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REPORT

ON SUPERVISION OF BANKING OPERATIONS IN THE YEAR 2000 AND THE FIRST HALF OF 2001

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In accordance with the third paragraph of Article 54 of the Law on the Bank of Slovenia (Official Gazette of the Republic of Slovenia, No. 1/91 – I) and Article 2 of the Decision on the Enforcement of Supervision of the National Assembly of the Republic of Slovenia on Operations of the Bank of Slovenia (Official Gazette of the Republic of Slovenia, No. 7/99), this Report on Supervision of Banking Operations in 2000 and the First Half of 2001 has been presented to the National Assembly of the Republic of Slovenia.

The purpose of this Report is to give an overview of the legal authority conferred upon the Bank of Slovenia regarding supervision of the banking system and the payment systems reforms. As it has been done over the past few years, the Report focuses on the most significant events in Slovenia's banking industry in 2000 and the first half of 2001.

In our efforts to promote general stability of the banking system, and to encourage transparency of operations conducted by credit institutions, as well as of products and services offered by them and standards they adhere to, we are releasing this Report to the general public.

Copies of the Report are available from the Bank of Slovenia, Banking Supervision Department, SI – 1505 Ljubljana, or via the Bank of Slovenia website at www.bsi.si.

MISSION STATEMENT

By fostering effective banking supervision, the Banking Supervision Department promotes safety and soundness of banking operations.

OBJECTIVE

The primary responsibility of the Banking Supervision Department is to ensure depositor protection and thereby maintain the stability of the financial system and boost confidence in the financial intermediation system as a whole. Effective banking supervision the Banking Supervision Department subscribes to shall be the underlying objective and its fulfilment lies with all organisational units and people who exercise powers conferred upon the Banking Supervision Department.

PHILOSOPHY

We are committed to promoting the safety and soundness of the credit institutions. The principles we advocate within the framework of market economy assume that banks are managed by professionals chosen by the owners who lay down the guidelines to be adhered to. The Banking Supervision Department must not make decisions instead of the owners and must not interfere with the responsibilities conferred upon management teams of credit institutions. Banking supervisors must be satisfied that effective policies and practices are in place and that management takes necessary remedial actions in response to weaknesses identified by internal and external auditors. Regular open communication between the Banking Supervision Department on the one hand and credit institutions on the other help keep up the standards of safe and sound banking, while appropriate corrective actions taken by the Bank of Slovenia are yet another tool of effective supervision.

ROLE OF MANAGEMENT AND INTERNAL AUDITORS

Management teams that are at the helm of credit institutions have responsibility not only to owners but also to regulators, who strive to encourage sound practices throughout the financial system by being relentless in enhancing supervision of credit institutions and other related undertakings. These efforts have been essential components of a functioning economic environment. As regards ensuring responsibility of bank management for safety of banking operations, it is their duty to introduce clearly defined rules as to management of all kinds of risks banks are exposed to. Banks cope with industry-related risks by setting up a system of internal controls. With regard to supervision of both owners and regulators, banking supervisors must require from bank management to set out in writing rules to be followed and mechanisms deployed for the purpose of risk management. As for benchmarking business results, bank management teams must have in place long-term business strategy, which shall be implemented by means of business policies tailored for each area of banking operations. A step further is the need to have in place a well-developed internal audit department, which is in charge of monitoring and assessing the adequacy and appropriateness of aforementioned functions, and who shall promptly notify bank directors on findings and put forward recommendations. It is essential that bank directors and senior officers recognise the role and importance, as well as the scope of responsibilities conferred upon the internal audit department, and to duly consider its findings and recommendations. To keep this communication channel navigable is in the best interest of both sides.

REPORT

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INTRODUCTION

MACROECONOMIC ENVIRONMENT

Economic activity in the international environment has been slowing down lately. According to the estimate made by the International Monetary Fund in May 2001, global economic growth is expected to reach 3.2 per cent, while economic growth in the EU is expected to be 2.4 per cent.

Following trends in the international environment, the dynamics of economic growth in Slovenia has been reduced as well. Last year's growth of real gross domestic product averaged 4.6 per cent even though there was a considerable drop in the last quarter of 2000. Mainly driven by exports, first-quarter growth in 2001 decreased to 3.1 per cent. Only government consumption has slightly exceeded other components of domestic consumption although it has been below GDP growth rate. Household spending has been rather flat despite a relatively fast rise in wages and salaries, while investments have actually taken a downward turn. Although foreign demand has slackened, the growth of exports has remained rather high.

Inflation has been below 10 per cent over the past year. High growth in consumer prices during this period has been fuelled mostly by exogenous factors and a rise in government-regulated prices. Exogenous factors pushing up domestic prices have been primarily oil price hike in world markets, accelerated inflation abroad and a high exchange rate of the US dollar against the euro.

The current account of the balance of payments has been improving and during the first five months of 2001 a slight deficit was posted. Exporters have managed to make up for weaker demand from the EU Member States by exporting to the markets of former Yugoslavia and the former Soviet Union. Due to low domestic consumption, growth in imports has been equally modest.

In spite of high financial inflows on the account of foreign direct investment, the rise in foreign exchange rate has been relatively stable. These foreign exchange inflows have been the main reason for accelerated growth of broad money.

During the first half of the year, monetary policy was moderately restrictive. The Bank of Slovenia purchased excess supply of foreign exchange arising from inward capital flows and sterilised it by issuing bills denominated in tolars.

DEVELOPMENTS IN SLOVENIA'S BANKING ENVIRONMENT IN 2000 AND THE FIRST HALF OF 2001

Financial stability is among key concerns of the international community around the globe and Slovenia cannot and will not be an exception when coping with its challenges. The global approach to the issue of financial stability is a result of a number of factors but it is primarily assessed from the point of increasing free flow of capital between countries, integration of financial markets, and linking up of different financial institutions. These movements call for more commitment to and consistent observance of internationally accepted standards, as well as a close co-operation between regulatory and supervisory institutions at international, regional and national levels. To operate in conformity with international standards and internationally accepted principles is essential when striving to achieve financial stability. In this context, international high-profile institutions such as the Bank for International Settlements i.e. Basel Committee on Banking Supervision, the World Bank, and the International Monetary Fund, provide gzidelines or exercise pressure on individual supervisory authorities to strive for consistent implementation of accepted standards and principles. To comply with these requirements, at the Banking Supervision Department we constantly adopt, review and amend legislative framework, as well as supervisory procedures and approaches.

For the purpose of safeguarding financial stability, international institutions have put in place a series of key standards. We will mention just a few of them: the Code of Good Practices on Transparency in Monetary and Financial Policies, and the Code of Good Practices on Fiscal Transparency, International Accounting Standards, Core Principles for Systemically Important Payment Systems, the Forty Recommendations of the Financial Action Task Force on Money Laundering, Objectives and Principles of Securities Regulation issued by the IOSCO, Insurance Core principles etc. As regards the area of banking supervision and surveillance, the Core Principles for Effective Banking Supervision (hereinafter referred to as the Core Principles) issued by the Basel Committee on Banking Supervision remains the key document. As regards the regulatory and supervisory framework for banking, Slovenia was assessed in November 2000 under the Financial Sector Assessment Program (FSAP) jointly conducted by the International Monetary Fund and the World Bank. We wish to refer here to the main findings under the FSAP, which concludes that the Slovenian banking sector has developed into a sound and safe system endowed with adequate capital, and apparently robust to a range of external shocks and does not create significant macroeconomic risk. The findings that Slovenia is compliant or largely compliant with the majority of the Core Principles have grossly confirmed the findings of the self-assessment made already in 1999. Observance of the Core Principles, i.e. addressing the business areas where the degree of compliance is assessed as partial, are regarded as a priority task and the line for development in near future. At the same time, the FSAP team also revealed certain weaknesses of banking supervision and the banking system, primarily in relation to relatively high exposure to connected persons, consolidated supervision, and market risks. The recommendations arising from the FSAP assessment have fallen on the fertile ground resulting in additional time-bound actions being launched by the respective departments of the Bank of Slovenia. Thus the larger part of the recommendations made are already in place. Full implementation and compliance with the Core Principles is expected to be achieved by the end of 2002.

Further implementation of regulatory standards through the promulgation of secondary legislation has brought the Slovenian banking practice a step closer to the modern developed banking systems, and is to contribute further to cementing financial stability. We wish to refer in the first place to the deposit-guarantee scheme for the insurance of deposits placed with banks, the principles of consolidated supervision, and capital requirements designed to act as a cushion for market risks. We are aware that the last two mentioned areas are rather complex and huge efforts will be necessary to implement the regulatory framework at a high quality level.

The figures illustrating the performance of the Slovenian banking system in 2000 and in the first half of 2001 reveal adequate soundness and stability of the banking system. In 2000, some positive trends were recognised. Stability and confidence in the banking sector may best be seen through a rise in long-term deposits placed by clients and this figure has grown more vigorously in the group of long-term deposits than in any other segment.

During the period under review, the structure of the banking system and the number of banks operating in Slovenia remained unchanged. Although the ratification of the Europe Agreement between the Republic of Slovenia and the European Union and the promulgation of the Banking Act in 1999 have opened up the domestic banking environment, the number of foreign banking institutions has not increased. Despite expectations, the process of consolidation of the banking system has not gained momentum and its full blast is likely to reach Slovenia’s banking environment in the second half of 2001 and in 2002 when mergers and acquisitions should pick up pace judging by the intensity of the activities already launched in this direction. The concentration of banks remains unchanged, and the share of the leading seven banks continues to be 73 per cent. The first steps to privatise the two state-owned banks have already been made. Considering the pace of activities carried out by the government, it is to be expected that privatisation-related activities will gain full momentum over the next business year.

Nominal growth in total assets posted by the banks in 2000 totalled 18.8 per cent. When inflation is taken into account, real growth notched 9.1 per cent - a considerably higher growth rate in comparison to 1999. Furthermore, growth achieved in the banking sector outpaced growth rates posted by other sectors of the national economy. The share of aggregate assets of the banking sector in GDP at the end of 2000 was approximately 81 per cent and this figure ranks Slovenia on the very top of transition countries but it also puts Slovenia considerably behind the Member States of the European Union.

Inflationary movements were unfavourable throughout 2000 and in the first half of 2001 mainly as the result of a sharp rise in prices of crude oil in international markets and the soaring exchange rate for the US dollar. In 2000 and the first half of 2001, the inflation rate varied between 8 and 10 per cent causing also a rise in the base interest rate and spilling over to lending and deposit interest rates. A hike in interest rates and a higher 'inflation' profit also pushed up interest margin, which after becoming thinner for three-years (from 4.9 per cent in 1997 to 4.0 per cent in 1999) took an upward turn and hit 4.5 per cent in 2000. At the end of June 2001, interest margin fell again and landed at 4.1 per cent. Since operating costs, which accounted for 3.4 per cent of average total assets, remained unchanged in comparison to the previous year, the banking system generated a record high 69.8 billion tolars in net income (after two years of falling in real terms, it jumped by 50 per cent year-on-year). High net income enabled making additional provisions against potential losses. Thus the banking sector earmarked in 2000 a hefty amount of 37.2 billion tolars for additional net provisions or by 10.8 billion tolars more than in 1999. Setting aside funds for additional provisions is undoubtedly a positive sign that the banks are fully aware of the risks they are exposed to in the normal course of business, even though the corporate (real) sector enjoyed good results in 2000. The Bank of Slovenia played an important role in the processes of making the banking institutions wary of the fact that the bulk of problematic lending dates back to the periods of prosperity. A large chunk of assets allocated to additional provisions did not prevent the banking system from generating 32.6 billion tolars in profit and a sound 1.1 per cent return on average assets i.e. 11.3 per cent return on average equity in 2000.

Capital adequacy of banks continued to decrease during the period under review, but the decline was below the figures posted over the past six years. Capital adequacy ratio was 13.5 per cent at the end of the year (in 1999: 14.0 per cent and in 1998: 16.0 per cent) and still remains well above minimum regulatory requirement set at 8 per cent.

Globalisation of financial activities calls for closer co-operation with foreign supervisory institutions; hence during the period under review, in addition to the Memorandum of Understanding (MOU) signed with the State of New York Banking Department, a Memorandum of Understanding was concluded with Austria's Federal Ministry of Finance (Bundesministerium für Finanzen), Germany's Bundesaufsichtsamt and the National Bank of Macedonia. There are activities under way to conclude a formal statement of co-operation with the supervisory authorities of Bosnia and Herzegovina, France and Italy.

The adoption of the strategic plan for the development of the Banking Supervision Department for the period 2000-2003 early in 2000 endorsed the principal guidance and the need for new recruits for the Department. A pro-active human resource policy is regarded as a key factor for effective implementation of new requirements under the New Capital Accord and other requirements governing in the international environment.

In addition to other tasks, the focus on the high standard of banking supervision in 2000 and 2001 took the centre stage of the activities carried on at the Banking Supervision Department, *viz.*:

- Consistent implementation of the recommendations arising from the FSAP report,
- Raising the degree of compliance with the Core Principles,
- Keeping abreast with international developments in the area of banking supervision and its implementation in the domestic banking practice,
- Professional training of participants in financial markets with focus on the significance of financial stability and oversight of banking operations,

- Enhancing supervision of financial institutions connected to banks in the country and abroad,
- Evaluating corporate governance for the entire banking group,
- Continuing to upgrade supervisory practices in relation to market risks,
- Implementing ‘stress’ tests throughout the country’s banking system,
- Paying more attention to oversight of electronic banking,
- Putting more weight on management and control of all kinds of banking risks, including operational risk and effective internal controls systems within the framework of on-site examinations,
- Organising professional training for people working in or connected with the banking sector,
- Continuing to build co-operation with other domestic supervisors,
- Signing a statement of co-operation or a memorandum of understanding with supervisory authorities of those foreign countries where there is mutual interest for co-operations,
- Monitoring the progress of alignment of savings and loan undertakings with the provisions of the Banking Act,
- Continuing with a pro-active human-resources policy in accordance with the strategic orientation endorsed by the Banking Supervision Department, and
- Hosting a seminar or a workshop on risk management in the banking environment.

I. DEVELOPMENTS RELATED TO BANKING SUPERVISION

1. PRUDENTIAL SUPERVISION OF FINANCIAL INSTITUTIONS IN SLOVENIA

Supervision of financial institutions in Slovenia carried on by three supervisory authorities

Responsibility to oversee individual segments of the financial system in Slovenia is vested in several institutions. The Bank of Slovenia performs supervision of banks (including the Slovene Export Corporation – banking division) and savings banks. Supervision of savings and loan undertakings established prior to the entry into force of the Banking Act is being transferred to the Bank of Slovenia. Within five years after the effectiveness of the Banking Act at the latest, Slovenian savings and loan undertakings will be obliged to fully harmonise their operations with the provisions laid down in the Banking Act.

The Securities Market Agency is a self-governing and independent legal person that oversees stock-broking companies, management companies, investment funds and some other institutions (the Central Securities Clearing Corporation, Ljubljana Stock Exchange, etc.).

The Insurance Supervisory Agency started to discharge its functions on 1 June 2000[1] as a self-governing and independent legal person responsible for supervision of insurance companies[2], Nuclear Pool, Slovenian Insurance Association – Claims Fund, Slovene Export Corporation - insurance operations, Kapitalska družba pokojninskega in invalidskega zavarovanja (Pension Fund Management) – operations involving voluntary pension insurance, insurance agencies and intermediary undertakings, insurance representatives and intermediaries, as well as some other persons.

For the purpose of illustrating the nature and composition of supervision, here are the selected figures relevant to the size of the key segments of Slovenia's financial system.

Aggregate total assets of credit institutions accounted for nearly 81% of GDP at end-2000.

The number of banks in Slovenia at the end of 2000 was 25 and their total assets amounted to 3,192.8 billion tolars plus three savings banks with total assets in the amount of 12.3 billion tolars. The share of aggregate total assets of these institutions in gross domestic product (hereinafter referred to as GDP) at the end of the year 2000 was a hefty 79 per cent and together with the savings and loan undertakings total assets accounted for almost 81 per cent of GDP. Supervision of these institutions was conducted by 44 employees (as at 30 June 2001: 46 employees) working in the Banking Supervision Department within the framework of the Bank of Slovenia.

At the end of 2000, the Securities Market Agency was in charge of supervising 36 stock-broking companies[3], 21 management companies[4], 43 authorised investment companies, and 19 mutual funds. To oversee these institutions was the task entrusted to a 29-strong staff at the end of the year 2000.

Share of assets held by stock-broking companies accounted for 20.4% of GDP at year-end.

Stock-broking companies posted as at 31 December 2000 investments made for their own account in the amount of 230.5 billion tolars (5.7 per cent of GDP), 21.1 billion tolars in assets under management (0.5 per cent GDP) and 572.3 billion tolars in assets invested for the account of third parties (14.2 per cent of GDP). Hence the sum of assets was 823.9 billion tolars (20.4 per cent of GDP) - a 26.2 per cent growth in comparison to 1999. Total assets of authorised investment companies as at 31 December 2000 totalled 573.5 billion tolars, posting a 4.3 per cent drop year-on-year.

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1 Prior to 1 June 2000, supervision of the insurance sector was conducted by the Insurance Supervisory Authority of the Republic of Slovenia, set up within the framework of the Ministry of Finance.

2 The term insurance company encompasses both the insurance company, which carries on direct insurance, as well as the insurance company, which engages in re-insurance business.

3 Including 11 banks authorised to engage in securities trading.

4 Ten management companies manage authorised investment companies only, two manage mutual funds only, and the remaining nine manage both types of funds.

These assets accounted for 14.2 per cent of GDP including unused privatisation vouchers still averaging almost a third of all assets. Total assets of mutual funds swelled by 22.4 per cent topping 10.7 billion tolars (0.26 per cent of GDP). In other words, management companies had the aggregate amount of 584.2 billion tolars in assets under management.

Total assets of insurance and re-insure companies accounted for 8% of GDP at year-end.

A cross-section of the situation in Slovenia at the end of 2000 shows that there were 14 insurance companies (11 insurance companies carrying on insurance transactions and three insurance companies specialising in reinsurance deals), 299 intermediary companies and agencies providing selling insurance products, Slovene Export Corporation, Kapitalska družba (Pension Fund Management), Nuclear Pool and the Slovenian Insurance Association – claims fund. Total assets posted by the insurance companies (excluding the Slovene Export Corporation and the Nuclear Pool) totalled 273.8 billion tolars as at 31 December 2000 (these are unaudited figures), while total assets of reinsurance companies totalled 48.1 billion tolars thus adding up to 321.8 billion tolars (8 per cent of GDP). Gross calculated premium in 2000 totalled 190.6 billion tolars (4.7 per cent of GDP). This figure comprises 105.6 billion tolars, i.e. 55.4 per cent charged on property, 49.8 billion tolars, i.e. 26.1 per cent charged on voluntary health insurance, and 35.1 billion tolars, i.e. 18.5 per cent arising from life assurance.

Table 1: The structure of financial institutions

Type of financial institution	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000
Banks	33	31	28	24	25	25
Savings banks	10	7	6	6	6	3
Savings and loan undertakings	72	71	70	70	68	64
Investment firms*	44	46	43	42	42	36
Management companies	28	26	26	23	22	21
Authorised investment companies	68	72	60	46	46	43
Mutual funds	18	15	15	15	17	19
Insurance companies	12	12	13	13	13	11
Reinsurance companies	2	2	2	3	3	3

* Including 11 banks authorised to engage in securities trading.
Source: Bank of Slovenia, Securities Market Agency, Insurance Supervisory Agency

Table 2: Exposure of banks and savings banks to stock-broking companies, authorised investment companies, management companies as well as insurance companies

in millions of tolars, in %

	31 Dec 1998		31 Dec 1999		31 Dec 2000		30 Jun 2001	
	Amount	Share in agregate exposure	Amount	Share in agregate exposure	Amount	Share in agregate exposure	Amount	Share in agregate exposure
Stock-broking companies	6,257	0.22	10,178	0.32	7,755	0.20	7,746	0.18
Authorised investment companies	2,738	0.10	6,046	0.19	13,293	0.35	14,003	0.33
Management companies	6,414	0.23	7,813	0.25	8,705	0.23	8,973	0.21
Insurance companies	7,296	0.26	9,557	0.30	15,283	0.40	12,707	0.30
Total	**22,705**	**0.81**	**33,594**	**1.06**	**45,035**	**1.18**	**43,429**	**1.02**

Source: Bank of Slovenia

2. FINANCIAL SECTOR ASSESSMENT PROGRAM IN SLOVENIA

Members of the FSAP team made the assessment of compliance with the Core Principles.

In November 2000, the International Monetary Fund (IMF) in co-operation with the World Bank conducted in Slovenia the so-called Financial Sector Assessment Program (hereinafter referred to as the FSAP). It took two weeks for the members of the FSAP team to prepared an evaluation of Slovenia's financial sector and compliance of supervisors of financial institutions with the Core Principles for Effective Banking Supervision (hereinafter referred to as the Core Principles), with the Objectives and Principles of Securities Regulation issued by the IOSCO, with the Insurance Core Principles of IAIS and with the Core Principles for Systemically Important Payment Systems issued by the Basel Committee on Payment and Settlement Systems.

The assessment of the banking sector and compliance of the Bank of Slovenia as a banking supervisor with the Core Principles adopted by Basel Committee on Banking Supervision in September 1997, was made on the basis of a self-assessment made by the Bank of Slovenia in August 1999 (after the Banking Act came into effect in February 1999). That was the second self-assessment made by the Bank of Slovenia with the aim to benchmark Slovenia's compliance with the Core Principles (the first self-assessment was made in June 1998 when the old Law on Banks and Savings Banks was still in force).

Slovenian banking system is regarded as safe and sound, and well capitalised.

The findings made by the members of the FSAP team show that the Slovenian banking system has evolved in a sound and safe system with a strong capital base. Since it appears robust to a series of external impacts, it does not pose a macroeconomic risk. According to the FSAP team, a drawback of the Slovenian banking system is the fact that it has evolved in a largely protected environment in which limited competition has inhibited consolidation and is still dominated by the largest banks which are controlled by the state. Despite a strong supervisory framework, there is room for improvement in the areas of lending to connected persons, market risks, as well as in the area of consolidated supervision.

A comprehensive action plan has been developed along the lines of the mission's assessment.

On the basis of the findings and overall assessment of the FSAP team, the Banking Supervision Department started to prepare an action plan designed to address the outstanding issues. The Governing Board of the Bank of Slovenia endorsed the proposed Action Plan at its session held on 16 January 2001.

The Banking Act was modified and amended in July 2001 to reflect the recommendations made by the FSAP team.

As regards the Banking Act, it is, on the one hand, largely harmonised with the European Banking Directives. On the other hand, as pointed out in the FSAP, there are areas where, according to the opinion of the members of the mission, modifications and/or amendments shall be introduced. On the basis of these findings, the Ministry of Finance in co-operation with the Bank of Slovenia proposed modifications and amendments to the Banking Act, which were adopted in July 2001. In June 2001, the Act on Modifications and Amendments to the Company Act was passed. Since certain findings of the members of the FSAP team address some highly complex areas of banking operations such as supervision on a consolidated basis, capital requirements for market risks, lending to connected persons, etc., to implement the Core Principles in these areas asks for time and knowledge commensurate to the sophistication of the task.

