-term funding. The changes in interest rates on long-term deposits in the euro area overall have tracked the changes in market interest rates, which fell last year, while Slovenian banks maintained their interest rates at around 4%. Interest rates on deposits of up to 1 year have been lower in Slovenia than in the euro area overall since the beginning of 2010, an indication of the banks' smaller demand for short-term deposits. The high long-term liability interest rates are being reflected in a smaller decline in Slovenian banks' interest expenses, which was caused by a fall in market interest rates.

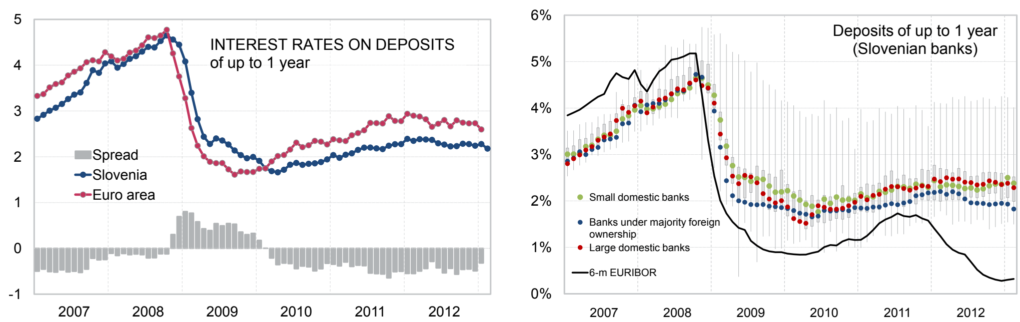
Interest rates on deposits at the banks under majority foreign ownership are moving similarly to average interest rates across euro area banks, albeit at higher levels. While the large domestic banks maintained their interest rates on long-term deposits at just over 4% in 2012, at the banks under majority foreign ownership they fell by 0.4 percentage points to stand at 3.6% at the end of the year. The banks under majority domestic ownership continued to reduce interest rates in early 2013, albeit by less. The reasons were that the banks under majority foreign ownership had a larger increase in deposits despite their lower interest rates, and that their funding via foreign parent banks is more predictable and cheaper, despite the large decline in the proportion of total funding that this accounts for in recent years.

Figure 2.5: Proportion of stock of household deposits accounted for by deposits of up to 7 days, deposits of 7 days to 1 year and deposits of more than 1 year in terms of original maturity (left) and residual maturity (right) in percentages



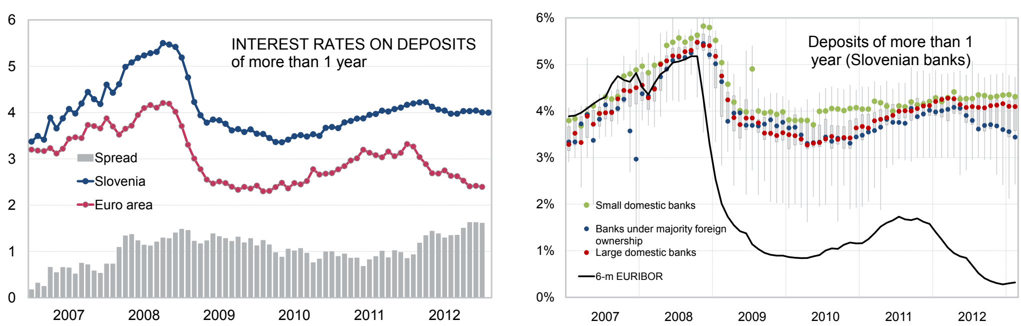
Source: Bank of Slovenia

Figure 2.6: Interest rates on household deposits of up to 1 year in percentages: comparison with the euro area (left) and dispersion at Slovenian banks (right)



Sources: Bank of Slovenia, ECB

Figure 2.7: Interest rates on household deposits of more than 1 year in percentages: comparison with the euro area (left) and dispersion at Slovenian banks (right)



Sources: Bank of Slovenia, ECB

2.2 Household borrowing

The aggregate debt of Slovenian households is relatively low. Debt amounts to just under 53% of annual disposable income, while household debt in the euro area overall stands at 108%. Slovenian households' financial liabilities declined by almost 3% last year to 34.5% of GDP. Households reduced their liabilities to all sectors: banks, leasing companies and non-financial corporations. The decline in consumer loans has been present since mid-2010, and is in line with the decline in household final consumption expenditure and the movement in the consumer confidence indicator. Year-on-year growth in housing loans was barely 1% at the end of February 2013. The larger decline in household loans than in deposits had a positive impact on the household loan-to-deposit ratio, which fell to 60.2%. Given the economic situation as it relates to high unemployment, uncertain developments in wages, deteriorating consumer confidence and the uncertain situation on the real estate market, there cannot yet be any expectation of growth in loans to households and thus in household debt.

The aggregate debt of Slovenian households is relatively low. Households reduced their financial debt in 2012.

Table 2.3: Stock of household financial liabilities by instrument and household disposable income

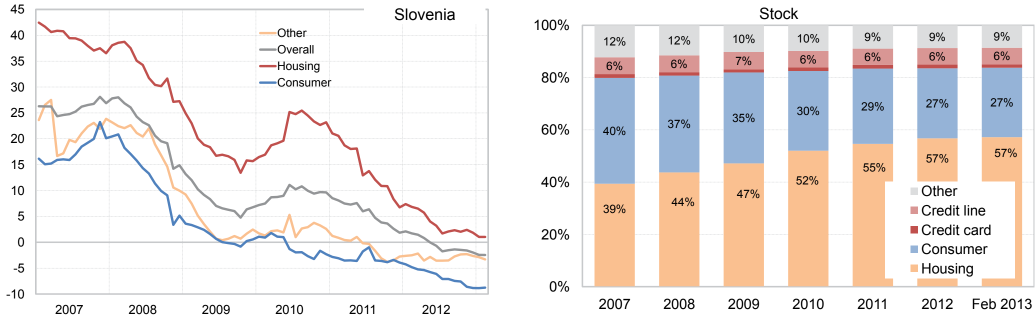
	2006	2007	2008	2009	2010	2011	2012
Financial liabilities, EUR million	8,093	10,247	11,391	11,917	12,623	12,571	12,224
growth, %	17.6	26.6	11.2	4.6	5.9	-0.4	-2.8
change in stock, EUR million	1,210	2,154	1,144	526	706	-52	-347
as % of GDP	26.1	29.6	30.6	33.5	35.5	34.8	34.5
	Breakdown, %						
Loans	83.7	84.1	85.2	86.5	87.3	87.9	87.7
corporates	4.2	3.8	3.0	3.4	3.2	2.9	2.6
banks	67.8	67.6	69.4	71.2	73.7	75.6	76.2
other financial intermediaries	9.8	11.7	11.2	10.5	9.2	8.4	7.9
Other	16.3	15.9	14.8	13.5	12.7	12.1	12.3
Disposable income, EUR million	19,697	21,360	22,911	23,060	23,340	23,641	23,231
change, EUR million	1,047	1,663	1,551	149	280	301	-410
growth, %	5.6	8.4	7.3	0.7	1.2	1.3	-1.7
as % of GDP	63.4	61.7	61.5	64.9	65.5	65.4	65.5
Debt as % of disposable income	41.1	48.0	49.7	51.7	54.1	53.2	52.6

Sources: Bank of Slovenia, SORS

Housing loans are equivalent to 22.6% of household disposable income and account for more than 57% of Slovenian households' total liabilities to the banking sector. The increase in the proportion of household loans accounted for by housing loans is the result of the decline in consumer loans to households. The low growth in housing loans is the result of the uncertainty in the economy and the prevailing uncertainty on the real estate market, where there are still expectations of further price falls. In the uncertain situation even creditworthy borrowers are more reluctant to take out loans. Two important factors in the reduced demand for household loans are the increases in temporary employment and self-employment, which have an important impact on borrower creditworthiness. In addition to reduced demand, the banks' stricter credit standards also had an impact on housing loans. New housing loans in 2012 were down 23% on the previous year. Alongside the stabilisation of the situation in the economy and on the real estate market, the simplification of the enforcement process could contribute to a recovery in household lending.

Housing loans are stagnating, partly as a result of the uncertainty on the real estate market.

Figure 2.8: Annual growth (left) and breakdown of stock of bank loans to households by type (right) in percentages



Source: Bank of Slovenia

Since 2010, as growth in housing loans has declined, the average maturity on new housing loans has also begun to shorten. Around 45% of new housing loans in 2012 were approved with a maturity of more than 20 years. The shortening of the average maturity is the result of the smaller volume of loans being approved, and reduced demand from clients with less favourable financial constructions.

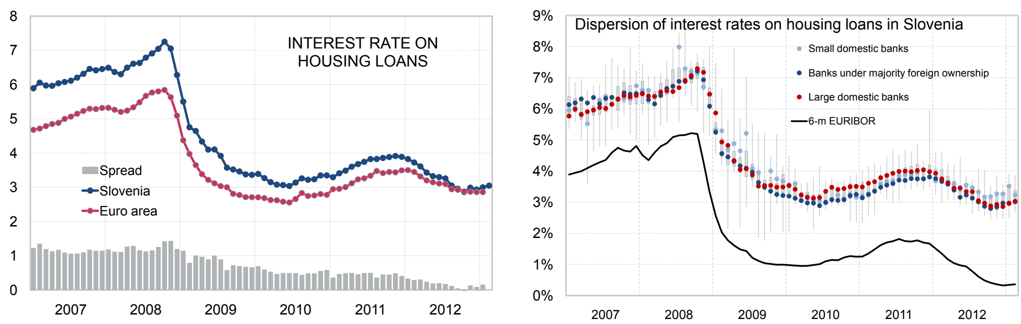
The banks raised premiums over the reference interest rate, which fell.

The proportion of loans with a variable interest rate (primarily tied to the EURIBOR) is prevalent. Three-quarters of housing loans are variable-rate, and 60% of consumer loans. Households holding such loans are sensitive to a rise in market interest rates. Interest rate on housing and consumer loans fell slightly in 2012 in line with the fall in market interest rates, but by significantly less, the banks having raised their premiums. The 6-month EURIBOR fell by 1.3 percentage points last year, while interest rates on housing loans fell by just 1 percentage point, the premiums thereby increasing by 0.4 percentage points. The cost of bank borrowing will also have a significant impact on the premium over the reference interest rate in the future.

Slovenian banks' interest rates on long-term deposits were higher than those on housing loans last year.

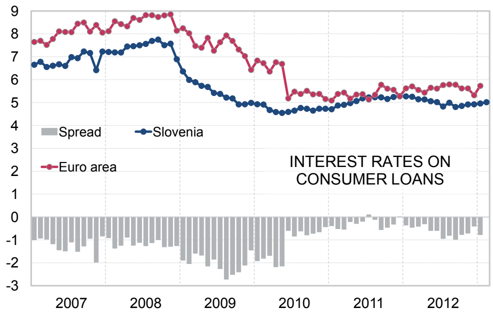
Interest rates on housing loans almost equalised between the bank groups, with the exception of the small domestic banks, where they are slightly higher. The average interest rates on housing loans at Slovenian banks also almost equalised with those in the euro area overall. Last year Slovenian banks' average interest rates on long-term deposits were 0.8 percentage points higher than those on housing loans, while at banks across the euro area they were 0.3 percentage points lower, as expected. That interest rates on deposits at Slovenian banks are higher than those on housing loans is an indication of the banks' efforts to obtain primary funding, and is resulting in a decline in the overall interest margin. There remains a spread in interest rates on consumer loans with the euro area, where average rates were 0.6 percentage points lower in 2012. Smaller spreads have also been maintained between the bank groups. The average interest rates on consumer loans at the banks under majority foreign ownership were 0.4 percentage points lower than those at the large domestic banks, which is one of the reasons for the smaller decline in consumer loans at this bank group. The large domestic banks recorded the largest increase in housing loans, and the largest decline in consumer loans.

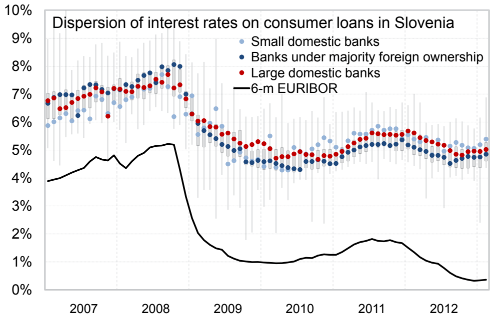
Figure 2.9: Interest rates on housing loans in percentages: comparison with the euro area (left) and dispersion at Slovenian banks (right)



Source: Bank of Slovenia

Figure 2.10: Interest rates on consumer loans in percentages: comparison with the euro area (left) and dispersion at Slovenian banks (right)





Source: Bank of Slovenia

The burden on annual household disposable income from interest payments on bank loans declined slightly in 2012, to 1.7%.[1] The ratio of total paid annuities on bank loans to disposable income also declined slightly, to 9.2%. Interest accounts for 15% of the total annuity.[2] The decline is the result of the decline in household loans and the fall in interest rates. There was no significant change in households' ability to service debt relative to 2011. The proportion of the banks' classified claims against households more than 90 days in arrears stood at 3.8% at the end of 2012. Given the adverse situation in the economy, and thus in the household sector, a certain deterioration in the banks' household portfolio is to be expected. Macroeconomic analysis does not indicate that Slovenian households are over-indebted.

Table 2.4: Increase in loans to Slovenian households by bank group in EUR million

	2006	2007	2008	2009	2010	2011	2012	Dec 12 - Feb 13
	Housing loans							
Annual increase, EUR million	589	717	734	532	898	326	95	-21
Large domestic banks	270	328	279	292	353	60	43	-4
Small domestic banks	5	15	19	11	30	36	24	1
Banks under majority foreign ownership	314	374	436	228	515	231	28	-18
	Consumer loans							
Annual increase, EUR million	318	460	140	18	-71	-111	-241	-47
Large domestic banks	146	190	36	-87	-114	-105	-161	-28
Small domestic banks	49	101	-8	4	15	-11	-13	-4
Banks under majority foreign ownership	123	169	112	101	28	5	-67	-15

Sources: Bank of Slovenia, ECB

The micro data indicates that there has been no excessive raising of housing loans at the most disadvantaged households.

Analysis of the micro data on Slovenian households' mortgage indebtedness for the 2006 to 2009 period from the survey of living conditions (EU-SILC) conducted by the SORS reveals that housing debt increased at the households that do not have major difficulties in repaying housing loans. Mortgage indebtedness increased primarily at households with an annual disposable income of more than EUR 30,000 or in the top 30% of households with mortgage debt in terms of income, households consisting of those aged under 45, and households with employed and better-qualified householders. The micro data reveals relatively reasonable behaviour on the part of Slovenian households. There has been no excessive raising of housing loans in the group of households that are most disadvantaged (less wealthy, householders with lower qualifications or even unemployed). The largest burden on disposable income from housing debt repayments was recorded by households with a disposable income of less than EUR 20,000 and households with unemployed householders. The households with these attributes make up the group that has already faced severe financial constraints, or could do so soon.

2.3 Real estate market

Despite the gradual fall in prices, supply on the real estate market has not yet matched the significantly reduced demand. The short-term indicators suggest that developments are likely to remain negative in 2013. Estimated prices of housing units in the capital are still just over a fifth above the long-term sustainable level, and are also high relative to household income. The already low purchasing power has been reduced further by

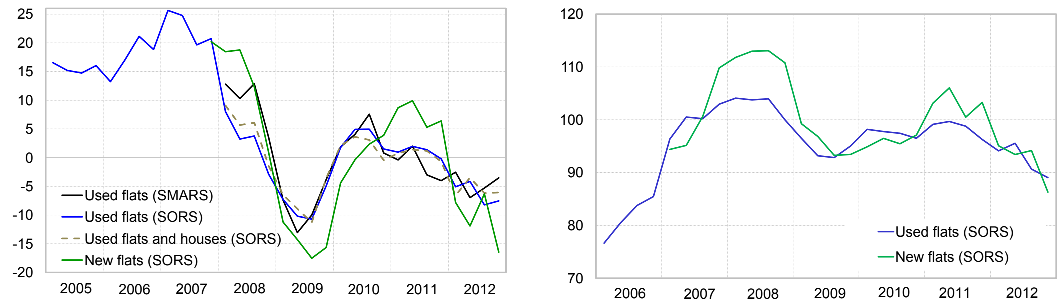
[1] Ratio of the banks' interest income from household loans to household disposable income.
[2] The figure for annuity repayment is taken from the survey of banks for 2013.

fiscal consolidation austerity measures and the adverse macroeconomic situation, as has spending on consumer durables. The rise in unemployment has increased the likelihood of further price falls. Real estate prices will increasingly stratify according to location. Despite the uncertainty on the real estate market, speculative demand has arisen as a result of the demand for investment property.

Liquidity in part of the market for used housing is slightly below the average of the last nine years. Given the demographic factors and the past impact of the national housing saving scheme, liquidity on the secondary market is satisfactory. Given the decline in new housing loans and the uncertain economic situation in the household sector, transactions in used housing have been boosted by the freeze in the market for new-build housing. There will remain a surplus in the supply of new-build housing that has lost quality because of lengthy vacancy.

Real estate prices

Figure 2.11: Year-on-year growth in prices of used and new-build housing in Slovenia (left), and the basic housing price index (2007 = 100) (right) in percentages



Sources: Bank of Slovenia, TARS, SMARS, SORS

Prices of used housing are falling, while the volume of transactions is satisfactory.

According to SMARS figures, prices of used housing have been falling in year-on-year terms for the last year and a half. By the end of 2012 housing prices had fallen to their level of before 2007. According to SMARS figures, housing prices in Slovenia stood at EUR 1,617 per square metre at the end of 2012, down 3.5% in year-on-year terms and down 16.2% on their peak in the second quarter of 2008. Prices of used housing in Ljubljana stood at EUR 2,282 per square metre, down 3.5% in year-on-year terms and down 19.1% on their peak.

Prices of used housing at the end of 2012 were down 6.1% in year-on-year terms and down 15.2% on their peak in the third quarter of 2008 (SORS figures).

The SORS calculates an index of real estate prices that takes account of the features of housing units. This reveals a higher year-on-year fall in prices of used housing. Prices of existing housing in Slovenia in 2012 were down 7.5% in year-on-year terms and down 14.5% on their peak in the first quarter of 2008. Prices in Ljubljana fell by 6.3% last year, and were down 17.5% on their peak at the end of 2007. The survey figures for prices of new-build housing reveal that prices at the end of 2012 were down 16.5% in year-on-year terms and down 23.7% on their peak in the second quarter of 2008. The forecast contraction in economic activity will lead to a further gradual fall in real estate prices in 2013.

Table 2.5: Transactions on the real estate market

	Used residential real estate			New-build residential real estate			Total residential real estate	New-build as % of volume
Year	Flats	Houses	Total	Flats	Houses	Total		
	Number of transactions							
2007	6,310	1,889	8,199	1,745	75	1,820	10,019	18.2
2008	4,297	1,271	5,568	1,163	263	1,426	6,994	20.4
2009	3,522	848	4,370	971	364	1,335	5,705	23.4
2010	4,910	1,424	6,334	1,282	307	1,589	7,923	20.1
2011	4,441	1,330	5,771	927	184	1,111	6,882	16.1
2012	4,196	1,321	5,517	654	165	819	6,336	12.9
	Growth, %							
2008	-31.9	-32.7	-32.1	-33.4	-	-21.6	-30.2	
2009	-18.0	-33.3	-21.5	-16.5	38.4	-6.4	-18.4	
2010	39.4	67.9	44.9	32.0	-15.7	19.0	38.9	
2011	-9.6	-6.6	-8.9	-27.7	-40.1	-30.1	-13.1	
2012	-5.5	-0.7	-4.4	-29.4	-10.3	-26.3	-7.9	

Note: The figures for transactions in new-build housing are survey figures.
Sources: TARS, SORS, Bank of Slovenia calculations

Volume in used housing in 2012 was down 4.4% in year-on-year terms, but was only 6.7% lower than the average of the previous nine years, when it was under the influence of investments of earnings, speculative purchases and the purchases of the boom generation. The number of transactions in used flats was down 10.1% on the average of the previous nine years, while the number of transactions in used houses was up 5.8%.

Low liquidity on the market for new-build housing.

The proportion of transactions in housing accounted for by new-build housing stood at 12.9% in 2012, a record low. This was caused by a decline in supply of new housing units as a result of bankruptcies of construction firms and the failure to make sales from bankruptcy estates. In addition to excessive prices and low demand, the aforementioned sales are also being hindered by the resolution of guarantees, the reduced living quality because of vacancy and the resulting high maintenance costs. With a coordinated policy on the part of market makers, vacant housing at a realistic valuation would represent an opportunity to create a buy-to-let market. Market valuation could lead to the setting of a level of rents that households were able to afford given their income.

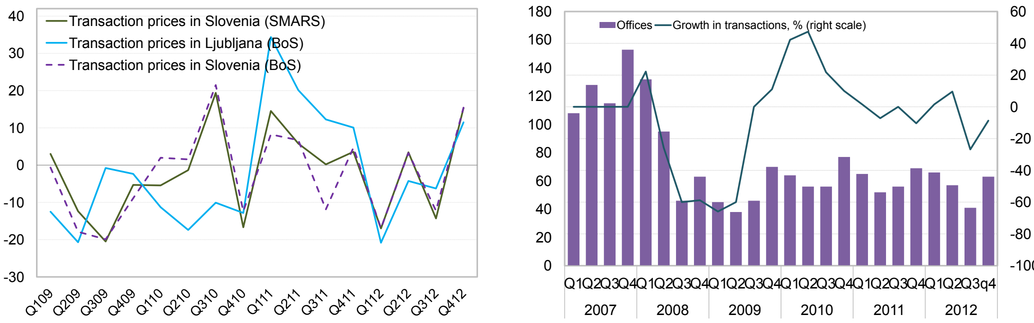
Price adjustments would also allow for a satisfactory return for investors in the real estate market. Excessive prices, i.e. those not adjusted to the economic situation, will mean a lack of interest in a buy-to-let market on the part of domestic and foreign investors. Creating a buy-to-let market would have a positive impact on construction, population mobility, and more equal regional development. A functioning buy-to-let market is certainly one of the fundamentals for the stable functioning of the real estate market.

Commercial real estate prices

Office prices at the end of 2012 were up 15% in year-on-year terms, but down 10.2% on their peak in the third quarter of 2008. Last year there was no major statistical pressure from commercial real estate on the valuation of corporate balance sheets and bank collateral. Office prices in Ljubljana rose by 11.5% in 2012, but were still down 17.9% on their peak. The lack of liquidity is hindering the realistic valuation of properties. The assessment of prices is an individual matter, dependent primarily on location. The number of transactions in offices in 2012 was down more than a quarter on the average of the previous five years. There remains excess supply on the market. Some projects are yet to be completed, and given the economic forecasts no major demand or price rises can be expected.

Office prices rose by 15% in 2012, but were down 10.2% on their peak in the third quarter of 2008.

Figure 2.12: Growth in commercial real estate (office) prices (left) and number of transactions included in the calculation of average price and growth therein (right) in percentages



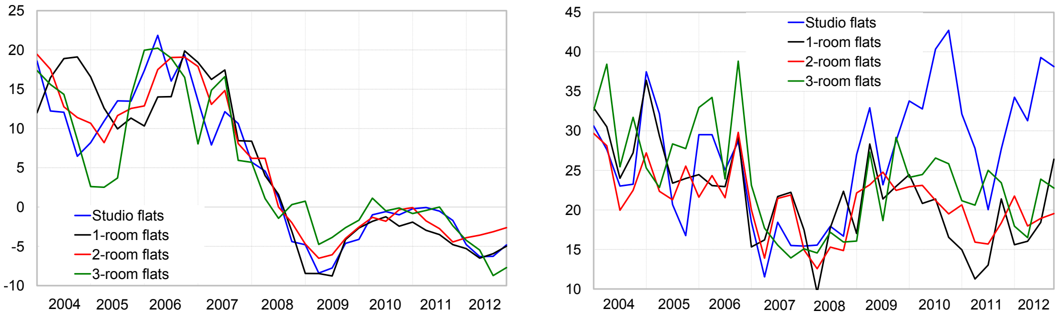
Sources: SMARS, Slonep, Bank of Slovenia calculations

Advertised housing prices in Ljubljana

The advertised prices of used housing in Ljubljana are undergoing adjustments for the fourth consecutive year. Last year the smallest price fall of 2.6% was recorded by two-room flats, and the largest (7.7%) by three-room flats. The gap by which advertised prices exceed selling prices widened slightly in 2012, as a result of a faster fall in selling prices than in advertised prices. Advertised prices were 20% higher than selling prices on average, except on studio flats, where they were 35% higher. Because realised prices track advertised prices with a short lag, it is expected that transactions in real estate will probably take place at even lower prices in 2013.

Advertised prices fell by slightly less than transaction prices in 2012. The trend of a fall in transaction prices is likely to continue at a slower pace.

Figure 2.13: Year-on-year growth in advertised housing prices (left) and the gap by which advertised prices exceed transaction prices per square metre (right) in percentages



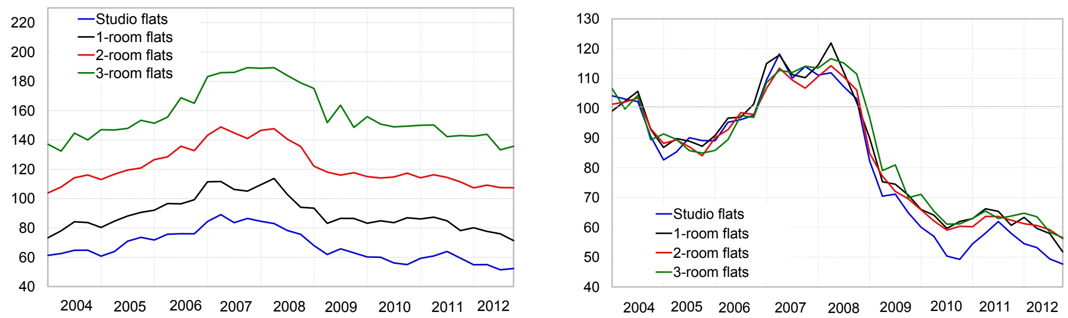
Sources: TARS, SMARS, Slonep, Bank of Slovenia calculations

Indicators of over- and under-pricing of housing

Housing affordability in Ljubljana, which is expressed as the ratio of used housing prices to the annual moving average of net monthly wages, improved slightly in 2012. The fall in prices of used housing had a beneficial impact on the indicator, while the average net wage was unchanged at the level of the annual moving average. The fall in prices ranged from 3% for two-room flats to 12% for studio flats. The majority of housing recorded an improvement, as purchases required seven fewer monthly wages on average than a year earlier, with the exception of two-room flats, where the saving was four monthly wages.

According to this indicator purchasers earmarked slightly fewer monthly wages for housing last year than in 2011, but the calculation is based on a 12-month moving average of net monthly wages and not on the monthly net wage, which began to fall in the second half of last year. Many current purchases are being made on the basis of assistance between generations. The pace of deterioration on the labour market, the fall in wages in the public and private sectors and the record level of unemployment at the end of 2012 will bring a real reduction in housing affordability. The situation is already being reflected in reduced demand for new housing loans at banks, which have further tightened their credit standards. Emigration by the young is also a factor in the reduced demand.

Figure 2.14: Ratio of housing prices to annual moving average of net monthly wages for Ljubljana in percentages (left) and housing affordability index (2004 = 100) (right)



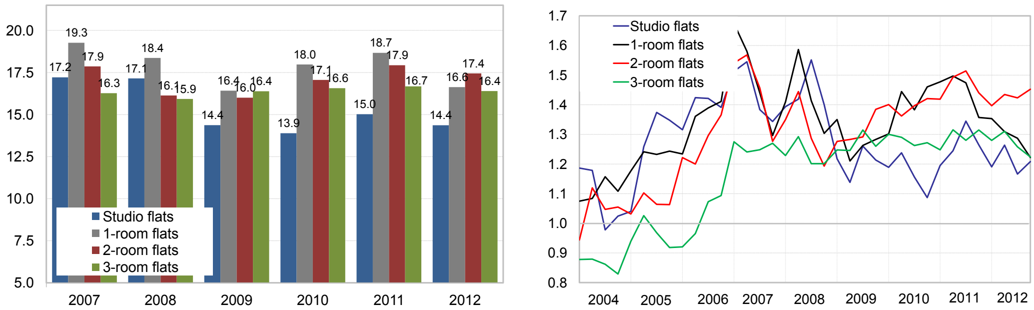
Sources: Bank of Slovenia, SMARS, Slonep, SORS, Bank of Slovenia calculations

Housing affordability that takes account of lending conditions improved slightly. A significant risk has arisen from the large premiums over variable interest rates, which entails the majority of new loans.

Once lending terms have been taken into account, the affordability of used housing in Ljubljana improved slightly in 2012 overall,[1] particularly in respect of studio flats, whose prices underwent the largest adjustment. A positive factor in the index was the average maturity of housing loans, which began to increase again in the second half of last year, reaching 18.6 years by December. The largest factor in the improvement was a slight fall in variable interest rates on housing loans, which was caused by the fall in the EURIBOR. However, the premiums on housing loans over the reference interest rate increased. Loan approval requirements are being tightened faster than in the euro area overall. The average premium stood at a high 2.5 percentage points at the end of 2012, and rose further at the beginning of 2013, while the risk of an inability to settle liabilities at a time of higher reference interest rates is increasing.

[1] The assumption is that the purchase of the housing is financed entirely by a loan, subject to terms of approval calculated as an average for the banking system.

Figure 2.15: Ratio of housing prices to rents (P/E) (left), and ratio of actual prices to fundamental prices of housing[1] in Ljubljana calculated on this basis (right)



Sources: Slonep, TARS, SMARS, Bank of Slovenia calculations

A deterioration in the ratio of price to rents.

The housing price to rent (P/E) ratio in Ljubljana improved last year, real estate prices having fallen more on average than rents. From an investment point of view, owners received a satisfactory return of between 5.7% and 7% of the market value of real estate via rents. The risk is more in the ability to pay rents, as a result of the decline in consumer purchasing power. Although actual prices approached the underlying prices on average, they are still overpriced. Actual prices for the majority of housing were just over a fifth higher on average than the long-term sustainable prices.

Supply and demand factors in real estate prices

Household borrowing via housing loans declined sharply.

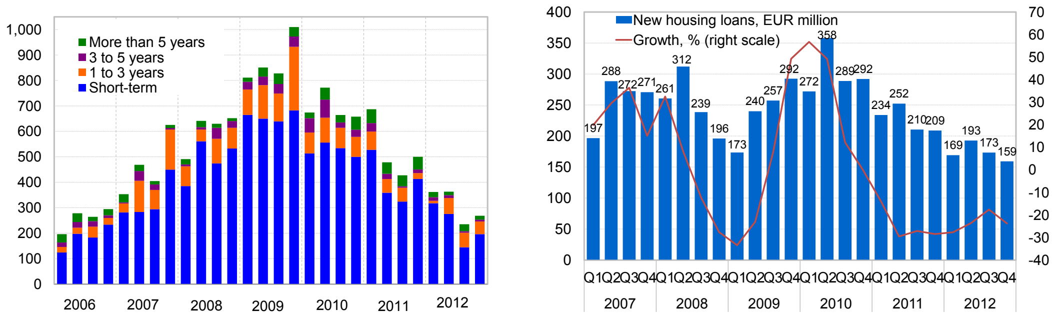
New housing loans to households in 2012 were down EUR 694.4 million or 23% on the previous year. The figure is the lowest volume of new housing loans recorded in the period following the outbreak of the crisis, which given the significant fall in demand suggests a further fall in real estate prices. Growth in the stock of housing loans stood at 1.8% at the end of 2012, the lowest figure in the last decade.

Diminished access to housing loans will increase the downward pressure on real estate prices.

The large domestic banks and the banks under majority foreign ownership raised the average LTV ratio on new housing loans by 13 percentage points last year to 67% and 75% respectively. The small domestic banks and the savings banks recorded an increase of 11 percentage points to 68%, at the level of the large domestic banks. The average LTV ratio on new housing loans was 70% in the banking system overall, and there were no significant changes in the early part of this year. The ratio for the stock of housing loans remains low at 54%. Revaluations of real estate are underway at several banks. Any decline in its value could lead to a slight deterioration in this indicator. Average borrower income remains unchanged in year-on-year terms at EUR 1,443.

The value of mortgaged housing at the end of 2012 was 1.6 times more than the stock of housing loans at banks. If only housing ranked first in mortgage lien priority is included, this ratio falls to 1.4. Residential real estate accounted for 85% of credit protection, followed by various forms of supplementary policies provided by insurers (7%), while 6% of loans were unsecured.

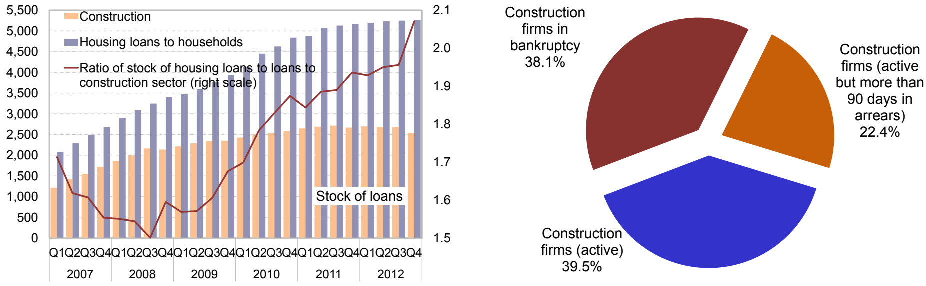
Figure 2.16: New loans to the construction sector (left) and new housing loans to households (right) in EUR million



Source: Bank of Slovenia

[1] The calculation of fundamental housing prices on the basis of the ratio of housing prices to rents (P/E) takes account of the average P/E ratio between 1995 and 2003. A more accurate calculation of the fundamental price would require the calculation of the average P/E over a longer, more stable period of 10 to 15 years. The short time that the Slovenian housing market has functioned normally makes this impossible. The aforementioned limitations must be borne in mind during interpretation, although over a longer timeframe a lower average P/E ratio would be anticipated, and housing would appear to be even more overpriced according to this indicator.

Figure 2.17: Stock of loans to the construction sector and stock of housing loans to households in EUR million and the ratio between them (left) and quality of bank claims against the construction sector in percentages (right)



Sources: Bank of Slovenia, AJPES

The Slovenian real estate market requires a change in its model of functioning to incorporate the investment property funds.

Construction activity has continued to decline at pace, despite the significantly lower base. The banks made new and rescheduled loans of EUR 1.2 billion to construction firms in 2012, a year-on-year decline of 41% in new loans. The stock of loans declined by 4.8%, to EUR 2.5 billion.

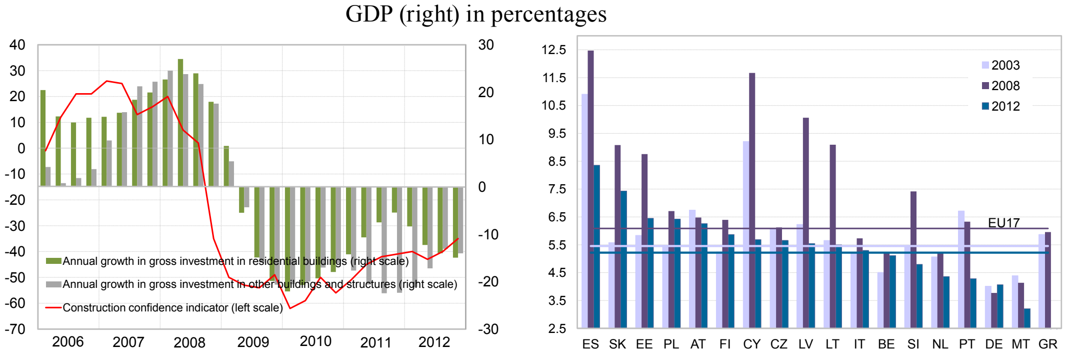
The stock of loans has been declining more slowly than the contraction in construction activity, because of the length of bankruptcy proceedings and revolving loans, which are being extended to the firms with potential prospects in order to complete projects. The advent of the funds on the real estate market would provide fresh capital for investments, and would also be likely to bring an improvement in the effectiveness of project management. This would make it easier for firms to deleverage, and would raise demand for real estate via an improvement in the labour market.

The deterioration in the construction sector will continue in 2013.

According to short-term indicators, construction activity will continue to contract at pace for the fifth consecutive year. In 2012 the number of building permits issued for housing reached its lowest value since records began[1] at 3,136. The estimate for the number of vacant completed new-build real estate units has reached the annual average of the number of completed housing units in the last seven years. Even more units are incomplete. More effective management of this property is the key to normalising the situation in the sector, and to curbing the transmission of adverse effects to other sectors, which is one factor in the large refinancing risk.

Nominal value-added in the construction sector remained below the euro area average at 4.8% of GDP in 2012. It was down 2.6 percentage points on its peak of 7.4% of GDP in 2008. The nominal value of construction put in place was down 11% on the previous year, while residential construction was down 6%. The value of new residential construction contracts declined by fully 85%, which could be a reflection of cheaper construction as well as the decline in activity. Although investment in infrastructure projects is forecast to increase, the amount of residential construction put in place this year is likely to decline further. Housing prices will nevertheless reflect the lower input costs, and a more reasonable amount of construction relative to the existing stock.

Figure 2.18: Construction confidence indicator and annual growth in gross investment in construction (left) and ratio of value-added in the construction sector to GDP (right) in percentages



Sources: SORS, Bank of Slovenia calculations

[1] The data has been available since 1999.

3 CORPORATE SECTOR

Corporate financing flows were negative last year for the first time. In a situation of weak demand, retained earnings are not an adequate source of financing for corporates. The poor outlook for economic recovery and the uncertainty surrounding the sustainability of public finances is reducing the inflow of foreign capital into Slovenia. In this situation corporates have maintained a high debt-to-equity ratio, which is limiting their ability to use loan financing to launch a new investment cycle. Corporate credit risk remains high, as a result of the significant stock of business-to-business financing via trade credits.

Aggregate corporate performance in 2012 was similar to the previous year. Total profit remained similar to 2011 at EUR 1 billion, while the ratio of the total assets of corporates in bankruptcy to total assets in the sector remains high, as does leverage, which is gradually declining. The high level of debt relative to equity acts as a constraint on corporates in obtaining new resources and on the price thereof. An increase in corporate equity and a reduction in the debt-to-equity ratio are necessary for normal business in the corporate sector. Corporates do not have sufficient assets at their disposal to act as collateral for existing or new loans.

Given the current situation in the domestic economy, the high dependence on domestic demand, particularly in the service and construction sectors, suggests limited capacity to repay long-term debt from revenues generated. Given the greater international competitiveness and internationalisation, corporates in industry show greater capacity to service debt.[1] In addition to the resolution of non-performing claims at the banks, other economic policy measures aimed at creating a more efficient and encouraging business environment will be vital to a recovery in lending to the real sector.

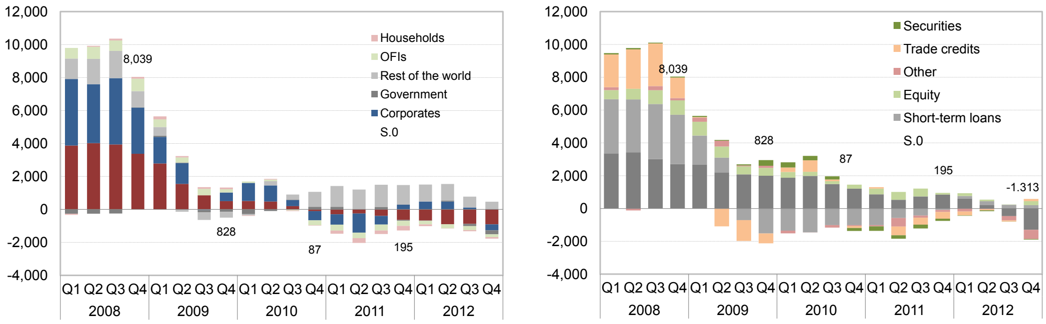
3.1 Corporate financing and net indebtedness

Corporate financing flows

The financing flow was negative in 2012 for the first time.

As a result of the adverse financing conditions, last year Slovenian corporates had a negative financing flow for the first time, in the amount of EUR 1.3 billion. The adverse financing is being reflected in all sectors, most notably in loan financing at banks in Slovenia and in the rest of the world. Only corporates with foreign ownership links strengthened loan financing.

Figure 3.1: Corporate borrowing by sector (left) and by instrument (right), annual moving total of flows in EUR million



Source: Bank of Slovenia

The largest source of equity inflow was domestic nonfinancial corporations and banks.

The flow of equity into corporates amounted to EUR 244 million in 2012, of which EUR 57 million was of domestic origin. As in previous years, the largest source of equity inflow was domestic non-financial corporations and banks. The latter redeemed collateral in the form of shares and participating interests in the amount of EUR 54 million, but sold some of the redeemed participating interests. As in previous years a decline in disposable income meant that households recorded net sales of their equity holdings in corporates, while the government sector also divested.

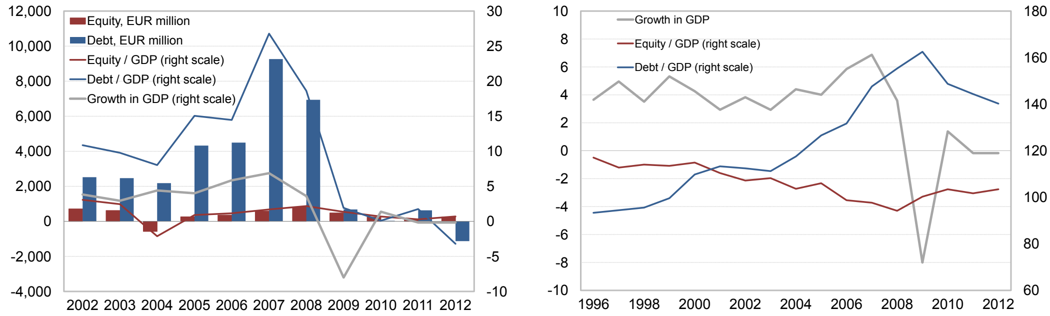
The inflow of foreign equity is modest, and is failing to compensate for the decline in domestic resources.

Foreign capital is not compensating for the low domestic investment in equity. The inflow of foreign equity was small, as in previous years. The adverse macroeconomic situation is deterring potential new investors in Slovenian corporates. The overall net inflow of

[1] Industry comprises mining and quarrying, manufacturing, and electricity, gas and water supply.

equity since 2008 is EUR 116 million less than the total inflow in 2007 and 2008, when it peaked at EUR 470 million. The origin of foreign equity also changed: it now mostly comes from countries outside the EU, while the flow with EU Member States was actually negative. The resolution of the debt crisis and macroeconomic stability in the countries of potential investors are necessary for there to be a fresh inflow of equity investment from the wealthy countries of the EU.

Figure 3.2: Flows (left) and stock (right) of equity and debt in non-financial corporations and GDP growth, in EUR million, in percentages and as a percentage of GDP



Source: Bank of Slovenia

Corporate financing via loans declined in 2012. Certain creditworthy corporates that were unable to raise loans at domestic banks borrowed in the rest of the world. Given foreign banks' aversion to exposure to Slovenian corporates, it was those with capital links to foreign partners that primarily had access to foreign debt financing.

Table 3.1: Corporate financing flows (total, via loans and via trade credits) in EUR million

	2010	2011	2012	2011	2012	Growth 2012
	(in millions EUR)					(%)
Total	285	196	-1,313	87,502	85,398	-2.4
growth, %	-96.5	-31.2	-769.9	-2.8	-2.4	
	In this:					
Loans	212	761	-1,095	34,429	32,688	-5.1
business-to-business	163	609	-342	4,438	4,057	-8.6
from banks	40	-553	-845	20,458	19,099	-6.6
from NMFIs	-222	-295	-137	2,487	2,190	-11.9
from rest of the world	180	1,095	198	6,189	6,434	4.0
of which: from corporates	-148	10	309	1,092	1,450	32.8
from foreign banks[1]	278	867	-137	3,165	2,901	-8.3
Trade credits	-35	-416	138	12,017	11,900	-1.0
business-to-business	-537	-342	-29	6,602	6,420	-2.8
from rest of the world	523	-42	280	4,398	4,570	3.9

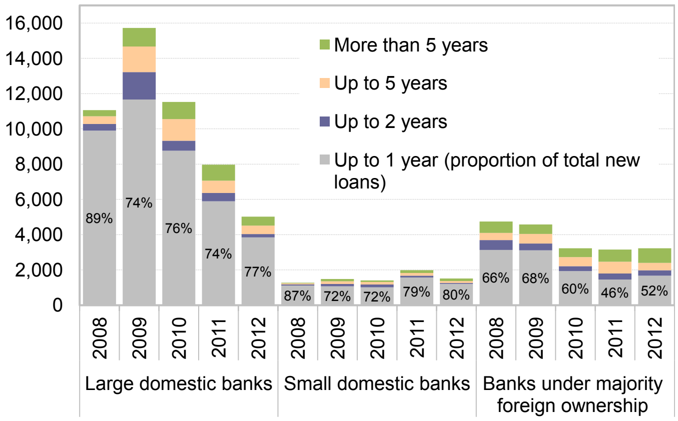
Note: [1]The figures for 2011 include a major transaction between a foreign owner and corporates established in Slovenia for property management.
Source: Bank of Slovenia

Corporates are primarily deleveraging at banks via the long-term loans required for investment.

Corporates continued to make debt repayments at banks in Slovenia last year. The net decline in loans amounted to EUR 1,095 million over the course of the year. The flow of short-term loans was positive at EUR 203 million, while long-term loans declined by EUR 1,296 million. Corporates are finding it particularly hard to obtain long-term loans at banks to finance investment. Loans with a maturity of up to 1 year accounted for 61% of new loans. Further evidence of the difficulties in obtaining loans for investment activity comes from the survey figures, which reveal the largest excess demand for loans to be in the investment loan segment.[1]

[1] Bank survey on demand for loans in 2012.

Figure 3.3: New corporate loans by maturity by bank group in EUR million



Source: Bank of Slovenia

Financial via loans from the rest of the world is declining, albeit primarily as a result of loan repayments.

In 2012 there was a sharp decline in the flow of corporate financing from the rest of the world compared with the previous year, primarily as a result of the flow of loans from the rest of the world. They declined by 82% in 2012. Slovenian corporates made debt repayments at banks in the rest of the world in particular. The financing via bank loans from the rest of the world was partly redirected into borrowing at foreign corporates, in particular those with capital links.

Slovenian corporates are nevertheless succeeding in obtaining new loans in the rest of the world, and have somewhat compensated for the loss of financing at domestic banks. The small flow of loans was primarily the result of loan repayments, which increased by 33%. New loans declined by 3% in value terms. The number of corporates successfully obtaining loans in the rest of the world also increased. The country risk for Slovenian corporates slightly constrained their access to financing at foreign banks, as a result of which a large proportion of new loans were obtained at capitally linked corporates in the rest of the world.

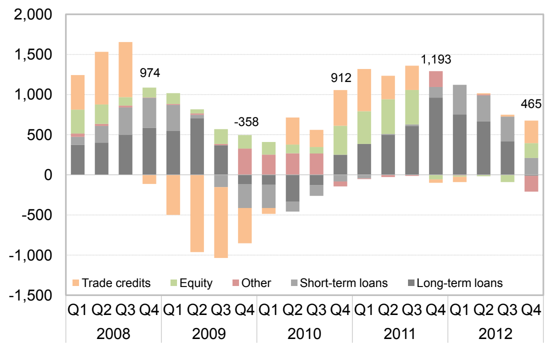
The difference between the corporates that obtained loans at banks in Slovenia and those that obtained loans in the rest of the world is that those that succeeded in borrowing in the rest of the world are larger on average and obtain double the proportion of their revenues via sales outside Slovenia. The corporates that succeeded in recording net borrowing in the rest of the world were more profitable than the corporates that obtained new loans in Slovenia, but were comparably indebted, and in terms of both indicators were comparable to the corporates that raised new loans with Slovenian banks under majority foreign ownership.

Table 3.2: Corporate financing in the rest of the world, stock in EUR million and breakdown in percentages

	Stock at end of period			
	2009	2010	2011	2012
Total, EUR million	15,360	16,575	17,722	18,138
growth, %	-1.7	7.9	6.9	2.3
	Breakdown, %			
Securities[1]	1.9	1.5	1.4	1.4
Loans	31.4	31.0	34.9	35.5
of which: at banks in the rest of the world	12.8	13.7	15.7	15.9
at MFIs[2]	11.3	10.6	11.7	10.9
at corporates in the rest of the world	6.7	6.1	6.7	8.0
Equity	39.5	40.0	36.5	36.5
Trade credits and other	27.2	27.4	27.2	26.6

Notes: [1]Securities other than shares
[2]International financial institutions
Source: Bank of Slovenia

Figure 3.4: Corporate financing flows in the rest of the world, annual moving total of flows in EUR million



Business-to-business financing conditions via financial loans and via trade credits and advances has declined as economic activity has slowed.

The lack of confidence and insolvency have been reflected strongly in domestic business-to-business financing. In 2012 corporates obtained less new financial loans from other corporates than they repaid for the first time, by EUR 342 million. While the flow of short-term loans was positive, the flow of long-term loans was negative in the amount of EUR 400 million.

Business-to-business financing via trade credits and advances has declined even more than business-to-business financing via financial loans. Corporates made net repayments of EUR 308 million of trade credits to domestic corporates. The inflow of trade credits and advances from the rest of the world was positive, but amounted to just EUR 47 million. Foreign customers and suppliers have reduced their exposure to Slovenian corporates via payment on delivery business. The proportion of financing via trade credits from the rest of the world accounted for by credits from countries outside the EU is increasing, which has coincided with growth in imports from these countries, while imports and trade credits from the EU have been declining.

Corporate financial liabilities

Table 3.3: Stock and breakdown of financial liabilities by instrument, and corporate debt
in EUR million and percentages

	2008	2009	2010	2011	2012
	(in million EUR)				
Total liabilities	89,311	89,874	89,996	87,502	85,398
growth, %	-0.8	0.6	0.1	-2.8	-2.4
as % GDP	249.7	261.8	250.0	244.3	241.7
Debt[1]	34,024	34,663	34,623	35,358	33,654
growth, %	21.8	1.9	-0.1	2.1	-4.8
as % GDP	95.1	101.0	96.2	99.5	99.5
	Structure (in %)				
In Slovenia	82.5	82.9	81.6	79.7	78.8
corporates	31.9	31.4	28.6	28.7	28.6
banks	24.3	24.6	24.6	24.4	23.4
bank loans	23.2	23.3	23.3	23.4	23.1
NMFIs	6.1	6.0	5.3	4.8	4.5
government	8.5	8.6	11.1	11.1	11.2
households	11.7	12.2	12.0	10.8	11.0
In rest of the world	17.5	17.1	18.4	20.3	21.2
loans at foreign banks	1.9	2.2	2.5	3.5	3.3

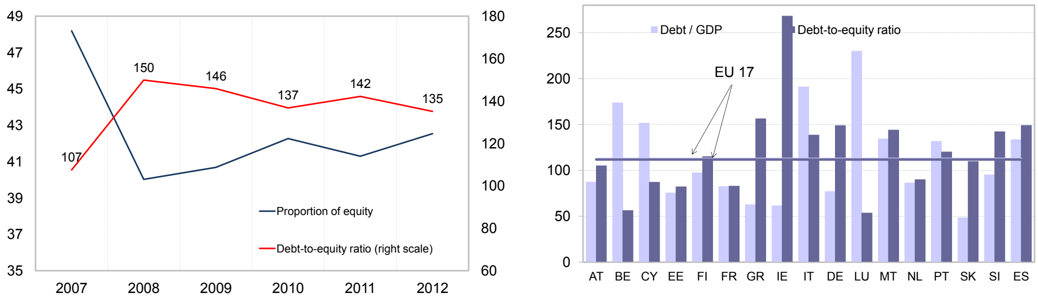
Notes: [1]Debt includes loans, debt securities (excluding derivatives) and insurance technical provisions, and in the Slovenian corporate sector practically consists solely of loans raised.
[2]The increase in the stock of debt in 2011 was partly the result of status changes (corporate demergers).

Source: Bank of Slovenia

The debt-to-equity ratio remains high, and under the major influence of the market value of equity.

The debt-to-equity ratio remains high. The weak net inflow of equity was nullified by the negative value change in equity. The ratio increased sharply in 2008, when after years of high growth in corporate borrowing and a bubble in market values, the market values of equity fell as a result of the global financial crisis. The ratio increased from 104% in 2007 to more than 150% in 2008. In 2009 and 2010 value changes and net inflows of equity raised the stock of equity by a total of EUR 2.65 billion, which together with corporate debt repayments in these years had a favourable impact on the debt-to-equity ratio. As a result of the mounting debt crisis and the renewed recession in Slovenia, the trend of devaluation in equity strengthened in the last two years, which raised the ratio again to 140%. The ratio is therefore under the strong influence of fluctuations in corporate earnings and corporate market values. Corporate deleveraging is having a strong impact on their profitability and market value, which is maintaining the corporate debt-to-equity ratio at high levels compared with other EU Member States. By contrast, the ratio of corporate debt to GDP is below the euro area average. The value-added of Slovenian corporates is less supported by debt than in the EU overall, and the level of corporate debt relative to equity is partly the result of fluctuations in corporate earnings and market value.

Figure 3.5: Corporate debt-to-equity ratio (left) and comparison of corporate indebtedness with the euro area in 2011 in percentages (right)

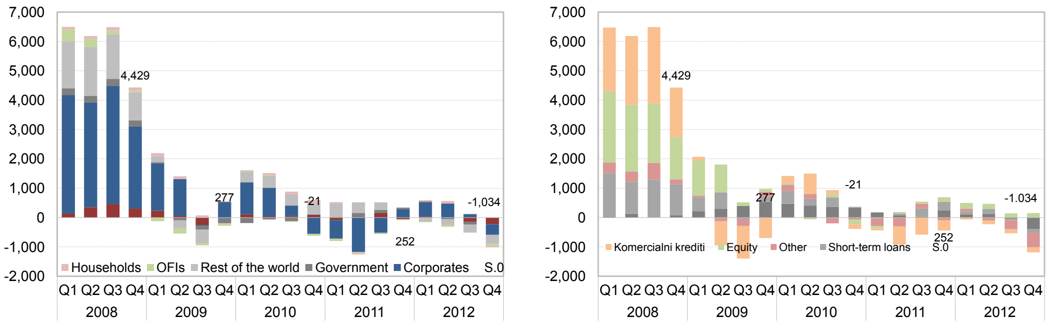


Source: Bank of Slovenia

Corporate financial assets and net financial position

Non-financial corporations' total financial assets amounted to EUR 42.9 billion in September 2012, down EUR 1.6 billion on December 2011. Corporates reduced their financial assets by EUR 1 billion last year, while the stock of financial assets declined by a further EUR 610 million as a result of value changes.

Figure 3.6: Corporate assets by sector (left) and by instrument (right), annual moving total of flows in EUR million

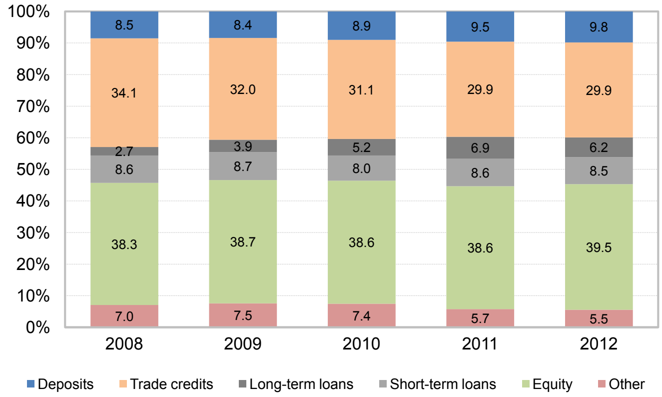


Source: Bank of Slovenia

Corporate exposure to credit risk via financial and trade loans remains high.

The breakdown of financial assets remains mostly unchanged compared with 2011. Corporate exposure to credit risk via financial and trade loans granted remains high. Trade credits to domestic non-financial corporations account for 34% of financial and trade loans made to corporates. Trade credits to the rest of the world, half of which are to countries outside the EU, are also a significant source of credit risk.

Figure 3.7: Breakdown of the stock of corporate financial assets by instrument in percentages



Source: Bank of Slovenia

Investments in equity in the rest of the world strengthened.

In addition to trade credits, investments in equity account for a significant portion of Slovenian corporates' financial assets in the rest of the world. The stock of investments in equity in the rest of the world amounted to EUR 3.2 billion in September 2012, or 20% of total corporate investments in equity, of which the majority was in countries outside the EU. This proportion has strengthened slightly since 2007. Given the adverse macroeconomic situation at home, corporates are seeking equity investments in the rest of the world with a better return, while in addition by investing in the rest of the world they are expanding the market for sales, particularly in the emerging markets outside the EU. These investments are also justifiable for corporates in economic terms. The cumulative value changes caused by retained earnings and changes in market value since 2008 amount to 1% of the stock of investments in the rest of the world at the end of 2007, while domestic investments have declined by 27%.

Table 3.4: Loans1 received from and granted to the rest of the world, by type of ownership relation, transactions in EUR million

	Loans from rest of the world				Loans to rest of the world				
	From foreign investors in Slovenia	From Slovenian corporates in rest of the world	Without ownership links	Total	To foreign investors in Slovenia	To Slovenian corporates in rest of the world	Without ownership links	Total	Net loans granted
2008	358	19	568	945	-59	130	40	111	-834
2009	-479	-11	60	-430	95	104	-9	190	620
2010	-87	6	264	183	122	45	-0	166	-17
2011	616	14	445	1075	45	-112	-14	-80	-1155
2012	164	56	-58	162	-84	-33	-14	-130	-293

Note: [1]Includes deposits, long-term trade credits and other debt liabilities, which merely comprise a small portion of the aggregate.
Source: Bank of Slovenia

The net corporate debt position increased to 120.6% of GDP.

Corporates' net financial liabilities stood at EUR 42.4 billion in December 2012, down 1.2% on the end of 2011, equivalent to 120.6% of GDP, up 0.9 percentage points. Net corporate debt at banks declined by 2 percentage points in 2012 to 43.9% of GDP, primarily as a result of the decline in corporate loans.

Table 3.5: Net corporate financial liabilities, stock at year end in EUR million and percentages

	2008	2009	2010	2011	2012
			(EUR million)		
Total	40,874	42,408	44,431	42,892	42,434
growth, %	-3.5	3.8	4.8	-3.5	-1.1
as % GDP	109.6	123.6	123.4	119.7	120.1
			Breakdown, %		
In Slovenia	86.6	88.0	87.0	83.9	81
banks	41.3	40.6	38.4	38.6	36.7
NMFIs	9.2	9.1	7.6	6.9	6.3
government	14.1	15.6	19.8	19.3	19.3
households	22.1	22.7	21.2	19.1	19.3
In rest of the world	13.4	12.0	13.0	16.1	18.5

Source: Bank of Slovenia

3.2 Interest rates and interest rate risk for corporates

Asset interest rates for corporates

Slovenian banks' interest rates on corporate loans were higher than the euro area average. The spread has widened again since December 2012.

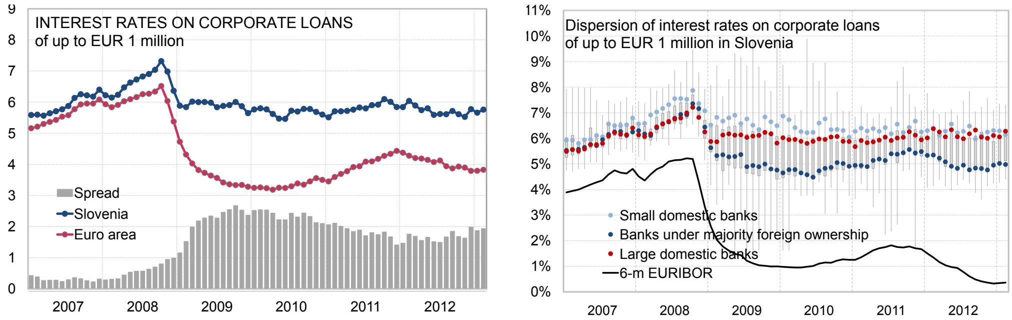
Slovenian banks' interest rates on corporate loans of up to EUR 1 million stood at 5.7% last year, at the average of the last four years. Interest rates in euro area countries fell in line with the EURIBOR last year. The spread between Slovenian interest rates on loans of up to EUR 1 million and the euro area average has been less than 2 percentage points in the last two years. At the end of 2012 the spread again reached 2 percentage points, and remained at this higher level in the early part of this year. Last year more than three-quarters of new loans were for more than EUR 1 million, the interest rate averaging 4.8%. The spread between Slovenian banks' interest rates on loans of more than EUR 1 million and the euro area average widened significantly, by 2.6 percentage points at the end of 2012, and moved similarly in the early part of this year.

The small domestic banks had the highest interest rates on corporate loans.

The dispersion of interest rates on loans of up to EUR 1 million between the bank groups narrowed slightly last year. The spread between the highest and lowest interest rates on smaller loans averaged 3.2 percentage points. On larger corporate loans of more than EUR 1 million, the spread increased to 3.9 percentage points, reaching fully 4.2 percentage points in the early part of this year. The banks under majority foreign ownership had lower interest rates on average than the domestic banks, and responded more to the fall in the EURIBOR, an indication of their funding structure. Domestic banks' interest rates on loans to corporates were just over 1 percentage point higher on average than those of the banks under majority foreign ownership. The increase in the spread in asset interest rates was the result of the variation in funding costs between the bank groups and the quality of the credit portfolio, which was lower on average at the banks under majority domestic ownership.

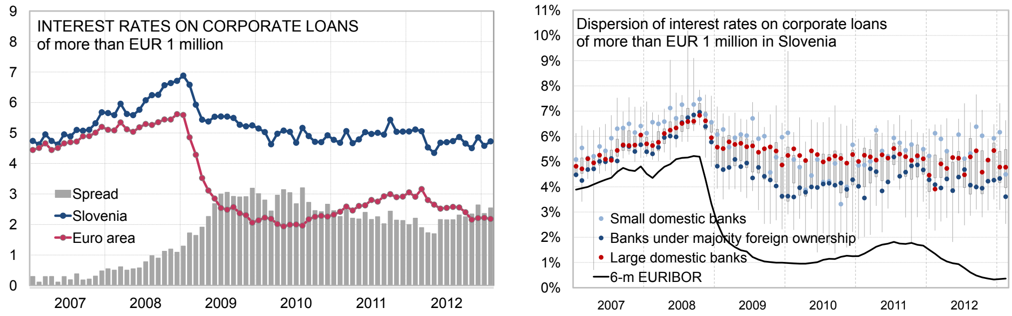
Slovenian banks' interest rates on corporate loans have remained in the final quartile of euro area countries since the outbreak of the crisis. They were third highest in 2012: only Portugal and Greece recorded higher interest rates, alongside Cyprus in the short-term segment. The persistence of the relatively high interest rates on corporate loans is raising the financing costs of Slovenian corporates, which will be reflected in reduced export competitiveness.

Figure 3.8: Interest rates on corporate loans of up to EUR 1 million in percentages: comparison with the euro area (left) and dispersion at Slovenian banks (right)



Source: Bank of Slovenia

Figure 3.9: Interest rates on corporate loans of more than EUR 1 million in percentages: comparison with the euro area (left) and dispersion at Slovenian banks (right)

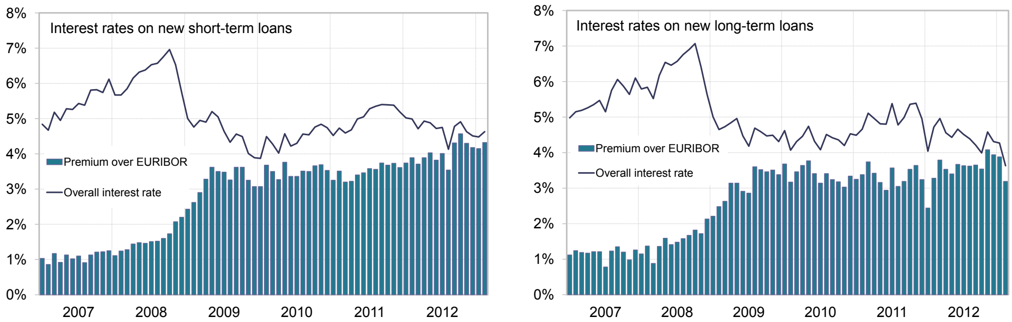


Source: Bank of Slovenia

The breakdown of the Slovenian banking system's funding shifted towards more expensive resources.

The banks are trying to partly compensate for the loss of interest income during the deterioration in the quality of the credit portfolio with higher lending rates on new transactions. The latter are also high because of the higher liability interest rates on deposits of more than 1 year and the limited access to wholesale funding. The higher funding costs are reducing the competitiveness of the banks' offer. At the same time the banks are faced with low net interest per average interest-bearing assets.

Figure 3.10: Premiums over the EURIBOR and overall variable interest rates on new short-term (left) and long-term (right) corporate loans in percentages



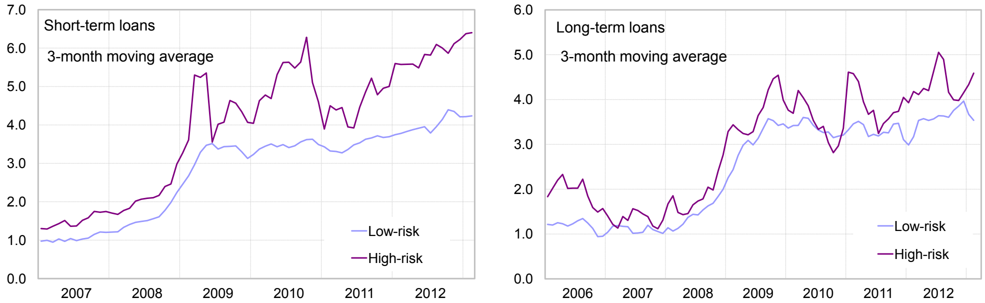
Source: Bank of Slovenia

The high risk premiums on long-term loans do not vary significantly with regard to the risk level of the client.

On loans with an interest rate tied to the EURIBOR, the variable interest rates fell less last year than did the EURIBOR. The reason was an increase in the premium over the reference interest rate, which is a reflection of the tightening of credit standards because of the banks' difficulties in accessing market funding and an aversion to taking up additional risk. Last year's average interest rates on short-term loans were down 0.3 percentage points on 2011, while those on long-term loans were down 0.5 percentage points. The premium widened unfavourably on both, by 0.5 percentage points and 0.2 percentage points respectively.

The figures below giving the risk premiums for high-risk and low-risk clients illustrate that the banks do not make a critical assessment of risk level in long-term corporate loans. There is no significant difference between the average risk premiums on long-term loans of clients who settle their liabilities on time and those in arrears. This can partly be ascribed to the large proportion of rescheduled loans being approved at lower interest rates. The spread on short-term loans widened last year. Slovenian banks' corporate loans are among the most costly in the euro area. Assessments that fail to reflect the genuine risk are thus having an adverse impact on the economy. The high cost of corporate financing is one of the major obstacles to foreign investment. Increased lending at lower interest rates to the healthy part of the economy would also increase the stock of high-quality bank investments.

Figure 3.11: Premiums over the reference interest rate (EURIBOR) on short-term (left) and long-term (right) euro-denominated corporate loans, by client credit rating, 3-month moving average in percentage points



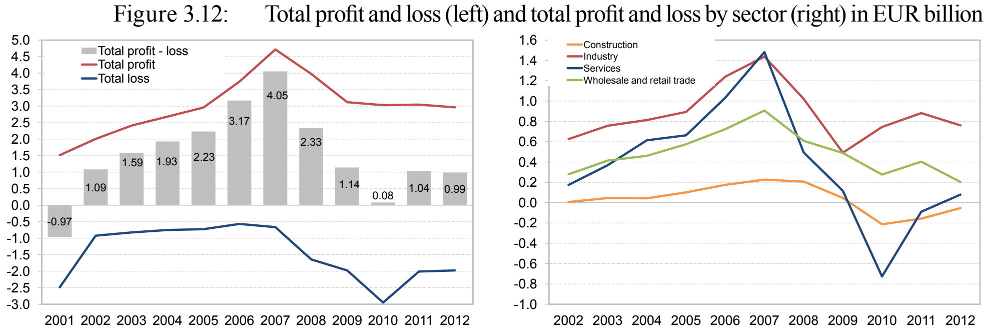
Source: Bank of Slovenia

3.3 Corporate performance and risk by sector

Non-financial corporations' performance

Non-financial corporations recorded an overall pre-tax profit of EUR 1 billion in 2012, similar to the previous year.[1] Small enterprises, which account for just over 30% of the corporate sector's total assets, contributed slightly more towards the overall operating result than did large or medium-size enterprises.[2]

Figure 3.12: Total profit and loss (left) and total profit and loss by sector (right) in EUR billion



Note: Industry comprises mining and quarrying, manufacturing, and electricity, gas and water supply. Services comprise transportation and storage, accommodation and food service activities, information and communication, financial intermediation, real estate activities, professional, scientific and technical activities and administrative and support service activities, and public services.

Sources: AJPES, Bank of Slovenia

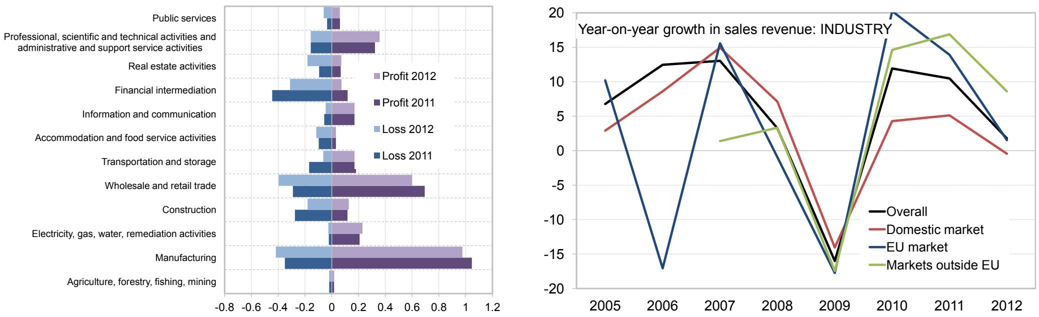
[1] Profit is calculated as the sum of profits and losses by individual category of observed corporates.

[2] According to Article 55 of the Companies Act, small enterprises are defined as corporates that meet two of the three following criteria: an average headcount during the financial year of no more than 50, net sales revenues of no more than EUR 7.3 million and assets of no more than EUR 3.65 million; while medium-size enterprises are defined by the following criteria: an average headcount during the financial year of no more than 250, net sales revenues of no more than EUR 29.2 million and assets of no more than EUR 14.6 million. The value for corporates overall is not the same as the sum of the values for each category, as a certain proportion of corporates are not classified according to size. In recent years these have primarily been firms in bankruptcy.

Export-oriented sectors are primarily performing better.

The largest profit was generated by industry, which since 2009, when it recorded a large fall in profits, has sharply refocused on markets inside and outside the EU. The proportion of sales revenues in industry accounted for by EU markets has increased by 4 percentage points since 2009 to 43%, while the proportion accounted for by markets outside the EU has increased by 2 percentage points to 16.2%. The wholesale and retail trade sector still generates just over 82% of its sales revenues in Slovenia. Given the decline in domestic demand, the high dependence on the domestic market has reduced total profit in this sector. After two years of losses, services recorded a profit. The main factors were professional, scientific and technical activities and administrative and support service activities, information and communication, and transportation and storage. Of these service sectors, it is the last has the highest proportion of sales revenues in markets outside Slovenia (43%). The proportion of sales revenues accounted for by markets outside Slovenia averages 22% in the service sector. Construction recorded a slightly smaller loss, partly as a result of a rise in the number of bankruptcies in the sector and the gradual clear-out of the market. The construction sector generates 90% of its sales revenues in Slovenia. Given the adverse situation at home and limited domestic demand, it is vital for corporates to seek markets outside Slovenia. The figures show that sectors that internationalise out-perform those that focus solely on the domestic market. This is particularly the case of the situation in the domestic economy.

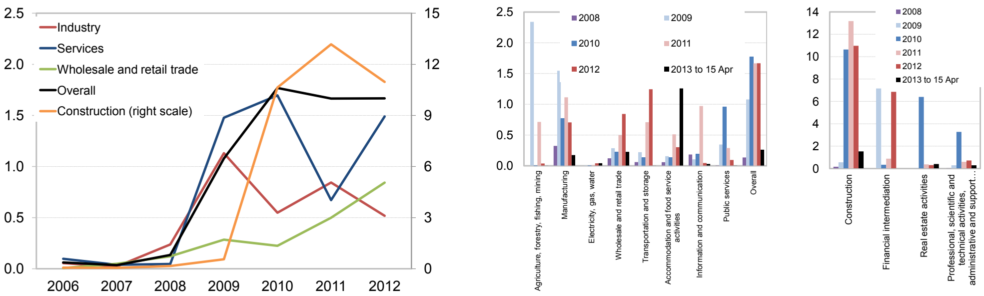
Figure 3.13: Total profit and loss by sector in EUR billion (left) and year-on-year growth in sales revenues in industry in various markets in percentages (right)



Sources: AJPES, Bank of Slovenia

Corporate bankruptcies

Figure 3.14: Percentage of total assets in sector accounted for by firms in bankruptcy by year of initiation of bankruptcy proceedings*



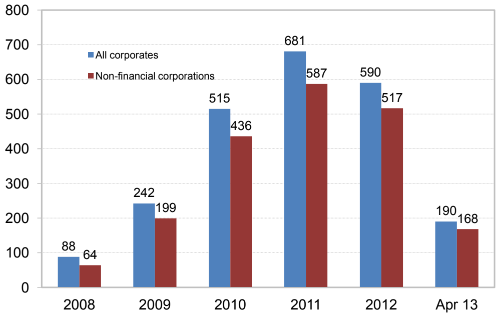
*Note: Calculated as the ratio of the total assets of firms in bankruptcy to the total assets in the sector. The figures are for the year before bankruptcy proceedings are initiated, when the firms were still compiling an annual balance sheet.

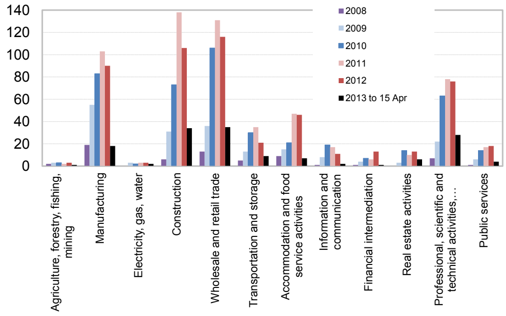
Sources: AJPES, Bank of Slovenia, Supreme Court

In 2012 bankruptcies were again most common in the construction sector and the financial intermediation sector.

In 2012 there were around 520 bankruptcies initiated, down slightly on the previous year (by 12%), but there was no change in the proportion of total assets accounted for by firms in bankruptcy. The proportion declined slightly in industry, which has coincided with the relatively favourable performance by this sector. The trend of increase in the proportion of total assets in wholesale and retail trade accounted for by firms in bankruptcy continued, as a result of the this sector's heavy dependence on the domestic market and limited domestic demand. In 2012 it was primarily small firms in the wholesale and retail trade sector that suffered. The proportion of total assets in services accounted for by firms in bankruptcy increased again, most notably in financial intermediation. These involve firms that had a major role in the numerous corporate takeovers in the years before the outbreak of the crisis. The corresponding proportion also increased significantly in the transportation and storage sector, by 0.5 percentage points. In the construction sector the proportion of total assets accounted for by firms in bankruptcy declined slightly, but remains high at 11%. In 2012 construction was again notable for the bankruptcies of large firms. By mid-April 2013 the accommodation and food service activities sector was notable for the proportion of total assets accounted for by firms in bankruptcy.

Figure 3.15: Number of bankruptcy proceedings initiated against firms overall (left) and by sector (right)





Sources: AJPES, Bank of Slovenia, Supreme Court

Corporate performance in terms of leverage,[1] liquidity and debt servicing capacity

Last year's corporate performance indicators improved slightly compared with the previous year, with the exception of the liquidity indicator, i.e. a decline in the ratio of current receivables to current liabilities. There has been a trend of decline in corporate leverage as measured by the debt-to-equity ratio since 2008. In addition to the nominal decline in corporate indebtedness, the decline is also the methodological result of the data failing to capture all firms in bankruptcy. Over-leveraging is one of the major problems in the Slovenian corporate sector.[2] Non-financial corporations' leverage declined from 165% in 2008 to 135% last year.

Performance indicators for industry are mostly better than for other sectors.

Industry has the lowest leverage of all sectors, and maintains it around 96%, whereby equity is slightly higher than debt. Other indicators also reveal industry to be one of the more solid sectors in Slovenia. The ratio of non-current liabilities[3] to EBITDA, which assesses the cash flow in a particular year, and can give an indication of the sector's debt servicing capacity, remains around 1.8 in industry.[4] Interest expenses in industry are equivalent to just under 20% of EBIT. The liquidity ratio in industry declined last year, and is under 100% as in other sectors. At just under 70%, the figure for industry is still among the highest of all major sectors.

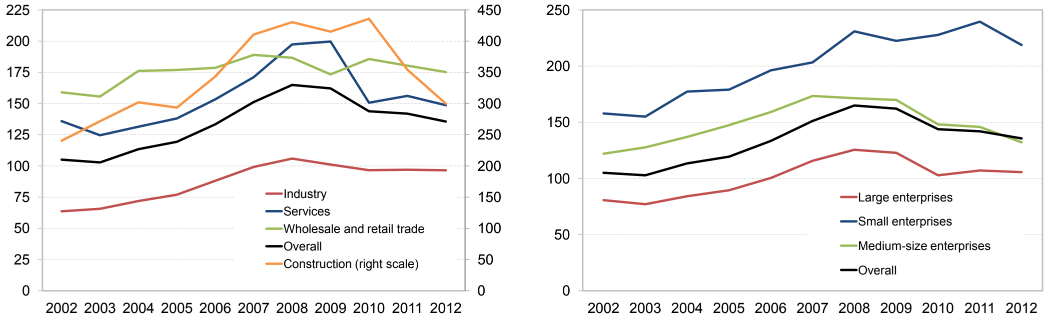
[1] The value for leverage calculated here differs from the indicator published in previous sections, which illustrates the ratio of debt to equity in corporate financing on the basis of financial accounts figures (the differences are the result of the differences in the methodology of data capture). In this section leverage is calculated as the debt-to-equity ratio from closing corporate balance sheet figures collated by AJPES.

[2] The Ministry of Justice is drawing up amendments to existing insolvency legislation for this reason. The ministry is in the process of drawing up a systemic debt repayment law, which will be of particular significance to those firms with good prospects as going concerns. It is expected to allow creditors to intervene sufficiently early to convert their debts into equity holdings in the debtor. In April the government submitted a new Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (hereinafter: the ZFPPIPP) to the National Assembly for debate. The law is expected to provide for more effective options for restructuring insolvent firms. The objectives of the proposed law include the possibility of effective and realistic restructuring of insolvent firms (maintenance of the healthy core of the economy), an improvement in the position of the creditors' committee and the individual creditors, and greater effectiveness in the process of selling assets at public auctions.

[3] Non-current corporate liabilities include all non-current financial and commercial corporate liabilities to banks, suppliers and others as at the final day of the particular year, while EBITDA is earnings before interest, taxes, depreciation and amortisation.

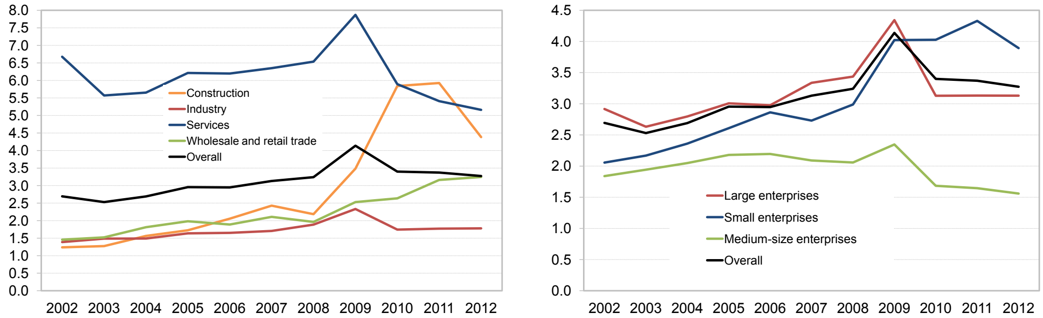
[4] The ratio of liabilities to EBITDA indicates a firm's capacity to regularly service interest and principal. A lower ratio of non-current liabilities to EBITDA means that a firm is able to regularly repay its liabilities, and can survive major shocks in the economy. It can also indicate the firm's capacity for long-term growth and profitability. EBITDA does not entail actual cash flow. Interest and taxes are not taken into account but entail actual outflows, while the same is true of the requisite capital investment.

Figure 3.16: Leverage by sector (left) and corporate size (right) in percentages



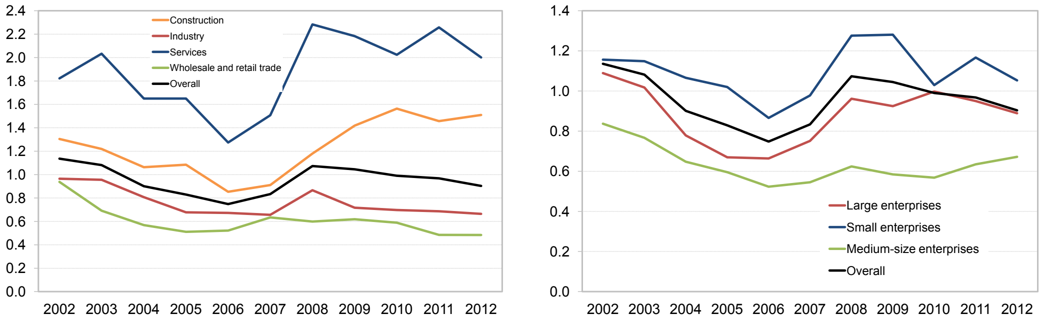
Note: Leverage is calculated as percentage debt-to-equity ratio.
Sources: AJPES, Bank of Slovenia

Figure 3.17: Ratio of non-current liabilities to EBITDA by sector (left) and corporate size (right)



Note: Calculation includes all firms, irrespective of missing values in individual items.
Sources: AJPES, Bank of Slovenia

Figure 3.18: Percentage ratio of interest expenses to total revenues by sector (left) and corporate size (right)

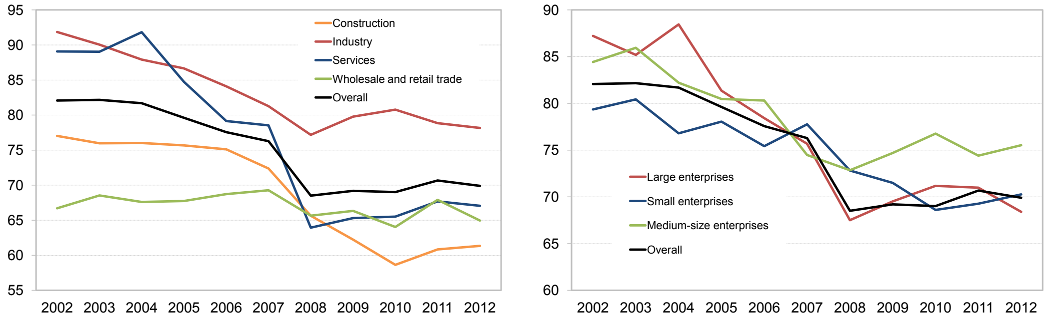


Sources: AJPES, Bank of Slovenia

The construction indicators are improving, but nevertheless reveal the major problems of this sector in Slovenia.

In contrast to industry, construction is the sector worst hit by the crisis, which is reflected in the worst figures of the four major sectors in Slovenia for selected performance indicators. It is encouraging that the indicators are improving, which is partly the result of the market clear-out and the initiation of bankruptcy proceedings. Leverage in construction has declined by 135 percentage points since its peak in 2010, to a still-exceptional 300%. Since 2010, when the proportion of total assets accounted for by firms in bankruptcy leapt, the proportion of total assets in the sector accounted for by large enterprises has declined slightly as a result of the increase on the part of SMEs. The ratio of non-current liabilities to EBITDA in construction declined in 2012 to a still-high 4.3. The liquidity ratio improved slightly to a still-low 61%. The ratio of interest expenses to total revenues in construction remains at the relatively high level of 1.5%.

Figure 3.19: Liquidity ratio by sector (left) and corporate size (right) in percentages



Note: The liquidity ratio is calculated as the percentage ratio of current receivables to current liabilities.
Sources: AJPES, Bank of Slovenia

Wholesale and retail trade is under pressure from the deterioration in domestic consumption.

Leverage in the wholesale and retail trade sector, which is typically high, declined to 175% in 2012, although this figure is still too high. The other observed indicators deteriorated, in keeping with the adverse situation in the domestic economy and as a result of the sector's heavy dependence on domestic demand. The ratio of non-current liabilities to EBITDA increased to 3.2, the highest figure since 2002. The liquidity ratio also declined.

Financial and insurance activities and real estate activities have the largest problems in the service sector.

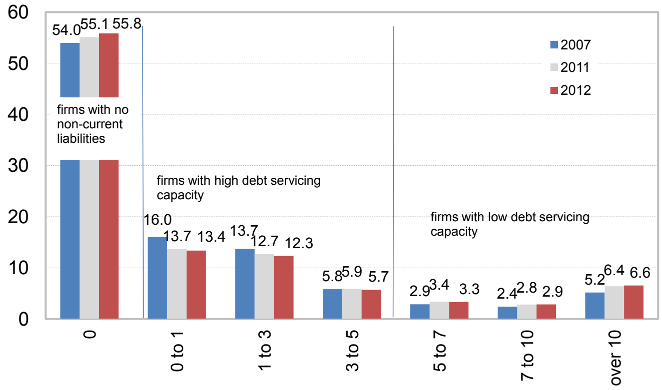
There was no significant change in leverage in services in 2012, which remained at a relatively high figure of 150%. The debt servicing indicator in this sector improved slightly, while the liquidity ratio remained almost unchanged. The sectors within the service sector that are notable in the Slovenian corporate sector for above-average leverage are real estate activities, financial intermediation, accommodation and food service activities, in the case of SMEs. The ratio of non-current liabilities to EBITDA and the ratio of interest expenses to operating revenues, which illustrate the loan servicing capacity, have the highest values in the service sector, and indicate the low profitability of the sector relative to debt. Financial intermediation and real estate activities are notable for a very high ratio of liabilities to EBITDA of more than 10, followed by transportation and storage, accommodation and food service activities, and professional, scientific and technical activities and administrative and support service activities. The ratio of current receivables to current liabilities stands at around 67% in services, with accommodation and food service activities and financial intermediation recording lower liquidity figures than the average.

Small enterprises are primarily dependent on debt financing, and have high leverage and debt servicing burden.

In terms of corporate size, small enterprises have worse indicators than medium-size and large enterprises, and are higher-risk from this point of view. Small enterprises account for 60% of total assets in the construction sector, which has very bad figures for the selected indicators, for 17% in industry, for 34% in wholesale and retail trade and for 40% in services. While leverage is 135% for firms overall, it fluctuates around 220% for small enterprises, and is higher than the figure for large enterprises in all four sectors, other than two sectors within services, namely real estate activities and public services. The main reasons for the higher leverage at small enterprises are the larger financial constraints that they face. Small enterprises' investments are less dependent on their cash flow, as they cannot be deferred until the resources are generated internally. At a certain point, external financing is vital for small growing enterprises in particular. Financing costs are usually higher for small enterprises, partly in connection with their higher proportion of intangible assets, which limits collateral values. At large enterprises in Slovenia there is also insufficient equity financing, which is a result of the lack of corporate activity on the capital markets, the failure to raise profile among investors, and the excessive burden of management buyouts during the boom before 2008.

The ratio of non-current assets to EBITDA and the ratio of interest expenses to operating revenues have been significantly higher at small enterprises than at other firms since 2009, and indicate the greater burden placed on their earnings by debt servicing. The average ratio of non-current liabilities to EBITDA for small enterprises stood at around 3.9 last year, 0.6 higher than the figure for firms overall. The average ratio of interest expenses to operating revenues at small enterprises stood at 1.05% last year, 0.15 percentage points higher than the figure for firms overall. The liquidity of small enterprises is at the average level of the corporate sector in Slovenia, and has been gradually improving since 2010.

Figure 3.20: Distribution of the ratio of non-current liabilities to EBITDA at firms with positive EBITDA in percentages



Note: Firms included in the calculation of the ratio of less than and more than 5 have positive EBITDA. Around 60% of firms are included, covering 87% of the corporate sector's total assets. The proportion of firms with EBITDA greater than zero and non-current liabilities greater than zero is 27% in terms of number, accounting for 75% of total assets.

Sources: AJPES, Bank of Slovenia

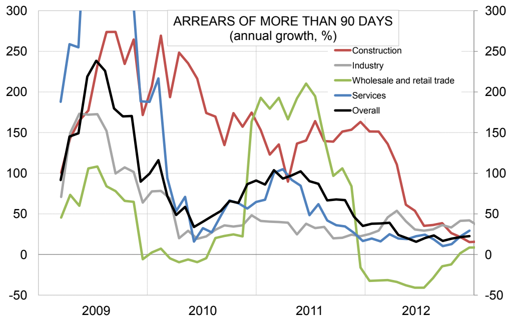
The distribution of firms with positive EBITDA improved slightly last year. The proportion of firms where the indicator is more than 5, which indicates lower debt servicing capacity, increased by merely 0.11 percentage points to 12.7%. The proportion of firms with greater debt servicing capacity declined by 0.85 percentage points to 31.4%. The proportion of firms with no non-current liabilities increased by 0.73 percentage points to 55.8%, these firms financing themselves either through current financing or internal resources.

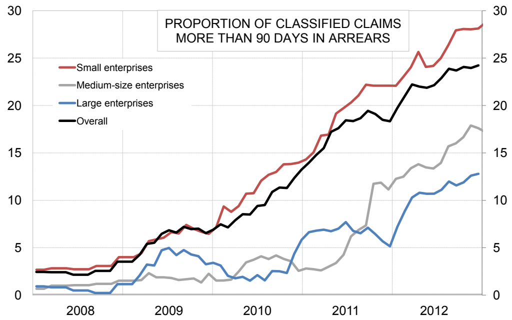
Arrears in the settlement of corporate liabilities to banks

The proportion of the banks' classified claims against the construction sector more than 90 days in arrears accounted for by firms in bankruptcy is a high 63%.

Towards the end of 2012 year-on-year growth in arrears of more than 90 days slowed across individual sectors, although it remained relatively high at 22%. As could be expected given the bad indicators, the sector with the highest proportion of the banks' classified claims more than 90 days in arrears is construction, where the figure is an extremely high 62%.

Figure 3.21: Year-on-year growth in arrears of more than 90 days by sector (left) and proportion of classified claims more than 90 days in arrears by corporate size (right) in percentages





Note: Firms in bankruptcy are not classified in terms of corporate size, and are included in the aggregate figure alone.

Source: Bank of Slovenia

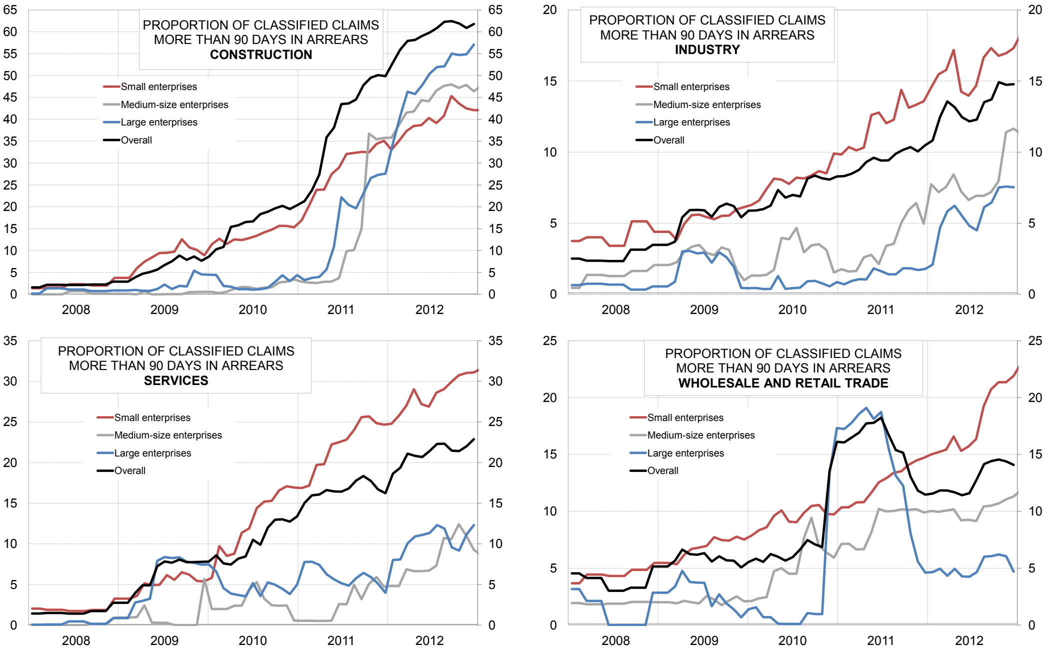
Arrears in industry are also increasing as a result of the deterioration in key export markets.

Growth in arrears of more than 90 days in industry has been subject to major fluctuations in the last two years, and has recently been highest in this sector. The proportion of classified claims more than 90 days in arrears had reached almost 15% by the end of 2012. The increase in arrears was the result of a decline in growth in value-added in industry. Around 35% of arrears of more than 90 days are claims against firms in bankruptcy, where 9% are against firms against which bankruptcy proceedings were initiated in 2009, while the largest figure of 12% were against firms against which bankruptcy proceedings were initiated in 2011.

Arrears of more than 90 days are increasing in wholesale and retail trade and in other services.

The proportion of classified claims against the wholesale and retail trade sector more than 90 days in arrears began to increase again towards the end of 2012. The figure has also continued to increase in other services. The adverse situation in the domestic economy and the heavy dependence of service sector firms on domestic demand are being reflected in an increase in arrears. Some 40% of arrears in the service sector are in claims against firms in bankruptcy, where 23% are in claims against firms against which bankruptcy proceedings were initiated in 2012. These primarily comprise claims against the financial intermediation sector, while the transportation and storage sector and the wholesale and retail trade sector are also notable.

Figure 3.22: Proportion of classified claims more than 90 days in arrears by sector and corporate size in percentages[1]



Note: Firms in bankruptcy are not classified in terms of corporate size, and are included in the aggregate figure alone. This is particularly notable in the construction sector.
Source: Bank of Slovenia

Small enterprises have the largest proportion of classified claims more than 90 days in arrears, but are at the same time recording lower and more predictable growth in arrears than medium-size or large enterprises.

Small enterprises have the largest proportion of classified claims at the banks more than 90 days in arrears, at 28%, and in terms of this indicator represent a major risk of default for the banks. Year-on-year growth in arrears of more than 90 days is most predictable at small enterprises, and has been declining since 2009. It was still high at the end of 2012 at 26%, but was lower than the other two categories of corporate size. Gross loans to small enterprises are declining more slowly than in other categories. It is most notably in services that the proportion of classified claims more than 90 days in arrears at small enterprises is significantly larger than at medium-size and large enterprises.

The large domestic banks' exposure to more problematic sectors is high.

The large domestic banks are heavily exposed to sectors with the largest difficulties in repaying liabilities. The large domestic banks account for three-quarters of the banking system's classified claims against non-financial corporations more than 90 days in arrears. The large domestic banks are also acting more prudently in ongoing lending because of the burden of non-performing loans in the credit portfolio and because of the aforementioned constraints on funding. The banks under majority foreign ownership account for 16% of the banking system's classified claims against non-financial corporations more than 90 days in arrears, while 12% of their classified claims against non-financial corporations are more than 90 days in arrears.

Access to bank financing for small enterprises is no worse than for medium-size and large enterprises.

Last year the contraction in loans to small enterprises was slower than that in loans to medium-size and large enterprises. Almost 45% of the small domestic banks' portfolio is earmarked for lending to small enterprises, compared with just over a third at the banks under majority foreign ownership (up 10 percentage points since 2007) and just over a quarter at the large domestic banks. Given these figures, access to debt financing for small enterprises is no worse than for medium-size and large enterprises, although access is problematic for the entire economy. It is the banks under majority foreign ownership in particular that have recorded an increase in the proportion of loans accounted for by small enterprises since 2008.

[1] Given the large number of firms in bankruptcy, which no longer have a defined size, the breakdown of arrears of more than 90 days in the construction sector by corporate size is biased. For this reason the overall figure is significantly higher than the individual figures by corporate size, which do not include firms in bankruptcy.

Table 3.6: Selected financial performance indicators by sector, and premiums over the EURIBOR on new loans at the domestic banks

	Leverage, %	Liquidity ratio, %[1]	Proportion more than 90 days in arrears, %[2]	Debt servicing capacity, %[4]	Overall ranking[3]	Premiums over EURIBOR, percentage points[5]	Ranking
	Dec-12					2012	
Agriculture, forestry, fishing, mining	119.1	60.6	15.3	3.0	5	4.4	11
Manufacturing	115.1	77.4	17.2	1.6	2	3.3	2
Electricity, gas, water, remediation activities	61.2	83.5	2.7	2.1	1	3.6	6
Construction	299.8	61.3	60.6	4.1	9	4.3	10
Wholesale and retail trade	175.2	64.9	14.3	3.2	6	3.6	5
Transportation and storage	119.0	79.4	11.4	6.0	4	3.0	1
Accommodation and food service activities	161.7	31.6	21.2	6.0	10	3.8	8
Information and communication	110.2	99.8	24.4	1.8	2	3.8	9
Financial intermediation	131.0	42.5	43.1	18.0	12	4.7	12
Real estate activities	341.0	58.2	19.0	10.8	11	3.5	3
Professional, scientific and technical activities, administrative and support service activities	154.9	77.6	20.9	4.3	7	3.7	7
Public services	165.1	54.8	12.4	3.5	8	3.5	4
Overall	135.6	69.9	23.7	3.2		3.6	

Notes: [1]The liquidity ratio is calculated as the percentage ratio of current receivables to current liabilities. A higher ratio represents better liquidity, while for all the other indicators a higher value is less favourable.
[2]Proportion of the banks' classified claims in the sector more than 90 days in arrears.
[3]The overall ranking is calculated from the individual rankings for each indicator, where a higher ranking indicates higher risk.
[4]Average ratio of non-current liabilities to EBITDA in the sector.
[5]The premiums refer to those on long-term loans tied to the EURIBOR.

Sources: AJPES, Bank of Slovenia, own calculations

Risk premium at banks by sector

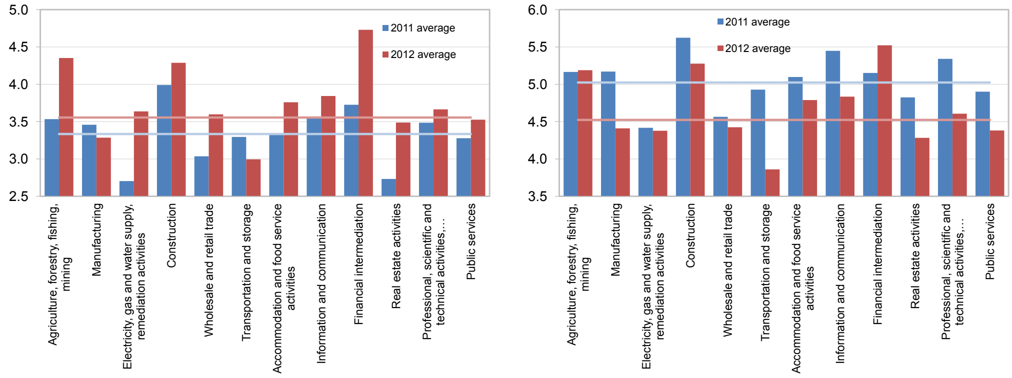
The banks in Slovenia require large premiums on corporate loans.

The banks require large premiums on corporate loans relative to the euro area overall. Interest rates on corporate loans in Slovenia are more than 2 percentage points higher than in the euro area overall, and indicate the relatively high cost of corporate borrowing in the domestic banking system. The reasons for the high premiums over the reference interest rates are the deterioration in corporate credit ratings, high leverage, and the increase in arrears of more than 90 days. The high premiums are also the result of the banking system's constraints in obtaining funding on the wholesale financial markets. The decline in loans to non-financial corporations was the result of reduced aggregate demand and a decline in investment opportunities, but was also caused by the high premiums in interest rates. Some corporates are not willing to accept loans at the interest rates offered, and try to find other resources.

Wholesale and retail trade recorded the largest increase in premiums in 2012, and industry the smallest.

The overall interest rate fell in all sectors in 2012, while the premiums increased. The premiums over the reference interest rate remain highest in construction, which is to be expected given the performance of the sector and the consequent large proportion of arrears of more than 90 days. The largest increase in average annual premiums in 2012 (0.5 percentage points) was recorded by the wholesale and retail trade sector, which is under great pressure from reduced domestic demand, although the aggregate indicator for the sector did not deteriorate significantly last year. The difficulties of small enterprises in the wholesale and retail trade sector can be seen in the increase in arrears of more than 90 days and in bankruptcies. The premiums also increased significantly (by 0.4 percentage points) in other services, most notably in financial intermediation, real estate activities, and accommodation and food service activities, which are also notable for adverse performance indicators. The smallest increase of 0.1 percentage points was recorded by the premiums in industry, which given its better performance compared with other sectors, is to be expected.

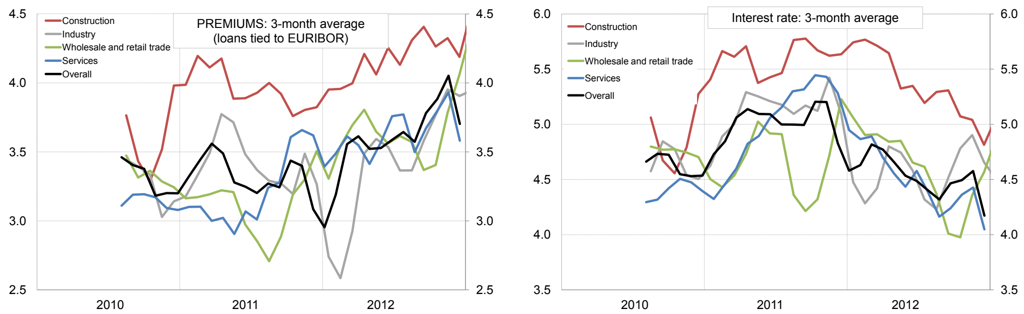
Figure 3.23: Premiums over the EURIBOR (left) and overall interest rates (right) by sector in percentages



Note: Interest rates on long-term bank loans; only loans tied to the EURIBOR are included in the premium figures.
Source: Bank of Slovenia

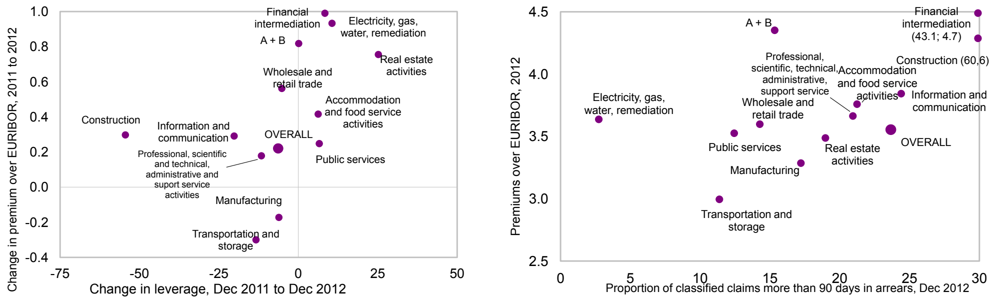
Further evidence of the relatively coordinated movement in the premiums and in corporate performance indicators comes from the coefficient of correlation between the change in the premium over the EURIBOR between 2011 and 2012 and the change in leverage during the same period in the individual sectors, which stands at 0.46. The correlation between classified claims more than 90 days in arrears and the level of the premium is even greater, and stood at 0.65 in 2012.

Figure 3.24: Premiums over the EURIBOR[1] (left) and overall interest rates (right) by sector in percentages



Source: Bank of Slovenia

Figure 3.25: Premium over the EURIBOR on new bank loans to corporates in relation to corporate financial indicators by sector in percentage points

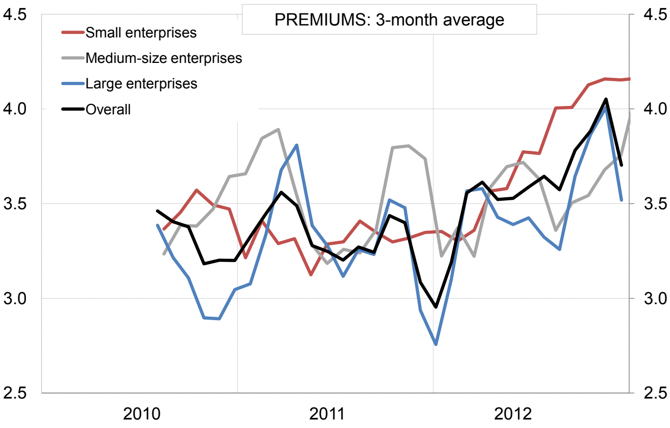


Sources: AJPES, Bank of Slovenia

The average premiums for small enterprises were lower than for medium-size and large enterprises in 2011, but in 2012 they exceeded the latter by 0.40 percentage points and 0.24 percentage points respectively, averaging 3.8%. Given their worse performance indicators and the increase in the proportion of the banks' classified claims against small enterprises more than 90 days in arrears, this is to be expected. The movement in the premiums is relatively coordinated between large domestic banks and the banks under majority foreign ownership, the large domestic banks having significantly reduced their premiums towards the end of 2012 for both small and large enterprises.

[1] The premiums refer solely to new long-term loans tied to the EURIBOR, which account for 70% to 80% of all new long-term loans.

Figure 3.26: Premiums over the EURIBOR by corporate size in percentage points



Source: Bank of Slovenia

Box 3.1: Encouraging corporate restructuring

The Bank of Slovenia and the Bank Association of Slovenia have been working together since last spring on a more effective approach to firms in difficulty that nevertheless have good prospects. As part of these activities, between the middle of December 2012 and the beginning of March 2013 the Bank of Slovenia coordinated discussions between the firms suggested by banks and the creditor banks, which also involved representatives of the BAS, the CCIS and, in rare cases, representatives of the relevant ministries. The Bank of Slovenia subsequently added several more firms to the cohort, with the aim of selecting firms from the broadest range of sectors that were still operating at a profit in their core business activities but were burdened by high indebtedness and high financing costs. The purpose of the aforementioned process was to identify firms' specific problems and to encourage the creditor banks to take more coordinated and faster action, and to establish a framework/model for independent consultations and the resolution of open issues at other firms with good prospects. The aim of the Bank of Slovenia's aforementioned activities is to improve the stability of the Slovenian banking system, which to a great extent depends on the proper functioning of the real sector.

In the meetings the Bank of Slovenia wanted to offer the creditor banks and firms' representatives an honest and true presentation of the difficulties and plans to address them, and to encourage the process of comprehensive corporate restructuring. The fundamental findings of the meetings between selected firms and the creditor banks can be summarised in eight inter-connected elements.

Excessive indebtedness and high debt financing costs

The main problem facing all firms is their excessive indebtedness, which is the product of privatisation or borrowing for unprofitable investments or investments outside the firm's core business activity in times when borrowing was still cheap. As a result of the crisis the majority of firms saw a sharp decline in turnover in the middle of an investment cycle, thus giving rise to problems in repaying debt to banks. Cash flow from operating activities is mostly not sufficing to repay interest and principal. The creditor banks are resolving the problem by means of moratoriums, which are merely a temporary measure dependent on the willingness of the owners and the management to carry out comprehensive financial, operational and ownership restructuring at the firm.

Inadequate corporate ownership structure

Existing owners show far too little responsibility and activity in seeking approaches to improve performance, and have mostly left restructuring to the creditor banks. This is particularly the case for firms under majority government ownership, where in the absence of any strategy for the management of state assets and given the lack of coordinated action the government has laid the burden of rescuing firms on the banking system. The majority of current owners are financially weak, and are thus incapable of providing capital support for firms as going concerns.

Incorrect business decisions by management

The majority of the aforementioned problems currently faced by firms originate in past business decisions by managerial personnel that over the years have proved to be unprofitable, in lack of oversight by owners and in the broader macroeconomic situation in Slovenia and worldwide. Bad business decisions are mostly the result of a lack of the relevant experience and financial knowledge that alongside technical knowledge are essential for successfully running a business.

This has been reflected in inadequate awareness of the importance of cash flows, the need to provide sufficient liquid assets to finance working capital from operating cash flows, an over-emphasis from management on growth in sales while neglecting margins, and questionable knowledge for assessing and implementing economically viable projects outside the core business activity. Some management teams have unrealistic expectations of the role of the banks, whose assets are not earmarked for financing economically and commercially unviable projects, repaying due liabilities to suppliers, repeatedly paying wages to employees and financing the firm's short-term operations at each moment. Creation of conglomerates and sale of non-strategic investments

Some firms grew into unviable forms of conglomerate engaging in various business activities and with numerous non-strategic investments. Divesting from non-strategic investments and business activities unrelated to the core business is a rather complex and lengthy process, partly as a result of a lack of purchasers and, in the opinion of the corporate management teams, the insufficient consideration offered.

Inadequate cash flow to finance working capital and new investment

All export-oriented firms warn that despite new customers and sufficient orders, where the majority comprise orders from the rest of the world, they have problems in obtaining bank guarantees and sufficient liquid assets to finance working capital. The current cross-border indebtedness of these firms and the lack of collateral are the reasons that the banks are not approving new loans or issuing guarantees to these firms.

Absence of vision and strategy in the strategic sectors of the economy / absence of appropriate economic policy

Firms in specific lines of business warn of uncompetitive business conditions resulting from a complete absence of appropriate economic policy, strategy and government vision in strategic sectors of the economy, and faulty or deficient legislation in Slovenia. The lack of clear government strategy and vision in strategic sectors is most pronounced in the food industry and the wood industry.

Bank activities and requirements in connection with comprehensive corporate restructuring

In the last year the banks have actively embarked on the creation of corporate restructuring departments and on the search for realistic restructuring solutions aimed at halting the deterioration in the credit portfolio. From the discussions with firms and creditor banks it has nevertheless been possible to identify a lower level of transparency in the operations of firms that primarily derives from a failure to provide up-to-date financial statements and analysis of the viability of investments, from deficiencies in the precise planning of cash flows, from breaches of commitments agreed with banks and from the exploitation of information asymmetry in the use of dedicated loans.

Problems in insolvency proceedings

The corporate restructuring project also drew attention to legislative problems and the ineffectiveness of the judicial system in insolvency proceedings. The creditor banks raised the issue of current legislation, which denies creditors any decision-making possibilities, despite evidence of an excessive debt burden or even negative equity at a firm.

The aforementioned problems facing firms are mostly independent of the sector in which the firm does business, and can mostly be generalised across the Slovenian economy. They are mostly the result of irresponsible ownership, the past privatisation process, and the expansion of operations from the core line of business to unrelated activities.

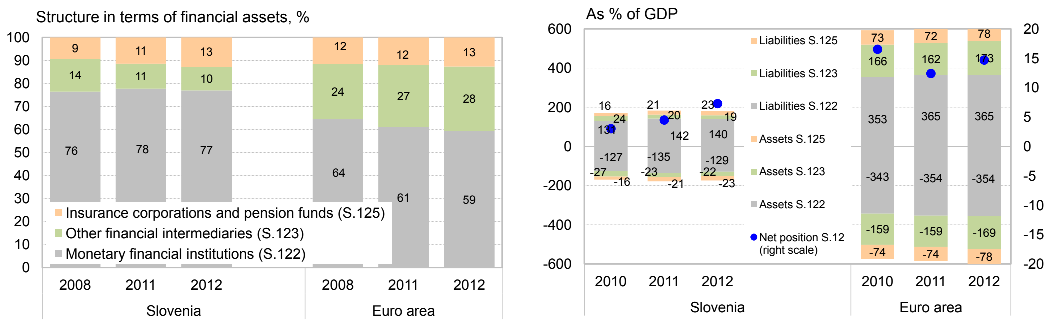
4 FINANCIAL SYSTEM

4.1 Structure of the financial system

The financial assets of the Slovenian financial system declined, while the structure remains mostly unchanged.

The financial assets of the Slovenian financial system declined by EUR 1.9 billion last year to stand at EUR 64.6 billion. As a result of the contraction in economic activity, they were almost unchanged as a ratio to GDP at 182%. The structure of the financial system was also mostly unchanged. The banks remain the most important financial intermediaries with a 77% share, 18 percentage points higher than in the euro area overall, almost exclusively at the expense of other financial intermediaries. This is an indicator of the relatively poor level of development among other financial intermediaries, with the exception of the insurance sector. The shallow illiquid capital market does not contribute to alternative forms of financing the economy.

Figure 4.1: Structure of the financial sector in terms of financial assets (left) and ratio of financial assets, liabilities and net position to GDP by financial sub-sector (right) in percentages



Note: S.122: Other monetary financial institutions (commercial banks and savings banks); S.123: Other financial intermediaries and financial auxiliaries, except insurance corporations and pension funds (including investment funds and leasing companies); S.125 Insurance corporations and pension funds.
Sources: Bank of Slovenia, ECB, Eurostat, SORS

Table 4.1: Overview of the Slovenian financial sector in terms of total assets

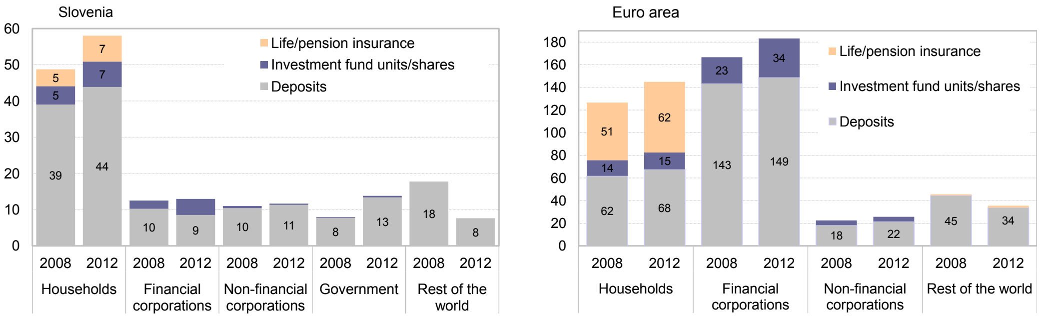
	Total assets, EUR million			Breakdown, %			As % of GDP			Growth, %	
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2011	2012
Monetary financial institutions[1]	50,760	48,592	45,460	75.9	76.1	74.8	143.8	134.3	128.2	-4.3	-6.4
NMFIs	16,160	15,223	15,331	24.1	23.9	25.2	45.8	42.1	43.2	-5.8	0.7
insurers	6,059	6,108	6,762	9.1	9.6	11.1	17.2	16.9	19.1	0.8	10.7
pension companies/funds[2]	1,538	1,518	1,491	2.3	2.4	2.5	4.4	4.2	4.2	-1.3	-1.8
investment funds	2,294	1,816	1,835	3.4	2.8	3.0	6.5	5.0	5.2	-20.8	1.0
leasing companies	5,731	5,277	4,817	8.6	8.3	7.9	16.2	14.6	13.6	-7.9	-8.7
BHs, MCs, others	538	504	426	0.8	0.8	0.7	1.5	1.4	1.2	-6.4	-15.5
Total	66,920	63,814	60,791	100.0	100.0	100.0	189.5	176.4	171.4	-4.6	-4.7

Notes: The figures for leasing companies, brokerage houses, management companies and others are obtained from the AJPES database of closing accounts based on the SKD 2008 classification of business activities. The figures for leasing companies include all companies included under financial leasing, activity code K64.91, according to the SKD 2008.
[1] Monetary financial institutions do not include the central bank.
[2] The First Pension Fund is included among pension funds.
Sources: Bank of Slovenia, ISA, SMA, AJPES

The assets of the banking sector and the leasing companies declined, while the insurance sector and the investment funds recorded a slight increase in assets.

The contraction in the financial sector in 2012 was primarily the result of a contraction in the banking sector. The transfer of certain distressed investments to the parent banks also brought a contraction in the total assets of the leasing companies. There was an increase in the total assets of the insurance sector, whose business is the least cyclical, the proportion of financial intermediation that it accounts for thereby increasing. The assets of the investment funds increased slightly as a result of growth in the average unit price, although net withdrawals prevented their investments from increasing even further.

Figure 4.2: Value of intermediated financial assets by instrument owned by individual institutional sectors as a percentage of GDP in Slovenia (left) and the euro area (right)



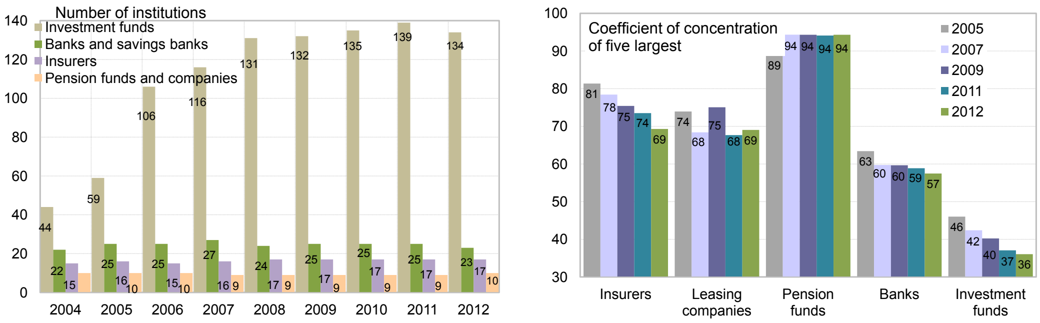
Note: The central bank is not included in the figures for Slovenia.
Sources: Bank of Slovenia, ECB, Eurostat, SORS

Market concentration in the financial sector

Market concentration is declining in particular in the banking sector, in the insurance sector and in the investment funds sector.

In the financial sector the gradual decline in market concentration in the insurance sector, the banking sector and the investment funds sector has continued. While the decline in the insurance sector was partly the result of the largest insurance company's switch of focus from turnover to increased margin, the reason in the banking sector was primarily the contraction in turnover at the largest banks under majority domestic ownership. In the investment funds sector there has been a gradual consolidation, with the closure and takeover of certain small mutual funds. Management companies are merging funds to streamline their operations.

Figure 4.3: Number of financial institutions of different type (left), and market concentration of the five largest (CC5; right, in percentages)



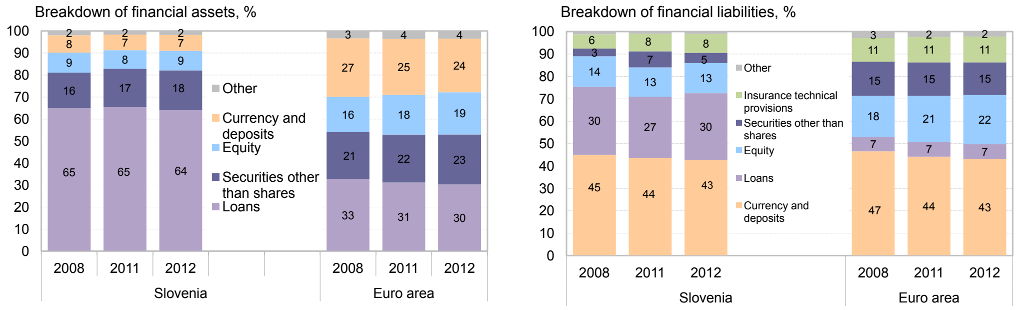
Note: The CC5 index is calculated in terms of total assets, with the exception of leasing companies, for which it is calculated in terms of volume of business. Insurers include two reinsurance companies; their total assets are for the end of the third quarter of 2010. Pension fund figures do not include the First Pension Fund, as a closed fund that does not allow any more contributions.
Sources: Bank of Slovenia, ISA, SMA, BAS, SLA

Comparison of the breakdown of the Slovenian financial sector's financial assets and liabilities with the euro area

Loans continue to account for the largest proportion of the financial sector's financial assets, a reflection of the lack of development in nonbanking

The breakdown of financial assets is a reflection of the lack of development of non-banking financial intermediaries and the shallow capital market. Despite several years of stalled lending, loans continue to account for the largest proportion of financial assets. Corporate financing is strongly dependent on bank loans, and the process of corporate deleveraging is being accompanied by poor performance, which is being adversely reflected in their value. The difference in the proportions of financial assets accounted for by currency and deposits compared with the euro area overall is the result of the small interbank market and the lack of development of short-term money-market instruments. Banks in Slovenia primarily participate in the international interbank market as recipients of funds expressed via a surplus TARGET position.

Figure 4.4: Breakdown of the financial sector's financial assets (left) and liabilities (right) in percentages



Sources: Bank of Slovenia, ECB

Compared with the euro area overall, the Slovenian financial system is heavily dependent on financing via loans.

The Slovenian financial system is heavily dependent on financing via loans. The high growth in loans to the non-banking sector in the years before the financial crisis was supported by high growth in Slovenian banks' borrowing in the rest of the world. The outbreak of the crisis was followed by the banks making debt repayments at foreign banks. Last year this was partly compensated for by increased borrowing at the Eurosystem. The proportion of financial liabilities accounted for by loans therefore strengthened. The proportion of financial liabilities accounted for by equity remains low compared with the euro area overall.

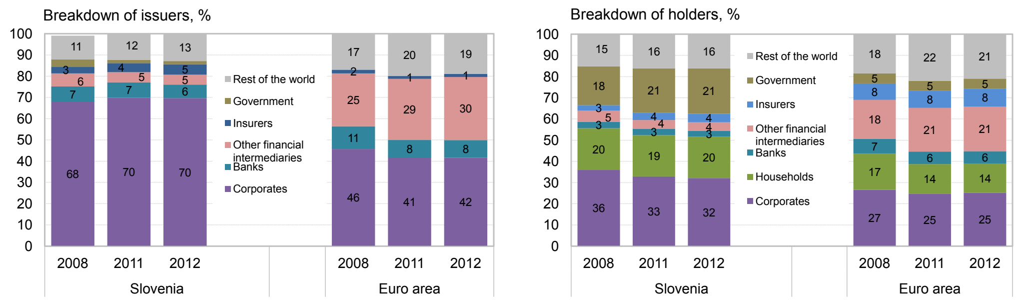
The largest equity issuers among financial intermediaries are the banks.

The breakdown of equity issuers reveals the relative lack of development in Slovenia's non-banking financial intermediation. Insurers and other financial intermediaries account for just 10% of equity issuers. Investments in foreign equity forms of financial asset is also low. The proportion of the total is 6 percentage points less than in the euro area overall. Domestic corporates account for the largest proportion of equity issuers, at more than two-thirds.

The government sector continues to account for a large proportion of equity holders.

The breakdown of equity holders in 2012 remained unchanged compared with 2011. The government sector continues to account for a large proportion of equity holders, while financial intermediaries remain an insignificant investor in equity. Collateral assets in the form of corporate participating interests repossessed by banks during loan default are being devalued by value changes. A feature of the Slovenian financial system remains the major direct ownership of equity by households, which compared with households across the euro area invest less of their savings in investment funds and in life insurance and pension insurance.

Figure 4.5: Breakdown of equity issuers (left) and holders (right) in percentages



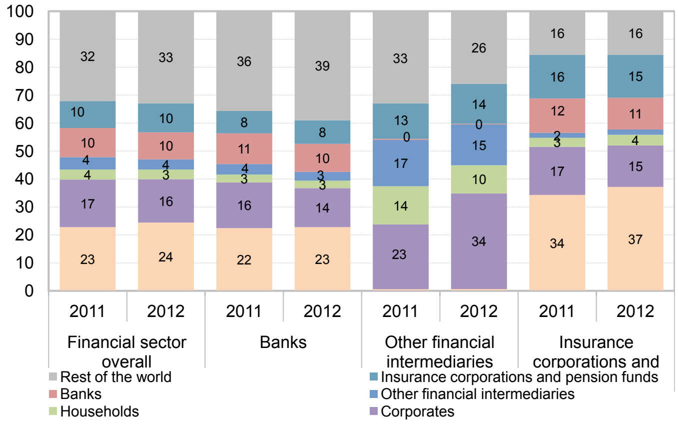
Note: Equity: F.5 Shares and other equity according to the ESA 95 definition. It includes issued share capital, units in investment funds and ownership in other corporate forms such as limited liability companies and unlimited partnerships.

Sources: Bank of Slovenia, ECB

Capital links in the financial sector

There was no significant change in the ownership structure of the Slovenian financial sector in 2012. The government slightly strengthened its direct ownership of financial intermediaries. Part of the reason for this was the positive result of insurers in which the government holds a large participating interest. The proportion of foreign ownership in the banking sector also strengthened for similar reasons, primarily as a result of the devaluation of the equity of the banks under majority domestic ownership relative to the banks under majority foreign ownership.

Figure 4.6: Ownership structure of financial sectors in percentages



Note: Includes direct ownership only.
Sources: CSCC, Bank of Slovenia calculations

5 BANKING SECTOR

5.1 Structural features of the banking sector

Banking sector size and changes of status

A total of 23 credit institutions operated in Slovenia last year.

At the end of 2012 the Slovenian banking system comprised 17 banks (including seven subsidiary banks), three branches of foreign banks and three savings banks. The number of banks was down by two last year. One smaller bank under majority domestic ownership merged with another bank, while one bank under majority foreign ownership ceased to operate in Slovenia.

The Bank of Slovenia confirmed notifications from 16 new credit institutions last year. The notifications of six credit institutions were revoked during the same period, so that the total number of credit institutions that had provided notification of cross-border activities in the Republic of Slovenia stood at 306 at the end of the year. The notification of one special credit institution was revoked in 2012. At the end of 2012 there were thus two special credit institutions that had provided notification of the performance of cross-border activities in the Republic of Slovenia.

At the end of 2012 the banking system's total assets stood at 130% of GDP.

The total assets of all banks and savings banks stood at EUR 46.1 billion at the end of 2012, of which banks and the branches of foreign banks accounted for EUR 45.6 billion, while savings banks accounted for EUR 567 million. The banks thus accounted for 98.8% of the total assets of the Slovenian banking system. The total assets of banks and savings banks amounted to 130% of GDP. The total assets of banks and savings banks as a percentage of GDP were down 6 percentage points last year as a result of the contraction in total assets. The banking system's total assets declined for the third consecutive year last year, by EUR 3.1 billion, double the amount of the decline the previous year. The cumulative decline in the banking system's total assets in 2010, 2011 and 2012 was thus EUR 5.9 billion or 11.3%, an indication of a reduction in the banks' financial leverage.

Table 5.1: Total assets of banks compared with GDP

	2006	2007	2008	2009	2010	2011	2012
Total assets, EUR million	34,080	42,598	47,948	52,009	50,760	49,243	46,126
GDP (current prices), EUR million	31,045	34,594	37,245	35,556	35,607	36,172	35,466
Total assets as % of GDP	110	123	129	146	143	136	130
No. of bank employees	11,832	11,996	12,232	12,188	11,943	11,813	11,498

Note: Data regarding the government's equity holdings in the banks are for 2012, and do not include sale of KBC Bank NV's participating interest in the largest Slovenian bank, NLB d.d., in the amount of 21.65% of the aforementioned bank's capital to the Slovenian government in March 2013. The data likewise do not include the conversion of subordinated equity instruments to equity by the Slovenian government at NLB d.d. and Nova KBM d.d. in March and April 2013 respectively, in the amount of EUR 320 million at NLB d.d. and EUR 100 million at Nova KBM d.d.

Source: Bank of Slovenia

Bank ownership

There were seven banks under majority foreign ownership operating in Slovenia at the end of last year, three of which were branches of foreign banks. Ten banks were under majority domestic ownership. The proportion of the banks' equity held by non-residents was up 2 percentage points last year to stand at 41%, of which the proportion held by non-residents with equity holdings exceeding 50% stood at 32.3%. Government ownership as measured by equity was up minimally to stand at 22.9%.

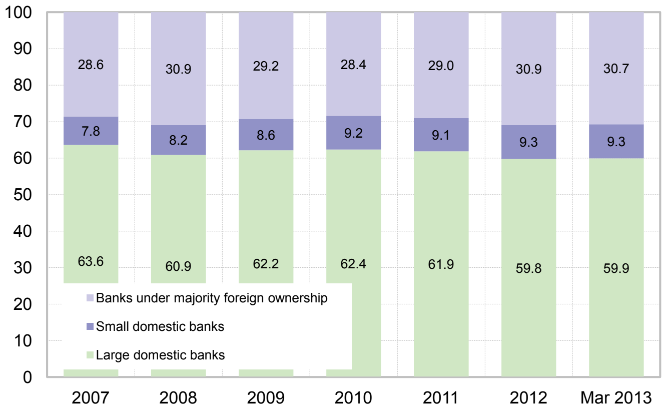
Table 5.2: Ownership structure of the banking sector (in terms of equity)

(%)	2006	2007	2008	2009	2010	2011	2012
Central government	17.9	15.1	17.7	20.5	20.1	22.7	22.9
Other domestic entities	44.4	47.2	44.1	43.0	42.9	38.1	35.8
Non-residents	37.7	37.8	38.2	36.6	37.1	39.3	41.3
non-residents (over 50% control)	27.7	26.8	27.6	26.8	27.9	30.1	32.3
non-residents (under 50% control)	10.0	11.0	10.6	9.8	9.2	9.1	9.1

Source: Bank of Slovenia

The banks are divided into three groups in the Financial Stability Review: the large and small domestic banks, and the banks under majority foreign ownership. Each bank is classified into one group only. An analytical breakdown of the banking system into homogeneous groups, based on the characteristics of the banks' operations, in particular the prevailing form of bank funding, is applied.

Figure 5.1: Market shares of banks under majority foreign ownership and under majority domestic ownership in terms of total assets in percentages



Source: Bank of Slovenia

Concentration in the banking sector

Market concentration in the banking system has diminished in recent years.

Market concentration on the banking market as measured by the market share of the largest banks and by the Herfindahl-Hirschman index (HHI) has declined in recent years, as the market shares of the largest banks have fallen. The concentration of the banking system remains higher in terms of instruments on the liability side than on the lending side. Nevertheless, concentration has diminished more notably in recent years in deposits by the non-banking sector. At 1,256 at the end of 2012, the value of the HHI for deposits was still more than 200 points above the value of the same index for loans to the non-banking sector and for total assets. With regard to liabilities, the value of the index in terms of the concentration of household deposits remains notably high at 1,536, although the concentration of household deposits has diminished considerably in recent years, its value having stood at 1,970 points at the end of 2008. Deposits are more equally distributed among the banks due to the focus of the banks under majority foreign ownership on retail banking and a reduction in liabilities to parent banks.

Table 5.3: Market concentration of the Slovenian banking market as measured by the Herfindahl-Hirschman index and market share of the top three/five banks

	2008	2009	2010	2011	2012	Change 2012/2011
Total assets	1,275	1,262	1,149	1,110	1,041	-68
Loans to non-banking sector	1,218	1,164	1,122	1067.6	1,042	-26
Liabilities to non-banking sector	1,578	1,587	1,471	1,392	1,256	-136
Liabilities to banks	1,217	1,047	1,243	1,209	1,179	-30
Total assets	47.7	47.7	45.7	44.7	43.2	-1.5
Loans to non-banking sector	46.7	46.0	45.9	44.4	42.5	-1.9
Liabilities to non-banking sector	55.9	55.7	54.3	53.1	49.7	-3.4
Liabilities to banks	48.0	46.3	53.9	53.6	52.3	-1.3
Total assets	59.1	59.8	59.2	58.9	57.1	-1.8
Loans to non-banking sector	59.2	58.5	59.0	58.2	56.7	-1.5
Liabilities to non-banking sector	68.2	67.9	66.7	65.5	62.5	-3.0
Liabilities to banks	63.6	61.3	67.9	67.9	67.5	-0.4

Source: Bank of Slovenia

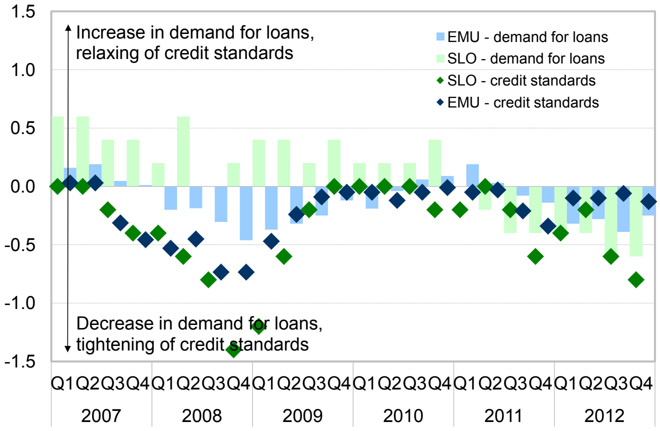
5.2 Banks' assessment of demand for loans and credit standards[1]

Corporate loans

The banks continued to tighten credit standards for corporates in 2012, while demand for corporate loans also fell.

According to figures from the Bank Lending Survey, demand for corporate loans declined gradually again in 2012. In particular, demand for long-term loans and demand for loans from SMEs were down. Slovenian banks attributed declining corporate demand to lower fixed capital formation and the use of other sources of financing. Similar to declining demand, the tightening of credit standards also continued last year. That tightening was more evident during the second half of 2012, with the banks primarily tightening credit standards in the approval of loans to large corporates. The main reasons given by the banks for the tightening of credit standards were limited access to the funding market and an aversion to assume risks. The banks responded to the aforementioned developments primarily by raising the premiums over reference interest rates and also by tightening non-price lending conditions.

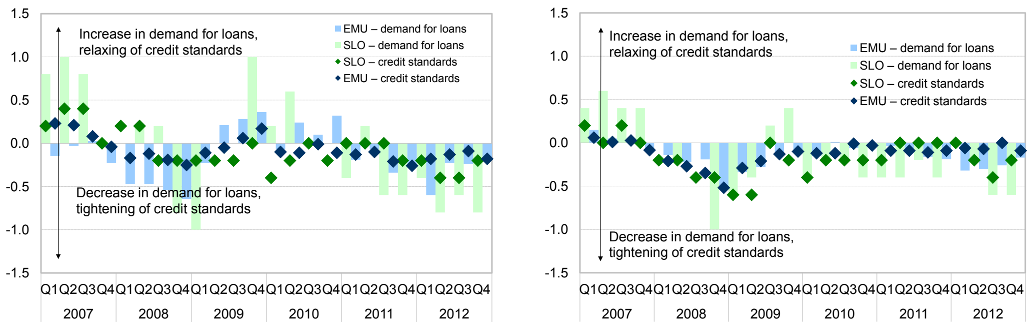
Figure 5.2: Corporate demand for loans and credit standards



Source: ECB, Bank of Slovenia

Loans to households

Figure 5.3: Household demand for housing loans (left) and consumer loans (right) and change in credit standards



Source: ECB, Bank of Slovenia

Household demand for housing and consumer loans was down sharply in 2012, most notably in the second half of the year.

Household demand for housing loans was down sharply in 2012. Demand for consumer loans was also down, but this was more evident during the second half of 2012. The banks gave as reasons the decreased needs of households for financing and, to a lesser degree, the use of other sources of financing, with an emphasis on household savings. The banks also tightened credit standards for the approval of housing and consumer loans somewhat owing to their aversion to assume risks, taking into account expectations of lower economic, housing and lending activities.

[1] Five Slovenian banks participate in the Bank Lending Survey according to the methodology of the European System of Central Banks. Methodological limitations mean that the results for Slovenia and for the euro area as a whole are not directly comparable, and the substantive conclusions are less solid than in quantitative analyses.

5.3 Changes in balance sheet structure

5.3.1 Factors in the decline in total assets

The banking system's total assets declined by 6.3% last year.

The contraction of the banking system's total assets intensified last year, when total assets declined by EUR 3.1 billion. Year-on-year growth in total assets stood at -6.3% at the end of 2012, the negative growth having doubled relative to the previous year. The main factor in the accelerated decline in total assets was the banks' continuing repayment of debt on the wholesale markets, a moderate decline in government deposits and a contraction in lending.

Table 5.4: Banking system's balance sheet as at 31 March 2013

	Stock, EUR million			Growth, EUR million	Year-on-yer growth, %	
	2011	2012	Mar 2013	v 2012	2012	Mar 2013
Assets						
Cash and balances at central banks	1,389	1,604	1,827	215	15.5	17.1
Loans	38,020	35,500	35,476	-2,520	-6.6	-8.2
to banks	4,684	4,269	4,775	-415	-8.8	-9.6
to non-banking sector	33,143	30,964	30,414	-2,179	-6.6	-8.3
of which:						
… to non-financial corporations	18,320	16,441	16,092	-1,878	-10.3	-11.6
… to households	9,060	8,847	8,744	-213	-2.3	-2.8
… to the government	1,219	1,753	1,745	534	43.8	14.0
… to OFIs	1,824	1,469	1,439	-355	-19.5	-19.8
Financial assets / securities	8,023	7,303	7,088	-719	-9.0	-12.5
Other	1,811	1,717	1,719	-94	-5.2	-4.5
Liabilities						
Financial liabilities to the Eurosystem	1,741	4,013	3,986	2,271	130.4	4.9
Liabilities to banks	12,919	10,698	9,808	-2,221	-17.2	-19.2
of which to foreign banks	9,598	7,621	6,802	-1,977	-20.6	-23.1
Liabilities to non-banking sector (deposits)	24,580	23,856	24,518	-724	-2.9	0.4
of which to non-financial corporations	3,890	3,714	4,048	-176	-4.5	6.0
of which to households	14,863	14,829	14,864	-34	-0.2	-0.9
of which to government	3,463	3,023	2,985	-440	-12.7	-2.7
of which to OFIs	1,464	1,270	1,353	-195	-13.3	-13.9
Debt securities	3,715	2,165	2,312	-1,550	-41.7	-31.3
Subordinated liabilities	1,432	866	959	-565	-39.5	-33.3
Equity	3,950	3,737	3,674	-213	-5.4	-8.9
Other	905	789	853	-116	-12.8	-6.0
Total assets	49,243	46,125	46,110	-3,118	-6.3	-8.0

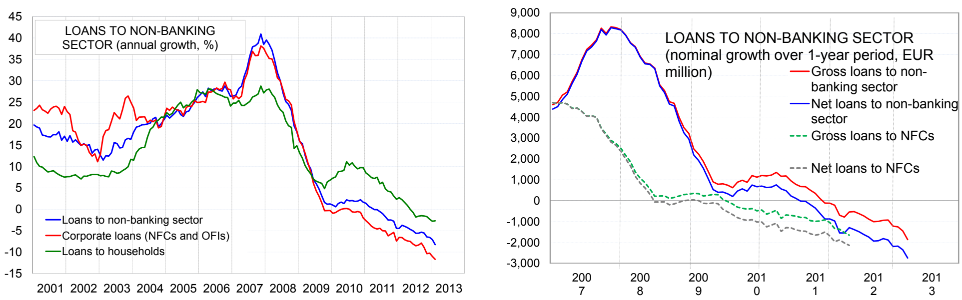
Source: Bank of Slovenia

5.3.2 Stalled lending and changes in the structure of the banks' investments

The contraction in loans to the non-banking sector, in particular non-financial corporations, continues.

Loans to the non-banking sector continued to contract last year and at the beginning of this year. The stock of loans to the non-banking sector contracted by 6.6% in 2012, while year-on-year growth in March 2013 was -8.3%. The sharpest decline in 2012 (of 10.3%) was recorded by loans to non-financial corporations, while loans to households were down 2.3%. Growth in loans to households turned negative in the middle of last year.

Figure 5.4: Year-on-year growth in loans to the non-banking sector in percentages (left), and gross and net increase in loans to the non-banking sector in EUR million (right)

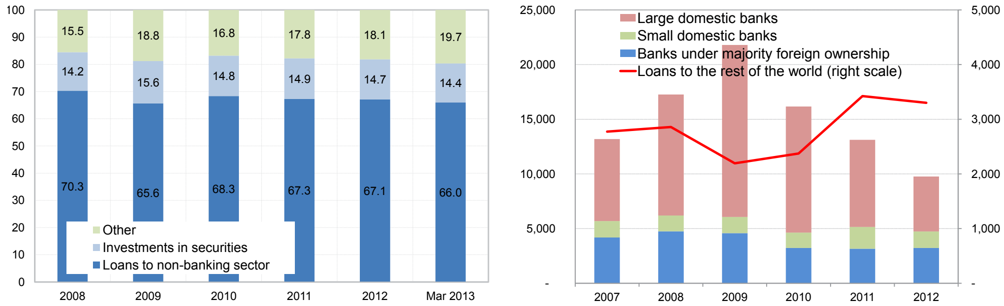


Source: Bank of Slovenia

The banks are using more liquid investment to repay maturing liabilities. Total assets are thus contracting, while the structure of investments remains unchanged.

The contraction in loans is accompanied by a contraction in total assets. The banks are earmarking more liquid investments, such as securities and deposits at the central bank, for the repayment of maturing liabilities. The structure of the banking sector's investments was virtually unchanged last year. The proportion of total assets accounted for by loans remains at two thirds. The banking system's investments in securities declined by EUR 718 million or 8.9% last year, but the proportion of total assets accounted for by securities was down minimally.

Figure 5.5: Structure of the banking system's investment in percentages (left) and newly approved loans to Slovenian corporates by bank group in EUR million (right)



Sources: Bank of Slovenia

Demand for loans from households and non-financial corporations remains weak due to the adverse macroeconomic situation and falling income.

Demand for loans remains weak, in particular from non-financial corporations and households. Economic activity stalled again in 2012. In such conditions, corporates find it difficult to opt for investment projects supported by an appropriate capital investment. Slovenian corporates are more indebted on average compared with other euro area countries, and some are encountering problems repaying existing loans. The disposable income of households and their demand for loans are falling due to the contraction in economic activity and fiscal consolidation. Less accessible loans and increased uncertainty also drive down demand in the real estate market, which is contributing to a fall in real estate prices. The value of real estate eligible as loan collateral is declining, which results in a decline in creditworthy demand for loans.

The stock of newly approved loans has contracted most at the domestic banks, where the proportion of newly approved loans accounted for by restructured loans is also high.

An analysis of newly approved loans to the non-banking sector by domestic bank group and newly approved loans from the rest of the world reveal pressures on the supply side of the lending market. Slovenian banks approved new loans to the non-banking sector of EUR 12.9 billion in 2012, 25% less than in 2011. The banks approved new loans to non-financial corporations in the amount of EUR 9.8 billion in 2012, or EUR 12 billion less than in 2009 when lending activity began to decline in Slovenia. The large banks under majority domestic ownership are making the most drastic cuts in lending. In 2012 the aforementioned bank groups approved less than one third of the loans approved in 2009. The maturity breakdown of newly approved loans by the banks under majority domestic ownership is sharply skewed towards short-term loans with a maturity of up to 1 year. Some 55% of all newly approved loans are accounted for by restructured loans. On the other hand, the banks under majority foreign ownership reduced their stock of newly approved loans by 30% in 2010, but have maintained a relatively stable stock of newly approved loans of around EUR 3.2 billion over the last three years. Of the aforementioned transactions, half were with a maturity of more than 1 year, while restructured loans accounted for 32% of newly approved loans in 2012.[1] The proportion of newly approved loans accounted for by restructured loans was 47% for the banking system overall.

To a great extent, the domestic banks conclude shorter new transactions than the banks under majority foreign ownership. The banks conclude transactions with similar

An analysis of loans reveals that the banks under majority domestic ownership are severely limiting supply. In 2012 the aforementioned banks approved EUR 963 million in loans with a maturity of more than 1 year that are not restructured loans, representing 28% of their average total assets during the same year. The banks under majority foreign ownership approved EUR 968 million in loans of the same type over the same period, representing 67% of their average total assets. The bank groups approved new loans in 2012 to similar corporates in terms of profitability and indebtedness. It cannot be concluded on the basis of balance sheet figures that the corporate clients of the banks under majority foreign ownership are more profitable or less indebted.

The banks are most limited in approving new loans by difficulties in the refinancing of liabilities to foreign wholesale funding sources and the burden of non-performing claims. The large domestic banks, which are reducing the stock of newly approved loans most, also have the highest proportion of claims more than 90 days in arrears. A high proportion of non-performing claims reduces interest income, while eating into profits and thus capital via impairment and provisioning costs. To ensure capital adequacy, the banks whose owners are postponing capital injections are reducing the scope of their operations and shifting their investments to less-risky forms.

[1] Here the partial shift in demand for loans towards the banks under majority foreign ownership should be noted, although the average rate of excess demand is highest at the aforementioned banks. (Source: 2012 bank survey)

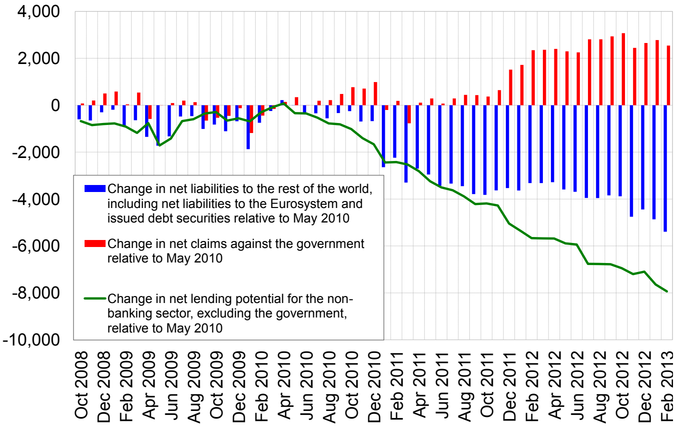
The banks are most limited in approving new loans by

1. pressure from nonperforming claims on capital adequacy and

2. limited opportunities to refinance liabilities to foreign wholesale funding sources.

The banks under majority domestic ownership are also limited in terms of refinancing their liabilities to the rest of the world. The banks under majority domestic ownership recorded a negative rate in rolling over their liabilities to foreign banks, while the banks under majority foreign ownership rolled over 38% of their maturing liabilities to foreign banks. However, the banks under majority foreign ownership are facing the intensified restructuring of bank funding, as they are being forced to lower their LTD ratio for the non-banking sector. In the context of increased refinancing risk, the banks are placing funds in more liquid forms and approving primarily short-term loans. The banks under majority domestic ownership will see EUR 1.1 billion in liabilities to foreign banks mature over the next three years, as well as EUR 1.9 billion in issued debt securities and EUR 3 billion in liabilities to the Eurosystem, which will further hinder their lending activity in the context of continued limited access to foreign wholesale funding. The government's borrowing in the rest of the world and the subsequent placement of funds at Slovenian banks could not compensate for the drop in foreign bank funding. The banks' net claims against the government sector were up in 2012, while their net liabilities to the rest of the world were down, the total net effect amounting to -EUR 2.1 billion.

Figure 5.6: Reduction in net lending potential for the non-banking sector, excluding the government sector, relative to May 2010 in EUR million



Source: Bank of Slovenia

The flow of capital and access to foreign sources of funding must be ensured and the negative effect of nonperforming claims limited in order to revive lending.

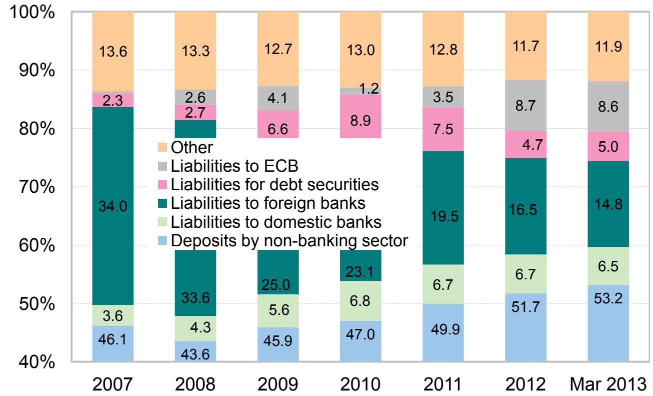
In order to revive the lending activity of the banks most affected by the contraction in lending, sufficient capital adequacy must be ensured, the burden on the portfolio from bad loans reduced and the conditions provided for healthy, creditworthy demand for loans.

5.3.3 Bank funding

The banks compensated for the decline in wholesale funding by borrowing from the Eurosystem.

The process of restructuring of the banks' funding continued intensively last year, and is still in progress. Banks reduced their dependence on wholesale funding, as their access to funding on foreign markets has been made more difficult by the uncertain situation on the international financial markets, and owing to the downgrading of Slovenia and banks. The stock of wholesale funding contracted by EUR 3.5 billion in 2012 to stand at EUR 9.8 billion, and by a further EUR 672 million in the first quarter of 2013, primarily owing to the banks' continuing debt repayments to the rest of the world. The banks made net debt repayments to the rest of the world of the world of nearly EUR 2 billion last year. Wholesale funding accounted for 19.8% of total assets at the end of this March, a decrease of 7.2 percentage points on the end of 2011. The banks compensated for the decrease in funding with more favourably priced funding at the ECB's second extraordinary 3-year LTRO. The banking system's liabilities to the Eurosystem increased by EUR 2.3 billion last year to EUR 4 billion or 8.7% of total assets. This only temporarily mitigated refinancing risks, however, and the banks will have to replace these funds with other sources at maturity. Whether or not the banks succeed in maintaining or increasing existing primary sources of funding, secure new sources on the international financial markets and stimulate the interest of foreign investors depends on the economic situation in Slovenia and the stability of the banking system, and thus movement in credit ratings.

Figure 5.7: Breakdown of bank funding in percentages

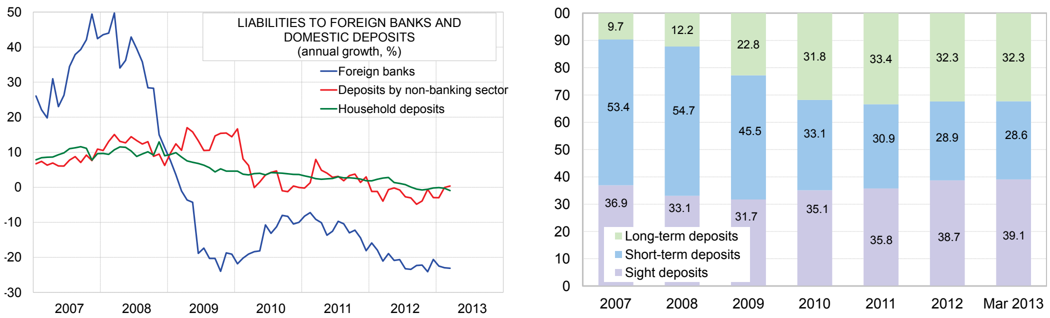


Source: Bank of Slovenia

All sectors reduced their bank deposits, most notably the government and non-financial corporations.

The stock of deposits by the non-banking sector declined by EUR 724 million in 2012, or 2.9%. The proportion of total assets accounted for by the aforementioned deposits rose by 1.8 percentage points to 51.7% owing to the contraction in total assets. Deposits were down in all sectors, most notably government and corporate deposits. Household deposits were down for the first time in year-on-year terms in September 2012, while the stock of household deposits was down 0.2% at the end of last year. The above-average shift in the aforementioned deposits between August and October was a result of the adverse economic and social situation in Slovenia, and in part due to government measures linked to social transfers. Savings held at banks can have an impact on the eligibility for and extent of government assistance. Households returned a portion of their deposits to the banks at the end of 2012 and over the first three months of this year. Nevertheless, year-on-year growth in March 2013 remained negative at -0.9%.

Figure 5.8: Year-on-year growth in funding (left) and maturity breakdown of deposits by the non-banking sector (right) in percentages



Source: Bank of Slovenia

The maturity breakdown of deposits by the non-banking sector shortened last year due to a change in the maturity breakdown of government deposits. The proportion of total deposits accounted for by government deposits was down 10 percentage points to stand at 54.4%, while the proportion of sight and short-term deposits was up. The shortening of the maturity of funding does not provide a positive stimulus to increase long-term lending, which is required for new investments and to revive the economy.

Differences in the structure of funding by individual bank group

The banks adjusted the structure of funding to the market conditions in different ways.

The adjustment of the structure of funding to the current market conditions varied from bank to bank due to differences in size and ownership structure. The domestic banks reduced their proportion of debt securities in 2012 and, to a lesser extent than the banks under majority foreign ownership, made debt repayments to the rest of the world. Because they were also faced with a drop in deposits by the non-banking sector and the inability to issue new debt securities, the domestic banks were forced to replace the aforementioned sources by borrowing from the Eurosystem. The proportion of total assets accounted for by these sources is above the average of the banking system overall at the large and small domestic banks. On the contrary, the banks under majority foreign ownership compensated for the decrease in funding by increasing deposits by the non-banking sector and less so through funds secured from the Eurosystem. The aforementioned bank group primarily reduced its liabilities to foreign banks, as the financing of subsidiary banks in Slovenia is being reduced intensively in line with the amended policies of parent banks.