The Banking Supervision Department monitors the implementation of the Action Plan and reports to the IMF and the World Bank on its progress. A breakthrough was achieved by promulgating modifications and amendments to the Banking Act in July 2001 to be followed by modifications and amendments to the respective secondary legislation issued by the Bank of Slovenia. The Act on the Modifications and Amendments to the Banking Act incorporates most of the recommendations made by the FSAP team. At the same time, it was a chance to fine-tune some of the provisions of the Banking Act with the European Directives. The modifications and amendments to the Banking Act also address exposure to persons in a special relationship with the bank. As of the entry into force of the act amending the 1999 Banking Act, any such exposure of the bank to connected persons will be subject to approval of the supervisory board.

As regards the area of consolidated supervision, the banks have started to send to the Bank of Slovenia in addition to quarterly reports on the composition of banking groups, the following documents: financial statements, reports on capital, large exposure and investments in equity holdings in non-financial institutions and tangible fixed assets. The banks were obliged to present such reports for the first time by 31 March 2001 as at 31 December 2000. In 2001, the examiners of the Bank of Slovenia independently conducted two on-site examinations in subsidiaries of banks and one examination in co-operation with the Market Securities Agency and the Insurance Supervisory Agency.

A special task force was formed in the Banking Supervision Department composed of three examiners, one analyst and one regulator whose task is to evaluate the methodology for conducting supervision on a consolidated basis.

The New Decree on Capital Adequacy also addresses the issue of market risks.

As regards modifications to capital requirements, the Decree on Capital Adequacy of Banks and Savings Banks addressing also the area of market risks was adopted in February 2001. Due to the complexity of changes to information systems and all other new requirements, the implementation of said the Decree is postponed for one year.

For the purpose of equipping several examiners with adequate experiences so as to make them qualified for the area of market risks, the Banking Supervision Department has engaged a former examiner of the Office of the Comptroller of the Currency highly qualified in the area of on-site supervision related to market risks. A special working group for market risks has been formed by assigning three examiners, one expert for accounting, and one regulator. The work has already started. During the first phase, the subject of market risks in Slovenia was defined and two examinations were carried out in banks, while in the second phase scheduled for autumn 2001, instructions on the implementation of the Decree on Capital Adequacy will be drawn up. Furthermore, it is planned to prepare practical examples for the calculation, recommendations for trading operations and to revise the section on market risks in the Examination Manual for Supervision of Banks.

As regards supervision of credit risks, a paper highlighting good banking practice in disclosing credit risks and the principles of credit risk management has been distributed to the banks. These guidelines have been prepared along the lines of the publications issued by the Basel Committee on Banking Supervision. The examiners of the Bank of Slovenia will pay particular attention to the observance of the said principles, i.e. standards when conducting on-site examinations of banks and savings banks.

Headway in the area of consolidated supervision

There has been a substantial progress in consolidated supervision of subsidiaries of banks, branches and other controlled undertakings abroad. To facilitate supervisory processes, memoranda of understanding (MOUs) have already been concluded with the State of New York Banking Department, Austria's Federal Ministry of Finance (Bundesministerium für Finanzen), Bundesaufsichtsamt in Germany and the National Bank of Macedonia. Negotiations are still under way with the Agency for Banking of the Federation of Bosnia and Herzegovina, as well as with Republika Srpska, the Central Bank of Bosnia and Herzegovina, France's Commission Bancaire, and Banca d'Italia (an informal pipeline for the exchange of information with the Italian central bank has been in place since 1998).

A draft memorandum of understanding between the Bank of Slovenia and audit companies has been prepared along the lines of the papers (publications) issued by the Basel Committee on Banking Supervision. The draft takes account of the relationship between banking supervisors and external auditors and makes allowances for possible constraints possibly imposed on information sharing in conformity with the Slovenian legislative framework. The draft memorandum of understanding has been submitted to the Slovenian Institute of Auditing to be reviewed and discussed.

Following the FSAP team's assessment, the EU will carry out peer reviews in candidate countries.

On the basis of the findings of the FSAP team, the Financial System Stability Assessment (FSSA) was prepared by the IMF and will serve as groundwork for the forthcoming peer review to be performed by the supervisors from the European Union. A summary assessment has been included in the final report for the 2001 consultation with the Republic of Slovenia on the basis of Article IV of the IMF Statutes.

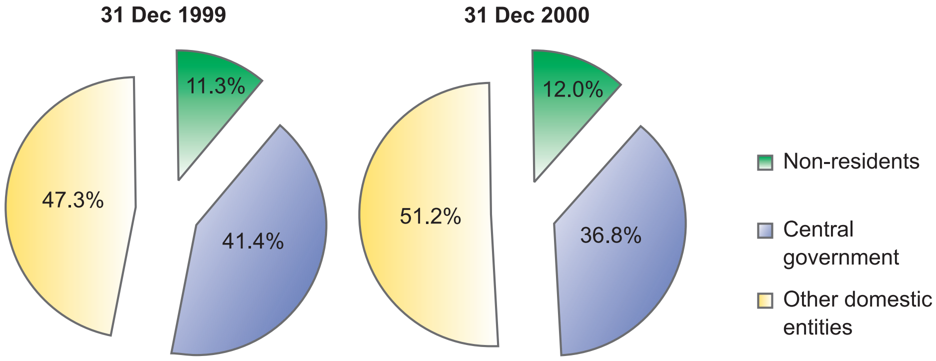
3. OWNERSHIP STRUCTURE OF THE BANKING SECTOR AND PRIVATISATION

Slovenian banks are mostly in private hands.

Private ownership of the banks incorporated in Slovenia prevails. The list of state-controlled banks includes Slovenia's top two banks (in terms of total assets) - Nova Ljubljanska banka (hereinafter referred to as NLB) and Nova Kreditna banka Maribor (hereinafter referred to as NKBM) both taken-over by the Republic of Slovenia upon the completion of the rehabilitation process, as well as Slovenska investicijska banka, d.d. where the state has a 21.6 per cent stake in shareholders' funds, i.e. a 20 per cent stake in voting rights. Poštna banka Slovenije d.d. (Post Office Bank of Slovenia) is indirectly controlled by the state.

Savings banks are entirely owned by private domestic shareholders.

Figure 1: The ownership structure of the banking sector as at 31 December 1999 and 31 December 2000 by equity holding[5]



Source: Bank of Slovenia

The chunk of foreign-owned equity holding increased from 31.5 billion tolars as at 31 December 1999 to 37.8 billion tolars posted as at 31 December 2000 (a rise of 19.9 per cent in nominal terms), whilst entire shareholders' equity rose from 279.3 billion tolars (31 December 1999) to 315.6 billion tolars (31 December 2000) notching 13 per cent growth in nominal terms. By the end of 2000, the aggregate equity holding of foreign shareholders increased to 12 per cent.

State-owned holding in banks' capital was cut back last year.

State ownership[6] , which takes into account also **indirect** state-owned equity holdings, rose from 115.6 billion tolars posted as at 31 December 1999 to 116.3 billion tolars as at 31 December 2000 - a 0.6 per cent hike in nominal terms (a year earlier: 15.9 per cent). Considering a 13 per cent nominal increase in shareholders' equity, the indirect stake in state hands declined at the end of 2000 from 41.4 per cent to 36.8 per cent.

Having successfully rehabilitated the two state-controlled banks in July 1997 (under the decree issued by the Bank of Slovenia in the case of Ljubljanska banka d.d. in January 1993 and in Kreditna banka Maribor d.d. in March 1993), the first phase of privatisation started in 2000 in accordance with the decree adopted by the Government of the Republic of Slovenia in July 1999.

Privatisation of NLB and NKBM whose combined market share is 40 per cent has been planned in several phases. In April 2000, a 10 per cent stake owned by the Republic of Slovenia was transferred to Kapitalski sklad pokojninskega in invalidskega zavarovanja

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5 Shareholders' equity (funds) is a sum of subscribed capital and foundation deposits of savings banks, share premium account, reserves, capital revaluation adjustment, net profit or loss brought forward, net profit or loss for the current financial year less subscribed but unpaid capital and own shares bought back.

6 The term state as used herein refers to central government – direct users of the government budget (recipients) as set out in the Decree on Direct and Indirect Users of Central and Local Government Budgets (Official Gazette of the Republic of Slovenia, No. 13/00).

(then Capital Investment Fund of Pension and Disability Insurance; as of 1 January 2000: Kapitalska družba pokojninskega in invalidskega zavarovanja - Pension Fund Management) and Slovenski odškodninski sklad (Slovene Restitution Fund transformed into Slovenska odškodninska družba Slovene Restitution Company) or these bank shares were swapped for shares of other companies where the former funds (currently companies) had equity holdings.

Government plans to keep a 25% plus one share holding in NLB and NKBM respectively.

In May 2001, the Government of the Republic of Slovenia endorsed a framework programme for privatisation of NLB and NKBM. Under the privatisation programme for NLB, the first step is to merge its three subsidiaries and to sell shares of the Republic of Slovenia to key investors (34 per cent) and portfolio investor (14 per cent minus one share). In 2002, the programme envisages the merger of three more banks, which belong to the banking group of NLB resulting in the following ownership structure:

The Republic of Slovenia:	25 per cent + 1 share
Current other shareholders:	15 per cent
Shareholders of three merged banks:	12 per cent
Portfolio investors:	14 per cent -1 share
Key investors:	34 per cent

The model endorsed for privatisation of NKBM is slightly different. The Government of Republic of Slovenia is planning to sell almost a 65 per cent stake of shares in NKBM to a strategic investor and to keep a 25 per cent stake plus one share.

Through privatisation of both banks, the Government is eager to achieve a stable ownership structure, to boost effectiveness of the two banks and to strengthen Slovenia's banking sector in general. Consequently, since the share of both banks in the Slovenian banking ambit is so considerable, the Government hopes to see a beneficial impact on the entire banking sector. Another issue worth remembering is to optimise privatisation proceeds.

4. GRANTING AUTHORISATIONS

Banks in Slovenia provide banking services, other financial services and ancillary banking services.

The banks operating in Slovenia may provide banking services, other financial services listed in the first paragraph of Article 6 of the Banking Act, and ancillary banking services referred to in the second item of the second paragraph of Article 96 of the Banking Act.

The savings banks authorised in Slovenia may carry on banking and other financial services with the exception of managing pension and investment funds. They may conduct transactions in tolars only, save in the case of exchange operations.

The following financial services are regarded as banking services:

- Accepting deposits from individuals and legal entities and granting credits for its own account, and
- Services, which in line with law, may be provided only by banks.

Under the Banking Act, other financial services refer to the financial services listed below:

1. Factoring,
2. Financial leasing,
3. Issuing of guarantees and other commitments,
4. Lending operations including consumer credits, mortgages and financing of commercial transactions,
5. Trading in foreign means of payment including foreign exchange transactions,
6. Trading in financial derivative instruments,
7. Compilation, analysis and dissemination of information on credit standing of legal entities,
8. Mediation in sales of insurance policies in accordance with the law governing the insurance sector,

9. Issuing and administering of payments instruments (e.g. payment and credit cards, travellers' cheques, bank bills of exchange),
10. Safe custody services,
11. Mediation in the conclusion of loan and credit transactions,
12. Services in connection with securities in accordance with the law governing the securities market,
13. Management of pension or investment funds in accordance with the law governing pension or investment funds, and
14. Performance of payment transactions.

In accordance with modifications and amendments to the Banking Act, issuing of electronic money and provision of trusteeship services have been added to the list of other financial services.

Following modifications and amendments to Banking Act 1999 other financial services comprise issuing of electronic money and trusteeship services.

A bank may also provide ancillary banking services connected with real-estate management and management or administration of a data processing system, and it may carry other activity deemed to be ancillary activity in relation with core business of one or more banks.

A bank may be incorporated only as a joint-stock company authorised to provide banking services and other financial services, and it shall have the authorisation issued by the Bank of Slovenia.

The provisions of the Banking Act set out requirements a bank must meet in order to be authorised to provide banking services as well as other financial services. The Bank of Slovenia is responsible for laying down personnel, organisational and technical requirements for carrying on banking and other financial services.

The minimum amount of initial capital for establishing a bank is 1.1 billion tolars (5.1 million euros at the exchange rate ruling at 30 June 2001) regardless of the scope of banking services, and for a savings bank it is 220 million tolars (1 million euros at the exchange rate ruling at 30 June 2001).

Until full-fledged membership of the Republic of Slovenia of the European Union, a foreign bank may provide banking services and other financial services within the territory the Republic of Slovenia only through a branch. A foreign bank may set up a branch within the territory the Republic of Slovenia if it meets regulatory requirements to be authorised by the Bank of Slovenia. Thus the Bank of Slovenia may require from the foreign bank, which has applied to establish a branch within the territory the Republic of Slovenia to deposit endowment capital, to pledge other eligible financial assets, or to provide other collateral as a security that liabilities that may arise from business transactions concluded within the territory the Republic of Slovenia will be duly settled.

To establish a branch, foreign banks have to obtain authorisation from the Bank of Slovenia.

Since a branch is a business-organisational unit of a foreign bank and hence does not have attributes of a legal person, the provisions set out in the Banking Act in relation to risk management and control, protection of confidential information and data, books of account and annual report and accounts, internal and independent audit, as well as the provisions related to bank management (branch managers) shall meaningfully apply to a foreign bank branch.

In addition to authorisations to carry on banking services and authorisations to engage in other financial services, credit institutions shall apply to the Bank of Slovenia for authorisation in the following cases:

- Acquisition of a qualifying holding,
- Merges and acquisitions,
- Establishment of a cross-border branch,
- Establishment of a foreign bank branch within the territory of the Republic of Slovenia,
- Establishment of a foreign bank representative office, and
- Discharging duties and responsibilities of member of the bank's management board.

The decision to grant or reject an authorisation is made by the members of the Governing Board of the Bank of Slovenia on the basis of a proposal prepared by the Banking Supervision Department. The Governing Board also decides on eligibility of nominees for members of banks' management boards on the basis of a proposal prepared by the Committee of the Governing Board of the Bank of Slovenia responsible for the preparation of opinions regarding fitness and properness of a person to sit on a bank's management board.

The deadline left to Slovenian banks and savings banks to change their legal status and/or organisational structures in order to be compliant with the provisions of the Banking Act expired on 20 August 2000. Non-compliant institutions had eighteen months to meet regulatory requirements regarding:

- Minimum initial capital,
- Registered shares issued in non-material form (preference shares shall not exceed one third of all shares),
- Mandatory authorisation of the Bank of Slovenia for shareholders with qualifying holdings,
- Management board composed of at least members authorised by the Bank of Slovenia,
- Competent professionals to discharge internal audit function, and
- Articles of association drawn up by a bank aligned with effective legal provisions.

All banks and savings banks met requirements laid down in the Banking Act.

All banks and savings banks achieved full compliance with the provisions of the Banking Act by the deadline and qualified for the Bank of Slovenia authorisation for the provision of banking services and those financial services they had already been authorised for.

Table 3: Granted and rejected authorisations to banks and savings banks in 2000 and the first half of 2001

	Type of authorisation	2000		First half of 2001	
		Granted	Rejected	Granted	Rejected
1	Authorisation to provide banking services	25	0	0	0
2	Authorisation to provide other financial services	194	1	6	0
3	Authorisation to a foreign bank to set up a branch	0	0	0	0
4	Authorisation for merger/acquisition	2	0	0	0
5	Authorisation to a foreign bank to set up a representative office	0	0	1	0
6	Authorisation to acquire a qualifying holding	9	0	3	0
7	Authorisation to members of management board	25	2	5	0
	Total	**255**	**3**	**15**	**0**

Source: Bank of Slovenia

5. BANKING GROUPS IN SLOVENIA

Slovenian banks started to form banking groups in 1997. According to the Law on Banks and Savings Banks effective at that time, banks form a banking group when one bank directly or indirectly acquires at least a 40 per cent equity holding in capital of other bank or if it directly or indirectly controls other bank. The banking groups of Banka Celje, Nova Ljubljanska banka, SKB banka and Banka Koper were formed in 1997.

Out of four banking groups born in 1997, only the bank family parented by NLB still exists.

Although the number of banks in Slovenia started to fall after 1994 and the establishment of banking groups in 1997 was welcomed as a step towards consolidation of the banking sector, the consolidation trend reached its peak in 1998 when in addition to the take-over of Creditanstalt d.d by Bank Austria d.d. Ljubljana and the liquidation of Hipotekarna banka d.d. Brežice, there were two take-overs within the banking groups. Namely, Banka Celje d.d. took over Hmezad banka d.d. Žalec, and SKB banka d.d. Ljubljana took over UBK univerzalna banka d.d. Ljubljana. Since Banka Koper d.d. acquired control of M bank d.d., Ljubljana in 1999, out of four banking groups in 1997, only the banking group parented by NLB remains today. As at 30 June 2001, the banking groups of NLB is composed of the following banks: Banka Zasavje d.d., Trbovlje, Pomurska banka d.d., Murska Sobota, Koroška banka d.d., Slovenj Gradec, Banka Velenje d.d., Velenje, Banka Domžale d.d., Domžale, Dolenjska banka d.d. and Banka Celje d.d..

Further consolidation of the banking sector is expected in the second half of 2001 when NLB as the parent banks moves to take over the three bank in its banking group: Pomurska banka d.d., Murska Sobota, Banka Velenje d.d., Velenje and Dolenjska banka d.d.). Activities are under way to merge Societe Generale Ljubljana d.d. and SKB banka d.d. Ljubljana, the latter being controlled by Société Générale Paris which has more than a 96 per cent equity holding.

By adopting the Banking Act in 1999, the definition of a banking group was modified, so as to have a broader meaning than the definition provided under the 1991 Law on Banks and Savings Banks. A banking group exists when a bank or a financial holding incorporated within the territory of the Republic of Slovenia is a parent undertaking to one or more banks, i.e. other financial institutions or a company providing ancillary banking services. The Bank of Slovenia is responsible for supervising a bank within a banking group on a consolidated basis in all cases stipulated in the Decree on Supervision of Banks and Savings Banks on a Consolidated Basis.

A bank, i.e. financial holding, shall be deemed to be a parent undertaking to another company (associated or subordinated company) in the cases listed below:

1. if it has majority of voting rights in another company or
2. if it has the right to appoint and/or revoke the majority of the members of the management board or the supervisory board of another undertaking, or
3. if it has the right to exercise dominant influence on another undertaking in accordance with a binding contract, i.e. based upon another legal ground, or
4. if it has at least 20 per cent of voting rights in another undertaking and the majority of the members the management board or the supervisory board of that undertaking who were still discharging these duties during the preceding financial year when consolidated reports had to be prepared, was appointed exclusively for the purpose of exercising voting rights of the parent undertaking, or
5. if a shareholder, i.e. partner is in another undertaking and if on the basis of the agreement with other shareholder i.e. partner of that undertaking controls the majority of voting rights in that undertaking, or
6. if it has at least s 20 per cent equity holding in another company, or
7. if subject to the assessment of the Bank of Slovenia it is a controlling undertaking exercising dominant influence on any other basis.

By the definition contained in the Banking Act, there are 14 banking groups in Slovenia.

In accordance with this definition, the number of banking groups in the Republic of Slovenia is considerably higher than within the meaning of the 1991 Law on Banks and Savings Banks. As opposed to the definition of a banking group as a group of banks connected by equity holdings that recognises only one banking groups in Slovenia, the number of banking groups under the new definition currently stands at fourteen.

6. CONSOLIDATED FINANCIAL STATEMENTS AND SUPERVISION ON A CONSOLIDATED BASIS

Consolidated financial statements and notes to the accounts where auditors assess risk management and control within a banking group had to be included in the auditor's report for 2000 for the first time. In line with the regulatory requirements regarding supervision on a consolidated basis, ten banks prepared consolidated financial statements for a banking group and drew up reports on risk management policy and practice within the banking group.

The preparation of consolidated financial statements for banks and savings banks is stipulated in the Decree on Books of Account and Annual Report and Accounts of Banks and Savings Banks (hereinafter referred to as the Decree on Books of Account) and the Decree on Supervision of Banks and Savings Banks on a Consolidated Basis (hereinafter referred to as the Decree on Supervision on a Consolidated Basis). Consolidated financial statements prepared in line with one or the other decree may differ since they serve a different purpose.

For the purpose of the Decree on Books of Account, consolidated financial statements being part of the bank's annual report furnish information about the bank's financial position, the result of its operations and changes in the financial position of the group of companies as a whole. A group of companies as defined in the Slovene Accounting Standards (hereinafter referred to as the SAS) is composed of the parent (controlling) company and its subsidiaries - controlled companies - operating under the guidance of the parent company. This definition excludes affiliated (or associated) companies where the parent undertaking has a dominant influence but no control. Such consolidated financial statements (accounts) have to cast light on all significant links (or interest) between the bank and other entities (financial and non-financial undertakings), as well as the effect of these links on the operating results of the respective bank. Under the SAS, the financial statements (accounts) prepared by controlled undertakings (subsidiaries) being run by the parent undertaking on a temporary basis only shall be excluded from the consolidated financial statements. The same applies to controlled undertakings operating within the framework of strictly set constraints on the transfer of assets to the parent undertaking.

Consolidated financial statements prepared for the purpose of consolidated supervision serve as a basis for developing a report on risk management in a banking group.

Consolidated financial statements prepared for the purpose of consolidated supervision serve primarily as a basis for the preparation of reports as to how risks are managed and controlled within the respective banking group. A banking group as defined under the Decree on Supervision of a Consolidated Basis includes banks, financial holdings, other financial institutions and companies providing ancillary banking services directly or indirectly controlled by the parent bank (or financial holding) or undertakings where the bank has directly or indirectly a participating interest (more than 20 per cent holding in equity capital or voting rights). The financial statements prepared at the consolidated level for the banking group shall exclude non-financial institutions (with the exception of those that in relation to the bank are of ancillary nature) and insurance companies, which shall be treated differently due to their specific activity, i.e. inherent risks). These consolidated financial statements are prepared as summary statements enclosed to the auditor's report (drawn up in conformity with the provisions set out in the Decree on the Minimum Scope and Content of Audit and Auditor's Report, hereinafter referred to as the Decree on Audit). The Decree on Supervision on a Consolidated Basis allows to exclude other financial institutions and companies providing ancillary banking services from consolidated supervision in the case that these companies are so small that their influence on the assessment of the financial position of the banking group is negligible, where there are obstacles hindering such a company to pass on information to the parent bank, i.e. when to include such a company in consolidated financial statements would result in misleading results in relation to te objectives of consolidated supervision.

According to the SAS, the banks shall prepare consolidated financial statements for the controlled companies by using the method of full consolidation, while for the statements prepared on a solo basis, financial investments in subsidiaries (participating interests) whose financial statements are part of consolidation, shall be prepared by using the capital method. The banks are to use the investment method when disclosing financial investments in subsidiaries not included in consolidation, as well as for financial investments in affiliated undertakings.

Generally speaking, for the purpose of consolidated supervision all undertakings where the bank has a direct or indirect controlling interest or in any other way exercises dominant influence shall be included in consolidated financial statements by applying the full consolidation method. In the case where the participating interest is equity holding above 20 per cent of capital or the bank has significant influence on other undertakings, the financial statements of such persons are to be included in the consolidated financial statements by applying the capital method.