Table 5.5: Forms of funding as a proportion of total assets by individual bank group

(%)	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Banking system overall
	Liabilities to foreign banks			
2009	16.8	3.2	48.9	25.0
2010	15.0	1.6	47.8	23.1
2011	12.2	1.4	40.8	19.5
2012	11.1	0.4	31.8	16.5
Mar 2013	9.4	0.3	29.5	14.8
	Deposits by non-banking sector			
2009	49.6	61.1	33.7	45.9
2010	49.8	62.4	36.0	47.0
2011	52.3	62.9	40.7	49.9
2012	52.9	62.2	46.4	51.7
Mar 2013	54.2	63.3	48.0	53.2
	Household deposits			
2009	30.3	33.1	18.2	27.0
2010	31.4	34.7	20.9	28.7
2011	32.6	38.1	22.6	30.2
2012	34.6	41.1	24.8	32.2
Mar 2013	34.1	43.0	25.3	32.2
	Government deposits			
2009	8.7	10.4	4.7	7.7
2010	6.9	9.6	2.9	6.0
2011	8.2	10.2	3.5	7.0
2012	7.2	8.8	4.7	6.6
Mar 2013	7.4	7.7	4.3	6.5
	Issued debt securities			
2009	10.0	4.9	0.0	6.6
2010	13.2	7.1	0.0	8.9
2011	11.2	6.6	0.0	7.5
2012	6.9	6.1	0.0	4.7
Mar 2013	7.4	5.7	0.1	5.0
	Liabilities to the Eurosystem			
2009	3.9	6.3	3.7	4.1
2010	0.9	3.3	1.2	1.2
2011	3.4	5.9	3.1	3.5
2012	9.6	11.0	6.2	8.7
Mar 2013	9.4	10.8	6.4	8.6

Source: Bank of Slovenia

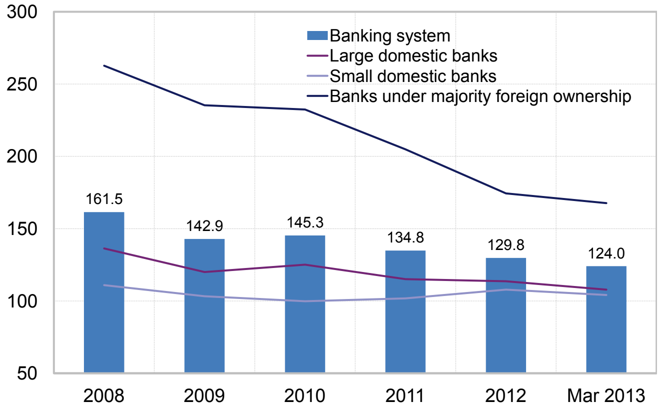
Loan-to-deposit ratio

The ratio of loans to the nonbanking sector to deposits by the non-banking sector declined for the second consecutive year.

The decline in the ratio of loans to the non-banking sector to deposits by the non-banking sector (LTD ratio) in 2012 was the result of a more significant contraction in loans than in deposits. The aforementioned ratio was down 5 percentage points to stand at 129.8%. The value of the LTD ratio remains high, but has fallen since the outbreak of the crisis when the banks began making debt repayments on the wholesale markets. This increased the importance of funds secured by the banks on the domestic retail market, i.e. primary sources of funding. The sustainability of bank funding is improving, but the reduction of financial leverage continues. In the context of an increase in deposits and a contraction in loans to the non-banking sector, the LTD ratio fell by a further 5.8 percentage points in the first quarter of 2013 alone to stand at 124%.

The differences in the ratio of loans to the non-banking sector to deposits by the non-banking sector between bank groups have narrowed. The most significant step was made by the banks under majority foreign ownership, which reduced their LTD ratio by 34 percentage points to 174.4%, which is still high compared with the groups of domestic banks. Following the outbreak of the crisis, parent banks amended their policies for funding subsidiary banks in Slovenia. The latter therefore focused intensively on securing deposits by the non-banking sector in the context of declining liabilities to parent banks.

Figure 5.9: Ratio of loans to the non-banking sector to deposits by the non-banking sector at year-end by bank group in percentages



Source: Bank of Slovenia

Competition between the banks for deposits by the non-banking sector has increased. The banks under majority foreign ownership were most successful at attracting deposits.

Limited borrowing in the rest of the world by the domestic banks and debt repayments by the banks under majority foreign ownership in the rest of the world have led to increased competition among banks groups for primary domestic funding. The poor performance of the domestic banks, the downgrading thereof and negative media exposure have undermined confidence in the banks' performance. The banks under majority foreign ownership have managed to attract a portion of deposits, although they offer lower interest rates on new transactions than the domestic banks, while the same bank group offered loans to clients under more favourable conditions, which has led to the further switching between banks by clients. The stock of deposits by the non-banking sector was up by 13.5% at the banks under majority foreign ownership in 2012, while the groups of domestic banks recorded negative growth. The most significant shift in deposits occurred in the household sector, where the stock of deposits was down by EUR 402 million at the large domestic banks, while the stock was up by EUR 310 million at the banks under majority foreign ownership. A partial shift in deposits was also seen at non-financial corporations and other financial institutions, in particular insurers, whose investment policies are tied to the credit ratings of banks. Growth in household deposits stabilised at all three bank groups during the first quarter of this year.

Table 5.6: Year-on-year growth in deposits by individual sector and bank group in percentages

(%)	Deposits by NBS			Deposits by NFCs			Deposits by OFIs			Government deposits			Household deposits		
	2011	2012	Mar 2013	2011	2012	Mar 2013	2011	2012	Mar 2013	2011	2012	Mar 2013	2011	2012	Mar 2013
Large domestic banks	1.1	-8.6	-3.9	-9.2	-8.7	2.6	4.4	-24.2	-31.3	15.3	-21.3	-6.4	-0.0	-4.1	-5.2
Small domestic banks	-3.7	-5.0	-1.0	-19.8	-19.0	-13.7	-36.5	-28.8	-27.7	1.2	-17.6	-13.1	5.0	3.4	6.4
Banks under majority foreign ownership	12.2	13.5	11.9	11.2	6.2	17.0	99.3	15.9	23.4	18.0	35.5	21.6	7.1	9.6	8.3
Total	3.0	-2.9	0.4	-4.3	-4.5	6.0	13.6	-13.3	-13.9	13.6	-12.7	-2.7	2.0	-0.2	-0.9

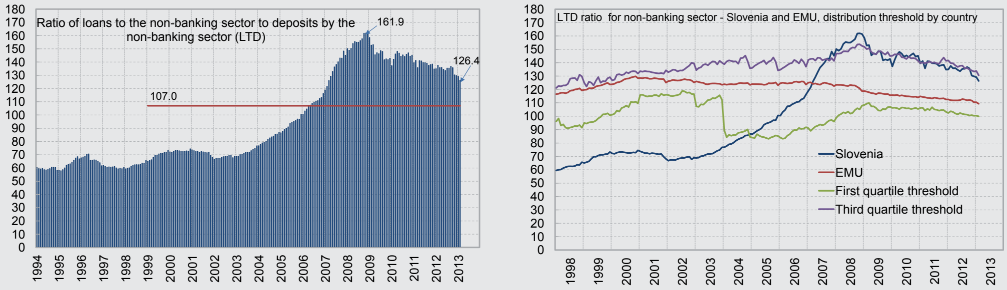
Source: Bank of Slovenia

Box 5.1: Changes in the loan-to-deposits ratio for the non-banking sector and debt repayments by the banks

The ratio of loans to the non-banking sector to deposits by the non-banking sector (loan-to deposit ratio or LTD ratio) was below the 80% threshold through the ten-year period until the end of 2003, with capital controls until 1999. The LTD ratio began to rise in 2003, with particular rapid growth recorded in 2007. This coincides with the period of high economic growth, Slovenia's inclusion in the European Union and subsequently the euro area, and the entry on the market and more active role of the banks under majority foreign ownership, which funded lending growth by borrowing from parent banks. The highest LTD ratio was achieved in November 2008, at 162%. It then began to fall and stood at 126.4% in February 2013. The average LTD ratio stood at 107% following the elimination capital controls in 1999.

Despite its rapid decline, the LTD ratio of the Slovenian banking system has fluctuated at around the third quartile of EMU countries, while the LTD ratio for the entire euro area stood at 109% in February 2013.

Figure 5.10: LTD ratio for the non-banking sector and average since 1999 (left), and comparison of Slovenia with the euro area (right) in percentages

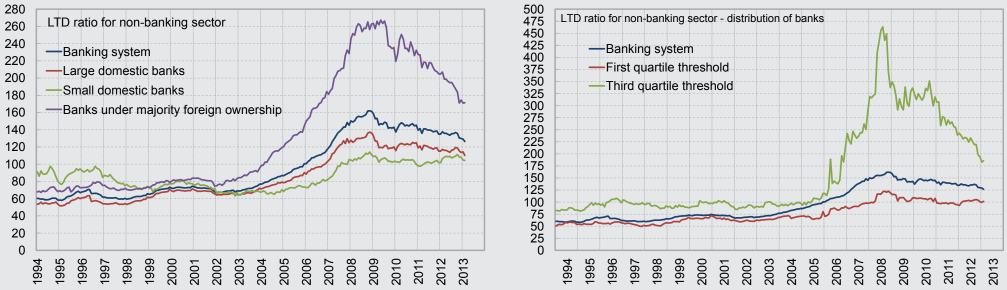


Sources: Bank of Slovenia, ECB (SDW, MFI Balance Sheet Items)

There are significant differences in the LTD ratio between banks. The large domestic banks had an LTD ratio of 110% at the end of February 2013, while the LTD ratios of the small domestic banks and the banks under majority foreign ownership stood at 104% and 171% respectively. In historical terms, the banks under majority foreign ownership recorded the sharpest increase in the LTD ratio. The LTD ratio also doubled at the large domestic banks between 2003 and 2008, but never exceeded 138%, while it never exceeded 114% at the small banks. The LTD ratio reached its peak at the banks under majority foreign ownership at 267%, and at 485% taking into account only those banks owned by Austrian banks.

The distribution of the banks with regard to the LTD ratio rose sharply after 2006. The gap between the first and third quartiles rose from 50 percentage points to 200 percentage points over the course of several years, and persisted at that level until the end of 2010. The largest gap was achieved in August 2008 at 290 percentage points. This coincides with the historically high level of liabilities to foreign banks as a proportion of total assets, which at the time reached 36%. The distribution of the banks has fallen sharply again in the most recent period. The gap between the first and third quartiles stood at just 84 percentage points in February 2013, which primarily reflects the accelerated decline in the LTD ratio at the banks under majority foreign ownership.

Figure 5.11: LTD ratio by bank group (left) and gap between the first and third quartile of the distribution of banks with regard to the LTD ratio for the non-banking sector (right) in percentages

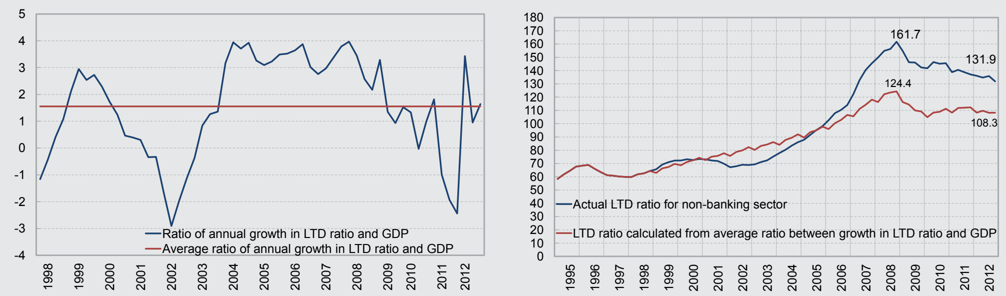


Source: Bank of Slovenia

Target LTD interval

In addition to structural characteristics such as the increase in the LTD ratio due to Slovenia's integration in the euro area and the increased activity of the banks under majority foreign ownership, the LTD ratio is highly procyclical, similar to credit growth. The ratio between growth in the LTD ratio and GDP indicates that there was a significant deviation from the long-term average, particularly between 2003 and 2008, when the LTD ratio grew four times faster than GDP. Growth in the LTD ratio was sharply negative in 2001, 2002 and 2011 in the context of positive GDP growth due to a lag in credit growth with respect to growth in deposits by the non-banking sector.

Figure 5.12: Ratio of growth in the LTD ratio for the non-banking sector to real GDP growth and the long-term average (left), and actual LTD ratio and the LTD ratio calculated taking into account the long-term average ratio of growth in the LTD ratio and GDP growth (right), quarterly figures in percentages



Sources: Bank of Slovenia

The ratio between growth in the LTD ratio and GDP growth can be interpreted as the deepening of the banking system given the available level of deposits by the non-banking sector. The long-term average of the aforementioned ratio is 1.56. Had the ratio between growth in the LTD ratio and GDP growth tracked the average value since 1999, the LTD ratio would have reached a maximum value of 124.4% in the final quarter of 2008 and not 161.7%, while the lowest value, from early 2007, would have been 105%. Likewise, the LTD ratio would have been 108.3% at the end of the observation period (i.e. the end of 2012) instead of 131.9%.

This indicates a target LTD interval of between 105% and 125%. Because the easing of requirements regarding the value of the LTD ratio can be interpreted as counter-cyclical behaviour, it makes sense to permit a higher LTD ratio in the context of the risk of recession, and to reduce the ratio in response to the risk of the overheating of the economy through stricter limits to prevent a rise in the LTD ratio.

At 126.4%, the LTD ratio at the banking system level was close to the upper bound of the target interval in February 2013. Year-on-year growth in loans to the non-banking sector was -8.2% in February, while growth in deposits by the non-banking sector was -0.1%. Were such growth to be repeated, the LTD ratio would decline by 10 percentage points over a one-year period to 116%. Halting a drop in the LTD ratio therefore represents a greater challenge than achieving the target interval.

The prompt introduction of a target interval for the banks would only deepen the recession

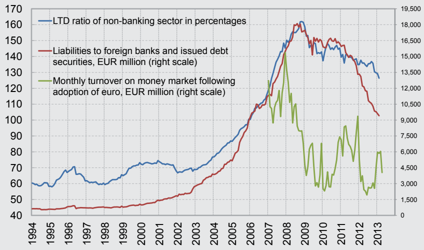
Despite pressure on Slovenia to follow the example of other countries and set an upper limit on the LTD ratio for individual banks (e.g. OECD Economic Surveys: Slovenia 2013), such a measure would only deepen the recession in the current conditions, prevent an economic recovery and have an adverse effect on the liquidity of corporates and banks. The banks would achieve a lower LTD ratio by further reducing lending to the non-banking sector, which would result in a contraction in the stock of liabilities to foreign banks, meaning an additional outflow of liquidity to the rest of the world. Without growth in deposits by non-banking sectors, it is impossible to expect a sustainable reduction in the LTD ratio.

A measure to limit the upper threshold of the LTD target interval at the level of individual banks would thus be very selective, as it would primarily have an effect on the banks under majority foreign ownership. At 110%, the LTD ratio of the large domestic banks is already below the median value of the target interval; at 104% at the small banks, it is below the lower threshold of the target interval. A reduction in the LTD ratio at the banks under majority foreign ownership from the current level of 171% to below 125% would mean a drastic contraction in lending. The effect would be even more significant because the banks under majority foreign ownership are not homogeneous and the LTD ratio of individual banks deviates considerably from the average for this bank group. The banks can only rely on a decrease in the LTD ratio due to higher growth in deposits owing to the redistribution of deposits among the banks, while growth in deposits at the banking system level is not expected due to the adverse economic situation and high unemployment.

The negative effect of a reduction in the LTD ratio through a contraction in lending in the context of an unchanged stock of deposits has been confirmed by a simulation performed by individual banks. Assuming an unchanged stock of deposits by the non-banking sector, the aforementioned simulation also includes the repayment of liabilities to the ECB from LTROs and takes into account the residual maturity on wholesale sources of funding over the next three years. The stock of loans to the non-banking sector is defined using the stock of deposits and an assumed value for the LTD ratio, where a decrease in the LTD ratio at the banks under majority foreign ownership to 125% is envisaged. The simulation also takes into account a further reduction in the LTD ratio at the domestic banks, based on the assumption that the aforementioned banks will increase loans to the non-banking sector to the extent that they are able to finance such loans via deposits by the non-banking sector, given their limited access to the foreign financial markets. A decrease in the LTD ratio to around 100% is envisaged for the domestic banks. If the aforementioned ratio is already lower, maintaining the LTD ratio at current levels is envisaged. In the context of these assumptions, lending to the non-banking sector would contract by an additional 20% over the next three to four years, while liabilities to foreign banks would be halved and the stock of issued securities reduced by one quarter.

With the outbreak of the financial crisis and limited access by the domestic banks to the international financial markets, the domestic banks, excluding SID, began reducing the stock of wholesale funding, i.e. liabilities to foreign banks and issued securities. That drop was highest in 2012, when the stock of wholesale funding was down by EUR 3.5 billion, EUR 2.2 billion of the aforementioned amount at the domestic banks excluding SID. The process of reducing wholesale funding dictated a reduction in the LTD ratio and also affected the liquidity of the banking system. The volume of turnover on the interbank market was down sharply in 2008, with a temporary improvement in 2011, followed by a renewed fall in 2012. Taking into account data regarding the residual maturity of the banks' liabilities, the decrease in the stock of the domestic banks' wholesale funding will slow sharply in the future. Liabilities of the domestic banks excluding SID in the amount of just under EUR 580 million mature this year, while EUR 114 million in wholesale funding matures in 2014. This means that the pressure to repay wholesale funding on the lowering of the LTD ratio will also diminish. If the banks under majority foreign ownership were forced to reduce their LTD ratio significantly, this would mean a new wave of reductions in liabilities to foreign banks by the aforementioned bank group. These banks would increase the already considerable pressure on deposits by the non-banking sector, while earmarking excess liquidity for the repayment of liabilities to foreign banks resulting in a new outflow of liquidity to the rest of the world.

Figure 5.13: LTD ratio for the non-banking sector in percentages, and the stock of wholesale funding and monthly turnover on the money market in EUR million



Source: Bank of Slovenia

Also having a significant impact on the reduction of the LTD ratio at the banks under majority foreign ownership and thus in the banking system overall was a measure adopted by Austrian supervisory institutions (the FMA and OeNB). For large internationally active Austrian banks, the aforementioned measure introduces principles regarding the greater sustainability of the business models of subsidiary banks, with an emphasis on the funding of new net lending by subsidiary banks via local funds. It defines the loan-to-local stable funding ratio (LLSFR), whereby stable sources of funding are defined as deposits by the non-banking sector, supranational funding, securities issued to third parties and the equity of third parties. In the case of Slovenia, however, the sources of funding of the subsidiaries of foreign banks primarily comprise deposits by the non-banking sector and liabilities to foreign banks. There is thus no significant difference between the LLSFR and the LTD ratio. The Austrian measure assumes that an LLSFR exceeding 110% at a subsidiary bank exposes that bank to the risk of an unsustainable business model, with an emphasis on an increase in credit risk during a crisis. The subject of in-depth supervision and the coordination of supervisory bodies with regard to the sustainability of business models and additional supervisory measures are banks that exceed 110% during the calculation of the LLSFR based on net changes in stocks, while exceeding 110% during the calculation of the LLSFR based on the stocks of subsidiary banks is defined as exposure to risk[1].

The described measure has a considerable adverse impact on the Slovenian market in the recession.

1. In the context of stagnating deposits, such a measure prevents lending growth.

2. It increases pressure on deposits. In the context of zero growth in deposits by the non-banking sector at the banking system level and the limiting of the LTD ratio to net changes in stocks, a bank owned by an Austrian bank can only achieve lending growth if it attracts the deposits of other banks. Increased competitive pressures on the distribution of deposits between the banks leads to a rise in deposit interest rates and thus the costs of bank funding, and reduces the stability of deposits.

3. Although the aforementioned measure primarily relates to the LTD ratio based on net changes in stocks, it is also a very strong indication of what the LTD ratio on existing transactions is expected to be. The banks with a very high LTD ratio thus reduce the ratio at an accelerated pace and are well below established limits for new transactions.

4. Although the measure only applies to certain banks under majority foreign ownership, it is a strong indication to all other banks, which become increasingly averse to assuming new risks.

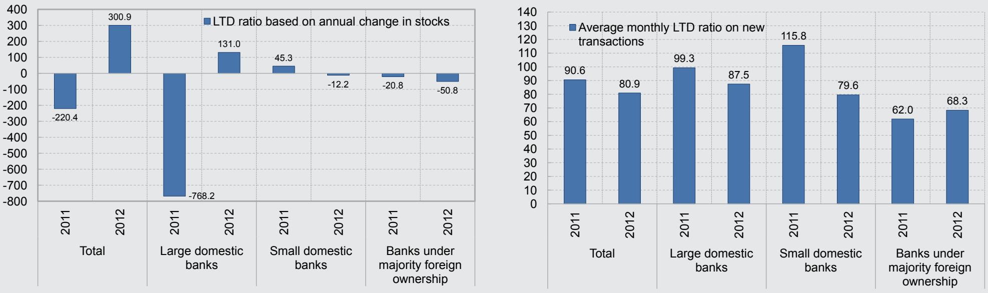
While the domestic banks are resolving problems with the credit portfolio, are relatively weak in terms of capital adequacy ratios and have limited access to funding on the international financial markets, the banks under majority foreign ownership are significantly better in all three of the aforementioned areas. At the beginning of the recession in 2008, the banks under majority foreign ownership withdrew from the financing of non-financial corporations, and today have a significantly lower proportion of non-performing claims than the domestic banks. They are also capitally sound. They can secure refinancing via parent banks and are not limited in that respect by Slovenia's credit rating. This bank group could contribute to a reversal in credit growth in the current conditions.

On the contrary, however, the banks under majority foreign ownership are contracting the scope of lending, similar to the domestic banks. In two years, the stock of deposits by the non-banking sector at the domestic banks has declined by a total of EUR 1.4 billion and increased at the banks under majority foreign ownership by the same amount. Despite such an increase in deposits, which taking into account an LTD ratio of 110% based on changes in stocks could mean an increase in lending to the non-banking sector by the banks under majority foreign ownership in the amount of EUR 1.5 billion, lending by the aforementioned bank group to the non-banking sector has declined by a total of EUR 530 million over two years. The banks under majority foreign ownership are thus the only bank group where the LTD ratio based on changes in stocks is negative due to a contraction in lending in the context of growth in deposits. The aforementioned ratio stood at -50.8% in 2012. This indicates that the measure, although it primarily relates to the LTD ratio calculated on net changes in stocks, is a strong signal to the banks regarding the desired value of the LTD ratio based on stocks, even more so because the LTD ratio based on stocks deviates significantly from the target value. The banks under majority foreign ownership are therefore accelerating efforts to reduce the LTD ratio by increasing deposits and at the same time reducing lending to the non-banking sector. Liquid funds obtained as such are earmarked for the repayment of liabilities to parent banks. The domestic banks thus find themselves lacking deposits and the domestic economy lacking loans. Even the small banks had a negative LTD ratio based on changes in stocks. In contrast to the banks under

[1] Source: 1) Supervisory guidance on the strengthening of the sustainability of the business models of large internationally active Austrian banks, FMA and OeNB, March 2012. 2) Background note on the strengthening of the sustainability of the business models of large internationally active Austrian banks, FMA and OeNB, March 2012. 3) Austria: Selected Issues, IMF Country Report No. 12/252, IMF August 2012.

majority foreign ownership, however, the small banks reduced the stock of deposits and increased the stock of loans. The large domestic banks achieved a positive LTD ratio based on changes in stocks of 131% in 2012, but only because they reduced the stock of loans to the non-banking sector more than the stock of deposits.

Figure 5.14: LTD ratio of the non-banking sector based on annual changes in stocks (left) and on new loans with a maturity exceeding 1 month (right) by bank group in percentages

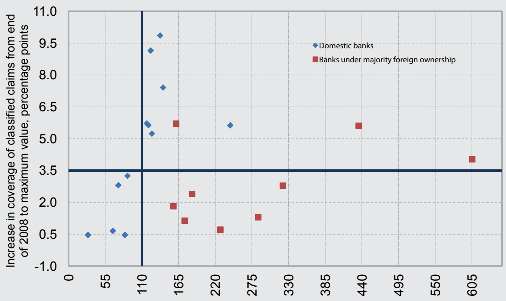


Source: Bank of Slovenia

The repayment of loans and impairments play an important role in the LTD ratio based on changes in stocks. Taking into account only new transactions on a gross basis, excluding repayments and impairments, with a maturity exceeding one month to avoid double counting of revolving transactions in monthly data, the average monthly LTD ratio at the banks under majority foreign ownership is somewhat higher in 2012, at 68.3%, but still lags 11 percentage points behind the small banks and nearly 20 percentage points behind the large banks. The fact that no bank group achieves an LTD ratio of 100% on new transactions indicates the banks' strong aversion to assume new risks, as the banks do not even approve new loans in the amount of the new fixed-term deposits they attract with a maturity exceeding one month.

Austrian supervisory bodies primarily argued the definition of a maximum sustainable LLSFR based on stocks and net changes in stocks of 110% in connection with the LTD ratio and coverage by impairments, in the sense that a high LTD ratio increases credit risk during a crisis. A comparison of the LTD ratio with the coverage of classified claims by impairments indicates that, in the case of Slovenian banks, limiting the LTD ratio to 110% would make sense primarily for the banks under majority domestic ownership. The notable difference in this bank group is that the banks with an LTD ratio exceeding 110% in 2008 recorded a sharper increase in the coverage of classified claims by impairments in the years that followed. That is not a reliable indication of an increase in credit risk during a crisis. Nearly all banks under majority foreign ownership had an LTD ratio exceeding 160% in 2008 and a higher ratio than the majority of domestic banks. However, at the majority of banks under majority foreign ownership, the coverage by impairments from the end of 2008 to the maximum value did not increase by more than 3.5 percentage points, which is comparable with the domestic banks with the lowest LTD ratios.

Figure 5.15: LTD ratio in 2008 compared with the increase in coverage of classified claims from the end of 2008 to the maximum percentage of impairments in percentages



Source: Bank of Slovenia

In terms of credit risk, the LTD ratio can be sustainable at very high levels provided a bank has the appropriate management, good risk management, stable sources of funding, sufficient capital and an effective exit strategy. The liquidity available to corporates and banks falls in the context of a rapid decline in an LTD ratio that is not defined on the basis of higher growth in deposits. The recession, the contraction in lending and the aforementioned measures adopted by Austrian supervisory institutions are leading to a decline in the LTD ratio of the Slovenian banks. However, a decrease in the LTD ratio without growth in deposits and merely through a contraction in lending is not sustainable in the long term, and only means a reduction in liabilities to foreign banks and an outflow of liquidity to the rest of the world. One consequence of meeting requirements for a lower LTD ratio through a contraction in lending could be a more rapid decline in deposits. Thus the effect could be the complete opposite, resulting in an increase in the LTD ratio despite targeting a decrease in the aforementioned ratio. A large dose of patience will thus be required to achieve an LTD ratio value within the target interval. A sustainable decrease in the LTD ratio will only be possible in the context of sufficient growth in deposits by the non-banking sector or the entry of new banks that would assume a portion of the credit portfolio and finance it with own sources of funding. The write-off or exclusion of non-performing loans will also lead to a reduction in the LTD ratio.

5.3.4 Costs of bank funding

Bank funding costs rose last year as a result of higher costs of equity.

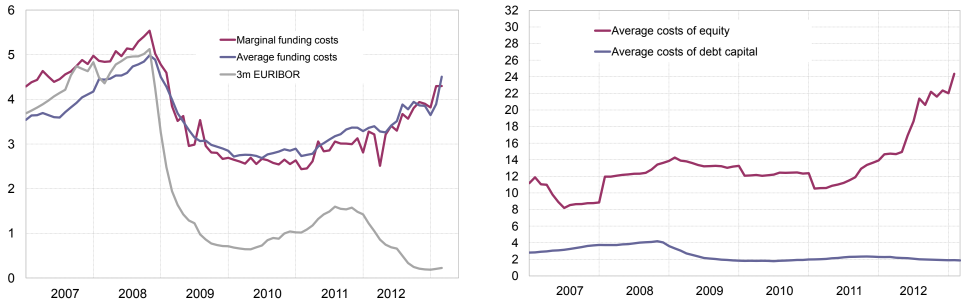
Average bank funding costs were up 1.22 percentage points during the first two months of this year to stand at 4.51%. A similar trend was seen in marginal funding costs, which were up 1 percentage point last year. Higher costs of equity contributed to the increase in average funding costs. On the other hand, the average costs of the banks' debt financing were down over the same period, by 0.39 percentage points to stand at 1.89% in 2012. Costs remained at this level in February 2013. Two factors contributed to the lower average costs of debt financing: falling interest rates on the international financial markets and the rising proportion of less expensive sources in the structure of bank funding. The fall in market interest rates was the result of cuts in the ECB's key interest rate in December 2011 and July 2012, and a high level of excess liquidity at the Eurosystem.

Average debt financing costs were down in 2012, but to a considerably lesser degree than the fall in interest rates on the international financial markets.

The 3-month EURIBOR was down 1.2 percentage points to stand at 0.19% at the end of 2012. The decrease in the banks' average debt financing costs was due only partly to the tracking of falling interest rates on the financial markets.

The proportion of bank funding accounted for by less expensive sources was up last year, as the banks borrowed at the ECB in March and reduced the proportion of funding on the wholesale markets. A reduction in the stock of debt securities, which were the most expensive source of debt financing in relative terms, had the most favourable impact on declining debt financing costs.

Figure 5.16: Average and marginal bank funding costs (left) and average costs of equity and debt capital (right) in percentages



Source: Bank of Slovenia

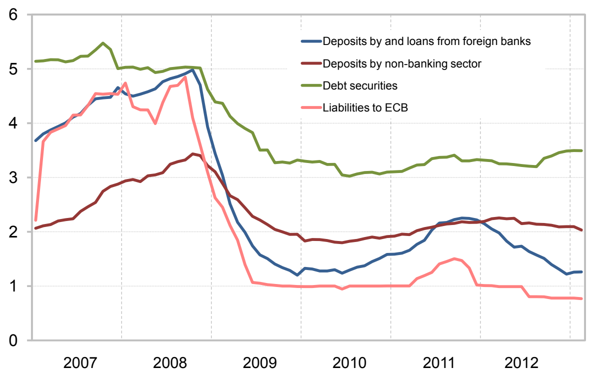
The average costs of equity increased further last year and during the first two months of this year.

The average costs of equity rose until the end of last year when they stood at a high 22%, an increase of 8 percentage points over a one-year period. Contributing to a further increase in the aforementioned costs during the first two months of this year was a sharp drop in bank share prices due to losses in the banking system.

The largest fall in the average funding costs was recorded by liabilities to foreign banks.

Individual forms of debt financing recorded different dynamics last year. The costs of debt financing were down 0.14 percentage points on average last year to 2.07%, and stood at 1.89% at the end of the year. Falling interest rates were most notably reflected in a decline in the average costs of funding in the form of liabilities to foreign banks, by 1 percentage point. The average costs of funding via deposits by the non-banking sector, the banking system's predominant source of funding, were down by less than 0.1 percentage points at the end last year relative to the previous year. Those costs exceeded 2% in February. Interest rates on issued debt securities stood at 3.5% at the end of last year and during the first months of this year, and were up 0.16 percentage points by the end of February relative to December two years ago.

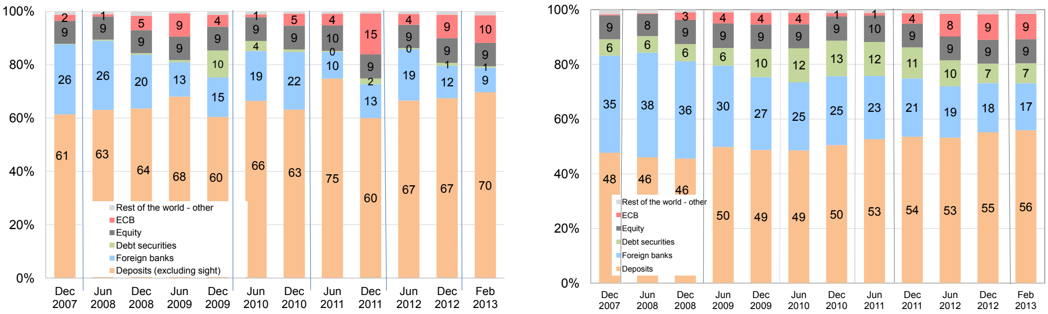
Figure 5.17: Average costs of banks' debt financing in percentages



Source: Bank of Slovenia

The stock of household deposits was down minimally last year, while the stock at the end of February 2013 was comparable with the stock at the end of last February. Interest rates on deposits by the non-banking sector and on household deposits were highest at the small domestic banks and lowest at the banks under majority foreign ownership. The fall in EURIBOR rates last year significantly outstripped the minimal decrease in interest rates on household deposits.

Figure 5.18: Breakdown of stock (left) and flows of bank funding on half-yearly and quarterly basis (right) in percentages



Source: Bank of Slovenia

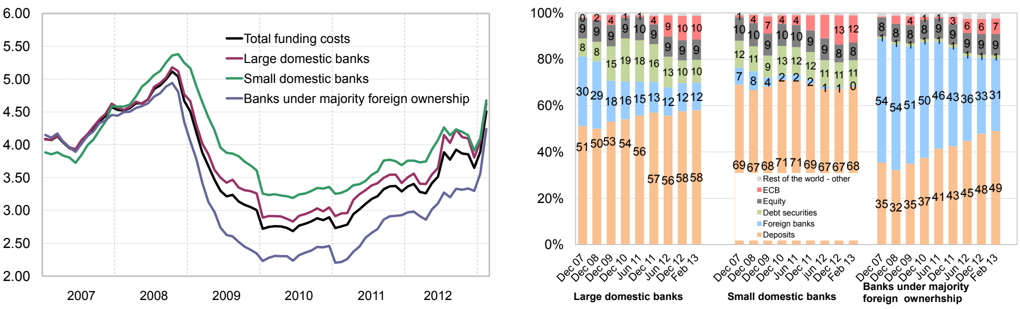
Differences in funding costs between bank groups[1]

The banks under majority foreign ownership had the lowest funding costs.

The lowest average funding costs in February this year were recorded by the banks under majority foreign ownership, at 4.24%, followed by the large domestic banks at 4.63% and the small domestic banks at 4.68%. The average difference between bank groups in 2012 in terms of total funding costs was similar to 2011: the difference between the large domestic banks and the banks under majority foreign ownership was 0.7 percentage points, while the difference between the small domestic banks and the banks under majority foreign ownership was 0.9 percentage points.

The average costs of debt financing were likewise lowest at the banks under majority foreign ownership at 1.5%, followed by the large domestic banks at 2% and the small domestic banks and 2.4%.[2] The differences in funding costs by individual bank group are a reflection of the structure of their funding and the costs of individual forms of funding. The highest proportion of funding of the banks under majority foreign ownership is accounted for by less expensive sources in the form of liabilities to foreign parent banks. The same bank group also offers the lowest interest rates on deposits by the non-banking sector. The proportion of funding via banks in the rest of the world is declining at all bank groups, while the proportion of relatively more expensive deposits by the non-banking sector is rising. Total funding costs rose most at the banks under majority foreign ownership between December 2011 and February 2013, by 1.3 percentage points, followed by the large domestic banks at 1.1 percentage points and the small domestic banks at 0.9 percentage points.

Figure 5.19: Average funding costs (left) and breakdown of funding (right) by bank group in percentages



Source: Bank of Slovenia

[1] The estimate of costs of equity is the same for all bank groups owing to the limited number of bank shares listed on the Ljubljana Stock Exchange. The differences in bank funding costs arise solely due to differences in the costs of debt capital and the proportions of funding accounted for by equity by individual bank group.

[2] From January 2012 to February 2013, the costs of debt financing were down by approximately the same amount at the banks under majority foreign ownership and the large domestic banks, by 0.4 percentage points, and by merely 0.2 percentage points at the small domestic banks.

The banks under majority domestic ownership compensated for the drop in wholesale funding during the first two years of the crisis by issuing debt securities, which were repaid for the most part last year. The proportion of funding accounted for by deposits by the non-banking sector rose due to the contraction in the banks' balance sheets. At the end of last year, the stock of deposits by the non-banking sector was comparable with the stock three years ago.

The proportion of funding accounted for by deposits by the non-banking sector has increased most at the banks under majority foreign ownership in recent years.

Most noteworthy over the last three years is the increase in the proportion of deposits by the non-banking sector at the banks under majority foreign ownership, as this bank group is increasingly focused on attracting household deposits. Prior to the outbreak of the crisis, deposits by the non-banking sector accounted for merely one third of total bank funding, while that figure had risen to one half by February 2013. Intensified debt repayments to the rest of the world over the last two years have also contributed to the increase in the aforementioned proportion at this bank group. There has been no significant change to the proportion of funding accounted for by deposits by the non-banking sector at the other two groups of banks. That figure stood at 58% at the large domestic banks at the end of February 2013 and at 68% at the small domestic banks.

Average funding costs via foreign banks were down most notably at the large domestic banks.

Funding in the form of deposits by the non-banking sector is cheapest at the banks under majority foreign ownership. The average costs of funding via deposits at the aforementioned bank group was just 1.7% in February 2013, followed by the large domestic banks at 2.1% and the small domestic banks at 2.6%.

Funding in the form of deposits is cheapest at the banks under majority foreign ownership.

The fall in interest rates on the financial markets was most notable in the lower costs of funding at foreign banks. The decline in the aforementioned costs at the level of the banking system overall was close to 1 percentage point between December 2011 and February 2013. Nevertheless, the decline in funding costs via banks in the rest of the world lagged slightly behind the fall in the EURIBOR over the same period. Costs were down most at the large domestic banks, by 1.2 percentage points to stand at 1.3%, followed by a decline of 0.8 percentage points to 1.2% at the banks under majority foreign ownership and by 0.3 percentage points to 3.4% at the small domestic banks.

The costs of issued bank securities were up by 0.35 percentage points between December 2011 and February 2013 to stand at 3.5% at the large domestic banks, but were down by 0.48 percentage points to 3.46% at the small domestic banks.

The decline in the costs of debt financing halted towards the end of last year and the first months of this year.

The decline in the average costs of debt financing in 2012 was the result of several factors: an increase in sources from the ECB, falling ECB interest rates and falling EURIBOR rates on the financial markets, and a reduction in the proportion of bank funding accounted for by issued debt securities, the most expensive form of debt financing for the banks. The decline in the costs of debt financing has come to a halt in recent months, as interest rates on the international financial markets have fallen to historically low levels. It should be noted that access to new funding is very limited and more expensive for the banks. The proportion of deposits by the non-banking sector, which represent a more expensive form of funding than sources from foreign banks, is rising, while the banks have only minimally reduced the costs of deposits. For this reason, no further decrease in the costs of bank funding can be expected.

5.4 Profitability and performance indicators

Income risk

The banks were exposed to significant income risk last year due to high impairment and provisioning costs and lower net interest.

Two factors contributed to increasing exposure to income risk last year: the gradual deterioration in the banks' credit portfolio and the declining volume of loans. Both factors led to a decline in the banks' interest income. Impairment and provisioning costs have been rising rapidly in recent years, and were up 32% last year relative to the previous year. Impairment and provisioning costs as a proportion of gross income were up, and actually exceeded total gross income at the banking system level.

The banking system generated a loss last year for the third consecutive year. According to unaudited figures, the banking system's pre-tax loss amounted to EUR 771 million, an increase of EUR 234 million on 2011's loss. The banks' net interest was down due to a sharper drop in interest income than in interest expenses. The banking system's non-interest income was up due to one-off effects. Early repurchases of hybrid instruments at a discount at NLB in June and July, and at NKBM in December last year were reflected in high year-on-year growth in the aforementioned income. Growth in the banks' non-interest income normalised during the early months of this year.

Table 5.7: Banking sector income statement

	Amount, EUR million			Growth, %			Ratio to gross income, %		
	2011	2012	Mar 2013	2011	2012	Mar 2013	2011	2012	Mar 2013
Net interest	1018	886	194	-2.8	-12.9	-21.1	70.3	56.6	67.6
Net non-interest income	429	680	93	-3.2	58.3	-2.6	29.7	43.4	32.4
of which net fees and commissions	347	339	83	-0.9	-2.0	-2.9	23.9	21.7	28.9
of which net gain/loss on financial assets and liabilities held for trading	-10	-2	9	…	…	…	-0.7	-0.2	3.3
Gross income	1447	1566	287	-3.0	8.2	-15.9	100	100	100
Operating costs	-777	-743	-175	-0.3	-4.4	-4.6	-53.7	-47.4	-61.0
labour costs	-416	-400	-96	-1.0	-4.0	-6.5	-28.8	-25.5	-33.6
Net income	2223	2309	462	-2.0	3.8	-12.0	153.7	147.4	161.0
net impairments and provisioning	1207	1594	105	48.7	32.1	-40.7	83.4	101.8	36.5
of which impairments and provisioning at amortised cost	950	1198	30	48.4	26.2	-82.1	65.6	76.5	10.4
Pre-tax profit	-537	-771	7	-442.5	-43.6	-139.5	-37.1	-49.2	2.6
corporate income tax	95	22	-3	…	…	…	6.5	1.4	-1.1
Net profit	-442	-748	4	…	…	…	-30.6	-47.8	1.4

Source: Bank of Slovenia

Net interest income and interest margin

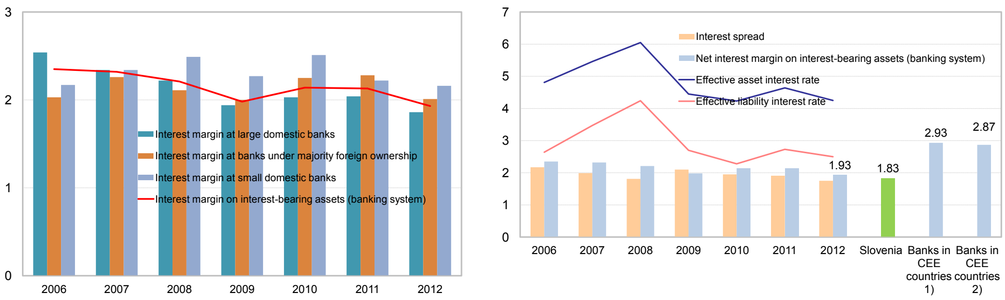
The banking system's net interest income was down last year.

The year-on-year decline in net interest reached 12.9% by the end of 2012. Interest income was down of the previous year as a result of the decline in lending activity and the deterioration in the credit portfolio. Lower interest rates on the international financial markets and a more favourable funding structure contributed to the decline in the banks' interest expenses, which was outstripped by the decline in interest income. Growth in interest income and expenses fell further during the first three months of this year.

Net interest declined at a faster pace than total assets last year. The net interest margin calculated on the basis of total assets was thus down further to stand at 1.8% in 2012. The large domestic banks operated with the lowest interest margin based on total assets last year at 1.7%, followed by the banks under majority foreign ownership at 1.95% and the small domestic banks with an interest margin of 2%. All bank groups recorded a decline in the net interest margin.

Average effective asset and liability interest rates were down last year relative to a year earlier, the former by 0.39 percentage points to 4.25% and the latter 0.23 percentage points to 2.5%. The decline is the result of a sharper decline in interest income and expenses than in the banks' interest bearing assets and interest-bearing liabilities.

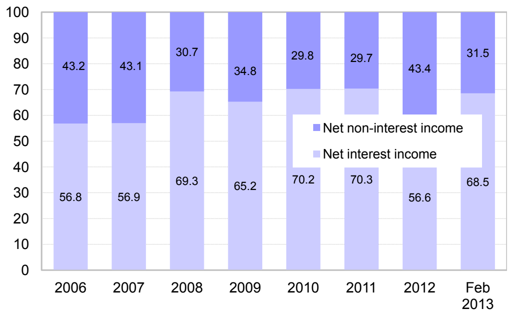
Figure 5.20: Net interest margin on interest-bearing assets by bank group in Slovenia (left), and average effective asset and liability interest rates calculated from interest income and expenses, interest spread and net interest margin in percentages (right)

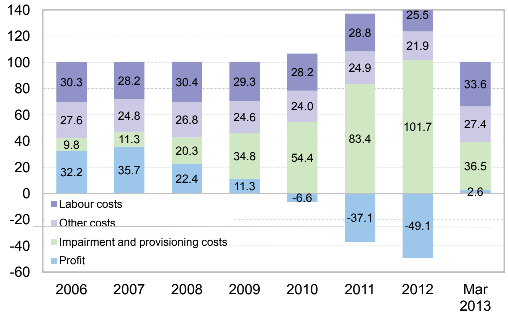


Notes: 1) and 2) The separate figures in the three columns on the right are for the interest margin in Slovenia in 2012 and for the countries of CEE in June 2012, and were calculated as the ratio of net interest income to total assets. 1) The banks' interest margins take into account the average of the net interest margins of the countries of CEE for domestic banking groups and independent banks. 2) In addition to the banks referred to in the previous point, this figure also includes foreign subsidiary banks and branches.

Sources: Bank of Slovenia, ECB (SDW), Consolidated Banking Data, June 2012

Figure 5.21: Proportion of banks' gross income accounted for by net interest and net non-interest income (left) and the disposal of gross income (right) in percentages





Source: Bank of Slovenia

Difference in the generation and disposal of banks' gross income

All the bank groups recorded negative growth in net interest in 2012.

Growth in net interest was negative last year at all bank groups. Total interest income was down by 13.8% at the banks under majority foreign ownership and by 13% at the large domestic banks. Interest income was down by 6.8% at the small domestic banks. However, net interest was down sharply at this bank group back in 2011. Net non-interest income was up most at the large domestic banks for the previously given reasons, resulting in a momentary sharp increase in the proportion of the banking system's income accounted for by the net non-interest income. Operating costs were down at all bank groups last year, most notably at the small domestic banks. The banks under majority foreign ownership stand out for their high proportion of gross income accounted for by operating costs. The reduction in operating costs was too slow given the pace at which operations have contracted.

The domestic banks stand out in terms of the level of impairment and provisioning costs.

The proportion of gross income accounted for by impairment and provisioning costs was up 18 percentage points on 2011 to stand at 102% in 2012. The small domestic banks recorded the sharpest increase in the aforementioned costs relative to the previous year, by 72%, while the increase was smallest at the banks under majority foreign ownership, by 11%. The most significant differences between individual bank groups were seen in the disposal of gross income. At nearly 125%, the large domestic banks stand out in terms of impairment and provisioning costs as a proportion of gross income. There were major differences in the value of the indicator that illustrates the ratio of impairments of financial assets measured at amortised cost to gross assets due to significant differences in the creation of impairment and provisioning costs between individual bank groups. That ratio was high at the large domestic banks at the end of 2012 at 10%, followed by the small domestic banks at 7.4% and the banks under majority foreign ownership at 4.2%. Differences in the amount of impairment and provisioning costs by bank group reflected the differing quality of the credit portfolio and differing risk management policies. Certain banks took a more active approach to writing off non-performing claims last year, which will affect impairment and provisioning costs in the future.

Table 5.8: Generation and disposal of the banking system's gross income by individual bank group in percentages

	Annual growth, %				Ratio to gross income, %			
	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Banking system	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Banking system
	Net interest income							
2011	-3.1	-10.8	0.3	-2.8	67.5	74.5	74.9	70.3
2012	-13.8	-6.8	-13.0	-12.9	50.1	66.8	70	56.6
	Non-interest income							
2011	0.8	-20.9	-6.9	-3.3	32.5	25.5	25.5	29.7
2012	78.5	35.4	11.4	58.3	49.9	33.2	30.0	43.4
	Operating costs							
2011	-2.8	0.6	4.5	-0.3	51.1	62.4	56.4	53.7
2012	-5.1	-6.7	-2.2	-4.4	41.7	56	59.3	47.4
	Impairments and provisioning							
2011	66	36.2	-7.8	48.8	109.5	62.5	35.5	83.4
2012	31.8	72	11.3	31.9	124.3	103.3	42.4	101.7
	Profit							
2011	263.3	-412.1	-11.3	441	-60.6	-24.8	8.1	-37.1
2012	26.6	148.3	-119.9	43.3	-66.1	-59.3	-1.7	-49.1

Source: Bank of Slovenia

Operating costs were down at all bank groups last year.

The financial intermediation margin stood at 3.5% last year, and was highest at the large domestic banks, where non-interest income was up for the previously given reasons.

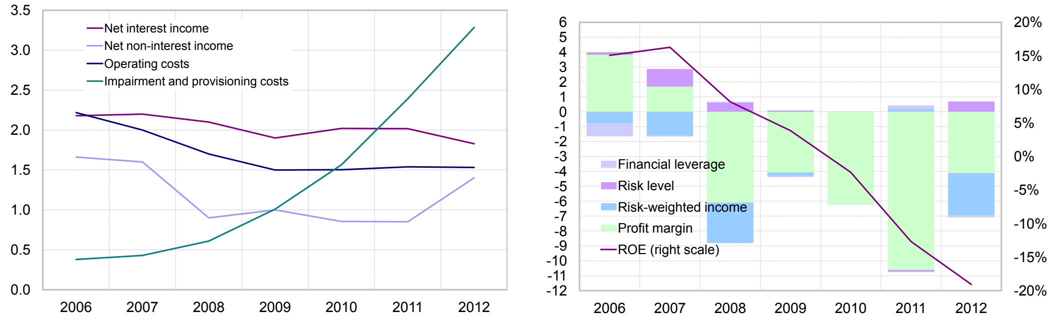
Table 5.9: Bank performance indicators in percentages

(%)	2006	2007	2008	2009	2010	2011	2012
ROA	1.24	1.35	0.67	0.32	-0.19	-1.06	-1.59
ROE	15.14	16.28	8.15	3.87	-2.30	-12.54	-18.85
Costs / gross income	57.91	52.94	57.27	53.95	52.22	53.68	47.42
Interest margin on interest bearing assets	2.35	2.32	2.21	1.98	2.14	2.13	1.93
Interest margin on total assets	2.19	2.16	2.08	1.88	2.02	2.02	1.83
Non-interest margin	1.66	1.63	0.93	1.00	0.86	0.85	1.40
Gross income / average assets	3.85	3.79	3.01	2.88	2.88	2.87	3.23

Source: Bank of Slovenia

The large domestic banks operated with the lowest net interest margin on interest-bearing assets at 1.86%, followed by banks under majority foreign ownership at 2.0% and the small domestic banks with the highest net interest margin of 2.16%. The continuing decline in the net interest margin in the context of the current quality of the banks' credit portfolio threatens the profitability of operations. By continuing to generate losses at the aggregate level, the banks are discouraging foreign investors from possible investments in the Slovenian banking system. The low interest margin on interest-bearing assets will require the banks to place greater emphasis on the scope of operations and is also an indicator of the urgency for the consolidation of the Slovenian banking system.

Figure 5.22: Net interest income, net non-interest income, operating costs and net provisioning as a percentage of average assets (left), and movement in ROE and impact of four factors on the direction of the movement in ROE (right)



Source: Bank of Slovenia

If the movement in the banks' ROE is analysed by breaking down profitability into four components (profit margin, risk-weighted income, risk level and financial leverage), we find that a sharply lower profit margin contributed to the decline in the banking system's profitability last year. On the contrary, the lower level of risk, which was the result of a decrease in risk-weighted assets in the context of a reduced volume of loans, resulted in an increase in profitability. The contribution of the increase in financial leverage had a negligible effect on the reduction in profitability last year.

5.5 Risks in the banking sector

The growth in credit risk at the banks has slowed, although other forms of systemic risk are developing. The deteriorating quality of the banking system's credit portfolio has resulted in an increase in income risk and insolvency risk. Refinancing risk remains significant due to the uncertainty regarding future government measures and the downgrading of Slovenia and the banks. The deteriorating quality of the portfolio, together with limited refinancing for the banks on the foreign financial markets is hampering the banks' ability to manage liquidity effectively. For this reason, the development of systemic risks in the banking system is becoming increasingly difficult to foresee.

Credit risk remains the most significant risk for Slovenian banks.

Credit risk is assessed as the most significant risk to which the Slovenian banks are exposed. The proportion of classified claims accounted for by loans more than 90 days in arrears jumped to 14.5% in February 2013. However, the dynamic of the increase in non-performing loans slowed sharply last year, particularly at the banks under majority domestic ownership. The following factors will have an adverse effect on the continuing development of credit risk in the banking sector: the continuing economic crisis; the over-indebtedness of corporates whose modest operating result limit a more rapid increase in capital; the increased risk of contagion of healthy companies due to insolvency; and the diminishing creditworthiness of corporates due to the problem of the quality and liquidity of collateral in the current economic conditions. Moreover, the relatively high proportion of non-performing loans impacts the decision of foreign investors, institutional depositors and ratings agencies.

Income risk is rising.

The deteriorating quality of the banking system's credit portfolio has resulted in an increase in income risk. This is also affected by high impairment costs and the decline in net interest income, the contraction in the scope of operations and high liability interest rates, which the banks find increasingly more difficult to pass on to borrowers in the form of higher lending interest rates. The latter are reflected in an increasingly lower net interest margin, which is among the lowest of the banking systems from EU Member States from central and eastern Europe.

The need for recapitalisations and improvements in the capital adequacy of certain banks is rising due to impairments and write-offs of non-performing claims. Solvency risk at the banks under majority direct or indirect government ownership is rising further due to the government's postponement of the necessary recapitalisations and restructuring of the aforementioned banks. Here it should be noted that meeting capital requirements by contracting the scope of operations has an adverse effect on the quality of the banks' credit portfolio and hinders economic growth.

The downgrading of Slovenia and banks and a lack of confidence among market participants lead to a further increase in refinancing risk.

Moreover, refinancing risk is assessed as a significant systemic risk. This risk is expected to increase at all banks groups due to the need to restructure sources of funding. Thus both the banks under majority domestic ownership and the banks under majority foreign ownership will be forced to base their funding on primary sources collected from depositors to a greater extent. The downgrading of Slovenia and the banks, and a lack of confidence on the interbank market hinder the banks' access to wholesale funding. Also having a significant impact on the readiness of financial investors to purchase Slovenian securities will be the speed at which the necessary reforms to revive economic growth are adopted and the start of operations of the bad bank. The sustained financial and economic crisis results in the accumulation of non-performing claims in the banks' balance sheets and limited access to wholesale funding. Both of the aforementioned risks are making it increasingly difficult for banks to effectively manage liquidity.

Rising macroeconomic risk will have an adverse impact on the quality of the banks' credit portfolio in the future.

Macroeconomic risk is also assessed as a significant risk to which Slovenian banks are exposed. An increase in the aforementioned risk is expected in the future, accompanied by an adverse effect on the deteriorating credit portfolio of the banks. The reasons are as follows. According to macroeconomic forecasts, the recession will continue in 2013, and will have a negative effect on demand for bank loans and household disposable income. It will also lead to an increase in insolvency and the number of bankruptcy (insolvency) proceedings. A lack of own sources of financing and the over-indebtedness of corporates act as a limit to corporate growth.

5.6 Credit risk

The deterioration in the quality of the banks' credit portfolio slowed at the very beginning of 2013, with the proportion of classified claims accounted for by arrears of more than 90 days standing at 14.5%. That proportion stabilised primarily at the banks under majority domestic ownership, and stood at 18.3% at the large banks and 14.9% at the small banks in March. The proportion continues to rise at the banks under majority foreign ownership, but remains well below average, at 7.2%.

The banks also restructured their investments last year in favour of less-risky investments. However, growth in investments in the household sector slowed due to the economic crisis. With a proportion of claims more than 90 days in arrears of 3.8% and coverage by impairments of 3.43%, households represent one of the less-risky segments of bank investments.

Among higher-risk investments, exposure to corporates in bankruptcy is rising, resulting in an increasing burden on the banking system's credit portfolio. This is particularly true given the fact that the shift in investments to other sectors is being carried out at the expense of a decrease in lending to better-performing corporates. However, there was a less severe increase in the number of bankruptcy proceedings initiated than in 2011.

With the accelerated creation of impairments, the banks are gradually recognising losses from abandoned investments. The coverage of non-performing claims more than 90 days in arrears by impairments is increasing, and stood at 42.7% in March. A high proportion of these claims (92.2%) are covered by collateral, although that coverage is down on the previous year. Despite the high total coverage of non-performing claims by collateral and impairments, there is still a high probability of continuing losses from credit risk due to the possible devaluation of real estate pledged as collateral.

In March 2013 the large domestic banks had the highest proportion of unsecured claims in the structure of the banking system's credit portfolio with regard to collateral received. This is partly due to the structure of the credit portfolio, in which the aforementioned banks have an above-average proportion of claims against lower-risk sectors, such as banks and savings banks, the central bank and the government. The aforementioned bank group also has the highest proportion of unsecured classified claims more than 90 days in arrears. This indicates that the large domestic banks also have a poorer coverage by collateral than the other bank groups in the segment of high-risk clients.

Despite an increase in the rate of write-offs of non-performing loans last year to 6.1%, that proportion is low given the relatively high proportion of non-performing loans in the banking system's credit portfolio. Postponement of the resolution of non-performing claims is also seen in the modest redemption of collateral from the aforementioned claims.

5.6.1 Credit standards

Loan-to-income (LTI) ratio

The average LTI ratio for the banking system overall was down slightly last year, from 54.8% to 54.4%. This indicates the banks' aversion to assume additional credit risk in newly concluded transactions. A decline in the aforementioned ratio at two banks led to a decrease in the average ratio, while the ratio was unchanged at the majority of banks. The LTI ratio varies by individual bank, ranging from one half to two thirds of the borrower's monthly income. The LTI ratio at the banks depends on several factors: type of loan, type of collateral, repayment period, the absolute amount of the applicant's receipts, where the legally defined minimum wage, which must remain after all of the borrower's deductions for loans, represents an additional limiting factor.

The maximum LTI ratio was down slightly last year.

The average actual LTI ratio was significantly lower. It was 33% for housing loans, similar to the previous year. The LTI ratio was down 2.8 percentage points for consumer loans to stand at 23%, together with a notable decline in the stock of consumer loans to households. In the context of the banks' otherwise tightened standards, the lower loan-to-income ratio is primarily the result of prudence on the part of households in raising loans.

The lower LTI ratio is a reflection of the increased prudence of households in borrowing.

The proportion of newly approved housing loans for which the LTI ratio was more than 33% declined by 6.7 percentage points to 43.6% to confirm the increased prudence on the part of households with regard to additional borrowing. That proportion is lower for consumer loans at 25.3% owing to lower loan amounts and lower instalments for consumer loans. The proportion of newly approved loans with an LTI ratio exceeding 50% was up. However, the proportion of all new loans accounted for by the former is considerably lower.

Table 5.10: Loan-to-income (LTI) ratio in percentages

	Average maximum LTI under banks' business policy	Average LTI for newly approved		Actual proportion of newly approved housing loans		Actual proportion of newly approved consumer loans	
		housing loans	consumer loans	LTI >= 33%	LTI >= 50%	LTI >= 33%	LTI >= 50%
2011	54.8	32.6	25.9	50.3	11.9	29.4	7.4
2012	54.4	33.0	23.1	43.6	16.2	25.3	7.8

Note: LTI is the ratio of the loan instalment to the borrower's income.
Source: Bank survey

Loan-to-value (LTV) ratio

The LTV ratio on loans to households with real estate collateral rose.

The average LTV ratio on housing loans rose from 57.7% to 70.1% last year. At 54%, the aforementioned ratio is lower taking into account only those loans for which a bank requested collateral, but was still higher than the previous year. The LTV ratio was also up for consumer loans and loans to corporates.

Table 5.11: Average loan-to-value (LTV) ratio for newly approved loans and the value of all collateral in percentages

	All loans		Secured loans only	
	2011	2012	2011	2012
Loans to corporates	48.4	52.4	78.1	89.1
Consumer loans	66.9	68.9	132.7	128.3
Housing loans	47.2	54.0	57.7	70.1

Note: LTV is the ratio of the loan to the value of pledged collateral expressed in percentages.
Source: Bank of Slovenia

The proportion of unsecured loans was also up last year. At 23%, the proportion of unsecured housing loans is lowest. The higher proportion of unsecured consumer loans and loans to corporates is partly the result of the lower average maturities of the aforementioned loans, both due to fewer collateral requirements for shorter maturities and the inclusion of these loans multiple times when they are rolled over. There was a notable increase in the proportion of total collateral accounted for by real estate collateral on all loans, except on consumer loans. Consumer loans are secured for the most part via insurers and bank deposits, together in the amount of three quarters of the value of collateral on newly approved loans.

Table 5.12: Proportion of total collateral accounted for by real estate collateral and the proportion of newly approved loans accounted for by unsecured loans in percentages

	Proportion of newly approved loans with real estate collateral		Unsecured loans as proportion of all newly approved loans	
	2011	2012	2011	2012
Corporate loans	59.8	64.3	38.1	41.3
Consumer loans	18.3	18.6	49.6	46.3
Housing loans	78.3	84.7	18.3	23.0

Note: LTV is the ratio of the loan to the value of pledged collateral expressed in percentages.
Source: Bank of Slovenia

5.6.2 Arrears in loan repayment

The proportion of classified claims accounted for by nonperforming claims stabilised at around 14.5% in early 2013.

The deterioration in the quality of the credit portfolio slowed last year compared with 2011. The proportion of claims more than 90 days in arrears reached 14.4% in December. The proportion of non-performing claims was up 3.2 percentage points last year. This was less than in 2011 when the aforementioned proportion was up 3.8 percentage points, the most significant increase since the outbreak of the economic crisis. The proportion of the banking system's total classified claims accounted for by non-performing claims stabilised at 14.5% early this year, while the stock of non-performing claims fell to slightly less than EUR 7 billion in March 2013 after reaching its peak of EUR 7.1 billion in November 2012.

The stabilisation in the proportion of non-performing claims was a result of the gradual slowing of the spread of the economic crisis among corporates, as those most sensitive to changing operating conditions found themselves in difficulties soon after the outbreak of the crisis. The sustained crisis has contributed to a deterioration in the position of those clients who were closely linked commercially to major corporates that collapsed and who were not sufficiently flexible in business terms. The forecast shifting between negative and weak growth can contribute to renewed growth in credit risk, particularly in the service activities that are closely linked to falling domestic demand.

Table 5.13: Breakdown of classified claims by client segment in terms of number of days in arrears in the settlement of liabilities to banks in EUR million and in percentages

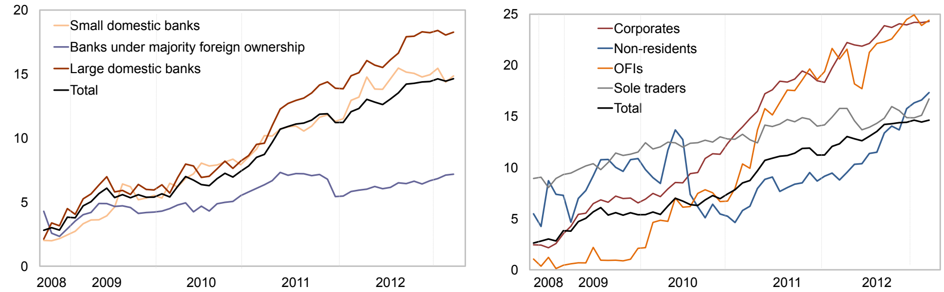
	Classified claims			Proportion of claims in arrears for client segment					
				all arrears			arrears of more than 90 days		
	Dec 2011	Dec 2012	Mar 2013	Dec 2011	Dec 2012	Mar 2013	Dec 2011	Dec 2012	Mar 2013
Total, EUR million	49,466	47,876	47,563	9,462	9,180	9,665	5,547	6,904	6,962
						%			
Corporates	49.1	47.5	46.5	28.8	31.6	34.6	18.5	24.0	24.3
OFIs	4.4	4.2	4.1	25.3	31.4	28.6	18.9	24.5	24.4
Households[1]	20.7	20.8	20.7	10.2	9.9	-	4.5	4.9	-
sole traders	2.1	2.0	1.9	21.7	23.8	25.9	14.1	14.9	16.7
other households[1]	18.6	18.9	18.8	8.9	8.5	-	3.5	3.8	-
Non-residents	11.4	10.8	11.2	15.5	20.0	21.0	8.7	15.8	17.3
Government	5.7	7.5	7.6	28.6	2.3	2.4	0.8	0.5	0.8
Banks and savings banks	7.5	7.1	7.1	0.2	0.7	0.2	0.1	0.0	0.0
Central bank	0.8	1.7	2.6	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.4	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	19.1	19.2	20.3	11.2	14.4	14.6

Note: [1] The figures for 2011 and 2012 for households are estimated on the basis of figures from the bank survey and Bank of Slovenia sources. The assessment is also taken into account in the aggregate of households.
Sources: Bank of Slovenia, bank survey

Non-performing claims against non-financial corporations accounted for 24.0% of classified claims at the end of 2012, while the stock of the aforementioned claims is declining.

The banks' non-performing claims against non-financial corporations followed a similar dynamic as the portfolio overall last year and early this year. The proportion of claims against corporates more than 90 days in arrears has stabilised in recent months at 24.2%. The majority of the banking system's non-performing claims are concentrated at non-financial corporations, the proportion they account for having fluctuated at around 80% the past two years, before falling to 78% the last two months. The stock of non-performing claims against non-financial corporations reached its highest level last September, at EUR 5.7 billion, before declining to EUR 5.4 billion by March. The main factor in the aforementioned decline was an increase in write-offs of these claims at the end of last year.

Figure 5.23: Arrears of more than 90 days as a proportion of banks' classified claims by bank group (left) and client segment (right) in percentages



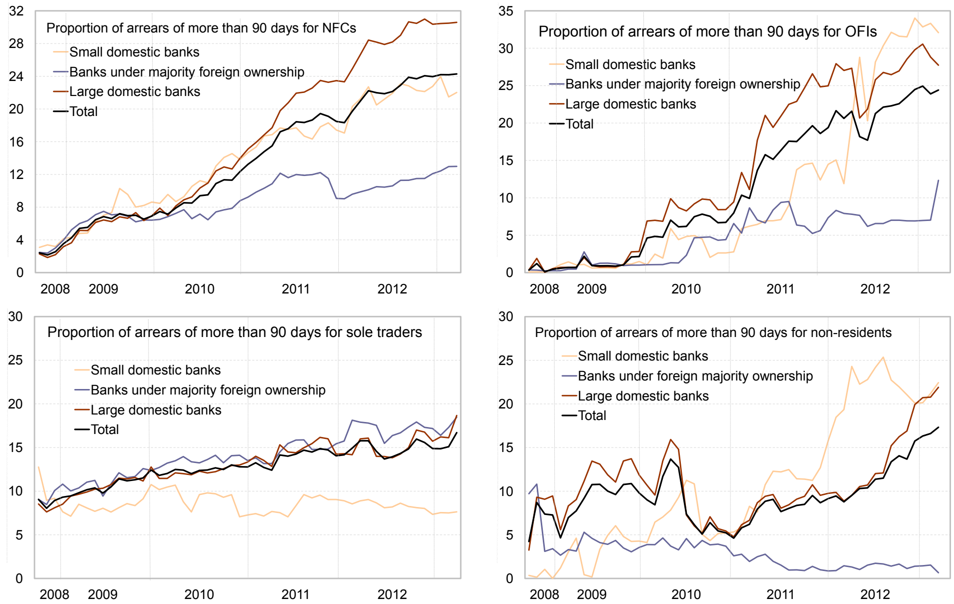
Source: Bank of Slovenia

Non-monetary financial institutions continue to account for the highest proportion of non-performing claims more than 90 days in arrears. That proportion stood at 24.5% at the end of last year and was primarily the result of financial holding companies in distress. The increase in the aforementioned proportion is most significant at the banks under majority domestic ownership, while the banks under majority foreign ownership for the most part resolved the poor-quality portfolio accounted for by these corporates soon after problems with the settlement of liabilities to the banks arose. Growth in March was a reflection of growth in non-performing claims to a single company.

The quality of claims against non-residents deteriorated last year, to 15.8% of classified claims against the aforementioned client segment.

Last year also saw a deterioration in the portfolio accounted for by non-residents, with the proportion of non-performing claims standing at 15.8% at the end of the year and rising further to 17.3% in March. Although these claims include investments in banks with ownership links in the rest of the world (both subsidiary and parent banks), the deterioration in the quality of investments has only been seen in non-financial corporations in the rest of the world. The deterioration in claims against this client segment persists at all bank groups, but is less noticeable at the banks under majority foreign ownership due to the predominant proportion accounted for by parent banks.

Figure 5.24: Proportion of total classified claims more than 90 days in arrears by bank group for individual client segments in percentages

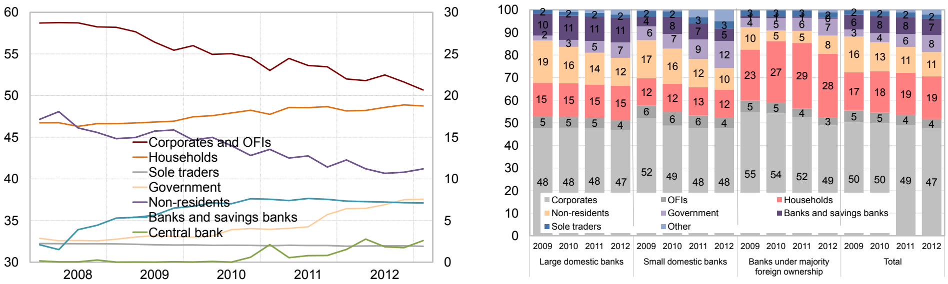


Source: Bank of Slovenia

The quality of claims against sole traders was unchanged at the banking system level, but is improving at the small banks.

The quality of the banking system's portfolio accounted for by small businesses (sole traders) was relatively stable again last year. The proportion of non-performing claims against sole traders was up by less than 1 percentage point by the end of the year to stand at 14.9%, and rose further to 16.7% during the first quarter of this year. The differences between bank groups are significant and favour the small domestic banks, where the proportion of the non-performing portfolio accounted for by sole traders is just half of the banking system average, while exposure to sole traders, which is already highest at these banks, continues to rise. Given the structure of clients, which at the small domestic banks is based on SMEs and sole traders, lower risk is an indicator of their better knowledge of this client segment.

Figure 5.25: Breakdown of classified claims by sector and total (left), and by bank group (right) at year-end in percentages



Source: Bank of Slovenia

The banks have continued to reallocate their portfolios to less-risky investments.

The banks continued to restructure their portfolios last year by reducing exposure to the highest-risk client segments. The proportion of the portfolio accounted for by non-financial corporations was down by 1.5 percentage points at the banking system level, and significantly at the banks under majority foreign ownership, by 3.6 percentage points. The domestic banks are accelerating their withdrawal from the financing of non-residents and increasing their investments in the government sector, either through investments in government securities or by approving loans to the government sector. On the contrary, the banks under majority foreign ownership are increasing their investments in the rest of the world, but primarily in parent banks and also via short-term investments of freed-up funds.

The reduction in exposure to corporates is being accomplished primarily by the withdrawal of the banks from the financing of better-performing corporates. When their debts are repaid, the banks do not approve new loans to these corporates, which reduces their exposure to the healthier segment of this sector. Due to the poor capitalisation of Slovenian corporates, growth based on internal sources is limited. In the context of insufficient support from the banks, corporate investments are also limited, including all their favourable effects on economic growth and on the increased ability to service debt to the banks. Growth in bank loans to households also slowed last year. The shift in lending to this least-risky segment of the private sector in the current economic conditions has already reached its limit due to a decrease in household disposable income and generally negative expectations.

Table 5.14: Breakdown of banks' classified claims against non-financial corporations and the proportion of liabilities to banks settled more than 90 days in arrears by bank group and by sector at the end of 2012 in percentages

	Breakdown of classified claims, NFCs = 100				Proportion of claims against sector more than 90 days in arrears			
	Banking sector	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Banking sector	Large domestic banks	Small domestic banks	Banks under majority foreign ownership
Agriculture, forestry, fishing, mining, quarrying	1.3	1.2	1.9	1.4	15.5	17.3	7.1	16.1
Manufacturing	25.8	27.6	23.1	23.1	17.4	20.7	15.9	10.2
Electricity, gas, water; remediation services	5.8	4.8	3.6	8.2	2.8	3.8	2.1	1.9
Construction	14.6	16.4	16.6	10.5	60.8	70.0	54.0	36.9
Wholesale and retail trade	17.3	15.1	19.8	20.8	14.4	19.8	10.9	8.0
Transportation and storage	8.6	9.3	2.1	9.4	11.7	13.7	32.4	6.7
Accommodation and food service activities	2.9	3.1	2.3	2.8	21.3	25.3	23.8	12.5
Information and communication activities	2.8	2.8	1.7	3.3	24.5	38.0	21.0	3.4
Financial and insurance activities	5.6	6.6	7.8	3.2	43.4	54.6	23.5	14.4
Real estate activities	4.7	3.9	6.5	5.6	19.9	26.1	14.5	13.5
Professional, scientific and technical activities	8.6	7.3	13.1	9.6	21.0	24.3	25.1	14.6
Public services	1.9	2.0	1.4	2.1	12.5	16.4	8.5	6.0
Total	100.0	100.0	100.0	100.0	24.0	30.4	22.8	12.1
Total, EUR million	22,723	13,496	2,146	7,081	5,444	4,098	489	857

Source: Bank of Slovenia

Non-performing claims against the construction sector reached 62.7% in March 2013.

Non-performing claims against non-financial corporations more than 90 days in arrears were up in all sectors last year. Three quarters of the total EUR 5.4 billion in non-performing claims against non-financial corporations are accounted for by the large domestic banks. Non-performing claims against the construction sector, which rose to 62.7% this March, stand out at the banking system level, as do non-performing claims against the sector of financial intermediation where that proportion stood at 38.5%.

The proportion of classified claims accounted for by nonperforming claims against households was up slightly last year, to 3.8%.

The quality of claims against households deteriorated slightly last year. The proportion of non-performing claims against households more than 90 days in arrears stood at 3.8%[1] at the end of last year, an increase of 0.3 percentage points on the previous year. The aforementioned proportion means that households remain among the least-risky client segments for the banks. Austerity measures did not lead to a significant deterioration in the repayment of bank loans. Likely contributing to this was the fact[2] that the raising of housing loans was less intense in the segment of lower-income households, which were hit first and hardest by austerity measures.

Box 5.2: Distribution of classified claims against non-financial corporations

Distribution of total classified claims against non-financial corporations

The total number of client-bank business relations rose by 939 between 2010 in 2012. The majority of these are accounted for by classified claims of up to EUR 1 million, the number of which rose by 1,085. Total classified claims were down by EUR 2 billion over the same period, which indicates that the banks have concluded lower-value transactions in recent years compared with the past, and that they are contracting their portfolios primarily on the account of higher exposure amounts. The proportion of total classified claims accounted for by classified claims of up to EUR 5 million is rising, primarily due to a decrease in claims exceeding EUR 5 million, which were down EUR 1,863 million between 2010 and 2012.

Table 5.15: Distribution of the total number of classified claims against non-financial corporations at the client-bank business relation level

Number of client-bank business relations

	Dec 2010	Dec 2011	Dec 2012
up to 1 million	30,041	31,297	31,126
1-5 million	2,627	2,636	2,585
5-20 million	868	855	786
over 20 million	179	171	157
Total	33,715	34,959	34,654

%

	Dec 2010	Dec 2011	Dec 2012
up to 1 million	89.1%	89.5%	89.8%
1-5 million	7.8%	7.5%	7.5%
5-20 million	2.6%	2.4%	2.3%
over 20 million	0.5%	0.5%	0.5%
Total	100%	100%	100%

Source: Bank of Slovenia

Table 5.16: Distribution of the total amount of classified claims against non-financial corporations at the client-bank business relation level

Classified claims, EUR million

	Dec 2010	Dec 2011	Dec 2012
up to 1 million	3,537	3,506	3,440
1-5 million	5,846	5,868	5,793
5-20 million	7,897	7,827	7,172
over 20 million	7,457	7,038	6,319
Total	24,737	24,239	22,724

%

	Dec 2010	Dec 2011	Dec 2012
up to 1 million	14.3%	14.5%	15.1%
1-5 million	23.6%	24.2%	25.5%
5-20 million	31.9%	32.3%	31.6%
over 20 million	30.1%	29.0%	27.8%
Total	100%	100%	100%

Source: Bank of Slovenia

Distribution of classified claims against non-financial corporations more than 90 days in arrears

The total number of client-bank business relations more than 90 days in arrears rose by 1,330 or 32% between 2010 and 2012. Classified claims against non-financial corporations more than 90 days in arrears rose by EUR 2.4 billion or 78% over the same period. The proportion of total classified claims accounted for by classified claims in arrears more 90 days and up to EUR 1 million was down, while primarily the proportion of claims of between EUR 5 million and EUR 20 million was up.