In accordance with the Decree on Books of Account, the annual report prepared by the bank shall, among other things, comprise basic information about the banking group and the organisational structure of the banking group verified by the auditor within the framework of audit of consolidated financial statements. This requirement applies to the group for which the bank has prepared consolidated financial statements in accordance with the SAS. In the case that the bank is at the same time a parent undertaking as stipulated under the Decree on Supervision on a Consolidated Basis, it is necessary to add a short explanation saying that the bank has also prepared consolidated financial statements adjusted for the purpose of consolidated supervision of the bank within the banking group, and all members of the group shall be listed.

7. PROVISIONING POLICY IN SLOVENIA

In line with the provisions of the Banking Act and the Decree on Establishment of Specific Provisions of Banks and Savings Banks, the banks and savings banks (including branches of foreign banks) shall set aside funds as allowance for possible credit losses in the cases set out below**:**

1. Specific provisions for credit and country risks:

The banks are required to establish specific provisions for credit and country risks.

- Specific provisions in percentages (10, 25, 50 and 100 per cent) applied on assets/claims (on- and off-balance sheet items), classified in B, C, D and E categories**.** The banks may decide to make provisions for individual clients in the percentage, which is above or below the respective bracket[7] stipulated for categories, provided that the sum of provisions made for all claims classified in the respective category reaches the percentage prescribed;
- Specific provisions at least in the amount of 1 per cent of the value of the respective claim, classified in the category A, excluding claims on the Republic of Slovenia and the Bank of Slovenia;
- Provisions for country risk[8] established at least in the amount stipulated by the Bank of Slovenia. Therefore, the bank must make in addition to provisions for the exposure to clients from certain countries also provisions for credit risk corresponding to the grading of the particular client in one of the categories - A, B, C, D or E (the sum of these provisions shall not exceed 100 per cent, i.e. the value of the claim).
  An exception in addressing country risk are the claims with contractual maturity of up to 6 months, claims on branches of investment-grade banks, claims se cured with first-class collateral or joint and several guarantee issued by a blue-chip domestic client.

Specific provisions for credit and country risks are not subject to any taxes.

7 Group B: from 5 to 15 per cent, group C from 15 to 40 per cent, and group D: from 40 to 99 per cent.

8 Country risk is defined as the risk of loss resulting from the borrower's country.

2. **Specific provisions for other risks (**e.g.: interest rate risk, foreign-exchange risk, market risk, operational risk, etc.)

The amount of these provisions has not been prescribed and the banks decide how much charge they will carry as a cushion against potential losses associated with these risks.

Provisions for other risks are not subject to any taxes**.**

The banks may establish specific provisions for general banking risks.

3. The banks may also establish **provisions for general banking risks** (Article 75 of the Banking Act). These provisions are eligible for inclusion in the calculation of the bank's core (tier I) capital. They may be used only in exceptional cases such as a loss incurred as a result of unforeseen events or risks.

Provisions for general banking risks are subject to a tax.

Provisions in consolidated financial statements:

The objectives of overseeing banks on a consolidated basis emphasise the need to get a comprehensive view of risks a bank runs as part of a group. In addition, there is the need to value both the actual and potential impact of other undertakings - members of the group, and to assess risks, which might jeopardise the bank's position, irrespective of the fact that such risks are reflected on the bank's books of account on a solo basis or not. Consequently, the required provisions at the group level are only disclosed (through figures, i.e. calculations) in the financial statements, which are used as a basis for calculating capital of the group, capital adequacy and compliance with other requirements and/or limits taken into consideration in relation to risk management at the group level. These financial statements may differ considerably from the officially presented consolidated financial statements. For the time being, they are prepared for the bank and the supervisory authority, and are not released to general public.

8. REPORTING TO THE BANK OF SLOVENIA

As regards prudential supervision, the banks are obliged to report to the central bank on a daily, monthly, quarterly, semi-annual and annual basis.

Reporting on a solo basis addresses the following issues:

Daily
- Expected tolar liquidity flows.

Monthly
- Balances on book accounts,
- Deposits from 30 largest depositors and depositors whose aggregate amount of deposits exceeds 200 million tolars, and
- Liquidity ratio of tolar maturity ladder.

Quarterly
- Capital and capital adequacy,
- Classification of on-balance sheet assets and off-balance sheet items,
- Large exposure and exposure to connected parties,
- Equity investments in non-financial institutions and investments in tangible fixed assets, and
- Lending and deposit interest rates.

Semi-annually
- Equity investments, and
- Guaranteed deposits.

Annually
- Auditor's report.

Reporting on a consolidated basis:

Quarterly	· Composition of a banking group
Semi-annually	· Financial statements, · Capital, · Large exposure, and · Investments in equity of non-financial institutions and tangible fixed assets.

9. SUPERVISORY EXAMINATIONS OF BANKS AND SAVINGS BANKS

Continued supervision of banks is also ensured through regular on-site examinations.

The ongoing supervision and surveillance of banks and savings banks is conducted by examining the reports compiled by banking institutions on a regular basis and sent to analysts who verify the data, as well as by performing on-site examinations. In other words, the supervisory process is conceived upon the so-called four-eye principle where analysts and examiners share responsibility for monitoring operations of the respective bank and savings bank.

The role of the analysts working at the Banking Supervision Department is to deal with many facets of the Department’s responsibility. They participate in the evaluation of operating results posted by banks and savings banks, they put forward propositions with regard to granting or modifying authorisations for operations of credit institutions, they also assess proposals of new system solutions and advise in relation to the implementation of rules and standards for safe and sound banking operations. In addition, the analysts monitor compliance with limits for safe and sound business, and they take care that efficiency of operations is monitored in a continuing basis by screening statutory returns and other data at least once a month. Furthermore, they participate in preparations for on-site examinations in banks and savings banks and discuss supervisory issues with directors and senior officers of banking as well as other financial institutions, and they prepare reports, proposals, analyses and other papers for the bodies of the Bank of Slovenia. In the case where findings reveal that a respective bank or a savings bank does not operate in compliance with laws and regulations, the responsible analyst notifies immediately the examiners and the management of the Banking Supervision Department of the irregularity, and a decision is taken whether an on-site examination of that bank, i.e. savings bank would be appropriate.

When a case of non-compliance has been confirmed in the respective bank, i.e. savings bank, the analyst and the examiner(s) sit down to discuss appropriate remedial measures and continue to watch the delinquent bank, i.e. savings bank in order to make sure that the corrective measure is duly implemented.

Over the past three years, full-scope on-site examinations were conducted in between 6 and 13 banks and savings banks and targeted examinations were performed in between 5 and 30 banks and savings banks a year.

Each bank and savings bank should be examined at least once a year.

The Strategic Plan drawn up by the Banking Supervision Department for the period from 2000 to 2003 sets the number of full-scope examinations in the bracket between seven and nine inspections a year, while targeted examinations of particular segments of banking operations conducted by banks and savings banks are to increase to thirty a year. Within this blueprint plan, a certain bank or a savings bank could be examined several times a year as it has been practised so far. Each bank or a savings bank should be examined once a year even if that means a targeted examination only. The decision as to which operating areas should be examined is made by taking into account a number of factors, but the assessment of risks associated with information technology will certainly be high on the list of operating segments to be screened. Through targeted examinations, i.e. by screening a particular business area, it is possible to conduct in-depth examination of those business segments where there is a higher than usual degree of inherent risk or where the Bank of Slovenia does not have adequate information.

Since credit risk is seen as the most serious threat to Slovenian banks and savings banks, the focus of examinations is on appropriate classification of on-balance sheet assets and off-balance sheet items. Particular attention is being paid to consolidated supervision - examination of a bank and all persons connected with it. The examiners of the Bank of Slovenia sift through financial statements of the connected persons, the bank's policy (current and future) regarding connected persons, the quality of its assets - investments, its management and relations with the bank, as well as risks arising from business operations. Furthermore, the examiners check among other things whether the allocated provisions and value adjustments made for the exposure of the bank to the connected persons arising from lending and equity investments are adequate.

In 2000, the examiners of the Bank of Slovenia carried out 28 examinations in banks and savings banks, and took under scrutiny either the full range of operations (6 examinations carried out in four banks and two savings banks) or screened one or more business areas (23 examinations in 13 banks and in two savings banks). The examiners of the Banking Supervision Department together with colleagues from other departments of the Bank of Slovenia also participated in supervisory visitations aimed at verifying compliance with the criteria laid down for the migration of payment operations into the banking environment.

During the first half of 2001, full-scope on-site examinations were performed in five banks and one savings bank. In addition, the examiners of the Banking Supervision Department conducted 24 targeted examinations of banks, savings banks, savings and loan undertakings and other companies. As many as 18 examinations were conducted in banks.

Regular annual meetings are organised with directors and senior officers of banks and savings banks either at the end of a full-scope examination or on an *ad hoc* basis. The purpose of such meetings is primarily to evaluate operating results and the state of affairs of the respective banking institutions, along with getting insight into its development strategy. By exchanging views and information, both supervisors and directors of banks and savings banks will benefit from a timely action and appropriate behaviour should a bank or a savings banks be faced with difficulties in the course of regular business activities.

The Bank of Slovenia has legal authority to supervise legal persons connected with a bank.

In accordance with the Banking Act, the Bank of Slovenia has a legal authority to oversee operations carried on by legal entities connected with a bank, should that result as necessary for the purpose of supervision of the respective bank's operations. In 2000, the examiners of the Bank of Slovenia conducted independently the examinations of the connected persons, while the examinations of three banks and stock-broking companies were a joint operation of the examiners of the Securities Market Agency and the central bank staff. In the first half of 2001, the examiners of the Bank of Slovenia were on their own when carrying out targeted examinations of operations of four banks, including the screening of operations of selected companies wholly owned by the four parent banks.

In line with the mandate to the Bank of Slovenia to supervise those undertakings reasonably suspected of carrying on banking services without authorisation of the Bank of Slovenia, its examiners conducted in 2000 five on-site examination of the companies not registered as banks in co-operation with the former Ministry of Economic Affairs, i.e. with the Market Inspectorate General of the Republic of Slovenia. In the first half of 2001, two such examinations were performed.

The Bank of Slovenia liaisons with other supervisory authorities at home and abroad.

In addition to the exchange of opinions and sharing data with other supervisory authorities, co-operation also continued with banking supervisors at the international level.

In 2000, in accordance with the Memorandum of Understanding the first on-site examination of the subsidiary of the largest Slovenian bank in the U.S.A. was performed by a supervisory team composed of the examiners of the Bank of Slovenia and their colleagues from the State of New York Banking Department and Federal Deposit Insurance Corporation. Although a formal memorandum of understanding has not been signed with Banca d'Italia, as early as in 1998 the on-site examination of the branch of the largest Slovenian bank in Italy was agreed and performed.

10. ASSESSING INTERNAL CONTROLS SYSTEMS AND INTERNAL AUDIT DEPARTMENT

Effective internal control systems and adequate functioning of internal audit department have crucial impact on risk management and control in banks.

The effective internal controls system and appropriate functioning of the internal audit department are key elements for assessing a bank's policies and practices for managing and controlling risks associated with banking operations with the ultimate goal to encourage safe and sound banking practices and avert a crisis.

The enactment of the 1999 Banking Act was yet another step towards the direction of equipping the Slovenian banking system with resources and skills required to stand up to full-size market pressures. By identifying the place, role and competence of internal audit department, the implementation of widely accepted principles for effective banking supervision with the underlying significance of adequate effective internal controls system has been facilitated. It is of paramount importance that a bank has in place an adequate internal controls system, which is fully operational, while the motive for the effective performance of the internal controls function is the need to have risks inherent in banking business on short rein. Under the condition that the internal audit department fulfils all statutory requirements, internal auditors for banks function in accordance with internal audit standards and code of conduct that lays down professional ethics for internal auditors, then solid foundations have been laid for banking supervisors to enforce principles required for safe and sound banking operations.

Assessment of adequacy and effectiveness of the internal control systems is regarded as one of the key areas of banking supervision.

Assessing the adequacy and effectiveness of internal controls system is the centrepiece of on-site examinations. In the light of the importance of internal controls function, this area deserves constant attention. By being compliant with the Principle 14 of Core Principles for Effective Banking Supervision, sound and comprehensive internal controls function is highlighted.

The role of banking supervisors is essential in the process, since it is up to banking supervisors to see that all banks, irrespective of their size, have in place effective internal controls systems, which must be commensurate to the type, complexity and scale of risks associated with their on- and off-balance sheet operations, and which will enable them to respond promptly to changes in banking environment and market volatility. In the cases where banking supervisors conclude that internal controls system is not sized to risks the bank faces, they are to take steps asking the bank's management to address the weakness without delay.

Although the bank's management and supervisory board are ultimately responsible for effective functioning of a bank's internal controls system, it is up to banking supervisors to assess the internal controls system of a bank within the framework of their ongoing supervisory function. It is essential to establish whether management of the examined bank pay appropriate and immediate attention to the problems identified through internal audit function. In other words, banking supervisors must be satisfied that the attitude of the bank's management towards reports drawn up by internal auditor is appropriate and that both the response time and the reaction to such a report are adequate for the nature and scale of the particular bank's business. In cases where management failed to react in response to important findings included in the internal auditor's report, banking supervisors still may decide to use such reports. However, this fact would raise doubts as to their value in the process of enhancing effectiveness of controls. It is essential that banking supervisors do not limit their assessment on how effective the entire internal controls system is, but also to evaluate individual controls incorporated primarily in those areas associated with high levels of risk (e.g: areas characterised by particularly high profitability, fast growth, and innovative products). Banking supervisors shall pay particular attention to banking policies and procedures issued in writing.

Additionaly, banking supervisors must always have a means of reviewing findings and recommendations made by external auditors in relation to effectiveness of internal controls. Banking supervisors must also check if the bank's management and supervisory board have taken any corrective actions in accordance with recommendations given by external auditors. The scale and nature of problems identified by auditors associated with control procedures shall be taken into account also when banking supervisors assess effectiveness of internal controls that the bank has in place.

As regards quality of work and human resources, internal audit departments are making progress.

Although there is always room for improvement of adequacy and effectiveness of internal audit function, the quality of performance and the qualification structure of personnel working in internal audit departments have been steadily improving; the number of auditors certified by the Slovenian Institute of Auditing has been growing since banks must meet the requirements laid down in the Banking Act. Namely, each bank shall have at least one employee who is a certified i.e. qualified internal auditor to discharge tasks and responsibilities delegated to internal audit function.

There are still rather significant differences in the number of internal auditors and their professional skills from one bank to another but the situation is improving. How many skilled experts in this field will a bank recruit is commensurate to the scale of its operations and resources a particular bank allocates to internal audit function. Due to the ever-increasing role of information technology and risks associated with that area, auditors are stressing the importance of vigilance and sophisticated control tools in monitoring and controling information technology risk.

It is a key factor that bank management acknowledges how important and beneficial internal audit function is. The bottomline is that bank management are responsible for safe, efficient and lucrative banking operations; therefore, they have to recognise in internal audit function a tool for achieving the set targets through monitoring of timely implementation of policies and actions and by taking the necessary steps to avert adverse business situations.

11. CO-OPERATION WITH SUPERVISORY AUTHORITIES

11.1. Co-operation with domestic supervisory authorities

Co-ordinated actions of all supervisory authorities as a key to effective supervision

A key to effective supervision of financial institutions at the national level is the promotion of co-ordinated efforts of all supervisory authorities responsible for oversight of individual segments of Slovenia's financial system. For the purpose of harmonising supervisory practices, the Code of Practice for the co-operation between supervisory authorities was issued in 1999 in accordance with the provision of the Banking Act.

Prior to the Code of Practice entering into force in July 1999, the framework for liaisoning between financial supervisors was provided through protocols concluded between the Bank of Slovenia and other supervisory authorities.

The Code of Practice elaborates on the co-operation between supervisory authorities.

The Code of Practice for the co-operation between supervisory authorities elaborates on the nature and methods of collaboration among the Bank of Slovenia, the Securities Market Agency and the Insurance Supervisory Agency (prior to 1 June 2000: the Insurance Supervisory Authority of the Republic of Slovenia). The issues addressed under the co-operation agreement are listed below:

- strategic issues related to development, annual planning of joint actions endorsed by the steering committee, monitoring the implementation of memoranda of understanding (MOUs),
- sharing information required for the purpose of supervision of financial institutions,
- sharing information required for the purpose of granting authorisations,
- exchange of information on facts and events in relation to connected persons and which may have an impact on the financial position or operating activities carried on by the undertaking, which is being examined by another supervi sory authority,
- dissemination of information required for decision-making purposes regarding other individual issues,
- organisation of joint examinations,

- sharing information on irregularities detected by a supervisory authority when conducting examination, provided such findings are regarded as useful for the work of other supervisory authorities, and
- other common activities, which contribute to the harmonised implementation of supervision, boost efficiency of supervisory authorities, and enhance effectiveness of the financial market function.

In accordance with the said Code of Practice, a steering committee headed by the Minister of Finance has been established. The Governor of the Bank of Slovenia, the President of the Council of Experts of the Securities Market Agency, and since September 2000, also the President of the Council of Experts of the Insurance Supervisory Agency also sit on the steering committee.

The Code of Practice envisages formalising collaboration between supervisory authorities by signing MOUs.

The Code of Practice lays the foundations for signing of memoranda of understanding between supervisory authorities and to this end, in November 1999 the Bank of Slovenia and the Securities Market Agency signed a memorandum of understanding followed by a memorandum of understanding formalising the collaboration between the Bank of Slovenia and the Ministry of Finance – Insurance Supervisory Authority of the Republic of Slovenia. Since the Insurance Supervisory Authority was shortly afterwards transformed into the Insurance Supervisory Agency, a new memorandum of understanding was concluded in November 2000 between the Bank of Slovenia and the Insurance Supervisory Agency. In February 2001, a memorandum of understanding was made between the Securities Market Agency and the Insurance Supervision Agency.

The steering committee monitors the implementation of the MOUs.

These documents (MOUs) provide the grounds for the harmonisation of previously signed protocols with the Code of Practice and articulate the details of the nature and the method of collaboration between the signatories of the MOU, as well as the channels for the dissemination of information. In order to implement these agreements reached by supervisory authorities and facilitate the execution of tasks adopted by the steering committee, there is a liaison group that meets at least once every three months. The liaison group comprises the deputy governor of the Bank of Slovenia, i.e. the director of the Banking Supervision Department of the Bank of Slovenia, the director the Securities Market Agency, and the director of the Insurance Supervisory Agency.

The co-operation among national supervisory authorities has been going on successfully along the lines laid down in the MOUs through regular exchange of information and dissemination of particular information requested by another supervisory authority. As a prerequisite for information sharing as stipulated in the Banking Act, supervisors must protect confidential information and keep professional secrets. Furthermore, supervisory authorities are obliged to notify other supervisory authority of any identified irregularities, which fall within the areas overseen by that supervisory authority. The supervisory institutions also conduct joint examinations.

Supervisory authorities team up to carry out on-site examinations.

The memorandum of understanding concluded between the Bank of Slovenia and the Securities Market Agency is operational - the two supervisory authorities have already performed joint examinations in banks and stock-broking companies. The co-operation between the Bank of Slovenia and the Insurance Supervisory Agency has been smooth and fruitful, particularly as regards authorisations granted to banks to provide financial services of acting as intermediaries selling insurance policies - the area falling within the jurisdiction of the law governing insurance business.

The members of the steering committee of the supervisory authorities responsible for overseeing financial institutions first met in January 2000 to discuss the body's future activities and the scope of work of the liaison group. It was agreed that the liaison group would monitor the issues in relation to the implementation of new regulations in the first place. In addition, the liaison group's responsibility is to warn the steering committee of the supervisory authorities overseeing financial institutions against any problems which may arise primarily with regard to the grey areas where the regulatory framework does not cover all activities of financial intermediaries. In such cases, it is up to the liaison group to propose modifications or amendments to the respective pieces of regulations.

The liaison group has met five times so far including the constitutional meeting in February 2000. Last year, the Bank of Slovenia was responsible for convening the meetings of the liaison group, this year it is the responsibility of the Securities Market Agency, and in 2002, the co-ordinator's role will be overtaken by the Insurance Supervisory Agency.

So far, the liaison group has addressed the following issues:

1. Secondary legislation promulgated in line with the provisions of the Banking Act, Securities Market Act and Insurance Act.
2. Financial conglomerates. The liaison group has been constantly checking upon more complex links and makes sure that there is adequate co-operation between supervisors. Nevertheless, financial conglomerates have to be examined on a case-by-case basis.
3. Close co-operation between domestic supervisory authorities when planning and conducting on-site examinations in banking, i.e. financial institutions. In 2000, several joint examinations were carried out (teams composed of examiners of the Bank of Slovenia and the Insurance Supervisory Agency).
4. International co-operation in accordance with the signed memoranda of understanding making the basis for the collaboration between the Bank of Slovenia and foreign banking supervisors, as well as between the Securities Market Agency and foreign supervisory authorities responsible for overseeing capital markets.
5. Reporting requirements in the light of rationalising the reporting system the banking and financial institutions have to observe. In particular, prudential reports and statutory returns to be sent to the Bank of Slovenia and the Securities Market Agency shall not overlap.
6. Remedial measures within the competence of supervisory authorities. The Bank of Slovenia and the Securities Market Agency have petitioned the Ministry of Finance to prepare a draft of a special bill that would give legal authority to supervisory authorities to impose pecuniary sanctions (fines) for infringements of those regulations for whose implementation these supervisory authorities are responsible. In addition, they would have a mandate to determine the course of action, i.e. its phases (ruling, appeal, and enforcement). A working group would be appointed from the ranks of all three supervisory authorities and its task would be to prepare a proposal of the new system of sanctions to be imposed by the supervisory authorities responsible for overseeing financial institutions. This working group would co-operate with the Ministry of Justice with the aim to provide legal grounds for establishing an efficient and uniform system that enables fines to be imposed. The activities expected to lead to the first tangible results of the motion are currently in the pipeline.
7. The FSAP project and the peer review that includes all three supervisory authorities responsible for the financial market.
8. The Act on Pension and Disability Insurance and secondary legislation derived from this law as a precondition for the setting up and operations of mutual pension funds, pension companies and pension funds management companies. Committed to enhancing transparency and providing more information in relation to the developments in the area of pension funds and pension companies, supervisors exchange information regarding all submitted applications for authorisations, s well as actually granted licences. The issue of the method to be used in order to ensure guaranteed yield on assets of mutual pension funds has also been addressed.
9. Cases of counterfeited personal identification documents and consequently, illegal selling of securities. In the case that regulations governing securities trading have been violated, the supervisory authorities will immediately launch a probe into the case having consulted first with each other as to the legal basis for taking a corrective action.
10. Human resources, i.e. staff capacity of the Insurance Supervisory Agency and the dissemination of information about the Phare programme designed to upgrade the skills in the ambit of Slovenian insurance supervision. Insurance Supervisory Agency has recruited new staff.

11. Issuing authorisations to members of management boards of banks, insurance companies, management companies and brokerage firms. The representatives of all three supervisory institutions have shared professional experiences and debated their respective internal criteria. Proposals as to what licensing practice should look like in the future have been made.
12. The information in relation to opportunities for investing assets of insurance companies, i.e. insurance-technical provisions in foreign institutions in accordance with the Insurance Act has been assessed. The harmonisation of views on exporting long-term existing capital (the so-called investment policy) falls within the province of work of the steering committee.
13. The proposal to issue a publication dealing with the entire financial sector in the English language, addressing legislation governing the financial industry (laws and secondary legislation), and extending to activities of all financial supervisors.
14. Co-operation with other authorities who carry out supervisory and enforcement tasks (Tax Administration, Police, Market Inspectorate General, etc.).