Table 5.17: Distribution of the number of client-bank business relations for non-financial corporations more than 90 days in arrears

NFCs more than 90 days in arrears

	Dec 2010	Dec 2011	Dec 2012
up to 1 million	3,713	4,418	4,718
1-5 million	318	447	529
5-20 million	97	156	192
over 20 million	22	29	41
Total	4,150	5,050	5,480

%

	Dec 2010	Dec 2011	Dec 2012
up to 1 million	89.5%	87.5%	86.1%
1-5 million	7.7%	8.9%	9.7%
5-20 million	2.3%	3.1%	3.5%
over 20 million	0.5%	0.6%	0.7%
Total	100%	100%	100%

Source: Bank of Slovenia

[1] Figure from the bank survey and periodic reporting to the Bank of Slovenia.
[2] Findings from the survey of living conditions, described in more detail in the section, Household sector.

Table 5.18: Distribution of the amount of client-bank business relations for non-financial corporations more than 90 days in arrears

NFCs more than 90 days in arrears, EUR million

	Dec 2010	Dec 2011	Dec 2012
up to 1 million	466	569	621
1-5 million	673	963	1,203
5-20 million	893	1,462	1,767
over 20 million	1023	1,487	1,853
Total	3,055	4,481	5,444

%

	Dec 2010	Dec 2011	Dec 2012
up to 1 million	15.3%	12.7%	11.4%
1-5 million	22.0%	21.5%	22.1%
5-20 million	29.2%	32.6%	32.5%
over 20 million	33.5%	33.2%	34.0%
Total	100%	100%	100%

Source: Bank of Slovenia

The accompanying tables illustrate the distribution of the number and amount of client-bank business relations more than 90 days in arrears by sector. The increase in the value of classified claims more than 90 days in arrears, expressed in percentages, between 2010 and 2012 differs significantly by individual sector. At 236%, the accommodation and food service activities sector recorded the sharpest increase, followed by

the construction sector (205%), financial intermediation (110%), real estate activities (75%), the manufacturing sector (69%), information and communication (3%), and wholesale and retail trade where classified claims more than 90 days in arrears were down EUR 59 million or 9%.

High-value transactions (exceeding EUR 5 million), which totalled EUR 2,778 million or 51% of all classified claims against non-financial corporations more than 90 days in arrears, were predominant among classified claims against the sectors of manufacturing, construction, financial intermediation, and information and communication.

Claims against corporates in bankruptcy

Claims against corporates in bankruptcy account for 11.7% of classified claims against non-financial companies.

The banking system's non-performing claims against corporates in bankruptcy stand out in terms of their high and rising proportion. These claims accounted for EUR 2.6 billion or 48% of all non-performing claims against non-financial corporations in March, compared with 38% in December 2011. Corporates in bankruptcy account for 11.7% of total classified claims against non-financial corporations.

Nearly half of claims against corporates in bankruptcy relate to proceedings initiated in 2010 and 2011, and a further 42% to proceedings initiated in 2012. Protracted bankruptcy proceedings mean that these claims will remain in banking portfolios for several more years and thus affect the quality thereof. That proportion will rise in the context of a further contraction in the banks' lending activity if these claims are not resolved quickly via write-offs or the transfer to one form of bad bank.

Nearly two thirds of nonperforming claims against the sectors of construction and financial intermediation are against corporates in bankruptcy.

Claims against corporates from the construction sector in bankruptcy were up sharply last year, from EUR 900 million at the end of 2011 to EUR 1.3 billion in March 2013, and accounted for 39.5% of all claims against the aforementioned sector and 63% of claims more than 90 days in arrears. Claims against non-financial holdings in bankruptcy rose from the relatively low amount of EUR 13 million in 2011 to EUR 291 million or one quarter of claims against the aforementioned sector and 66% of claims more than 90 days in arrears. That trend is more favourable in the manufacturing sector, as growth in both the value and proportion of claims against corporates in bankruptcy slowed last year and stood at 6.6% of non-performing claims against the aforementioned sector in March.

Table 5.19: Banks' classified claims against non-financial corporations in bankruptcy in EUR million and as a proportion of total claims against non-financial corporations by sector and in percentages

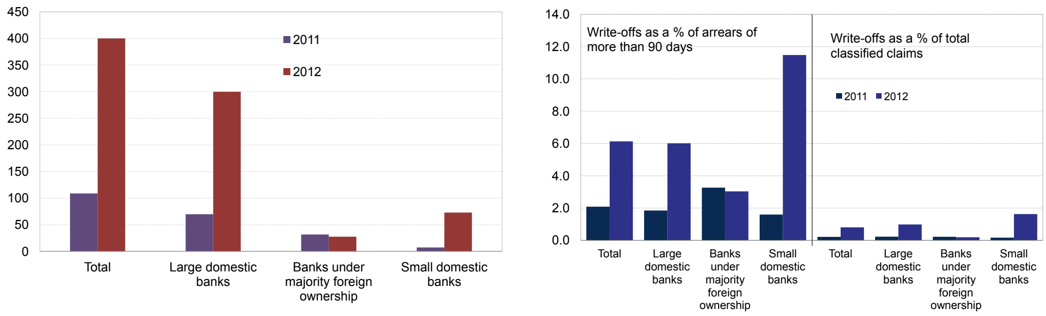
	Classified claims against corporates in bankruptcy, EUR million				Proportion of total classified claims against sector, %			
	Dec 2008	Dec 2011	Dec 2012	Mar 2013	Dec 2008	Dec 2011	Dec 2012	Mar 2013
Agriculture, forestry, fishing, mining, quarrying	2	15	12	12	0.8	4.5	3.9	4.0
Manufacturing	38	360	368	379	0.6	5.9	6.3	6.6
Electricity, gas, water; remediation services	2	0	3	3	0.2	0.0	0.2	0.2
Construction	10	900	1,256	1,286	0.3	25.5	38.0	39.5
Wholesale and retail trade	20	83	153	173	0.4	1.9	3.9	4.5
Transportation and storage	2	27	136	137	0.1	1.1	7.0	7.0
Accommodation and food service activities	1	4	12	34	0.1	0.6	1.8	5.1
Information and communication activities	3	24	16	15	0.4	4.1	2.5	2.4
Financial and insurance activities	0	13	294	291	0.0	0.9	22.9	25.6
Real estate activities	2	40	41	38	0.1	3.7	3.9	3.7
Professional, scientific and technical activities	9	225	203	208	0.4	11.2	10.4	11.0
Public services	0	0	3	3	0.0	0.1	0.7	0.7
Total	89	1,691	2,497	2,578	0.4	7.0	11.0	11.7
Total number of proceedings initiated during year: - NFCs	64	587	516	168				
- total	86	681	589	190				

Source: Bank of Slovenia

Last year the banks increased write-offs of non-performing claims, which totalled 6.1%.

Despite the high growth in claims against corporates in bankruptcy proceedings, the banks only choose to write-off such claims to a lesser degree. Write-offs of claims intensified somewhat towards the end of last year, which increased the total stock of write-offs to EUR 400 million, compared with EUR 109 million the year before last. In line with the highest proportion of non-performing claims at the large domestic banks, the amount of write-offs of the aforementioned claims was also highest at that bank group, at EUR 300 million. At 11.5% of total classified claims more than 90 days in arrears, the small domestic banks wrote off the highest proportion of non-performing claims last year. That proportion stood at 6% at the large domestic banks and at 3% at the banks under majority foreign ownership.

Figure 5.26: Write-offs of financial assets at banks in EUR million (left) and the proportion of claims more than 90 days in arrears and of total classified claims accounted for by write-offs in percentages (right)



Source: Bank of Slovenia

Claims were impaired in nearly their entire amounts prior to being written off, meaning that the write-offs had relatively little effect on the banks' operating results, and that previous impairments had already had an adverse effect on operating results and capital. Last year's write-offs were prompted by the possibility to write off such claims if the banks assessed during collection proceedings that they will not be repaid[1].

At an average of 51%, the coverage of claims in bankruptcy that remain in banking portfolios by impairments is significantly lower. In many cases, the banks have not yet begun the process of redeeming the collateral from which they expect a certain percentage of repayment. Claims against corporates in bankruptcy, where the proceedings were initiated in the last three years, are impaired applying a similar percentage, of between 45% and 50%, and their coverage by impairments did not rise during the period of protracted proceedings. This confirms that the protracted nature of proceedings and the postponement

[1] The Bank of Slovenia regulation on the assessment of credit risk losses from April 2012 allows for the more expedient write-off of claims, even if no court decision on the conclusion of bankruptcy proceedings has been issued, provided that the banks assess during collection proceedings that the claims will not be paid. The banks thus wrote off unsecured claims against debtors that are more than three years in arrears or in bankruptcy proceedings for more than one year, and claims secured by real estate collateral more than five years in arrears or for which the bank in question did not receive any payment from the redemption of collateral over the same period.

of the closure of these claims is an accepted practice. Coverage is somewhat higher in bankruptcy proceedings that were initiated earlier.

The coverage of claims against corporates in bankruptcy was low.

Corporates from the construction sector stand out in terms of the extremely low coverage by impairments of around 35% for bankruptcies initiated between 2010 and 2012, and just 40% for proceedings initiated in 2008. There are very few sectors where the coverage by impairments is proportionate to the duration of bankruptcy proceedings. These include manufacturing, real estate activities and the sector of financial intermediation. Since the majority of the banks' claims, including those in bankruptcy, are secured with real estate collateral, the postponement of the resolution of the claims increases the probability of the devaluation of collateral and the need for additional impairments. Additional impairments are also a possible reason to maintain claims against corporates in bankruptcy in the banks' portfolios, as the write-off of these claims would result in an immediate reduction in the banks' operating results and consequently in their capital.

Table 5.20: Coverage of classified claims against corporates in bankruptcy by impairments with respect to year bankruptcy proceedings were initiated in percentages

	prior to 2007	2008	2009	2010	2011	2012	Total
Agriculture, forestry, fishing, mining, quarrying	100.0	45.1	87.6	-	1.0	38.8	79.5
Manufacturing	88.3	70.0	60.7	57.4	64.0	44.1	58.9
Electricity, gas, water; remediation services	-	-	-	-	100.0	98.7	98.7
Construction	100.0	40.7	48.9	44.7	38.5	33.2	37.7
Wholesale and retail trade	94.3	-	44.6	81.9	75.5	66.2	70.0
Transportation and storage	100.0	-	75.6	89.2	51.5	56.1	56.2
Accommodation and food service activities	-	100.0	49.2	67.7	68.2	55.2	58.8
Information and communication activities	-	-	100.0	39.6	77.3	99.0	72.1
Financial and insurance activities	-	100.0	100.0	62.1	94.2	67.1	68.0
Real estate activities	85.6	-	100.0	51.8	57.0	39.5	53.9
Professional, scientific and technical activities	78.3	26.8	60.3	67.2	78.0	59.3	68.6
Public services	-	-	100.0	100.0	66.1	77.8	77.9
Total	90.2	64.1	63.3	54.1	48.4	49.2	50.8
Classified claims against NFCs in bankruptcy	8	14	125	459	799	1,092	2,497
Impairments	7	9	79	248	387	538	1,268
Non impaired	1	5	46	211	412	554	1,229

Source: Bank of Slovenia

5.6.3 Ratings breakdown of claims and coverage of claims by impairments

The proportion of claims in the lowest credit rating categories reached 8.8%.

The banks downgraded claims at a faster pace last year and realised losses from credit risk via additional impairments. The proportion of total classified claims accounted for by the highest rated claims (A and B) stood at 85.5% at the end last year, down 3.2 percentage points on the previous year. There were also a large number of reclassifications from A to B within the two aforementioned ratings categories. The proportion of D- and E-rated claims was up by an additional 2.8 percentage points last year (compared with 2.5 percentage points a year earlier) to stand at 9% of total classified claims. That proportion was down slightly in March 2013 at 8.8%.

Table 5.21: Credit rating structure of claims and coverage of claims by impairments and provisions in EUR million and percentages

	31 December 2011			31 December 2012			31 March 2013		
	Classified claims	Impair-ments	Coverage of claims by impair-ments, %	Classified claims	Impair-ments	Coverage of claims by impair-ments, %	Classified claims	Impair-ments	Coverage of claims by impair-ments, %
Total, EUR million	49,466	3,249	6.57	47,876	4,168	8.71	47,563	4,153	8.73
	Breakdown, %			Breakdown, %			Breakdown, %		
A	66.02	3.3	0.3	57.39	2.0	0.3	58.51	2.0	0.3
B	22.65	14.6	4.2	28.08	12.4	3.8	26.96	12.9	4.2
C	5.13	20.9	26.8	5.58	17.2	26.9	5.71	17.5	26.8
D	5.50	50.6	60.4	8.21	60.0	63.6	8.08	59.1	63.8
E	0.70	10.6	100.0	0.74	8.5	99.4	0.74	8.5	100.0

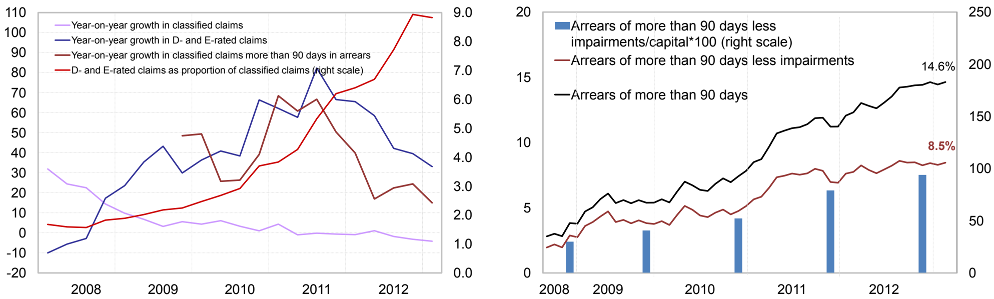
Source: Bank of Slovenia

Impairments and provisions were up by EUR 923 million last year, the highest annual growth to date. Impairments and provisions totalled EUR 4.2 billion of classified claims at the end of 2012 and remained at a similar level in March 2013. The coverage of total classified claims by impairments was up 2.2 percentage points to stand at 8.7% in March. Also contributing to the improved coverage by impairments was a decrease in total classified claims due to a decline in the banks' lending activity, the suspension of certain non-strategic activities and due to the write-off of certain claims, although to a lesser degree.

Impairments of non-performing claims reached EUR 2.8 billion.

Of the total of EUR 4.2 billion in impairments, the majority relate to the impairments of the banks' non-performing claims more than 90 days in arrears. Not all of the non-performing claims in the amount of EUR 7 billion thus represent a threat of losses for the banking system, as a significant portion (EUR 2.9 billion) has already been impaired and thus burdened the income and capital of the banks, particularly at the end of 2011 and 2012. The intensified creation of impairments has been seen to a great extent in losses and consequently in a decrease in the banks' capital.

Figure 5.27: Growth in classified claims and D-and E-rated claims (left), and the proportion of classified claims more than 90 days in arrears with and without impairments (right) in percentages

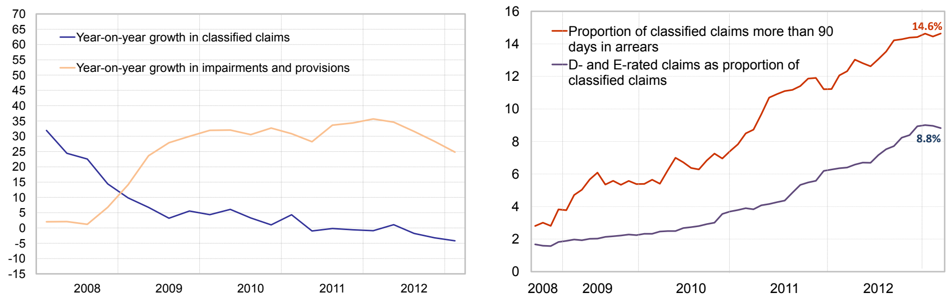


Source: Bank of Slovenia

The indicator of nonperforming claims in Slovenia is conservative.

The indicator of non-performing claims more than 90 days in arrears, as defined in Slovenia, in the amount of 14.5% for the entire portfolio is conservative at its core for several reasons. First, it takes into account all classified claims against a specific client, both on- and off-balance-sheet claims (including guarantees and contingent liabilities). The indicator of non-performing claims in other countries frequently relates only to on-balance-sheet claims, in particular loans and debt securities (non-performing loans). Second, the Slovenian indicator includes all claims against a specific client, even if arrears arise for a single claim or loan (client based and not claim based). Third, amended reporting thresholds entered into force last May. According to the new thresholds, an amount more than 90 days in arrears is only counted when it exceeds 2% of the total exposure to a client or EUR 50,000 if arrears in that amount arise first, while the lower reporting threshold remains exceptionally low at just EUR 200. Lastly, the indicator is based exclusively on the criterion of 90 days in arrears and does not take into account the value of collateral from which a bank can expect some cash flow when the collateral is redeemed. Therefore, the value of a claim in arrears is not entirely non-performing, but only that portion that exceeds the realisable value of collateral. Above all, this does not imply potential losses in that portion that is already impaired.

Figure 5.28: Comparison of growth in classified claims with growth in impairments and provisions (left), and comparison of the proportion of claims more than 90 days in arrears with the proportion of D- and E-rated claims (right) in percentages



Source: Bank of Slovenia

The proportion of the banking system's classified claims accounted for by non-performing claims less associated impairments reached 8.5%.

The indicator of non-performing claims that only takes into account the portion of claims that have not been impaired is accordingly lower at 8.5% instead of 14.6%. That indicator stopped rising before the indicator of the proportion of arrears of more than 90 days. Due to the accelerated growth in impairments in the final quarter of the year, the aforementioned indicator fell slightly in the months after it reached its peak of 8.6% in September last year.

At 20%, OFIs stand out with the highest coverage by impairments.

The coverage of claims by impairments varies significantly with regard to client segment. It reflects the level of credit risk associated with a specific group, as well as the quality of pledged collateral. The coverage of claims against OFIs was up sharply last year, by 10 percentage points, and stood at 20% in March. Contributing to the higher growth in impairments, in addition to a significant increase in non-performing claims against the aforementioned client segment, was poor coverage by collateral and poor outlooks for the bailing out of financial holdings, which account for the majority of these claims. The coverage of claims by impairments in the non-resident segment recorded an above-average increase. This segment stood out last year in terms of higher growth in non-performing claims. At 9% in March, the coverage of claims was significantly lower in the aforementioned segment than at the OFIs, but due to a high proportion of claims against financial institutions in the rest of the world, in particular against parent banks for which a low level of risk is characteristic. With respect to the coverage of total claims by impairments, the household sector should also be mentioned. Coverage by impairments in the aforementioned sector was up by 0.4 percentage points on 2011 to stand at 3.4%. This reflects a slight increase in risk in this segment of claims, which is not surprising given macroeconomic indicators. Nevertheless, it is apparent from the low coverage of claims against households that the banks have not yet identified any significant credit risk in this client segment.

Table 5.22: Coverage of total classified claims, claims more than 90 days in arrears and D- and E-rated claims by impairments by client segment, excluding collateral, in percentages

	Coverage of total classified claims by impairments				Coverage of claims more than 90 days in arrears by impairments				Coverage of D- and E-rated claims by impairments			
	Dec 2010	Dec 2011	Dec 2012	Mar 2013	Dec 2010	Dec 2011	Dec 2012	Mar 2013	Dec 2010	Dec 2011	Dec 2012	Mar 2013
Corporates	6.5	9.4	12.3	12.8	34.6	39.2	41.0	41.2	66.4	65.0	64.6	64.9
OFIs	5.0	9.6	19.7	20.0	35.9	29.0	63.9	64.1	48.1	58.2	74.3	73.8
Households	4.0	3.6	3.9	4.0	-	-	-	-	79.9	66.6	65.6	66.3
sole traders	8.9	8.8	9.1	9.9	48.4	43.7	43.3	43.6	74.7	74.7	70.8	71.5
other households	3.4	3.0	3.3	3.4	-	-	-	-	81.6	64.4	64.3	65.0
Non-resident	4.2	6.6	10.4	9.0	44.0	32.9	42.6	38.2	73.0	66.8	72.5	73.5
Government	0.1	0.1	0.2	0.2	11.8	3.3	5.3	2.9	58.7	87.4	87.7	82.3
Banks and savings banks	0.2	0.5	1.2	1.2	42.1	12.1	12.2	1.2	100.0	97.3	93.5	83.3
Total coverage	4.9	6.6	8.7	8.7	36.0	37.8	42.7	42.2	68.5	64.9	66.6	66.9
	Total classified claims				Total arrears of more than 90 days				Total D- and E-rated claims			
EUR million	49,766	49,466	47,876	47,563	3,688	5,547	6,904	6,962	1,840	3,065	4,278	4,197
- as a % of GDP	139.8	136.8	135.0	135.2	10.4	15.3	19.5	19.8	5.2	8.5	12.1	11.9

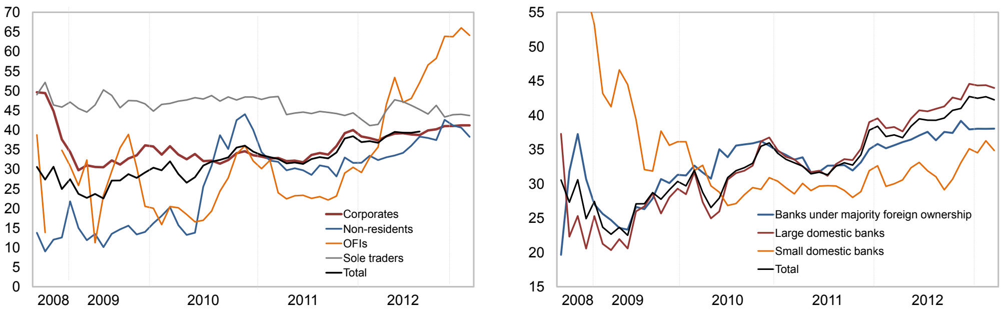
Source: Bank of Slovenia

A total of 42.2% of claims more than 90 days in arrears are covered by impairments, excluding collateral.

The indicator of coverage by impairments of only non-performing claims is considerably higher. The coverage of classified claims more than 90 days in arrears by impairments, excluding collateral, stood at 42.7% at the end of 2012, and was down slightly in March at 42.2%. Coverage was up by 4.4 percentage points on the end of 2011. The coverage of classified non-performing claims for different segments of the portfolio indicates which client segments the banks perceived as the highest-risk last year. The coverage of non-performing claims against OFIs reached 64% last year and this March, an increase of 35 percentage points on the end of 2011, and thus stands out compared with other client segments. Coverage persisted at 43.6% last year and until this March at sole traders, who stand out with a high coverage by impairments due to a high level of volatility and large number of small clients. The reason lies in the prompt resolution of small amounts in arrears and better coverage of claims by collateral.

By bank group, the large domestic banks recorded the largest increase in the coverage of non-performing claims by impairments, from 39% to 44%. Both coverage and growth were lower at the other two bank groups in 2012: both groups recorded growth of around 3 percentage points, the small domestic banks to stand at 35% and the banks under majority foreign ownership to stand at 38%. This means that non-performing claims are a considerably greater burden on the groups of domestic banks, and that the impairment and subsequent write-off in the segment of claims with no possibility of recovery should be accelerated.

Figure 5.29: Coverage of non-performing claims by impairments by client segment (left) and bank group (right) in percentages



Source: Bank of Slovenia

The coverage of D- and Erated claims is 66.9%.

Coverage was higher for D- and E-rated claims, at 66.6% at the end of the year and at a similar level in March, at 66.9%. That proportion was up last year, but not significantly, by 1.7 percentage points. At 73.8%, coverage by impairments is also highest for this indicator, with OFIs recording the highest growth. The coverage of D- and E-rated claims against households is stable at around 65%.

Table 5.23: Coverage of classified claims by impairments, and D- and E-rated claims against non-financial corporations by sector

	Impairments of classified claims, EUR million		Coverage of classified claims by impairments, %		Classified claims rated D and E		
					value, EUR million	as % of classified claims	
	2011	2012	2011	2012		2011	2012
Agriculture, forestry, fishing, mining, quarrying	21	21	6.9	6.9	13	4.9	4.4
Manufacturing	456	577	7.2	9.9	618	6.8	10.6
Electricity, gas, water; remediation activities	17	23	1.6	1.7	17	0.8	1.3
Construction	613	771	17.4	23.3	840	15.7	25.4
Wholesale and retail trade	329	419	7.4	10.6	442	5.3	11.2
Transportation and storage	139	144	6.2	7.3	181	7.6	9.2
Accommodation and food service activities	45	60	6.5	9.2	47	5.7	7.2
Information and communication activities	71	86	11.9	13.3	63	4.5	9.7
Financial and insurance activities	211	302	13.7	23.6	318	18.0	24.8
Real estate activities	90	121	8.2	11.3	99	7.4	9.2
Professional, scientific and technical activities	264	260	13.2	13.3	278	15.1	14.2
Public services	17	23	3.7	5.3	10	1.6	2.3
Total	2,271	2,807	9.4	12.4	2,927	8.8	12.9

Source: Bank of Slovenia

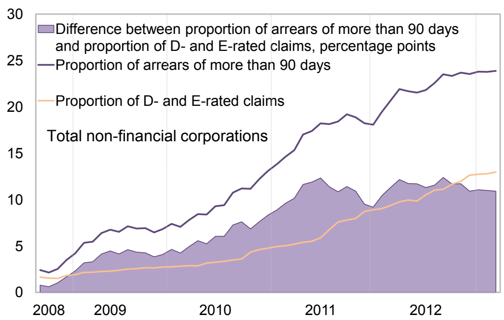
The coverage of claims against the construction sector by impairments rose sharply to stand at 23.3% at the end of 2012.

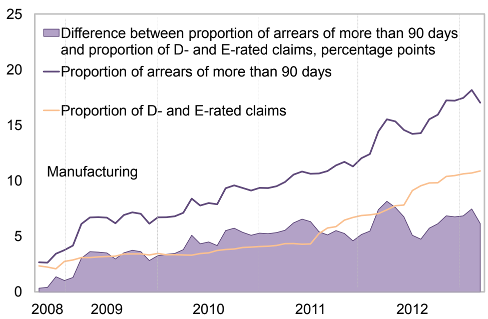
The proportion of D- and E-rated claims against non-financial corporations stood at 12.9% at the end of last year, an increase of 4.1 percentage points on the previous year. Corporates from the construction sector stand out in terms of proportion and growth over a one-year period, with D- and E-rated claims exceeding one quarter of the banks' portfolio against the aforementioned sector. This is not surprising given the extremely high proportion of and growth in the banking system's claims again corporates from the construction sector in bankruptcy. Coverage by impairments rose from 17.4% to 23.3% at the end of 2012. A similar proportion (around one quarter) of claims against the sector of financial intermediation are rated D and E. At 23.6%, coverage by impairments in this sector is likewise similar to that of the construction sector.

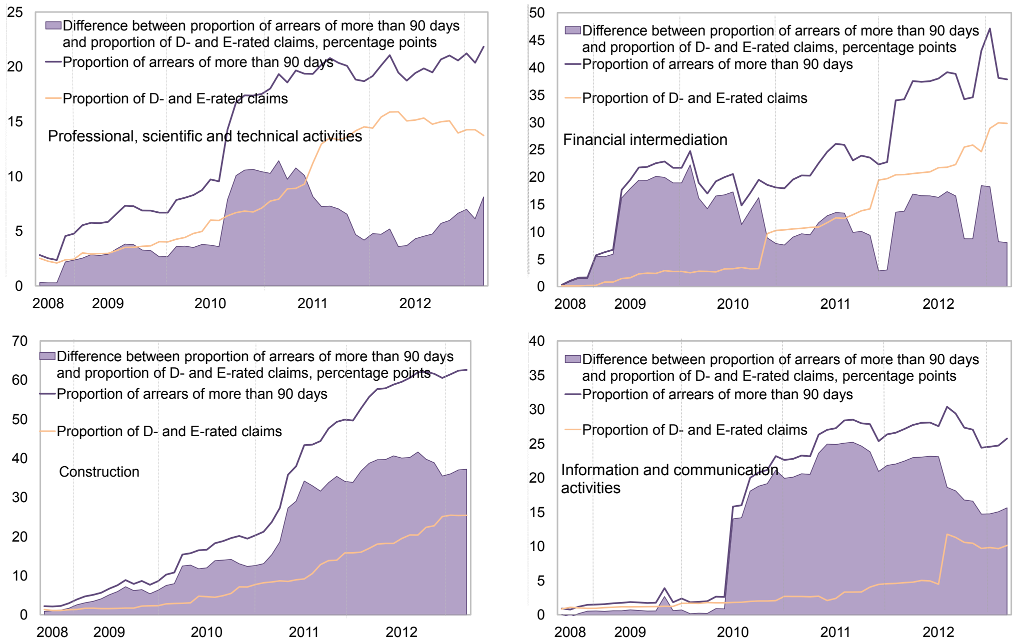
In addition to an increase in the downgrading of claims in the construction sector, downgrades have also been seen in other sectors. The proportion of D- and E-rated claims against the manufacturing sector stood at 10.6% at the end of last year compared with 6.8% the year before. That proportion doubled in the sector of information and communication activities to stand at 9.7%, following growth of nearly 5 percentage points. In the context of a decrease in claims more than 90 days in arrears in the aforementioned sector, the gap between non-performing claims and the proportion of D- and E-rated claims has narrowed considerably.

The difference between non-performing claims and associated impairments can be covered to some extent by collateral. However, the realistic redemption of such collateral is questionable is those cases that involve the protracted resolution of claims that have already lost some or most of their value.

Figure 5.30: Comparison of arrears of more than 90 days with D- and E-rated claims as a proportion of banks' classified claims by individual sector in percentages

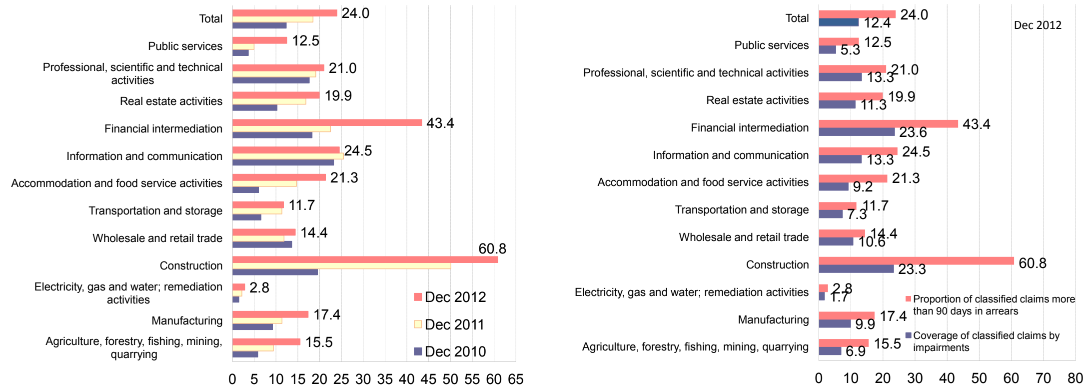






Source: Bank of Slovenia

Figure 5.31: Claims more than 90 days in arrears as a proportion of banks' classified claims against non-financial corporations (left) and coverage of claims by impairments and provisioning costs (right) by sector in percentages



Source: Bank of Slovenia

Transitions of non-financial corporations between credit ratings and the default rate

The proportion of transitions to lower credit ratings remained above-average in 2012 compared with the average for the period 2005 to 2011 as a result of the duration of the crisis. The most significant difference is in credit rating category D, where the proportion of transitions to credit rating category E is 21.3 percentage points higher. An average of 87% of corporates maintained an A rating (which accounts for the highest proportion of the credit rating structure) between 2005 and 2011, while that figure was just 80% in 2012. The majority of clients were downgraded to credit rating category B. The continued downgrading of these clients is expected due to the adverse economic situation.

Table 5.24: Probability of transitions between credit ratings in percentages

Average transition matrix 2005-2011

		current year				
		A	B	C	D	E
previous year	A	87.00	9.78	1.66	0.86	0.70
	B	6.87	81.10	7.03	4.10	0.90
	C	2.38	10.27	65.28	14.60	7.47
	D	1.70	2.29	3.65	65.57	26.80
	E	0.68	0.18	0.34	0.68	98.12

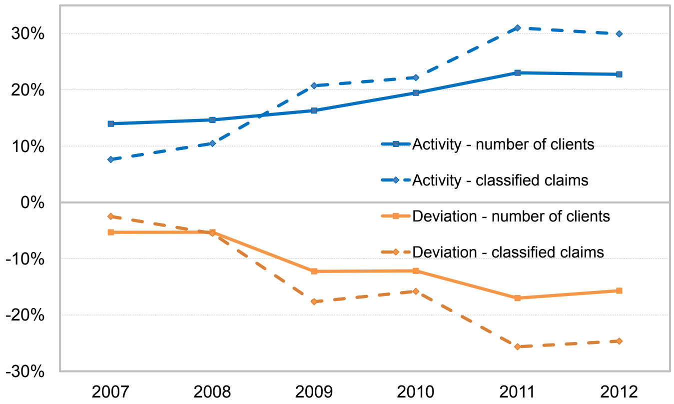
Transition matrix 2012

		2012				
		A	B	C	D	E
2011	A	79.99	15.74	2.67	1.12	0.48
	B	6.70	77.21	9.72	4.77	1.60
	C	1.78	8.45	59.39	17.45	12.93
	D	0.44	1.32	3.70	46.49	48.06
	E	0.04	0.15	1.03	0.80	97.97

Source: Bank of Slovenia

Following a significant increase in activity and deviation in 2011, both indicators remained at a similar level in 2012. Weighted by classified claims, the deterioration in the credit portfolio accounted for by non-financial corporations was considerably more pronounced between 2009 and 2012. This means that clients to whom the banks' exposure was above-average transitioned to lower credit ratings. The deterioration in the credit portfolio of non-financial corporations stabilised and slowed in 2012.

Figure 5.32: Activity and deviation in percentages



Source: Bank of Slovenia

The default rate on the basis of credit ratings was down slightly in 2012, while the default rate on the basis of arrears was up sharply, by 1 percentage point. This indicates that the banks failed to track the increase in the proportion of clients more than 90 days in arrears by downgrading these clients to D and E ratings, or that they eased such pressures by requesting additional collateral.

Table 5.25: Default rates on the basis of credit ratings and arrears in the repayment of loans in percentages

	2008	2009	2010	2011	2012
A, B, C ratings → D, E ratings[1]	2.76	4.90	5.52	6.41	6.04
Arrears of less than 90 days → arrears of more than 90 days[2]	3.61	5.30	5.48	5.84	6.80

Note: [1] Proportion of clients who migrate from A, B or C credit ratings to D or E ratings in one year.
[2] Proportion of clients who had arrears of less than 90 days in the previous year and arrears of more than 90 days in the current year.
Source: Bank of Slovenia

5.6.4 Loan collateral

Coverage of the credit portfolio by collateral

The proportion of unsecured claims reached 50% in March 2013.

The proportion of classified claims accounted for by unsecured claims continues to rise, and reached 50% in March 2013.[1] The total value of all forms of collateral stood at 93.2% of the total value of the banks' classified claims in March 2013, a decrease of 2 percentage points compared with the same period the previous year. The decrease is partly the result of a decline in the market value of collateral, in particular real estate and securities, and partly due to an increase in classified claims against lower-risk sectors. In the twelve-month period ending March 2013, there was a considerable increase in classified claims against the central bank (of EUR 461 million), as the banks temporarily deposited funds secured via 3-year LTROs with the ECB. Classified claims against the government were also up, by EUR 348 million, as the banks purchased treasury bills issued by the government.

At 92.2%, the coverage of claims more than 90 days in arrears by collateral is similar to the level of coverage for the credit portfolio overall. The proportion of unsecured claims more than 90 days in arrears has fallen 2.1 percentage points since September 2012 to stand at 42.9%, primarily as the result of write-offs made at the end of 2012. Nevertheless, that proportion remains relatively high, as only 42% of classified claims more than 90 days in arrears were impaired in March 2013.

[1] The figure includes unsecured claims and claims secured with forms of collateral that are not taken into account in the banks' calculation of impairments and provisions (e.g. collateral in the form of bills of exchange). Certain types of claims against lower-risk clients (sectors), e.g. the government sector, and those backed by guarantees from investment-grade clients are not necessarily secured by collateral from the borrower.

Figure 5.33: Coverage of all bank claims (left) and coverage of classified claims more than 90 days in arrears (right) by collateral in percentages

Source: Bank of Slovenia

Real estate collateral remains the predominant form of collateral. The coverage of classified claims by collateral in the form of commercial and residential real estate stood at 63.4% in March. A significant portion of collateral remains exposed to the risk of diminishing market value due to the adverse economic situation and uncertainty on the real estate market.

At 63.4%, real estate is the predominant form of collateral.

Table 5.26: Collateral on classified claims by client segment in March 2013 in percentages

		Comparison of collateral[2] with classified claims, %						
			Secured					
	Classified claims, EUR million	Unsecured[1]	Shares, equity and mutual fund units as collateral	Commercial real estate as collateral[3]	Housing as collateral[3]	At insurer	Other	Total value of collateral[3]
Corporates	221,158.0	38.3	8.4	69.2	7.9	0.0	31.3	116.8
OFIs	1,950.6	63.1	13.8	12.5	2.3	0.0	23.1	51.6
Households	9,860.9	28.5	0.3	15.5	96.4	19.9	10.3	142.4
Non-residents	5,408.1	70.0	2.0	28.4	3.1	0.0	14.0	47.6
Government	3,597.2	82.3	0.0	2.6	0.1	0.0	17.3	20.0
Banks and savings banks	3,328.0	95.9	0.0	0.2	0.1	0.0	3.8	4.1
Total	475,635.0	50.0	4.8	39.3	24.1	4.1	20.8	93.2

Note: [1]The figure includes unsecured claims and claims secured with forms of collateral that are not taken into account in the banks' calculation of impairments and provisions (e.g. collateral in the form of bills of exchange).
[2]Collateral is stated at fair value.
[3]With regard to collateral in the form of real estate, several banks may enter a mortgage on the same property. In such cases, the value of the mortgage at each successive bank is reduced by the value of the banks' claims with priority in the possible redemption of the collateral. Consequently, the value of these forms of collateral is multiplied both for these forms of collateral and as an aggregate.

Source: Bank of Slovenia

The coverage of classified claims by collateral is highest in the corporate sector, which is considered among the highest-risk sectors, and in the household sector. Real estate is the predominant form of collateral in both of the aforementioned sectors. The coverage of classified claims by collateral in the form of commercial and residential real estate stood at 77.1% in the corporate sector and 111.9% in the household sector. The risk of the declining value of collateral due to a fall in real estate prices is highest in the two aforementioned sectors. The proportion of unsecured claims against corporates was up 1.3 percentage points in the year ending March 2013, but was down 1.5 percentage points relative to September 2012 owing to write-offs. That proportion was down 2.7 percentage points over the same one year period in the household sector. As the least-risky sectors, coverage by collateral is low in the government sector and in the sector of banks and saving banks. Collateral in the form of guarantees is predominant in both sectors.

At 55%, the large domestic banks had the highest proportion of unsecured claims in March 2013. The same bank group also has the lowest coverage of classified claims, which stood at 81.5% in March 2013. This is partly due to the structure of the credit portfolio, in which the large domestic banks have an above-average proportion of claims against lower-risk sectors, such as banks and savings banks, the central bank and the government, whose claims are less secured or unsecured. Another reason for the low coverage at these banks is the high concentration of bad clients with an insufficient level of collateral, particularly following the devaluation of collateral in the form of shares and participating interests.

The large domestic banks have the highest proportion of unsecured claims.

Table 5.27: Collateral on classified claims by bank group in March 2013 in percentages

	Classified claims, EUR million	Comparison of collateral[2] with classified claims, %						
		Unsecured[1]	Shares, equity and mutual fund units as collateral	Commer-cial real estate as collateral[3]	Housing as collateral[3]	At insurer	Other	Total value of collate-ral[3]
Small domestic banks	44,178.0	46.2	6.3	53.8	23.5	3.3	22.3	109.3
Banks under foreign majority ownership	142,433.0	41.5	2.0	36.7	38.4	3.9	29.7	110.7
Large domestic banks	289,024.0	55.0	6.0	38.5	16.8	4.4	16.0	81.5
Total	475,635.0	50.0	4.8	39.3	24.1	4.1	20.8	93.2

Note: [1, 2, 3] The same applies as in the previous table.
Source: Bank of Slovenia

At 81.1%, the coverage of claims more than 90 days in arrears by collateral was lowest at the large domestic banks in March 2013. Only in this bank group is the total value of collateral on claims more than 90 days in arrears lower than the value of those claims. The same bank group also has the lowest coverage of classified claims, which stood at 45.4% in March 2013.

Table 5.28: Collateral on classified claims more than 90 days in arrears by bank group in March 2013 in percentages

	Classified claims, EUR million	Comparison of collateral[2] with classified claims, %						
		Unsecured[1]	Shares, equity and mutual fund units as collateral	Commercial real estate as collate-ral[3]	Housing as collateral[3]	At insurer	Other	Total value of collate-ral[3]
Small domestic banks	6,563.0	32.6	11.4	72.1	23.5	0.0	26.2	133.2
Banks under majority foreign ownership	10,229.0	36.7	3.1	64.2	22.3	0.0	32.2	121.8
Large domestic banks	52,825.0	45.4	5.8	56.7	6.1	0.0	12.6	81.1
Total	69,616.0	42.9	5.9	59.3	10.2	0.0	16.8	92.2

Note: 1, 2, 3 The same applies as in the previous table.
Source: Bank of Slovenia

Survey figures regarding the redemption of collateral due to clients' inability to repay loans

The success rate of repayment of loans from collateral was 26% in 2012.

According to survey figures,[1] the banks redeemed collateral on EUR 750 million in loans in 2012. Of the aforementioned amount, the majority, or 93.6%, was collateral on corporate loans. The success rate of repayment of corporate loans from collateral was 25%. In most cases, shares and participating interests were redeemed. The success rate was somewhat higher for household loans, at 35%. Collateral was redeemed on only 2.8% of non-performing loans in 2012.

Table 5.29: Loans for which banks redeemed collateral in 2012 and the amount of redeemed collateral by type in EUR million

	Bank deposits and irrevocable government guarantees	Shares, equity and mutual fund units	Commercial real estate	Housing	At insurer	Other	Total collateral
				Corporates			
Loan amount	68.0	272.4	77.4	30.7	1.1	252.3	702.0
Value of redeemed collateral	14.9	54.8	29.6	23.0	1.2	51.7	175.2
				Housing loans to households			
Loan amount	0.0	0.2	0.1	1.6	14.8	1.2	18.0
Value of redeemed collateral	0.0	0.2	0.0	1.8	1.3	0.0	3.3
				Non-housing loans to households			
Loan amount	1.2	6.0	0.1	3.3	16.3	3.1	30.0
Value of redeemed collateral	0.9	0.4	0.0	1.1	10.7	0.2	13.3
				Total loans			
Loan amount	69.3	278.6	77.6	35.6	32.3	256.7	750.0
Value of redeemed collateral	15.8	55.3	29.7	26.0	13.1	51.9	191.8

Source: Bank of Slovenia

[1] Regular annual bank survey, March 2013.

Box 5.3: Credit risk stress tests and summary of macro stress tests in 2012

The credit risk stress tests assessed the effect of deteriorating macroeconomic conditions on the quality of the credit portfolio in 2013 and 2014. Expected loss from credit risk (i.e. impairment costs) is calculated for individual banks according to the formula EL=PD*LGD*EAD[1]. Owing to the different level of risk associated with individual client segments, the assessments are performed separately for the corporate sector, household sector, government sector and the sector of financial institutions. The calculation is broken down further within each sector to paying clients and clients in default. A static approach is applied, meaning that the stock of classified claims remains unchanged in 2013 and 2014 relative to 2012.

All clients more than 90 days in arrears in loan repayments or rated D or E are classed as in default. The probability of default is thus the proportion of clients in default in the current year who settled their liabilities less than 90 days in arrears and were rated lower-risk as A, B or C.

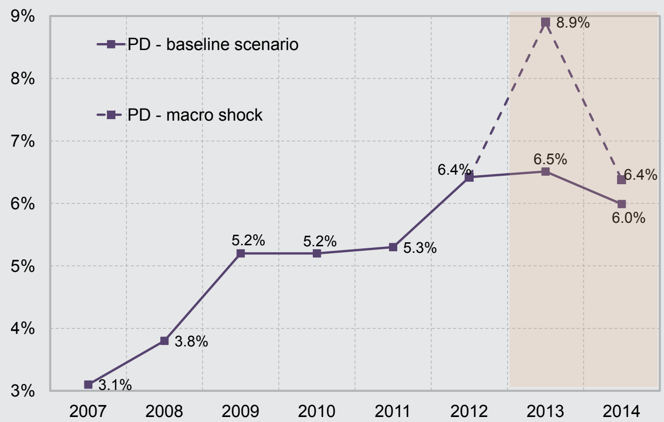
The changes in probability of default were estimated for all sectors on the basis of the credit risk model, which is assessed on a sample of non-financial corporations. The model uses a definition whereby a business entity is in default if in a particular year it is more than 90 days in arrears at any bank.[2] The PD projections for 2013 and 2014 are based on the assumption that there is no change in the values of business entities' variables, and that they are the same as the values in 2012. The PD forecast thus depends solely on the forecast changes in macroeconomic variables. Two scenarios were simulated:

1. Baseline scenario: takes into account GDP growth forecasts (April 2013 Macroeconomic Developments and Projections), which stood at -1.9% for 2013 and 0.5% for 2014. The changes in the reference interest rate are determined on the basis of futures contracts.

2. Macro shock: GDP growth that is two standard deviations lower in 2013, and interest rates that are 2 percentage points higher in 2013 and 2014. GDP growth amounts to -8.7% in 2013 and 0.4% in 2014 following the aforementioned shock.

After a significant increase in PD in 2012, under the baseline scenario the forecast is that PD will increase slightly again this year, when a further contraction in GDP is forecast. A slight improvement in the economic situation in 2014 will reduce PD to 6%. PD rises by 2.4 percentage points in 2013 and 0.4 percentage points in 2014 following the shock.

Figure 5.34: Probability of default in percentages



Sources: Bank of Slovenia, own estimates

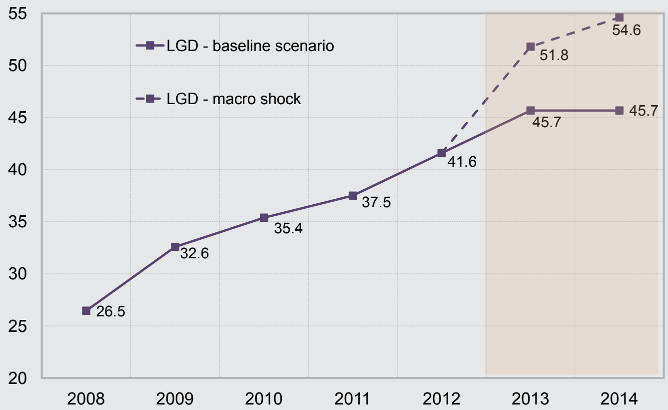
LGD is equal to the loss that arises in the event of default. It is calculated as the level of coverage of claims in default (more than 90 days in arrears or a client rated D or E) by the impairments created for these claims. This is an approximation for LGD as estimated by the banks, and is not the actual value of LGD.

The values of LGD according to the baseline scenario in 2013 and 2014 and following the shock were determined on the basis of past changes in LGD at the level of the total portfolio. The baseline scenario for 2013 assumes that LGD will rise to the same extent for every sector as it did in 2012 (4.1 percentage points). The situation is expected to stabilise in 2014. LGD will thus remain at the 2013 level. Following the shock, where a recession of similar depth of that in 2009 is envisaged for 2013, the increase in LGD was calculated on the basis of the increase in 2009 and 2010. This leads to rises in LGD by 6.1 percentage points in 2013 and 2.8 percentage points in 2014.

[1] Note: EL – expected loss from credit risk; PD – probability of default; LGD – loss given default; and EAD – exposure at default.

[2] Because of the binary nature of the dependent variable, the model has been assessed using a random effects probit model. In the model, the probability of default is explained using variables that are specific to the individual business entity (size, age, liquidity, indebtedness, cash flow, efficiency, blocks placed on the transaction account, and the number of relations between the entity and banks), and macro variables that reflect the cyclical nature of PD. Of the latter, real GDP growth and the interest rate are included in the model.

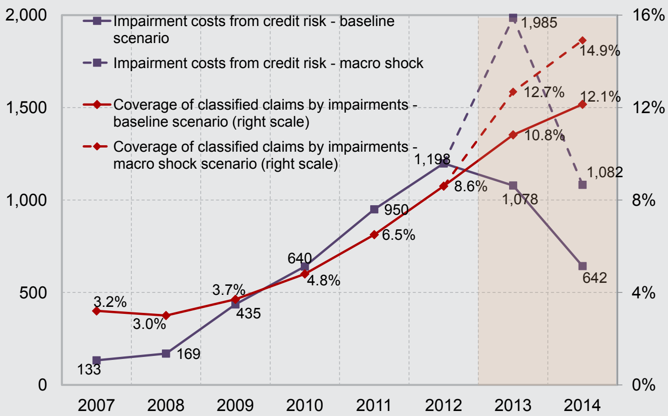
Figure 5.35: Coverage of non-performing claims[1] by impairments as a measure of loss given default in percentages



Note: [1] Arrears of more than 90 days, or D- or E-rated clients.
Source: Bank of Slovenia

According to the baseline scenario, impairment costs or expected loss from credit risk would amount to EUR 1,078 million in 2013 and EUR 642 million in 2014. Those figures rise by EUR 907 million in 2013 and by EUR 440 million in 2014 relative to the baseline scenario following the macro shock. The calculation of the coverage of classified claims by impairments assumes that the banks will not write off non-performing claims in 2013 and 2014. Assessed impairments costs are those added in their entirety to the balance of impairments. Coverage would rise by 3.5 percentage points by 2014 relative to 2012 according to the baseline scenario and by 6.3 percentage points following the shock.

Figure 5.36: Impairment costs from credit risk in EUR million and coverage of classified claims by impairments in percentages



Source: Bank of Slovenia

Summary of macro stress tests in 2012

This section presents the results of the macro stress tests that were conducted in November 2012 based on the banks' balance sheet figures available at September 2012. The baseline scenario, which is based on the forecasts for macroeconomic developments (Price Stability Report, October 2012), certain other exogenous variables and the effects of three shocks, was assessed using an integrated approach. Of the three aforementioned shocks, only the overall macro shock, which has the strongest impact and is defined the same as presented above in the credit risk stress tests, is presented in this box. In the piecewise approach, an analysis of refinancing risk, the risk of a change in prices of government securities and credit risk was also conducted. The latter is not presented separately here, as it was presented already above on the basis of the latest data.

Baseline scenario

The deepening of the debt crisis and the continuation of the negative trend in economic activity will be reflected in the reduced activity of the banks and a contraction in loans to the non-banking sector. Despite forecasts of a weak economic recovery, loans to the non-banking sector will contract by 5.0% in 2013 and 2.8% in 2014. The contraction in the banking system's credit portfolio will gradually slow because it is limited to loans that are regularly repaid or repaid early. However, no new growth in loans will only lead to a continued increase in the proportion of non-performing claims. It is assessed that the proportion of total classified claims more than 90 days in arrears will rise to 18% by the end of 2014. Lending to households has been contracting since May 2012. Given the lower level of risk associated with households relative to corporates, limiting factors in the financing of households are not on the side of the banks. A considerable slowing in wage growth, rising unemployment and uncertainty on the real estate market limit the credit demand of households. Loans to households will contract by an average of 1.3% in 2013 and 0.6% in 2014.

Table 5.30: The values of variables in the baseline scenario are given in EUR million or percentages.

Baseline scenario	Profit, EUR million	ROE	Growth in loans to NS	Loans to NS/ TA	Growth in deposits by NS	Deposits by NS/ TA	Wholesale funding	Growth in TA
2013	-292.3	-7.0	-5.0	68.1	-5.3	50.0	21.9	-6.1
2014	-194.2	-5.0	-2.8	66.6	-0.5	50.1	21.9	-0.7

Note: ROE – return on equity, NS – non-banking sector, TA – total assets, Wholesale funding – liabilities to foreign banks and issued debt securities as a proportion of total assets.
Source: Bank of Slovenia

Similar factors defined for growth in loans to households are defined for deposits by the same sector, which will stagnate in 2013. Weak growth in deposits cannot be expected until 2014. Corporate deposits will only grow as the result of growth in deposits by export-oriented companies and companies from non-cyclical sectors. The contraction in deposits by the non-banking sector will average 5.3% in 2013 and 0.5% in 2014.

The banks' access to the foreign financial markets will remain limited. According to figures from the end of 2012, the banks will have to roll over or repay EUR 4.2 billion in wholesale funding by the end of 2014. The banks will adjust their investments accordingly by converting them to more liquid forms prior to the maturity of 3-year LTROs at the ECB. Loans to the non-banking sector as a proportion of total assets will fall to 66% by the end of 2014.

The banks will generate operating losses until 2014 due to a contraction in gross income and persistently high impairment and provisioning costs exceeding EUR 800 million annually. Losses of EUR 292 million in 2013 and EUR 194 million in 2014 are estimated.

The banking system's capital adequacy will be defined in the next two years by expected operating losses and the success of mitigation measures. The banks will maintain capital adequacy through previously announced recapitalisations, the early repayment of subordinated instruments and the reduction of capital requirements through a contraction in the scope of operations. Capital requirements will record modest growth already in 2014, while own funds will decrease owing to the accumulation of losses.

The forecast from the baseline scenario is considerably more uncertain and the risks more significant compared with previous years. A further decline in economic activity would drive growth in loans down further. There are no economic indicators pointing to a reversal in the credit cycle. Thus, the need for active intermediation to prevent the spiralling contraction in lending and a decline in economic growth is becoming increasingly apparent. Each downgrading of long-term sovereign debt and banks could lead to a deterioration in the income statement, increased refinancing risk, a reduction in the pool of eligible collateral for ECB operations and ultimately a decline in the stock of deposits by the non-banking sector. Growth in impairment costs will slow, but problems will shift to the income side. Because the banking system will continue to generate a loss over the next two years, the banks' ability to carry out sufficient recapitalisations will be diminished. The question has also arisen as to whether the banking system can continue to exist in its current size.

Effect of the macro shock

The macro shock, which is the combined shocks of GDP growth in 2013 that is lower by two standard deviations and interest rates that are 2 percentage points higher in 2013 and 2014, has the largest impact on growth in loans and on the banks' operating results. Growth in loans to the non-banking sector is 3.5 percentage points less than under the baseline scenario in 2013 at -8.5%, and 5.6 percentage points less in 2014 at -8.4%. Following the shock, the decline in growth in corporate loans is more significant that the decline in growth in household loans. The proportion of total classified claims more than 90 days in arrears reaches 20% by the end of 2014. In the context of the shock, there would be an operating loss of EUR 662 million in 2013 and a still-high loss of EUR 356 million in 2014. Capital adequacy is 0.2 percentage points lower than under the baseline scenario in the first year of the shock and 0.3 percentage points lower in the second year of the shock. The Tier 1 capital ratio stands at 8.5% at the end of 2014, down 0.6 percentage points on the baseline scenario.

Table 5.31: Effect of the macro shock by year relative to the baseline scenario in EUR million and percentages

Macro shock	Profit, EUR million	ROE	CA	Growth in loans to NS	Loans to NS/ TA	Growth in deposits by NS	Deposits by NS/ TA	Wholesale funding	Growth in TA
2013	-369.6	-9.8	-0.2	-3.5	0.1	1.9	3.0	-1.2	-3.6
2014	-161.8	-5.5	-0.3	-5.6	0.1	-1.0	5.7	-1.8	-5.6

Note: ROE – return on equity, CA – capital adequacy, NS – non-banking sector, TA – total assets, Wholesale funding – liabilities to foreign banks and issued debt securities as a proportion of total assets.
Source: Bank of Slovenia

Refinancing risk

An analysis of refinancing risk simulated the shock of a freeze in funding on the wholesale markets, which was applied to the static balance sheets from September 2012. Given the assumptions, the banks would largely adjust to the shock by reducing loans to the non-banking sector. The banks under majority foreign ownership, which would be most heavily affected by this shock, would reduce their loans by 18.3% over the course of the shock. Given their different investment structure, the banks under majority domestic ownership would be able to cover a larger portion of the loss of funding by reducing other investments, and by reducing loans to a lesser extent. By the end of the shock, loans to the non-banking sector would be down 3.8% at the large domestic banks, and down 1.9% at the small domestic banks, which are least exposed to the refinancing shock.

Market risk

The majority of investments in government securities comprise investments in Slovenian government securities. Investments in German, Austrian, Belgian and French government securities also account for a significant proportion. In the event of a repeat of the largest fall in prices of Slovenian government securities recorded in the observation period of January 2011 to November 2012, which was 22%, the banks would have to disclose revaluations of EUR 864 million. In the event of a sharp fall in prices of all government bonds in which the banks hold investments, the banks would have to disclose revaluations of EUR 951 million. The banking system's overall capital adequacy ratio would decline to 9.2% in such an event.

5.7 Refinancing risk

The banks continued to make net debt repayments on the wholesale markets in 2012. At the end of 2011, the banks were more exposed to the burden of repayment in 2012 than in the first quarter of this year. Refinancing risk was mitigated through long-term refinancing at the ECB. However, despite a reduction in the burden of repayment in shorter time periods, refinancing risk remains relatively high for Slovenian banks this year.

The banks continued to repay liabilities to the rest of the world last year in the context of continuing uncertainty on the international financial markets and the downgrading of long-term sovereign debt and banks. The contraction in the banks' balance sheet intensified further last year relative to the previous year. Total net repayments of debt on the wholesale markets amounted to EUR 3.5 billion in 2012, EUR 0.6 billion more than the previous year. A further contraction in the banking system's total assets can be expected in the coming years if the current conditions persist. In just the four years since 2008, the banks have repaid loans to foreign banks in the amount of EUR 8.4 billion or 24% of GDP.

In March this year the banks were slightly less exposed to the burden of repayment over shorter time periods. According to banking system figures[1] for the end of March, EUR 2.7 billion or 27% of liabilities to foreign banks mature by the end of 2013, which in terms of the proportion is almost comparable with the situation last April when it stood at one quarter. The amount of debt securities maturing in a period of one year is only slightly less than EUR 0.4 billion or less than 17% of the residual amount of issued debt securities compared with 45% in April last year. Liabilities from wholesale funding totalling 24.5% of all liabilities mature by the end of this year, compared with 31% in April last year.

The maturity of deposits by the Ministry of Finance shortened compared with the previous year[2]. Of the total stock of EUR 2.2 billion at the end of March, EUR 1.25 billion in deposits by the Ministry of Finance mature in the second quarter of 2013, while the remaining liabilities mature during the first half of 2014.

The banks will be most exposed to refinancing risk associated with liabilities to the Eurosystem during the first quarter of 2015 when they will have to repay EUR 3.9 billion in such liabilities. EUR 1.1 billion in the banks' liabilities from debt securities and EUR 1.4 billion from loans to foreign banks also mature in 2015.

[1] Bank Survey, March 2013.

[2] According to survey figures, deposits by the Ministry of Finance include fixed-term and overnight deposits at the banks. These are the Ministry of Finance's bank deposits processed through the government's single treasury account.

Sources of bank funding on the wholesale markets and at the ECB

a) General government deposits at[1] banks

The government began to gradually decrease its banks deposits last year, which were up during the first years of the crisis. The stock of general government deposits at the banks was down EUR 440 million last year, while a sharper increase in the aforementioned deposits was only recorded in October and at the beginning of November, when the Ministry of Finance placed a portion of proceeds from the sale of 10-year Slovenian government bonds at the banks.

General government deposits remain a relatively important source of bank funding. The majority of these deposits mature in a period of one year.

General government deposits remain a relatively important source of bank funding. At EUR 3.2 million at the end of this February, they accounted for 7% of the banking system's total assets and more than 13% of all deposits by the non-banking sector. According to figures for the end of February 2013 and taking into account residual maturity, EUR 2.2 billion in general government deposits mature in a period of one year, while the vast majority, or EUR 2.1 billion, mature within six months. Nearly all government deposits mature in a two-year period.

The majority of the general government's deposits at banks are accounted for by fixed deposits by the Ministry of Finance, the value of which stood at EUR 1.5 billion at the end of March 2012. The stock of the Ministry of Finance's fixed-term deposits averaged EUR 1.8 billion in 2012, a decrease of EUR 0.9 billion compared with the previous year, while the stock averaged EUR 1.66 billion on a monthly basis during the first quarter of 2013. Including overnight bank deposits, the stock of the Ministry of Finance's bank deposits exceeded EUR 2.2 billion during the first quarter of this year.

The banks under majority domestic ownership have a more favourable structure of maturing Ministry of Finance deposits, but hold more deposits in terms of stock and the proportion of total assets than the banks under majority foreign ownership.

According to survey figures, at the end of March the banks were most exposed to refinancing risk from maturing Ministry of Finance deposits over the next three-month period (i.e. until the end of June), when EUR 1.25 billion in the aforementioned deposits mature. Overnight deposits accounted for EUR 0.45 billion of that amount. A significant portion of deposits by the Ministry of Finance will also mature in 2014 (one third or EUR 818 million).

At 73% of total deposits at the end of March, the large domestic banks are most exposed to the refinancing risk associated with deposits by the Ministry of Finance, 54% of which mature in a period of six months.

Table 5.32: Stock and maturity breakdown of deposits by the Ministry of Finance for the banking system overall and by bank group in percentages (as at 31 March 2013; survey figures)

		By maturity bucket, %						Cumulative, %					
	EUR million	2013			in 2014	in 2015	after 2015	2013			in 2014	in 2015	after 2015
Banks		Q2	Q3	Q4				Q2	Q3	Q4			
Savings banks													
Small domestic banks	218.6	44.5			55.5			44.5	44.5	44.5	100.0		
Large domestic banks	1,585.2	53.5			39.6		6.9	53.5	53.5	53.5	93.1	93.1	100.0
Banks under majority foreign ownership	370.8	81.6			18.3		0.1	81.6	81.6	81.6	99.9	99.9	100.0
System	2,174.6	57.4			37.6		5.0	57.4	57.4	57.4	95.0	95.0	100.0

Source: Bank of Slovenia

b) Bank funding via issued debt securities

Following the repayment of 3-year government-guaranteed bonds in 2012 by two banks, the associated refinancing risk decreased.

While bank funding via the issue of government-guaranteed debt securities was the most important source of funding during the first two years of the crisis, the banks reduced their stock of the aforementioned funding over the next two years (in 2011 and 2012). The banks made debt repayments from this form of funding in the amount of EUR 1.5 billion in 2012. Contributing to that amount were the early repurchase and final maturity of the 3-year bonds of two banks. Liabilities from issued debt securities had declined to EUR 2.2 billion by the end of February 2012. While the banks were highly exposed to refinancing risk in the early months of last year due to the approaching maturity of such liabilities, the maturity breakdown following repayment lengthened in terms of residual maturity.

Two thirds or EUR 1.4 billion in issued debt securities mature in 2015.

According to survey figures, only 17% or EUR 376 million of the banks' liabilities from issued bonds mature until the end of 2013, while those numbers were 45% or EUR 1.5 billion last April. The vast majority, or 89%, of issued debt securities are held by the

[1] According to the ESA95 methodology (S.13), the general government comprises central, state and local government and social security funds.

large domestic banks due to the fact that the banks under majority foreign ownership are funded directly by parent banks in the rest of the world, while the small domestic banks had more difficulty accessing such funds in the past and did so to a lesser extent. The majority of debt securities (EUR 1.4 billion of EUR 2.2 billion) mature in 2015. This will, taking into account the fact that the banks' liabilities from long-term refinancing at the ECB also mature in 2015, result in a significant increase in refinancing risk in 2015, if the situation on the international financial markets does not stabilise and trust is not restored in Slovenian banks.

Table 5.33: Stock and maturity breakdown of issued debt securities for the banking system overall and by bank group in percentages (as at 31 March 2013; survey figures)

Banks	Mar. 2013	By maturity bucket, %						Cumulative, %					
	EUR million	2013 Q2	2013 Q3	2013 Q4	in 2014	in 2015	after 2015	2013 Q2	2013 Q3	2013 Q4	in 2014	in 2015	after 2015
Savings banks	3.5	6.4	41.1	13.6	34.9	0.0	4.0	6.4	47.5	61.1	96.0	96.0	100.0
Small domestic banks	238.4	4.9	1.5	0.7	1.5	86.0	5.5	4.9	6.4	7.1	8.6	94.5	100.0
Large domestic banks	1,982.4	3.9	12.3	1.1	7.4	60.7	14.7	3.9	16.2	17.3	24.6	85.3	100.0
Banks under majority foreign ownership	14.2	43.7	21.1	35.2	0.0	0.0	0.0	43.7	64.8	100.0	100.0	100.0	100.0
System	2,238.6	4.2	11.2	1.3	6.7	62.9	13.6	4.2	15.5	16.8	23.5	86.4	100.0

Source: Bank of Slovenia

c) Maturing liabilities to foreign banks

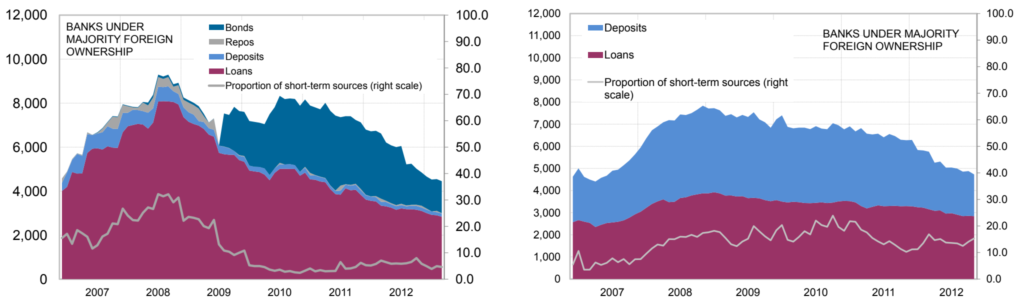
The large domestic banks and banks under foreign ownership made net debt repayments last year. The banking system rolled over 15.3% of maturing debt to foreign banks over the last 11 months.

In the years since the outbreak of the crisis, the banks have only rolled over maturing liabilities on foreign financial markets to a lesser degree. The banks have thus made net debt repayments to banks in the rest of the world. Net debt repayments are characteristic of the banks under majority domestic ownership and banks under majority foreign ownership. The banks under majority foreign ownership made total debt repayments to the rest of the world in 2011 and 2012 (loans, deposits and repo transactions) of EUR 2.4 billion, while that figure was EUR 1.7 billion for the large domestic banks. According to survey figures, the banks rolled over 15.3% of maturing debt to foreign banks between April 2012 and March 2013. That proportion is 38% at the banks under majority foreign ownership, while debt repayments (including early repayments) at the banks under majority domestic ownership exceeded maturing liabilities.

The banks under majority domestic ownership reduced their liabilities to foreign banks by 18.2% or EUR 683 million last year. Taking into account issued debt securities, the banks reduced funding from the wholesale markets by an additional EUR 1.5 billion or by more than one half. The banks' short-term and long-term liabilities to the rest of the world were down EUR 3.1 billion at the end of last year. The proportion of total debt accounted for by short-term debt fell to 3.9% at the end of last year.

The banks under majority foreign ownership reduced their liabilities to foreign banks by EUR 1.3 million or 22% in 2012. The proportion of short-term debt, primarily deposits by parent banks, rose by 5.6 percentage points last year to stand at 16.8%.

Figure 5.37: Stock of funding at foreign banks in EUR million for the banks under majority domestic ownership (left) and the banks under majority foreign ownership (right) in EUR million

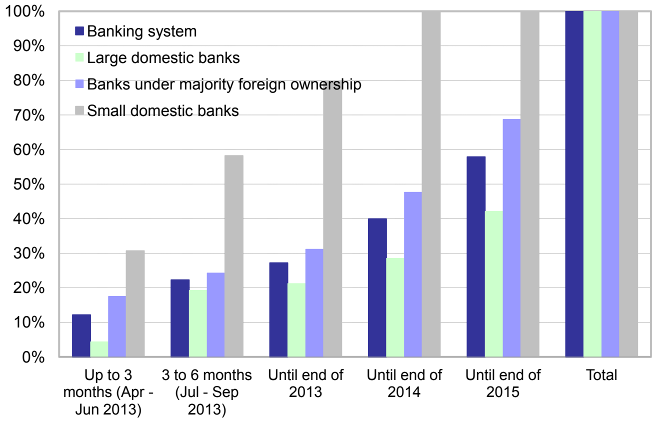


Source: Bank of Slovenia

According to survey figures at the end of March 2013, 27% of the banks' debt to banks in the rest of the world matures by the end of 2013, comparable to one year ago.

The liabilities of Slovenian banks to banks in the rest of the world are relatively evenly distributed across individual maturity bucket. According to survey figures for the banks at the end of March 2013, 59% of total liabilities to foreign banks from loans were accounted for by the banks under majority foreign ownership, and the remainder by the domestic banks. A total of one fifth of debt to the rest of the world matures over a six-month period, and 27% by the end of 2013. Taking into account the time intervals of this year and the next two years, slightly more debt matures in 2015 (18% or EUR 1.1 billion).

Figure 5.38: Maturing of liabilities to foreign banks by bank group (March 2013; survey figures)



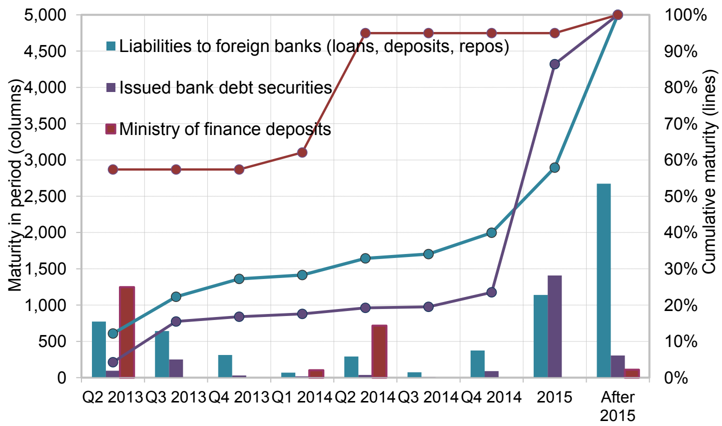
Source: Bank of Slovenia

Table 5.34: Stock and maturity breakdown of liabilities to foreign banks (loans, deposits and repo transactions for the banking system overall and by bank group in percentages (as at 31 March 2013; survey figures)

Liabilities to foreign banks	By maturity bucket, %							Cumulative, %					
	EUR	2013			in	in	after	2013			in	in	after
Banks	million	Q2	Q3	Q4	2014	2015	2015	Q2	Q3	Q4	2014	2015	2015
Savings banks													
Small domestic banks	14.3	30.7	27.5	21.4	20.3	0.0	0.0	30.7	58.2	79.6	100.0	100.0	100.0
Large domestic banks	2,604.5	4.4	14.8	2.0	7.3	13.6	57.9	4.4	19.2	21.3	28.6	42.1	100.0
Banks under majority foreign ownership	3,728.2	17.5	6.8	6.9	16.5	21.1	31.3	17.5	24.3	31.2	47.7	68.7	100.0
System	6,346.9	12.2	10.1	4.9	12.7	17.9	42.1	12.2	22.3	27.2	39.9	57.9	100.0

Source: Bank of Slovenia

Figure 5.39: Maturity of banks' liabilities by form of wholesale funding and by maturity interval (March 2013; survey figures)

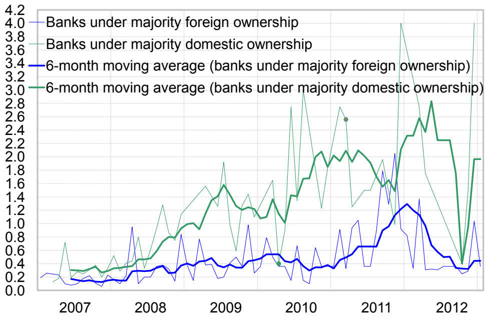


Source: Bank of Slovenia

The stock of new loans was down last year at the banks under majority foreign ownership.

Due to the adverse situation on the interbank market and limited access by the banks to the international financial markets, the stock of newly approved loans at banks in the rest of the world was down EUR 250 million last year to stand at EUR 1,379 million. That figure still exceeded EUR 2.6 billion in 2010. A small stock of new loans was primarily characteristic of the banks under majority domestic ownership, where the stock nearly halved last year to just EUR 274 million, compared with EUR 880 million two years ago. At EUR 1.1 billion, last year's volume of transactions at the banks under majority foreign ownership was comparable with the previous year. Three quarters of transactions were short-term.

Figure 5.40: Premiums over the EURIBOR for banks' loans raised in the rest of the world, with regard to majority ownership, in percentage points



Source: Bank of Slovenia

Premiums over the EURIBOR fluctuated considerably last year. Interest rates on new transactions were actually down slightly on the previous year.

Premiums over the EURIBOR for borrowing at foreign banks fluctuated considerably with respect to individual month or transaction. The average premium over the reference interest rate on loans to domestic banks from the rest of the world was 2.1 percentage points in 2012. The average premium was 0.5 percentage points at the banks under majority foreign ownership. Short maturities at fixed interest rates were predominant in last year's weak funding. The interest rates on such transactions were actually down in 2012 relative to the previous year, to 1.7% at the banks under majority foreign ownership and 1.9% at the banks under majority domestic ownership. That decline, however, was primarily a result of falling interest rates on the international financial markets and the fact that only short-term transactions were involved.

d) Bank funding from the Eurosystem

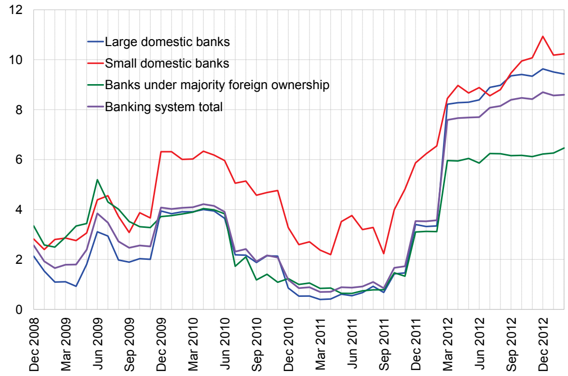
The banking system's liabilities to the Eurosystem totalled EUR 4 million at the end of February 2013.

The stock of liabilities to the Eurosystem rose by EUR 2.3 billion in 2012 to EUR 4 billion due to the participation of 19 Slovenian banks in the 3-year LTRO in February 2012. The proportion of total assets accounted for by this form of funding rose to 8.7% at the banking system level, an increase of 5.2 percentage points on the end of 2011. In February 2013 the stock of liabilities to the Eurosystem was comparable to the stock at the end of the year. The majority or EUR 3.7 billion of the aforementioned liabilities are from long-term operations. The proportion of total liabilities accounted for by liabilities to the Eurosystem is higher at the banks under majority domestic ownership. That proportion stood at 10.2% at the small domestic banks in February 2013, 10.2% at the large domestic banks and at 6.2% at the banks under majority foreign ownership.

Slovenian banks mitigated the pressures on refinancing considerably last year, both in terms of maturity and costs, by increasing long-term funding via the Eurosystem, which is a less expensive source of funding. The majority of liabilities to the Eurosystem mature in the first quarter of 2015. The banks will thus be less exposed to refinancing risk in 2013 and 2014.

The banks only temporarily prevented an even more rapid decline in their total assets via Eurosystem sources in the form of 3-year LTROs. Using the aforementioned sources, the banks partially restructured their funding and eased pressures related to refinancing on the wholesale financial markets. It must be noted, however, that the banks will have to repay or refinance the total stock of liabilities from Eurosystem LTROs in the first quarter of 2015. Over the next two-year period, the banks will have to thoroughly change their funding business model and reduce their dependence on funding from the international wholesale financial markets and on borrowing from the Eurosystem.