11.2. Cross-border co-operation

The Bank of Slovenia is member of the Group of Banking Supervisors from Central and Eastern Europe.

The Bank of Slovenia as a supervisory authority is a member of the Group of Banking Supervisors from Central and Eastern Europe, and its representatives attend meetings, seminars, workshops and conferences organised with the aim to bring together member countries of the Group. In September 1999, the Bank of Slovenia organised for the first time the 12th Conference of the Group of Banking Supervisors from Central and Eastern Europe.

As already mentioned in connection with the assessment of Slovenia's financial sector stability and in relation to supervision of banks and savings banks, there is ongoing exchange of information with foreign supervisory authorities on the ground.

The Banking Act has removed all major obstacles to information sharing with foreign supervisory authorities.

The Banking Act has dismantled all major obstacles, which used to hinder the exchange of information between the Bank of Slovenia and foreign supervisory authorities, and its provisions give the green light to the implementation of home-country control principle to be fully in place as of the date of Slovenia's accession to the European Union. Even prior to the entry into force of the Banking Act, the Bank of Slovenia carried out surveillance of branches and subsidiaries of Slovenian banks abroad by screening prudential reports and other statutory returns.

Since Slovenia is the associated member of the European Union, the representatives of the Bank of Slovenia have attended the meetings of the Sub-Committee on Internal Market operating within the framework of the European Commission (previously: Sub-Committee on Financial Services, Establishment and Capital Movement) and Sub-Committee on Economic and Monetary Issues, Capital Movements and Statistics. The Banking Supervision Department has also taken part in discussions with the mission of the IMF and the World Bank under the FSAP, and has participated in consultations in accordance with of Article IV of the IMF Statutes.

In July 2001, Slovenia was included in the second assessment mission of the Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV). The main purpose of the mission was to verify efficiency of the system and implementation of the recommendations made by the first assessment mission dating back to April 1998.

The Banking Supervision Department has been involved in a series of fact-finding visits of the representatives of international rating institutions, foreign commercial banks and other visitors from foreign countries.

12. LIAISON WITH EXTERNAL AUDITORS

Financial statements prepared by the Slovenian banks were audited as at 31 December 2000 for the past business year by the following certified audit companies: PriceWaterhouseCoopers (nine banks), KPMG (seven banks), Ernst & Young (five banks), Deloitte & Touche (three banks) and ITEO-Abeceda (one bank and three savings banks). Auditors have been changed for 2001 in three banks (in two of them Ernst & Young replaced Deloitte & Touche, and in one Ernst & Young has been engaged instead of PriceWaterhouseCoopers).

In all cases, auditors have given positive opinion on the bank's financial statements.

The auditors have expressed a positive opinion on the financial statements prepared by all banks and savings banks, which means that the auditors have concluded that the financial statements of Slovenian banks and savings banks give true and fair picture of their financial state, results of operations and changes in financial positions over the past year. It is the responsibility of auditors to express opinion on balance sheet, profit and loss account (income statement) and statement of financial flows, while their preparation is the responsibility of the management board of the respective bank, i.e. a savings bank.

Meetings with auditors have been convened in the case of major weaknesses, i.e. difficulties detected in the individual bank or a savings bank and in the case of outstanding professional issues as the case may be.

The Banking Supervision Department has a pro-active stance to the development of audit profession (both internal and external audit function) through the Slovenian Institute of Auditing and the Internal Audit Committee within the Bank Association of Slovenia, and it has a pro-active role in addressing outstanding issues in relation to accounting and in developing accounting standards through the Accountancy Board within the Bank Association of Slovenia.

As already mentioned in the section on Slovenia's Financial Sector Assessment Program, the Bank of Slovenia has approached the Slovenian Institute of Auditing as the institution responsible for supervision of audit companies with a proposal to formalise the co-operation between the Bank of Slovenia and audit firms by signing a Memorandum of Understanding.

II. RESULTS OF OPERATIONS OF BANKS AND SAVINGS BANKS IN 2000 AND THE FIRST HALF OF 2001[9]

1. BANKING SECTOR STRUCTURE

As at 31 December 2000 and 30 June 2001, there were 25 banks carrying on banking services in Slovenia including four subsidiaries of foreign banks and one branch of a foreign bank. In addition, three savings banks and 64 savings and loan undertakings (as at 31 December 2000) i.e. 57 as at 30 June 2001 operated during the period under review.

The number of banks remained unchanged and...

The number of banks has been gradually falling since 1994 when there were 33 operating banks over the following years. The sharpest drop in the number of banks was witnessed in 1998 after three mergers and one liquidation. In 1999, there was another merger, and after five years a new bank - Hypo Alpe-Adria-Bank obtained authorisation of the Bank of Slovenia to operate. Since under the Banking Act foreign banks may open branches in Slovenia, the first branch of a foreign bank - Kaerntner Sparkasse AG, Celovec, Podružnica v Sloveniji - started to provide banking services in 1999 and has remained the only branch of a foreign bank in Slovenia so far.

Over the past two years the process of consolidation has not spread through Slovenia's banking system so vigorously as predicted; hence a fresh impetus to mergers and acquisitions is expected in the second half of 2001 and in 2002, judging by the extent and commitment the activities already launched in that direction clearly indicate. In July and August 2001, the Governing Board of the Bank of Slovenia authorised Nova Ljubljanska banka to take over Banka Velenje, Pomurska banka and Dolenjska banka d.d. (until then members of the banking group parented by Nova Ljubljanska banka). In addition, activities are under way to merge Societe Generale Ljubljana d.d. and SKB banka d.d. Ljubljana.

... the number of savings banks was halved.

The number of savings banks was cut in half at the end of the year 2000 in comparison to the end of 1999. Two savings banks completed mergers, while one started with

Table 4: The number of business units and bank employees, aggregate bank assets and GDP

	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
Number of business units	558	577	590	557	570	576	
Number of employees	10,137	10,317	10,410	10,394	10,445	10,929	
Total assets (in millions of tolars)	1,497,544	1,729,083	2,022,037	2,350,359	2,687,600	3,192,792	3,489,302*
Total assets/Number of employees (in millions of tolars)	147.7	167.6	194.2	226.1	257.3	292.1	319.3
GDP at current prices (in millions of tolars)	2,221,459	2,555,369	2,907,277	3,253,751	3,637,437	4,035,518	4,035,518**
Total assets/GDP (in %)	67.4%	67.7%	69.6%	72.2%	73.9%	79.1%	86.5%

* Total assets excluding the branch of NLB in Italy.
** GDP estimate on the basis of current prices for 2001 is 4,567,400 million tolars but the calculation is based on GDP for 2000.
Source: Bank of Slovenia

9 Half-year figures (as at 30 June 2001) are unaudited.

regular (voluntary) liquidation. The same trend has been witnessed in the case of savings and loan undertakings. Their number fell by four in 2000 and in the first half of 2001 their number was further reduced by seven.

Out of 25 operating banks as at 31 December 2000 and 30 June 2001, ten of them were fully controlled by domestic shareholders and six were either wholly owned or controlled by foreign owners. The remaining nine banks were controlled by domestic owners, and in six of them foreign shareholders had equity holding of around 1 per cent. All savings banks are owned by domestic shareholders and are mostly in private hands.

The market share of savings banks and savings and loan undertakings (in terms of total assets) is extremely low in comparison with banks. As at 31 December 2000, it was a mere 2.2 per cent and it continued to fall until as at 30 June 2001 it was 2.1 per cent (savings banks had 0.4 per cent and savings and loan undertakings had 1.7 per cent).

2. RESULTS OF OPERATIONS OF BANKS AND SAVINGS BANKS

2.1. Operations of banks

2.1.1. Operations of banks in 2000

The volume of operations grew by 18.8% in nominal terms.

According to audited figures**, total assets** of all Slovenian banks as at 31 December 2000 added up to 3,192.8 billion tolars. Thus the banks posted 18.8 per cent growth in nominal terms in comparison with the end of 1999, i.e. 9.1 per cent growth in real terms. It was the second highest real growth in the volume operations of the Slovenian banking system over the past five years (1998: 9.1 per cent).

In 2000, most banks increased total assets - actually, as many as 24 banks struck an upbeat note and only one bank stalled). The growth rates expressed in real terms were between 2.6 per cent and 32.1 per cent (in nominal terms between 11.7 per cent and 43.9 per cent). Above-average rise in total assets was achieved by the bank incorporated in 1999 and by the foreign bank branch. The volume of operations performed by the Slovenian bank faced with serious difficulties in 2000 decreased in real terms by 3.5 per cent (in nominal terms it increased by 5.1 per cent).

Table 5: Aggregate assets of Slovenian banks as at 31 December 1999 and 31 December 2000 including growth rates and market shares

	in millions of tolars		in %		in %	
Bank	Total Assets		Nominal Growth		Market Share	
	31 Dec 1999	**31 Dec 2000**	**1999/ 1998**	**2000/ 1999**	**31 Dec 1999**	**31 Dec 2000**
NLB	752,343	918,828	16.0	22.1	28.0	28.8
NKBM	321,813	368,109	12.9	14.4	12.0	11.5
SKB banka	307,637	323,353	9.4	5.1	11.4	10.1
Banka Koper	167,905	198,310	22.4	18.1	6.2	6.2
Abanka	149,301	188,133	21.2	26.0	5.6	5.9
Banka Celje	155,712	185,182	15.3	18.9	5.8	5.8
Gorenjska banka	130,310	159,137	20.6	22.1	4.8	5.0
Total - top 7 banks	*1,985,022*	*2,341,054*	*15.5*	*17.9*	*73.9*	*73.3*
Total - all banks	**2,687,600**	**3,192,792**	**14.3**	**18.8**	**100.0**	**100.0**
NLB Banking Group	1,041,409	1,443,222	25.5	38.6	38.7	45.2
Majority foreign-owned banks	129,158	497,246	13.0	285.0	4.8	15.6

Source: Bank of Slovenia

Market shares of the largest banks remained unchanged.

The main features of Slovenia's banking system over the past few years have been a stable market share of the largest banks, and a considerable concentration of banks. The number one bank in Slovenia has almost a 29 per cent share of the market in terms of unconsolidated total assets. Together with the banks, which belong to the NLB banking group plus Banka Celje d.d., which joined the club on 31 December 2000, the market share of the banking group at the end of 2000 was over 45 per cent. The banks with a controlling foreign-owned stake did not boast a hefty share of the Slovenian market until Societe Generale Paris took control of SKB banka d.d. Ljubljana pushing up the market share of banks with foreign control to almost 16 per cent.

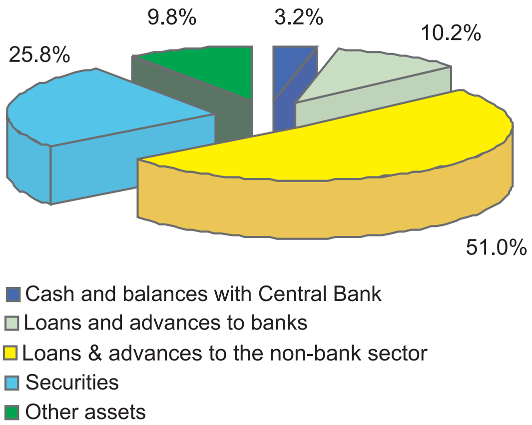
Table 6: Share of top ten Slovenian banks in the entire banking sector as at 31 December 1999 and 31 December 2000

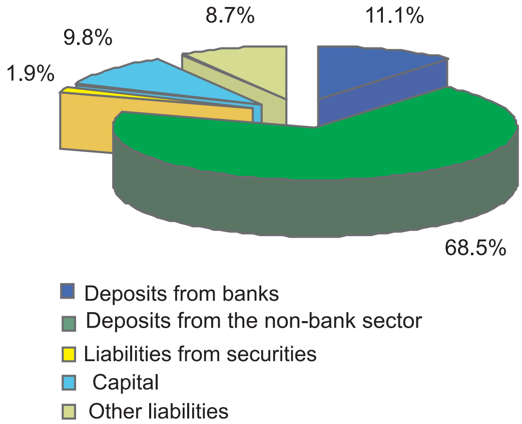
	Market share (measured by total assets)		Loans and advances to the non-bank sector		Deposits from the non-bank sector		Capital	
	31 Dec 1999	**31 Dec 2000**	**31 Dec 1999**	**31 Dec 2000**	**31 Dec 1999**	**31 Dec 2000**	**31 Dec 1999**	**31 Dec 2000**
Largest bank	28.0	28.8	25.5	27.1	27.7	28.0	24.5	24.7
3 largest banks	51.4	50.4	48.6	47.6	51.5	50.2	43.1	43.2
5 largest banks	63.5	62.5	61.4	60.0	63.8	63.1	56.3	54.3
7 largest banks	73.9	73.3	73.3	71.7	74.3	73.4	67.5	68.4
10 largest banks	82.5	81.8	81.7	80.6	83.0	82.4	77.3	78.3

Source: Bank of Slovenia

The table shows that the three largest banks control approximately half of the market, the five largest banks have approximately 60 per cent market share, the top seven banks control almost three-quarters of the market. The picture showing the allocation of loans and advances to the non-bank sector and deposits received from the non-bank sector is similar to the composition of market shares (in terms of non-consolidated total assets). Somewhat lower are the shares of the largest banks in equity capital. Thus the share of the top three banks in equity capital of all banks is slightly above 40 per cent, the share of the largest five banks is just above one half, the largest seven below 70 per cent and the share of the ten largest banks was below 90 per cent.

Figure 2: Average structure of banks' assets and liabilities as at 31 December 2000





Source: Bank of Slovenia

Compared to 1999, the average **structure of liabilities** shows that the share of deposits placed by the banking sector in 2000 has gone up from 10.7 per cent to 11.1 per cent, while the share of deposits by the non-bank sector (non-financial enterprises, households, central government, other financial institutions, non-profit institutions serving households and non-residents) has decreased during the past year. The drop from 69.3 to 68.6 per cent is a result of reduced structural shares of deposits placed by non-financial enterprises and general government by one percentage point (to 13.9 per cent, i.e. 6.9 per cent); hence the record low figures over the past four years have been posted. This has happened mainly due to relatively strong growth enjoyed by total liabilities and accentuated above-average rise in liabilities arising from securities, as well as other liabilities. Additionally, the upward trend seen in the average structure of liabilities has also been fuelled by new categories of subordinated liabilities (subordinated loans) and funds for general banking risks as laid down within the framework of modifications to the chart of accounts for banks and savings banks implemented in 1999. Both items recorded a high growth rate over the past year.

16.1% nominal growth in deposits from the non-bank sector

Movements on the liabilities side of balance sheets of the banks operating in Slovenia based on net figures, shows that trends have been rather favourable during the year under review. **Liabilities of banks to the non-bank sector** (also referred to as customer accounts) were gradually rising during 2000 and at the end of the year notched 16.1 per cent growth in nominal terms (in 1999, this figure was 11.5 per cent). This is partly a result of rising interest rates on deposits over the past year by 1.2 percentage points, i.e. 0.5 percentage point in real terms.

Having plunged by 5.3 per cent in real terms in 1999, deposits placed by non-financial enterprises stagnated in the first half of 2000, but then picked up and pencilled 11.8 per cent growth (2.7 per cent in real terms). Above-average growth rates have been recorded by foreign-exchange accounts of non-financial enterprises since they were introduced in 1999. At the end of 2000, balances on these accounts were by 105.3 per cent above the respective figure year-on-year - a rise of 88.5 per cent in real terms. The share of foreign-exchange accounts in the structure of all deposits from non-financial enterprises has gone up grew from 9.9 to 18.3 per cent during the year under review.

There as strong growth in deposits from households (citizens and sole entrepreneurs) in 2000 when these funds accounted for the largest portion of liabilities to customers other than banks (60 per cent of deposits from customers i.e. 40.5 per cent of total liabilities at the end of 2000). Deposits from citizens increased in nominal terms by 25.5 per cent (15.2 per cent in real terms) and deposits in tolars and deposits in foreign currency remained balanced. Therefore, the share of foreign-exchange deposits in overall deposits of citizens was relatively stable rising from 44.8 per cent at the end of 1999 to 45.0 per cent at the end of 2000, despite the last year’s pick up in the growth in foreign exchange deposits by individuals (15.8 per cent real growth after flat figures were posted for a couple of years).

Deposits from citizens accounted for as much as 98.4 per cent share in deposits at the end of 2000 by households, and deposits of sole entrepreneurs accounted for a 1.6 per cent share. The portion of households’ deposits repayable on demand dropped from 43.3 per cent at the end of 1999 to 38.0 per cent at the end of 2000. On the other hand, the respective portions of short- and long-term savings at the end of 2000 increased year-on-year from 53.2 to 57.8 per cent and from 3.5 to 4.2 per cent, respectively.

The share of long-term savings of households posted a rise.

Short-term savings have grown steadily throughout the past year topping a 36.1 per cent increase, but long-term savings have posted even more vigorous growth during the first and the fourth quarter of 2000 reaching 47.0 per cent. Such a good result has put long-term savings of households back on track following sliding figures in 1997 and 1998 when long-term deposits accounted for 2.4 per cent and 2.0 per cent of overall deposits, respectively. The key factor behind the new rally in long-term savings has been national housing savings scheme, as well as some other similar savings packages. In 2000, growth in short-term deposits with maturity between 91 and 180 days of 43.2 per cent, i.e. 31.5 per cent in real terms, and in deposits due between 181 days and one year of 42.8 per cent, i.e. in real terms 31.1 per cent, was above trend. On the other hand, time deposits placed by households due within one month decreased during the past year by 734 million tolars. Deposits by sole entrepreneurs grew by 8.5 per cent in 2000. Savings in foreign currency soared by a hefty 74 per cent, i.e. by 59.8 per cent in real terms, while tolar funds decreased by 2.1 per cent in real terms.

As for deposits gathered from other customers within the non-bank sector (central government, other financial institutions, non-profit institutions serving households and non-residents), the sharpest drop was recorded in central government funds (down 3.3

percentage points i.e. to 7.9 per cent at the end of 2000). These deposits shrank last year by 37.6 billion tolars or by 18.0 per cent compared to the respective figure for 1999. The portion of deposits gathered from other financial institutions was also affected during 2000 and decreased by a half of a percentage point landing at 7.4 per cent. Deposits from non-profit institutions serving households increased by 10.0 per cent in real terms during the year under review. As for deposits from non-residents, they rose by 14.0 per cent but their aggregate share in deposits from the non-bank sector at the end of 2000 was still 4.2 per cent.

In 2000, **banks' liabilities** increased by 29.4 per cent compared to 38.1 per cent in 1999, pushing the share of sources of funds of the banking sector in average total liabilities up from 10.7 per cent in 1999 to 11.1 per cent in 2000. Both Slovenian and foreign banks provided the impetus to operations. During the first and partly during the second quarter of 2000, the central bank was the most important provider of funds. The trend was reversed in the second half of the year when the local and foreign commercial banks took the lead. The share of funds provided by the central bank in sources of funds eventually fell from 7.0 per cent at the end of 1999 to 1.6 per cent at the end of 2000. Although the share of domestic banks in sources of funds picked up in 2000 (from 27.5 per cent to 30.7 per cent year-on-year), the domestic banking sector continued in 2000 to search for financing across the border. As a result, foreign funding rose from 65.5 per cent in 1999 to 67.7 per cent in 2000.

The share of liabilities arising from **securities issued** in the average structure of liabilities was steady and notched 1.9 per cent at the end of 2000. Nevertheless, liabilities arising from securities soared by 42.4 per cent in real terms during the past year as opposed to 1999. Long-term liabilities stayed ahead of short-term liabilities, 44.8 and 38.4 per cent, respectively. The share of capital in the average structure of liabilities dropped from 10.3 per cent in 1999 to 9.8 per cent in 2000, whereas the share of other liabilities grew from 7.8 per cent to 8.7 per cent year-on-year.

Lending to the non-bank sector continued to grow.

A breakdown of the **structure of total assets** in 2000 reveals an increase in the share of lending to the non-bank sector (customers) from 49.0 to 51.1 per cent. By growing

Table 7: Main balance sheet items as at 31 December 1999 and 31 December 2000

	in millions of tolars		in %		in %
	Amount		Nominal growth		Real growth
	31 Dec 1999	**31 Dec 2000**	**1999/ 1998**	**2000/ 1999**	**2000/ 1999**
Cash and balances with Central Bank	88,761	98,631	4.8	11.1	2.0%
Loans and advances to banks	252,615	364,388	11.1	44.2	32.5%
Loans and advances to corporate sector	777,134	939,660	24.9	20.9	11.0%
Loans and advances to households	429,999	483,789	24.3	12.5	3.3%
Loans and advances to government	124,719	150,921	20.2	21.0	11.1%
Securities	708,622	793,180	-0.8	11.9	2.8%
Other assets	305,750	362,224	21.4	18.5	8.8%
Total assets	**2,687,600**	**3,192,792**	**14.3**	**18.8**	**9.1%**
Deposits from banks	309,002	399,712	38.1	29.4	18.8%
Deposits from corporate sector	395,257	441,787	2.3	11.8	2.6%
Deposits from households	1,033,559	1,293,711	14.2	25.2	14.9%
Deposits from government	208,773	171,202	1.3	-18.0	-24.7%
Liabilities from securities	44,755	69,405	-22.4	55.1	42.4%
Other liabilities	416,973	501,364	32.3	20.2	10.4%
Capital	279,281	315,611	9.0	13.0	3.8%
Total liabilities	**2,687,600**	**3,192,792**	**14.3**	**18.8**	**9.1%**

Source: Bank of Slovenia

17.9 per cent in nominal terms during the year under review, customer lending fell short of the respective figure for 1999 – 25.2 per cent. The composition of loans and advances to the nonblank sector in 2000 was not substantially different from loans and advances extended in 1999, except for a rise in lending to non-financial enterprises (from 56.0 to 57.4 per cent), central government (from 9.0 to 9.2 per cent) and other financial institutions (from 2.4 to 2.6 per cent). The opposite trend was posted by structural shares related to citizens (from 26.7 to 25.6 per cent), sole entrepreneurs (from 4.3 per cent to 3.9 per cent), and non-residents (from 1.5 to 1.0 per cent) that lost momentum in 2000.

During the year under review, lending to non-financial enterprises was rising steadily and posted year-end growth in 20.9 per cent, considerably more than the 1999 growth rate of 15.6 per cent. Lending to households rose by 12.5 per cent during the past year compared to 45.3 per cent in 1999, mostly due to sluggish demand of citizens for loans during the past year (an increase of 13.2 per cent) as opposed to high-note lending operations in 1999 (an increase of 25.1 per cent). Lending to sole entrepreneurs even went down in real terms by half a percentage point. Lending to non-profit institutions serving households followed suit and shed 6.7 per cent in real terms, while lending to non-residents plunged by 27.3 per cent. There was growth in lending to general government at approximately the same level as in 1999 (21.0 per cent in nominal, i.e. 11.1 per cent in real terms), and the most vigorous rise was posted by loans and advances to other financial institutions (30.0 per cent in nominal, i.e. 19.4 per cent in real terms).

Table 8: Maturity structure of deposits from and lending to the non-bank sector

in %

	31 Dec 1998	31 Dec 1999	30 Jun 2000	31 Dec 2000
Demand deposits from non-bank sector	33.3	34.9	34.8	33.6
Short-term deposits from non-bank sector	57.9	56.8	56.2	57.6
Long-term deposits from non-bank sector	8.8	8.4	9.0	8.8
Total deposits from non-bank sector	**100.0**	**100.0**	**100.0**	**100.0**
Short-term loans and advances to non-bank sector	57.2	57.0	57.1	57.8
- Receivables arising from guarantees issued	0.2	0.2	0.2	0.1
Long-term loans and advances to non-bank sector	42.6	42.8	42.7	42.1
Total loans and advances to non-bank sector	**100.0**	**100.0**	**100.0**	**100.0**

Source: Bank of Slovenia

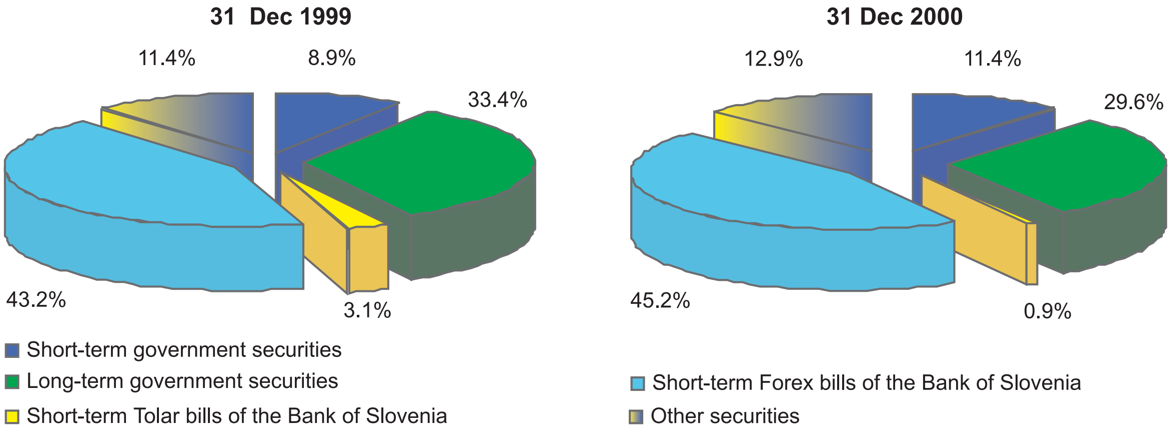
The maturity structure of loans and advances extended to the non-bank sector carried on the assets side of banks' balance sheets has changed little over the past four years, tipping the scale mainly in favour of long-term lending. Thus the ratio between short-term and long-term lending in 1997 was 58.1 per cent to 41.9 per cent, whereas in 2000 it was 57.9 per cent to 42.1 per cent. Short-term lending rose by 19.3 per cent in 2000 (9.6 per cent in real terms), including a rise in loans in foreign currency of 21.2 per cent (11.3 per cent in real terms). Long-term loans in foreign currency soared and posted a rise of 46.0 per cent (31.4 per cent in real terms), outpacing the growth of the aggregate long-term lending of 16.0 per cent, i.e. 6.5 per cent in real terms.

Yet another drop in assets invested in securities.

During 1997 and 1998, investments in securities accounted for approximately one-third of average aggregate total assets of banks but the trend reversed in 1999. Hence the share of investments banks made in securities fell to 28.5 per cent and continued to go down during 2000. At the year-end, investments in securities accounted for 25.8 per cent of banks' average aggregate total assets. The composition of securities portfolio has been changing over the past few years. Namely, the share of the item "other securities" increased from 6.2 per cent at the end of 1997 to 12.9 per cent at the end of 2000 at the expense of a decrease in the respective shares of securities issued by central government (from 43.7 to 41 per cent) and the Bank of Slovenia (from 50 cent to 46.1 per cent).

Investments in securities grew in 2000 by 11.9 per cent (2.8 per cent in real terms), headed by a rise in short-term securities issued by the central government (treasury bills) and other securities (equity shares issued by banks and other issuers, other securities floated by banks, non-residents, other governments, etc.). Investments in these securities surge most in the fourth quarter of financial year as a result of efforts focused on the placement of funds in securities non-financial enterprises towards the end of the year for the purpose of reducing banks' tax base. There was a pick up in the growth of short-term securities issued by the Bank of Slovenia after two lean years; hence a nominal rise of 11.4 per cent (2.3 per cent in real terms).

Figure 3: Structure of bank investments in securities as at 31 December 1999 and 31 December 2000



Source: Bank of Slovenia

The composition of securities portfolios comprising securities issued by the central bank held by the commercial banks has changed during the past year in favour of bills denominated in foreign currency. Hence the share of tolar-denominated bills dropped from 18.4 per cent in 1997 to 1.9 per cent in 2000. During the same period, the share of bills denominated in foreign currency grew from 81.6 to 98.1 per cent.

Investments in the banking sector increased in 2000 by 44.3 per cent (in real terms by 32.5 per cent) with time deposits enjoying the strongest growth. Therefore, the share of investments in other banks grew in the average structure of total assets from 9.4 per cent in 1999 to 10.2 per cent in 2000. The structure of investments in other banks has been modified over the past four years due to a gradual rise in the share of time deposits denominated in tolars at the expense of the share of time deposits in foreign currency, while the minor share of sight deposits in foreign currency fluctuated during the period under review. Since that segment is relatively small, the changes did not affect overall figures. At the end of 2000, time deposits in foreign currency accounted for 79.3 per cent (1999: 77.0 per cent), time deposits in tolars accounted for 16.5 per cent (1999: 13.8 per cent, and deposits repayable on demand in foreign currency (sight deposits) accounted for 4.2 per cent (1999: 9.2 per cent) of investments in the banking sector.

The share of the balance sheet item **cash and balances with the central bank** in aggregate total assets has slightly decreased over the past four years landing at 3.1 per cent at the end of 2000 (1997: 3.7 per cent) compared to the share of **other total assets** that has slightly grown topping 9.4 per cent (1997: 7.4 per cent).

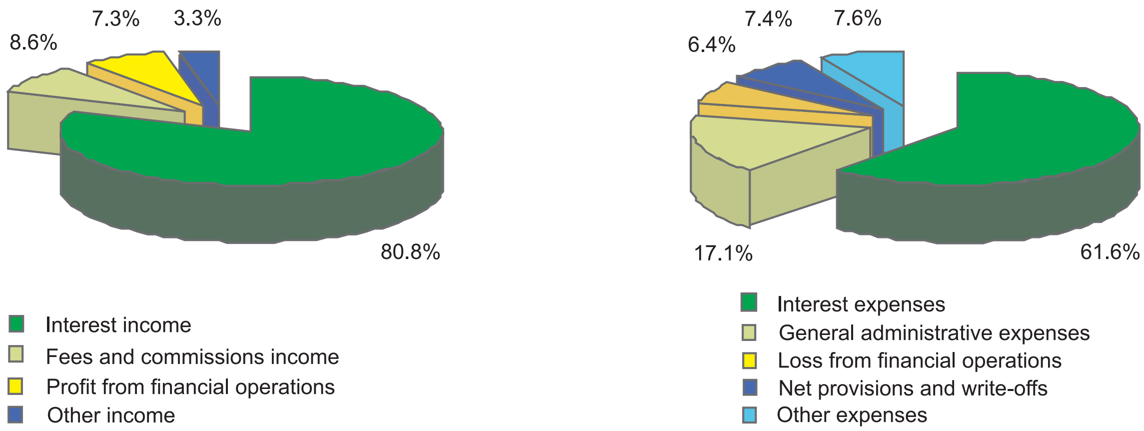
The share of **average liabilities denominated in foreign currency** in aggregate average liabilities of banks was going down from year 1997 (35.8 per cent) until 1999 (30.5 per cent) only to start rising again over the past year when it reached 32.7 per cent at year-end. A similar trend can be observed in the **average share of total assets denominated in foreign currency** in aggregate average total assets of banks that first decreased from 32.8 per cent in 1997 to 29.6 per cent in 1999 and then rose again last year to 31.6 per cent. In 2000, both total assets and total liabilities denominated in foreign currency grew steadily with sources of funds – liabilities - in foreign currency taking the lead by growing 29.9 per cent in nominal, i.e. 19.3 per cent in real terms than foreign-currency assets that rose by 29.2 per cent in nominal, i.e. 18.6 per cent. in real terms. During 2000, the banks averaged 3.9 per cent more sources of funds – liabilities - than assets, though far below the 9.1 per cent mark recorded in 1997.

32.6 billion tolars in profit before taxes...

... and 19.9 billion tolars in profit after taxes.

The banks' earnings in 2000 totalled 32.6 billion tolars in **profit before taxes** including **net revaluation income** in the amount of 38.6 billion tolars. As opposed to 1999, the banks' earnings grew by 61.8 per cent (48.5 per cent in real terms), but compared to the 1999 result when one of Slovenia's largest banks was in the red, profit before taxes were 28.2 per cent below pre-tax profit in 1998 in real terms. **After-tax profit** amounted to 19.9 billion tolars at the end of 2000 – 82.3 per cent growth in real terms year-on-year.

Figure 4: Structure of income and expenses of banks in 2000



Source: Bank of Slovenia

Earnings brought by **net interest income**, which in 2000 amounted to 123 billion tolars**,** were again more subdued after modest growth in 1998 dropping by 2.7 per cent in 1999 in real terms due to the impact the loss incurred by one of the largest Slovenian banks. Net interest income posted growth of 30.1 per cent i.e. 19.5 per cent in real terms compared to 1999. Income arising from **net fees and commissions** totalled 37.9 billion tolars and in nominal terms remained at the 1999 level (12.3 per cent), whereas in real terms, this income source has actually lost 3.1 per cent year-on-year due to a rise in consumer prices in 2000. **Net income from financial transactions** (calculated as trading gain after the deduction of any trading loss and gains from investment securities) in the amount of 13.4 billion tolars rose last year by 40.0 per cent above the 1999 level (28.5 per cent in real terms). Higher gains on banks' capital investments and foreign exchange trading income have contributed to the vigorous growth in this item. The item referred to as **net other** increased in 2000 by 11.5 per cent (i.e. 2.4 per cent in real terms) and topped 4.7 billion tolars at year-end.

As gross earnings rose by 26.9% ...

Nominal growth in the banks' **gross income** to 169.8 billion tolars in 2000 has outstripped growth rates recorded over the past few years and reached 26.9 per cent (16.2 per cent in real terms). Such a vigorous rise is the result of a high increase both in the net trading-related income segment (28.5 per cent) and the increase in net interest income (19.5 per cent). Other elements of gross income also increased year-on-year: the share of net interest income and the share of net trading-related income rose (from 70.8 to 72.6 per cent and from 7.1 to 7.9 per cent, respectively), while the share of net fees and commissions dropped (from 25.2 to 22.3 per cent).

... and operating expenses went up by 14.6% ...

Operating expenses amounted to 100.0 billion tolars in 2000 and year-on-year went up in real terms by 5.2 per cent (14.6 per cent in nominal terms). If the composition of operating expenses incurred by the banks is analysed, then upward pressure on **labour costs** is revealed (a rise of 3.1 per cent in real terms, i.e. 12.3 per cent in nominal terms), as well as on **other general administrative expenses** (11.1 per cent in real terms, i.e. 21.0 per cent in nominal terms), the latter group comprising mainly outsourced services, as well as services provided by consultants, chartered accountants and certified auditors and other related services plus maintenance costs for fixed assets. The share of operating expenses in gross income compared to 1999 dropped last year from 65.2 to 58.9 per cent, while the share of staff costs has decreased from 32.6 to 28.9 per cent of gross income.

... net earnings soared by 50%.

That the Slovenian banks have been effectively controlling costs during the past year is also reflected in 69.8 billion tolars in **net income** that after declining for two years in real terms picked up last year and increased by 50 per cent (37.7 per cent in real terms).

In 2000, the banks allocated 37.2 billion tolars to **net provisions**, or 10.8 billion tolars more year-on-year. Thus net provisions posted a 41.0 per cent nominal growth (i.e. 29.5 per cent in real terms) compared to 1999. On average, net provisions tie up 1.3 per cent of total assets of banking system.

Net revaluation income in the amount of 38.6 billion tolars in 2000 jumped by 54.1 per cent (41.5 per cent in real terms), demonstrating the extent to which the so-called inflationary gains have fed through to increases in overall earnings of the Slovenian banks over the past few years.

Table 9: Principal items in adjusted profit and loss account in 1999 and 2000

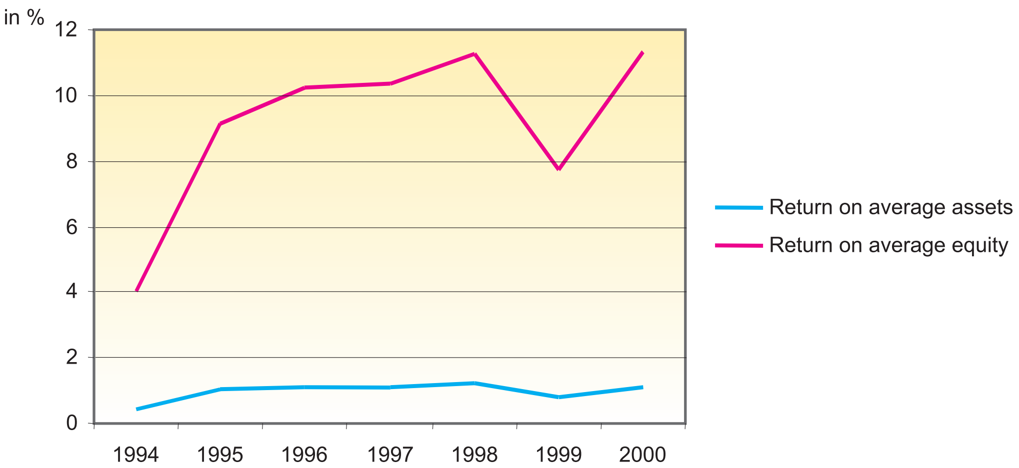
	Amount (in millions of tolars)		Share in gross income (in %)		Nominal growth (in %)	
	1999	**2000**	**1999**	**2000**	**1999/1998**	**2000/1999**
Net interest income	94,770	123,298	70.8	72.6	5.1	30.1
Net fees and commissions	33,726	37,858	25.2	22.3	11.7	12.3
Net financial operations	9,541	13,355	7.1	7.9	42.6	40.0
Net other	-4,183	-4,666	-3.1	-2.7	-19.0	11.5
Gross income	**133,854**	**169,845**	**100.0**	**100.0**	**9.8**	**26.9**
Operating expenses	87,318	100,041	65.2	58.9	13.2	14.6
- labour costs	43,701	49,085	32.6	28.9	14.0	12.3
Net income	**46,536**	**69,804**	**34.8**	**41.1**	**3.9**	**50.0**
Net provisions and write-offs	-26,401	-37,233	-19.7	-21.9	40.4	41.0
Profit before taxation	**20,134**	**32,571**	**15.0**	**19.2**	**-22.5**	**61.8**

Source: Bank of Slovenia

Banks' profitability recovered after lacklustre 1999 figures.

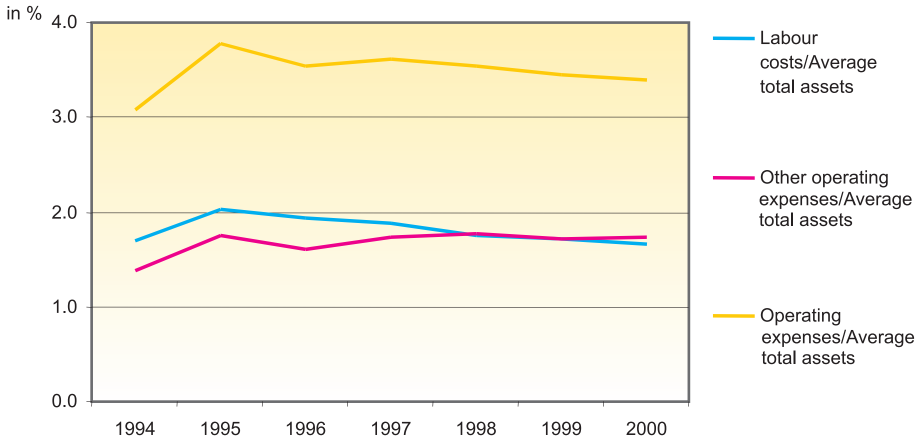
The pick up in the banks' earnings in 2000 to the levels enjoyed in 1997 and 1998 is a relieving sign after lacklustre results in 1999 and falling profitability ratios. In particular, **return on average assets** dropped in 1999 to 0.8 per cent, whilst **return on average equity** plunged to 7.8 per cent (as a result of the loss incurred by one of the largest banks), but there was a turnaround resulting in return on average assets of 1.1 per cent and return on average equity of 11.3 per cent at year-end.

Figure 5: Movements in banks' profitability



Source: Bank of Slovenia

Figure 6: Movements in banks' efficiency



Source: Bank of Slovenia

The banking sector's ratio between **operating expenses and average total assets** remained with 3.4 per cent unchanged in 2000. General administrative expenses, depreciation/amortisation and other operating expenses (taxes, social security contributions, membership fees, and other), form the numerator of this ratio.

The ratio between net interest income and average gross interest-earning assets referred to as the **net interest margin** has recovered during the past year after a fall that lasted for three years (from 4.9 per cent in 1997 to 4.0 per cent in 1999) was on the road to recovery in 2000 by rising to 4.5 per cent. Such a twist has been possible owing to banks' earnings arising from net interest income that for the first time after three years grew faster than average gross interest-earning assets. Namely, net interest income rose by 30.1 per cent, i.e. 19.5 per cent in real terms compared to average gross interest-earning assets that grew by 16.2 per cent, i.e. 6.7 per cent in real terms. Different banks made different deals during the past year; hence their net interest margins varied from a modest 2.2 per cent to a solid 7.9 per cent

Interest spread fell from 4.9 percentage points in 1997 to 2.7 percentage points in 2000.

Interest spread, the difference between average annual real interest rate charged on loans and paid on deposits denominated in tolars, i.e. on assets from the non-bank sector (customer accounts), was sliding from 4.9 percentage points at the end of 1997 to 3.7 percentage points at the end of 1998 to land at 3.3 percentage points at the end of 1999. In 2000, the downward trend continued; hence at year-end, interest spread earned by the banks that operate in Slovenia pencilled meagre 2.7 percentage points.

2.1.2. Operations of banks in the first half of 2001

As at 30 June 2001 total assets rose by 9.3% in nominal terms in comparison to end-2000.

As at 30 June 2001, aggregate **total assets** of Slovenian banks amounted to 3,489.3 billion tolars. This figure was by 296.5 billion tolars above the respective balance posted at the end of 2000 meaning a 9.3 per cent growth in nominal terms. When taking account of a 4.9 per cent rise in consumer prices (CPI) for the first six months of 2001, the amount of the banks' total assets increased by 4.2 per cent in real terms or slightly below the result achieved a year earlier when aggregate total assets rose in real terms by 4.4 per cent.

Most banks enjoyed a nominal rise in total assets during the first six months of 2001 (24 banks increased total assets and only one bank lagged behind), while in real terms, two banks experienced a drop in the volume of operations. During the period under review, 13 banks achieved above average nominal growth rates that ranged between 9.8 per cent and 64.5 per cent. In addition to the branch office of a foreign bank, the most vigorous growth rates were achieved by three small-scale banks.

Table 10: Main balance sheet items as at 31 December 2000 and 30 June 2001

in millions of tolars, in %

	31 Dec 2000		30 Jun 2001		Growth Jun 2001 / 2000	
	Amount	Share	Amount	Share	Nominal	Real
Loans and advances to banks	364,388	11.4	375,899	10.8	3.2	-1.7
Loans and advances to customers	1,636,557	51.3	1,754,575	50.3	7.2	2.2
- corporate sector	939,660	29.4	1,050,030	30.1	11.7	6.5
- households	483,789	15.2	503,278	14.4	4.0	-0.8
- government	150,921	4.7	133,542	3.8	-11.5	-15.6
Securities	793,180	24.8	934,833	26.8	17.9	12.4
Other assets	398,667	12.5	424,017	12.2	6.4	1.4
Total assets	**3,192,792**	**100.0**	**3,489,324**	**100.0**	**9.3**	**4.2**
Deposits from banks	399,712	12.5	402,727	11.5	0.8	-4.0
Deposits from customers	2,157,509	67.6	2,369,014	67.9	9.8	4.7
- corporate sector	441,787	13.8	473,205	13.6	7.1	2.1
- households	1,293,711	40.5	1,454,840	41.7	12.5	7.2
- government	171,202	5.4	155,653	4.5	-9.1	-13.3
Capital and subordinated liabilities	354,875	11.1	360,872	10.3	1.7	-3.1
Other liabilities	280,696	8.8	356,711	10.2	27.1	21.1
Total liabilities	**3,192,792**	**100.0**	**3,489,324**	**100.0**	**9.3**	**4.2**

Source: Bank of Slovenia

The fact that the **structural share** of deposits as the principal source of funding for banks (67.9 per cent of total liabilities) remained strong between January and June 2001 was widely assisted by a **more buoyant real growth in deposits placed by households** and particularly by a surge in deposits from households in domestic currency. These deposits grew at an 8.6 per cent rate in real terms earning 100.1 billion tolars more and were followed by deposits denominated in foreign currencies (a 5.4 per cent increase in real terms, i.e. a rise of 61 billion tolars). Deposits placed by the corporate (real) sector were jittery and managed a meagre 2.1 per cent growth in real terms (a rise of 31.4 billion tolars) mainly generated by a rise in deposits denominated in foreign currencies (up 30.4 billion tolars). A similar increment as in the case of corporate deposits was also achieved in the group of deposits placed by other financial institutions (up 30.1 billion tolars and mostly denominated in domestic currency). Deposits placed by non-residents kept momentum and gained 8.6 billion tolars (mostly denominated in foreign currencies), while deposits placed by the government shrank (a drop by 15.5 billion tolars, only in foreign currencies).

Borrowing from banks slowed down.

Borrowing from banks was at a smaller scale in comparison to the year 2000; hence the structural share held by deposits from banks was by a percentage point below the figure posted at the end of 2000 (11.5 per cent). Within the framework of borrowing from banks, the volume of funds raised in the inter-bank market suffered a sharp drop. The amount of funds borrowed in the inter-bank market expressed as an average daily balance was falling until May, while in June the average daily balance failed to reach half of the average daily balance of borrowed funds in December 2000. The trend witnessed in the second half of 2000 when the banks showed prudence in resorting to instruments made available by the central bank continued in the first half of 2001 when only large banks (those with total assets in excess of 100 billion tolars) reached for the central bank's instruments on a case-by-case basis. Borrowing abroad accounted for a significant share of banks' sources of funds; part of a rise generated in this segment was provided by withdrawing funds under a syndicated loan arranged by a major bank owned by domestic shareholders, while the remaining portion of growth in borrowing was attributable to the banks wholly-owned by foreign shareholders.

Over the fist six months of 2001, the top seven banks stepped up activities aimed at raising funds by issuing **securities** and by issuing long-term registered bonds in the first place, partly also by issuing certificates of deposit; hence the share these debt securities in balance sheets of Slovenian banks increased from 2.2 per cent of total liabilities at the end of 2000 to 2.6 per cent at the end of June 2001.