Figure 5.41: Liabilities to the Eurosystem as a proportion of the banking system's total assets



Source: Bank of Slovenia

5.8 Liquidity risk

Liquidity risk as measured by the first-bucket liquidity ratio was mostly unchanged relative to the previous year and remains acceptable. Dependence on Eurosystem instruments and on eligible collateral that is free for managing the liquidity of certain banks is rising due to the decline in the scope of transactions concluded on the euro area money market for unsecured loans. Sufficient liquidity at the aggregate level is a result of Slovenian banks' participation in the ECB's 3-year LTRO in the first quarter of 2012. The net debt of Slovenian banks to the Eurosystem increased, while the proportion of the pool of eligible collateral that is free was halved and remained stable until the end of the year. Banks with a low proportion of the pool of eligible collateral that is free for ECB operations are most exposed to liquidity risk. A decrease in excess liquidity, increased uncertainty and an amended bank funding policy at the banks under majority foreign ownership contributed to a decline in the volume of transactions by Slovenian banks on the euro area money market of unsecured loans and on the domestic interbank market. The stock of marketable secondary liquidity was down by 2.5%, but remains at 11.1% of total assets.

Future movements in excess liquidity will depend on the stability of deposits by the non-banking sector at the banks, while movements in the long-term sovereign debt rating could result in a change in the scope of funding of individual banks via the Eurosystem. The possible downgrading of long-term sovereign debt to BBB- or less at all three agencies could expose some banks to increased liquidity risk due to the ineligibility of government securities as Eurosystem collateral. Moreover, the exclusion of ineligible Slovenian government securities would reduce the secondary liquidity of the banking system. The domestic banks would be more exposed to liquidity risk from the possible downgrading of Slovenia.

5.8.1 Liquidity ratios

The first-bucket liquidity ratio improved on average.

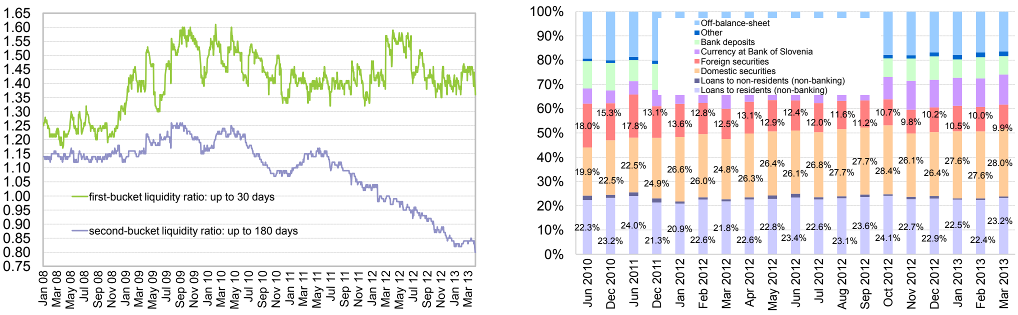
The first-bucket liquidity ratio averaged 1.46 in 2012, up 0.06 on the average of the previous year. Borrowing by Slovenian banks in the scope of the ECB's 3-year LTROs contributed to the rise in the aforementioned ratio in the first quarter. The first-bucket liquidity ratio fell during the second half of the year due to the maturity and repayment of the issued debt securities of certain banks and a change in the methodology for calculating the first-bucket liquidity ratio at the beginning of October[1]. This resulted in a decline in the first-bucket liquidity ratio at the banks under majority foreign ownership. The increase in government deposits following the issue of US dollar government bonds in November 2012 improved the banking system's liquidity and resulted in a rise in the first-bucket liquidity ratio. The banks earmarked funds received from the government for the repayment of short-term liabilities, while the remainder was placed in liquid forms, in particular short-term claims against the rest of the world. The first-bucket liquidity ratio fell to 1.38 at the beginning

[1] The change in the methodology for calculating the first-bucket liquidity ratio entered into force on 1 October 2012 with the Regulation amending the regulation on the minimum requirements for ensuring an adequate liquidity position at banks and savings banks (Official Gazette of the Republic of Slovenia, No. 26/2012). Under the aforementioned regulation, the liquidity ladder began to take into account 75% of the value of contractually raised credit lines and the undrawn portion of raised loans instead of the previous 100%. That weight applied for the transitional period until 1 April 2013, when it was reduced to its final value of 50%.

of April due to the final entry into force of changes to the aforementioned methodology.

Changes in deposits by the Ministry of Finance will continue to affect the management of the liquidity of Slovenian banks. Maintaining such deposits at the banks and a moderate level of excess liquidity in the banking system is linked to the possible reissue of a government bond and the success of treasury bill issues.

Figure 5.42: Daily first-bucket and second-bucket liquidity ratios (left) and breakdown of the method of meeting the first-bucket liquidity ratio by instrument (right) in percentages



Source: Bank of Slovenia

The decline in the second-bucket liquidity ratio continued.

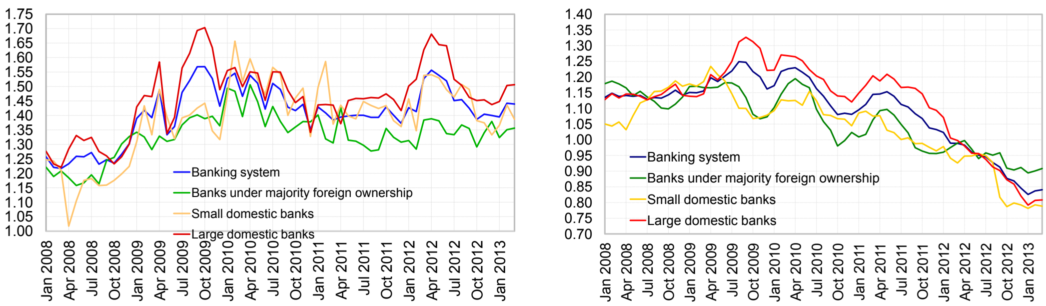
The decline in the second-bucket liquidity ratio, which began in the middle of 2011, continued until the end of 2012 and then stabilised. The second-bucket liquidity ratio averaged 0.94, down 0.16 on the previous year. The gradual decline is a result of the shortening of maturities on liabilities to the rest of the world, the maturity and repayment of issued debt securities, and the exclusion of loans to the non-banking sector from the fulfilment of the aforementioned ratio.

The most significant changes in the first- and second-bucket liquidity ratios were recorded by the large domestic banks.

The differences between bank groups with respect to the first-bucket liquidity ratio widened. The large domestic banks recorded the sharpest increase in the first-bucket liquidity ratio, by 0.09 to 1.54, while the increase at the other bank groups was smaller. The difference is the result of participation in an extraordinary LTRO, where the large domestic banks secured more funds.

The average second-bucket liquidity ratio declined at all bank groups by an average of 0.16 to stand at 0.94. This is a reflection of the maturing of issued debt securities and the exclusion of ineligible loans. The value of the second-bucket liquidity ratio at the banks under majority foreign ownership, which fluctuated below the banking system average in recent years, fluctuated above the average in 2012 at 0.95.

Figure 5.43: Liquidity ratio for first bucket (0 to 30 days; left), and second bucket (0 to 180 days; right) of the liquidity ladder by individual bank group, monthly averages



Source: Bank of Slovenia

Net debt at the Eurosystem was up due to participation in the LTRO and a decline in the stock of funds placed in the deposit facility.

The net debt of the banking system vis-à-vis the Eurosystem rose in 2012. Net debt at the Eurosystem averaged EUR 3.8 billion in December 2012, up EUR 3.1 billion on the same period in 2011. The banks initially placed excess liquidity at the ECB's deposit facility. The interest rate on the deposit facility fell to zero during the first half of July. The majority of banks therefore held funds on their transaction accounts, while net debt rose. Claims against the Eurosystem were thus maintained only through the placement of excess liquidity at weekly fixed-term deposit tenders. The fluctuating stock of the aforementioned deposits was also impacted by the stock of government deposits at the banks. The volume of weekly fixed-term deposits at the Eurosystem averaged EUR

192 million in 2012, at the previous year's average. There was no significant change in Slovenian banks' net debt to the Eurosystem in the first quarter of 2013.

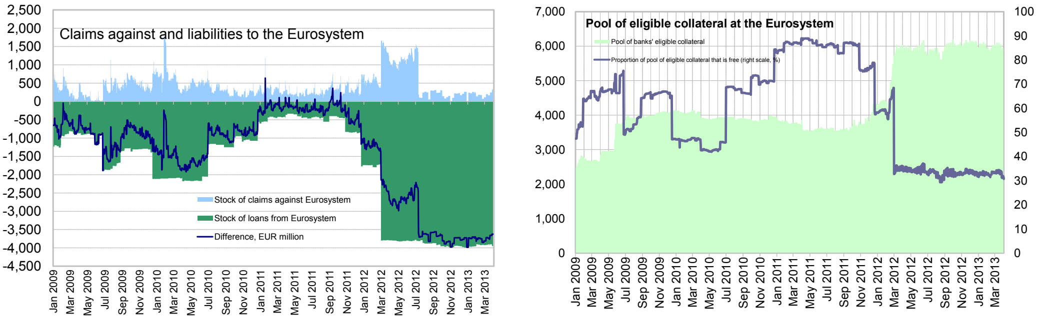
The proportion of the pool of eligible collateral that is free is lowest at the large domestic banks.

The pool of eligible collateral for Eurosystem operations averaged EUR 6.1 billion in December 2012, an increase of EUR 1.9 billion on the same period in 2011. In terms of type of asset, there was an increase in the stock of Slovenian government securities and bank loans[1]. The banks' participation in a 3-year LTRO halved the proportion of the pool of eligible collateral that is free, which was stable at the end of 2012 and in the first quarter of 2013 at 34%. Liquidity risk is higher at the banks with the lowest proportion of the pool of eligible collateral for Eurosystem operations that is free. Among bank groups, the aforementioned proportion was down most at the large domestic banks, where it averaged 26% in March 2013, down 45 percentage points on the end of 2011. That proportion stood at 37% at the small domestic banks and at 47% at the banks under majority foreign ownership.

The downgrading of Slovenia would reduce the possibility of funding at the Eurosystem.

Some 86% of assets in the pool of eligible collateral for Eurosystem operations are of domestic origin, which exposes the banks to higher liquidity risk in the event of a significant downgrading of Slovenia's long-term sovereign debt. In March 2013 the agencies Fitch and S&P issued Slovenia a rating of A-, while Moody's issued a rating of Baa2. The scope of possible funding at the Eurosystem would decline at a smaller number of banks in the context of the downgrading of long-term sovereign debt to BBB- or less at all three agencies.

Figure 5.44: Commercial banks' claims, liabilities and net position vis-à-vis the Eurosystem in EUR million (left), and pool of eligible collateral at the Eurosystem in EUR million (right)



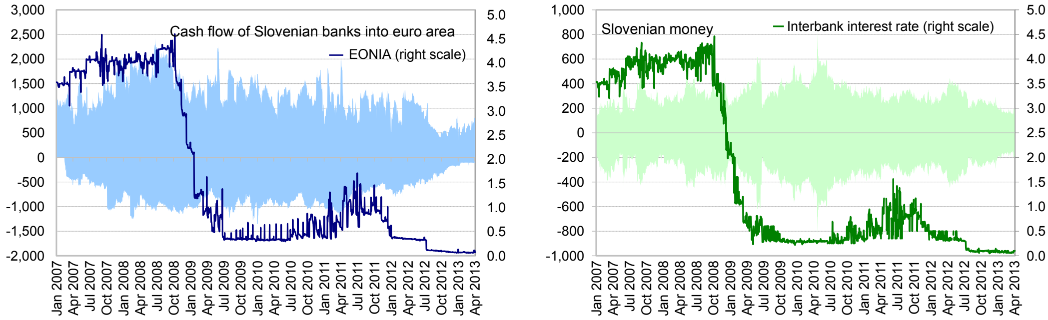
Source: Bank of Slovenia

The extent of cooperation between Slovenian and foreign banks on the money market for unsecured deposits has decreased.

Slovenian banks remained net creditors last year and during the first quarter of this year on the euro area money market for unsecured loans, while the extent of cooperation between Slovenian and foreign banks has decreased. Net claims averaged EUR 565 million in March 2013, up EUR 122 million on the average in December 2011. The more significant contraction in liabilities to foreign banks than in claims against foreign banks was a result of a decline in excess liquidity and a growing lack of confidence. Liabilities to foreign banks were also down on the money market due to a change in the policies of parent banks with respect to the funding of the banks under majority foreign ownership. Subsidiary banks are making debt repayments to the rest of the world and are replacing those sources by attracting deposits by the non-banking sector, while excess liquidity, which fluctuates in line with movements in government deposits, is placed at parent banks, typically overnight.

[1] Includes loans from the Slovenian government, loans with a Slovenian government guarantee and loans to public sector entities.

Figure 5.45: Stock of unsecured loans of Slovenian banks placed and received on the euro area money market (left) and the Slovenian money market (right) in EUR million, and movement of the EONIA and the interbank interest rate on the Slovenian money market in percentages



Source: Bank of Slovenia

The decrease in excess liquidity contributed to a decline in the scope of transactions on the Slovenian interbank market.

The scope of transactions also contracted on the Slovenian interbank market last year and during the first quarter of this year. The stock of placed and received deposits declined by an average of EUR 15 million last year to EUR 291 million and by an additional EUR 116 million in the first quarter of 2013. A decline in government deposits and the already high proportion of the banks' investments accounted for by liquid assets contributed to a decrease in excess liquidity.

5.8.2 Marketable secondary liquidity

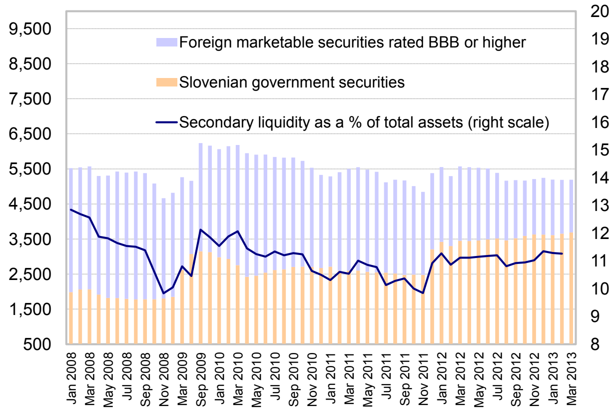
The structure of marketable secondary liquidity changed in favour of Slovenian government securities.

The stock of marketable secondary liquidity was down EUR 132 million in 2012 to EUR 5,246 million. Marketable secondary liquidity is calculated from liquidity ladder data as the sum of the monthly average of Slovenian government securities and foreign marketable securities rated BBB or higher. The proportion of total assets that it accounts for was up by an average of 0.6 percentage points to stand at 11.1%. Following their participation in December's and February's LTROs, the banks primarily increased secondary liquidity with investments in Slovenian government securities, and less so through purchases of foreign marketable securities rated BBB or higher. The stock of secondary liquidity fell to EUR 5.2 billion in the middle of the year when the banks settled a major portion of liabilities from maturing debt securities, and had not changed significantly by the end of the first quarter of 2013. In the context of a decrease in the stock of foreign marketable securities, the banks maintained secondary liquidity at a similar level by purchasing Slovenian treasury bills. The structure of secondary liquidity changed in 2012 in favour of government securities. The proportion of secondary liquidity accounted for by government securities stood at 71% in March 2013, up 11.4 percentage points on the end of 2011.

The stock of marketable secondary liquidity was down most at the large domestic banks.

The stock of marketable secondary liquidity declined most at the large domestic banks in 2012 through a decrease in foreign securities. At 72%, however, securities still account for the highest proportion of the total stock of secondary liquidity. Nearly two thirds or EUR 2.4 billion of the aforementioned banks' marketable secondary liquidity is accounted for by Slovenian government securities. Government securities account for 92% of the marketable secondary liquidity of the banks under majority foreign ownership, which had risen to EUR 873 million by the end of 2012. At 6.1%, however, the proportion of total assets accounted for by secondary liquidity is below the banking system average.

Figure 5.46: Changes in the stock of marketable secondary liquidity (monthly averages in EUR million) and ratio of marketable secondary liquidity to total assets in percentages



Note: Secondary liquidity is calculated from liquidity ladder data as the sum of the monthly average of Slovenian government securities and foreign marketable securities rated BBB or higher.

Source: Bank of Slovenia

5.9 Other risks

5.9.1 Interest-rate risk

The difference between the average repricing periods for asset and liability interest rates has widened by 14 days since December 2011 to stand at 4 months and 7 days in March 2013. The banks are thus more exposed to the risk of rising interest rates. The gap has widened due to a more significant shortening of the average repricing period for liability interest rates than the average repricing period for asset interest rates. That shortening is the result of a reduction in the stock of deposits and loans and shorter maturities thereof, and the maturing of bank debt securities. Between December 2011 and March 2013, interest-rate risk increased most at the small domestic banks, which are the most exposed to a rise in interest rates.

The cumulative interest-rate gap of up to 1 year between interest-sensitive assets and liabilities narrowed by EUR 1.4 billion between December 2011 and March 2013 to the negative amount of EUR 992.6 million. The domestic banks recorded a negative gap, while the banks under majority foreign ownership recorded a positive gap. This means that the domestic banks are exposed to the risk of a rise in interest rates over the next one-year period, while the banks under majority foreign ownership are exposed to the risk of falling interest rates.

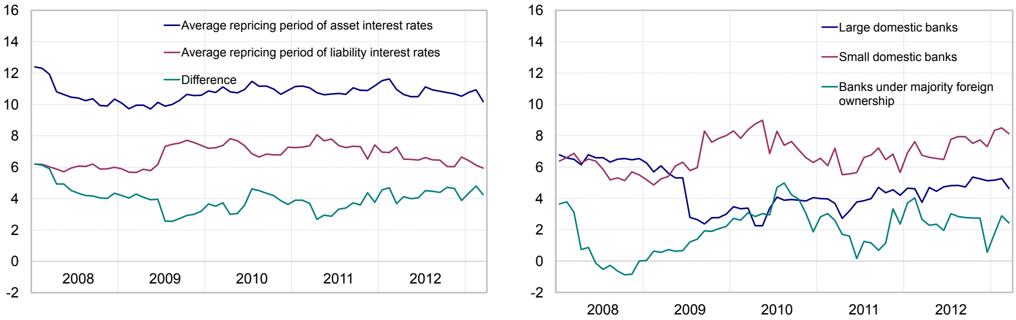
Average period of change in interest rates

The gap between the average repricing periods of asset and liability interest rates widened.

Interest-rate risk as measured by the difference between the average repricing periods of asset and liability interest rates stood at 4 months and 7 days in March 2013. The average repricing period for asset interest rates was 10 months, while the average repricing period for liability interest rates was nearly 6 months. The difference between the average repricing periods for asset and liability interest rates widened by a half of a month between December 2011 and March 2013. The reason for the widening of the gap during the aforementioned period lies on the liability side: the shortening of the average repricing period for liability interest rates (by one and a half months) outstripped the shortening of the average repricing period for asset interest rate (by 1 month).

The main reasons for the shortening of the average repricing period for asset interest rates were the shortening of the average repricing period for interest rates on loans granted and investments in securities. The main reasons for the shortening of the average repricing period for liability interest rates were a reduction in the stock of deposits received and the shortening of the maturities thereof, the shortening of the average repricing period for interest rates on loans raised and maturing debt securities. It is highly likely that the shortening of the average repricing period of liability interest rates will continue in the future in the context of continuing limited access by the banks to long-term sources of funding.

Figure 5.47: Average repricing period for interest rates in months (left) and the difference between the average repricing period for interest rates by bank group in months (right)



Source: Bank of Slovenia

Interest-rate risk has risen at the small domestic banks.

The average repricing period of asset and liability interest rates varies between bank groups. The gap between the average repricing periods of asset and liability interest rates is highest at the small domestic banks at 8.1 months. The small domestic banks are thus most exposed to the risk of rising interest rates. In addition, the rise in interest rate risk was sharpest at the small domestic banks during the period under review. The difference between the average repricing periods for asset and liability interest rates widened by two and a half months between December 2011 and March 2013. The reason for the widening of the gap at the small domestic banks lies on the liability side. The average repricing period for liability interest rates shortened by two months, while there was no significant change in the average repricing period for asset interest rates. The shortening of maturities on loans raised and deposits contributed most to the shortening of the average repricing period of liability interest rates.

The most significant change in the average repricing periods for asset and liability interest rates occurred at the large domestic banks between December 2011 and March 2013. The main reasons for the shortening of the average repricing period for asset interest rates by two months were the shortening of the average repricing period for interest rates on loans granted and on investments in debt securities. The same factors as at the small domestic banks contributed to the shortening of the average repricing period for liability interest rates by nearly two and a half months at the large domestic banks.

The gap between the average repricing periods of asset and liability interest rates is smallest at the banks under majority foreign ownership at 2.4 months

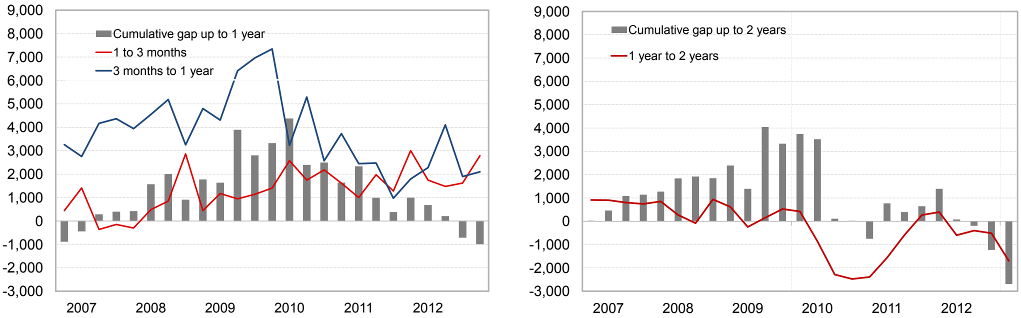
Interest-rate gap

The domestic banks are exposed to rising interest rates, while the banks under majority foreign ownership are exposed to falling interest rates.

The cumulative interest-rate gap of up to 1 year between interest-sensitive assets and liabilities narrowed by EUR 1.4 billion between December 2011 and March 2013 to the negative amount of EUR 992.6 million. Interest-sensitive assets with an interest rate repricing period of less than 1 year were down by EUR 3.4 billion from December 2011 to March 2013, while liabilities were down EUR 2.0 billion. The large domestic banks had the largest negative interest-rate gap of EUR 1.4 billion, and also recorded the most notable narrowing since December 2011, by EUR 1.3 billion. The banks under majority foreign ownership had a positive interest-rate gap of EUR 815 million, which has widened by EUR 222 million since December 2011. One reason for the differences between bank groups lies in the proportion of assets tied to variable interest rates. Some 91% of assets at the banks under majority foreign ownership are tied to a variable interest rate or to a fixed initial interest rate of up to 1 year. That proportion is 77% at the large domestic banks and 54% at the small domestic banks. Also contributing to the sharp drop in interest-sensitive assets at the large domestic banks was a significant contraction in loans. We can thus conclude that the domestic banks are exposed to the risk of a rise in interest rates over the next one-year period, while the banks under majority foreign ownership are exposed to the risk of falling interest rates.

The cumulative gap of up to 2 years has narrowed from EUR 646 million in December 2011 to the negative amount of EUR 2.7 billion in March 2013. All bank groups recorded a negative gap in this bucket.

Figure 5.48: Gap between the interest-sensitive assets and liabilities by individual bucket in EUR million



Source: Bank of Slovenia

5.9.2 Currency risk

The Slovenian banking system's currency risk remained low in 2012. The net open foreign exchange position stood at EUR 13.1 million or 0.3% of regulatory capital at the end of 2012. With a net open foreign exchange position of EUR 9.4 million or 2.7% of regulatory capital, the small domestic banks were most exposed to currency risk.

Table 5.35: Net open foreign exchange positions by currency in EUR million

	2010	2011	2012			
			Banking system	Large domestic banks	Small domestic banks	Banks under majority foreign ownership
Global currencies	-20.1	-9.6	8.8	10.6	4.2	-6.1
US dollar	-8.4	4.4	6.2	7.1	-0.2	-0.7
Swiss franc	-9.9	-13.4	0.9	3.0	3.2	-5.4
other (GBP, CAD, AUD, JPY)	-1.8	-0.6	1.7	0.5	1.2	0.0
EEA currencies	20.5	-18.0	-14.6	-15.3	0.3	0.4
Other currencies	11.9	15.3	16.5	11.0	4.8	0.7
CIU	52.6	29.6	2.4	2.4	0.0	0.0
Total, EUR million	64.9	17.2	13.1	8.7	9.4	-5.0
As % of regulatory capital	1.4	0.4	0.3	0.3	2.7	-0.5

Note: EEA: European Economic Area, i.e. the EU, Iceland and Norway; CIU: foreign exchange position in collective investment undertaking units.
Source: Bank of Slovenia

With the exception of European Economic Area currencies, the banks had a net long position in all currencies in 2012, meaning that the banks were exposed to the risk of a depreciation in the value of those currencies versus the euro. The open foreign exchange position in foreign currency investment fund units narrowed most because the banks are shifting their assets from such investments.

The stock of loans to the non-banking sector in Swiss francs or with a Swiss franc currency clause was down 15.2% in 2012 to stand at EUR 1,346 million. Housing loans accounted for EUR 924 million of the aforementioned amount. Loans in Swiss francs or with a Swiss franc currency clause accounted for 3.8% of all loans to the non-banking sector at the end of 2012.

5.10 Bank solvency

In 2012 the banks primarily focused on improving their core Tier 1 capital ratio, which was up 1.1 percentage points to stand at 10%. The overall capital adequacy ratio was up 0.3 percentage points to stand at 11.9% at the end of the year. The banks mainly improved the latter by reducing capital requirements as a result of the contraction in the scope of operations and due to substitution with less-risky exposures. They improved their core Tier 1 capital ratio by issuing hybrid instruments, but at the same time reduced the stock of other hybrid and subordinated instruments not included in the core Tier 1 capital ratio through early repurchases. The banks attempted to mitigate the impact of operating losses by making the aforementioned repurchases at a discount. However, the losses generated by the banks were too high and the contribution of own funds to capital adequacy was negative in 2012. Deduction items, which were down due to the sell-off of certain non-strategic investments, had a positive effect on own funds. Own funds deduction items had a positive impact on the calculation on a solo basis due to a change in the legal basis that allows capital investments to be included in the calculation of risk-weighted assets instead of deducted from capital.

Despite the increase in the value of capital ratios, certain banks are still faced with a deficit in capital. In order for all Slovenian banks to achieve a core Tier 1 capital ratio of at least 9%, an increase in capital on a solo basis would be required in the amount of EUR 222 million, or one third of the deficit from 2010 and less than the deficit recorded in 2008. Three quarters of the banks had an overall capital adequacy ratio exceeding 11%. The proportion of banks with an overall capital adequacy ratio of between 12% and 14% doubled in 2012. The Slovenian banking system would require a capital increase of between EUR 0.8 billion and EUR 1.4 billion to achieve a Tier 1 capital ratio equal to the EU average or the average of EU banks of comparable size. Here it should be noted that the Slovenian banks applied a considerably higher average risk weight to asset items for a longer period of time, and not merely during the recent years of the crisis. This is seen in a significantly higher ratio of capital requirements to total assets compared with the EU.

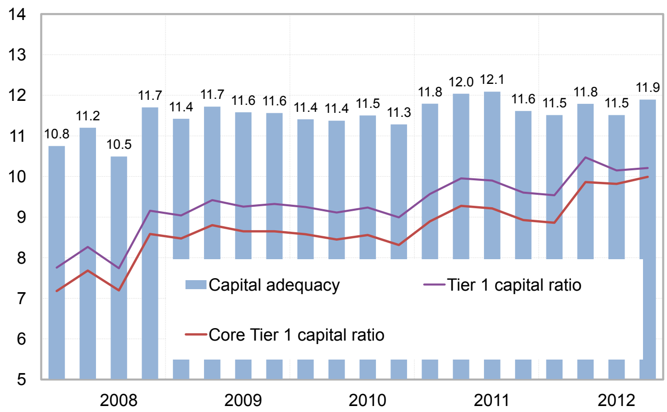
The banks' manoeuvring room and reserves to cover operating losses are diminishing. They require a prompt, effective and long-term solution. A contraction in the scope of operations is not the right way to meet the capital requirements.

5.10.1 Capital adequacy

The core Tier 1 capital ratio is trending upwards, and rose by 1.1 percentage points in 2012 to stand at 10%.

The banks focused most of their attention last year on improving the core Tier 1 capital ratio. The latter is trending upwards, and rose by 1.1 percentage points in 2012 to stand at 10%, while the banks have maintained an overall capital adequacy ratio at around 11.5% over the last four years. The latter improved briefly following recapitalisations, but the effect was negated by operating losses. The banking system's overall capital adequacy ratio stood at 11.9% at the end of 2012, an increase of 0.3 percentage points on the previous year.

Figure 5.49: Basic indicators of the banking system's capital adequacy in percentages



Source: Bank of Slovenia

The banks are improving the structure of their capital.

The fact that the banks' primary concern is to raise the core Tier 1 capital ratio can also be seen in the differences between ratios. The difference between the overall capital adequacy ratio and the core Tier 1 capital ratio narrowed by 0.8 percentage points in 2012 to 1.9 percentage points. Maintaining the aforementioned gap at around 3 percentage points, as it was prior to 2011, would require the banks to achieve an overall capital adequacy ratio of around 13%. By the end of 2012, the difference between the Tier 1 capital ratio and the core Tier 1 capital ratio was almost negated to stand at 0.2 percentage points. This indicates an improvement in the structure of capital.

The gap between capital adequacy and the ratio of capital to total assets is widening.

In contrast to capital adequacy ratios where the gaps are narrowing, the difference between capital adequacy and the ratio of book capital to total assets has widened over the last two years. The aforementioned ratio fluctuates constantly above 8%, while the difference with respect to the overall capital adequacy ratio widened to 3.8 percentage points in 2012. The widening of the aforementioned gap is a reflection of the substitution of higher-risk investments with less-risky investments.

Table 5.36: Basic indicators of the banking system's capital adequacy in percentages

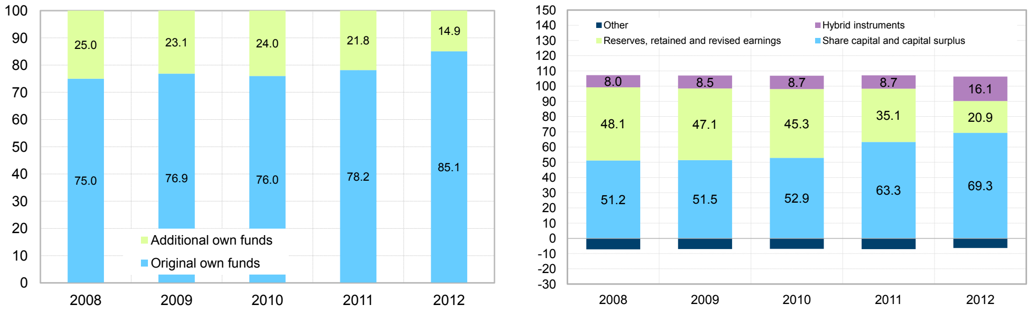
	2008	2009	2010	2011	2012
Capital adequacy	11.7	11.6	11.3	11.6	11.9
Tier 1 capital ratio	9.2	9.3	9.0	9.6	10.2
Core Tier 1 capital ratio	8.6	8.7	8.3	8.9	10.0
Book value of capital / total assets	8.4	8.3	8.2	8.0	8.1
	Difference between capital adequacy ratios, percentage points				
Capital adequacy - Tier 1 capital adequacy	2.5	2.2	2.3	2.0	1.7
Capital adequacy - core Tier 1 capital adequacy	3.1	2.9	3.0	2.7	1.9
Tier 1 capital adequacy - core Tier 1 capital adequacy	0.6	0.7	0.7	0.7	0.2
Capital adequacy - book value of capital	3.3	3.3	3.1	3.6	3.8

Source: Bank of Slovenia

The proportion of the highest quality forms of capital is increasing.

Slovenian banks meet capital requirements with the highest quality forms of capital. The proportion of total own funds accounted for by original own funds prior to deduction items was up 7 percentage points in 2012, and by nearly 10 percentage points at the large banks. Share capital and the capital surplus account for nearly 70% of original own funds. The proportion of hybrid instruments doubled, while the proportion of items tied to profit was down sharply owing to the banking system's high losses.

Figure 5.50: Structure of capital prior to deductions for the banking system as a whole (left) and structure of original own funds (right) in percentages



Source: Bank of Slovenia

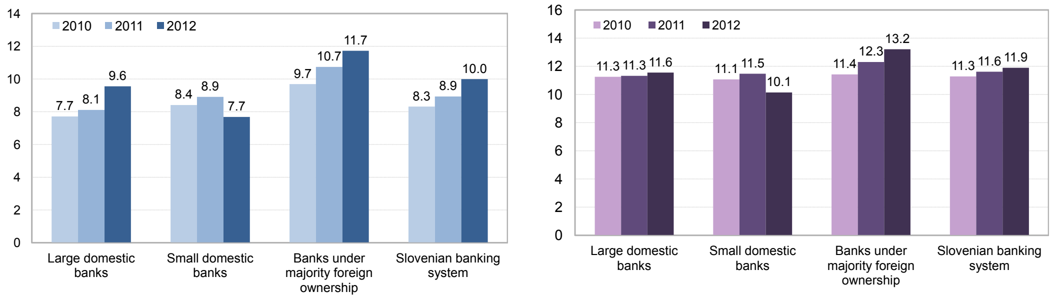
The banks are highly averse to assuming additional risks.

The relationships between capital adequacy ratios indicate that the banks are highly averse to assuming additional risks. The proportion of the highest quality capital is rising. At the same time, the banks are shifting to increasingly safer investments that increase total assets more than risk-weighted assets. This is reflected in improving capital adequacy in the context of a constant ratio of equity to total assets.

The banks under majority foreign ownership achieve the highest core Tier 1 capital ratio, while the aforementioned ratio improved most at the large banks and the small banks find themselves in the most difficult position.

Among bank groups, the large domestic banks were focused on achieving a core Tier 1 capital ratio of 9%. The aforementioned bank group recorded the sharpest increase in the aforementioned ratio in 2012, of 1.5 percentage points. The ratio stood at 9.6% at the end of the year. Having risen by 0.3 percentage points to stand at 11.6%, the effect on the overall capital adequacy ratio of the large banks was less significant. The core Tier 1 capital ratio and overall capital adequacy ratio at the banks under majority foreign ownership improved by around 1 percentage point last year, the aforementioned bank group recording significantly higher capitaown fundsl adequacy ratios than the domestic banks. This is a reflection of their better optimisation of own funds and less risky operations, and primary reflects the more active involvement of owners. The small banks are faced with passive or weak owners in terms of capital who are postponing recapitalisations. The small banks are particularly weak with respect to the core Tier 1 capital ratio, which stood at 7.7% at the end of 2012, while their overall capital adequacy ratio fell sharply, by 1.4 percentage points, to stand at 10.1%.

Figure 5.51: Core Tier 1 capital ratio (left) and capital adequacy (right) by bank group in percentages



Source: Bank of Slovenia

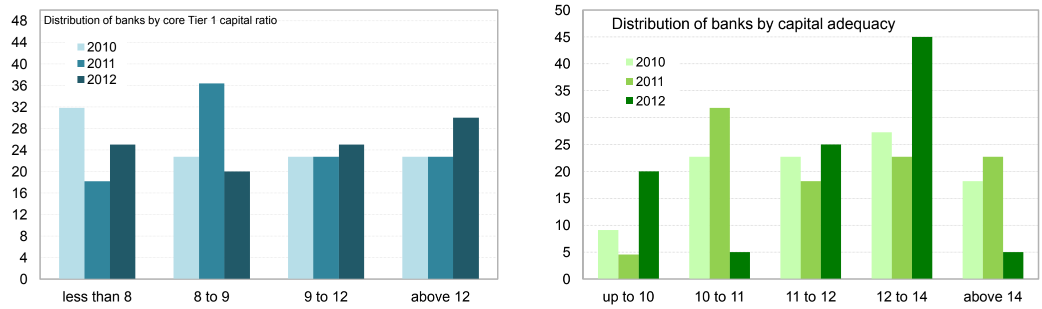
The proportions of banks with a core Tier 1 capital ratio of less than 8% and higher than 12% were up.

The core Tier 1 capital ratio has become a key indicator of the stability of banks. The banks are attempting to raise the core Tier 1 capital ratio above the 9% threshold through recapitalisations or via internal sources. The proportion of banks with a core Tier 1 capital ratio of between 8% and 9% was down 16 percentage points in 2012, while the proportions of banks with a core Tier 1 capital ratio of less than 8% and higher than 12% were up by around 7 percentage points.

Three quarters of banks have an overall capital adequacy ratio exceeding 11%, while the proportion of banks where the aforementioned ratio is 12% and 14% doubled in 2012.

While the EBA's requirement to achieve a core Tier 1 capital ratio of 9% for systemically important banks has established a clear threshold for the aforementioned ratio, the criterion for the overall capital adequacy ratio is less clear. Given the distribution of the capital adequacy of Slovenian banks, the line between banks with difficulties and those with a sufficient capital surplus has been set at between 10% and 11%. Three quarters of the banks had an overall capital adequacy ratio exceeding 11%. The proportion of banks with an overall capital adequacy ratio of between 12% and 14% doubled in 2012. The overall capital adequacy ratio of one fifth of banks is below 10%. These are mostly banks that generated high losses in 2012 or that have problems carrying our recapitalisations. The consequences of the sustained financial crisis, the rising proportion of non-performing claims and the optimisation of the level of capital have also been felt at the banks with traditionally high capital adequacy. The proportion of the banks with an overall capital adequacy ratio exceeding 14% was down compared with the previous year.

Figure 5.52: Distribution of banks' core Tier 1 capital ratio (left) and overall capital adequacy ratio (right) by bank group in percentages



Source: Bank of Slovenia

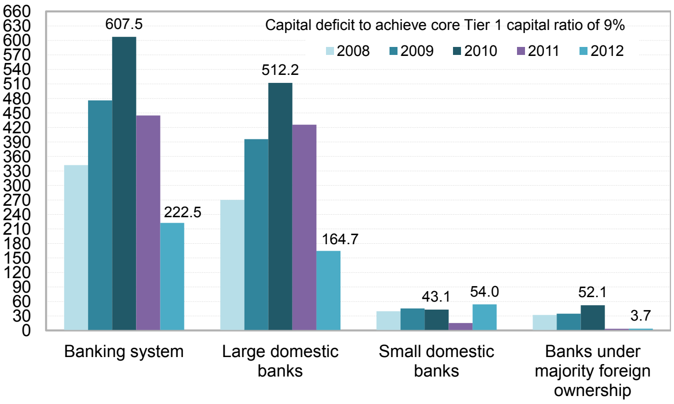
The capital deficit required for each individual bank to achieve a core Tier 1 capital ratio of 9% narrowed from EUR 608 million in 2010 to EUR 223 million in 2012.

The capital deficit required for each individual bank to achieve a core Tier 1 capital ratio of 9% was highest in 2010 when it stood at EUR 607.5 million on a solo basis. The aforementioned deficit had narrowed to EUR 222.5 million by the end of 2012, less than at the end of 2008. Three banks improved their core Tier 1 capital ratio above 9% in 2012 relative to the previous year. The number of banks with a core Tier 1 capital ratio of less than 9% fell from 12 to 9.

The large banks are reducing their capital deficit to achieve a core Tier 1 capital ratio of 9%, while the deficit is widening at the small banks.

The banks under majority foreign ownership minimised their capital deficit to achieve the aforementioned ratio in 2011. Two other banks under majority foreign ownership had a core Tier 1 capital ratio of less than 9% in 2012. Despite difficulties in carrying out recapitalisations, the large banks are resolving their problems in securing a sufficient level of own funds. Three banks, with a capital deficit of EUR 164 million, failed to achieve a core Tier 1 capital ratio of 9% at the end of 2012. The small banks lag behind the other groups in improving their core Tier 1 capital ratio. Four banks have a core Tier 1 capital ratio of less than 9%, a reflection of their poor operating results. The group of small banks would have to increase capital by EUR 54 million to achieve a core Tier 1 capital ratio of 9% at each individual bank.

Figure 5.53: Capital deficit required for each individual bank to achieve a core Tier 1 capital ratio of 9% in EUR million



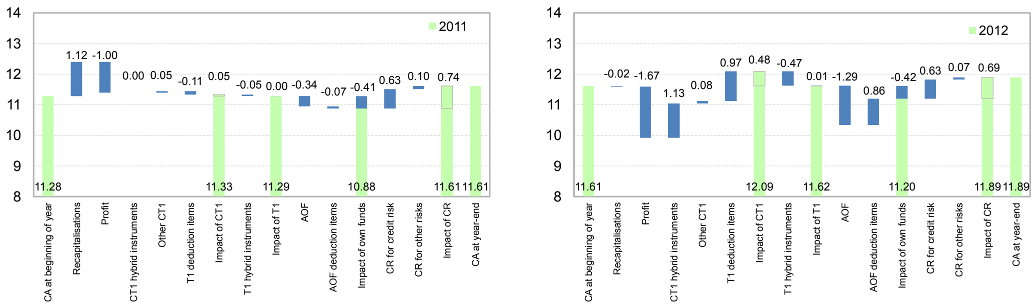
Source: Bank of Slovenia

5.10.2 Distribution of capital adequacy

The distribution of capital adequacy indicates a continuation of movements from 2011. Capital adequacy was up by 0.3 percentage points in both years, whereby the contribution of capital was negative in the amount of 0.4 percentage points and the contribution as the result of a decrease in capital requirements was 0.7 percentage points. The banks are improving their capital adequacy primarily through a contraction in the scope of operations and the restructuring of investments to less-risky investments by reducing risk-weighted assets. The contribution of capital is negative due to high losses. The main differences between the two years lie in the contributions of specific categories of capital.

The banks are improving capital adequacy by reducing capital requirements, while the contribution of capital is negative.

Figure 5.54: Distribution of capital adequacy for 2011 (left) and 2012 (right) for the banking system in percentage points, ratios in percentages



Notes: CA – overall capital adequacy ratio; CT1 – core Tier 1 capital; T1 – Tier 1 capital; AOF – additional own funds; CR – capital requirements.
Source: Bank of Slovenia

Contribution of capital items

The effect of operating losses on the banking system's capital adequacy was even more negative last year than the year before. Excluding other effects, the banking system's capital adequacy would have declined by 1.67 percentage points in 2012. The contribution of profit was only positive at the banks under majority foreign ownership.

The contribution of operating losses was even more negative in 2012 than the year before.

Table 5.37: Distribution of capital adequacy for 2011 and 2012 by bank group in percentage points, and capital adequacy in percentages

	Banking system		Large domestic banks		Small domestic banks		Banks under majority foreign ownership	
	2011	2012	2011	2012	2011	2012	2011	2012
CA at beginning of year	11.28	11.61	11.25	11.32	11.07	11.47	11.43	12.30
Recapitalisation	1.12	-0.02	1.39	0.20	0.34	-1.44	0.75	-0.02
Profit	-1.00	-1.67	-1.60	-2.69	-0.33	-0.53	0.17	0.16
Other (hybrid Tier 1 capital)	0.00	0.73	-0.03	1.16	0.05	0.10	0.07	0.01
Additional own funds	-0.34	-1.29	-0.44	-1.91	-0.36	-0.36	-0.07	-0.24
Deduction items	-0.18	1.83	-0.19	2.76	0.07	0.15	-0.26	0.38
Capital	-0.41	-0.42	-0.87	-0.47	-0.23	-2.08	0.64	0.29
Capital requirements	0.74	0.69	0.95	0.70	0.63	0.76	0.24	0.62
Total	0.33	0.28	0.07	0.23	0.40	-1.32	0.88	0.91
CA at year-end	11.61	11.89	11.32	11.56	11.47	10.15	12.30	13.21

Source: Bank of Slovenia

The contribution of items linked to recapitalisations (share capital and the capital surplus) was only positive at the large banks.

While the banks more than negated the effect of losses in 2011 by increasing share capital, the capital surplus and own shares (the effect of recapitalisations), the contribution of the aforementioned items to capital adequacy was minimally negative in 2012. The stock of those items was down at seven banks. Of those banks, two suspended operations, while the decline was primarily due to a reduction in the capital surplus at the other banks. The contribution to capital adequacy was only positive at the large banks, and was sharply negative at the small banks and minimally negative at the banks under majority foreign ownership.

There was an increase in the stock of hybrid instruments included in the calculation of the core Tier 1 capital ratio. However, the repayment of other subordinated instruments resulted in a net negative contribution.

In the context of problems with recapitalisations by increasing share capital, the banks gave greater attention to hybrid instruments. Hybrid instruments included in the calculation of core Tier 1 capital contributed 1.13 percentage points to capital adequacy due to the issue of convertible contingent (CoCo) bonds in the total amount of EUR 420 million. Because the aforementioned led to a reduction in the stock of other hybrid instruments included in original own funds and an even greater reduction in hybrid and subordinated instruments included in additional own funds, the contribution of subordinated instruments to capital adequacy was negative in the amount of 0.63 percentage points. In 2012 the banks made early repayments of subordinated instruments in the amount of EUR 548 million, applying a discount rate of 38.5%.

Table 5.38: Items of regulatory capital, and growth in EUR million and percentages

	Stock			2011			2012		
	2008	2009	2010	Stock	Increase	Growth	Stock	Increase	Growth
Regulatory capital	4,475	4,616	4,523	4,361	-162	-3.6%	4,205	-156	-3.6%
Original own funds	3,835	4,116	4,001	4,047	46	1.1%	3,686	-361	-8.9%
Additional own funds	1,277	1,239	1,265	1,130	-135	-10.7%	647	-482	-42.7%
Deduction items	-636	-739	-742	-816	-74	9.9%	-128	688	-84.3%
Original own funds for CA	3,501	3,722	3,605	3,606	1	0.0%	3,609	3	0.1%
Core Tier 1 capital for CA	3,283	3,453	3,332	3,352	20	0.6%	3,532	180	5.4%
Capital requirements	3,059	3,194	3,207	3,004	-203	-6.3%	2,829	-175	-5.8%

Source: Bank of Slovenia

Strong positive effect of a decrease in deduction items due to sell-offs and changes to regulations.

The most positive effect in 2012 was generated by a decrease in capital deduction items. At the end of last year, deduction items were down EUR 688 million or 84% relative to the previous year, for two reasons. First, the banks began to sell off non-strategic investments. Second, changes were made to the legal basis, including the introduction of a discretionary measure by which parent banks in a banking group are not required to include investments in institutions included in consolidation as deduction items in the calculation of own funds on a solo basis, and are allowed to include such investments in the calculation of risk-weighted assets. The calculation on a consolidated basis remains unchanged.[1] For these two reasons, deduction items contributed 1.8 percentage points to

[1] Other amendments adopted in connection with the calculation of own funds and capital requirements were as follows:
- an extension of the period during which banks are not required to deduct capital investments in other credit and financial institutions and management companies that they have acquired in a financial restructuring procedure from own funds from three to five years;
- the acceptance of provisional registrations of a mortgage as evidence of legal certainty in the recognition of the effects of real estate collateral;
- the use of the Surveying and Mapping Authority's generalised market value as the basis for the valuation of real estate in the calculation of capital requirements for credit risk; and
- the abolition of the use of mortgage loan value in the determination of an exposure secured by commercial real estate in Slovenia.

the increase in capital adequacy. The contribution was positive at all bank groups, most notably at the large banks in the amount of 2.8 percentage points.

The contribution of core Tier 1 capital was positive, while the contribution of regulatory capital was negative, similar to the previous year.

A significant difference in the distribution of capital adequacy relative to 2011 is the positive contribution of the increase in core Tier 1 capital in the amount of 0.5 percentage points. Due to the decrease in other hybrid instruments and operating losses generated, the contribution of original own funds was likewise negligible, while the contribution of regulatory capital was negative in the amount of 0.4 percentage points.

Contribution of capital requirements

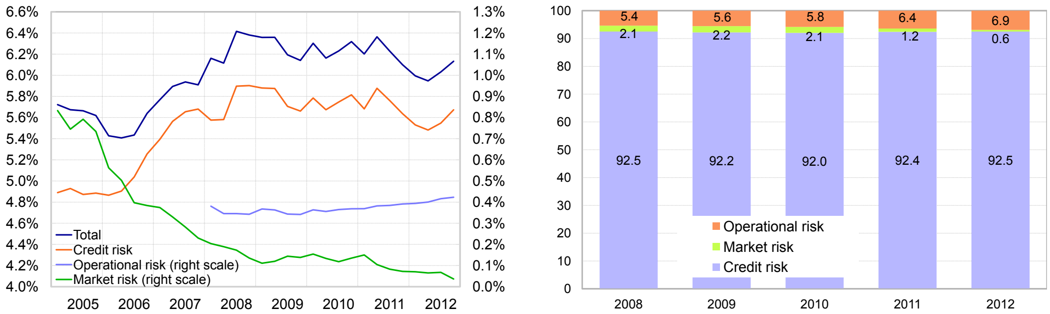
The contribution of a reduction in capital requirements was around 0.7 percentage points at all bank groups.

All bank groups continue to meet capital requirements by contracting the scope of operations and shifting their focus to less-risky investments. The contribution of a reduction in capital requirements to capital adequacy in 2012 was similar at all bank groups, ranging from 0.6 to 0.7 percentage points. The majority of the aforementioned contribution derives from a reduction in capital requirements for credit risk.

The ratio of capital requirements to total assets indicates the banks' aversion to assume risks.

The ratio of capital requirements to total assets fell sharply from the middle of 2011 until the middle of 2012 because the decrease in capital requirements outstripped the decrease in total assets. This illustrates the substitution of higher-risk exposures with less-risky exposures and the banks' aversion to assume risks. A reversal in the ratio of capital requirements to total assets was seen during the second half of 2012. However, this does not yet indicate a change in the banks' behaviour, as the reversal was more the result of the transfer of capital investments from deduction items in the calculation of capital requirements. Capital requirements for market risk continue to decline and account for merely 0.6% of total capital requirements. Capital requirements for operational risk remained at EUR 195 million because they were tied to gross income in previous years. Due to the contraction in other categories, the proportion of capital requirements for operational risk is rising, both in terms of total capital requirements and in relation to total assets.

Figure 5.55: Ratio of capital requirements to total assets (left) and the structure of capital requirements (right) in percentages



Source: Bank of Slovenia

The proportion of capital requirements for past-due and regulatory high-risk items was down during the second half of 2012.

Certain positive signals were seen in the structure of capital requirements for credit risk during the second half of last year. The annual increase in capital requirements for past-due and regulatory high-risk items was down on the previous year at EUR 40.1 million. Capital requirements for the aforementioned items were down EUR 24.4 million in the final quarter. The proportion of capital requirements for credit risk accounted for by capital requirements for past-due and regulatory high-risk items was down 0.8 percentage points at the banking system level over a six-month period, mostly notably at the large banks, by 1.1 percentage points.

At 74.4%, the banks recorded the highest year-on-year growth in capital requirements for exposures secured by real estate. At EUR 28 million, growth was four times that recorded the previous year. This indicates that the banks are searching for internal reserves and optimising the structure of capital.

High growth was recorded in capital requirements for exposures secured by real estate. The banks are optimising the structure of capital.

Total capital requirements for exposure to institutions was up, by EUR 62 million in the final quarter of 2012, but this was a reflection of the transfer of capital investments from deduction items to risk-weighted assets. Thus the proportion of capital requirements for credit risk at the large banks accounted for by capital requirements for exposure to institutions was up by nearly 4 percentage points to stand at 15.6%.

Table 5.39: Breakdown of capital requirements for credit risk in percentages

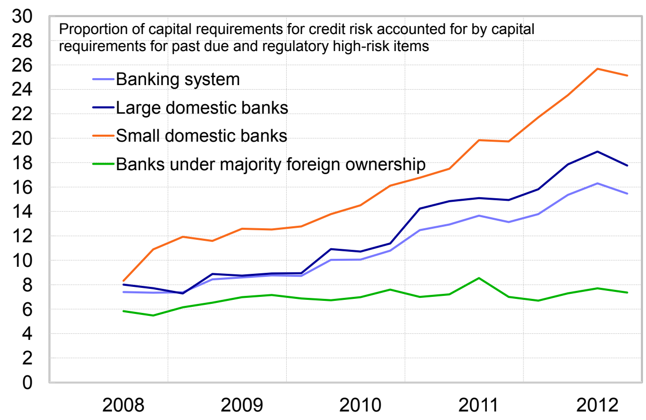
	2010				2011				2012			
	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Total	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Total	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Total
Capital requirements for credit risk, EUR million	1856	280	815	2952	1707	271	798	2775	1608	251	758	2617
	Breakdown of capital requirements for credit risk, %											
General government, international organisations	0.8	1.7	1.7	1.1	0.7	1.5	0.4	0.7	0.5	1.1	0.9	0.7
Institutions	11.3	6.2	2.4	8.4	11.7	5.4	2.7	8.5	15.6	2.9	2.9	10.7
Corporates	55.5	49.3	51.6	53.8	50.9	45.3	51.0	50.4	43.6	40.7	49.8	45.1
Retail banking	17.4	13.7	32.5	21.2	17.6	15.8	33.1	21.9	16.7	16.8	31.2	20.9
Exposures secured by real estate	0.0	7.7	1.1	1.0	0.3	7.3	1.7	1.4	1.3	7.7	3.3	2.5
Past due items	3.5	2.4	3.7	3.4	5.6	5.3	4.2	5.1	6.9	5.9	3.7	5.9
Regulatory high-risk items	7.9	13.7	3.9	7.4	9.4	14.5	2.8	8.0	10.8	19.2	3.7	9.6
Other	3.6	5.3	3.1	3.7	3.8	4.9	4.0	4.0	4.6	5.6	4.5	4.7
Past due and regulatory high-risk items	11.4	16.1	7.6	10.8	14.9	19.7	7.0	13.1	17.8	25.1	7.4	15.5

Source: Bank of Slovenia

Capital requirements for corporates and retail banking continue to decline, while the proportion of capital requirements for past-due and regulatory high-risk items amount to 15.5%.

Conditions remain adverse despite positive signals. Capital requirements for corporate exposures continue to decline. The decline of EUR 220 million in 2012 was even larger than in the previous year when a decline of EUR 189 million was recorded. Having declined by EUR 18 million or 2.8% in 2011, capital requirements for retail banking were down EUR 62 million or 10.2% in 2012. The proportion of capital requirements for credit risk accounted for by past-due and regulatory high-risk items is 15.5% for the banking system overall and 25% at the small banks. That proportion was up 2.3 percentage points at the banking system overall over a one-year period.

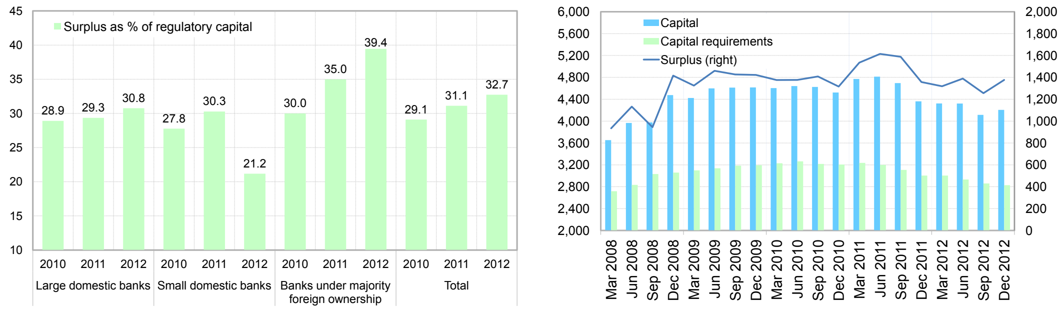
Figure 5.56: Proportion of capital requirements for credit risk accounted for by capital requirements for past-due and regulatory high-risk items in percentages



Source: Bank of Slovenia

Surplus in capital over capital requirements

Figure 5.57: Surplus in regulatory capital over capital requirements as percentage of regulatory capital (left), and regulatory capital, capital requirements and surplus in EUR million (right)



Source: Bank of Slovenia

The surplus in capital over capital requirements is a very clear indication of the relatively poor position of the small banks. The aforementioned surplus narrowed by 9.1 percentage points to EUR 73 million or 21.2% of the regulatory capital of the small banks. The surplus in capital over capital requirements at the banking system level is relatively stable and has fluctuated at around EUR 1.4 billion since the end of 2008. That translates to an annual increase of between 1.5 percentage points and 2 percentage points as a proportion of regulatory capital. The surplus was up most at the banks under majority foreign ownership, by 9.4 percentage points over two years to stand at 39.4% of regulatory capital.

The surplus in capital over capital requirements was down at the small banks.

5.10.3 Comparison of capital adequacy with the EU – consolidated data

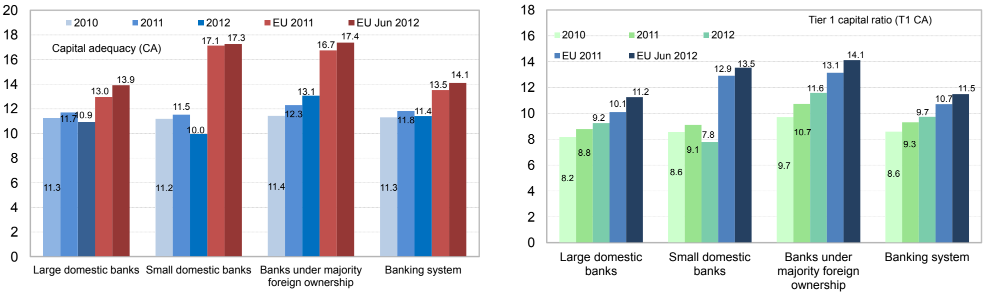
The banking system's capital adequacy on a consolidated basis fell by 0.4 percentage points in 2012 to 11.4%. A more significant fall on a solo basis reflects the effect of operating losses, as the regulatory change regarding the treatment of deduction items from capital investments did not affect the calculation. The capital adequacy of the domestic banks was down, by 0.8 percentage points at the large banks and by 1.5 percentage points at the small banks to stand at 10%, while the capital adequacy of the banks under majority foreign ownership on a consolidated basis was up by 0.8 percentage points to stand at 13.1%. Because EU banks constantly improve their capital adequacy, the gap by which the domestic banks lag behind EU banks of comparable size is widening, at the large banks to 3 percentage points and to 7.3 percentage points at the small banks.

Capital adequacy on a consolidated basis was down 0.4 percentage points to 11.4%. The gap by which Slovenian banks lag behind the EU average widened.

The Tier 1 capital ratio is more favourable. The banks have improved the aforementioned ratio, by 0.4 percentage points at the banking system level to 9.7%. The banks under majority foreign ownership and the large banks also improved the Tier 1 capital ratio, by 0.9 percentage points and 0.4 percentage points respectively, while the ratio was down by 1.3 percentage points at the small banks to stand at 7.8%. The EU banks are also striving to improve their Tier 1 capital ratio. Thus the gap by which Slovenian banks lag behind comparable EU banks widened at the banking system level, from 1.4 percentage points to 1.8 percentage points.

The Tier 1 capital ratio is somewhat better overall, but weak at the small banks.

Figure 5.58: Capital adequacy (left) and Tier 1 capital ratio (right) compared with the EU, figures by bank group on a consolidated basis in percentages

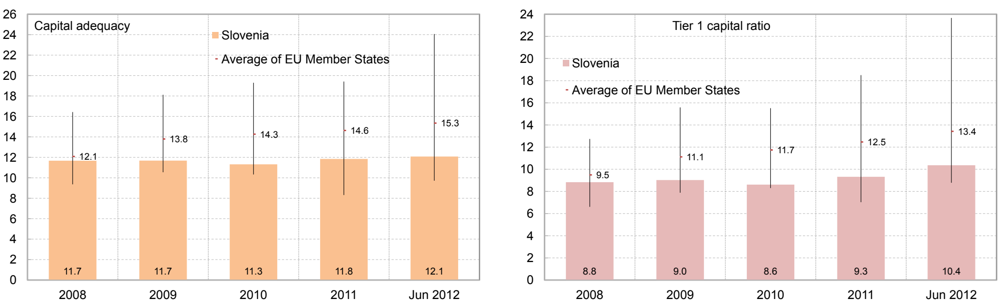


Sources: ECB (SDW), Bank of Slovenia

Slovenian banks would require a capital injection of between EUR 840 million and EUR 1.4 billion or the appropriate adjustment of capital requirements to achieve an average overall capital adequacy ratio and Tier 1 capital ratio of EU banks of comparable size or the EU banking system overall.

Slovenian banks would require a capital injection of between EUR 0.8 billion and EUR 1.4 billion to achieve the average EU ratios.

Figure 5.59: Distribution of banks' capital adequacy (left) and Tier 1 capital ratio (right) in percentages for EU Member States on a consolidated basis



Note: Figures for EU Member States, excluding Malta and Greece.
Source: ECB (SDW)

The distribution of countries with regard to the overall capital adequacy ratio and Tier 1 capital ratio illustrates how Slovenia lags behind other EU Member States. The

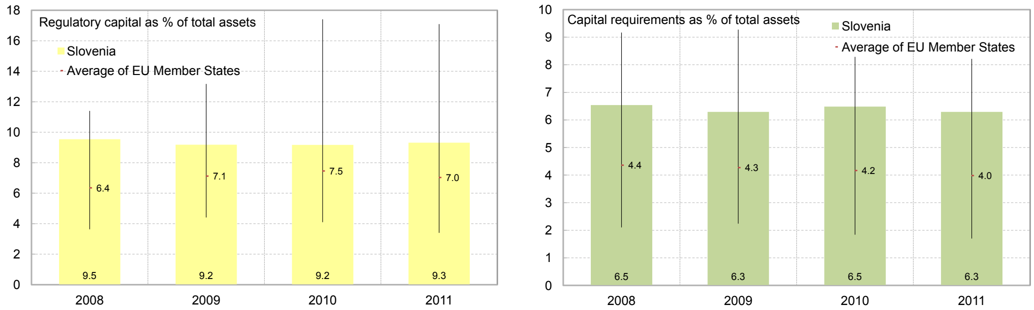
The distribution of capital adequacy ratios for EU Member States is widening and shifting towards higher values, while Slovenia lags behind.

distribution of countries widens and shifts towards higher values, similar to the average indicators of individual countries. In the middle of 2012, the ordinary average of indicators of countries, where small countries have a higher weight, stood at 15.3% for the overall capital adequacy ratio and at 13.4% for the Tier 1 capital ratio.

High capital requirements represent a problem, while the ratio of regulatory capital to total assets is above the EU average.

Slovenia does not lag behind the EU average in terms of the level of capital, but primarily due to its high level of capital requirements. According to the last available data from the end of 2011, the ratio of capital to total assets is above the average of EU Member States. The capital adequacy of the Slovenian banking system is driven lower primarily by capital requirements, which represent 6% of total assets. Only one EU country has a higher ratio, while the average for EU Member States is 4%. This is the result of the less common use of internal risk assessment models and the relatively high stock of loans as a proportion of total assets.

Figure 5.60: Distribution of the ratio of regulatory capital to total assets (left) and the ratio of capital requirements to total assets (right) for EU Member States, figures on a consolidated basis in percentages



Note: Data are only available on an annual level.
Source: ECB(SDW)

Box 5.4: Optimisation of the capital allocation

Major differences in the average risk weights used in Slovenia and the EU average have been maintained for several years[1]. They were at the same levels in 2008, when Slovenia had yet to experience a banking crisis, and thus are not merely the result of the rapid deterioration of the credit portfolio in recent years. If Slovenian banks succeeded in reducing the ratio of capital requirements to total assets to the average of EU Member States (of 4%), capital requirements would decrease by EUR 1 billion.

Because Slovenian banks for the most part have not developed internal risk assessment models (i.e. the IRB approach) and Slovenian corporates for the most part do not have credit ratings from recognised ratings agencies, the banks have no basis for applying a lower risk weight to exposures to clients which represent a low probability of default. The notification and recognition of a ratings agency with wide coverage of Slovenian corporates would be a major step forward.

However, the standardised approach also permits some flexibility. Through collateral arrangements and the fulfilment of criteria for the recognition of lower risks weights (a 50% risk weight for corporate exposures secured by commercial real estate and a 35% risk weight for exposures secured by residential real estate), the banks could significantly reduce their capital requirements. The proportion of capital requirement for credit risk accounted for by capital requirements for corporate exposures stood at 45.1% at the end of 2012, while capital requirement for exposures secured by real estate accounted for just 2.5%. In the structure of the credit portfolio, classified claims against corporates account for 47.5% of total classified claims, which is comparable with the structure of capital requirements. However, the proportion of classified claims against corporates secured by commercial real estate stands out considerably at 27% of total classified claims. Because real estate is not the primary collateral on all claims, the 17.8% proportion of classified claims on which the LTV ratio does not exceed 100% is a more relevant piece of information. If the banks succeeded in raising the proportion of capital requirements for credit risk accounted for by exposures secured by real estate from the current level of 2.5% to 17.8%, capital requirements would be reduced by EUR 200 million. That is the level of the capital deficit at which all banks would achieve a core Tier 1 capital ratio of 9% on a solo basis.

[1] If the banks only created capital requirements for on-balance-sheet items, a ratio of capital requirements to total assets of 8% would mean that the banks apply a weight of 100% to all items. In the case of Slovenia, where the ratio is around 6%, this would mean the use of an average risk weight of around 75%. This is well above the EU average, where a 4% ratio translates to the use of an average risk weight of 50%. Because capital requirements are also created for off-balance-sheet items, the actual risk weight is lower for Slovenia at 69% according to figures for the end of 2012. Slovenian banks primarily apply high average risk weights for corporate exposures (94.9%) and retail banking (74.1%).

Box 5.5: Review of the Bank of Slovenia's activities to manage risks in the banking system

Systemic risks and their relative significance for the stability of the financial system have changed with the development of the financial and economic crisis. The Bank of Slovenia has continuously monitored the development of all significant risks and warned the banks of the importance of establishing an appropriate risk management system and maintaining an appropriate level of own funds to cover risks. The Bank of Slovenia's measures and activities to mitigate the consequences of systemic risks in the banking system are described below.

2008

In the 2008 Financial Stability Review, the Bank of Slovenia warned the banks of the inappropriate structure and scope of own funds taking into account high credit growth, and of the rising proportion of subordinated instruments in the structure of regulatory capital.

In addition to the abolishment of the prudential filter in October, which slowed the contraction in the banks' lending activities by improving their capital adequacy, the Bank of Slovenia also adjusted the calculation of liquidity ratios for the value of assets pledged as collateral at the central bank in the first bucket of the liquidity ladder. Thus, the regulatory barrier to drawing liquid funds at the ECB was eliminated.

In November the Bank of Slovenia called on banks to limit the level of interest rates on sight and short-term deposits, because the raising of interest rates in the context of a full government guarantee for bank deposits resulted in the transfer of deposits between banks and only increased the instability of deposits, instead of encouraging additional saving. The announced possible use of measures to punish banks that maintain inappropriate interest rate policies, by which the Bank of Slovenia was at liberty to change how the aforementioned deposits are taken into account in the calculation of the liquidity ratio, proved unnecessary. At the same time it called on banks to increase the creation of impairments and provisions, while banks would have to take into account the effects of the deterioration in the economic situation on the operations of corporates from specific sectors.

2009

In the context of rising credit risk, the Bank of Slovenia called for the appropriate valuation of specific instruments and for an adequate level of impairments and provisions. It also warned that impairments and provisions may not reflect in full the deteriorating situation, which had become increasingly more evident. At the same time, it called on banks to coordinate their planned lending activities with available and stable sources of funding, and to allocate the majority of earnings generated in 2008 to reserves. The Regulation on the assessment of credit risk losses of banks and savings banks was amended to require monthly reporting (and disclosure in the income statement) of impairments and provisions, and classified claims. At the same time, a requirement for additional information regarding collateral on claims was introduced in the reporting system.

In June the Bank of Slovenia warned of the need for activities to improve risk management at the banks. A letter from the Bank of Slovenia included requirements regarding the repeated rolling over of short-term loans without cash flows arising from the repayment of loan principals. It determined that the banks may not include such loans in the calculation of liquidity ratios for first and second buckets of the liquidity ladder, and must create a sufficient level of impairments for the aforementioned loans. At the same time, a requirement was imposed that regulatory high-risk exposures should also include the financing of acquisition activities. In June the Bank of Slovenia adopted recommendations for coordinated action by creditor banks in the event of corporates in financial difficulties.

2010

Despite a recovery in economic activity in 2010, uncertainty on the financial markets continued with the escalation of the debt crisis in certain euro area countries. For this reason, the Bank of Slovenia sent a letter to the banks calling on them to allocate the profit generated in 2009 to other profit reserves with the aim of strengthening their capital. At the same time, it warned the management boards of the banks that they should assess the need to increase capital in 2010, and to prepare for and carry out recapitalisations in a timely manner on the basis of the aforementioned assessment.

In July the Bank of Slovenia adopted a decision, by which the banks must, in the scope of the internal capital adequacy assessment process (ICAAP), cover 80% of internally assessed capital requirements with original own funds calculated in accordance with the regulation governing the calculation of capital. The measure was aimed at improving the structure of the quality of the banks' capital, as it became clear that the financial crisis was developing into a deep economic crisis. This was accompanied by expected pressure on the banks' deteriorating capital position due to increased credit risk linked to the weakening operations and financial position of non-financial corporations and to increased exposure owing to the rising number of arrears in the settlement of liabilities and bankruptcies.

In order to improve the system for managing problematic investments, in October the Bank of Slovenia amended the Regulation on risk management and assessment of internal capital adequacy for banks and savings banks by tightening requirements regarding the treatment and monitoring of problematic loans (e.g. systematic treatment, the establishment of IT-supported records for monitoring repayments and write-offs, timely restructuring, etc.).

2011

In January the Bank of Slovenia once again called on the banks to assess their needs for capital in 2011, and to draw up procedures to strengthen capital accordingly. It called upon the management boards of the banks to adopt resolutions at general meetings on the allocation of profits to reserves with the aim of increasing the banks' capital.

The Regulation on the minimum requirements for ensuring an adequate liquidity position at banks and savings banks was amended in September, such that the weights applied to the sight deposits of households and non-financial corporations were reduced by 10 percentage points to 40% in the first bucket

and to 35% in the second bucket of the liquidity ladder, thus bringing the treatment of such deposits in line with the treatment envisaged in the scope of the LCR liquidity standard. This reduced the banks' liabilities for investments in the first and second buckets by more than EUR 800 million, thus making it easier to manage the structure of investments. Exposure to rising refinancing risk was reduced as a result of a renewed, significant deterioration in the situation on the European financial market. This also alleviated the pressure on the reduced lending activity of the banks, which was the result of limited access to sources of funding.

A letter sent to the banks in November outlined recommendations for the more efficient collection of non-performing claims, either from the debtor or the entity that secured the transaction.

2012

In February the Bank of Slovenia adopted amendments to the internal capital adequacy assessment process (ICAAP) guidelines, such that increased profitability risk arising from liability interest rates will require additional capital in the scope of the ICAAP for a period of one year in advance. The measure reduces the banks' exposure to profitability risk by encouraging greater prudence in setting the level of liability interest rates, which also has a positive impact on the level of lending rates in the economy overall.

By amending the Regulation on the calculation of capital requirements for credit risk under the standardised approach and the Regulation on the calculation of capital requirements for credit risk under the internal ratings-based approach in March, the Bank of Slovenia amended the definitions of past due items and significant credit exposure in arrears in connection with the definition of default for the purpose of calculating capital requirements for credit risk. A loan obligation in arrears is significant at the latest when it exceeds 2% of the open exposure or EUR 50,000 for more than 90 days, but is at least EUR 200 (previously EUR 1,000 EUR for corporate clients and EUR 100 for retail clients). By amending the Guidelines for implementing the regulation on the assessment of credit risk, the same definition was introduced in April for the purpose of identifying clients in default in the scope of reporting banks' exposures to individual clients. Reporting by the banks was also supplemented to include reporting on the amount of an exposure where a client is more than 90 days in arrears. With the aforementioned amendments, the definition of clients in default is more comparable with the definition applied by other euro area countries.

By amending the Regulation on the minimum requirements for ensuring an adequate liquidity position at banks and savings banks in April, the Bank of Slovenia amended conditions regarding the inclusion of credit lines and the undrawn portion of loans, such that the aforementioned instruments are not included in the calculation of liquidity to their full amount, but gradually up to the amount of 50% of their value. The measure is aimed at reducing exposure to liquidity risk due to the persistent adverse situation on the financial markets, while bringing these sources of liquidity more in line with the requirements of the LCR liquidity standard.

With the aim of reducing the proportion of non-performing investments in the banks' balance sheets, which is rising due to protracted collection procedures, and with the aim of accelerating the process of redeeming real estate collateral, the Regulation on the assessment of credit risk losses of banks and savings banks was amended in April, such that the banks will be forced to write off financial assets measured at amortised cost which, during the collection process, they assess will not be recovered and which meet the conditions for derecognition from the statement of financial position according to the IFRS. The aforementioned financial assets must be accounted for off-balance-sheet until the legal basis is secured for the conclusion of collection proceedings. This measure will reduce the proportion of non-performing investments by slightly less than 1 percentage point.

In the context of a growing lack of liquidity, a decision was made to improve the internally developed system for determining corporate credit ratings in such a way that it will meet all requirements prescribed by the ECB for an internal model used to assess the credit quality of assets eligible as collateral in regular operations for obtaining liquidity via the ECB. The model was successfully updated and approved by the ECB in November 2012. Assuming no change in other conditions, the use of this model will increase the banks' potential to obtain liquidity via the ECB in 2013.

In addition to systemic measures relating to supervision and maintaining stability, the Bank of Slovenia and the Bank Association of Slovenia have been coordinating their activities since the middle of 2012 to improve operating conditions for the real sector, whose over indebtedness in the context of weak economic activities represents one of the major reasons for the deteriorating operations of the banks:

- an amendment was made to the Banking Act, which does not require banks to submit a takeover bid in the event of the acquisition of a capital investment in a corporate restructuring process for a period of two years after acquisition;
- proposals were drawn up in connection with the requisite changes in insolvency legislation; and
- solutions were formulated in connection with the conversion of banks' claims into corporate capital and in connection with the valuation and effective management of capital investments obtained as such (valuation at historical cost or fair value, as a rule using the valuation technique set out in the IFRS, and the transfer of investments to a special purpose vehicle (SPV), whereby the management of these investments is left to professionally qualified personnel).

The activities of the Bank of Slovenia, which in conjunction with representatives of the Bank Association of Slovenia, creditor banks and the Chamber of Commerce and Industry also coordinated activities to reach agreement over acceptable terms for operational, financial and ownership restructuring, are described in detail in the box entitled Encouraging corporate restructuring processes and the section entitled Corporate sector.

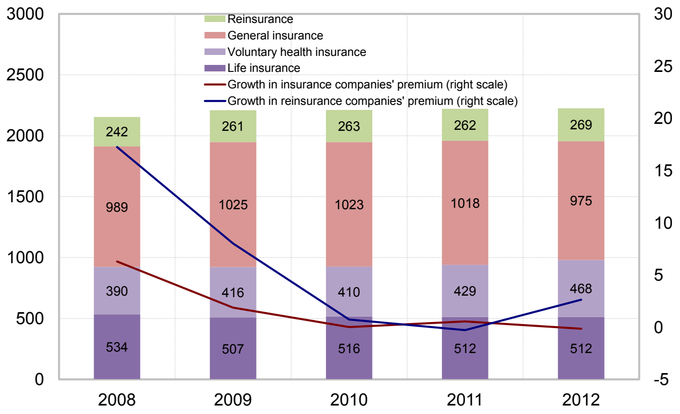
6 NON-BANKING FINANCIAL INSTITUTIONS

6.1 Insurers

6.1.1 Features of insurers' business and comparison with the EU

There were 15 insurance companies and two reinsurance companies operating in Slovenia last year. One insurance company decided in June 2012 to continue operations in Slovenia as a branch of a German insurance company. Relative to 2011, market concentration declined among insurance companies and increased among reinsurance companies. The largest insurance company accounted for 33% of written premium last year, while the three largest accounted for 61% of the market. The largest life insurance company covers 37% of the life insurance market, while the largest general insurance company covers 32% of the general insurance market. The market share of the largest reinsurance company increased to 57%.

Figure 6.1: Gross written premium by type of insurance in EUR million (left scale) and annual growth in percentages (right scale)



Source: ISA

Gross written premium remained at the same level as in 2011.

Insurers' gross written premium in 2012 remained at the same level as the previous year. The key factor in the zero growth in gross written premium was the deterioration in the economic situation in 2012. Insurance premium remained at the same level as in 2011 in the life insurance segment, declined in the general insurance segment and increased in the voluntary health insurance segment.