On the **assets** side, loans and advances to the non-bank sector accounted for as much as 50.3 per cent of total assets. The share of this item has been declining since the second half of the year 2000 due to a real decrease in lending to households (-0.8 per cent), whereas lending to the to the government, non-residents and not-for-profit providers of services to households fell short of the figure posted at the end of 2000.

The share of loans to the corporate sector increased.

As regards lending to the non-bank sector, **lending to households was rising in real terms (**6.5 per cent); hence their share increased from 29.4 per cent to 30.1 per cent of total assets. Loans and advances to the corporate sector denominated in foreign currencies enjoyed even faster growth in real terms (9.2 per cent) than loans and advances granted to the corporate sector in domestic currency (5.7 per cent). Consequently, the share of lending to the corporate sector in foreign currencies in the structure of lending to the corporate sector rose by half a percentage point (from 23.6 to 24.2 per cent). A slowdown in lending to households that occurred in the second half of 2000 was followed in the first half of this year by a drop in this kind of lending in real terms leading to a decrease in the share of loans and advances to households in the structure of total assets from 15.2 to 14.4 per cent. A more noticeable decrease in lending within the framework of the non-bank sector in absolute terms was posted by lending to the government the share of this item accounted for 3.8 per cent of total assets, while somewhat lower decrease in absolute terms affected lending to non-residents (0.5 per cent of total assets) and lending to not-for-profit providers of service to households (0.1 per cent of total assets). The highest growth rate posted within the framework of lending to the non-bank sector was achieved in the case of loans and advances to other financial institutions (in real terms up by 9.7 per cent). On the other hand, the share of this item in the structure of total assets was relatively modest (1.4 per cent of total assets).

After several years of downward trend, this year banks invested more heavily in securities.

A drop in the structural share of **investments in securities** experienced over the past few years was reversed during the first half of 2001 when Slovenian banks allocated more funds to securities issued by the Bank of Slovenia (a rise of 70.1 billion tolars), securities issued by the government (a rise of 51.1 billion tolars), and in other securities (20.5 billion tolars). As a result, the structural share of investments in securities went up to 26.8 per cent of total assets. Major banks stayed at the forefront of the trend investing substantially in securities. The bills issued by the Bank of Slovenia still accounted for the largest share - almost a half (46.6 per cent) of all securities. The share of tolar-denominated bills has been rising more strongly since March this year, even though the bulk is still composed of bills denominated in foreign currencies (91.7 per cent of bills). As regards the structure of a securities portfolio, government-issued securities accounted for 40.2 per cent, while a more prominent increase in the first six months of 2001 was generated by investment in treasury bills in the short-term part and arising from bonds of the Republic of Slovenia in the part of long-term securities. During the first half of 2001, investments in other securities were rising more intensely and accounted for 13.2 per cent of securities. The increment in the value of 20.5 billion tolars derived mainly from a rise in investments in securities issued by foreign banks and denominated in

Table 11: Maturity structure of deposits from and loans and advances to the non-bank sector

in millions of tolars, in %

	31 Dec 2000		30 Jun 2001		Growth Jun 2001/Dec 2000	
	Amount	Share	Amount	Share	Nominal	Real
Short-term loans and advances	947,305	57.9	1,032,314	58.8	9.0	3.9
Long-term loans and advances	689,253	42.1	722,261	41.2	4.8	-0.1
Total loans and advances	**1,636,557**	**100.0**	**1,754,575**	**100.0**	**7.2**	**2.2**
Demand deposits	723,962	33.6	780,967	33.0	7.9	2.8
Short-term deposits	1,243,653	57.6	1,386,661	58.5	11.5	6.3
Long-term deposits	189,894	8.8	201,386	8.5	6.1	1.1
Total deposits	**2,157,509**	**100.0**	**2,369,014**	**100.0**	**9.8**	**4.7**

Source: Bank of Slovenia

foreign currency, followed by investments in securities issued by non-residents, and long-term investments in securities issued by banks.

Loans and advances extended to the **banking sector** have been declining in real terms since January this year resulting in a lower share of this balance sheet item in the structure of total assets (10.8 per cent). A modest increment in the amount of 11.5 billion tolars arises from short-term deposits placed abroad and denominated in foreign currency.

The share of deposits repayable on demand dropped at the expense of deposits due in 91 days or more.

As regards the **maturity structure of deposits** placed by the non-bank sector in the first half of 2001, the situation improved in the short-term part, since the share of deposits repayable on demand (sight deposits) decreased and the share of short-term deposits went up, mainly in the bracket with deposits repayable in more than 91 but not more than 180 days and in the group with deposits repayable in more than 181 days but not more than one year. With regard to a rise in short-term deposits, the bulk of the rise is attributable to deposits from households and less to corporate deposits and deposits from other financial institutions. Long-term deposits from the non-bank sector rose in real terms by only one percentage point due to a flattened balance of long-term deposits from the government at the end of June 2001.

On the **assets side** there was a drop in lending to households, government, not-for-profit providers of services to households, and non-residents that in the long-term part was reflected in a real decline in long-term lending and consequently flattened the share of long-term loans and advances to the non-bank sector. A surge in short-term loans and advance to the corporate sector and to a lesser extent to other financial institutions resulted in increasing the share of short-term lending to customers by one percentage point to 58.8 per cent.

Since the beginning of the year, total assets denominated **in foreign currencies** have been rising slightly faster than total assets in domestic currency (9.8 per cent and 9.05 per cent, respectively), mainly owing to investments in securities issued by the Bank of Slovenia, lending to the corporate sector, and deposits from the banking sector repayable on short-term notice and denominated in foreign currencies. Hence, the share of total assets denominated in foreign currencies has remained unchanged in relation to the end of 2000 (32.9 per cent).

As for the composition of total liabilities, liabilities denominated in domestic currency were rising faster than total liabilities in foreign currencies (10.1 per cent and 7.8 per cent, respectively) mainly owing to a rise in deposits from households, other financial institutions, liabilities from issued securities and liabilities to the banking sector in domestic currency. Therefore, the share of total liabilities denominated in foreign currency decreased to 33.7 per cent of total liabilities.

Table 12: Principal items in adjusted profit and loss account of banks and the structure as percentage of gross income

in millions of tolars, in %

	Jan - Jun 2000		Jan - Jun 2001		Growth Jun 2001 / Jun 2000	
	Amount	Share in gross income	Amount	Share in gross income	Nominal	Real
Net interest income	59,218	77.4	63,464	74.6	7.2	-2.1
Net fees and commissions	18,280	23.9	21,213	24.9	16.0	6.0
Net financial operations	2,033	2.7	6,616	7.8	225.4	197.2
Net other	-3,034	-4.0	-6,201	-7.3	104.4	86.7
Gross income	**76,497**	**100.0**	**85,092**	**100.0**	**11.2**	**1.6**
Operating expenses	45,543	59.5	54,196	63.7	19.0	8.7
- labour costs	22,645	29.6	26,712	31.4	18.0	7.7
Net income	30,954	40.5	30,896	36.3	-0.2	-8.8
Net provisions and write-offs	-14,288	-18.7	-11,634	-13.7	-18.6	-25.6
Profit before taxation	**16,666**	**21.8**	**19,262**	**22.6**	**15.7**	**5.7**

Source: Bank of Slovenia

Banks' profit for the first 6 months of 2001 totalled 19.3 billion tolars.

Slovenian banks posted interim **aggregate profits** for the first half of 2001 in the amount of 19,291 million tolars (including net revaluation gain totalling 16,798 million tolars) - a rise in real terms by 5.7 per cent or 2,625 million tolars above the figure posted after the first six months of 2000. Save for two smaller banks and a branch of a foreign bank, all banks posted operating results in black figures during the period under review. Gross income earned by banks totalled 85,087 million tolars and rose 8,590 million tolars during the first half year, i.e. grew in real terms by 1.6 per cent. This result falls short of the year-on-year figure when the banks achieved an 11.3 per cent rise in real terms and is mainly due to depressed earnings generated on net interest receivable following a general increase in deposit interest rates. Interest margin achieved during the first half of 2001 was by a half percentage point below the figure posted a year earlier (4.1 per cent and 4.6 per cent, respectively). As opposed to somewhat lower real earnings arising from net interest, the banks enjoyed in the first half of 2001 a rise in real terms in earnings arising from net fees and commissions, mainly earned on providing administrative services, for effecting domestic and cross-border payment transactions, and fees and commissions earned on intermediary and agency operations. As the activities in the capital market gained momentum, there was a real rise in earnings from net financial operations and the banks carried lower valuation expenses concerning investment securities and dealing (marketable) securities as well as higher gain made on selling shares and other securities. Gains realised on buying and selling foreign exchange also rose slightly. The banks posted a rise of the item net other in real terms due to extraordinary expenses incurred by a major bank. During the period under review, labour costs were rising faster than gross income in real terms (labour costs jumped by 7.7 per cent while gross income went up by 1.6 per cent) resulting in a rise related to gross income necessary to cover operating expenses. Since the end of June 2000, the ratio between operating expenses and average total assets has slightly decreased - from 3.4 per cent to 3.3 per cent - mainly due to faster growth in average total assets from growth in operating expenses. During the first six months of 2001, the banks set aside 11,620 million tolars in net provisions. A hike in earmarking provisions was most prominent in June; nevertheless, the amount of net provisions dropped by 2,668 million tolars in comparison with the interim results year-on-year due to a rise in income from released long-term provisions in a major bank. Interim return on average assets and return on equity is in line with the figures posted at the end of June 2000. Alongside two banks and the foreign bank branch, other ten banks posted a loss on operations and generated below average return on assets (below 1.2 per cent), while the ratio achieved by individual banks ranged between 0.07 per cent and 2.4 per cent.

Table 13: Key banking ratios

in %

	1999	2000	Jan - Jun 2001
Return on average assets	0.8	1.1	1.2
Return on average equity	7.8	11.3	12.5
Net interest margin	4.0	4.5	4.1
Labour costs/Average total assets	1.7	1.7	1.6
Other operating expenses/Average total assets	1.7	1.7	1.7

Source: Bank of Slovenia

2.2. Operations of savings banks

2.2.1. Operations of savings banks in 2000

The share of savings banks in the banking sector remained at 0.4%.

At the beginning of 2000, there were six savings banks operating in Slovenia and by the end of the year their number plunged to three. During the year under review, one savings bank joined a large savings bank, one savings bank was taken over by a commercial bank from the middle market section, and in the middle of 2000, proceedings to wind-up one savings bank were initiated. Total assets of the remaining three savings banks at the end of 2000 stood at 12.3 billion tolars posting a year-on-year rise of 11.5 per cent. Thus the share of savings banks in Slovenia's banking environment remains fairly modest (0.4 per cent).

The savings banks vary considerably in terms of business volumes and the composition of their balance sheet items. Following record high deposits placed by non-financial enterprises in 1999, this group of deposits experienced a drop by 1.5 percentage points last year. Nevertheless, with a 21 per cent share, these deposits provide the second largest source of funds in the savings banks' liabilities structure. In the group containing deposits of the non-bank sector, the share of deposits from households remains strong rising in the average structure of liabilities from 22.0 per cent to 26.5 per cent year-on-year. On the other hand, deposits from the banking sector decreased in real terms by 43.7 per cent last year and at year-end amounted to 687 million tolars or 9.1 per cent of liabilities carried on the books of the Slovenian savings banks.

76.1% of savings banks' assets were passed as loans to households.

Funds gathered by the savings banks are mainly passed on as lending to households. Namely, loans and advances have increased by 22.2 per cent in real terms during the past year and at the end of 2000 stood at 76.1 per cent of average aggregate total assets of the savings banks. The share of loans and advances to the banking sector decreased to 5.4 per cent at the end of 2000, and lending to non-financial enterprises also lost edge and was 6.9 per cent of average total assets. After exceptional growth in 1994, the savings banks gradually pulled out of securities investment; hence their share in average aggregate total assets at the end of 2000 was 1.7 per cent.

The proportion between short-term and long-term lending of the savings banks to the non-bank sector at the end of 1997 was 64.1 per cent against 35.9 per cent, but it gradually improved and at the end of 1999 this percentage was practically levelled. While short-term lending decreased in real terms by 18.7 per cent, long-term lending bounced by 43.9 per cent, and long-term lending outstripped short-term loans and advances last year: 63.6 per cent against 36.4 per cent.

Savings banks generated in 2000 profit in the amount of 156.9 million tolars.

In 2000, all savings banks operated with profit generating 156.9 million tolars in pre-tax profit, i.e. 24.5 million tolars less than in 1999. Gross income earned in 2000 compared to 1999 decreased in real terms by 16.3 per cent mainly due to thinner earnings arising from net interest income and net financial transactions. Net fees and commissions grew in real terms by 8.9 per cent. Expenses dropped in real terms by 18.0 per cent with labour costs falling by 23.1 per cent. The share of labour costs in average total assets dropped from 2.4 per cent in 1999 to 1.7 per cent year-on-year, and the share of aggregate operating expenses shrank from 5.0 per cent to 3.8 per cent at the end of 2000. The savings banks earmarked net provisions in the amount of 63.4 million tolars, or 17.3 per cent more in real terms compared to 1999.

Average return on assets earned by the savings banks decreased to 1.3 per cent, and return on equity plunged from 17.7 per cent in 1999 to 12.6 per cent in 2000. In 2000, the savings banks' interest rate margin continued to grow thinner and after losing 1.5 percentage points was at 3.6 per cent and for the first time lagging behind the banks' interest rate margin.

Decreasing lending and deposit interest rates and ...

... lower real interest spread charged by savings banks.

Over the past years, lending interest rates and interest rates paid on deposits by the savings banks have been above levels offered by the banks, but this is gradually changing. During the last quarter of 2000, real lending interest rate charged by the savings banks was 7.5 per cent as opposed to 5.7 per cent charged by the banks, whereas real deposit interest rate paid by the savings banks was 4.4 per cent as opposed to 3 per cent paid by the banks. As a result, real interest spread earned by the savings banks was with 3.1 percentage points still above the interest spread made by the banks (2.7 percentage points), but the savings banks are slowly losing advantage.

2.2.2. Operations of savings banks in the first half of 2001

Total assets of savings banks rose as at 30 June 2001 by 11.3% in nominal terms in comparison to end-2000.

Aggregate **total assets** of the three savings banks as at 30 June 2001 topped 13,703 million tolars achieving a 11.3 per cent increase in nominal terms, i.e. a rise of 1,396.6 million tolars in comparison with the figure posted at the end of 2000. During the period under review, savings banks achieved faster real growth in total assets than banks (6.1 per cent and 4.2 per cent, respectively), predominately due to vigorous growth in total assets enjoyed by two savings banks, while total assets of the smallest savings bank shrank. The two top savings banks had an 80 per cent market share, whereas the **market share** of all three savings banks and the entire banking sector remained modest (0.4 per cent). At the same time, savings banks also maintained all differences and features typical of their balance sheet structure.

Among savings banks' sources of funding, deposits increased until the end of June 2001 by 606 million, posting a modest 1.4 per cent growth in real terms and lagged behind growth in total assets. Therefore, the share of deposits **in the structure of liabilities (sources of funds) of savings banks** dropped to 74 per cent of total liabilities. This decrease affecting the principal sources of funds of savings banks was due to a drop in deposits from the corporate sector, which indicated slight growth a year earlier but between January and June 2001 fell in real terms by 14.1 per cent having shed 253 million tolars and accounted for 16.8 per cent of total liabilities. By posting a hike of 430 million tolars (a 6.8 per cent rise in real terms), deposits from households have remained the most important source of funds and accounted for 29.3 per cent of total liabilities. A significant and permanent source of funds for savings banks are also deposits from not-for-profit providers of services to households and the government (cumulative 26.8 per cent of total liabilities). These deposits rose by 404 million tolars, whereas deposits placed by other financial institutions grew at a smaller scale. The savings banks made up for the failure to gather sufficient deposit by borrowing in the inter-bank market (8.3 per cent total liabilities).

On the **assets** side, the savings banks continued during the first half of 2001 to lend intensely to households. Thus lending to households increased by 1,150 million tolars generating 6.1 per cent growth in real terms and resulting in boosting the share of lending to households to as much as 82.9 per cent of total assets. The downward trend experienced by lending to the corporate sector over the past year persisted during the first half of this year. As at 30 June 2001, loans and advances to the corporate sector were lower in real terms by 8.4 per cent resulting in a decrease in the share of corporate lending during the period under review to 3.1 per cent of the structure of total assets. During the same period, the amount of loans and advances granted to the savings banks and banks increased; hence the share of lending rose to 4.7 per cent of total assets. The share of investments in government securities and securities issued by the Bank of Slovenia was low and accounted for a mere 1.6 per cent of the structure of total assets of the savings banks.

Maturity structure of deposits from the non-bank sector improved.

As regards gathered funds, the **maturity structure** of deposits placed by the non-bank sector has improved. There has been a drop in short-term deposits from the corporate sector leading to a decline in the share of short-term deposits from the non-bank sector (to 66.8 per cent), while long-term deposits from not-for-profit providers of services to households and deposits from households gained momentum. These movements have boosted the share of long-term deposits to 28.5 per cent of all customer deposits. The share of deposits repayable on demand remained practically unchanged (4.7 per cent). Due to prevailing short-term lending to households, the share of short-term lending on the assets side rose from 36.4 per cent to 41.5 per cent of all lending to the non-bank sector.

Interim results for 2001 showed savings banks' profits top 104.3 million tolars.

In the first half of 2001, all savings banks operated at a **profit** and generated 104.3 million tolars in aggregate profit or by 4.5 million tolars more year-on-year, even though in comparison to the end of June 2000, the number of savings banks was down by two savings banks. As in the case of Slovenian banks, earnings arising from **net interest** were down in real terms in the savings banks. On the other hand, the savings banks earned more in real terms from **net fees and commissions** and above all from fees and commissions charged on lending operations. The share of net interest in gross income has been declining since the beginning of 2001 due to strengthening of the share of net fees and commissions and this trend has been particularly strong in two savings banks. Since January 2001, the savings banks have incurred higher expenses arising from **net provisions** (43 million tolars), and they have allocated 10.3 per cent of their gross earnings to this item. However, the share of operating expenses and the share of labour (staff) costs in gross income were down in comparison with the end of 2000, even though the share of operating expenses in average total assets of the savings banks still remains below the respective figure posted by the banks (4.2 per cent and 3.3 per cent, respectively). This is mainly due to other operating expenses, which accounted in the savings banks for 2.2 per cent of total assets and may partly be attributed to higher labour costs (2 per cent of total assets). As regards **interest margin,** the downward trend witnessed in 2000 continued into the first half of 2001. Thus since last June, interest margin fell from 4.4 to 4.1 thus levelling off the difference in interest margin earned by Slovenian banks and savings banks. Nevertheless, profitability ratios were favourable: return on average total assets (ROAA) at half-year was 1.6 per cent and return on average equity (ROAE) was 17.5 per cent.

3. SUPERVISION OF RISK MANAGEMENT

Decree on Capital Adequacy of Banks and Savings Banks from February 2001 also sets out capital requirements for market risks.

In March 2001, the Decree on Capital Adequacy of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, No. 16/01), superseded the Decree on Calculation of Capital, Capital Requirements and Capital Adequacy Ratio of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, No 32/99 and 122/00). The old decree from 1999 gave a definition only for capital requirements as a cushion for exposures to credit and currency risks. The new decree from March 2001 stipulates also capital charges for market risks, which include specific and general risk modifications to prices of financial instruments (position risk), risk of default of the counterparty, risk that the price of goods is changed, and risk of large exposure to a single client and groups of connected clients. Banks do not have to calculate and carry capital against the market risks, if the scope of their activities is small (when trading operations usually do not exceed 5 per cent and never go beyond 6 per cent of aggregate business and aggregate position for trading items usually does not exceed 15 million euros and never exceeds 20 million euros).

Significant innovation enacted under the new Decree is to allow for contractual netting of claims (assets) and liabilities arising from contracts with derivative financial instruments concluded with the same contracting party.

As regards capital charges the banks have to carry against the market risks they run, the implementation of the provisions laid down in the Decree has been postponed until 30 June 2002, since new capital requirements mean additional burden on banks, mainly associated with the putting in place adequate information support required for daily monitoring of positions and valuation of risks. Furthermore, the Decree prescribes standards and procedures, which are sophisticated from the technical point of view and are presently hard to attain in Slovenia where trading operations have started only recently.

3.1. Credit risk

The most significant exposure for banks and savings banks is credit risk. This term encapsulates a risk of loss resulting from the borrower's failure to meet obligations to the bank at maturity. When assessing the level of credit risk a bank has assumed, supervisors need to take account of concentrations of credit exposures/loan portfolio (measured by large exposures), magnitude of these credit exposures (absolute value of exposure), and the quality of the bank's loan portfolio (classification of assets/claims in categories from A to E).

Banks assess credit risk against the criteria laid down in the Decree on Classification of On-Balance Sheet Assets and Off-Balance Sheet Items.

The banks grade credit risk in accordance with the criteria for the classification of claims in categories on a scale from A to E. Since they were adopted at the end of 1992, these criteria originally based on overdue accounts, became more stringent in 1993 and remained in force until 1996. As from the beginning of 1997, the criteria were amended by including more qualitative and quantitative data. The methodology in force until 1996 was based on creditworthiness of a borrower/client, even though it was permissible under certain circumstances to classify in A category also assets/claims collateralised by pledging moveable or immovable property irrespective of the borrower's creditworthiness. As from January 1997, claims collateralised by pledging property may be ranked only one category higher than the ranking awarded on the basis of the borrower's creditworthiness.

After the Banking Act became effective, the Bank of Slovenia enacted the Decree on the Classification of On- and Off-Balance Sheet Items of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, No. 32/99), which superseded the decree with the same title adopted in December 1996 (and amended in July 1998). The requirements set out in the new Decree are not essentially different from the provisions under the Decree dating back to 1996.

In efforts to manage credit risk, banks need to pay particular attention to the risk arising from the concentrations of credit exposure to individual borrowers/counterparties and groups of connected counterparties. The Decree on Large Exposure of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, No. 32/99) defines what large exposure is and sets the ceiling on large exposures. Any exposure of a bank or a savings bank to a borrower in excess of 10 per cent of the bank's capital (own funds) shall be treated as large exposure. The sum of all large exposures are not to exceed the cumulative limit of 800 per cent of capital, while the maximum allowed exposure to a single client shall not surpass 25 per cent of the bank's capital.

The sum of large exposures is far below regulatory limits.

The aggregate large exposure of banks remains far below the statutory limit in all banks. As at 31 December 1999, the sum of all large exposures averaged 182.7 per cent of the banks' capital, as at 31 December 2000 it averaged 185.1 per cent and as at 31 March 2001, this figure reached the average of 189.6 per cent of capital carried by the Slovenian banks.

Exposures to groups of connected clients in excess of 25 per cent of capital as at 31 December 2000 was reported by three banks, two among them exceeding the ceiling by less than one per cent, and one by 12.1 per cent. On the same day, three banks reported overshooting the 25 per cent exposure limit benchmarked against capital to clients directly or indirectly controlled by the bank, i.e. to clients, which in the relationship with the reporting bank are directly or indirectly controlling undertakings. The deviations from the criteria applied by these banks fell in the bracket from 0.1 per cent to 24.3 per cent. Under the Banking Act, the banks in the breach of the acknowledged overshooting of statutory limits in relation to exposure were obliged to bring their business in line with the limits by 31 December 2001.

Share of performing assets accounts for approximately 95%.