Table 6.1: Insurers' total gross written premium and gross written life insurance premium expressed in various categories for Slovenia in 2012 and for selected countries in 2011

	Slovenia	Euro area	EU27	Portugal	Austria	Germany	UK
Total premium, EUR billion	2.0	768.5	1,079.0	11.7	16.6	176.1	230.1
per capita, EUR	950	2,158	1,985	1,097	1,973	2,136	3,265
as % GDP	5.5	7.6	7.9	6.8	5.5	6.8	11.8
Life insurance premium, EUR billion	0.5	432.5	634.1	7.6	7.0	81.8	151.2
per capita, EUR	249	1,193	1,186	709	834	1,000	2,410
as % of total premium	26.2	56.3	58.8	64.6	42.3	46.4	65.7
as % GDP	1.4	4.2	4.7	4.4	2.3	3.2	8.7

Source: ISA, Swiss Re, Bank of Slovenia calculations

A deterioration in the indicator of the level of development: 44% of premium per capita compared with euro area countries.

In 2011 Slovenian insurers' written premium accounted for 0.07% of total global written premium. Slovenia was ranked 23rd globally in terms of the ratio of premium to GDP, and 28th in terms of written premium per capita. Insurance penetration remained at around the same level as the previous year, at 5.5% of GDP, equivalent to EUR 950 per capita. Insurance penetration declined in euro area countries in 2011, as a result of which the indicator of the level of development improved to 44% of the euro area average. The indicator also improved in the life insurance segment, but Slovenia is still a long way behind the euro area overall. Written premium per capita stood at EUR 249 in 2012, just 20.9% of the euro area average. The key factors that will speed up the development of the insurance sector are economic recovery and growth in household disposable income.

Life insurance and contractual integration of insurers

The continuing economic and financial crisis, austerity measures, rising unemployment and declining purchasing power had an adverse impact on demand for life insurance. In addition, the economic crisis and adverse situation on the financial markets meant that people were more cautious in entering into long-term insurance. The total assets of life insurance amounted to EUR 3,587 million at the end of 2012, or 58.9% of insurers' total assets. Written life insurance premium in 2012 remained at its level of the previous year, while the number of policyholders was down 14.5%.

The proportion of total written premium accounted by life insurance remained almost unchanged since 2009, at 26%. The proportion of life insurance premium accounted for by traditional insurance was up 2.3 percentage points in 2012, while the proportion accounted for by unit-linked life insurance recorded the largest fall, of 2.4 percentage points.

The popularity (as measured by the number of new policyholders) of unit-linked life insurance has been declining in recent years. It can be concluded that the high returns on the capital markets and the insurers' aggressive sales policy contributed to its popularity in the pre-crisis period.

Table 6.2: Insurers' written premium in EUR million and number of policyholders for life insurance

	2008	2009	2010	2011	2012	2009	2010	2011	2012
Life insurance total						Growth, %			
premium, EUR million	534	507	516	512	512	-5.1	1.8	-0.7	0.0
number of policyholders	1,196,312	1,206,786	1,289,533	1,271,939	1,087,519	0.9	6.9	-1.4	-14.5
Life insurance						Proportion of life insurance, %			
premium, EUR million	225	224	220	222	234	44.2	42.7	43.4	45.7
number of policyholders	709,413	691,114	727,214	663,492	606,397	57.3	56.4	52.2	55.8
Unit-linked life insurance									
premium, EUR million	252	233	246	243	231	45.9	47.6	47.5	45.1
number of policyholders	361,639	432,509	478,079	523,211	400,447	35.8	37.1	41.1	36.8

Source: ISA

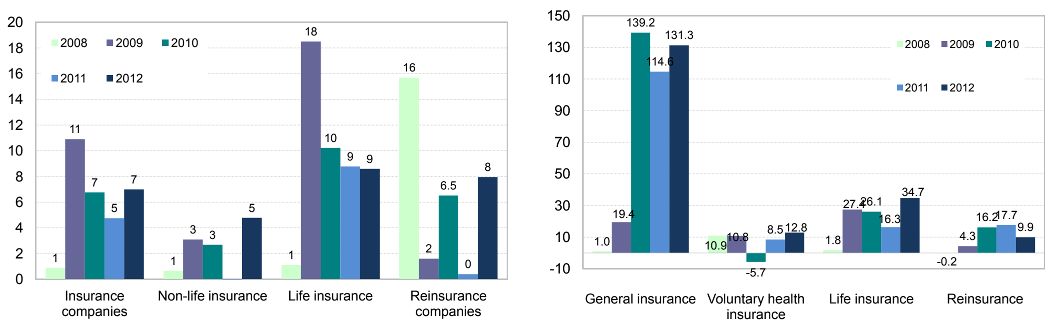
The trend of increasing integration between banks and insurers in the marketing of insurance products increased last year. Written life insurance premium was up 9.3% in 2012 at EUR 51.9 million. This marketing channel accounted for 10.1% of insurers' written life insurance premium in 2012.

Insurers' financial statements[1]

Insurers' total assets stood at EUR 6.1 billion at the end of 2012.

Insurers' total assets increased by 7.0% during the 2012 financial year to EUR 6.1 billion. The total assets of general insurance were up 4.8% during the same period at EUR 2.5 billion, while those of life insurance were up 8.6% at EUR 3.6 billion. The total assets of reinsurance companies increased by 7.9% between the third quarter of 2011 and the third quarter of 2012 to stand at EUR 671 million.

Figure 6.2: Growth in total assets in percentages (left) and result from ordinary activities in EUR million (right) of insurance companies and reinsurance companies



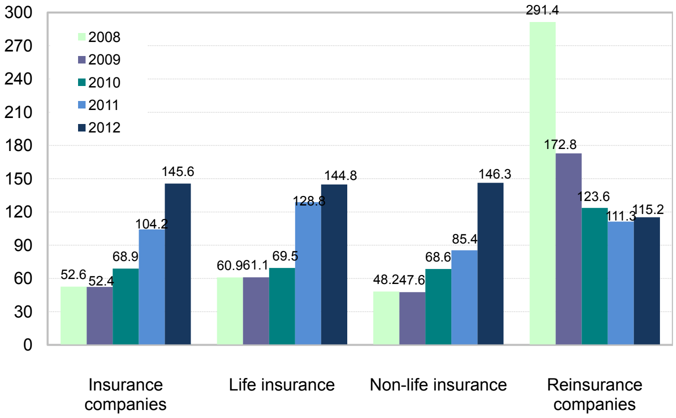
Note: The figures for reinsurance companies in 2012 relate to the end of the third quarter.
Source: ISA

[1] The figures used in this section are based on insurers' financial statements for 2012, which at the time of use had not yet been audited.

Insurers improved their performance in 2012 compared with the previous year.

Insurers recorded an improvement in performance last financial year, despite the deterioration in the economic situation. Insurers generated a net profit of EUR 117.6 million in 2012, up 18.4% on 2011. Five insurers in the life insurance segment recorded a loss in 2012, along with one in the general insurance segment and one in the health insurance segment. Those insurers generating a loss last year accounted for 19.3% of gross written life insurance premium. The profitability indicators of insurers reached the pre-crisis level of 2006. ROE and ROA stood at 10.8% and 2.0% respectively last year.

Figure 6.3: Surplus of available capital over minimum capital requirements at insurance companies and reinsurance companies in percentages



Note: The figures for reinsurance companies in 2012 relate to the end of the third quarter.
Source: ISA

Three insurers underwent recapitalisations last year, in the total amount of EUR 4.1 million at life insurance companies and EUR 152 thousand at general insurance companies.

The period of low interest rates continued in 2012.

The period of low returns on investment-grade debt securities continued in 2012. The yield on 10-year German bonds fell to 1.3% in December 2012. The problem of low interest rates is greatest for insurance products that include a saving component with a guaranteed return. When insurers fail to achieve the guaranteed return for policyholders through the investment portfolio, they have to cover this from provisions. In addition, the continuation of the period of low interest rates is increasing reinvestment risk for insurers. Insurers are having to replace coupons and maturing investments with lower-yielding investments. The longer the period of low interest rates lasts, the greater is the risk that insurers will need additional capital to maintain capital adequacy.

Interest rates have a positive impact on premium levels and a negative impact on demand for life insurance. For insurers to maintain profitability, they have to change their terms of sale during a period of low interest rates. During a period of low interest rates insurers have to discount future cash flows from insurance policies at a lower discount rate, which raises the net present value of their expected liabilities. The premium for these insurance products has to be raised, which has an adverse impact on demand from policyholders. During a period of low interest rates, policyholders' switching between different insurers' products (termination of insurance contracts because of more competitive offers by other insurers) diminishes.

Under the current legislative regime, low interest rates are only partly impacting insurers' performance. Life insurance provisions are valued at book value. The impact is greater on insurers' financial assets valued at fair value. The introduction of Solvency II will value provisions at market value, at which time market parameters will be taken into account as appropriate. It is currently the case that the technical interest rate is determined at the beginning of the insurance contract, and is not changed over time. The book value of mathematical provisions therefore depends primarily on changes in the insurance portfolio.

The impact of interest rates on the performance of general insurance companies is small. General insurance policies are usually short-term, and are frequently renewed. Insurers can adapt to changes in market conditions by changing the terms of sale. In addition, the principle for general insurance companies is that their liabilities are not discounted, because they are short-term in nature.

Changes in accounting standards will increase the international comparability of insurers' financial statements.

The introduction of the Solvency II Directive will bring about significant changes for insurers in the future. The official date of its entry into force remains the beginning of 2014, but a delay in its introduction is still possible. Two accounting standards are also under preparation: IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments. Their entry into force will facilitate international comparability in insurers' financial statements. Insurers anticipate that the introduction of the new accounting standards will be a complex process, with high related costs, and want uniform standards worldwide (in a survey, almost half of the insurers in the US stated that they were in favour of the introduction of the IFRS).[1]

IFRS 4 introduces significant changes in the valuation of insurers' liabilities. Insurers currently value the majority of their assets at market value, while liabilities are valued at book value.[2] Under the current proposal, liabilities from insurance contracts should be equal to the sum of the present value of expected cash flows adjusted for risk and residual margin. The residual margin prevents the recognition of gains immediately upon the recognition of the insurance contract (when the present value of expected cash flows adjusted for risk is positive), as the initial gain is recognised in the balance sheet while the initial loss is recognised as an expense in the current year.

6.1.2 Stability of the insurance sector

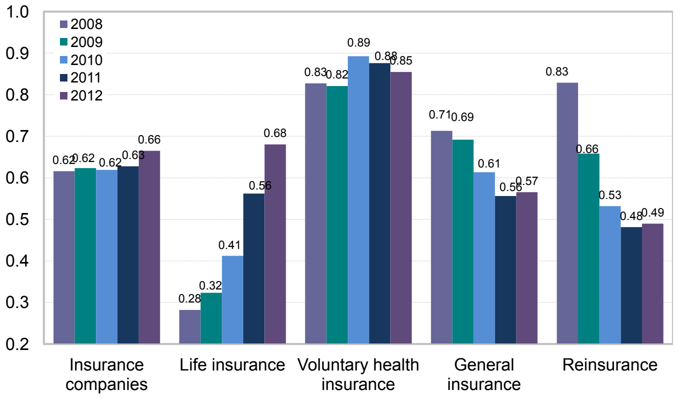
Underwriting risk

The claims ratio improved for voluntary health insurance and deteriorated for life insurance and general insurance.

The claims ratio at insurers as measured by the ratio of gross claims paid to gross written premium rose by 0.04 index points in 2012 to stand at 0.66. The claims ratio improved for voluntary health insurance and deteriorated for life insurance and general insurance. The entry into force of the Fiscal Balance Act led to the financing of certain health services being transferred from the Health Insurance Institute to voluntary health insurance. Insurers responded by raising premiums by between 11% and 16% in the summer of 2012. Life insurance premium in 2012 was up 9.3% on the previous year to stand at EUR 468.4 million.

Life insurance recorded the largest deterioration in the claims ratio for the fourth consecutive year in 2012, by 0.12 index points. The key factor remains the deterioration in the claims ratio for pension insurance as a result of increased longevity and early redemptions of policies. Written pension insurance premium in 2012 was up 1.1% (or EUR 0.5 million) on 2011, while claims paid rose by 70.0% (or EUR 27.1 million). Another adverse factor in last year's deterioration in the claims ratio for life insurance was unit-linked life insurance. Written unit-linked life insurance premium in 2012 was down 5.5% or EUR 12.2 million on the previous year, while claims paid were up 28.3% or EUR 21.6 million.

Figure 6.4: Claims ratio for major types of insurance



Source: ISA

The proportion of insurers' risk retained in general insurance amounted to 78.2% in 2012.

Claims related to natural disasters in 2012 were down on 2011.

There was a notable decline in claims for natural disasters in 2012 relative to the previous year.[3] Last year's largest loss event in Slovenia was November's floods, which affected

[1] Source: Deloitte, Winning the waiting game? Insurers' preparation for the new IFRS accounting rules, 2012.
[2] Source: Ernst & Young, Measure by measure: Synchronizing IFRS 9 and IFRS 4 Phase II for insurers, 2011.
[3] Damage amounted to USD 160 billion in 2012, down USD 240 billion on 2011. Total claims for insurers amounted to USD 65 billion, down USD 54 billion on the previous year. For a detailed review of natural disasters worldwide, see NatCatSERVICE, MunichRE.

112 municipalities across the majority of the country, with 7,982 claimants.[1] According to government assessments, the direct damage amounted to EUR 373.1 million, of which a third was suffered by property and commerce. The government applied to the European Commission for assistance from the EU Solidarity Fund. In addition, other loss events were caused by bora storms, which caused damage in the western part of the country in February, by spring frosts and by summer hailstorms, which hit central and north-western parts of the country. Climate change is increasing the risk of extraordinary events, natural disasters and extreme weather conditions. Insurers will have to adjust the risk assessment models and the development of new products to the new situation.

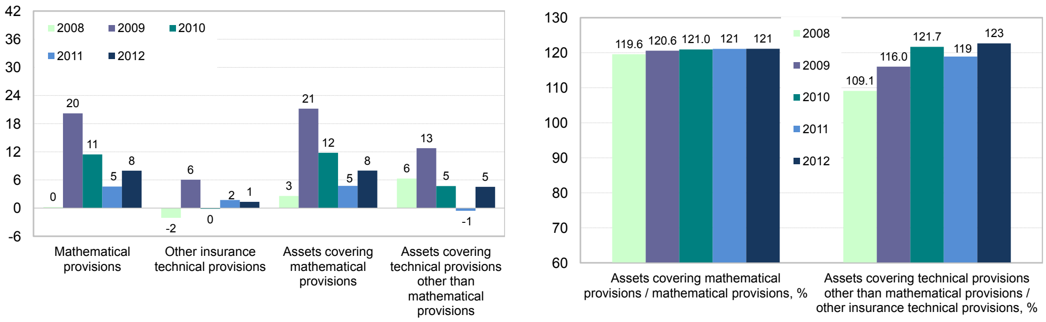
The EU Gender Directive entered into force on 21 December 2012. Insurers are now expected to introduce distinctions based on the policyholder's lifestyle.

Investment risk

The coverage of net insurance technical provisions by assets covering technical provisions increased by 1.3 percentage points to 121.7%.

Assets covering technical provisions rose by 6.8% last year to EUR 4,926 million, or 13.9% of GDP. The ratio of assets covering mathematical provisions to assets covering technical provisions rose again, to 1. The coverage of net insurance technical provisions by the assets covering technical provisions increased by 1.3 percentage points last year to 121.7%. The coverage of mathematical provisions by assets covering mathematical provisions for life insurance and health insurance remained unchanged last year at 121.1%.

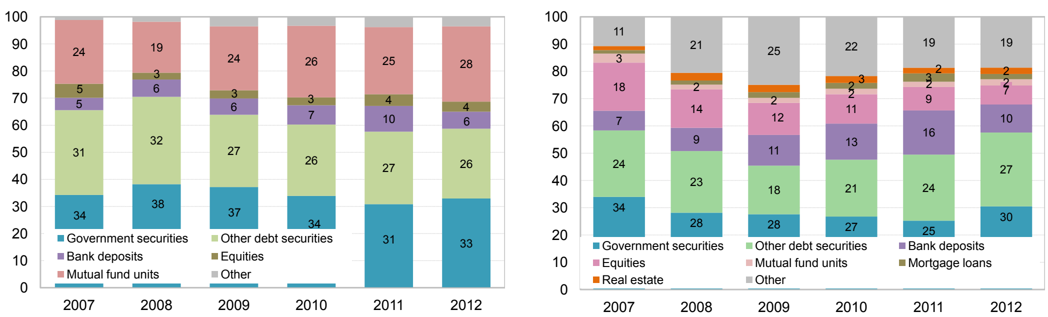
Figure 6.5: Growth in net insurance technical provisions and assets for general insurance and life insurance (left), and coverage of net insurance technical provisions by assets covering technical provisions (right) in percentages



Source: ISA, Bank of Slovenia calculations

The largest decline in the breakdown of life insurance investments in 2012 was recorded by deposits, whose proportion of the total declined by 3.2 percentage points to stand at 6.3%. Debt securities remain the largest category in value terms. The proportion that they account for increased by 1.1 percentage points last year to 58.7%. The proportion accounted for by investments in foreign securities increased by 4.9 percentage points last year to 43.3%.

Figure 6.6: Structure of insurers' assets covering mathematical provisions (left) and assets covering technical provisions other than mathematical provisions (right) in percentages



Source: ISA

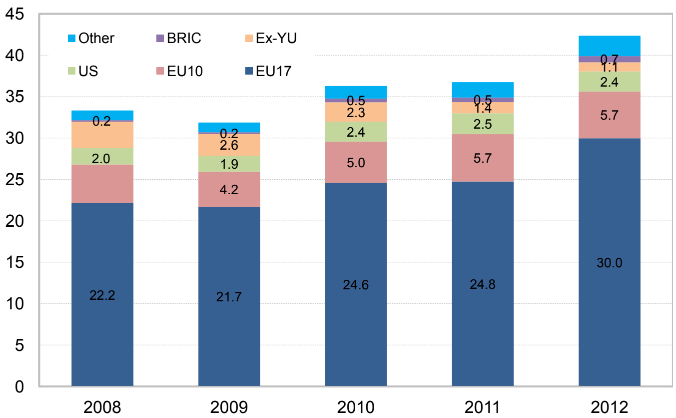
The proportion of general insurance investments accounted for by deposits also declined, by 5.9 percentage points to 10.3%. The proportion accounted for by debt securities increased by 8.1 percentage points to 57.6%. The proportion accounted for by investments in foreign securities increased by 10.2 percentage points last year to 34.6%.

[1] Source: Ministry of Defence, Estimated direct damage to property by floods on 4 and 5 November 2012 (no. 843-29/2012-24). Ljubljana, 13 December 2012

Insurers are reducing the proportion of domestic investments in favour of foreign investments.

Although there remains a pronounced focus on domestic investments, the proportion of the insurers' portfolio accounted for by investments in domestic issuers is declining in favour of investments in foreign issuers. The proportion of total investments accounted for by investments in the securities of domestic issuers stood at 57.7% at the end of 2012, down 5.6 percentage points on the previous year. The entire insurance sector's investments in the rest of the world totalled EUR 3,224 million last year. Net purchases in foreign equities and foreign debt securities amounted to EUR 290.2 million and EUR 102.9 million respectively last year. The majority of purchases comprised euro area securities. Insurers' largest purchases in 2012 were in securities of issuers from Germany, France and the Netherlands. These three countries accounted for 65% of all securities purchases and 72% of all debt securities purchases. Insurers again generated high capital losses from investments in the equities of companies from the former Yugoslav republics, in the amount of EUR 24.2 million. The losses were covered by positive revaluation in the amount of EUR 53.1 million from investments corporate equities from euro area countries.

Figure 6.7: Proportion of life insurance investments accounted for by foreign investments in percentages



Source: Bank of Slovenia

Insurers hold securities of issuers from countries where the debt crisis is very pronounced. Investments in Irish, Spanish, Italian, Greek, Cypriot and Portuguese securities accounted for 3.6% of the entire insurance sector's investments at the end of 2012, and for 8.6% of all investments in foreign securities. The majority comprised investments in debt securities. The exception was Ireland, where units in open funds accounted for the majority of investments. The investments in issuers from Greece, Cyprus and Portugal were government securities. Alongside government bonds, which constitute a third of all Italian investments, the most important item is bank bonds, which account for almost a half of investments in Italian issuers. Corporate bonds account for 36% of investments in Spanish issuers, bank bonds for 25% and government bonds for 24%.

Insurers' exposure to the Slovenian government remains high.

The insurance sector remains highly exposed to the government sector in Slovenia. Slovenian government bonds accounted for 18.7% of the insurance sector's investment portfolio or EUR 1,422 million at the end of 2012. Insurers increased the proportion of their investments accounted for by Slovenian non-financial corporations in 2012. The value of Slovenian bank equities declined sharply as a result of impairments. Year-on-year growth in bank deposits stood at -13.3% in December 2012. Deposits declined by EUR 148.6 million during the year. There were significant differences in the year-on-year change in deposits between the bank groups.

Downgradings.

Standard & Poor's downgraded the Triglav Group and Pozavarovalnica Sava to BBB+ in 2012. Standard & Poor's downgraded the Triglav Group[1] from A to A- in August 2012. Another downgrading, from A- to BBB+ with a positive medium-term outlook, followed in February 2013. The downgrading was the result of Slovenia's sovereign downgrading. The government is the major owner of Zavarovalnica Triglav d.d. Standard & Poor's downgraded Pozavarovalnica Sava[2] from A- to BBB+ with a negative medium-term outlook in November 2012. In December it placed it on the watch list. The reason was the purchase of a 50.99% interest in Zavarovalnica Maribor, in connection with which additional risks could arise for Pozavarovalnica Sava. The rating agency is expected to review the current rating by the summer.

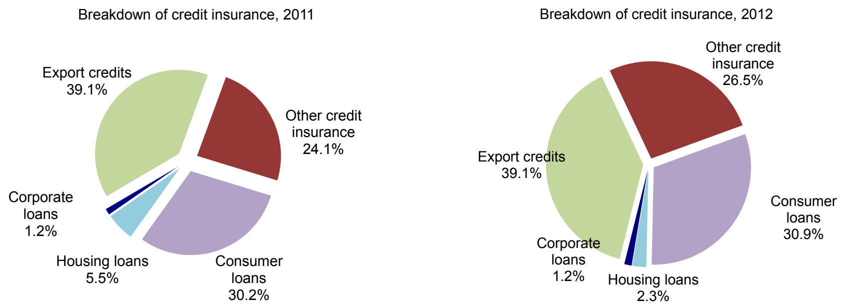
[1] The data source is the Zavarovalnica Triglav d.d. website.
[2] The data source is the Pozavarovalnica Sava d.d. website.

6.1.3 Influence of insurers on the stability of the banking sector via credit insurance

The claims ratio improved as a result of claims paid declining by more than premium.

The proportion of insurers' total written premium accounted for by credit insurance fell to 2.2% in 2012, and to 3.0% as a proportion of written general insurance premium. Written credit insurance premium was down 3.7% in 2012 at EUR 42.8 million. Claims paid declined by 16.8% to EUR 31.7 million. The larger decline in claims than in premium brought an improvement in the claims ratio, which stood at 0.74.

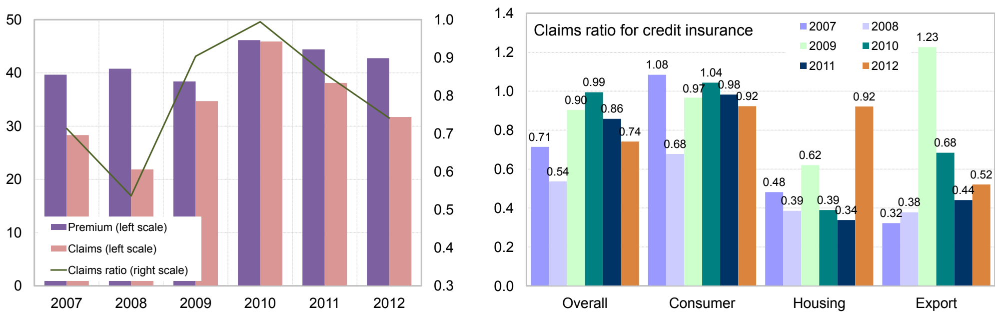
Figure 6.8: Breakdown of written premium from credit insurance in percentages



Source: ISA

Insurers achieved the best claims ratio in 2012 in insurance for export claims, at 0.52. The largest deterioration in the claims ratio compared with the previous year was in insurance for housing loans. Written premium from credit insurance for housing loans declined by 59.1% in 2012, while claims paid increased by 11.5%. The decline in premium was the result of the banks' strategy in housing loan insurance. In addition to mortgages, the banks require life insurance to be concluded for housing loans. Insurance premium for consumer loans declined by 1.4% last year. At 72.1% and 27.0% respectively, written premium for consumer loans and written premium for housing loans were at the level of written premium in the year prior to the crisis, i.e. in 2006.

Figure 6.9: Written premium and claims paid in EUR million, and claims ratio for credit insurance



Source: ISA

Slovenian insurers' sum insured in credit insurance amounted to EUR 7,392 million at the end of 2012. In recent years the proportion accounted for by the sum insured in credit insurance of claims has been increasing, while the proportion accounted for by the sum insured in consumer and housing loans has been declining. Export insurance accounted for 58% of the sum insured in credit insurance last year, and claims in internal trade for 29%. Credit insurance for consumer loans accounted for just 5% of the sum insured last year, and credit insurance for housing loans for 1%.

The sum insured for export credits was up 2.2% in 2012 relative to the previous year, at EUR 4,288 million. The sum insured for credit insurance on housing and consumer loans stood at EUR 463.8 million at the end of 2012, down 12.0% on 2011. The key reason was the decline of 10.3% in consumer loans in 2012. The ratio of the sum insured for credit insurance to household loans was down 0.7 percentage points on 2011 to stand at 5.2%.

6.2 Voluntary supplementary pension insurance

As a result of the adverse economic situation and the rise in unemployment, the process of the withdrawal of savings after the end of the 10-year term continued last year. The total number of policyholders covered by voluntary supplementary pension insurance fell by

The number of policyholders is falling.

29,547 last year. The number of policyholders decreased by 9.4% at pension companies, by 7.3% at insurers and by 2.3% at mutual pension funds. One weakness in this statistic is that persons opting to suspend their contracts are classed as policyholders. It is therefore necessary for voluntary supplementary pension insurance providers to also publish the number of active policyholders who are currently paying their premiums.

Table 6.3: Voluntary supplementary pension insurance providers: number of policyholders, written premium and assets

	2008	2009	2010	2011	2012
Number of policyholders	512,343	532,716	539,650	537,101	507,554
Breakdown, %					
mutual pension funds	46.6	46.3	46.9	47.8	49.5
insurers	24.1	24.6	23.6	23.6	23.1
pension companies	29.3	29.1	29.5	28.6	27.4
Written premium, EUR million	243	231	233	228	242
Breakdown, %					
mutual pension funds	42.6	45.9	45.6	46.0	46.9
insurers	23.7	21.4	21.2	20.3	20.9
pension companies	33.7	32.7	33.2	33.8	32.2
Assets, EUR million	1,212	1,528	1,794	1,846	1,801
Breakdown, %					
mutual pension funds	39.9	42.4	42.5	44.2	46.6
insurers	22.1	21.5	21.3	21.3	22.0
pension companies	38.0	36.1	36.2	34.5	31.4

Source: ISA, SMA

Box 6.1: New pension legislation in 2012

A new Pension and Disability Insurance Act (the ZPIZ-2) was adopted in 2012, and entered into force on 1 January 2013.[1] The new law tightens the conditions for obtaining an old-age pension. After the end of the transition periods, from 2018 for men and from 2019 for women the conditions for obtaining an old-age pension will be raised to an age of 60 and 40 years of pensionable service excluding buy-back. The ZPIZ-2 introduces a new concept of pensionable service excluding buy-back, which means that periods of voluntary inclusion in compulsory insurance do not count towards pensionable service excluding buy-back, but are instead counted as pensionable service. Voluntary inclusion grants the policyholder the entitlement to an early pension, and no longer to an old-age pension. The period for calculating the pension basis has also been extended from 18 to 24 best consecutive years for the policyholder.

The reform is only a temporary solution to the problem of an ageing population. Given the demographic trends, it is expected that a new reform will be necessary in a few years to either tighten the conditions for retirement or to reduce the entitlements from compulsory pension insurance, or both. There has been a pronounced trend of ageing population for a few years now. Eurostat's population projections in EUROPOP2010[2] for the 2010 to 2060 period forecast a rapid rise in the number of elderly and a fall in the number of people of working age. The number of people aged over 65 is forecast to almost double by 2060 to 649,317, while the number of people in employment is forecast to fall by 20% to 1,127,118. These demographic developments would raise the age dependency ratio[3] from 24% in 2010 to 58% in 2060.

The key is the realisation on the part of employees that pensions from compulsory insurance will not allow them a comfortable life after retirement. An extensive public debate is needed on this problem, with an emphasis on each individual's personal responsibility for providing for adequate financial savings for a safe and comfortable old age. The poverty line for a single-person household in Slovenia was EUR 600 per month in 2011. In 2012 46.6% of old-age pensions were EUR 600 or less.[4] There remain major differences between the sexes in the level of poverty risk.[5] In 2011 10.5% of men aged over 65 lived below the poverty line, less than the EU27 average of 13.2%. The proportion of women older than 65 in Slovenia living below the poverty line is 27.8%, well above the EU27 average of 18.1%. Only women in Bulgaria and Cyprus have a worse position in the EU27. This gap ranks Slovenia alongside Latvia as the worst countries of the EU27 for the size of the income gap between the sexes for those aged over 65.

[1] Source: Pension and Disability Insurance Act (ZPIZ-2).Official Gazette of the Republic of Slovenia, No. 96/2012 of 4 October 2012
[2] Source: SORS.
[3] Ratio of population aged over 65 to population of working age.
[4] Source: PDII.
[5] Source: Poverty risk in terms of age and sex, 2011. SORS and Eurostat (SILC).

The ZPIZ-2 also eliminated two weaknesses of the previous arrangements for voluntary collective supplementary pension insurance: the standard insurance policy for policyholders of all ages, and the possible withdrawal of savings after 10 years. The ZPIZ-2 allows a life cycle policy to be pursued. The umbrella pension fund consists of three sub-funds that differ in terms of investment policy. The operator specifies the target age group at which the sub-fund is aimed. One of the three sub-funds (primarily targeted at the oldest age group) pursues an investment policy of ensuring the minimum guaranteed return. Under the ZPIZ-2, pension fund operators have two years from its entry into force to bring their pension plans and fund rules into line with the new legislation. The assets that a policyholder invests in collective pension insurance after 1 January 2013 cannot be withdrawn until retirement. A lump-sum withdrawal of savings of less than EUR 5,000 is allowed upon retirement. For savings before 31 December 2012, the law still allows a lump-sum payment to be made after 10 years. The weakness of this measure is the potential decline in the effectiveness of providers' portfolio management, for which reason it is necessary to monitor and compare performance between supplementary pension insurance providers. The ZPIZ-2 eliminates discrimination on the basis of sex, which means that premiums are standardised between the sexes. This is worse for men, but better for women. The ZPIZ-2 allows providers to invest in real estate.

The pressure is increasing on the compulsory pension and disability insurance fund. The number of policyholders at the Pension and Disability Insurance Institute fell by 1.6%, while the number of pensioners was up 2.7%. This led to a deterioration in the ratio of the workforce in employment to the number of pensioners to 1.46. Another factor in the deterioration alongside the ageing population was the depth of the economic crisis. At the end of December there were 118,061 unemployed people registered with the Employment Service. The Employment Service recorded an increase of 7.2% in new registrations in 2012. In December 2012 the workforce in employment exceeded the number of registered unemployed at the Employment Service and the number of retirees by just 89,000.

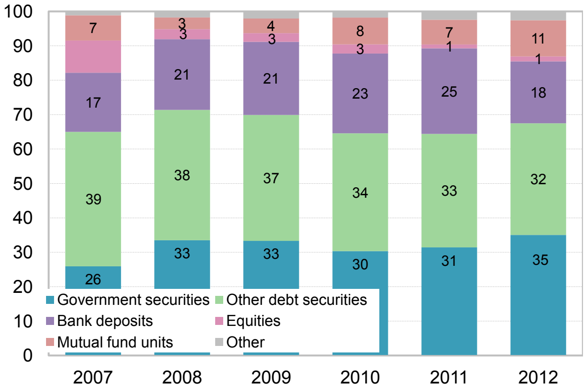
Longevity risk.

One of the key challenges for supplementary pension insurance providers and the government is longevity risk, i.e. the risk of an unexpected increase in lifespans that gives rise to additional unexpected liabilities. Life expectancy in developed countries has risen sharply in the last century. Life expectancy at birth in the UK rose by 29 years between 1911 and 2010. Life expectancy at birth rose from 53 to 82 for women and from 49 to 78 for men. Figure 6.1 in the statistical appendix clearly illustrates that past population projections underestimated future life expectancy. The use of mortality tables that do not reflect the actual lifespans of policyholders could result in pension insurance liabilities being understated, thereby causing financial difficulties for supplementary pension insurance providers. In the future insurers will have to develop complex risk assessment models that include longevity risk.

The increased risk of unsustainable fiscal policy is an additional risk to financial stability. The relative increase in the elderly population entails increased government expenditure on pensions covered by compulsory insurance and on healthcare. The government can reduce this expenditure by cutting entitlements from compulsory pension insurance, by adjusting the retirement age to the increased life expectancy and by transferring the responsibility for providing for sufficient savings while working for a secure old age to policyholders. The burden can increasingly be expected to be transferred from the government to the individual in the future. Policyholders will have to ensure that while working they provide for sufficient savings for their retirement.

Growth in the average pension stood at -2.3% last year, less than the growth of 0.4% in the average net wage. The average age of new pension recipients fell by 9 months for men to 61, and rose by 3 months for women to 58.9.

Figure 6.10: Structure of investments by voluntary supplementary pension insurance providers

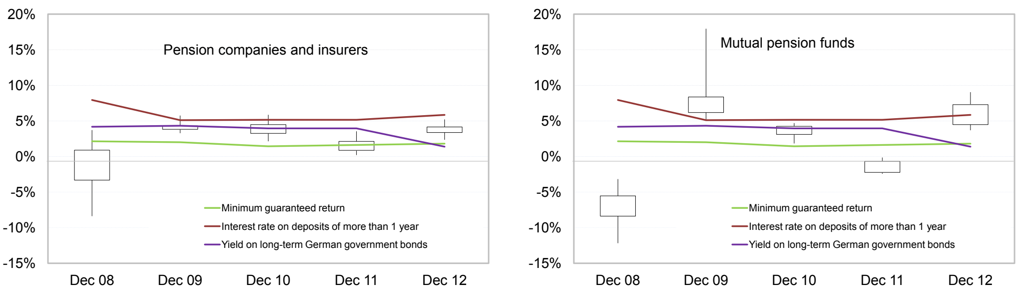


Sources: ISA, Bank of Slovenia

The ratio of supplementary pension insurance assets to GDP stood at 5% at the end of 2012. The largest decline in the structure of investments by supplementary pension insurance providers was recorded by the proportion accounted for by bank deposits, which was down 7 percentage points on 2011 at 29.4%. The largest increases were recorded by government securities (up 3.6 percentage points) and mutual funds units (up 3.4 percentage points). One of the reasons for the decline in bank deposits was the payout of savings to policyholders after the end of the 10-year period. Providers had increased the proportion accounted for by deposits in previous years, as there is uncertainty surrounding the requisite amount of assets for making payouts to policyholders who will request withdrawal after the end of the 10-year period.

The required yield on long-term Slovenian government bonds ranged from 5.1% (12 March) to 7.5% (13 August) in 2012. The movement of yields on long-term government securities is of importance to providers, as they have to ensure policyholders a minimum guaranteed return on the contributions of net voluntary supplementary insurance premium (the minimum guaranteed return). The minimum return may not be less than 40% of the average annual yield on Slovenian government securities with a maturity of more than 1 year. Since January 2012 the minimum return has been calculated only once a year, annual average yields in the previous 24 months being included in the calculation. This year's amendments to the rules for calculating the minimum guaranteed return restricted the average yield to maturity on government securities used to calculate the minimum guaranteed return to no more than 3.75%. The minimum guaranteed return can thus be no more than 1.5% p.a. Had the Ministry of Finance not amended the rules, the minimum guaranteed return for 2013 would have amounted to 1.95% p.a.

Figure 6.11: Dispersion of returns of supplementary pension insurance providers, pension companies and insurers (left), and mutual pension funds (right) in percentages



Sources: ISA, SMA, Bank of Slovenia, ECB

All supplementary pension insurance providers generated a return higher than the minimum guaranteed return last year.[1] The average annual return achieved by insurers and pension companies from voluntary supplementary pension insurance investments stood at 3.8% last year, while the year-on-year change in the average unit price of mutual pension funds was +6.0%.[2]

[1] The figures for the annual return of three insurers are based on an estimate provided by the ISA, and not on publicly available figures. These figures were not yet available to the public at the end of April.

[2] The different valuation methods used for the investments of pension companies and insurers and those of mutual pension funds affect the assets and returns of funds. Returns are therefore disclosed separately for specific groups of providers.

6.3 Capital market and mutual funds

In the final months of last year the Slovenian capital market recorded growth in share prices, albeit significantly less than in comparable share indices.

In the final months of 2012 the Slovenian capital market recorded year-on-year growth in share prices and volume of trading for the first time in three years. However, the reasons for this growth lay more in the low basis and the positive mood on foreign capital markets, and less in the performance of domestic share companies, the sale of government interests in certain companies or major investments by non-residents. The proportion of the market capitalisation of shares on the Ljubljana Stock Exchange accounted for by the latter remains modest. Non-residents are not making significantly more investments in Slovenian shares than in previous years, despite the surplus liquidity on foreign financial markets, and are primarily interested in individual companies and takeover targets.

The domestic capital market is also becoming increasingly unattractive for domestic investors. They are not withdrawing assets from the capital markets, but are instead switching to foreign capital markets. The outflow of domestic capital to the rest of the world is increasing the risk of a lack of capital supply on the Slovenian capital market, as a result of which corporates, banks and the government will find access to financial resources more difficult and more expensive. The reasons for the decline in residents' demand for domestic shares are low liquidity, modest corporate performance, poor returns on capital, and the significant differences between companies' market valuations and their internal valuations. Information asymmetry, which means it is possible to monitor the performance of domestic companies better than foreign companies, is of much lesser significance than achieving proper returns on capital and liquidity in investments. Residents will also invest in foreign securities in the future to diversify their investments and reduce portfolio risk, although a renewed resolve on the part of residents to invest more in the domestic market could lever the Slovenian capital market into recovery.

The adverse situation on the domestic and international financial markets is the reason that corporates and the government have been compelled to replace long-term financing via the bond markets with more expensive but easier-to-access short-term financing such as money-market instruments. The government doubled the nominal value of issued treasury bills last year to EUR 2.1 billion, while corporates finally created a short-term debt market via 6-month commercial paper with a nominal value of EUR 130 million. Despite the rise in the number of issues of money-market instruments, the lack of development in the capital market does not yet provide for alternative corporate financing.

Net withdrawals from mutual funds continued last year: the figure of EUR 109.1 million was the highest of the last four years. As a result of growth in foreign stock market indices, the mutual funds' assets under management nevertheless increased by 1%. The consolidation of domestic mutual funds and management companies that began last year will continue in the years ahead, if the decline in purchasing power does not come to an end and confidence returns to investments in mutual fund at the same time.

The development of money-market instruments and various structured products that could prove to be a suitable alternative and supplement to bank loans, corporate restructuring in terms of ownership and operations and, above all, the attraction of capital could give growth impetus to the domestic capital market. The privatisation of companies under majority government ownership would also bring a positive mood to the domestic capital market, and could act as the first step in the systematic attraction of foreign and domestic capital.

Developments on the capital market

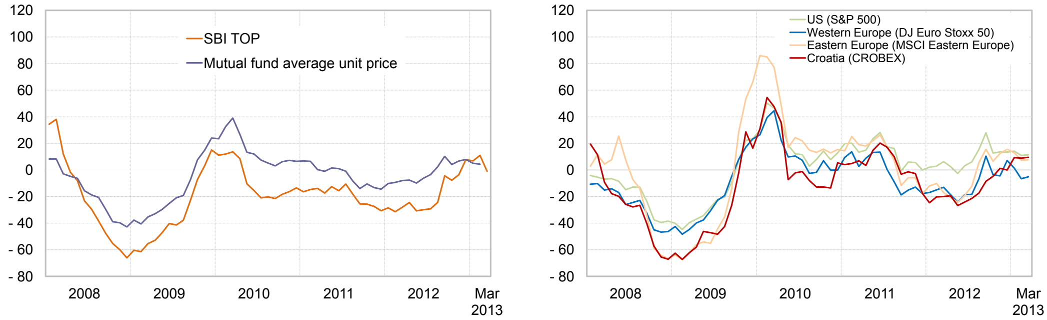
The Slovenian stock market rose in 2012 for the first time in three years, finishing the year up 7.8%, but by the end of March 2013 the year-on-year change was -1%.

The SBI TOP, Slovenia's main stock market index, displayed a pronounced falling trend in the first eight months of 2012, and was among the worst-performing indices in the region. In August the SBI TOP reached its lowest month-end value since at least the beginning of 2004. The reasons for the negative trend were poor performance in the corporate and financial sectors, the decline in domestic demand for investments in the capital markets by private individuals and by legal entities, non-residents' interest solely in particular shares and takeover targets, and Slovenia's ongoing downgradings by the three main rating agencies.

The positive mood on foreign capital markets also arrived on the domestic capital market in September, with a one-month delay. The SBI TOP overcame its earlier losses and ended the year up 7.8%, the first annual rise in three years. Other factors alongside the positive mood on foreign markets were the announcement of sales of government interests in certain companies, and the proposed structural reforms to curb public spending and to create more credible investment opportunities for foreign investors. The year-on-year change in the domestic index was nevertheless significantly lower than comparable indices. The Central European CEESEG index was up 16.4% over the same period.

Growth in the SBI TOP slowed in the first quarter of 2013. The key factors were the political crisis, the consequent stalling of reforms and the continuing economic crisis in Slovenia. Moving in a different direction to foreign capital markets again became a feature of the illiquid domestic capital market. Rises and renewed falls in shares are much more pronounced than in developed markets. The high volatility in Slovenian corporate share prices is an illustration of above-average risk, which is one of the reasons for the low demand from foreign investors. The year-on-year change in the SBI TOP stood at -1% at the end of March 2013, the index having fallen by 6.7% since the beginning of the year. The mood on the domestic capital market remains bad.

Figure 6.12: Year-on-year growth in domestic (left) and foreign (right) stock market indices in percentages



Source: LJSE, Bloomberg

The total volume of trading on the Ljubljana Stock Exchange fell again in 2012, by 23.2% to EUR 360.4 million. The annual volume was thus less than the volume in July 2007, the highest monthly volume recorded at the Ljubljana Stock Exchange. Valuations of domestic listed companies at the end of 2012 and the end of March 2013 were even more favourable than in the previous years, but this could not convince domestic and foreign investors to make greater net purchases.

The market capitalisation of shares increased by just under 1% in 2012. Five blue-chips accounted for more than four-fifths of total volume.

The market capitalisation of shares[1] on the Ljubljana Stock Exchange amounted to EUR 4,911 million at the end of 2012, up 0.8% on the end of 2011. This was the first increase in the market capitalisation of shares at year end since 2007. However, growth ended during the early months of 2013, and the market capitalisation of shares at the end of March was down 8.6% on the beginning of the year. Corporate shares accounted for the majority (89%) of the market capitalisation of shares, shares in insurers accounted for 10%, and bank shares for less than 1% of the total as a result of the large falls in the NKBM share price. Liquidity on the Slovenian capital market deteriorated further last year. The volume of trading shares amounted to EUR 302.9 million in 2012, down 23.2% on the previous year. Volume was down in all prime market shares other than Telekom Slovenije, which recorded above-average trading in the final months of the year primarily as a result of speculation over the sale of the government's interest to a strategic investor. Almost half of the volume of trading in shares on the Ljubljana Stock Exchange (46.6%) in 2012 was in Krka shares, the market price of which was down 5.5% in year-on-year terms despite their liquidity on the domestic market and their parallel listing on the Warsaw stock exchange since May 2012. The modest volume on the Ljubljana Stock Exchange primarily consisted of shares listed on the prime market, which accounted for 89.5% of total volume in 2012, up just over 2 percentage points in year-on-year terms, partly as a result of the listing of Pozavarovalnica Sava on the prime market. The volume of trading in the first quarter of 2013 was up 22.4% on the same period last year, albeit primarily as a result of selling pressures, which also led to a fall in market prices.

The small volume of trading in bonds declined even further.

The market capitalisation of bonds on the Ljubljana Stock Exchange amounted to EUR 12,736 million at the end of 2012, down 11.9% on the end of 2011. The decline was the result of a sharp fall in the number of new bond issues caused by the unsustainable borrowing conditions and a fall in bond prices caused by higher required yields. The market capitalisation of bonds fell by a further 2.2% in the first quarter of 2013. The adverse situation in Cyprus had an impact on Slovenian bonds, prices of which fell sharply. The required yield on reference 10-year Slovenian government bonds consequently rose by just over 1 percentage point to 6.08%, as a result of which government and corporate borrowing on the bond market became too expensive. Despite the lack of new issues, the proportion of market capitalisation accounted for by government bonds increased further in 2012 to end the year at 92.4%. This was followed by bank bonds with 4% of the

[1] Shares in investment companies are not included in the market capitalisation of shares or in volume.

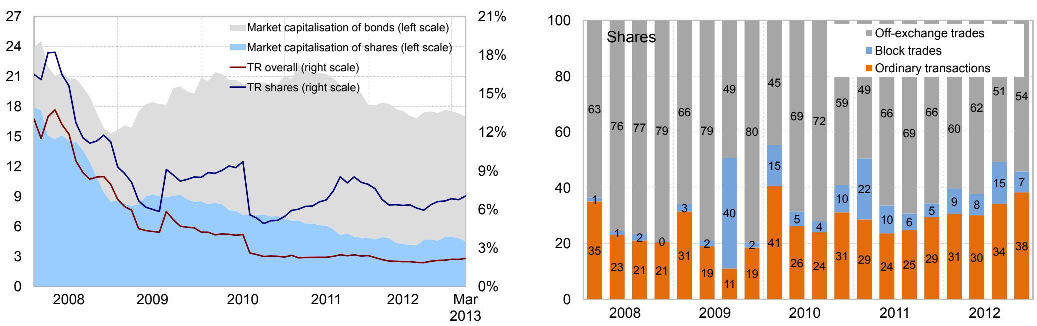
total, and corporate bonds with 3.6%. The volume of trading in bonds in 2012 was down 7.1% on the previous year, while the volume in the first quarter of 2013 was up 6.3% in year-on-year terms. The volume of trading in bonds on the domestic capital market is exceptionally small. Only ten bonds recorded a volume of more than EUR 1 million in 2012, while several tens of bonds recorded no trading at all. The volume of trading in bonds will decline even further in the future, as a result of the lower number of new bond issues last year.

Table 6.4: Overview of Slovenia's regulated capital market

	2008	2009	2010	2011	2012	Mar 2013
			Shares			
Market capitalisation						
amount, EUR billion	8.5	8.5	7.0	4.9	4.9	4.5
as % GDP	22.7	23.8	19.6	13.5	13.8	12.4
annual growth, %	-57.1	-0.1	-17.3	-30.3	0.8	-8.8
proportion held by non-residents, %	7.1	7.2	10.0	12.3	13.6	14.0
Volume						
amount, EUR million	952.6	719.8	360.8	394.5	302.9	91.6
as % GDP	2.6	2.0	1.0	1.1	0.9	0.3
annual growth, %	-68.6	-24.4	-49.9	9.3	-23.2	0.2
Annual change in SBI TOP, %	-66.1	15.0	-13.5	-30.7	7.8	-1.0
P/E ratio (prime market)	10.6	19.4	43.2	93.1	16.2	25.8
Dividend yield (prime market), %	3.9	2.1	2.1	3.2	3.9	4.2
			Bonds			
Market capitalisation						
amount, EUR billion	6.8	10.8	13.2	14.5	12.7	12.5
as % GDP	18.2	30.4	37.1	40.0	35.8	34.4
annual growth, %	14.4	59.2	21.9	9.6	-11.9	-7.5
Volume						
amount, EUR million	257.0	156.3	108.9	59.6	55.4	14.6
as % GDP	0.7	0.4	0.3	0.2	0.2	0.0
annual growth, %	54.9	-39.2	-30.3	-45.3	-7.0	6.3

Note: Excludes listed investment companies and mutual funds. Block trades are included.
Source: LJSE, SORS

Figure 6.13: Market capitalisation on the Ljubljana Stock Exchange in EUR billion, and annual turnover ratios (left), and percentage breakdown of trading in shares by type of transaction (right)



Note: Excludes listed investment companies and mutual funds. The turnover ratio (TR) is the ratio of annual volume to market capitalisation at the end of the period. Block trades are included.
Source: LJSE

Given the lack of capital on the domestic capital market, corporates and the government are more frequently seeking financing in the rest of the world and financing via money-market instruments.

The adverse economic situation, the lack of capital, the downgradings of sovereign debt, corporates and banks, and investors' lack of willingness to make long-term investments on the domestic capital market are leading capital market participants to seek financing in the rest of the world. The uncertain situation does not favour new issues on the domestic capital market, as demand for capital significantly outstrips supply. Given the lack of capital, the number of listings of securities on the Ljubljana Stock Exchange continued to decline in 2012 and the first quarter of 2013 in all segments other than prime market shares.The largest contraction was in the bond market. Corporates and the government are no longer opting for new bond issues on the domestic capital market. Given the high required yields, only two corporate bonds were issued in 2012 and the first quarter of 2013 (one was a prepayment), while the government did not issue new bonds on the domestic market. In contrast to the changes in issues of corporate and government bonds, last year the banks issued a larger number of bonds on the domestic market with a higher nominal value than in the previous year. As a result of the increase in additional own funds I, the banks merely issued subordinated or hybrid debt instruments.

Corporates and the government compensated for the lost financing on the bond market with issues of money-market instruments. The attributes of money-market instruments are that they are aimed primarily at liquidity management, they are lower risk, they have high liquidity, and they allow for risk diversification. As a result of the adverse situation on the international financial markets[1] the government has been compelled to replace long-term financing via the bond markets with more expensive short-term financing via money-market instruments. In 2012 the government issued 23 treasury bills with a nominal value of EUR 2,091 million, twice as much as in the previous year. It issued five more bills in the first quarter of 2013, with a nominal value of EUR 364 million. In previous years the treasury bills were generally 3-month bills, but in 2012 and the first quarter of 2013 the government more commonly opted for treasury bills of longer maturities.

The stock of issued commercial paper on the domestic market increased.

Corporates are partly compensating for the decline in bank lending by means of issues of commercial paper on the domestic capital market. With commercial paper corporates have the possibility of managing seasonally conditioned cash flows and imbalances between cash inflows and outflows. The interest rates on commercial paper are generally slightly above the average on short-term loans at banks, but the cost and the issue procedure are significantly cheaper and simpler than bonds. Corporates issued EUR 130 million in commercial paper in 2012 (2011: EUR 9 million), and EUR 50 million in the first quarter of 2013. Six issues of commercial paper on the domestic market in 2012 resulted in the final creation of a short-term debt market.

Table 6.5: Overview of number of new bond issues by residents in Slovenia and in the rest of the world, and total value

	Issued in Slovenia				Value, EUR million	
	Banks	Financial institutions	Government	Non-financial corporations	Total	Of which, non-financial corporations
2007	7	2	0	3	570	31
2008	5	1	1	5	1,728	50
2009	5	4	3	2	4,222	77
2010	5	2	2	0	2,674	0
2011	2	2	3	5	3,121	63
2012	5	1	0	1	110	30
Mar 2013	1	0	0	0	2	0
	Issued in the rest of the world					
2007	1	0	1	0	1,100	0
2008	0	0	0	0	0	0
2009	2	0	0	1	2,300	300
2010	4	0	0	0	1,350	0
2011	2	0	0	0	500	0
2012	1	0	1	0	1,925	0

Source: CSCC, Bank of Slovenia

Table 6.6: Overview of number of new issues of money-market instruments on the domestic market, and total value

	Number of issues			Value, EUR million		
	treasury bills	commercial paper	total	treasury bills	commercial paper	total
2007	10	0	10	500	0	500
2008	9	0	9	390	0	390
2009	9	0	9	1,065	0	1,065
2010	4	0	4	156	0	156
2011	4	1	5	1,008	9	1,017
2012	23	6	29	2,091	130	2,221
Mar 2013	5	2	7	364	50	414

Source: CSCC, Bank of Slovenia

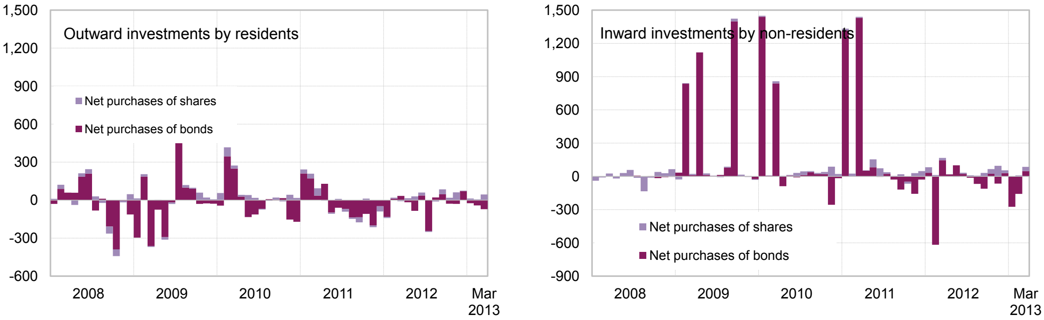
[1] The required yield on Slovenian 10-year bonds stood at 7.75% on 13 August 2012, at 5.07% at the end of 2012 and at 6.08% on 31 March 2013.

Investment links with the rest of the world

The main factor in non-residents' net sales in 2012 was non-residents' purchases of the government bond issued on the US market.

Last year foreign investors recorded net sales of Slovenian securities for the first time since 2004, in the amount of EUR 204.2 million, which occurred as a result of the issue of a government bond on the US market and a decline in issues of government and corporate bonds on the Slovenian capital market. Non-residents made net sales of EUR 504.1 million in Slovenian debt securities last year. If the government bond issue on the US market is taken into account, net purchases of bonds amounted to EUR 1,210.9 million. Non-residents' total net purchases of securities in Slovenia would have amounted to EUR 1,510.8 million in this case, still down a half on the previous year. Last year non-residents recorded net purchases of equities in the amount of EUR 300 million, approximately the same as in the two previous years. Non-residents recorded additional net sales of securities in the amount of EUR 335.7 million in the first quarter of 2013.

Figure 6.14: Monthly net outward investments by residents (left) and inward investments by non-residents (right) in EUR million



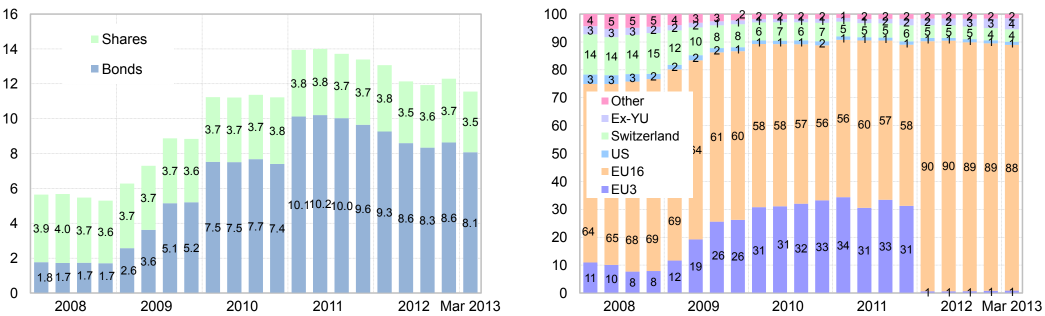
Sources: CSCC, Bank of Slovenia, own calculations

If purchases of the government bond issued on the US market are taken into account, non-residents recorded much larger net purchases of Slovenian bonds in 2012 than Slovenian shares, as in the two previous years, despite a decline in bond issues, the persistent downgrading of Slovenia's sovereign debt and the rise in premiums on government bonds.

Foreign investors' lack of demand for Slovenian shares.

Foreign investors did not show any great demand last year for Slovenian shares, despite the surplus liquidity on the international financial markets. The proportion of the market capitalisation of shares on the Ljubljana Stock Exchange accounted for by non-residents merely increased by just over 1 percentage point in 2012 to end the year at a still-very-modest 13.6%. Foreign investors' lack of demand for Slovenian securities has also been reflected at the corporates and banks that held public offerings of shares on foreign capital markets or had their shares admitted for technical listing on foreign capital markets. The reasons for foreign investors' low demand are high corporate indebtedness, ineffective business models, poor international recognition, a lack of transparency in sales of tranches of shares redeemed as collateral, and the incomplete privatisation of companies under majority government ownership. The largest net purchases of Slovenian shares in 2012 were made by residents of Croatia and Austria.

Figure 6.15: Stock of non-residents' investments in securities of Slovenian issuers in EUR billion (left), and regional percentage breakdown (right)



Note: Bonds were transferred from the fiduciary account of a UK bank to the fiduciary account of a Belgian bank in January 2012.
EU3: UK, Denmark, Sweden
EU16: euro area
Ex-YU: former Yugoslav republics

Sources: CSCC, own calculations

Slovenian investors exploited the rises in foreign stock markets last year by making net investments in foreign shares.

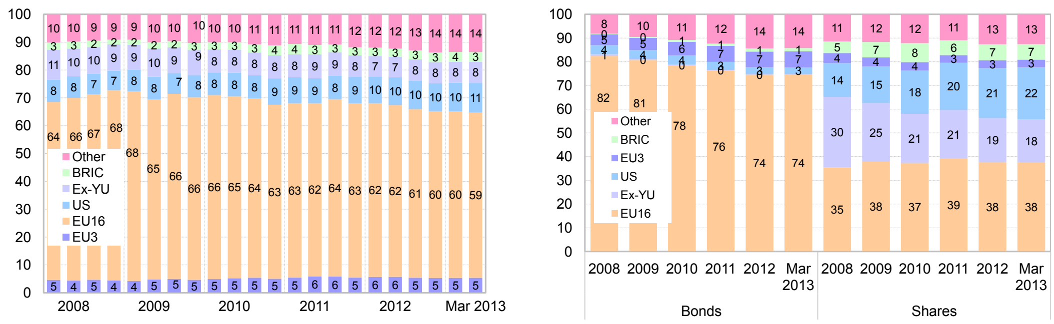
Rises in foreign stock market indices convinced domestic investors to make net purchases of foreign shares in the total amount of EUR 164.6 million, primarily in the second half of last year. The stock of Slovenian residents' investments in securities of foreign issuers increased by 1.6% last year to EUR 7.7 billion, despite net sales of low-yielding bonds of foreign issuers in the amount of EUR 320.3 million. Investments by residents in foreign securities were equivalent to 21.7% of GDP at the end of 2012.

Foreign stock markets achieved high returns in 2012 and the early months of 2013, as a result of which domestic investors' assets were moved from foreign bonds to foreign shares, in addition to which there were also changes in the regional breakdown of investment policy. Other financial intermediaries excluding insurance corporations and pension funds reduced their net exposure to euro area shares as a result of a net increase in their investments in US shares, while other residents failed to respond to the exceptional rises in US stock markets. The banks, which recorded the largest net purchases of foreign shares in the amount of EUR 109.6 million, primarily purchased in the former Yugoslav republics. The banks also recorded net sales of bonds in the amount of EUR 590.2 million, primarily euro area bonds. The banks made net sales of bonds primarily to improve liquidity given their reduced access to wholesale funding and the contraction in deposits by the non-banking sector. In contrast to other financial intermediaries, insurance corporations and pension funds identified investment opportunities in euro area shares, in which they recorded net purchases of EUR 107.3 million, while making net sales of EUR 8.7 million in US shares.

The decline in purchasing power meant that households recorded the largest net sales of foreign shares in the amount of EUR 27.8 million, and also made net sales of bonds. Given the adverse situation in the economy, corporates also made net divestments on foreign share and bond markets.

In the regional breakdown of residents' outward investments, exposure to issuers from the euro area continued to decline in 2012, while exposure to issuers from other regions increased. The proportion of investments in foreign bonds accounted for by issuers from the euro area was down again by 2 percentage points at 74%, while the corresponding proportion of investments in foreign shares declined from 39% to 38%. In the breakdown of investments in shares, the withdrawal from the former Yugoslav republics continued in 2012, while exposure to emerging countries and the US increased.

Figure 6.16: Regional breakdown of investments by residents in foreign securities overall (left), and bonds and shares separately (right) in percentages



Note: EU3: UK, Denmark, Sweden
EU16: euro area
BRIC: Brazil, Russia, India, China
Ex-YU: former Yugoslav republics

Source: Bank of Slovenia

The stock of Slovenian residents' investments in securities of foreign issuers stood at EUR 7.7 billion at the end of 2012, almost EUR 1 billion larger than their investments in domestic shares and mutual funds. Including investments in mutual funds in the rest of the world, Slovenian residents held foreign investments of at least EUR 9.1 billion at the end of last year. Non-residents held EUR 12.3 billion in Slovenian securities at the same time.

Mutual funds

Despite net withdrawals of EUR 109.1 million, the mutual funds' assets increased by 1% in 2012 as a result of a rise in the average unit price.

The mutual funds' assets increased by 1% last year to end the year at EUR 1,835 million, and increased by a further 2.9% in the first quarter to reach EUR 1,887.8 million by the end of March 2013. The increase was the result of rises in the weighted average unit price of 8.2% in 2012 and 4.9% in the first quarter of 2013. The rise in the average unit price was the key factor in the increase in assets under management, mutual funds having recorded net withdrawals of EUR 109.1 million in 2012.

Table 6.7: Overview of mutual funds

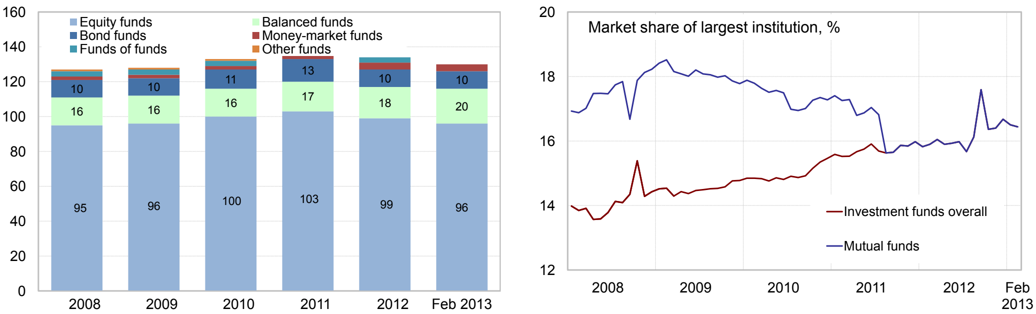
	2008	2009	2010	2011	2012	Mar 2013
			Assets, EUR million			
Investment funds	1,912	2,234	2,294	1,816	1,835	1,888
Mutual funds	1,513	1,856	2,054	1,816	1,835	1,888
of which foreign MFs	130	192	217	153	144	149
annual net inflows into MFs	-304	18	25	-77	-109	-6
Investment companies	398	377	241	0	0	0
			Breakdown, %			
Mutual funds	79.2	83.1	89.5	100	100	100
Investment companies	20.8	16.9	10.5	0	0	0
			Growth, %			
Investment funds	-53.8	16.8	2.7	-20.8	0	0
Mutual funds	-48.2	22.7	10.6	-11.5	1.0	2.9
Investment companies	-67.2	-5.3	-36.2	-100.0	0	0
AUP	-42.8	24.0	6.5	-14.4	7.6	4.9

Source: SMA, LJSE, own calculations

The legally prescribed period for the transformation of all investment firms into mutual funds ended in August 2011.

Two new domestic mutual funds were established in 2012, while eight funds ceased operation or were merged into other sub-funds under umbrella funds. The mutual fund market saw the consolidation of a large number of sub-funds as a result of management companies' desire to streamline their operations, and also as a result of the optimisation of the sub-funds in terms of basic investment objectives and policy and increased efficiency of portfolio management. There were 130 domestic mutual funds on the market at the end of February 2013 (compared with 140 at the end of 2011). The majority of these were equity funds, which were followed in number by balanced funds, bond funds and money-market funds. The number of foreign mutual funds marketed in Slovenia rose by five between the beginning of 2012 and the end of February 2013 to stand at 204, of which 111 were from the EU. The number of umbrella funds was unchanged in 2012 at ten.

Figure 6.17: Number of mutual funds by type (left) and market concentration of mutual funds (right) by year



Source: SMA

The market concentration of domestic mutual funds was very low in 2012. Only four mutual funds had a market share of more than 5%. The largest mutual fund increased its market share by 1 percentage point during the year to almost 17% at year end. The average market share of the mutual funds was just 0.7% in 2012, an indication of the modest average assets under management. Higher average management fees had a larger impact on returns, making it harder for the funds to compete with global ETFs.[1] Further consolidation can be expected in the coming years among the domestic mutual funds and management companies with low market shares. Consolidation will be particularly pronounced at management companies under majority bank ownership, which have recorded high net withdrawals in recent years.

[1] Exchange-traded funds, which can be open or closed investment funds.

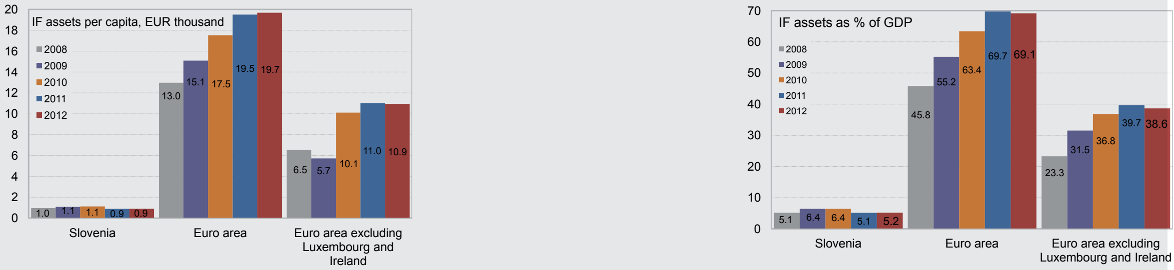
Box 6.2: Comparison of Slovenian mutual funds with the euro area

The domestic mutual funds' assets under management per capita stood at EUR 892 at the end of 2012, up 0.8% during the year. Investment funds across the euro area recorded a corresponding increase of 0.9%. However, thanks to greater household investment activity the average assets under management per capita at investment funds across the euro area amounted to EUR 19,684 at the end of 2012. A comparison of the changes in assets under management at mutual funds and investment funds between Slovenia and the euro area overall reveals that the mutual fund assets of the average inhabitant of Slovenia at the end of 2012 were down 19.8% on 2005, as a result of smaller investments, larger withdrawals and poorer performance, while the corresponding figure in the euro area overall was up 30.9% over the same period.

The ratio of the assets under management of domestic investment funds and mutual funds to GDP halved from 12% at the outbreak of the economic crisis to 5.2% at the end of 2012. The key factors in this decline were net withdrawals from mutual funds and poor returns. Investors are opting less and less to place their savings with mutual funds because of low disposable income, a loss of confidence, high falls in the average unit price as a result of excessive risk in the make-up of portfolios and the inefficient allocation of funds, and low returns at mutual funds. These have also remained low because of the high average fixed management fees.

The ratio of investment funds' assets under management to GDP in the euro area overall was much higher than in Slovenia at the end of 2012 at 69.1%. Even if Luxembourg and Ireland are excluded, the corresponding figure is 38.6%, still much higher than in Slovenia. Growth in investment funds' assets under management in the euro area overall slowed in 2012, an indication of the greater caution in saving brought by the adverse economic situation.

Figure 6.18: Comparison between Slovenia and the euro area in investment fund assets per capita in EUR thousand (left) and assets as a percentage of GDP (right)

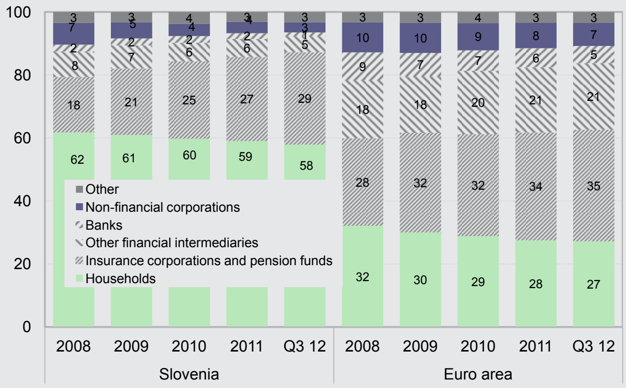


Sources: ECB, SMA, Eurostat, EFAMA, SORS

The breakdown of ownership of Slovenian mutual funds differs markedly from the overall breakdown in the euro area. In Slovenia households' ownership of mutual funds is double that of households across the euro area, and their ownership share has been declining more slowly than in the euro area overall over the years. Net withdrawals are the main factor in the decline in the ownership share of Slovenian households, while in the euro area overall the reason is that investments by other sectors have been larger than household investments. The large ownership share of households entails a risk of further net withdrawals for the domestic mutual funds, if purchasing power continues to decline as a result of the economic situation and if the mutual funds fail to restore investor confidence through effective asset management. For operators of domestic mutual funds, providing net withdrawals for households entails holding a larger proportion of assets in cash and other liquid assets, and fewer high-yielding assets than they would otherwise hold.

At the domestic mutual funds and at euro area investment funds alike the ownership shares of insurance corporations and pension funds and of other financial intermediaries are increasing, while the shares held by banks and non-financial corporations are declining.

Figure 6.19: Percentage breakdown of ownership of mutual/investment fund units/shares



Note: The units/shares of all investment funds (investment companies and mutual funds), both domestic and foreign, are taken into account.
Sources: Bank of Slovenia, ECB

Interaction between mutual funds and the banking sector

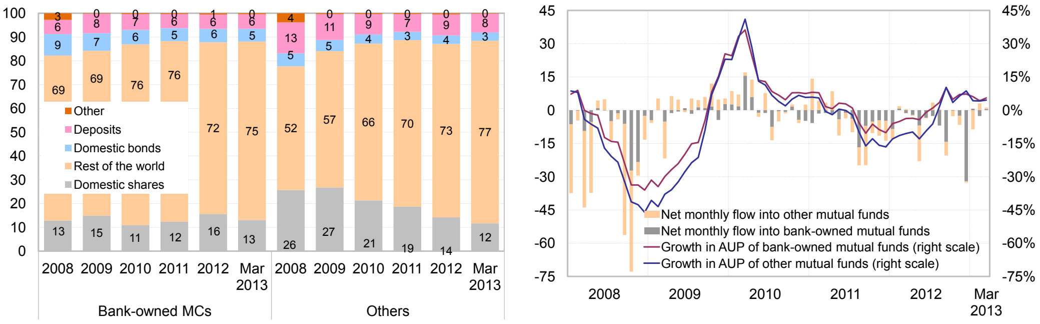
Management companies (MCs) under majority bank ownership managed 39.1% of the domestic investment funds' assets under management in 2012. The largest management company increased its assets under management by 12.8% in 2012, and accounted for 25.9% of the domestic mutual funds' total assets under management, its market share having increased by 2.7 percentage points. Despite the rise in international stock markets, eight management companies recorded no increase in their assets under management as a result of large net withdrawals.

Only three of the 11 management companies recorded an increase in their assets under management, despite the rise in global stock markets.

Net withdrawals from mutual funds totalled EUR 109.1 million in 2012, up 41.3% on the previous year. The management companies under majority bank ownership recorded 73.4% of all net withdrawals from the domestic mutual funds, while their market share was 39.1%. The high net withdrawals from management companies under majority bank ownership were primarily the result of investors' increased lack of confidence in banks because of their losses, the lack of confidence having been transmitted indirectly to management companies under majority bank ownership. The average unit price at management companies under majority bank ownership rose by 7.3% in 2012, compared with a rise of 8.7% at non-bank management companies. The difference in the rise in the average unit price at the bank-owned and non-bank management companies has had a minor impact on net withdrawals, as in the two previous years management companies under majority bank ownership have had better returns than non-bank management companies, but investors nevertheless requested a larger proportion of net withdrawals from management companies under majority bank ownership.

The loss of investor confidence means that management companies under majority bank ownership have recorded the majority of net withdrawals in recent years.

Figure 6.20: Comparison of mutual funds operated by management companies under majority bank ownership and others: investment structure in percentages (left), and annual growth in average unit price (AUP) in percentages and monthly net inflows in EUR million (right)



Sources: SMA, own calculations

Despite the rise in global stock markets, mutual funds operated by management companies under majority bank ownership reduced their investments in the rest of the world by 4 percentage points last year to 72.2%. At the same time they increased their exposure to domestic investments by 4 percentage points to 15.6%, as the Slovenian stock market recorded one of the largest global falls during the first eight months of the year. The non-bank management companies continued their policy of reducing the proportion accounted for by domestic investments in favour of greater exposure to foreign investments and safer investments in the form of bonds and deposits. The reason for increasing the proportion of safer investments is to protect portfolio values from falls that could occur in the event of corrections to overheating capital markets.

Management companies' indebtedness halved last year. The reasons were the positive mood and the corresponding increase in stability on the international financial markets, the end to demand for liquid assets for potential switches by investors during transfers of mutual funds to different operators or during the conversion of investment companies into mutual funds, and the decline in lending activity on the part of the banks. The stock of management companies' bank debt stood at EUR 44.9 million at the end of 2012, down 49.2% on a year earlier. Management companies' total debt, including other financial liabilities and off-balance-sheet liabilities, stood at EUR 132.1 million at the end of 2012, down 56% on a year earlier. This was the lowest stock of bank debt at the management companies since 2006. The decline in the management companies' debt has reduced the potential transmission of shocks from one part of the financial sector to another. Management companies could nevertheless have borrowed more from the banks last year, earmarking the money for capital investments. Although the rise in the average unit price in 2012 was significantly lower than the rise in key global stock market indices, it was nevertheless considerably larger than the banks' interest rates on short-term loans.

The lowest stock of debt at the management companies since at least 2006.

Mutual fund investors

Table 6.8: Changes in the mutual funds' assets under management as a result of net inflows and other factors in EUR million

	Bond	Balanced	Equity	Money-market	Total
			2010		
Net inflows	27	-43	43	-2	25
Capital gains	3	73	97	0	173
Assets, year end	69	659	1,313	12	2,054
			2011		
Net inflows	18	-74	-34	13	-77
Capital gains	0	-83	-78	0	-160
Assets, year end	87	502	1,201	26	1,816
			2012		
Net inflows	-2	-56	-48	-3	-109
Capital gains	6	33	87	3	128
Assets, year end	91	478	1,241	26	1,835

Source: SMA, own calculations

The reasons for the high net withdrawals are the difficult economic situation, a loss of confidence, and the ownership structure of mutual funds.

Among investors there is an evident loss of confidence in capital markets and in mutual funds that will be difficult to restore. A decline in appetite for investing in domestic mutual funds can also be identified at insurance corporations and pension funds. Despite commitments in long-term insurance contracts to invest a specific proportion of written premium on the capital markets, and an increase in written premium, in 2011 and 2012 their net investments in domestic mutual funds were down a half on those in 2009 and 2010.

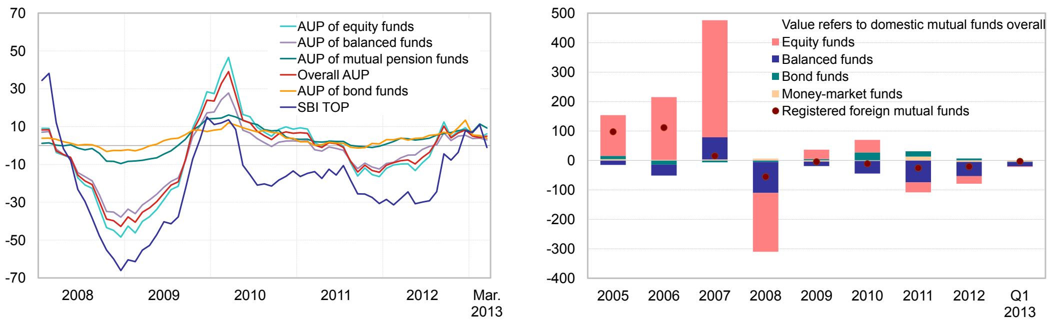
In keeping with their prevailing ownership share, households have made the largest net withdrawals in recent years. The banks have also requested net withdrawals in the last two years, as a result of a lack of capital, a need for liquid assets and a focus on marketing deposits; in 2012 their net withdrawals amounted to EUR 50.5 million.

Investors made net withdrawals throughout last year, irrespective of the movements in the average unit price.

The majority (62.3%) of net withdrawals were made by investors in the second half of the year, when rises in global stock market indices were largest. The demand for the assets invested in mutual funds was greater than the benefits of larger returns. The decision to make withdrawals from mutual funds can no longer be tied to performance, but primarily to the demand for the assets invested in funds to cover current needs.

The average unit price of mutual funds ended 2012 up 8.2% in year-on-year terms. The rise in the average unit price was the largest in the last three years, but was nevertheless low compared with the rise of 7.8% in the SBI TOP. In the breakdown of the mutual funds' investments, exposure to the rest of the world in 2012 was at least 73% with a majority equity component, as a result of which the rise in the average unit price should have better tracked the rise in global stock market indices. The rise in the average unit price was nevertheless only 0.4 percentage points more than the rise in the SBI TOP.

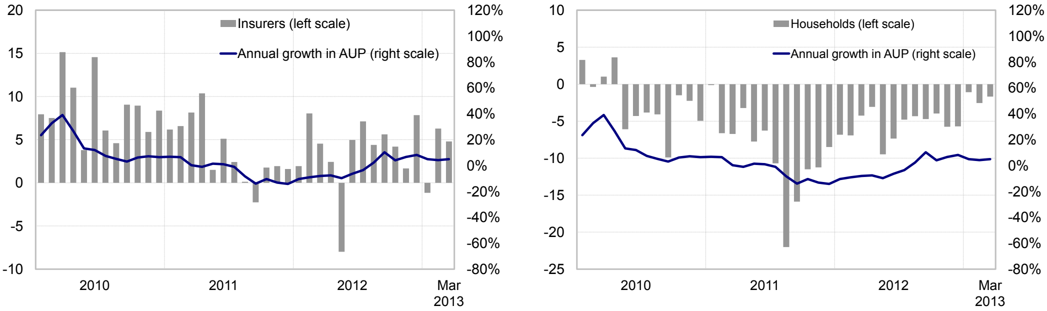
Figure 6.21: Year-on-year change in the average unit price (AUP) of mutual funds and the SBI TOP in percentages (left) and annual inflows into mutual funds in EUR million (right)



Sources: SMA, LJSE, Bank of Slovenia

The household sector made net withdrawals of EUR 67.2 million in 2012, EUR 42 million less than in the previous year. This was the fifth consecutive year of high net withdrawals by households. A similar dynamic can be expected in the coming periods, if the decline in purchasing power continues. The loss of investor confidence has had a pronounced impact on the performance of management companies. The banks requested net withdrawals in the amount of 69% of their total funds placed with mutual funds last year alone. They were followed by the corporate sector, which requested net withdrawals of EUR 24 million last year, a similar figure to the previous year and equivalent to 21.8% of its total assets under management at mutual funds.

Figure 6.22: Monthly net inflows from the insurance sector (left) and monthly net inflows from households (right) in EUR million and annual growth in the average unit price (AUP) in percentages

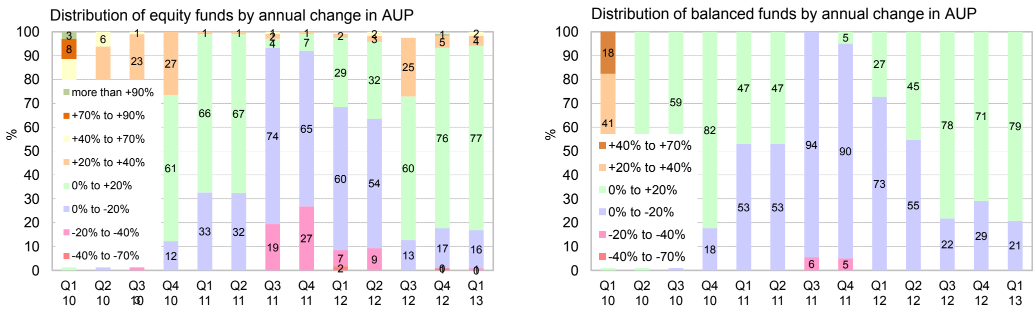


Sources: SMA, own calculations

The majority of mutual funds recorded a positive return in 2012.

Last year 72.2% of mutual funds recorded a positive return, significantly better than the previous year, when less than an eighth of mutual funds performed thus. It is a cause for concern that despite the large rises in global stock markets more than a quarter of the domestic mutual funds recorded a negative return, which cannot be attributed to the devaluation of domestic investments or to the falls in Balkan markets. The performance of the balanced funds was even worse: barely half of them recorded a positive return. An even greater proportion of equity funds disclosed a negative annual return at the end of the first quarter of 2013, while two-thirds of the balanced funds had a positive return.

Figure 6.23: Relative distribution of domestic equity funds (left) and domestic balanced funds (right) in terms of annual change in average unit price (AUP) in percentages

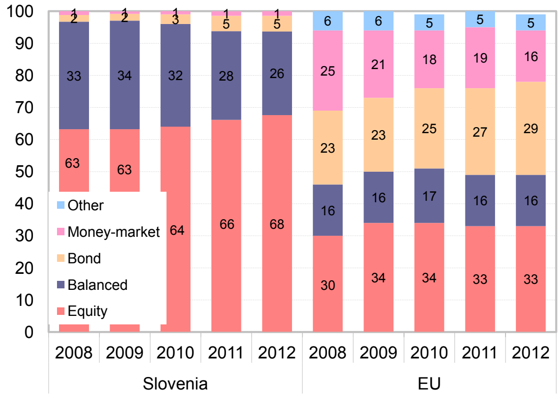


Source: SMA

Despite the net withdrawals, which were higher than in the previous year, operators reduced the proportion of investments held as liquid assets from 11.5% to 11.3%. The slight decline in the proportion of liquid assets is attributable to operators' desire to maximise their investments in high-yielding share markets, where the investment policy so allows. The proportion of assets under management accounted for by liquid assets at the domestic mutual funds is nevertheless significantly higher than in the euro area overall, which is one of the factors in the lower returns.

Change in the breakdown of mutual funds' investments

Figure 6.24: Comparison of the breakdown of the mutual fund sector by fund type in terms of assets under management in Slovenia and the EU in percentages



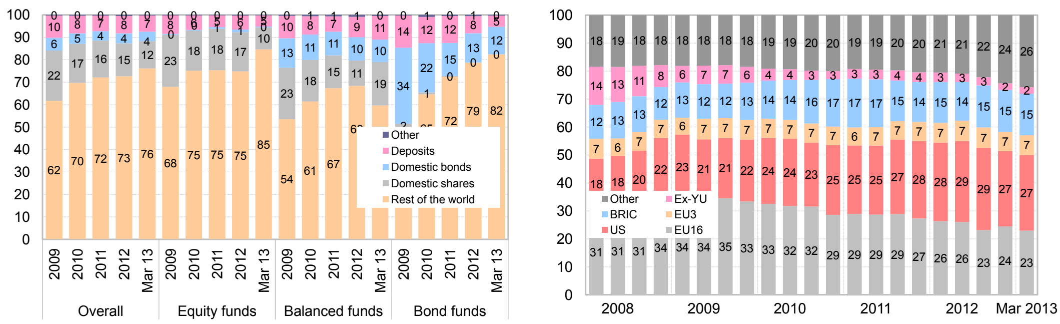
Sources: SMA, EFAMA

Net withdrawals meant that domestic investors further increased their exposure to high-risk funds last year.

A comparison of the breakdown of the mutual fund sector by fund type reveals that the domestic mutual fund sector still has a larger proportion of high-risk equity funds, and the figure has even been increasing in recent years. The figure in Slovenia was double that for euro area investment funds at the end of 2011 and 2012. Investors made net withdrawals from all types of domestic mutual fund in 2012, but balanced funds recorded the largest withdrawals, as a result of which the relative proportion of equity funds increased. Despite the rise in global stock markets, the proportion of euro area investment funds accounted for by equity funds was unchanged in 2012, and down 1 percentage point on 2009 and 2010.

The rising trend in the proportion of the mutual funds' assets under management accounted for by investments in the rest of the world continued in 2012 and the first quarter of 2013. With the exception of the five highest-profile shares, investments in domestic securities have remained unattractive because of poor corporate performance, low liquidity, the failure to reflect actual corporate value via share prices, the prevalent government interest in certain companies and the slow pace of corporate restructuring. The proportion of the domestic mutual funds' assets under management accounted for by investments in the rest of the world increased by 1 percentage point over 2012, and had increased further to 76% by March 2013. There is a trend of decline in investments in domestic securities. Only balanced funds increased their relative holdings of domestic shares during the first quarter of 2013. When high net withdrawals are being made it is more difficult to realise domestic investments quickly, as a result of which the balanced funds recorded net sales of foreign investments.

Figure 6.25: Percentage breakdown of mutual fund investments (left) and regional percentage breakdown of investments in foreign shares by the entire other financial intermediaries sector (right)



Note: BRIC: Brazil, Russia, India and China.
EU3: UK, Denmark, Sweden
EU16: euro area
Ex-YU: former Yugoslav republics

Source: SMA

The domestic mutual funds held a larger proportion of their investments in the US market than in the euro area last year.

The domestic mutual funds have long been reducing their exposure to the euro area. The euro area accounted for 24% of the domestic mutual funds' investments at the end of 2012, down 11 percentage points on mid-2009. Given the moderate recovery in the US economy, the technological and market breakthroughs by certain US companies and high growth in share prices, the mutual funds have increased their exposure to the US capital market in recent years. The domestic mutual funds held a larger proportion of their investments in the US market than in the euro area in 2012. The proportion of investments accounted for by the BRICS[1] countries declined slightly in 2012, at the expense of an increase in investments in other countries (including Turkey and Norway).

6.4 Leasing companies

The nature of leasing companies' business has an impact on the volatility of the real economy.

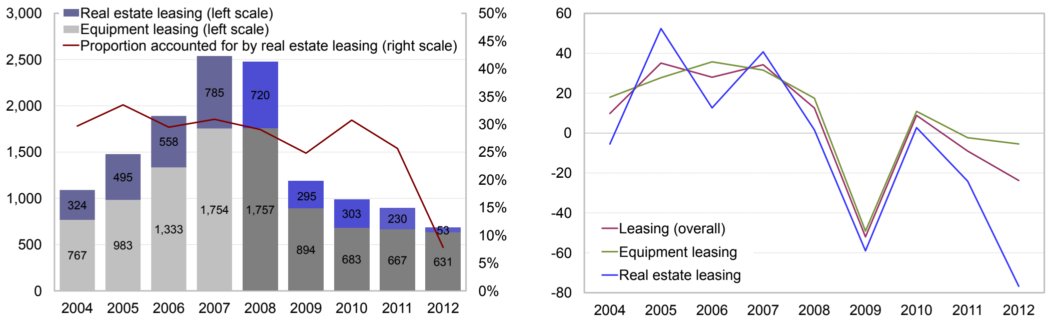
In addition to low demand, the leasing sector has faced further deteriorations in its investments and declining asset valuations, which given the high leverage entails a significant systemic risk. Leverage, which increased significantly before the crisis, causes fluctuations in business activity. The leasing sector, whose business depends strongly on borrowing, tends to rapid deleveraging during periods of low economic activity. This has an adverse impact on revenues, and increases volatility in the real economy. Divestment is being constrained by the recession and the low liquidity of the real estate market.

The stock of leasing business declined by 7% in 2012. Real estate accounts for more than half of total business.

The stock of leasing business declined, primarily as a result of a decline in new real estate business, the termination of agreements and write-offs. According to the figures of the leasing committee,[2] the stock was down 7% at the end of 2012 at EUR 3.4 billion. Equipment leasing was up 3% at EUR 1.6 billion, while real estate leasing was down 14% at EUR 1.8 billion. After the introduction of reporting to the Bank of Slovenia, which also covers non-members of the leasing committee, the stock of leasing business stood at EUR 3.9 billion at the end of the previous year. The top five companies according to the stock of business account for two-thirds of the leasing market, and more than half of real estate business.

New leasing business amounted to EUR 684 million in 2012, down just under a quarter on the previous year. Leasing companies focused primarily on equipment leasing. This accounted for 92% of new business, the largest proportion to date. The majority of new business was concluded with the private service sector.

Figure 6.26: New leasing business[3] in EUR million and the proportion accounted for by real estate leasing in percentages (left), and annual growth in new business in percentages (right)



Sources: SLA, BAS

New leasing business in 2012 was down just under a quarter on the previous year.

New equipment leasing business was down 5% in 2012, while new real estate leasing business was down 77%. Leasing companies are tied commercially to the banking system. For this reason, and their effect on the business cycle, it is important to monitor leasing companies from the point of view of financial stability and monetary policy. Slovenian banks' ownership of the leasing sector is likely to decline as a result of the restructuring of the banking sector.

Low demand brought a record low in new real estate business.

Despite a large decline in investment, there was no significant change in the breakdown of equipment financing. Cars traditionally predominate, and accounted for 65% of the total, over 20 percentage points more than the euro area average in 2011. As a result of heavy involvement in real estate business, the contraction in economic activity and declining

[1] BRICS: Brazil, Russia, India, China and South Africa.

[2] On 31 December 2012 the Bank of Slovenia began to directly obtain figures from leasing companies that cover all major companies. In order to ensure year-on-year comparability, the monitoring of new business and the dynamics of the changes in categories still refer to the figures from the BAS's leasing committee, which include the majority of leasing companies, unless stated otherwise.

[3] Leasing business is disclosed at historical cost until 2008 due to the availability of figures, and at financed value since, excluding the financing of inventories since 2010.

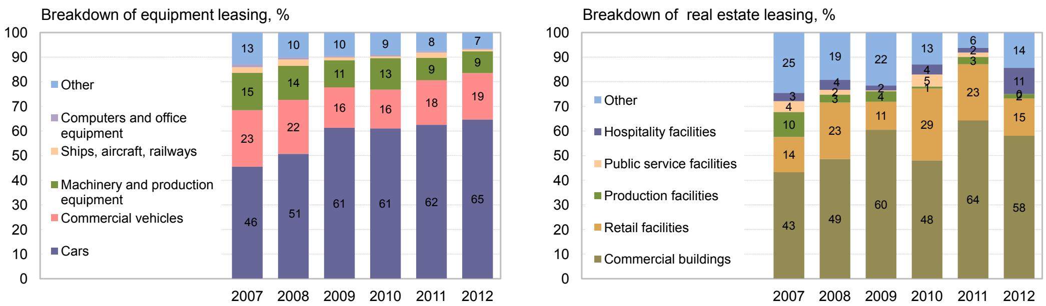
household purchasing power, the volume of real estate transactions is again expected to be low this year. Leasing companies' own investment property accounted for more than half of the value of new real estate agreements. Given the deterioration in clients' solvency, ordinary market leases are increasing in importance.

The average LTV ratio as measured by the ratio of the approved amount of financing to the value of the subject of the agreement remains high, at 79% for equipment leasing and 88% for real estate leasing. There was no significant change in the average maturity of new equipment leasing business. The majority was approved with a maturity of 10 years or less. Of this business, almost three-quarters of the agreements had a maturity of up to 5 years. The average maturity of new real estate leasing agreements lengthened slightly. Agreements with a maturity of more than 5 years accounted for 58% of the total in value terms, up 14 percentage points on the previous year.

At the end of 2012 just over half of leasing business was concluded on the basis of a transaction where the leasing company purchased the subject of the agreement for a pre-existing client; 22% of the business involved a sale by the client and a leaseback, which is typical of real estate business. Next follows business based on leasing companies' own investments (9% of the total), where investment property is prevalent, while the same percentage of leasing companies' business was based on repossessed assets. The activation of agreements in which the construction of commercial and residential buildings previously received project financing accounts for 5% of the stock of business. Leasing companies can also sell real estate as part of the ordinary business process, or can let it on the rental market.

In equipment leasing 34% of new business was concluded with private individuals, compared with 3% of real estate leasing business, which does not differ significantly from the previous year. The stock of leasing business with households amounted to EUR 813 million at the end of 2012, 20% of total business. Only 4.4% of the stock was more than 90 days in arrears. Arrears were largest in loans, which could partly be the result of the transfer of claims between related parties with ownership links.

Figure 6.27: Percentage breakdown of new business in equipment leasing (left) and real estate leasing (right)



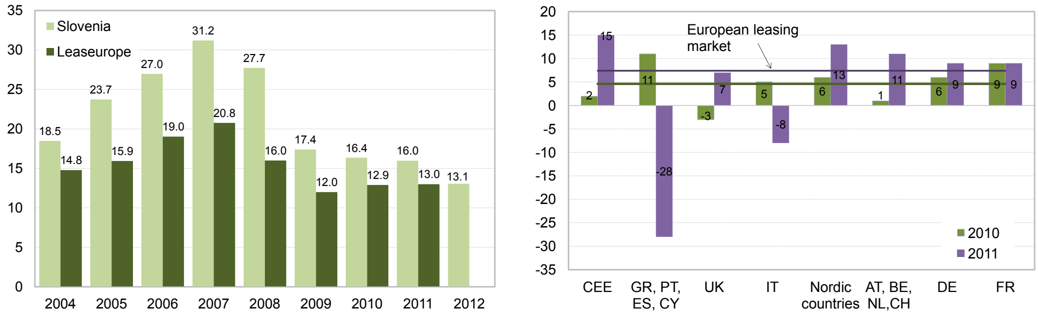
Sources: SLA, BAS

Leasing business with non-financial corporations accounts for two-thirds of leasing investments.

Two-thirds of the stock of leasing business (EUR 2.6 billion) was with non-financial corporations. Manufacturing, wholesale and retail trade, real estate activities and construction account for 74% of all leasing business. Some 8% of non-financial corporations' liabilities are more than 90 days in arrears, 4.4% in real estate leasing and 16% in equipment leasing. Construction, accommodation and food service activities, administrative and support service activities, public services and electricity supply are the sectors where more than 10% of liabilities are in arrears. Loans are notable for the proportion in arrears, for both households and non-financial corporations. Of the stock of EUR 165 million, more than half is more than 90 days in arrears.

The market value of subjects of leasing agreements repossessed for non-performance of contractual obligations amounted to EUR 169 million at the end of 2012. Real estate accounted for the majority (90%).

Figure 6.28: Ratio of leasing business to gross fixed capital formation (left) and growth in new leasing business in selected European countries (right) in percentages



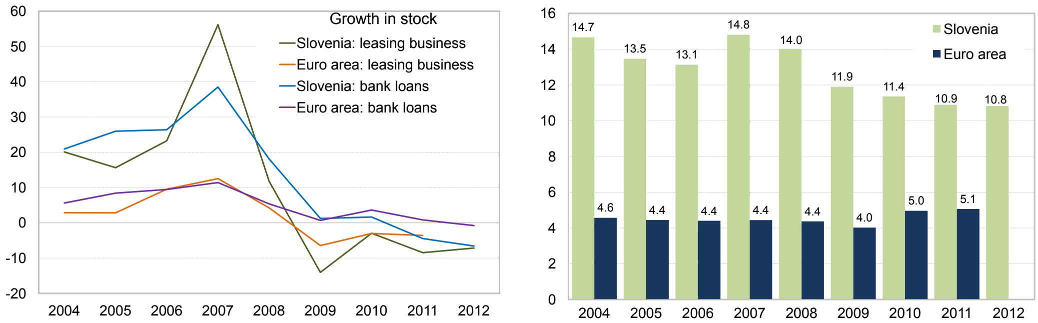
Note: Nordic countries include the Baltic States in 2011.
Sources: SLA, BAS, SORS, Leaseurope

The European leasing market increased its new business by 8% in 2011. The largest growth was recorded by eastern and northern European countries. Equipment leasing increased, while real estate leasing contracted. The initial estimates for 2012 reveal a decline of 3% in new leasing business as a result of the economic slowdown in Europe. The main factor was a large decline in real estate leasing.

Financing for investment in the economy declined from the point of view of leasing business.

According to leasing companies' turnover, the ratio of leasing business to gross fixed capital formation declined by just under 3 percentage points in 2012, thereby equalising with the European level of 2011. In the Slovenian leasing sector the proportion of financing accounted for by cars was larger than the European average, an indication of the lower support for investment in the economy. This is to be expected, given the reduced demand in the context of declining investment and given the leasing companies' lack of capital. It is primarily micro enterprises that could suffer; there are many of them in Slovenia, and they are more financially constrained than large enterprises. SMEs across Europe are more likely to finance a notable amount of investment via leasing. The ratio of leasing business to bank loans remained unchanged in 2012 at 10%, and is estimated to be double that in the euro area overall.

Figure 6.29: Growth in the stock of leasing business and bank loans to the non-banking sector (left) and ratio of leasing business to bank loans to the non-banking sector (right) in percentages



Sources: SLA, BAS, Bank of Slovenia, ECB

Performance of leasing companies

In the first three quarters of 2012 leasing companies across Europe improved their efficiency and other performance indicators in all categories other than real estate leasing, where they deteriorated slightly in the final quarter when the uncertainty in the business environment increased.[1]

Leasing companies generated a loss for the fourth consecutive year.

At Slovenian leasing companies capital is declining faster than total assets, despite recapitalisations. Several foreign leasing companies and certain leasing companies owned by Slovenian banks, which are significantly tied to the real estate market, ended 2012 with negative equity. The procyclical feedback between the leasing sector and the economy means that divestment is being additionally hindered by the recession. Impairments were created in 2012 for investments overstated in the past and investments in arrears, and also are likely to be necessary in 2013. This will increase the need for capital. There have been

[1] Source: Leaseurope.

several transfers of non-performing investments from leasing companies' balance sheets to affiliates for the purpose of streamlining or withdrawal from the sector in terms of ownership. The expected contraction in investment and other consumption expenditure will not allow for a significant increase in high-quality business in the current year, but the cleaning of leasing companies' balance sheets will continue. The leasing sector operated with a loss for the fourth consecutive year, and is likely to remain in the red in 2013.

Leasing investments are mostly based on debt funding. Banks and corporates in the group account for 94% of liabilities.

Last year leasing companies operated with record high leverage, according to which debt at the end of 2012 exceeded equity by 41 times. Growth in turnover in the past was based primarily on borrowing at companies in the same group. The latter, and the mismatching of funding and investment maturities in the adverse situation, entail a major burden on refinancing.

The proportion of leasing companies' total liabilities accounted for by domestic liabilities was unchanged at 28%, while the remaining financing is based on funding from the rest of the world, as the majority of leasing companies under foreign ownership borrow directly from related parties in the rest of the world. Slovenian banks contributed EUR 1 billion to the funding of investments, equivalent to 3% of loans to the non-banking sector. Slovenian banks' funding for leasing business in 2012 was down 5% on the average of the four previous years. This funding has declined since the outbreak of the crisis. The only exception was last year, when the stock of loans increased by 9% in year-on-year terms as a result of greater demand from leasing companies under the majority ownership of domestic banks, while the dependence of other leasing companies diminished.

Table 6.9: Performance of leasing companies and sources of funding

	2007	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Total assets, EUR million	4,748	5,620	5,663	5,427	5,088	4,842	18.4	0.8	-4.2	-6.2	-4.8
Capital, EUR million	234	267	200	205	204	114	14.2	-25.2	2.4	-0.3	-43.9
Total profit/loss, EUR million	47	29	-33	-30	-19	-121	-38.5	-215.3	-189.1	-165.2	-727.3
ROA, %	1.1	0.6	-0.6	-0.5	-0.4	-2.4					
ROE, %	21.4	11.5	-14.2	-14.6	-9.4	-76.0					
Leverage, %	19	20	27	25	24	41					
Financial and operating liabilities, EUR million	4,486	5,314	5,427	5,179	4,843	4,681	18.5	2.1	-4.6	-6.5	-3.3
liabilities to banks and companies in group / total assets, %	94	95	96	95	95	97					
Investment property, EUR million	538	560	580	836	929	1,118	4.1	3.6	44.0	11.2	20.3
investment property / assets, %	11	10	10	15	18	23					
Finance expenses from impairments and write-downs of financial assets, EUR million	2	10	120	167	127	157					

Note: The figures from financial statements cover leasing companies included in reporting to the Bank of Slovenia.

Source: AJPES

7 FINANCIAL INFRASTRUCTURE

7.1 Payment systems

TARGET2's availability in 2012 was 100%.

Given the size of its total transaction value and its role in providing liquidity for the banking system, the TARGET2-Slovenija system is an important payment system for financial stability in Slovenia. As the national component of the centralised pan-European payment system for individual (gross) settlement of euro payments in real time (TARGET2), it is operated by the Bank of Slovenia. TARGET2 is technologically set up as a single shared platform of the Eurosystem, and thus central bank oversight of the system's functioning (in the sense of monitoring, analysing and inducing change) is centralised under the aegis of the ECB. Because certain activities in the operation of this payment system are carried out at national level only, the Bank of Slovenia conducts additional oversight of the operation of the Slovenian component. TARGET2 operated without disruptions and major deviations in 2012, and its availability was 100%.

Establishment of a new solution for monitoring the operations of TARGET2-Slovenija payment system participants.

Within the framework of the TARGET2-Slovenija payment system a technological solution for the current monitoring of participants' payments via the payment system was put in place in 2012. The solution, the design of which is based on a Eurosystem proposal and the needs of the Bank of Slovenia, provides for the monitoring of payment flows and the use of liquidity in the payment system based on the balances in settlement accounts, and the identification of changes in patterns in participants' transactions that could indicate financial or operational difficulties on their part. The methodological design of the solution is based on best practices relating to the monitoring of operations in payment systems through the use of analytical and statistical methods and by accessing data in real time.

Due to the large number of transactions processed daily, the SEPA internal credit transfer (SEPA ICT) payment system operated by Bankart d.o.o. is also important for Slovenia. The system is designed to process retail credit transfers (up to EUR 50,000) in line with the rules of the single euro payments area (SEPA). It functions according to the principles of calculating an individual participant's net claims or net liabilities in the payment system vis-à-vis other participants. The Settlement Guarantee Scheme, which was set up to manage financial risk in the payment system in the event of a participant's inability to settle its liabilities, was again not activated in 2012. Certain unclear points were identified in connection with the activation of the scheme, which were eliminated via the requisite changes to the payment system's rules and procedures. In 2012 the Bank of Slovenia regularly monitored changes in the volume of payments in the SEPA ICT payment system and events that could affect the security and efficiency of the system's functioning, and took action in the event of deficiencies. It conducted on-site oversight of the functioning and operation of this payment system. No increases in risk were identified.

Table 7.1: Value and number of transactions in the TARGET2 and Giro Clearing / SEPA ICT[1] payment systems

						Year-on-year growth, %				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
TARGET2[1]										
value, EUR billion	410.35	507.62	530.11	501.0	642.3	12.5	23.7	4.4	-5.5	28.2
number of transactions, million	0.66	0.67	0.65	0.65	0.59	-9.6	1.2	-3.0	-0.2	-9.0
Giro Clearing / SEPA ICT										
value, EUR billion	49.1	44.9	45.4	46.7	52.0	7.5	-8.6	1.2	2.9	11.2
number of transactions, million	55.91	55.13	56.13	64.92	116.0	4.3	-1.4	1.8	15.7	78.6

Note: [1]Transactions between participants in the TARGET2-Slovenija system (domestic payments).
Source: Bank of Slovenia

The pronounced increase in the deposit facility was a factor in the increase in the value of transactions in the TARGET2-Slovenija system.

The TARGET2-Slovenija payment system recorded an increase in total transaction value and a fall in the number of transactions in 2012, while the SEPA ICT payment system recorded an increase in both the number and value of transactions. The total value of transactions in the TARGET2-Slovenija and SEPA ICT systems were 18.1 and 1.5 times

[1] The SEPA ICT system, which began operating on 4 March 2009, replaced the Bank of Slovenia's Giro Clearing system, while the gradual migration of payments to the new payment system took place between the establishment of the SEPA ICT system and the end of July 2009.

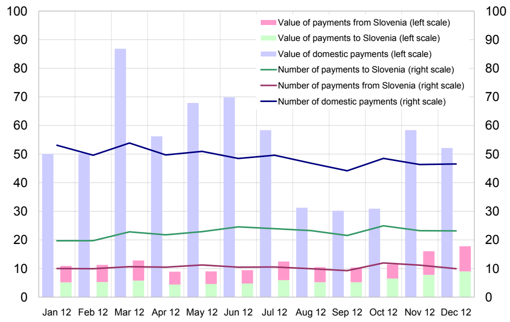
Slovenia's GDP respectively in 2012.

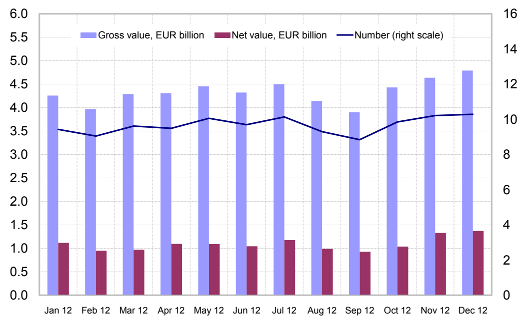
The sharp increase in the value of transactions in the TARGET2-Slovenija payment system was related to the pronounced increase in the use of the deposit facility at the ESCB in the first half of last year by participants,[1] while the fall in the number of transactions was primarily the result of a decline in payments by users of payment services via the TARGET2-Slovenija system.

The TARGET2-Slovenija system also allows for cross-border transactions and thus gives rise to the cross-border transfer of risks, although the volume of these transactions is low relative to the settlement of domestic payments. The changes in the number and value of cross-border transactions compared with 2011 were primarily linked to developments in the volume of (pure) interbank payments.

In 2012 the TARGET2-Slovenija payment system was continuously available in line with its schedule.

Figure 7.1: TARGET2-Slovenija: domestic and cross-border payments; value in EUR billion (left axis) and the number in thousand (right axis), and SEPA ICT: value in EUR billion (left axis) and the number in million (right axis)





Sources: Bank of Slovenija, Bankart d.o.o.

The main reason for the increase in the number and value of transactions in the SEPA ICT system was the migration of special payment orders to SEPA credit transfers.

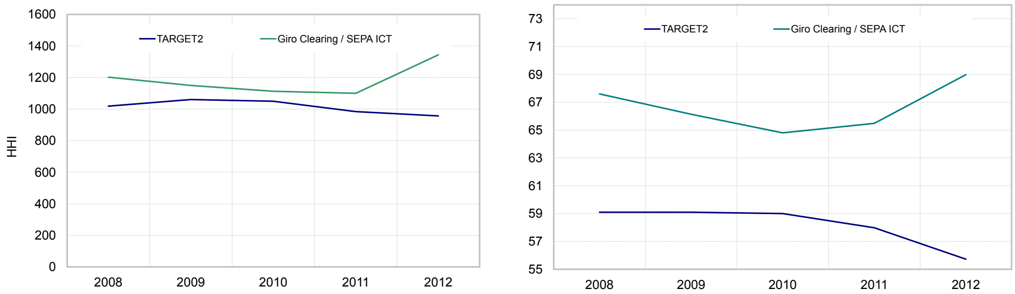
The number and value of transactions in the SEPA ICT payment system increased last year. The main factor was the migration of special payment orders and direct credits to SEPA credit transfers. The impact of the migration on the number of transactions was significantly larger than the impact on total transaction value (because of the lower average value of transactions on the basis of special payment orders previously processed at the Collection Centre relative to the average value of transactions in the SEPA ICT payment system over the same period). An additional factor in the increase in the number and value of transactions processed in the payment system was the migration of payments for pensions and similar benefits to SEPA credit transfers in November 2012. The average offsetting rate in the system was just under 75% in 2012, down 5 percentage points on 2011, when it was almost 80%. The reason for the decline in the offsetting rate was a change in the distribution of transactions processed in the system in terms of number and value between participants, as a result of individual participants' specific market shares in payments on the basis of the paper based payment orders that replaced special payment orders.

Exposure to systemic risk did not increase significantly in 2012.

The concentration of the number of transactions by participant as illustrated by the Herfindahl-Hirschman index is an indicator of systemic risk in the payment system. Concentration in the SEPA ICT payment system was significantly higher than in 2011. The main factor was the aforementioned migration of special payment orders to SEPA credit transfers, where specific system participants have specific market shares in these payments. Concentration in the TARGET2-Slovenija payment system declined minimally. Because the separation of large-value payments from retail payments allows the concentration of systemic risk in the settlement of interbank payments in the TARGET2-Slovenija payment system, the Slovenian banking system's exposure to systemic risk did not increase significantly, despite the changes in the SEPA ICT payment system.

[1] On the basis of the ECB's decision to hold a tender for 3-year loans on 29 February 2012, participants obtained additional liquid assets, which they largely placed on a daily basis in the deposit facility.

Figure 7.2: Concentration of the number of transactions in the TARGET2-Slovenija and Giro Clearing / SEPA ICT systems (Herfindahl-Hirschman Index; left) and proportion of total number of transactions accounted for by the five largest participants (excluding the Bank of Slovenia; right)



Source: Bank of Slovenia

The proportion of transactions in the TARGET2-Slovenija payment system accounted for by the five largest participants in terms of the number of transactions was down 2.26 percentage points, while the corresponding proportion was up 3.50 percentage points in the SEPA ICT system. As in the aforementioned index, the reason for the latter was the migration of special payment orders to SEPA credit transfers and the corresponding change in market shares.

7.2 Securities clearing and settlement systems

The services of securities clearing and settlement in Slovenia are provided by the Central Securities Clearing Corporation (CSCC), a systemically important institution in the post-trading segment of the securities market that provides for the issuance of securities, the management of share registers and the management of security holders' accounts. The CSCC also operates settlement systems to settle securities transactions concluded at the Ljubljana Stock Exchange, and to settle transactions concluded outside the regulated market in accordance with the principles of delivery versus payment or free of payment. The Bank of Slovenia uses the latter for collateral in Eurosystem credit operations.

In 2012 the Bank of Slovenia regularly monitored and assessed relevant changes to securities market legislation and changes to the legal and operational aspects of the functional arrangements of the CSCC, developments in and the structure of the number of transactions in the securities settlement system, and other events that could affect the functioning of the CSCC. The CSCC functioned in 2012 without notable deviations from its established schedule of operation. The guarantee fund, which the CSCC uses in the event of participants encountering liquidity problems in the settlement of stock exchange transactions, was not activated during the year.

The Bank of Slovenia monitors risk management in the securities settlement system.

On the basis of the Statute of the ESCB, all credit operations of ESCB central banks must be fully secured by means of eligible collateral. This includes securities booked and settled at the CSCC. The functioning of the CSCC is therefore important to the Bank of Slovenia owing to the use of eligible securities booked at the CSCC as collateral for the credit operations of the Bank of Slovenia and other ESCB central banks, which have access to the CSCC by means of the correspondent central banking model (CCBM). The use of CSCC services by ESCB central banks also requires the monitoring of settlement and operational risk management at the CSCC, from the point of view of the special requirements and needs of these central banks. For this reason the Bank of Slovenia periodically assesses the compliance of the CSCC's functioning with Eurosystem reference standards, in conjunction with the ECB.

The use of eligible securities as collateral for credit operations is increasing.

In 2012, Slovenian banks and savings banks pledged a monthly average of EUR 2,842.78 million in eligible domestic securities as collateral, up 49.34% on 2011. The high level of use of this form of eligible collateral (which also includes bank loans and cash deposits) is increasing: its value fluctuated in 2012 between a low of EUR 2,252.03 million in January and a high of EUR 3,076.48 million in October. Foreign banks' interest in using securities registered at the CSCC also rose in 2012. The average monthly value of Slovenian securities used as collateral for the credit operations of other ESCB central banks increased by 31.07% in 2012 to EUR 291.50 million.

STATISTICAL APPENDIX

1 Sectoral overview

Table 1.1: Inter-sector financial claims and liabilities of the institutional sectors of the Slovenian economy at the end of 2012 as a percentage of GDP

(As % GDP)	Claims						
	Domestic sectors					Rest of the world	Total
Liabilities	Corporates	Financial sector	Government	Households	Total		liabilities
Corporates	68.9	67.1	27.1	26.3	189.4	51.1	240.5
currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	
securities other than shares	0.2	1.6	0.1	0.1	2.0	0.7	
loans	11.4	60.0	0.6	2.0	74.0	18.1	
equity	36.2	4.6	22.2	20.6	83.6	18.7	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	21.0	1.0	4.2	3.6	29.8	13.6	
Financial sector	15.8	42.5	19.5	71.5	149.3	58.0	207.3
currency and deposits	10.8	9.7	11.6	51.4	83.6	20.7	
securities other than shares	0.2	3.5	0.2	0.2	4.2	3.8	
loans	0.3	23.8	1.1	0.1	25.3	26.9	
equity	2.6	4.5	6.4	7.1	20.6	5.5	
insurance technical provisions	1.2	0.6	0.0	12.2	14.0	0.7	
other	0.7	0.3	0.2	0.4	1.7	0.4	
Government	4.0	20.9	10.3	2.5	37.7	33.3	71.0
currency and deposits	0.1	0.0	5.0	0.1	5.2	0.0	
securities other than shares	0.1	15.4	0.5	0.6	16.6	29.7	
loans	0.5	5.2	0.3	0.0	6.0	2.4	
equity	0.1	0.0	2.1	0.0	2.2	0.0	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	3.2	0.3	2.4	1.8	7.7	1.2	
Households	3.3	29.6	1.2	0.0	34.1	0.0	34.1
currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	
securities other than shares	0.0	0.0	0.0	0.0	0.0	0.0	
loans	0.8	29.0	0.2	0.0	30.0	0.0	
equity	0.0	0.0	0.0	0.0	0.0	0.0	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	2.5	0.7	1.0	0.0	4.1	0.0	
Total	92.1	160.3	58.1	100.3	410.9	142.5	553.4
currency and deposits	10.9	9.7	16.6	51.6	88.8	20.7	
securities other than shares	0.6	20.5	0.8	0.9	22.7	34.3	
loans	13.1	118.2	2.2	2.1	135.5	47.4	
equity	38.9	9.1	30.7	27.8	106.4	24.1	
insurance technical provisions	1.2	0.6	0.0	12.2	14.0	0.7	
other	27.5	2.3	7.8	5.8	43.4	15.3	
Rest of the world	29.0	56.0	4.9	4.3	94.2		94.2
currency and deposits	0.6	13.2	0.0	2.7	16.5		
securities other than shares	0.1	25.9	0.7	0.2	26.8		
loans	4.7	8.7	2.7	0.0	16.2		
equity	9.0	7.7	1.2	1.1	18.9		
insurance technical provisions	0.0	0.1	0.0	0.3	0.4		
other	14.5	0.5	0.3	0.0	15.4		
Total claims	121.1	216.3	63.1	104.5	505.1	142.5	647.6

Note: The table is based on financial accounts compiled by the Bank of Slovenia. The unconsolidated figures have been restructured into the form of a matrix with the aim of illustrating the underlying mutual financial ties between domestic institutional sectors and the rest of the world.

Source: Bank of Slovenia

Table 1.2: Inter-sector financial claims and liabilities of the institutional sectors of the Slovenian economy at the end of 2011 as a percentage of GDP

(As % GDP)	Claims						
	Domestic sectors					Rest of the world	Total
Liabilities	Corporates	Financial sector	Government	Households	Total		liabilities
Corporates	69.3	70.6	26.6	25.8	192.4	49.0	241.4
currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	
securities other than shares	0.3	1.5	0.1	0.1	1.9	0.7	
loans	12.3	63.4	0.5	1.8	78.1	17.1	
equity	35.6	4.6	21.5	20.1	81.8	17.9	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	21.2	1.1	4.5	3.8	30.6	13.3	
Financial sector	16.7	37.4	18.5	69.7	142.3	62.6	204.9
currency and deposits	11.0	9.9	12.0	50.6	83.5	17.6	
securities other than shares	0.3	4.0	0.2	0.2	4.8	8.1	
loans	0.3	18.1	0.1	0.1	18.7	30.6	
equity	2.9	4.5	5.9	6.7	20.1	5.5	
insurance technical provisions	1.2	0.6	0.0	11.6	13.5	0.5	
other	0.9	0.2	0.2	0.4	1.7	0.3	
Government	4.0	18.0	12.5	2.8	37.2	26.2	63.4
currency and deposits	0.1	0.0	7.2	0.1	7.5	0.0	
securities other than shares	0.2	13.9	0.3	0.8	15.1	24.4	
loans	0.5	3.7	0.2	0.0	4.5	0.7	
equity	0.1	0.0	2.1	0.0	2.2	0.0	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	3.1	0.3	2.7	1.8	7.9	1.2	
Households	3.4	29.8	1.2	0.0	34.4	0.0	34.4
currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	
securities other than shares	0.0	0.0	0.0	0.0	0.0	0.0	
loans	0.9	29.1	0.2	0.0	30.2	0.0	
equity	0.0	0.0	0.0	0.0	0.0	0.0	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	2.4	0.7	0.9	0.0	4.1	0.0	
Total	93.4	156.0	59.0	98.3	406.6	137.8	544.4
currency and deposits	11.1	9.9	19.2	50.8	91.0	17.6	
securities other than shares	0.7	19.4	0.6	1.1	21.8	33.1	
loans	14.1	114.5	1.2	1.9	131.8	48.4	
equity	38.6	9.2	29.5	26.8	104.1	23.4	
insurance technical provisions	1.2	0.6	0.0	11.6	13.5	0.5	
other	27.7	2.4	8.4	6.0	44.5	14.8	
Rest of the world	29.9	55.1	2.3	4.9	92.3		92.3
currency and deposits	0.5	12.8	0.0	3.5	16.8		
securities other than shares	0.2	25.7	0.3	0.2	26.3		
loans	5.1	9.4	0.9	0.0	15.4		
equity	9.0	6.9	0.7	1.0	17.7		
insurance technical provisions	0.0	0.0	0.0	0.3	0.3		
other	15.2	0.3	0.4	0.0	15.8		
Total claims	123.3	211.1	61.3	103.2	498.9	137.8	636.7

Note: The table is based on financial accounts compiled by the Bank of Slovenia. The unconsolidated figures have been restructured into the form of a matrix with the aim of illustrating the underlying mutual financial ties between domestic institutional sectors and the rest of the world.

Source: Bank of Slovenia

Table 1.3: Inter-sector financial claims and liabilities of the institutional sectors of the Slovenian economy at the end of 2010 as a percentage of GDP

(As % GDP)	Claims						
	Domestic sectors					Rest of the world	Total
Liabilities	Corporates	Financial sector	Government	Households	Total		liabilities
Corporates	72.4	75.5	27.8	30.0	205.7	46.6	252.2
currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	
securities other than shares	0.3	1.7	0.1	0.1	2.2	0.7	
loans	10.1	66.9	0.4	2.5	79.9	14.4	
equity	37.8	5.6	22.5	22.9	88.7	18.6	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	24.2	1.3	4.8	4.4	34.9	12.8	
Financial sector	18.0	36.9	16.6	70.1	141.6	69.2	210.8
currency and deposits	11.3	9.7	9.8	49.9	80.7	19.1	
securities other than shares	0.3	6.0	0.3	0.2	6.8	8.6	
loans	0.4	15.0	0.0	0.1	15.6	35.3	
equity	4.0	5.4	6.1	7.6	23.1	5.6	
insurance technical provisions	1.2	0.6	0.0	11.9	13.8	0.3	
other	0.7	0.2	0.4	0.4	1.7	0.3	
Government	3.3	16.2	9.3	2.8	31.6	24.8	56.4
currency and deposits	0.1	0.0	5.2	0.1	5.5	0.0	
securities other than shares	0.2	12.3	0.4	0.8	13.6	23.2	
loans	0.1	3.6	0.2	0.0	3.9	0.5	
equity	0.0	0.0	2.1	0.0	2.1	0.0	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	3.0	0.3	1.4	1.8	6.5	1.2	
Households	3.7	30.1	1.2	0.0	35.0	0.0	35.0
currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	
securities other than shares	0.0	0.0	0.0	0.0	0.0	0.0	
loans	1.1	29.2	0.3	0.0	30.6	0.0	
equity	0.0	0.0	0.0	0.0	0.0	0.0	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	2.6	0.8	1.0	0.0	4.4	0.0	
Total	97.6	158.7	55.1	102.8	414.3	140.6	554.9
currency and deposits	11.4	9.7	15.0	50.0	86.2	19.1	
securities other than shares	0.8	19.9	0.8	1.1	22.6	32.5	
loans	11.7	115.0	1.0	2.6	130.3	50.2	
equity	41.8	10.9	30.7	30.5	113.9	24.2	
insurance technical provisions	1.2	0.6	0.0	11.9	13.8	0.3	
other	30.6	2.6	7.6	6.7	47.6	14.3	
Rest of the world	30.4	56.5	2.0	5.4	94.2		94.2
currency and deposits	0.4	12.5	0.0	3.5	16.3		
securities other than shares	0.2	26.0	0.4	0.2	26.8		
loans	5.2	9.8	0.3	0.0	15.4		
equity	9.3	8.0	0.9	1.4	19.6		
insurance technical provisions	0.0	0.0	0.0	0.3	0.3		
other	15.3	0.2	0.3	0.0	15.9		
Total claims	128.0	215.3	57.1	108.2	508.6	140.6	649.2

Note: The table is based on financial accounts compiled by the Bank of Slovenia. The unconsolidated figures have been restructured into the form of a matrix with the aim of illustrating the underlying mutual financial ties between domestic institutional sectors and the rest of the world.

Source: Bank of Slovenia

2 Household sector

Table 2.1: Household loans at banks

	2006	2007	2008	2009	2010	2011	2012	Feb 2013
Loans, EUR million	5,385	6,847	7,874	8,436	9,282	9,453	9,267	9,160
Housing	1,958	2,674	3,408	3,939	4,837	5,164	5,259	5,238
Consumer	2,286	2,746	2,886	2,904	2,833	2,722	2,482	2,435
Other	1,141	1,426	1,580	1,593	1,612	1,568	1,526	1,487
Loans, as % GDP	17.3	19.8	21.1	23.7	26.1	26.1	26.1	
Housing	6.3	7.7	9.1	11.1	13.6	14.3	14.8	
Consumer	7.4	7.9	7.7	8.2	8.0	7.5	7.0	
Other	3.7	4.1	4.2	4.5	4.5	4.3	4.3	
Annual increase, EUR million	1,176.7	1,461.7	1,027.1	562.7	845.7	171	-187	-231
Housing	590.6	716.6	733.8	531.6	897.7	326	95	54
Consumer	321.0	459.6	139.8	18.3	-70.9	-110	-241	-234
Other	265.1	285.5	153.6	12.8	19.0	-45	-41	-51
Annual growth, %	28.0	27.1	15.0	7.1	10.0	1.8	-2.0	-2.5
Housing	43.2	36.6	27.4	15.6	22.8	6.7	1.8	1.0
Consumer	16.3	20.1	5.1	0.6	-2.4	-3.9	-8.8	-8.8
Other	30.3	25.0	10.8	0.8	1.2	-2.8	-2.6	-3.3
New loans, EUR million	2,721	3,516	3,264	3,015	3,057	2,363	1,942	245
Housing	822	1,028	1,007	963	1,211	905	694	85
Consumer	1,502	1,909	1,718	1,517	1,284	1,064	903	128
short-term	186	407	378	294	199	179	170	19
long-term	1,316	1,502	1,341	1,223	1,085	885	733	109
Other	398	579	539	536	563	393	344	32

Note: The bank figures shown are statistical figures, not book-keeping figures. The values are therefore comparatively higher. The figures for February 2013 refer to the first two months of the year alone.
Source: Bank of Slovenia

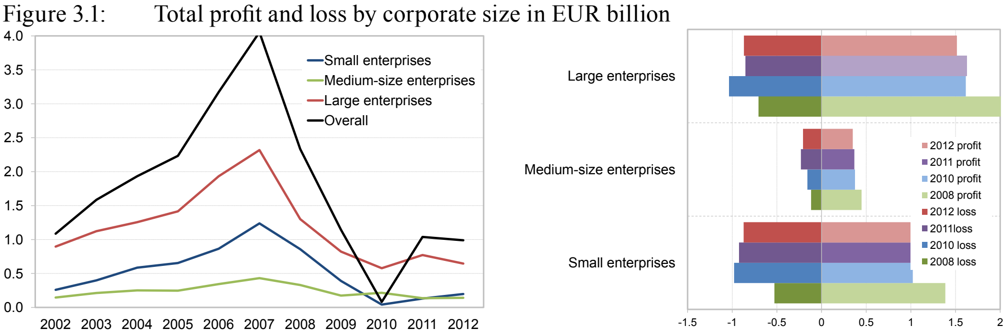
Table 2.2: Completed dwellings, building permits issued and gross investment in residential buildings

	2006	2007	2008	2009	2010	2011	2012
Estimate of housing stock							
Number of dwellings	757,522	765,552	775,199	783,404	789,501	794,670	
Number of dwelling per 1,000 inhabitants	377	378	381	385	385	387	
New-build, including extensions and change of purpose							
Number of new dwellings	7,538	8,357	9,971	8,561	6,352	5,467	
Number of new dwellings per 1,000 inhabitants	3.7	4.1	4.9	4.2	3.1	2.7	
Floor area (m	860,537	928,941	1,100,436	980,980	821,760	725,971	
Issued building permits							
Number of dwellings	8,463	10,204	8,376	5,914	4,808	3,749	3,136
growth, %	17.0	20.6	-17.9	-29.4	-18.7	-22.0	-16.4
Floor area (m	1,028,024	1,127,420	970,034	736,335	597,600	500,522	435,719
Supply of Housing Fund of the Republic of Slovenia (HFRS)							
Number of dwellings delivered to market	453	685	35	120	51	2	0
proportion of new dwellings, %	6.0	8.2	0.4	1.4	0.8	0.0	
Gross investment in residential construction							
Growth, %	14.6	19.9	18.0	-19.8	-17.9	-5.4	-14.9
As % of GDP	3.7	3.9	4.2	4.6	3.9	3.2	3.0
Growth, %							
Construction costs - new-build housing[2]	9.3	4.4	4.7	-4.0	7.3	0.6	-0.3
material costs	5.6	5.4	3.2	-3.6	6.7	3.9	0.9
labour costs	13.9	4.0	7.6	-4.7	6.5	-2.9	-1.9

Notes: [1]Housing stock includes inhabited dwellings and temporarily vacant dwellings fit for permanent use.
[2]Costs of construction, finishing work and installation work on new-build housing, excluding land costs. The figures for 2011 are for the third quarter.
Sources: SORS, NHF, Bank of Slovenia calculations

3 Corporate sector

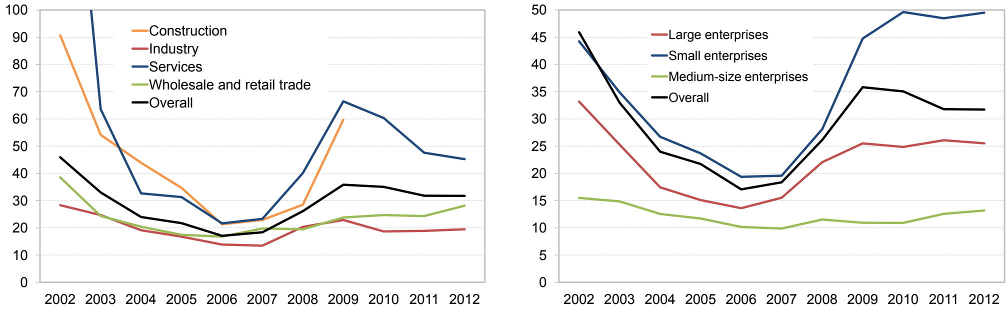
Figure 3.1: Total profit and loss by corporate size in EUR billion



Note: According to the Companies Act, small enterprises are defined as corporates that meet two of the three following criteria: an average headcount during the financial year of no more than 50, net sales revenues of no more than EUR 7.3 million and assets of no more than EUR 3.65 million; while medium-size enterprises are defined by the following criteria: an average headcount during the financial year of no more than 250, net sales revenues of no more than EUR 29.2 million and assets of no more than EUR 14.6 million.

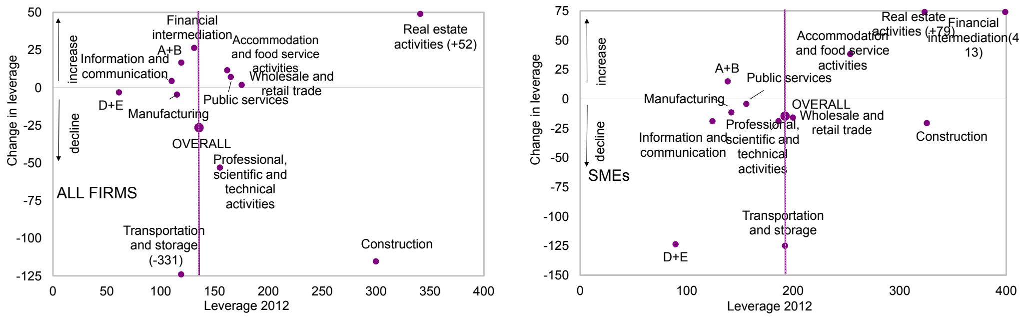
Sources: AJPES, Bank of Slovenia

Figure 3.2: Percentage ratio of interest expenses to EBIT by sector (left) and corporate size (right)



Sources: AJPES, Bank of Slovenia

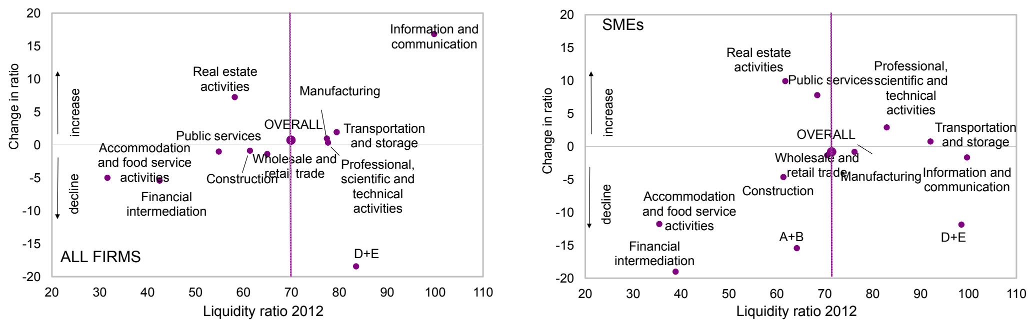
Figure 3.3: Leverage at year end 2012 by sector and change in the last three years in percentage points



Note: A+B: agriculture, forestry, fishing, mining and quarrying; D+E: electricity, gas, water supply and remediation activities. Leverage is calculated as the percentage debt-to-equity ratio.

Sources: AJPES, Bank of Slovenia

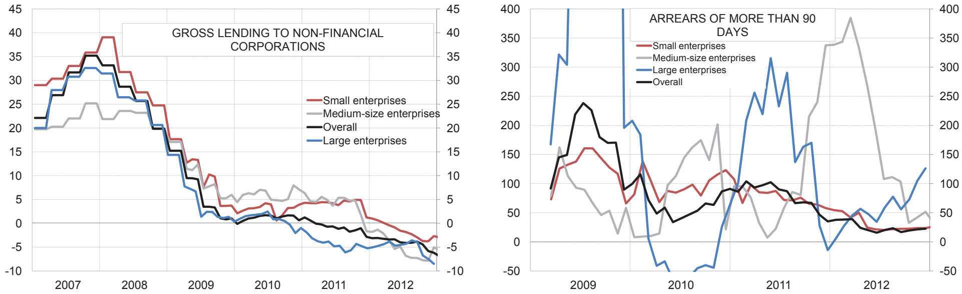
Figure 3.4: Liquidity ratios at year end 2012 by sector and change in the last three years in percentage points



Note: A+B: agriculture, forestry, fishing, mining and quarrying; D+E: electricity, gas, water supply and remediation activities.

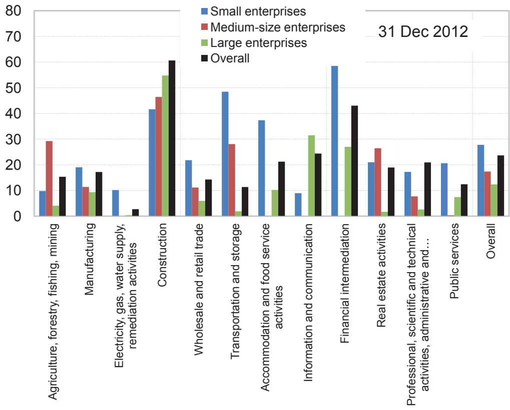
Sources: AJPES, Bank of Slovenia

Figure 3.5: Year-on-year growth in loans (left) and year-on-year growth in arrears of more than 90 days (right) by corporate size in percentages



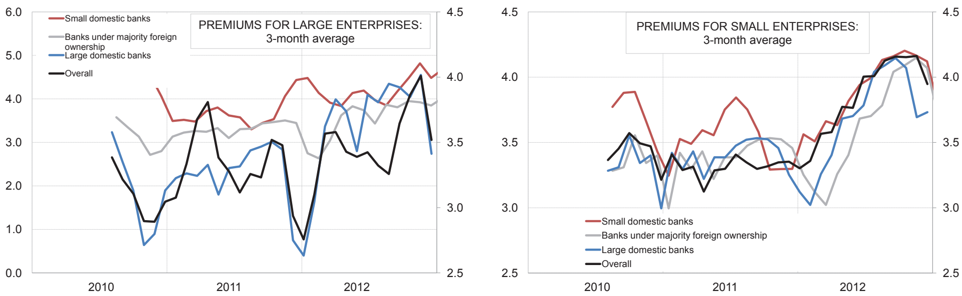
Source: Bank of Slovenia

Figure 3.6: Proportion of classified claims more than 90 days in arrears by sector and corporate size as at 31 December 2012



Note: Overall includes wound-up firms and firms undergoing bankruptcy and liquidation proceedings.
Source: Bank of Slovenia

Figure 3.7: Premiums for large and small enterprises by bank group in percentages



Source: Bank of Slovenia
[1] Increases and breakdown of the stock of loans from banks by sector in EUR million and in percentages
Note: The purchase of claims from subsidiary banks in the rest of the world by parent banks in Slovenia was an additional factor in the increase in loans.
Source: Bank of Slovenia

Table 3.1: Increases and breakdown of the stock of loans from banks by sector in EUR million and in percentages

	Manu-facturing	Electricity, gas, water supply, remediation activities	Con-struction	Whole-sale and retail trade	Tran-sporta-tion and storage	Accom-modation and food service activities	Informa-tion and commu-nication	Finan-cial and insu-rance activities	Real estate activi-ties	Professional, scien-tific and technical activities, admini-strative and support service activities	Public servi-ces	Non-fi-nancial corpo-rations overall
2007	7,194.0	1,809.0	6,195.0	7,049.0	3,617.0	781.0	1,537.0	7,382.0	2,924.0	5,532.0	824.0	45,107.0
2008	9,640.0	663.0	4,058.0	7,154.0	3,293.0	1,268.0	218.0	2,528.0	2,488.0	1,463.0	1,039.0	34,398.0
2009	786.0	911.0	2,135.0	-1,806.0	1,871.0	807.0	189.0	-4,652.0	215.0	1,116.0	410.0	2,162.0
2010	379.0	437.0	2,341.0	-70.0	751.0	322.0	-132.0	-2,412.0	-198.0	-468.0	320.0	1,371.0
2011	-2,914.0	521.0	981.0	-2,073.0	-212.0	-41.0	-658.0	-287.0	-67.0	-1,466.0	-18.0	-5,999.0
2012	-3,803.0	1,950.0	-1,069.0	-4,213.0	-2,180.0	-151.0	54.0	-1,021.0	-472.0	-1,624.0	-183.0	-12,710.0
	Breakdown of stock of loans by sector, non-financial corporations = 100											
Dec/ 07	26.8	2.7	9.3	19.7	8.4	2.5	2.7	10.6	5.1	9.7	1.5	100.0
Dec/ 12	26.2	4.7	12.7	17.2	9.4	3.4	2.2	6.5	5.6	8.3	2.2	100.0

Note: The purchase of claims from subsidiary banks in the rest of the world by parent banks in Slovenia was an additional factor in the increase in loans.
Source: Bank of Slovenia

Table 3.2: Proportion of new corporate loans accounted for by renewals of maturing loans in percentages

Loan maturity		Manu-facturing	Electricity, gas, water supply, re-mediation activities	Con-struction	Whole-sale and retail trade	Tran-sporta-tion and storage	Accom-modation and food service activities	Informa-tion and commu-nication	Finan-cial and insu-rance activities	Real estate activi-ties	Professional, scientific and technical activi-ties, administra-tive and support service activities	Non-fi-nancial corpo-rations overall
Long-term	2011	40.4	15.3	30.8	33.3	39.2	15.7	20.5	23.1	50.8	24.4	35.1
	2012	24.6	22.4	50.2	35.4	43.3	40.1	18.9	58.2	65.8	42.3	36.7
	change	*-15.8*	7.1	19.5	2.1	4.1	24.3	-1.6	35.1	14.9	*17.9*	*1.6*
Short-term	2011	45.0	19.9	65.5	23.3	45.9	78.3	53.2	69.3	73.0	60.3	46.6
	2012	49.9	7.5	80.4	26.2	47.9	44.0	25.0	59.8	76.7	45.9	45.8
	change	*4.9*	*-12.4*	*14.9*	*2.9*	*2.1*	*-34.2*	*-28.2*	*-9.5*	*3.7*	*-14.5*	*-0.8*
Total	2011	43.0	17.9	58.6	26.1	41.3	47.9	38.1	62.6	64.5	50.7	42.7
	2012	43.7	22.6	68.5	26.8	41.5	56.9	27.3	61.3	68.7	54.9	44.5
	change	*0.7*	*4.8*	*9.9*	*0.7*	*0.2*	*9.1*	*-10.8*	*-1.3*	*4.1*	*4.2*	*1.9*

Note: Loan maturity relates to the maturity of the renewal, and not to the original maturity.
Source: Bank of Slovenia

Table 3.3: Average ratio of non-current liabilities to EBITDA at corporates by sector

	2007	2008	2009	2010	2011	2012
Agriculture, forestry, fishing, mining	1.99	2.74	2.96	2.61	3.08	3.00
Manufacturing	1.30	1.47	1.92	1.76	1.67	1.65
Electricity, gas, water supply, remediation activities	3.73	3.63	3.67	1.54	1.98	2.09
Construction	2.39	2.13	3.42	5.59	5.52	4.08
Wholesale and retail trade	2.09	1.95	2.51	2.61	3.14	3.22
Transportation and storage	14.34	14.77	19.49	7.00	6.05	6.01
Accommodation and food service activities	4.34	5.57	6.66	7.57	6.51	5.97
Information and communication	1.46	1.34	2.28	1.96	1.79	1.84
Financial intermediation	28.77	16.81	17.36	41.87	17.05	18.05
Real estate activities	6.94	7.61	9.49	8.95	9.98	10.79
Professional, scientific and technical activities, administrative and support service activities	4.34	4.14	4.23	4.79	4.71	4.32
Public services	2.84	3.56	4.18	3.36	3.41	3.49
Overall	**3.1**	**3.2**	**4.1**	**3.4**	**3.3**	**3.2**

Sources: AJPES, Bank of Slovenia

Table 3.4: Breakdown of non-financial corporations by ratio of non-current liabilities to EBITDA in percentages

	EBITDA<=0	Ratio below 5	Ratio above 5	Total
	Proportion of total assets, %			
2007	13.7	64.4	21.9	100.0
2010	13.3	62.0	24.7	100.0
2011	13.1	59.4	27.5	100.0
2012	12.5	60.6	26.9	100.0
	Proportion of number of non-financial corporations, %			
2007	32.8	60.0	7.1	100.0
2010	39.5	52.6	7.9	100.0
2011	38.7	53.5	7.8	100.0
2012	38.8	53.4	7.9	100.0

Note: Includes all firms with non-zero EBITDA. The indicator is calculated solely for firms whose EBITDA is greater than zero, dividing them into those whose ratio is more than 5 and those whose ratio is less than 5.
Source: AJPES, Bank of Slovenia

Table 3.5: Arrears of more than 90 days in the banks' classified claims against non-financial corporations by sector

	Number of corporates in arrears,	Proportion of banks' classified claims against sector in arrears, %			
		total	of which more than 90 days in arrears		
	Mar13	Mar 13	Dec 11	Dec 12	Mar 13
Agriculture, forestry, fishing, mining	52	19.5	9.4	15.6	6.8
Manufacturing	995	28.4	11.4	17.4	17.2
Electricity, gas, water supply, remediation activities	69	10.0	2.2	2.8	4.0
Construction	1140	68.7	50.1	60.7	62.7
Wholesale and retail trade	1519	29.4	11.8	14.5	15.9
Transportation and storage	395	14.9	11.4	11.7	11.3
Accommodation and food service activities	344	45.9	14.7	21.3	24.9
Information and communication	220	33.9	25.5	24.4	25.3
Financial intermediation	57	60.9	22.5	43.4	38.5
Real estate activities	208	30.0	16.9	19.9	20.8
Professional, scientific and technical activities, administrative and support service activities	897	31.3	19.1	21.0	22.3
Public services	197	19.0	5.0	12.5	11.9
Overall	6,093	34.6	18.5	24.0	24.3

Note: Includes firms in bankruptcy.
Source: Bank of Slovenia

Table 3.6: Corporate loans[1] and deposits at banks, stock at year end in EUR million and percentages

	Corporate debt at banks		Corporate	Net corporate debt at banks		
	Corporate loans, stock		deposits			
	(EUR million)	as % GDP	(EUR million)	(EUR million)	LTD ratio	as % GDP
	(1)	(2) = (1)/BDP	(3)	(4) = (1-3)	(5) = (1/3)	(6) = (4)/BDP
2008	21,010.7	57.9	3,711.8	17,298.8	5.7	47.7
2009	21,211.3	60.8	3,825.5	17,385.9	5.5	49.9
2010	21,282.9	60.8	4,032.7	17,250.2	5.3	49.2
2011	20,430.1	57.3	4,030.5	16,399.6	5.1	46.0
2012	19,038.3	53.9	3,675.9	15,362.3	5.2	43.5

Note: [1] Loans are shown as gross amounts, excluding impairments.
Source: Bank of Slovenia

4 Slovenian financial system

Table 4.1: Structure of the financial system

	Total assets, EUR million		Structure, %		As % GDP		No. of institutions	
	2011	2012	2011	2012	2011	2012	2011	2012
Monetary financial institutions[1]	48,592	45,460	76.1	74.8	134.3	128.2	25	23
banks	48,097	44,893	75.4	73.8	133.0	126.6	22	20
privately owned	36,468	34,621	57.1	57.0	100.8	97.6	-	-
domestic	18,134	17,210	28.4	28.3	50.1	48.5	-	-
foreign	18,334	17,411	28.7	28.6	50.7	49.1	-	-
directly government-owned	11,629	10,271	18.2	16.9	32.1	29.0	-	-
savings banks	495	567	0.8	0.9	1.4	1.6	3	3
NMFIs	15,223	15,331	23.9	25.2	42.1	43.2	-	-
insurers[2]	6,108	6,762	9.6	11.1	16.9	19.1	17	17
pension funds[3]	1,518	1,491	2.4	2.5	4.2	4.2	10	10
investment funds	1,816	1,835	2.8	3.0	5.0	5.2	139	134
leasing companies[4]	5,277	4,817	8.3	7.9	14.6	13.6	21	21
BHs, MCs and others[4]	504	426	0.8	0.7	1.4	1.2	-	-
Total	63,814	60,791	100.0	100.0	176.4	171.4	-	-

Notes: Figures for financial institutions that are not banks, insurers, pension companies or pension and investment funds are obtained from the AJPES database of annual accounts based on the SKD 2008 classification. The figures for leasing companies include all companies included under financial leasing, activity code K64.91, according to the SKD 2008.
[1] Monetary financial institutions do not include the central bank.2 The figures for the total assets of reinsurance companies are for the end of the third quarter of 2012. 3 The First Pension Fund is included among pension funds. 4 Total assets in 2012 according to the figures for the end of 2011.

Sources: Bank of Slovenia, ISA, SMA, AJPES, BAS

Table 4.2: Market concentration of individual types of financial institution

		Banks		Insurers		Pension funds		Investment funds		Leasing companies	
		2010	2012	2010	2012	2010	2012	2010	2012	2010	2012
HHI	all institutions	1,110	1,055	2,157	1,869	2,217	2,537	447	452	1,363	1,217
	five largest	966	897	2,076	1,769	2,207	2,527	369	377	1,206	1,041
Share, %	five largest	59	57	74	69	94	94	37	36	68	69
	largest	26	25	42	39	35	42	16	17	29	22

Note: The Herfindahl-Hirschman Index (HHI) is calculated in terms of total assets, with the exception of leasing companies, for which it is calculated in terms of volume of business. The figures for pension funds do not include the First Pension Fund, which is a closed pension fund that does not envisage further inflows.

Sources: Bank of Slovenia, ISA, SMA, AJPES, BAS

Table 4.3: Financial indicators for individual types of financial institution

	2008	2009	2010	2011	2012
	Pre-tax profit, EUR million				
Banks	514.2	306.3	160.5	-101.2	-471.0
Insurers[1]	-2.8	17.7	91.1	110.9	127.2
Leasing companies	28.8	-33.3	-29.6	-19.3	-121.1
Management companies	34.6	21.3	6.5	-6.0	
	ROA, %				
Banks	0.67	0.32	-0.19	-1.06	-1.59
Insurers[1]	-0.06	0.33	1.56	1.80	1.95
Leasing companies	0.56	-0.59	-0.53	-0.37	-2.44
Management companies	15.98	9.83	4.33	-4.91	
	ROE, %				
Banks	8.15	3.87	-2.30	-12.54	-18.90
Insurers[1]	-0.28	1.85	8.86	9.76	9.82
Leasing companies	11.51	-14.24	-14.64	-9.44	-76.01
Management companies	23.01	15.15	7.74	-8.86	

Note: [1]Net profit for the accounting period (profit after tax) is taken into account for insurance companies and reinsurance companies. The 2012 figures for reinsurance companies are for the first three quarters of 2012.
The figures for leasing companies include companies whose core activity is the provision of leasing business.

Sources: Bank of Slovenia, ISA, AJPES

Table 4.4: Direct ownership structure of the Slovenian financial system (shares valued at market price or book value) in percentages

ISSUERS / HOLDERS	Ownership structure, %				
	Banks	Other financial intermediaries	Insurance corporations and pension funds	Corporates	Total
2008					
Non-financial corporations	24	31	19	39	35
Banks	5	4	11	3	4
Other financial intermediaries	5	19	4	8	8
Insurance corporations and pension funds	5	4	15	1	3
Government	21	1	31	19	19
Households	3	25	5	15	13
Rest of the world	38	13	15	13	17
Other	0	3	0	1	1
Total	100	100	100	100	100
2009					
Non-financial corporations	16	27	19	37	31
Banks	20	6	11	6	9
Other financial intermediaries	5	20	4	7	7
Insurance corporations and pension funds	9	5	12	2	5
Government	19	1	35	20	20
Households	3	29	6	16	13
Rest of the world	28	12	12	12	16
Other	0	0	0	0	0
Total	100	100	100	100	100
2010					
Non-financial corporations	16	33	19	31	27
Banks	20	5	13	5	9
Other financial intermediaries	4	19	3	6	6
Insurance corporations and pension funds	9	6	14	2	4
Government	19	1	29	30	26
Households	3	24	5	14	11
Rest of the world	28	12	16	12	16
Other	0	0	1	0	0
Total	100	100	100	100	100
2011					
Non-financial corporations	16	23	17	29	25
Banks	11	0	12	5	6
Other financial intermediaries	4	17	2	5	5
Insurance corporations and pension funds	8	13	15	3	5
Government	22	1	34	31	29
Households	3	14	3	14	11
Rest of the world	35	33	15	14	19
Other	2	0	2	1	1
Total	100	100	100	100	100
2012					
Non-financial corporations	14	34	15	27	24
Banks	10	0	11	4	6
Other financial intermediaries	3	15	2	5	4
Insurance corporations and pension funds	8	14	15	3	5
Government	23	1	37	33	30
Households	3	10	4	14	11
Rest of the world	39	26	15	13	19
Other	1	0	1	0	0
Total	100	100	100	100	100

Sources: CSCC, Bank of Slovenia calculations

Table 4.5: Investment links between Slovenian financial institutions

	2006	2008	2011	2012		2006	2008	2011	2012
	Domestic banks' exposure to[1]								
	other financial intermediaries (S.123)					insurance corporations and pension funds (S.125)			
Value, EUR million	1,415	2,501	2,060	1,961	0	61	164	140	144
banks' investments in DS[3]	14	0	0	0	0.0	14	18	9	9
bank loans granted	1,151	2,328	1,899	1,825	0	0	53	18	7
banks' equity investments	250	173	161	136	0.0	47	93	113	128
As % of									
banks' total financial assets	4.1	5.1	4.0	3.9	0	0.2	0.3	0.3	0.3
banks' investments in DS	0.2	0.0	0.0	0.0	0	0.2	0.3	0.1	0.1
bank loans granted	5.4	6.4	4.9	4.8	0	0.0	0.1	0.0	0.0
banks' capital investments	15.8	11.0	10.4	9.1	0	3.0	5.9	7.3	8.6
	Exposure to domestic banks at[2]								
	other financial intermediaries (S.123)					insurance corporations and pension funds (S.125)			
Value, EUR million	698	602	406	417	0	825	1,286	1,776	1,467
investments in bank deposits	506	320	244	283	0	404	685	1,147	900
investments in bank DS	139	104	53	48	0	338	421	540	494
investments in bank equity	53	178	109	86	0	83	180	89	73
As % of									
sector's total financial assets	8.3	6.6	5.6	6.1	0	17.0	21.8	23.6	18.1
investments in bank deposits	100.0	98.2	94.2	61.8	0	98.3	98.0	99.8	99.8
investments in bank DS	33.3	38.5	20.4	18.5	0	12.0	12.7	13.9	11.3
investments in bank equity	1.6	6.2	4.9	4.0	0	6.9	13.4	4.8	3.5

Notes: The table shows the investment links between the banking sector, and both the sector of other financial intermediaries (including investment funds and leasing companies) and the sector of insurance corporations and pension funds.

[1]Investments by domestic banks in the other two sectors via equity, debt securities and loans granted. The proportion of total bank financial assets accounted for by the aforementioned investments, and the ratio of exposure to the two aforementioned sectors via a particular instrument to the total value of the instrument are also illustrated.

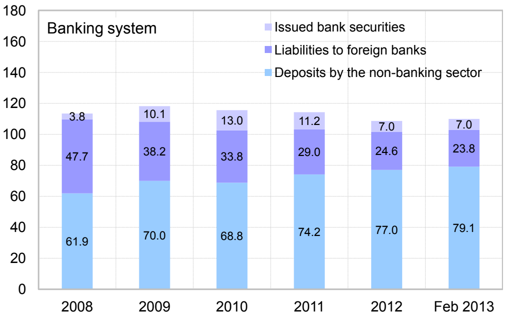
[2]Investments by other financial intermediaries and insurers in bank equity, debt securities and deposits. The proportion of the total assets of these two sectors accounted for by these investments and the proportion of exposure to banks via a particular instrument are also given.

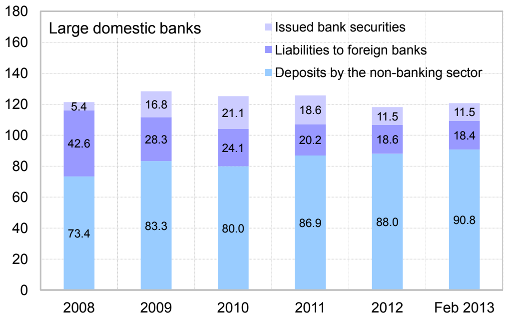
[3]DS: debt securities.