The quality of loan portfolio has not changed much over the past few years. The share of performing assets (claims classified in categories A and B) has ranged between 93 and 95 per cent (the share of non-performing assets being between 5 and 6 per cent), and the share of non-performing assets (claims in categories D and E) varying between 3 and 4 per cent.

Table 14: Classification of on- and off-balance sheet items in banks

in %

Category	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
A	85.7	85.7	84.9	83.9	84.4
B	6.3	6.9	8.3	9.5	9.2
C	3.3	2.8	2.7	2.6	2.5
D	2.5	2.5	2.0	2.0	1.9
E	2.1	2.1	2.2	2.0	1.9

Source: Bank of Slovenia

If claims on the Bank of Slovenia and the Republic of Slovenia are excluded from the classification of assets/claims, the portion of performing assets drops to slightly above 93 per cent as at 30 June 2001. Nevertheless, the quality of the banks' portfolios is still satisfactory even without the said claims.

Table 14 a: Classification of on- and off-balance sheet items of banks excluding claims on the Bank of Slovenia and the Republic of Slovenia

in %

Category	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
A	85.7	85.7	84.9	83.9	84.4
B	6.3	6.9	8.3	9.5	9.2
C	3.3	2.8	2.7	2.6	2.5
D	2.5	2.5	2.0	2.0	1.9
E	2.1	2.1	2.2	2.0	1.9

Source: Bank of Slovenia

If only the criterion of creditworthiness was taken into account excluding various forms of collateral, the portion of performing assets as at 30 June 2001would be slightly lower, although still above 92 per cent.

Table 14 b: Classification of on- and off-balance sheet items of banks excluding collateral

in %

Category	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
A	84.8	79.2	82.0	80.7	81.5
B	7.4	11.2	11.0	11.5	10.8
C	3.2	4.1	2.6	3.0	3.2
D	2.4	2.5	2.1	2.2	1.9
E	2.2	3.0	2.3	2.7	2.6

Source: Bank of Slovenia

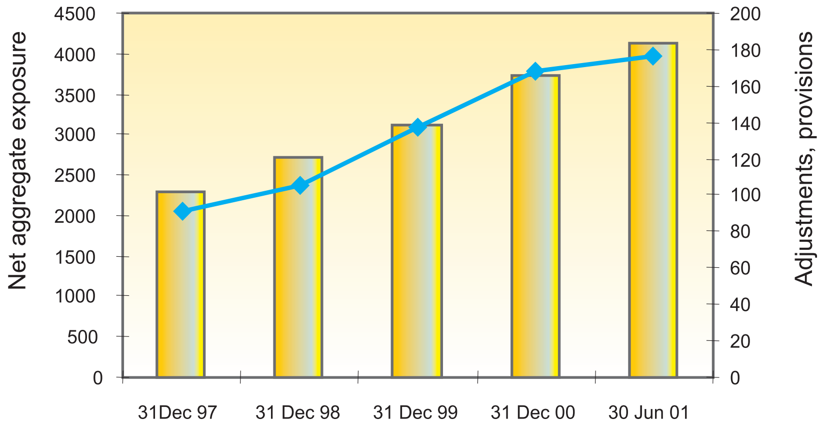
Net aggregate exposure at end-2000 totalled 3,736.5 billion tolars.

Net aggregate (on- and off-balance sheet) exposure to credit risk as at 31 December 2000 totalled 3,736.5 billion tolars - as much as 20.2 per cent nominal growth since the end of 1999. The strongest growth was posted in the categories designated as B and D. As at 30 June 2001, the net aggregate exposure totalled 4,122.3 billion tolars and increased with respect to the end of the year 2000 by 10.3 per cent in nominal terms.

Together with suspended income, exposure (gross aggregate exposure) as at 31 December 2000 totalled 3,804.7 billion tolars (a breakdown shows that there was 3,103.0 billion tolars in risk-adjusted on-balance sheet assets/claims and 701.7 billion tolars in risk-adjusted off-balance sheet items) as opposed to 30 June 2001 when gross aggregate exposure totalled 4,199.9 billion tolars.

In 2000, value adjustments and provisions increased in line with the rise in net aggregate exposure. Thus the rise posted in 2000 was 22.5 per cent in nominal terms, while the rise achieved during the first quarter of 2001 was 5.2 per cent. In the best category (A) there was a strong growth in value adjustments and provisions made at the transition point from the year 1998 to 1999 as a result of enacting the Decree on Establishing Specific Provisions of Banks and Savings Banks. Under that Decree, general provisions for assets/claims classified in A category are to be carried as specific provisions against credit (and country) risk.

Figure 7: Net aggregate exposure and value adjustments and provisions made (in billions of tolars)



Source: Bank of Slovenia

The share of bad and doubtful assets in gross total assets as at 31 December 2000 with respect to a year earlier increased from 11.6 per cent to 13.1 per cent, while during the first half of 2001 it dropped to 12.8 per cent. In addition, the share of value adjustments in gross assets of banks increased over the same period - from 6.3 per cent to 6.5 per cent, the end of June 2001 it slightly declined in relation to 31 December 2000 landing at 6.4 per cent. Coverage of bad and doubtful assets with value adjustment since the end of 1999 by the end of 2000 dropped by 5.1 percentage points; however, during the first half of 2001 it again slightly increased and notched 44.6 per cent as at 30 June 2001. Thus funding to cover sub-standard assets remains adequate and contributes to the soundness and safety of the banks.

The volume of bad and doubtful assets in 2000 was rising faster than aggregate volume of operations.

The volume of bad and doubtful on-balance sheet assets in 2000 was increasing considerably faster than the overall volume of operations. Since 31 December 1999 until 31 December 2000, totalled growth rate of bad and doubtful on-balance sheet assets was 34.5 per cent, while the volume of business rose at the rate of 18.8 per cent. During the first half of 2001, bad and doubtful assets grew by 6.6 per cent, while the volume of operations increased by 9.3 per cent.

The composition of assets held by the banks classified by lines of business by the end of June 2001 in comparison with the end of 1999 did not change much. Almost 75 per cent of the banks' exposure to corporate clients and sole traders (small entrepreneurs), 14 per cent to individuals (citizens), and the remaining part being exposure to non-residents. As regards exposure to corporate clients and small entrepreneurs, the volume of exposures run by financial intermediaries heads the list. This group also includes claims on the Bank of Slovenia (this activity has a 17 per cent share in aggregate exposure of the banks to the corporate sector and small entrepreneurs). The manufacturing sector is on the second place with a share of approximately 14 per cent (the strongest industries being metal-processing and machine-building), with public administration, defence and social security sharing the third place with 12 per cent.

Share of performing assets has grown considerably in savings banks.

As regards the **savings banks,** there was a significant increase in the share of assets/claims in the category A from the end of 1999 until the end of 2000, resulting in beefing up also the share of performing assets. Thus at the end of 1999, performing assets accounted for a hefty 95 per cent, at the end of the year 2000 and at the end of March 2001 it increased to 98 per cent. More stringent criteria applying to the classification of assets in terms of 1997 regulation did not have impact on the quality of loan portfolios of savings banks until the end of 1999 when the savings banks started for the first time to classify assets better than clients on the basis of various forms of pledged collateral.

Table 15: Classification of on- and off-balance sheet items of savings banks

in %

Category	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
A	88.7	88.6	91.4	97.0	97.1
B	6.5	5.5	3.9	1.0	0.9
C	1.3	1.8	1.3	0.5	0.5
D	1.8	2.3	1.0	0.3	0.2
E	1.7	1.9	2.3	1.2	1.3

Source: Bank of Slovenia

Net aggregate exposure run by savings banks, which as at 31 December 2000 totalled 11.7 billion tolars (12.0 billion tolars including suspended income) was in comparison to 31 December 1999 higher by 12.7 per cent in nominal terms, and by the end of June 2001 it rose to 13.0 billion tolars. As at 31 December 2000, the sum of large exposure incurred by the savings banks was significantly below regulatory limit and reached 23.2 per cent of capital. Other indicators safeguarding the savings banks against excessive concentrations of credit exposure (to a single client, i.e. to a group of clients and other related clients) and calculated as a percentage of capital carried by the savings banks were also within limits set out under law.

3.2. Country risk

Banks establish provisions against country risk in accordance with the regulations of the Bank of Slovenia.

In accordance with the Decree on Classification of On and Off-Balance Sheet Items of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, No. 32/99), the banks are obliged to take into account country risk when calculating claims on non-residents. Country risk is defined as exposure to risk of loss in the case of loans to borrowers in countries where there is an increased risk of difficulties in servicing external debt. To protect themselves against this type of risk, the banks make provisions at least in the amount stipulated by the Bank of Slovenia on the basis of assessed risk associated with the particular country.

Slovenian banks do not have to carry capital against country risk in the following cases:

1. claims on non-residents with contractual maturity up to 6 months,
2. claims on branches of investment-grade foreign banks,
3. claims secured with standard (first-class) collateral[10], and
4. claims collateralised with a joint and several guarantee issued by a blue-chip domestic client.

Gross exposure (on- and off-balance sheet items) of Slovenian banks to non-residents has been growing since 1997 and as at 30 June 2001 topped 484.3 billion tolars. During this period, the share of exposure to non-residents has ranged from 10 to12 per cent. Gross exposure to non-residents jumped by one third at the end of 2000 year-on-year and by approximately 9 per cent until the end of March 2001.

Banks are most exposed to persons from the EU.

The Slovenian banks are most exposed to clients from the European Union, and as at 30 June 2001 exposure to non-residents from EU Member States accounted for 76.1 per cent of aggregate exposure to non-residents. Both in 2000 and in the first half of 2001, exposure to EU countries was rising faster than aggregate exposure to non-

10 First-class collateral comprises: bank deposits readily available to settle claims, securities issued by the Republic of Slovenia, the Bank of Slovenia, EEA countries and comparable OECD countries, irrevocable guarantee payable on first demand issued by banks authorised by the Bank of Slovenia and investment-grade foreign banks, gilt-edged debt securities issued by banks tradable in financial markets (excluding subordinated and negotiable securities), as well as irrevocable guarantees of the Slovene Export Corporation and the Republic of Slovenia.

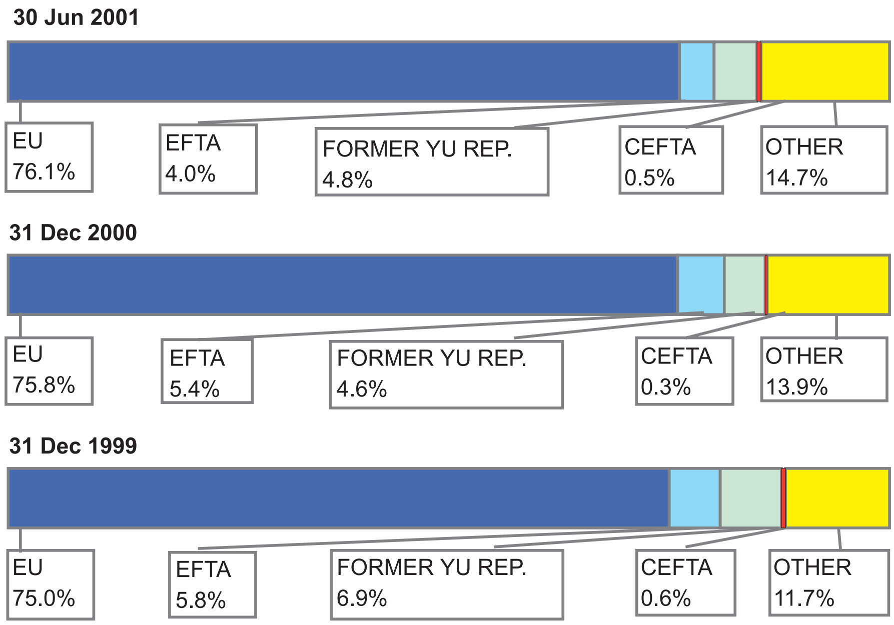
residents. Exposure to persons from EU countries has been increasing over the past few years and Slovenian banks are most exposed to clients from Germany, Great Britain, Austria, Italy, France and Luxembourg.

Exposure to clients from the republics of former Yugoslavia as at 30 June 2001 totalled 4.8 per cent of aggregate exposure to non-resident counterparties. In 2000, exposure to non-residents from the countries of former Yugoslavia declined by 6 per cent, and the downward trend has also continued in 2001. A reverse situation happened to the banks' exposure clients from EFTA countries. In 2000, exposure to clients from this group of countries jumped by nearly 36 per cent and has continued to go up during the first half of 2001. Switzerland is at the top of this group of countries.

Exposure of Slovenian banks to clients from CEFTA countries continued to diminish in 2000 (a 22.1 per cent drop), but the trend was reversed during the first six months of 2001 when exposure to this part of Europe increased considerably.

As regards exposure to other countries as at 30 June 2001, the Slovenian banks were most exposed to clients from the U.S.A..

Figure 8: Exposure of banks to non-residents



Source: Bank of Slovenia

Savings banks do not carry on international payments and credit operations with foreign countries; hence they are not exposed to country risk.

3.3. Currency risk

3.3.1. Exposure of banks to currency risk

Currency mismatch in banks

Banks post short foreign-exchange positions.

Over the past few years, Slovenian **banks** have posted short position in foreign currency. This was also the case at the end of the year 2000, when foreign exchange liabilities exceeded foreign exchange assets (by 49.9 billion tolars).

The composition by currencies has somewhat changed since the end of 1999 tipping the scale in favour of the euro. As at 31 December 2000, approximately 74 per cent of aggregate foreign exchange assets (claims) in the amount of 1,052.4 billion tolars was denominated in euros (a rise of 15.2 percentage points since the end of 1999). During the same period, the share of assets (claims) denominated in US dollars remained at the approximately same level, while in other currencies it declined by 14.3 percentage points to 91.4 billion tolars. The same trend could be observed on the liability side of the foreign exchange sub-balance sheet where items in euros increased at the expense of items denominated in other currencies. Out of the aggregate amount of 1,102.4 billion tolars in foreign exchange liabilities, the portion in euros was 721.7 billion tolars (65.5 per cent), 190.9 billion tolars was denominated in US dollars (17.3 per cent), and other currencies accounted for 189.8 billion tolars (17.2 per cent).

In terms of the Decree on Mismatch between Assets and Liabilities of Banks in Foreign Currency (open position of banks) (Official Gazette of the Republic of Slovenia, No. 37/99), a bank shall not incur a long or a short daily position in foreign currency in excess of 20 per cent of the bank's capital, while average monthly open position in foreign currency shall not exceed 10 per cent of the bank's capital.

The open foreign exchange position of all banks, calculated in line with the above-mentioned Decree as at 31 March 2001 accounted for 5.9 per cent of banks' capital (as at 31 December 2000 it was 6.5 per cent).

Mismatch arising from transactions with foreign currency clause

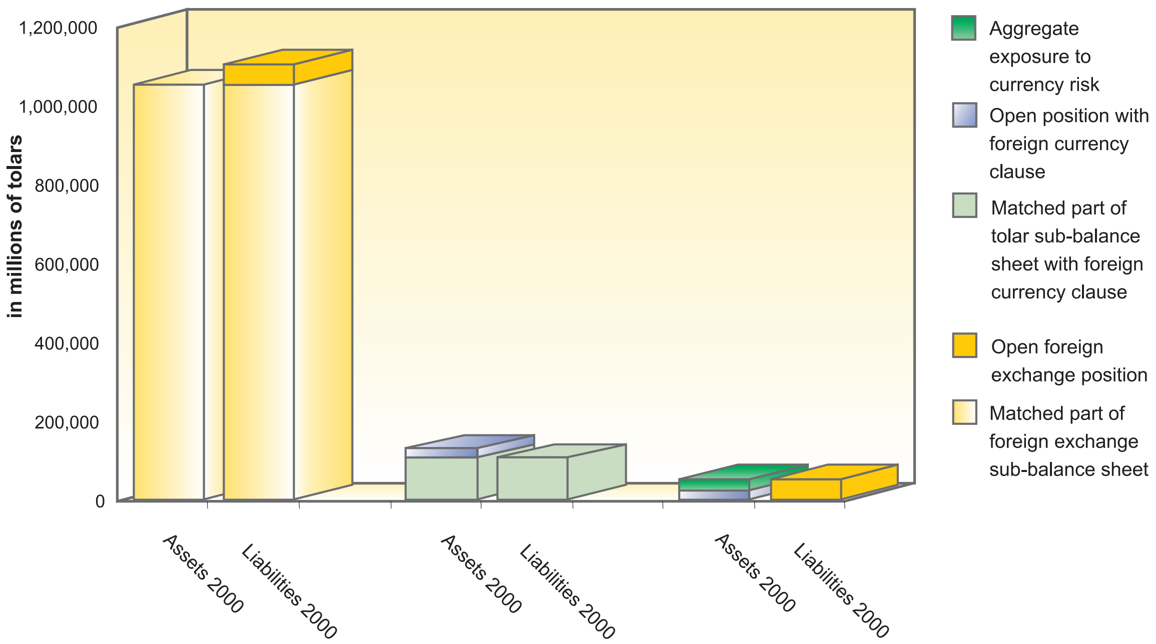
Contrary to the foreign exchange sub-balance sheet, the tolar sub-balance sheet with foreign currency clause has carried the long foreign exchange position. Namely, the items on the assets side exceeded by 23.3 billion tolars the items on the liability side. In comparison to 1999, when the surplus totalled 23.9 billion tolars, this was a 2.5 per cent drop in the long foreign exchange position.

Aggregate exposure to currency clause

Aggregate exposure of banks to currency risk has risen.

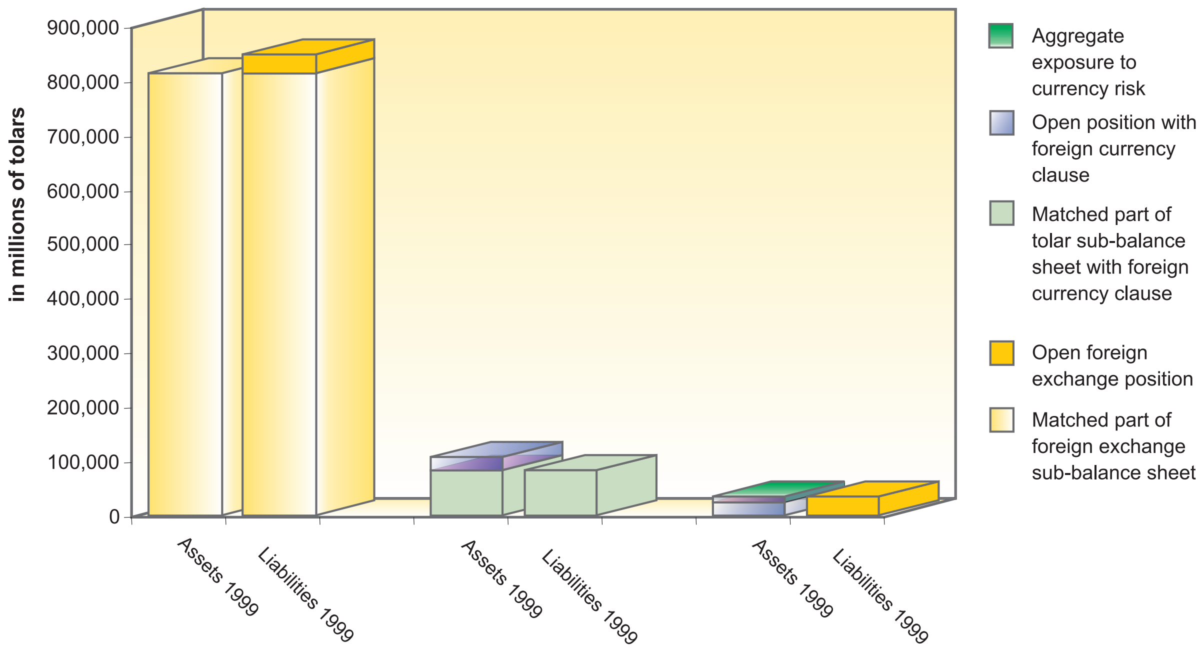
Aggregate net exposure to currency risk takes account of both foreign currency mismatch and the mismatch, which arises from the transactions including a foreign currency clause. Aggregate net exposure of the Slovenian banks to currency risks has been short since the end of 1997 and as at 31 December 2000 it totalled 26.6 billion tolars. This means that the aggregate net exposure to currency risk jumped by 34.2 per cent in comparison to the end of 1999.

Figure 9: Exposure of banks to currency risk as at 31 December 1999



Source: Bank of Slovenia

Figure 10: Exposure of banks to currency risk as at 31 December 2000



Source: Bank of Slovenia

3.3.2. Exposure of savings banks to currency risk

Foreign currency mismatch in savings banks

As regards the **savings banks,** they carried a long position in foreign exchange sub-balance sheet during the period under review. As at 31 December 2000, the savings banks posted 29.6 million tolars in assets (claims) in denominated in foreign currencies and no foreign exchange liabilities. A year earlier they posted 10.8 million in foreign exchange claims and no foreign exchange liabilities. The long position increased by 73.4 per cent year-on-year.

Mismatch in transactions with foreign currency clause

As for the tolar sub-balance sheet with the foreign currency clause, the savings banks carried a short position. As at 31 December 2000, the savings banks had 1,026.8 million tolars in tolar-denominated assets (claims) with foreign currency clause and 1,039.7 million tolars in tolar-denominated liabilities with foreign currency clause. Thus the short position totalled 12.9 million tolars (11.9 million tolars as at 31 December 1999).

Aggregate exposure to currency risk

Aggregate exposure of savings banks to currency risk is long and has increased significantly.

Aggregate exposure to currency risk (foreign exchange mismatch and mismatch arising from transactions concluded under a foreign currency clause) posted by the savings banks as at 31 December 2000 totalled 16.7 million tolars and it was a long position. In comparison with 1999 when aggregate exposure to currency risk totalled 1.1 million tolars and it was short, exposure to currency risk in savings banks increased significantly during the period under review.

3.4. Solvency risk

Capital adequacy ratio is the ratio between capital reduced by certain deductible items and overdrafts in capital of non-financial institutions, and the sum of risk-adjusted assets and other risk-adjusted items. Risk-adjusted assets is a sum of book balances of all on- and off-balance sheet items, decreased by specific provisions earmarked for those items and weighted by the weightings of credit risk. Other risk-adjusted items are equal to the sum of capital requirements for currency and market risks. Capital adequacy ratio shall be at least 8 per cent.

Until 1995, the capital adequacy ratio was increasing across Slovenia's banking sector as a result of more stringent capital requirements imposed by the Bank of Slovenia when a bank applied for a licence to provide certain banking services. Since 1995 when capital adequacy ratio of Slovenian **banks** was record high with 21.5 per cent, it as been steadily falling. The downward trend has not been reversed even after the adoption of the Decree on the Calculation of Own Funds, Capital Requirements and Capital Adequacy Ratio of Banks and Savings Banks in May 1999, which introduced some innovations in relation to the calculation of capital. Under the new Decree, supplementary (tier 2) capital does not include provisions made on the account of clients, classified in the category A, profit for the current financial year (up to 50 per cent after taxes and other levies were deducted), was included in core (tier 1) capital only in the case that the amount of profit has been certified by an independent auditor, and the entire item "intangible long-term assets" is deducted from capital. There are also changes affecting risk-weighted assets, *viz.* more stringent criteria for weighting applicable to exposure to banks, the inclusion of derived financial instruments, as well as more stringent weighting of assets/loans secured by property (a lower weighting only for real estate pledged as collateral).