Source: Bank of Slovenia

5 Banking sector

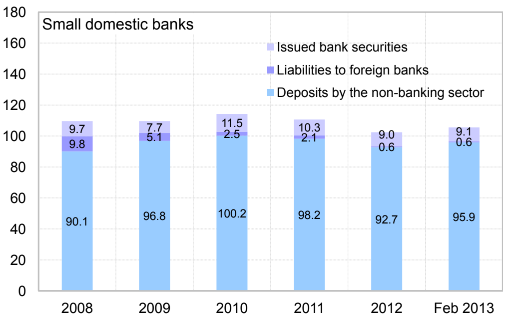
Figure 5.1: Coverage of loans to the non-banking sector by funding in the banking system overall (left) and at the large domestic banks (right) in percentages

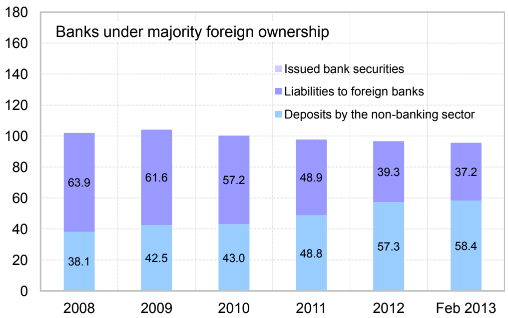




Source: Bank of Slovenia

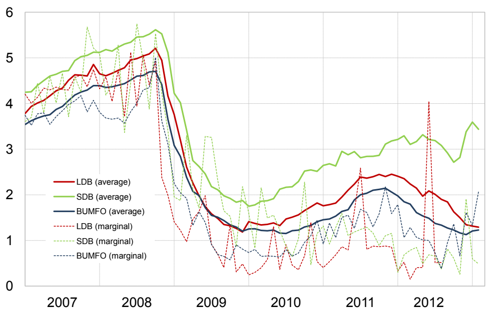
Figure 5.2: Coverage of loans to the non-banking sector by funding at the small domestic banks (left) and at the banks under majority foreign ownership (right) in percentages

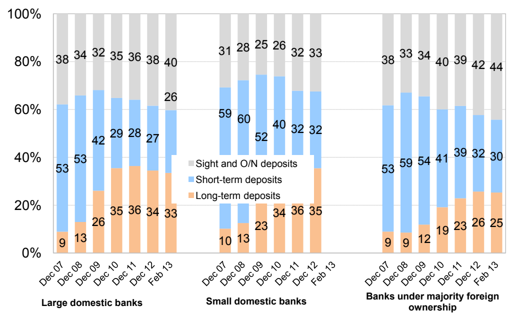




Source: Bank of Slovenia

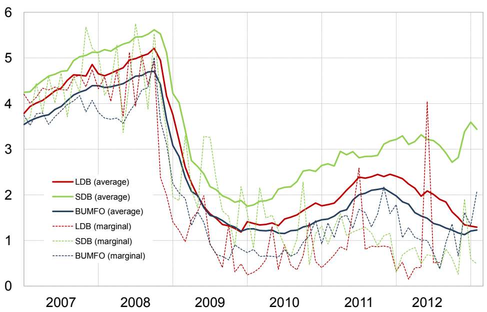
Figure 5.3: Average and marginal funding costs for deposits by the non-banking sector (left) and original maturity breakdown of deposits (right) by bank group

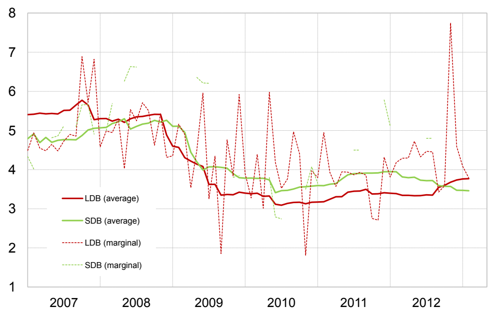




Source: Bank of Slovenia

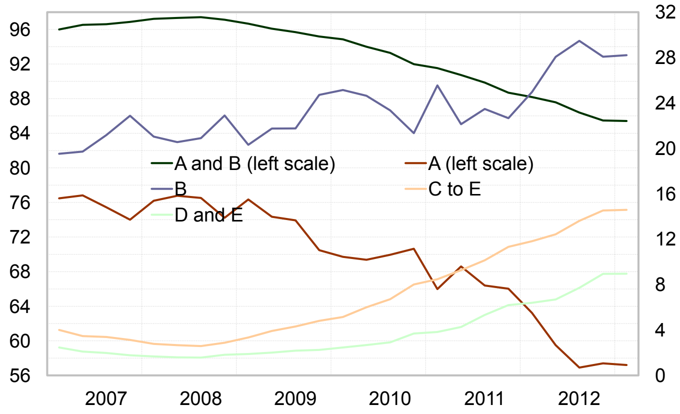
Figure 5.4: Average and marginal funding costs for liabilities to foreign banks (left) and from issued debt securities (right) by bank group in percentages





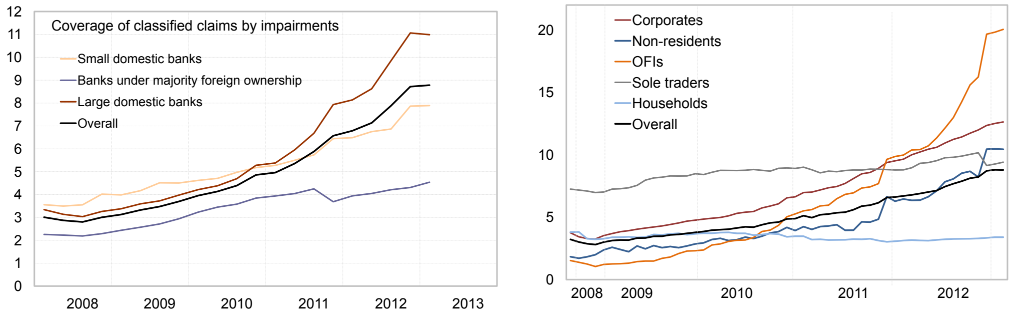
Source: Bank of Slovenia

Figure 5.5: Breakdown of classified claims by credit rating in percentages



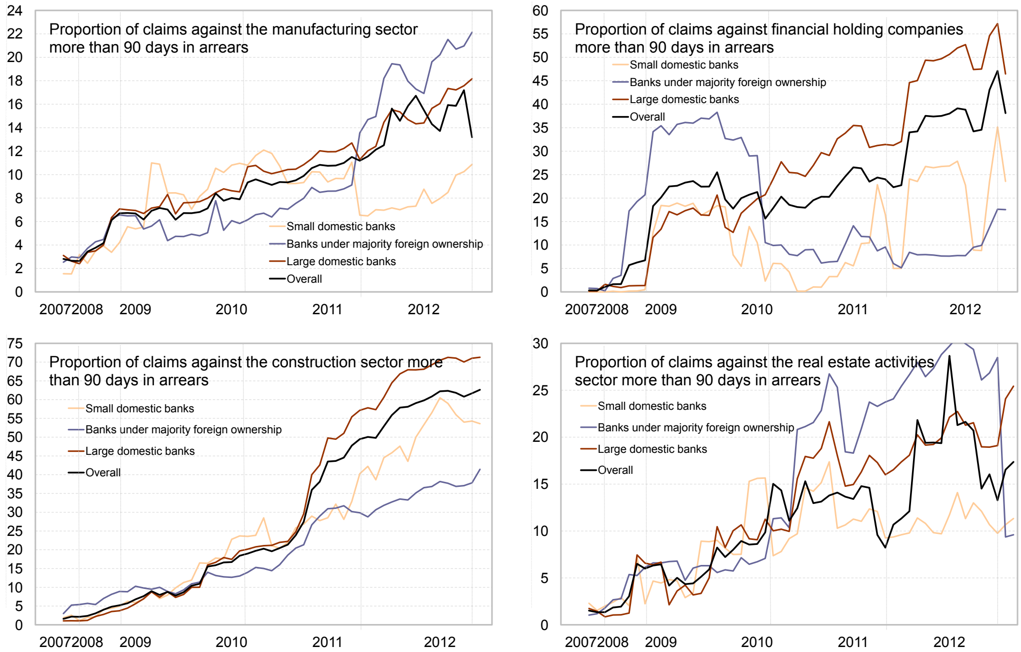
Source: Bank of Slovenia

Figure 5.6: Coverage of classified claims by impairments by bank group (left) and client segment (right) in percentages



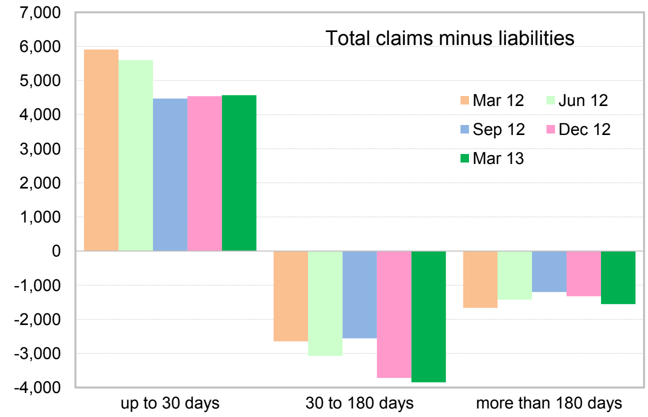
Source: Bank of Slovenia

Figure 5.7: Arrears of more than 90 days as a proportion of the banks' classified claims in selected segments of non-financial corporations in percentages



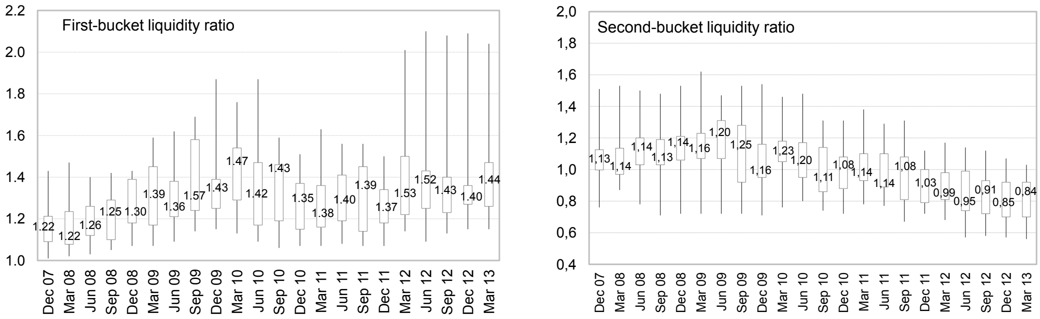
Source: Bank of Slovenia

Figure 5.8: Liquidity gap as the difference between total assets and total liabilities defined in the liquidity ladder methodology in EUR million



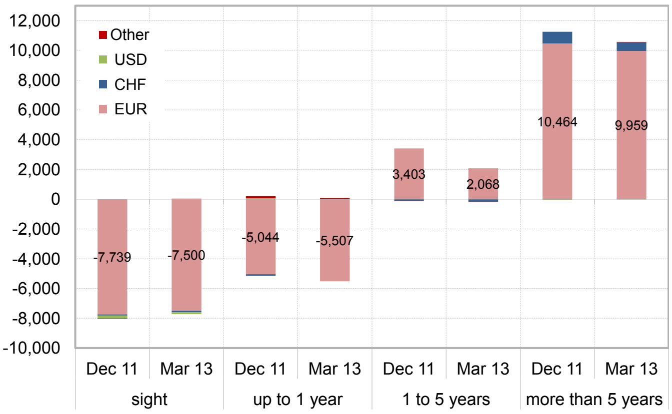
Source: Bank of Slovenia

Figure 5.9: Distribution of first-bucket (left) and second-bucket (right) liquidity ratios, monthly averages



Source: Bank of Slovenia

Figure 5.10: Currency breakdown of net interest-rate positions by individual bucket of residual maturity in EUR million



Source: Bank of Slovenia

Table 5.1: Net increase in deposits by individual sector and bank group in EUR million

(EUR million)	Increase in deposits by NBS			Increase in deposits by NFCs			Increase in deposits by OFIs			Increase in government deposits			Increase in household deposits		
	2011	2012	Feb 13	2011	2012	Feb 13	2011	2012	Feb 13	2011	2012	Feb 13	2011	2012	Feb 13
Large domestic banks	178.2	-1370.8	203.5	-206.1	-178.5	-43.8	39.0	-225.3	-8.0	333.6	-535.7	227.4	-4.2	-402.4	40.1
Small domestic banks	-107.1	-140.3	51.7	-109.2	-84.1	1.9	-70.0	-35.0	-0.8	5.5	-80.0	-42.8	80.4	58.6	89.5
Banks under majority foreign ownership	633.8	786.9	62.7	141.5	86.2	-43.2	205.8	65.7	119.9	75.6	176.2	-16.2	213.6	310.1	48.8
Overall	704.9	-724.1	317.9	-173.9	-176.4	-85.2	174.9	-194.5	111.1	414.8	-439.5	168.4	289.8	-33.7	178.4

Source: Bank of Slovenia

Table 5.2: Breakdown of ROE into four factors

Year	Profit margin: pre-tax profit / gross income	*	Risk-weighted income: gross income / risk-weighted assets	*	Risk level: risk-weighted assets / total assets	*	Leverage: total assets / equity	=	Profitability: ROE
2006	0.32		0.06		0.66		12.12		0.151
2007	0.36		0.05		0.71		12.05		0.163
2008	0.23		0.04		0.77		12.17		0.081
2009	0.11		0.04		0.78		11.91		0.039
2010	-0.07		0.04		0.78		11.98		-0.024
2011	-0.38		0.04		0.79		11.74		-0.127
2012	-0.50		0.04		0.76		11.81		-0.191

Note: The breakdown of ROE is calculated for the banking system excluding savings banks.
Source: Bank of Slovenia

Table 5.3: Banks' classified claims against non-financial corporations in bankruptcy and proportion of total claims against non-financial corporations by bank group in EUR million and percentages

	Classified claims against non-financial corporations in bankruptcy, EUR million				Proportion of total classified claims, %			
	Dec 08	Dec 11	Dec 12	Mar 13	Dec 08	Dec 11	Dec 12	Mar 13
Large domestic banks	50	1,393	2,223	2,074	0.4	9.6	16.5	15.8
Small domestic banks	16	112	198	205	0.9	5.3	9.2	9.7
Banks under majority foreign ownership	22	185	278	299	0.3	2.5	3.9	4.3
Overall	89	1,690	2,699	2,578	0.4	7.0	11.9	11.7

Source: Bank of Slovenia
Distribution of classified claims against non-financial corporations more than 90 days in arrears

Table 5.4: Distribution of the number of client-bank business relations more than 90 days in arrears

Manufacturing more than 90 days in arrears

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	560	637	707
EUR 1 million to EUR 5 million	90	105	127
EUR 5 million to EUR 20 million	23	29	37
more than EUR 20 million	2	2	6
total	675	773	877

Breakdown

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	83.0%	82.4%	80.6%
EUR 1 million to EUR 5 million	13.3%	13.6%	14.5%
EUR 5 million to EUR 20 million	3.4%	3.8%	4.2%
more than EUR 20 million	0.3%	0.3%	0.7%
total	100%	100%	100%

Construction more than 90 days in arrears

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	690	883	1,004
EUR 1 million to EUR 5 million	64	108	143
EUR 5 million to EUR 20 million	21	55	71
more than EUR 20 million	5	15	19
total	780	1,061	1,237

Breakdown

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	88.5%	83.2%	81.2%
EUR 1 million to EUR 5 million	8.2%	10.2%	11.6%
EUR 5 million to EUR 20 million	2.7%	5.2%	5.7%
more than EUR 20 million	0.6%	1.4%	1.5%
total	100%	100%	100%

Financial and insurance activities more than 90 days in arrears

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	12	23	19
EUR 1 million to EUR 5 million	11	20	23
EUR 5 million to EUR 20 million	5	10	16
more than EUR 20 million	3	2	7
total	31	55	65

Breakdown

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	38.7%	41.8%	29.2%
EUR 1 million to EUR 5 million	35.5%	36.4%	35.4%
EUR 5 million to EUR 20 million	16.1%	18.2%	24.6%
more than EUR 20 million	9.7%	3.6%	10.8%
total	100%	100%	100%

Real estate activities more than 90 days in arrears

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	96	123	142
EUR 1 million to EUR 5 million	21	32	40
EUR 5 million to EUR 20 million	7	11	10
more than EUR 20 million	0	0	0
total	124	166	192

Breakdown

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	77.4%	74.1%	74.0%
EUR 1 million to EUR 5 million	16.9%	19.3%	20.8%
EUR 5 million to EUR 20 million	5.6%	6.6%	5.2%
more than EUR 20 million	0.0%	0.0%	0.0%
total	100%	100%	100%

Wholesale and retail trade more than 90 days in arrears

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	1,092	1,279	1,243
EUR 1 million to EUR 5 million	52	66	78
EUR 5 million to EUR 20 million	15	17	16
more than EUR 20 million	5	3	3
total	1,164	1,365	1,340

Breakdown

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	93.8%	93.7%	92.8%
EUR 1 million to EUR 5 million	4.5%	4.8%	5.8%
EUR 5 million to EUR 20 million	1.3%	1.2%	1.2%
more than EUR 20 million	0.4%	0.2%	0.2%
total	100%	100%	100%

Accommodation and food service activities more than 90 days in arrears

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	211	236	257
EUR 1 million to EUR 5 million	9	19	20
EUR 5 million to EUR 20 million	0	4	7
more than EUR 20 million	0	0	0
total	220	259	284

Breakdown

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	95.9%	91.1%	90.5%
EUR 1 million to EUR 5 million	4.1%	7.3%	7.0%
EUR 5 million to EUR 20 million	0.0%	1.5%	2.5%
more than EUR 20 million	0.0%	0.0%	0.0%
total	100%	100%	100%

Information and communication more than 90 days in arrears

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	117	148	147
EUR 1 million to EUR 5 million	8	7	6
EUR 5 million to EUR 20 million	2	2	2
more than EUR 20 million	2	2	2
total	129	159	157

Breakdown

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	90.7%	93.1%	93.6%
EUR 1 million to EUR 5 million	6.2%	4.4%	3.8%
EUR 5 million to EUR 20 million	1.6%	1.3%	1.3%
more than EUR 20 million	1.6%	1.3%	1.3%
total	100%	100%	100%

Source: Bank of Slovenia

Table 5.5: Distribution of the amount of client-bank business relations more than 90 days in arrears

Manufacturing more than 90 days in arrears, EUR million

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	92	111	131
EUR 1 million to EUR 5 million	201	224	298
EUR 5 million to EUR 20 million	220	294	356
more than EUR 20 million	88	90	231
total	601	719	1,016

Breakdown

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	15.3%	15.4%	12.9%
EUR 1 million to EUR 5 million	33.4%	31.2%	29.3%
EUR 5 million to EUR 20 million	36.6%	40.9%	35.0%
more than EUR 20 million	14.6%	12.5%	22.7%
total	100%	100%	100%

Construction more than 90 days in arrears, EUR million

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	88	119	139
EUR 1 million to EUR 5 million	133	238	323
EUR 5 million to EUR 20 million	203	536	642
more than EUR 20 million	237	855	910
total	661	1,748	2,014

Breakdown

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	13.3%	6.8%	6.9%
EUR 1 million to EUR 5 million	20.1%	13.6%	16.0%
EUR 5 million to EUR 20 million	30.7%	30.7%	31.9%
more than EUR 20 million	35.9%	48.9%	45.2%
total	100%	100%	100%

Financial and insurance activities more than 90 days in arrears, EUR million

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	3	5	2
EUR 1 million to EUR 5 million	28	45	45
EUR 5 million to EUR 20 million	46	101	155
more than EUR 20 million	188	168	354
total	265	319	556

Breakdown

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	1.1%	1.6%	0.4%
EUR 1 million to EUR 5 million	10.6%	14.1%	8.1%
EUR 5 million to EUR 20 million	17.4%	31.7%	27.9%
more than EUR 20 million	70.9%	52.7%	63.7%
total	100%	100%	100%

Real estate activities more than 90 days in arrears, EUR million

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	23	31	32
EUR 1 million to EUR 5 million	41	67	90
EUR 5 million to EUR 20 million	57	89	90
more than EUR 20 million	0	0	0
total	121	187	212

Breakdown

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	19.0%	16.6%	15.1%
EUR 1 million to EUR 5 million	33.9%	35.8%	42.5%
EUR 5 million to EUR 20 million	47.1%	47.6%	42.5%
more than EUR 20 million	0.0%	0.0%	0.0%
total	100%	100%	100%

Wholesale and retail trade more than 90 days in arrears, EUR million

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	132	156	156
EUR 1 million to EUR 5 million	95	122	156
EUR 5 million to EUR 20 million	156	141	152
more than EUR 20 million	244	104	104
total	627	523	568

Breakdown

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	21.1%	29.8%	27.5%
EUR 1 million to EUR 5 million	15.2%	23.3%	27.5%
EUR 5 million to EUR 20 million	24.9%	27.0%	26.8%
more than EUR 20 million	38.9%	19.9%	18.3%
total	100%	100%	100%

Accommodation and food service activities more than 90 days in arrears, EUR million

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	22	26	30
EUR 1 million to EUR 5 million	20	48	47
EUR 5 million to EUR 20 million	0	27	64
more than EUR 20 million	0	0	0
total	42	101	141

Breakdown

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	52.4%	25.7%	21.3%
EUR 1 million to EUR 5 million	47.6%	47.5%	33.3%
EUR 5 million to EUR 20 million	0.0%	26.7%	45.4%
more than EUR 20 million	0.0%	0.0%	0.0%
total	100%	100%	100%

Information and communication more than 90 days in arrears, EUR million

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	10	11	13
EUR 1 million to EUR 5 million	20	17	16
EUR 5 million to EUR 20 million	21	14	15
more than EUR 20 million	103	109	115
total	154	151	159

Breakdown

	Dec 10	Dec 11	Dec 12
up to EUR 1 million	6.5%	7.3%	8.2%
EUR 1 million to EUR 5 million	13.0%	11.3%	10.1%
EUR 5 million to EUR 20 million	13.6%	9.3%	9.4%
more than EUR 20 million	66.9%	72.2%	72.3%
total	100%	100%	100%

Source: Bank of Slovenia

Table 5.6: Breakdown of interest-sensitive assets and liabilities by reference interest rate in percentages

	Interest-sensitive assets					Interest-sensitive liabilities				
	Dec 09	Dec 10	Dec 11	Dec 12	Mar 13	Dec 09	Dec 10	Dec 11	Dec 12	Mar 13
Stock, EUR million	48,591	46,140	44,077	39,842	39,495	45,028	43,643	42,538	40,206	40,170
Percentage tied to reference interest rate	54.7	62.7	63.2	67.1	66.2	31.4	34.1	30.9	31.3	30.8
	Proportion of tied items accounted for by individual reference rates, %									
EURIBOR										
1-month	8.0	6.1	6.7	7.0	6.5	11.0	5.9	2.5	0.6	0.6
3-month	29.5	29.3	30.6	30.7	30.6	28.4	33.5	35.1	24.9	25.8
6-month	51.8	55.4	54.7	55.0	55.7	48.5	51.6	51.3	49.8	49.1
1-year	2.1	1.8	1.5	1.3	1.3	0.4	0.4	0.4	0.3	0.3
LIBOR CHF										
1-month	0.5	0.4	0.3	0.2	0.2	0.3	0.1	0.0	0.0	0.0
3-month	1.8	1.5	1.1	0.9	0.9	3.6	4.2	3.7	2.8	2.7
6-month	3.2	2.9	2.6	2.4	2.3	2.6	1.6	1.3	0.6	0.7
1-year	1.6	1.5	1.4	1.3	1.3	1.3	1.0	1.1	1.0	1.0
Central bank interest rate	0.0	0.1	0.1	0.2	0.2	2.8	0.0	2.4	17.7	17.6
Other	1.5	1.0	0.9	1.0	0.9	1.1	1.8	2.3	2.2	2.2

Source: Bank of Slovenia

Table 5.7: Interest-rate gap in interest-sensitive assets by reference interest rate in percentages

(%)	Overall net position					Net position by bucket, Mar 2013			
	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Mar 2103	Sight	Up to 1 year	1 to 5 years	More than 5 years
EURIBOR									
1-month	1.2	1.9	3.5	4.5	4.1	-0.0	2.1	0.8	1.1
3-month	7.8	7.6	8.9	12.7	12.2	-0.0	0.5	4.7	7.1
6-month	14.1	18.2	19.3	21.1	21.5	-1.3	3.0	7.4	12.4
1year	1.0	1.0	0.8	0.8	0.8	0.0	0.0	0.2	0.5
LIBOR CHF									
1-month	0.2	0.2	0.2	0.1	0.1	0.0	0.1	0.0	0.0
3-month	-0.0	-0.4	-0.4	-0.3	-0.3	0.0	0.1	-0.3	-0.1
6-month	1.0	1.3	1.3	1.4	1.3	0.0	0.0	0.1	1.2
1-year	0.5	0.6	0.6	0.6	0.5	0.0	-0.0	-0.2	0.8

Source: Bank of Slovenia

Table 5.8: Currency breakdown of on- and off-balance-sheet assets and liabilities

	2010		2011		2012	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Total foreign currency excluding euros, EUR million	3,637	3,572	3,308	3,291	2,691	2,677
year-on-year growth, %	7.5	6.9	-9.1	-7.9	-18.7	-18.6
Breakdown of currencies other than euros	(%)					
global currencies	92.3	94.5	90.1	90.9	92.4	92.5
Swiss franc	60.6	62.0	55.1	55.8	55.7	56.0
pound sterling	1.4	1.4	1.9	1.9	1.6	1.6
US dollar	28.3	29.0	31.0	31.0	33.0	32.9
Canadian dollar	0.5	0.5	0.7	0.7	0.7	0.7
Japanese yen	1.0	1.1	0.8	0.8	0.3	0.3
Australian dollar	0.5	0.5	0.8	0.8	0.9	0.9
EEA currencies	2.7	2.2	4.9	5.5	3.9	4.5
Other currencies	3.5	3.3	4.0	3.5	3.6	3.0
CIU	1.5	0.0	0.9	0.0	0.1	0.0

Note: EEA: European Economic Area, i.e. EU, Iceland and Norway; CIU: foreign exchange position in collective investment undertaking units.

Source: Bank of Slovenia

Table 5.9: Stock and year-on-year growth of loans in Swiss francs or with a Swiss franc currency clause

	Non-banking sector	Non-financial corporations	OFIs	Government	Households: All loans	Households: Housing loans
	Stock of loans, EUR million					
2010	1,868.1	429.5	134.4	6.0	1,298.2	1,128.4
2011	1,588.0	288.5	130.5	5.5	1,163.6	1,031.8
2012	1,346.4	227.4	93.4	4.8	1,020.9	923.8
	Growth, %					
2010	-1.2	-7.6	-22.5	-6.4	4.1	9.0
2011	-15.0	-32.8	-2.9	-9.2	-10.4	-8.6
2012	-15.2	-21.2	-28.4	-12.5	-12.3	-10.5

Source: Bank of Slovenia

Table 5.10: Loans tied to the Swiss franc exchange rate by bank group

	Year-on-year growth, %		Proportion of all loans to non-banking sector tied to Swiss franc, %		Proportion of loans at particular bank group, %	
	2011	2012	2011	2012	2011	2012
Large domestic banks	-11.9	-14.8	32.2	32.3	2.5	2.2
Small domestic banks	-29.1	-12.1	0.8	0.8	0.4	0.3
Banks under majority foreign ownership	-16.2	-15.4	67.1	66.9	8.3	7.1
Overall	-15.0	-15.2	100.0	100.0	4.3	3.8

Source: Bank of Slovenia

Table 5.11: Banking sector's balance sheet: amounts in EUR million and growth rates in percentages

	Value, EUR million					Growth, %				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
ASSETS	47,948	52,009	50,760	49,243	46,125	12.6	8.5	-2.4	-3.0	-6.3
1) Cash	1,250	1,468	1,136	1,389	1,604	104.9	17.4	-22.6	22.3	15.5
2) Loans	37,823	39,896	39,534	38,020	35,500	15.5	5.5	-0.9	-3.8	-6.6
2.1. Loans to banks	4,101	5,763	4,842	4,684	4,269	-0.5	40.5	-16.0	-3.3	-8.8
in Slovenia	2,673	3,531	3,982	3,333	3,089	24.5	32.1	12.8	-16.3	-7.3
in rest of the world	1,428	2,232	861	1,351	1,180	-27.7	56.3	-61.4	57.0	-12.6
2.2. Loans to the non-banking sector	33,718	34,132	34,692	33,143	30,964	18.1	1.2	1.6	-4.5	-6.6
2.2.1. Currency breakdown										
domestic currency	31,694	32,497	33,211	31,410	29,542	17.8	2.5	2.2	-5.4	-5.9
foreign currency	2,024	1,636	1,481	1,732	1,423	23.6	-19.2	-9.5	17.0	-17.9
2.2.2 Maturity breakdown										
short-term	12,527	10,784	9,306	8,008	7,298	26.5	-13.9	-13.7	-13.9	-8.9
long-term	21,191	23,348	25,386	25,135	23,667	13.7	10.2	8.7	-1.0	-5.8
2.2.3 Sector breakdown										
non-financial corporations	20,260	20,201	19,789	18,320	16,441	18.3	-0.3	-2.0	-7.4	-10.3
households	7,558	8,072	8,854	9,060	8,847	14.8	6.8	9.7	2.3	-2.3
government	506	735	1,162	1,219	1,753	8.9	45.0	58.2	4.9	43.8
OFIs	2,829	2,719	2,594	1,824	1,469	33.7	-3.9	-4.6	-29.7	-19.5
other	2,515	2,354	2,232	2,660	2,403	13.5	-6.4	-5.2	19.2	-9.7
2.3. Debt securities and other financial assets classed as loans and receivables	4	0	0	193	266	…	…	…	…	37.9
3) Financial assets / securities (total)	7,327	8,965	8,413	8,023	7,303	-5.5	22.4	-6.2	-4.6	-9.0
3.1. Financial assets held for trading	1,177	890	581	458	301	-26.2	-24.4	-34.7	-21.1	-34.3
of which debt securities	571	381	138	125	79	-42.9	-33.3	-63.8	-9.1	-37.1
… government securities	56	30	22	15	19	-72.6	-46.5	-26.5	-31.2	22.2
3.2. Financial assets at fair value through profit or loss	187	328	335	299	253	-28.2	75.3	2.1	-10.7	-15.5
of which debt securities	163	264	280	257	212	-27.0	62.1	6.2	-8.1	-17.6
… government securities	0	0	0	114	109	….	….	….	….	-4.6
3.3. Available-for-sale financial assets	4,552	6,237	5,763	4,860	4,216	-6.7	37.0	-7.6	-15.7	-13.3
of which debt securities	4,318	5,627	5,157	4,312	3,792	-5.7	30.3	-8.4	-16.4	-12.1
… government securities	2,875	3,870	3,129	2,946	2,702	-8.1	34.6	-19.2	-5.8	-8.3
3.4. Financial assets held to maturity	1,411	1,511	1,734	2,405	2,534	38.6	7.1	14.8	38.7	5.4
of which debt securities	1,411	1,511	1,734	2,405	2,534	38.6	7.1	14.8	38.7	5.4
… government securities	1,178	1,231	1,355	1,989	2,223	20.3	4.5	10.1	46.8	11.8
4) Long-term equity investments in companies in group	627	696	691	713	640	2.0	11.0	-0.8	3.2	-10.1
5) Other	920	984	986	1,099	1,077	4.3	6.9	0.2	11.5	-2.0
LIABILITIES	47,948	52,009	50,760	49,243	46,125	12.6	8.5	-2.4	-3.0	-6.3
1) Liabilities to the Eurosystem	1,229	2,121	603	1,741	4,013	685.3	72.6	-71.6	189.0	130.4
2) Financial liabilities measured at amortised cost (deposits)	41,453	44,801	45,042	42,887	37,803	9.7	8.1	0.5	-4.8	-11.9
2.1. Liabilities to banks	17,726	15,944	15,106	12,911	10,698	12.9	-10.1	-5.3	-14.5	-17.1
of which to domestic banks	2,065	2,916	3,454	3,321	3,077	35.2	41.2	18.4	-3.8	-7.3
of which to foreign banks	15,656	13,024	11,624	9,590	7,621	10.5	-16.8	-10.8	-17.5	-20.5
2.2 Liabilities to the non-banking sector (deposits by NBS)	20,883	23,892	23,875	24,580	23,856	6.2	14.4	-0.1	3.0	-2.9
2.2.1. Currency breakdown										
domestic currency	20,397	23,442	23,390	23,984	23,286	6.6	14.9	-0.2	2.5	-2.9
foreign currency	485	450	485	596	570	-8.9	-7.3	7.8	22.8	-4.3
2.2.2 Maturity breakdown										
short-term	18,329	18,445	16,284	16,381	16,141	3.2	0.6	-11.7	0.6	-1.5
long-term	2,553	5,447	7,591	8,199	7,715	34.5	113.3	39.4	8.0	-5.9
2.2.3 Sector breakdown										
non-financial corporations	3,728	3,850	4,064	3,890	3,714	1.0	3.3	5.6	-4.3	-4.5
households	13,407	14,049	14,573	14,863	14,829	8.9	4.8	3.7	2.0	-0.2
government	1,879	4,008	3,048	3,463	3,023	23.0	113.4	-24.0	13.6	-12.7
OFIs	1,065	1,130	1,289	1,464	1,270	-7.9	6.1	14.1	13.6	-13.3
rest of the world	475	537	582	593	713	-30.3	13.2	8.2	1.9	20.2
2.4 Debt securities	1,276	3,442	4,504	3,715	2,165	27.7	169.8	30.9	-17.5	-41.7
2.5 Subordinated liabilities	1,568	1,523	1,557	1,432	866	9.2	-2.9	2.2	-8.0	-39.5
2.6 Other financial liabilities measured at amortised cost	0	0	0	249	217	…	…	…	…	-12.8
3) Financial liabilities tied to financial assets without conditions for derecognition	442	5	116	8	0	48.4	-98.9	2,385.4	-93.1	…
3.1. Liabilities to banks	442	5	114	8	0	48.4	-98.9	2,339.7	-92.9	…
domestic banks	0	5	17	0	0	…	…	261.1	…	…
foreign banks	442	0	97	8	0	48.4	…	…	-91.7	…
4) Provisions	176	175	175	230	193	-15.4	-0.8	0.5	31.2	-16.2
5) Shareholder equity	4,010	4,310	4,140	3,950	3,737	12.3	7.5	-3.9	-4.6	-5.4
6) Other	638	597	684	426	379	11.4	-6.4	14.7	-37.7	-11.1

Source: Bank of Slovenia

Table 5.12: Banking sector’s balance sheet: as proportion of total assets, and ratio to GDP in percentages

	As % of total assets					As % of GDP				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
ASSETS	100	100	100	100	100	123.1	128.7	146.3	142.6	136.1
1) Cash	2.6	2.8	2.2	2.8	3.5	1.8	3.4	4.1	3.2	3.8
2) Loans	78.9	76.7	77.9	77.2	77.0	94.6	101.6	112.2	111.0	105.1
2.1. Loans to banks	8.6	11.1	9.5	9.5	9.3	11.9	11.0	16.2	13.6	12.9
in Slovenia	5.6	6.8	7.8	6.8	6.7	6.2	7.2	9.9	11.2	9.2
in rest of the world	3.0	4.3	1.7	2.7	2.6	5.7	3.8	6.3	2.4	3.7
2.2. Loans to the non-banking sector	70.3	65.6	68.3	67.3	67.1	82.5	90.5	96.0	97.4	91.6
2.2.1. Currency breakdown										
domestic currency	66.1	62.5	65.4	63.8	64.0	77.8	85.1	91.4	93.3	86.8
foreign currency	4.2	3.1	2.9	3.5	3.1	4.7	5.4	4.6	4.2	4.8
2.2.2 Maturity breakdown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
short-term	26.1	20.7	18.3	16.3	15.8	28.6	33.6	30.3	26.1	22.1
long-term	44.2	44.9	50.0	51.0	51.3	53.9	56.9	65.7	71.3	69.5
2.2.3 Sector breakdown										
non-financial corporations	42.3	38.8	39.0	37.2	35.6	49.5	54.4	56.8	55.6	50.6
households	15.8	15.5	17.4	18.4	19.2	19.0	20.3	22.7	24.9	25.0
government	1.1	1.4	2.3	2.5	3.8	1.3	1.4	2.1	3.3	3.4
OFIs	5.9	5.2	5.1	3.7	3.2	6.1	7.6	7.6	7.3	5.0
other	5.2	4.5	4.4	5.4	5.2	6.4	6.8	6.6	6.3	7.4
2.3. Debt securities and other financial assets classed as loans and receivables	0.0	0.0	0.0	0.4	0.6	0.0	0.0	0.0	0.0	0.5
3) Financial assets / securities (total)	15.3	17.2	16.6	16.3	15.8	22.4	19.7	25.2	23.6	22.2
3.1. Financial assets held for trading	2.5	1.7	1.1	0.9	0.7	4.6	3.2	2.5	1.6	1.3
of which debt securities	1.2	0.7	0.3	0.3	0.2	2.9	1.5	1.1	0.4	0.3
… government securities	0.1	0.1	0.0	0.0	0.0	0.6	0.2	0.1	0.1	0.0
3.2. Financial assets at fair value through profit or loss	0.4	0.6	0.7	0.6	0.5	0.8	0.5	0.9	0.9	0.8
of which debt securities	0.3	0.5	0.6	0.5	0.5	0.6	0.4	0.7	0.8	0.7
… government securities	0.0	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.3
3.3. Available-for-sale financial assets	9.5	12.0	11.4	9.9	9.1	14.1	12.2	17.5	16.2	13.4
of which debt securities	9.0	10.8	10.2	8.8	8.2	13.2	11.6	15.8	14.5	11.9
… government securities	6.0	7.4	6.2	6.0	5.9	9.0	7.7	10.9	8.8	8.1
3.4. Financial assets held to maturity	2.9	2.9	3.4	4.9	5.5	2.9	3.8	4.2	4.9	6.6
of which debt securities	2.9	2.9	3.4	4.9	5.5	2.9	3.8	4.2	4.9	6.6
… government securities	2.5	2.4	2.7	4.0	4.8	2.8	3.2	3.5	3.8	5.5
4) Long-term equity investments in companies in group	1.3	1.3	1.4	1.4	1.4	1.8	1.7	2.0	1.9	2.0
5) Other	1.9	1.9	1.9	2.2	2.3	2.6	2.5	2.8	2.8	3.0
LIABILITIES	100	100	100	100	100	123.1	128.7	146.3	142.6	136.1
1) Liabilities to the Eurosystem	2.6	4.1	1.2	3.5	8.7	0.5	3.3	6.0	1.7	4.8
2) Financial liabilities measured at amortised cost (deposits)	86.5	86.1	88.7	87.1	82.0	109.2	111.3	126.0	126.5	118.6
2.1. Liabilities to banks	37.0	30.7	29.8	26.2	23.2	45.4	47.6	44.8	42.4	35.7
of which to domestic banks	4.3	5.6	6.8	6.7	6.7	4.4	5.5	8.2	9.7	9.2
of which to foreign banks	32.7	25.0	22.9	19.5	16.5	41.0	42.0	36.6	32.6	26.5
2.2 Liabilities to the non-banking sector (deposits by NBS)	43.6	45.9	47.0	49.9	51.7	56.8	56.1	67.2	67.1	68.0
2.2.1. Currency breakdown										
domestic currency	42.5	45.1	46.1	48.7	50.5	55.3	54.8	65.9	65.7	66.3
foreign currency	1.0	0.9	1.0	1.2	1.2	1.5	1.3	1.3	1.4	1.6
2.2.2 Maturity breakdown										
short-term	38.2	35.5	32.1	33.3	35.0	51.3	49.2	51.9	45.7	45.3
long-term	5.3	10.5	15.0	16.7	16.7	5.5	6.9	15.3	21.3	22.7
2.2.3 Sector breakdown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
non-financial corporations	7.8	7.4	8.0	7.9	8.1	10.7	10.0	10.8	11.4	10.8
households	28.0	27.0	28.7	30.2	32.2	35.6	36.0	39.5	40.9	41.1
government	3.9	7.7	6.0	7.0	6.6	4.4	5.0	11.3	8.6	9.6
OFIs	2.2	2.2	2.5	3.0	2.8	3.3	2.9	3.2	3.6	4.0
rest of the world	1.0	1.0	1.1	1.2	1.5	2.0	1.3	1.5	1.6	1.6
2.4 Debt securities	2.7	6.6	8.9	7.5	4.7	2.9	3.4	9.7	12.7	10.3
2.5 Subordinated liabilities	3.3	2.9	3.1	2.9	1.9	4.2	4.2	4.3	4.4	4.0
2.6 Other financial liabilities measured at amortised cost	0.0	0.0	0.0	0.5	0.5	0.0	0.0	0.0	0.0	0.7
3) Financial liabilities tied to financial assets without conditions for derecognition	0.9	0.0	0.2	0.0	0.0	0.9	1.2	0.0	0.3	0.0
3.1. Liabilities to banks	0.9	0.0	0.2	0.0	0.0	0.9	1.2	0.0	0.3	0.0
domestic banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
foreign banks	0.9	0.0	0.2	0.0	0.0	0.9	1.2	0.0	0.3	0.0
4) Provisions	0.4	0.3	0.3	0.5	0.4	0.6	0.5	0.5	0.5	0.6
5) Shareholder equity	8.4	8.3	8.2	8.0	8.1	10.3	10.8	12.1	11.6	10.9
6) Other	1.3	1.1	1.3	0.9	0.8	1.7	1.7	1.7	1.9	1.2

Source: Bank of Slovenia

Table 5.13: Banking sector's income statement: amounts in EUR million and growth rates in percentages

	Value, EUR million					Growth, %				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
1. Net interest income	952	940	1,047	1,018	886	15.7	-1.3	11.5	-2.8	-12.9
1.1 Interest income	2,635	2,115	2,075	2,207	1,944	33.9	-19.7	-1.9	6.4	-11.9
1.2 Interest expenses	1,683	1,175	1,028	1,190	1,058	46.9	-30.2	-12.5	15.8	-11.1
2. Net non-interest income	422	501	444	429	680	-32.1	18.5	-11.4	-3.3	58.3
2.1 Net fees and commissions	346	343	350	346	339	1.4	-1.0	2.1	-1.0	-2.0
2.2 Net financial transactions	-115	42	-48	-10	-2	-184.2	…	…	…	…
2.3 Net other	191	116	142	93	343	31.4	-39.0	22.4	-34.8	269.2
3. Gross income (1+2)	1,374	1,440	1,491	1,447	1,566	-4.9	4.8	3.5	-3.0	8.2
4. Operating costs	787	777	779	777	743	2.9	-1.3	0.2	-0.3	-4.4
labour costs	698	689	691	687	658	2.5	-1.3	0.4	-0.6	-4.2
5. Net income (3-4)	587	663	712	670	823	-13.7	12.9	7.4	-5.9	22.8
6. Net provisions	279	501	811	1,207	1,594	70.5	79.7	61.9	48.7	32.1
7. Total costs (4+6)	1,066	1,278	1,590	1,983	2,337	14.8	19.9	24.4	24.7	17.8
8. Pre-tax profit (3-7)	308	162	-99	-537	-771	-40.3	-47.4	-161.0	442.4	43.6
9. Taxes	-59	-39	3	95	22	-42.7	-33.8	-106.7	…	…
10. Net profit (8-9)	249	123	-96	-442	-748	-39.7	-50.6	-178.3	…	…

Source: Bank of Slovenia

Table 5.14: Banking sector's income statement: as proportion of gross income and as proportion of total assets in percentages

	Value, EUR million					Growth, %				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
1. Net interest income	952	940	1,047	1,018	886	15.7	-1.3	11.5	-2.8	-12.9
1.1 Interest income	2,635	2,115	2,075	2,207	1,944	33.9	-19.7	-1.9	6.4	-11.9
1.2 Interest expenses	1,683	1,175	1,028	1,190	1,058	46.9	-30.2	-12.5	15.8	-11.1
2. Net non-interest income	422	501	444	429	680	-32.1	18.5	-11.4	-3.3	58.3
2.1 Net fees and commissions	346	343	350	346	339	1.4	-1.0	2.1	-1.0	-2.0
2.2 Net financial transactions	-115	42	-48	-10	-2	-184.2	…	…	…	…
2.3 Net other	191	116	142	93	343	31.4	-39.0	22.4	-34.8	269.2
3. Gross income (1+2)	1,374	1,440	1,491	1,447	1,566	-4.9	4.8	3.5	-3.0	8.2
4. Operating costs	787	777	779	777	743	2.9	-1.3	0.2	-0.3	-4.4
labour costs	698	689	691	687	658	2.5	-1.3	0.4	-0.6	-4.2
5. Net income (3-4)	587	663	712	670	823	-13.7	12.9	7.4	-5.9	22.8
6. Net provisions	279	501	811	1,207	1,594	70.5	79.7	61.9	48.7	32.1
7. Total costs (4+6)	1,066	1,278	1,590	1,983	2,337	14.8	19.9	24.4	24.7	17.8
8. Pre-tax profit (3-7)	308	162	-99	-537	-771	-40.3	-47.4	-161.0	442.4	43.6
9. Taxes	-59	-39	3	95	22	-42.7	-33.8	-106.7	…	…
10. Net profit (8-9)	249	123	-96	-442	-748	-39.7	-50.6	-178.3	…	…

Source: Bank of Slovenia

Table 5.15: Average effective asset and liability interest rates calculated from interest income and expenses, interest spread and interest margin in percentages

(%)	2006	2007	2008	2009	2010	2011	2012
Average asset interest rate	4.81	5.46	6.05	4.45	4.23	4.64	4.25
Average liability interest rate	2.64	3.47	4.24	2.70	2.28	2.73	2.50
Interest-rate gap between effective interest rates	2.17	1.99	1.81	2.10	1.95	1.91	1.75
Net interest margin on interest-bearing assets	2.35	2.32	2.21	1.98	2.14	2.13	1.93

Source: Bank of Slovenia

Table 5.16: Selected performance indicators for the banking sector

	2008	2009	2010	2011	2012
1) Profitability and margins, %					
ROA	0.7	0.3	-0.2	-1.1	-1.59
ROE	8.2	3.9	-2.3	-12.5	-18.9
CIR	57.3	54.0	52.2	53.7	47.4
financial intermediation margin	3.0	2.9	2.9	2.9	3.23
interest margin (per total assets)	2.1	1.9	2.0	2.0	1.83
non-interest margin (per total assets)	0.9	1.0	0.9	0.9	1.4
net interest margin (per interest bearing assets)	2.2	2.0	2.1	2.1	1.93
interest spreadą	2.3	2.3	2.4	2.3	1.83
2) Structure of assets and liabilities, %					
2.1 Maturity breakdown of loans to non-banking sector					
short-term loans / loans	37.2	31.6	26.8	24.2	23.6
long-term loans / loans	62.8	68.4	73.2	75.8	76.4
2.2 Maturity breakdown of deposits by non-banking sector					
short-term deposits / deposits	87.8	77.2	68.2	66.6	67.7
long-term deposits / deposits	12.2	22.8	31.8	33.4	32.3
2.3 Regional breakdown of loans					
to residents	7.5	6.9	6.4	8.0	7.8
to non-residents	92.5	93.1	93.6	92.0	92.2
2.4 Foreign currency loans and deposits					
foreign currency loans / loans to non-banking sector	6.0	4.8	4.3	5.2	4.6
foreign currency deposits / deposits by non-banking sector	2.3	1.9	2.0	2.4	2.4
2.5 Securities					
securities / loans to non-banking sector	21.7	26.3	24.3	24.2	23.6
2.6 Sector breakdown					
corporate loans / loans to non-banking sector	53.6	50.6	50.1	48.2	46.3
household loans / loans to non-banking sector	20.0	20.2	22.4	23.8	24.9
loans to government / loans to non-banking sector	1.3	1.8	2.9	3.2	4.9
3) Asset quality					
impairments, EUR million	1,403.2	1,822.7	2,418.6	3,249.4	4,172.8
classified claims, EUR million	46,664.1	49,257.3	49,766.4	49,466.4	47,876.3
impairments / classified claims, %	3.0	3.7	4.9	6.6	8.7
non-performing claims* / classified claims, %	3.8	5.4	7.4	11.2	14.4
impairments for non-performing claims* / non-performing claims, %	24.9	29.1	36.0	37.8	42.7
non-performing claims* / regulatory capital, %	40.3	58.0	81.5	127.2	164.2
non-performing claims* minus impairments / capital, %	30.2	41.1	52.2	79.1	94.1
sum of large exposures / capital, %	168.7	159.2	…	…	…
4) Interest-rate risk					
average repricing period for asset interest rates, months	10.3	10.6	10.9	11.2	10.5
average repricing period for liability interest rates, months	6.0	7.4	7.3	7.4	6.6
difference, months	4.3	3.2	3.6	3.8	3.9
5) Currency risk					
open foreign exchange position / regulatory capital, %	0.2	0.9	1.4	0.4	0.3
6) Liquidity					
average liquid assets / average short-term deposits by non-banking sector, %	34.1	35.6	41.9	40.0	43.3
average liquid assets / average total assets, %	13.8	13.8	14.1	13.4	14.6
first-bucket liquidity ratio	1.3	1.4	1.4	1.4	1.4
second-bucket liquidity ratio	1.1	1.2	1.1	1.0	0.8
debt securities / total assets, %	13.5	15.0	14.4	14.4	14.3
7) Solvency and capital structure, %					
overall capital adequacy (solvency ratio)	11.7	11.6	11.3	11.6	11.9
Tier 1 capital ratio	9.2	9.3	9.0	9.6	10.2
additional own funds / original own funds	33.3	30.0	31.6	27.9	17.6

Note: * Non-performing claims are classified claims more than 90 days in arrears.
Source: Bank of Slovenia

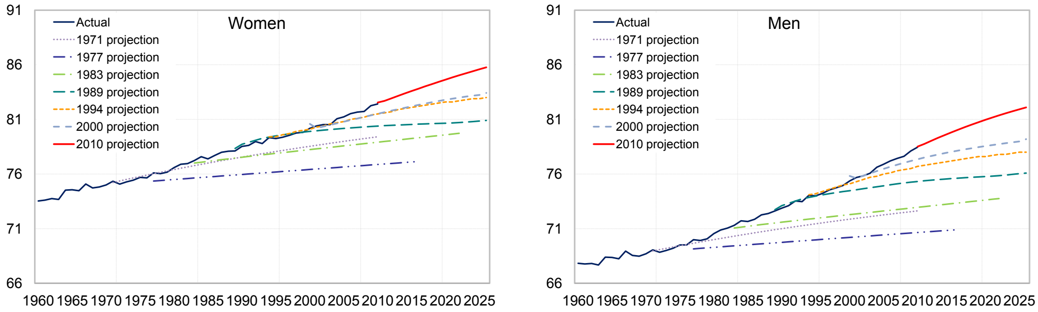
Table 5.17: Selected performance indicators for the banking sector

(%)		Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Overall
Ratio of deposits by non-banking sector to loans to non-banking sector	2008	73.4	90.1	38.1	61.9
	2009	83.3	96.8	42.5	70.0
	2010	80.0	100.2	43.0	68.8
	2011	86.9	98.2	48.8	74.2
	2012	88.0	92.7	57.3	77.0
	Feb 2013	90.8	95.9	58.4	79.1
Ratio of short-term deposits by non-banking sector to short-term loans to non-banking sector	2008	93.2	94.2	84.7	91.2
	2009	97.3	96.9	112.9	100.8
	2010	77.9	87.2	104.2	85.0
	2011	87.2	77.6	128.6	94.8
	2012	85.9	77.3	130.9	94.5
	Feb 2013	85.2	79.0	128.4	93.7
Ratio of liabilities to foreign banks to liabilities to non-banking sector	2008	42.6	9.8	63.9	47.7
	2009	28.3	5.1	61.6	38.2
	2010	24.1	2.5	57.2	33.8
	2011	20.2	2.1	48.9	29.0
	2012	18.6	0.6	39.3	24.6
	Feb 2013	18.4	0.6	37.2	23.8
Ratio of loans to foreign banks to total assets	2008	27.7	6.4	52.3	33.6
	2009	16.8	3.2	48.9	25.0
	2010	15.0	1.6	47.8	23.1
	2011	12.2	1.4	40.8	19.5
	2012	11.1	0.4	31.8	16.5
	Feb 2013	10.8	0.4	30.2	15.8
Ratio of debt securities to total assets	2008	17.2	14.8	5.8	13.5
	2009	18.0	19.2	7.2	15.0
	2010	16.4	20.3	8.1	14.4
	2011	16.6	21.1	7.6	14.4
	2012	16.2	20.7	8.9	14.3
	Feb 2013	15.7	21.7	9.3	14.3
ECB liquidity ratio: ratio of cash and claims against banks to liabilities to banks	2008	39.2	64.9	14.8	29.5
	2009	71.5	70.3	18.7	45.4
	2010	67.0	75.3	8.9	39.3
	2011	81.3	66.5	12.5	47.0
	2012	89.0	59.7	19.9	54.9
	Feb 2013	101.2	58.6	18.8	61.0

Source: Bank of Slovenia

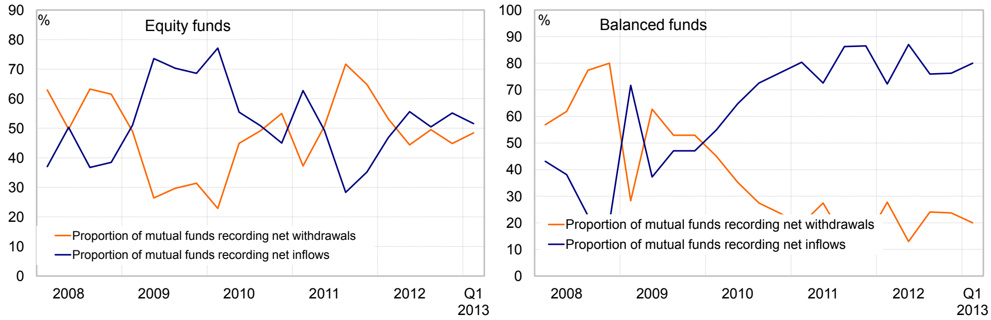
6 Non-banking financial institutions

Figure 6.1: Life expectancy at birth and past projections of life expectancy for women (left) and men (right) from the UK, 1960 to 2026, in years



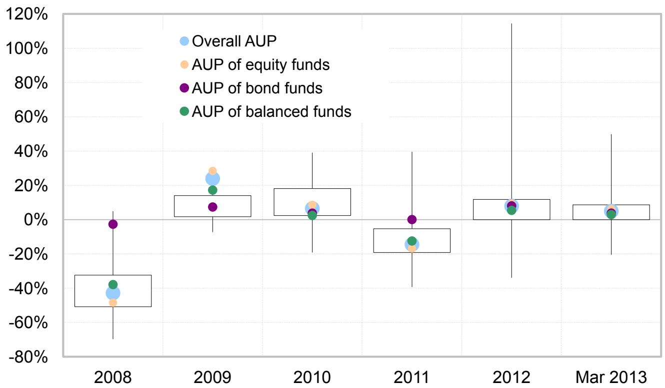
Source: Office for National Statistics

Figure 6.2: Proportion of mutual funds recording net inflows and proportion of mutual funds recording net withdrawals, for equity funds (left) and balanced funds (right)



Source: SMA

Figure 6.3: Distribution of mutual funds in terms of annual return at year end in percentages



Note: As the funds have been ranked according to annual return at the end of the year, only those funds in existence for at least one year are included. The figure shows the variation in annual returns between funds, and the relative standing of particular types of fund compared with mutual funds overall. The rectangles represent the 50% of mutual funds whose annual returns are higher than the bottom quartile of the funds, and lower than the top quartile.

Sources: SMA, own calculations

Table 6.1: Total assets and operating results of insurance companies and reinsurance companies

	2008	2009	2010	2011	2012	2009	2010	2011	2012
	Value, EUR million unless stated otherwise					Growth, %			
	Insurance companies								
Total assets	4,590	5,091	5,435	5,693	6,091	10.9	6.8	4.7	7.0
non-life insurance	2,265	2,335	2,398	2,389	2,504	3.1	2.7	-0.4	4.8
life insurance	2,325	2,755	3,037	3,303	3,587	18.5	10.2	8.8	8.6
Results									
result from general insurance[1]	1.0	19.4	139.2	114.6	131.3	1860.8	615.9	-17.7	14.6
result from voluntary health insurance[1]	10.9	10.8	-5.7	8.5	12.8	-0.7	-152.8	-248.6	51.5
result from life insurance[1]	1.8	27.4	26.1	16.3	34.7	1446.5	-4.8	-37.5	112.6
income from investments	104.0	99.1	98.6	80.1	85.3	-4.7	-0.5	-18.8	6.6
expenses from investments	86.9	69.9	96.2	83.8	77.3	-19.6	37.7	-12.9	-7.7
net profit[2]	2.9	23.1	77.9	99.3	117.5	696.9	237.1	27.5	18.4
ROE, %	0.34	2.99	9.27	10.53	10.77				
ROA, %	0.06	0.48	1.48	1.79	2.00				
	Reinsurance companies								
Total assets	561	570	607	609	671	1.6	6.5	0.4	7.9
Results									
result from general insurance	-0.2	4.3	16.2	17.7	9.9	-2563.7	279.2	9.1	-13.3
income from investments	27.0	18.1	16.6	19.5	16.4	-33.0	-8.3	17.7	6.8
expenses from investments	30.6	21.0	10.1	15.4	7.7	-31.5	-51.7	51.9	-25.9
net profit	-5.7	-5.4	13.2	11.6	9.6	-5.0	-342.4	-12.0	4.5
ROE, %	-3.16	-2.99	7.06	6.00	4.71				
ROA, %	-1.10	-0.96	2.24	1.91	1.49				

Notes: [1]Result from ordinary activities.
[2]Net profit for the accounting period is calculated after taxes.
[3]The figures for reinsurance companies in 2012 relate to the end of the third quarter.
Sources: ISA, Bank of Slovenia calculations

Table 6.2: Capital adequacy of insurance companies and reinsurance companies

	2008	2009	2010	2011	2012	Growth, % 2008	2009	2010	2011	2012
	Insurance companies (total)									
Minimum capital requirement, EUR million	275.2	286.6	300.1	343.5	346.9	5.5	4.1	4.7	14.5	1.0
Surplus, EUR million	144.8	150.1	206.8	358.0	505.1	-34.8	3.6	37.8	73.1	41.1
Surplus / minimum capital requirement, %	52.6	52.4	68.9	104.2	145.6	-38.2	-0.5	31.6	51.2	39.7
	Life insurance									
Surplus / minimum capital requirement, %	60.9	61.1	69.5	128.8	128.8					
Original own funds / net technical provisions, %	10.3	8.6	8.2	13.3	13.3					
	Non-life insurance									
Surplus / minimum capital requirement, %	48.2	47.6	68.6	85.4	146.3					
Original own funds / net written premium, %	36.9	36.0	38.2	38.8	44.2					
	Reinsurance companies1									
Minimum capital requirement, EUR million	26.1	29.0	31.4	35.3	36.9	0.0	11.3	8.6	9.2	4.4
Surplus, EUR million	75.9	50.1	38.8	39.4	42.5	26.1	-34.0	-21.8	-14.8	8.1
Surplus / minimum capital requirement, %	291.4	172.8	123.6	111.3	115.2	26.1	-40.7	-28.0	-22.0	3.5
Original own funds / net written premium, %	105.6	92.2	91.3	101.1	133.5	-1.3	-12.6	36.0	44.5	32.0

Note: [1]The figures for reinsurance companies in 2012 relate to the end of the third quarter.
Sources: ISA, Bank of Slovenia calculations

Table 6.3: Claims ratios for the main types of insurance

	2008	2009	2010	2011	2012
	Insurance companies				
Total	0.62	0.62	0.62	0.63	0.66
Life insurance	0.28	0.32	0.41	0.56	0.68
Voluntary health insurance	0.83	0.82	0.89	0.88	0.85
General insurance	0.71	0.69	0.61	0.56	0.57
motor vehicle liability insurance	0.55	0.57	0.56	0.55	0.55
motor vehicle insurance	0.87	0.89	0.77	0.70	0.73
accident insurance	0.39	0.38	0.37	0.36	0.35
other property insurance	1.04	0.86	0.62	0.52	0.61
fire and natural disaster insurance	1.14	0.69	0.55	0.40	0.42
credit insurance	0.54	0.90	0.99	0.86	0.74
other general insurance	0.61	0.62	0.54	0.48	0.47
	Reinsurance companies				
Total	0.83	0.66	0.53	0.48	0.49

Source: ISA

Table 6.4: Coverage of net insurance technical provisions by the assets covering technical provisions

	2008	2009	2010	2011	2012
Insurance technical provisions, EUR million	3,033	3,464	3,703	3,834	4,048
growth, %	-0.8	14.2	6.9	3.6	5.6
Assets covering technical provisions, EUR million	3,493	4,115	4,489	4,614	4,926
growth, %	4.0	17.8	9.1	2.8	6.8
Assets covering technical provisions / insurance technical provisions, %	115.2	118.8	121.2	120.3	121.7
Assets covering technical provisions / GDP, %	9.4	11.6	12.4	12.8	13.9
Mathematical provisions, EUR million	1,752	2,105	2,346	2,454	2,650
growth, %	0.2	20.2	11.4	4.6	8.0
Assets covering mathematical provisions, EUR million	2,095	2,539	2,838	2,973	3,210
growth, %	2.6	21.2	11.8	4.7	8.0
Assets covering mathematical provisions / mathematical provisions, %	119.6	120.6	121.0	121.1	121.1
Assets covering mathematical provisions / GDP, %	5.6	7.2	7.9	8.2	9.1
Other technical provisions, EUR million	1,281	1,359	1,357	1,380	1,398
growth, %	-2.1	6.1	-0.2	1.7	1.3
Assets covering technical provisions less assets covering mathematical provisions, EUR million	1,398	1,576	1,651	1,641	1,716
growth, %	6.3	12.8	4.7	-0.6	4.5
Assets covering technical provisions less assets covering mathematical provisions / other technical provisions, %	109.1	116.0	121.7	118.9	122.7
Assets covering technical provisions less assets covering mathematical provisions / GDP, %	3.7	4.5	4.6	4.5	4.8

Sources: ISA, SORS, Bank of Slovenia calculations

Table 6.5: Selected indicators for compulsory and voluntary supplementary pension insurance

						Growth, %				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Average no. of policyholders at the PDII (1)	904,084	894,886	881,992	869,869	855,542	2.8	-1.0	-1.4	-1.4	-1.6
Average no. of pensioners[1] (2)	527,933	538,455	552,561	569,951	585,408	1.8	2.0	2.6	3.1	2.7
Ratio (1)/(2)	1.71	1.66	1.60	1.53	1.46	1.1	-3.0	-4.0	-4.4	-4.2
Average pension, EUR[2] (3)	554	570	577	578	565	8.3	2.9	1.1	0.3	-2.3
Net average wage, EUR (4)	900	930	967	987	991	7.8	3.4	3.9	2.1	0.4
Ratio (3)/(4)	0.62	0.61	0.60	0.59	0.57	0.5	-0.5	-2.6	-1.9	-2.7
Average age of new pension recipients										
men	61.9	62.0	61.8	61.8	61.0	0.1	0.1	-0.3	-0.1	-1.2
women	57.6	58.1	58.4	58.7	58.9	0.0	0.9	0.6	0.4	0.4
No. of voluntary supplementary pension insurance policyholders (5)	512,343	532,716	539,650	537,101	507,554	5.2	4.0	1.3	-0.5	-5.5
Workforce in employment (6)	880,252	844,655	818,975	817,311	792,948	1.8	-4.0	-3.0	-0.2	-3.0
Ratio (5)/(6)	0.58	0.63	0.66	0.66	0.64	3.3	8.4	4.5	-0.3	-2.6
Assets, EUR million	1,212	1,528	1,794	1,846	1,801	26.9	26.1	17.4	2.9	-2.4
assets as % of GDP	3.3	4.3	5.0	5.1	5.1	17.6	32.9	15.2	2.6	-0.5
assets as % of household financial assets	3.3	3.9	4.3	4.5	4.8	29.6	16.7	11.1	4.7	6.6
Written premium, EUR million	243	231	233	228	242	10.4	-4.8	0.9	-2.1	5.8
premium as % of PDII tax revenues	7.5	7.0	7.0	6.8	7.2	-0.4	-5.9	-0.5	-2.9	6.3

Notes: [1]Includes recipients of any type of pension: old-age, disability, family, widow's, military, farmer's and state.
[2]Includes old-age, disability, family and widow's pensions, less tax prepayment.
Sources: SMA, ISA, Bank of Slovenia, SORS, PDII

Table 6.6: Structure of pension funds' assets in Slovenia at the end of 2012 and in selected European countries at the end of 2011 in percentages

	Slovenia	Portugal	Austria	Germany	Netherlands
Structure of investments, %					
currency and deposits	18.0	11.8	11.7	2.3	2.2
debt securities	67.5	52.9	51.9	41.0	42.1
shares	1.4	24.5	25.9	3.7	33.5
mutual fund units	10.5				
other	2.6	10.8	10.4	53.1	22.1

Note: OECD figures include investments in investment funds. Their investments are disclosed by type of security.
Sources: ISA, SMA, OECD Pension Markets in Focus, September 2012, Issue 9

Table 6.7: Overview of investment funds: assets and net inflows of mutual funds in EUR million and year-on-year returns in percentages

	Mutual funds				(Authorised) investment companies				Total investment funds	
					Assets					
	Net inflows	Assets		AUP[1]	AICs[2]		ICs[3]		Assets	
	EUR million	EUR million	Growth	Growth	EUR million	Growth	EUR million	Growth	EUR million	Growth
2000	5	45	22%	4%	2,393	-4%	-	-	2,438	-
2001	7	61	37%	23%	2,287	-4%	-	-	2,348	-4%
2002	122	231	277%	54%	1,352	-41%	578	-	2,161	-8%
2003	107	389	68%	17%	550	-59%	894	55%	1,833	-15%
2004	339	877	126%	18%	-	-	1,209	35%	2,086	14%
2005	138	1,385	58%	7%	-	-	835	-31%	2,220	6%
2006	163	1,929	39%	19%	-	-	916	10%	2,845	28%
2007	470	2,924	52%	28%	-	-	1,213	32%	4,138	45%
2008	-304	1,513	-48%	-43%	-	-	398	-67%	1,912	-54%
2009	18	1,856	23%	24%	-	-	377	-5%	2,234	17%
2010	25	2,054	11%	6%	-	-	241	-36%	2,294	3%
2011	-77	1,816	-12%	-14%	-	-	0	-100%	1,816	-21%
2012	-109	1,835	1%	8.2%	-	-	0	0%	1,835	1%

Notes: [1] AUP: average unit price
[2] PIDs: authorised investment companies (privatisation funds)
[3] ICs: investment companies

Sources: AMC, SMA, LJSE, own calculations

Table 6.8: Assets of EU and Slovenian investment funds in EUR billion and in percentages

		Asset value	Annual growth	Breakdown by asset type, %				
		EUR billion	(%)	Equity	Bond	Balanced	Money-market	Other
EU	2008	4,593	-25.4	30	23	16	25	6
	2009	5,299	16.7	34	23	16	21	6
	2010	5,990	11.5	34	25	17	18	5
	2011	6,481	8.2	33	27	16	19	5
	2012	6,560	1.2	33	29	16	16	5
Slovenia	2008	1.5	-48.8	63	2	33	1	0
	2009	1.8	21.6	63	2	34	1	0
	2010	2.3	11.3	64	3	32	1	0
	2011	1.8	-11.5	66	5	28	1	0
	2012	1.8	1.0	68	5	26	1	0

Sources: Bank of Slovenia, EFAMA

Table 6.9: Investment funds: number, assets and net inflows in EUR million and returns in percentages

						Stopnje rasti (v %)				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Number										
total	127	128	133	140	134	15.5	0.8	3.9	5.3	-4.3
equity	95	96	100	103	99	18.8	1.1	4.2	3.0	-3.9
bond	10	10	11	13	10	0.0	0.0	10.0	18.2	-23.1
balanced	16	16	16	17	18	6.7	0.0	0.0	6.3	5.9
money-market	2	2	2	3	4	0.0	0.0	0.0	50.0	33.3
other	1	1	1	1	3	-	0.0	0.0	0	200.0
Assets										
domestic mutual funds, EUR million	1,513	1,856	2,054	1,816	1,835	-48.2	22.7	9.6	-11.5	1.0
equity, % of total	63	63	64	66	68	-6.8	-0.0	1.2	3.1	2.4
bond, % of total	2	2	3	5	5	78.6	-0.4	29.7	66.7	-1.3
balanced, % of total	33	34	32	28	26	9.4	1.0	-5.8	-12.5	-6.9
bank-owned, % of total	33	39	36	40	39	20.1	15.2	-5.7	9.8	-2.3
non-bank, % of total	67	61	64	60	61	-7.8	-7.6	3.3	-5.6	1.5
foreign mutual funds, EUR million	130	189	217	142	144	-64.7	45.8	12.8	-34.4	1.1
Net annual inflows										
domestic mutual funds, EUR million	-304	18	25	-77	-109	-164.6	-106.0	25.6	-414.9	41.3
equity, % of total	-200	66	37	24	44					
bond, % of total	-5	2	24	13	2					
balanced, % of total	-105	35	37	53	51					
bank-owned, % of total	28	52	19	74	74					
non-bank, % of total	72	48	81	26	26					
foreign mutual funds, EUR million	-55	-4	-11	-25	-21					
Annual growth in AUP, %										
total	-43	24	6	-14	8					
equity	-48	28	9	-16	9					
bond	-3	7	4	1	13					
balanced	-38	17	2	-12	5					
bank-owned	-35	26	8	-10	7					
non-bank	-46	23	6	-17	9					

Note: The figures for foreign mutual funds only include those officially marketed in Slovenia.
Sources: SMA, own calculations

Table 6.10: Breakdown of investment fund investments by type in percentages

(%)	2008	2009	2010	2011	2012
Mutual funds					
shares	21	22	17	16	15
bonds	7	6	5	4	4
bank deposits	11	10	8	7	8
foreign investments	58	62	70	72	73
other	3	0	0	0	0

Source: SMA

Table 6.11: Overview of the regulated securities market in EUR million and in percentages

	Market capitalisation (EUR million)	Market capitalisation (as % of GDP)	Volume (EUR million)	Volume (as % of GDP)	Turnover velocity	Annual change in SBI TOP, %
2002	9,073	39.2	2,007	8.7	0.221	-
2003	10,190	40.6	1,420	5.7	0.139	-
2004	12,726	47.0	1,655	6.1	0.130	29.3
2005	13,395	46.7	1,840	6.4	0.137	2.8
2006	18,838	60.8	1,805	5.8	0.096	56.6
2007	26,696	77.4	3,324	9.6	0.125	71.0
2008	15,488	41.7	1,286	3.5	0.083	-66.1
2009	19,668	56.2	904	2.5	0.046	15.0
2010	20,453	57.1	493	1.4	0.023	-13.5
2011	19,332	54.7	454	1.3	0.023	-30.7
2012	17,664	49.8	360	1.0	0.020	7.8

Sources: LJSE, SORS

Table 6.12: Number of issuers and issued securities on the Ljubljana Stock Exchange and number of registered securities at the CSCC

	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
LJSE						Year-on-year change				
number of issuers	107	97	88	76	70	-12	-10	-10	-14	-8
number of issued securities	187	174	158	139	124	-1	-13	-10	-12	-11
shares	86	85	75	68	63	-3	0	-13	-9	-7
bonds	90	85	79	70	60	1	-5	-8	-11	-14
investment companies	4	4	4	1	1	-3	0	0	-75	0
number of members	23	25	25	27	23	-1	2	0	8	-15
CSCC						Proportion of LJSE issuers and securities at CSCC, %				
number of issuers	764	742	738	700	660	14	13	12	11	11
number of issued securities	943	912	891	841	803	20	19	18	17	15
shares	821	795	792	754	659	10	11	9	9	10
bonds	111	107	94	87	28	81	79	84	80	214
investment companies	4	4	4	1	1	100	100	100	100	100

Sources: LJSE, CSCC

Outward investments by residents

Table 6.13: Investments by residents in securities issued in the rest of the world in EUR million and in percentages

	2008	2009	2010	2011	2012
Growth in investments in rest of the world, %	-21.6	4.8	4.9	-10.7	1.8
Total investments in rest of the world, EUR million	7,655	8,041	8,458	7,557	7,694
	Breakdown by sector, %				
Banks	55	47	47	41	42
Other financial intermediaries	12	15	16	16	31
Insurers	24	27	26	31	18
Households	4	6	6	6	6
Corporates	1	2	2	2	1
Other	4	3	4	3	3

Sources: CSCC, Bank of Slovenia, own calculations

Inward investments by non-residents

Table 6.14: Investments by non-residents in securities issued in Slovenia in EUR million and in percentages

	2008	2009	2010	2011	2012
Growth in investments by non-residents, %	5	40	21	19	-8
Total investments by non-residents, EUR million	5,295	8,855	11,219	13,371	12,304
	Breakdown by domestic sector, %				
Corporates	36	21	18	15	16
Banks	29	18	14	12	12
Other financial intermediaries	3	1	1	1	1
Insurers	2	2	1	1	1
Government	30	58	66	72	70

Sources: CSCC, Bank of Slovenia, own calculations

Exposure to debt securities from euro area periphery countries

At the end of March 2013, Slovenian residents held EUR 387.5 million in debt securities from Portugal, Ireland, Italy, Greece and Spain, down 7.4% on last March. This year's stock represented 8.6% of total investments in foreign debt securities. Italy and Spain account for the largest proportion of investments in debt securities from euro area periphery countries (50.4% and 31.3% of the total respectively), while Greek debt securities account for a negligible 1.4%. Slovenian residents also reduced their investments in debt securities issued by other countries, by 6.3%. Slovenian residents' investments in Cypriot debt securities amounted to just EUR 2.5 million in March 2013, less than half of the stock of investments in Greek debt securities.

Table 6.15: Exposure of Slovenian institutional sectors to the debt securities of the periphery countries at the end of March 2013 in EUR million

	Investments in debt securities of periphery countries, EUR million			Proportion of sector's investments in debt securities accounted for by periphery countries, %		
Sector	Bank DS	Government DS	Other DS	Bank DS	Government DS	Other DS
Non-financial corporations	0.1	0.2		0.2	0.5	
Banks and savings banks	39.2	98.0	4.4	2.2	5.6	0.3
Other financial intermediaries	0.4	5.7	9.2	0.2	3.5	5.7
Financial auxiliaries						
Insurance corporations and pension funds	75.3	66.6	82.4	3.1	2.8	3.4
Government		3.4	1.8		3.8	1.9
Households	0.6	0.1	0.2	1.2	0.2	0.4
Non-profit institutions						
Overall	115.5	174.0	98.0	2.6	3.9	2.2

Note: DS: debt securities.
Source: Bank of Slovenia

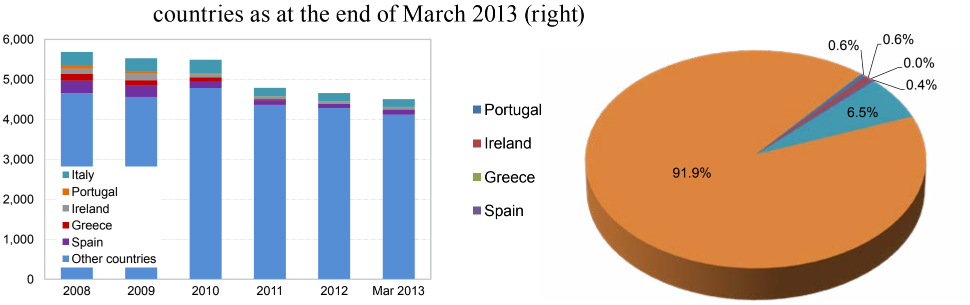
The insurance and banking sectors held the largest proportions of Slovenian residents' investments in the debt securities of Portugal, Ireland, Italy, Greece and Spain in March 2013, at 57.9% and 36.5% respectively. The banking sector reduced its exposure to bank debt securities from euro area periphery countries by more than a half in year-on-year terms to EUR 39.2 million, while the insurance sector's structure remained unchanged. The banking and insurance sectors are also the prevalent investors in euro area periphery securities in the euro area overall. Banks' and insurers' investments in bank bonds and government bonds account for almost three-quarters of Slovenian residents' total investments in debt securities of euro area periphery countries.

Table 6.16: Exposure of Slovenian institutional sectors to the debt securities of issuers in the euro area and other countries at the end of March 2013

	Investments in euro area debt securities, EUR million			Investments in debt securities of other countries, EUR million		
Sector	Bank DS	Government DS	Other DS	Bank DS	Government DS	Other DS
Non-financial corporations	8		26	1		1
Banks and savings banks	482	941	49	142	128	13
Other financial intermediaries	17	21	71	13	9	31
Financial auxiliaries						
Insurance corporations and pension funds	467	644	563	207	232	299
Government	6	39	14	3	20	8
Households	16	2	10	8	3	9
Non-profit institutions						
Overall	997	1,647	734	375	393	361

Note: DS: debt securities.
Source: Bank of Slovenia

Figure 6.4: Regional percentage breakdown of residents' investments in the periphery countries and other countries in EUR million (left) and regional percentage breakdown of the Slovenian banking system's investments in bank bonds and government bonds from the periphery countries and other euro area countries as at the end of March 2013 (right)



Source: Bank of Slovenia