Capital adequacy ratio of Slovenian banks has been decreasing since 1995 ...

In accordance with the Banking Act and the Decree on Calculation of Own Funds, Capital Requirements and Capital Adequacy Ratio of Banks and Savings Banks, which include in the calculation of the capital adequacy ratio other risk-adjusted items, banks and savings bank prepared reports for the first time as at 30 June 2000 on items adjusted for foreign currency risk.

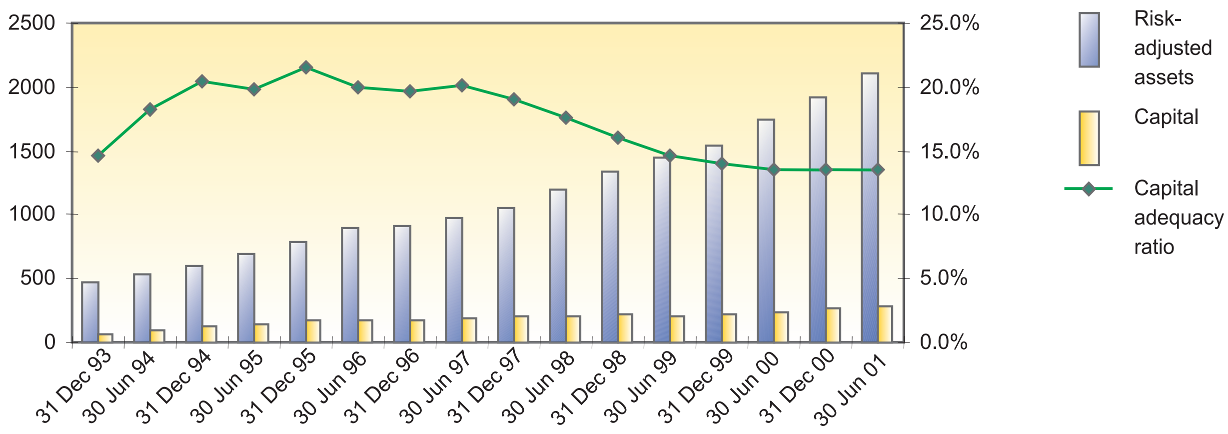
Capital adequacy ratio posted by the banks as at 30 June 2001 was 13.5 per cent, meaning no change with respect to 31 December 2000.

... and stood at 13.5% as at 30 June 2001.

Risk-weighted assets continued to rise during the period under review. Growth posted as at 30 June 2001 in comparison with 31 December 2000 was 9.4 per cent and as at 30 June 2001 topped 2,106 billion tolars.

In 2000, the banks started to report to the Bank of Slovenia also on items adjusted for currency risk, which as at 31 March 2001 for all banks together amounted to 50.9 billion tolars.

Figure 11: Movements in risk-adjusted assets and capital (in billions of tolars) and capital adequacy ratios (in %)



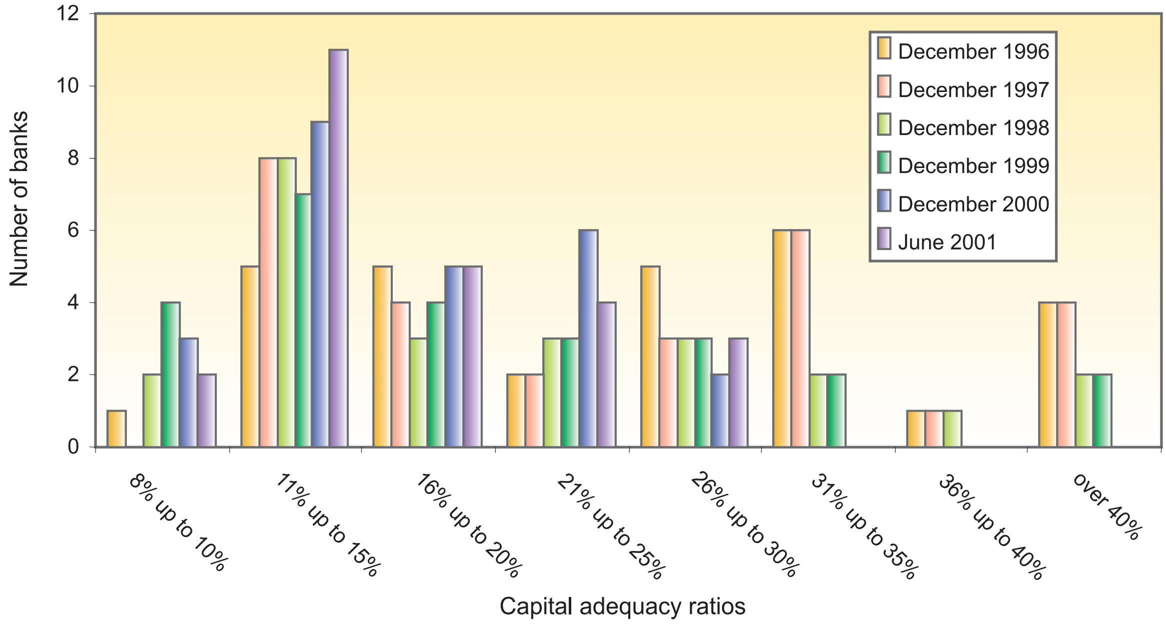
Source: Bank of Slovenia

The figure of the capital adequacy ratio differs considerably among banks. At the end of March 2001, the highest capital ratio of a bank was 38.2 per cent as opposed to 9.0 per cent.

By dividing banks in groups according to their capital adequacy ratio since 1996 one can observe the trend of increasing the number of banks in the two groups where the capital adequacy ratio is the lowest. At the end of June 2001, two banks were in the group where the capital adequacy ratio is between 8 and 10 per cent, 11 banks were in the 11 to 15 per cent group, and 12 banks had a capital adequacy ratio between 15 and 30 per cent. No bank posted a capital adequacy ratio above 30 per cent.

More than half of banks have capital adequacy ratio below 15%.

Figure 12: Classification of banks by capital adequacy ratio[11]



Source: Bank of Slovenia

3.5. Liquidity risk

Short-term planning of tolar liquidity flows and compliance with maturity structure

Since liquidity as the ability to have funds to meet the commitments is widely regarded as a “make-or-break” issue, banking institutions have to focus on liability and asset management, i.e. sources and uses of funding.

In accordance with Article 84 of the Banking Act, each bank shall maintain liquidity and manage its liabilities and assets so as to be able at any time to fulfil its obligations when they come due. The Bank of Slovenia monitors tolar liquidity of banks on the basis of statutory returns on expected tolar liquidity flows that banks submit on a daily basis for the current and the following working day.

In July 2001 the Decree on Tolar Maturity Ladder was issued.

By the end of June 2001, the banks and savings banks in accordance with the Decree on the Required Adjustment of the Maturity Structure between Assets and Liabilities (Official Gazette of the Republic of Slovenia, No. 40/99), which stipulates the ratio between liabilities and assets of banks in individual classes, were obliged to have as much liabilities as assets in individual classes[12]. As of 1 July 2001, the banks shall observe a new decree - the Decree on Tolar Maturity Ladder (Official Gazette of the Republic of Slovenia, No. 54/01), which introduces some modifications to liquidity ratios. The modifications under the new Decree are listed below:

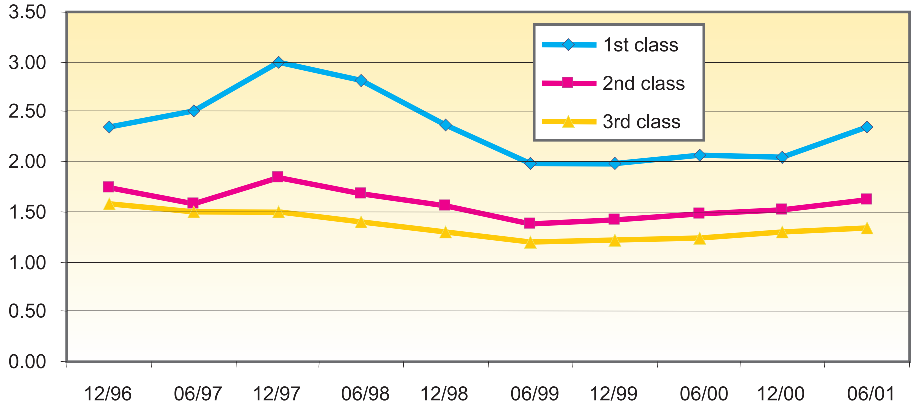
- in terms of the Decree, there are two instead of three classes with the residual maturity of up to 30 and up to 180 days,
- all claims in foreign currency have been deleted from assets with the exception of bills of the Bank of Slovenia denominated in foreign currency,
- the Decree stipulates reporting on a monthly basis on average monthly liquidity ratios,

11 When comparing the number of banks in individual groups for each year, one should keep in mind that the total number of banks kept changing. As at 30 June 2001, 25 banks were included.

12 The Decree introduced the first, second and third class of assets and liabilities, with maturity as the classification criterion.

- the item carrying amounts due to banks and savings banks has been stretched to include liabilities to the Bank of Slovenia, while on the assets side, a bank may carry uncommitted (lien-free) amount of claims on the Bank of Slovenia,
- a bank is not to include in its assets the funds committed under a legally binding obligation that in the case of liquidity difficulties may be pledged to borrow funds within the framework of the banking group.

Figure 13: Position of banks in relation to maturity structure



Source: Bank of Slovenia

If a bank fails to meet the regulatory ratio for the individual grade as at the date of the effectiveness of the Decree (1 July 2001), it is obliged to comply with the requirement by 30 June 2002 at the latest; until then it may not to impair the existing ratio.

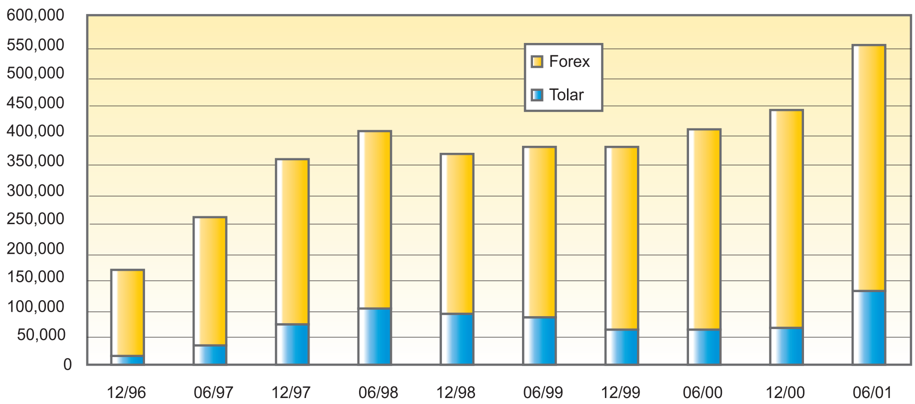
Secondary liquidity

Secondary liquidity composed of assets invested in short-term securities issued by the Bank of Slovenia and the Republic of Slovenia in domestic and foreign currency are regarded as a liquidity reserve of a bank. These investments may be pledged as collateral when a bank applies for a loan from the Bank of Slovenia to bridge any liquidity difficulties.

Secondary liquidity of banks has been increasing.

Secondary liquidity of **banks** took the upward turn in December 1999 after a flat period. As at 30 June 2001, secondary liquidity reached the record high - 549.6 billion tolars. In comparison to 31 December 2000 it increased in nominal terms by 25.3 per cent. The figure illustrates that the banks had record-low secondary liquidity at the end of 1996 (163.8 billion tolars), but it gradually increased until the end of 1998 and the end of June 1998 topped 401.5 billion tolars. By the end of December 1999, secondary liquidity stayed at the approximately same level, since then it has been rising again. Investments in securities denominated in foreign currency prevail.

Figure 14: Secondary liquidity of banks (in millions of tolars)



Source: Bank of Slovenia

Savings banks have only tolar-denominated securities.

Savings banks, which in accordance with the Banking Act may carry on banking and other financial services only in tolars, maintain their secondary liquidity in a form of treasury bills and tolar bills issued by the Bank of Slovenia. Due to a decrease in the number of savings banks, secondary liquidity of savings banks declined as well and as at 30 June 2001 totalled 146.9 million tolars.

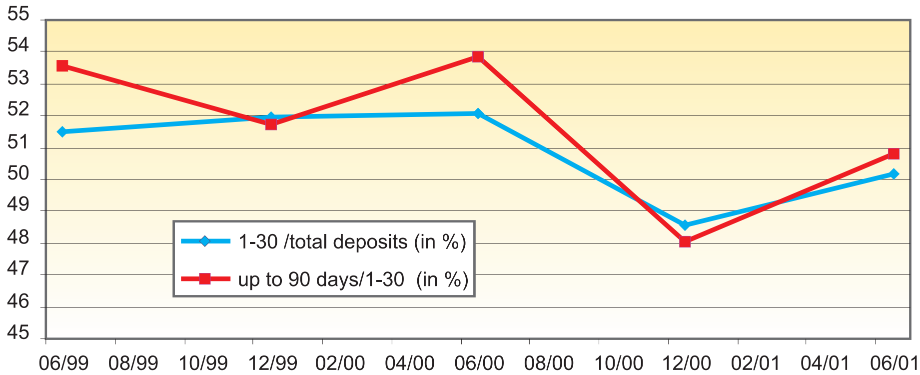
Concentration of depositors

A highly significant element of liquidity management is to ensure diversity of deposits as sources of funds, so as to have more depositors, types of deposits, markets, maturity etc. The Bank of Slovenia monitors deposits placed by thirty largest depositors of each bank on the basis of monthly reports submitted by banks, namely their share in all deposits placed with the respective bank, the amount of interest rates and the structure of residual maturity of these deposits.

Exposure to thirty largest depositors has slightly risen.

The concentration of deposits per individual depositor varies considerably from one bank to another and as a rule, it is higher in smaller banks than in large ones. The share of thirty largest depositors in deposits[13] of the entire banking system (excluding citizens), which due to a rise in deposits shows a downward trend was as at 30 June 2001 50.2 per cent and pencilled in 1.6 percentage points more than at the end of 2000. The banks still depend on a few large depositors, and this makes funding volatile and increases liquidity risk. With the increase of deposits with maturity from 91 days to one year and long-term deposits from the non-bank sector, the share of deposits with residual maturity of up to 90 days in the structure of deposits placed by thirty largest depositors was falling in 2000.

Figure 15: Share of deposits from 30 largest depositors in aggregate deposits and deposits with residual maturity of up to 90 days in deposits from 30 largest depositors (in %)



Source: Bank of Slovenia

As from July 2001, the banks shall include in their reports on the first thirty large depositors also all depositors whose aggregate deposits exceed 200 million tolars.

The Decree on Foreign Exchange Maturity Ladder

Banks have to report on foreign exchange liquidity in two classes regarding residual maturity.

At the end of September 2000, the Decree on Foreign Exchange Maturity Ladder (Official Gazette, Nos. 87/00 and 54/01) was enacted. The purpose of the Decree is to set out reporting requirements for banks to disclose how assets denominated foreign currency are matched with liabilities in foreign currency in terms of residual maturity. The banks are to report on foreign exchange liquidity in two classes with respect to the residual maturity. The first category includes items with the residual maturity of 0 to 30 days, while the second class covers items with the residual maturity of 0 to 180 days.

A bank's foreign exchange investments/loans include all asset items denominated in foreign currency reduced by expected failure to meet obligations (a case of default). Irrespective of the remaining maturity, the uncommitted amount of assets invested in

13 The term "deposit" is defined in the instructions on reporting on the largest depositors.

foreign debt securities with a high rating, as well as eurobonds issued by the Republic of Slovenia and the bills of the Bank of Slovenia denominated in foreign currency are classified in the first class. A bank shall include in its foreign exchange liabilities all items on the liabilities side of the balance sheet denominated in foreign currency. As regards off-balance sheet items, only futures, forward swaps, taken/granted credit line contracts, as well as the undrawn portion of taken/granted loans and among commitments open letters of credit may be included either in assets or in liabilities.

Banks are obliged to submit to the Bank of Slovenia monthly reports with data on their foreign exchange liquidity; as from 1 January 2002 onward, they will have to submit reports on foreign exchange liquidity on a daily basis. Compliance with the regulatory foreign exchange liquidity ratio (coverage of liabilities in foreign currency with assets in foreign currency), set for both classes to at least 1, will be mandatory for banks as from 1 July 2001, while for compliance with requirements for the second class, a transitional period until 1 January 2002 has been envisaged. In the meantime, the banks shall make sure not to impair the ratio.

Compliance with mandatory reserve requirements and foreign exchange minimum

In the first half of 2001 four banks fell short of the mandatory reserve requirement.

In 2000, two **banks** fell short of **mandatory reserves**, one bank in November 2000 and one bank in December 2000. During the first half of 2001, four banks failed in maintaining the mandatory reserve - two banks in January, one in February and one in March. All **savings banks** complied with the mandatory reserve requirement in 2000 as opposed to the first half of 2001 when one savings bank fell short of the mandatory reserve requirement in June. As regards the percentage of compliance with the mandatory reserve requirement in 2000, the banks posted reserves at 103.4 per cent and during the first half of 2001 this figure was 103.0 per cent. As for the savings banks, the figure was 131.3 per cent in 2000 and 106.9 per cent in the first half of 2001.

Foreign exchange minimum maintained by the Slovenian banks has been rising since the end of 1998, and since the end of 1999 the size of funds in excess of the mandatory foreign exchange minimum has also risen in banks. As at 30 June 2001, the mandatory foreign exchange minimum amounted to 633.6 billion tolars (31 December 2000: 569.7 billion tolars). The excess foreign exchange minimum at the end of June 2001 amounted to 21.2 per cent, at the end of the year 2000 it was 21.1 per cent.

3.6. Operational risk

Operational risk has recently gained importance.

Operational risk is moving to take a centre stage as a huge number of institutions responsible for the area of banking regulations as well as banking institutions themselves are debating techniques hoped to mitigate this kind of risk. Despite the fact that the definition of operational risk is too broad to send a clear message, operational risk is regarded as one of the most significant banking risks. Regulators and supervisors generally agree that it is the risk arising from inadequate or failed internal processes such as internal controls and corporate governance. A bank’s management and its senior officers along with a comprehensive internal controls system are broadly recognised as key elements in efforts to curb exposure to operational risk. The main feature of operational risk is that in majority of cases it appears in a package with other risks e.g.. market and credit risk. In the majority of banks operational risk is in the initial phase of risk management, since there are still no formal systems for risk control and the approaches build upon simple experimental methods. As mentioned before, the build up of operational risk is seen as a result of factors of internal nature (quality of internal audit, volume of operations, number of transactions, rate of errors made, etc.), whereas the correlation between these factors and the size of the risk is generally unknown, thus hampering the measurement of risks. There is no doubt that the effective internal controls system and internal audit primary oversight system, where also other forms are known such as the system of restrictions on basic factors determining the risk-profile, insurance, establishment of provisions, etc. The Banking Act addresses the area of operational risk management in Article 26, where the duties of members of the management board are defined. As regards supervisory authorities, there are no direct precise methodologies to measure operational risk, since the issue of quantifying this kind of risk remains undefined. Changes are expected in this area as well, since initiatives have been addressed to the Basel Committee on Banking Supervision to include operational risk in the system of requirements calling for fine-tuning of capital adequacy ratio. The Banking Supervision Department will devote due care to this risk both through on-site examinations and by drafting adequate regulatory framework.

3.7. Risks associated with information technology systems

With the introduction of computerised information systems in banks and savings banks, these institutions have acquired tools for serving their customers better, to step up quality and provide in-depth expertise within shorter time limits, i.e. when required. Risks brought along by information technology are not necessarily new to banking systems managers, but they come in all shapes and colours and their disguise makes them difficult to spot. Hence bank management may find themselves in a tight corner when faced with this type of risk and tension rises. The role of the Banking Supervision Department within the framework of the Bank of Slovenia is to focus efforts and deploy supervisory and surveillance resources needed to identify these risks, sound the alarm, and to resort to supervisory mechanisms (measures), which banking supervisors pass on to bank management with the aim of minimising their adverse effects.

These risks are:

- risk of losing information and/or data,
- integrity (comprehensiveness) of information and/or data (errors of entry and processing errors),
- risk of losing income,
- incorrect, i.e. inadequate reporting,
- impaired, i.e. lost competitive advantage,
- decreased, i.e. lost privacy,
- reduced productivity,
- disturbances in business cycle,
- loss of confidence of staff (users) in the course of process implementation,
- inadequate reliance on automated systems,
- new aspects of funds protection, and
- violations of laws and regulations and other requirements posed by regulators.

Risks are reflected in events (unpleasant ones) that may occur as one-off event or frequently. Furthermore, these events are associated with small or large losses, i.e. consequence. These events may be classified in four groups:

- marginal (trivial) –one-off events causing small losses,
- concerning – frequent events causing small losses,
- significant –one-off events causing large losses,
- critical – frequent events causing large losses.

In the light of the nature and scope of unpleasant events, it is quite natural that bank management addresses individual risks and strives to control them. Certain risks are associate with a particular function and as such they cannot be removed (inherent risks), while others are volatile and change in certain circumstances. Such risks may be restrained by implementing adequate controls.

Risks management models – management information systems and internal controls systems

The need to manage risk has stimulated the development of best practice.

Over the past few years, exigency of bank management to manage risk (certain risks go undiscovered for some time before they are properly address, while others are regulatory monitored and coped with by implementing control systems) has driven large banking systems on the one hand and professional associations on the other to pool resources and define what best practice in this area would be. The purpose of all these efforts has been to set up such controlling systems that would ensure effective controls that would not stifle growth of businesses. Another guideline in that process has been a desire of those who steer the banking ship and represent corporate governance (persons who actually run credit institutions: depositors through general meeting of shareholders, members of supervisory and management boards) to design a "yard-stick" and measure performance of executive and senior managers appointed to fulfil their business goals. By using the "yardstick" one expects to define expectations and hence minimise the possibility of conflicts between directors – senior management over meeting target values.

Controlling frameworks that serve to manage business systems comprise COSO (1992 USA), CoCo (1995 Canada), Cadbury (1992 London, initiated by Financial Reporting Council, London Stock Exchange), King Report (1994 South Africa) as well as a wide range of standards and guidelines, including those issued by professional associations in the field of audit. A controlling framework such as COSO (a report of joint working bodies) was issued by the Committee of Sponsoring Organisation of Threadway which is composed of the representatives of the American Institute of CPA, American Accounting Association, Institute of Internal Auditors, Institute of Management Accountants, Financial Executive Institute. The Report addresses controlling environment, risk management, activities in the ambit of controlling, dissemination of information and reporting and it outlines different roles of individuals (management, executive directors, internal audit) in the process of running banks.

The role of the controlling environment is of key importance and it has the following elements:

- organisational forms and structures,
- awareness of people of controls and their purpose,
- personal, ethical and operational features of individuals,
- rules, principles, philosophy and operational management styles,
- assignment of authorisations and responsibilities,
- attention paid by top management levels to requirements and guidelines laid down by owners (directors), other connected counterparties and public.

Prepared by the Information Control Audit and Control Foundation, COBIT (Control Objectives for Information and Related Technology) falls within the scope of documents, which identify the limits of controlling. If the mission of all these documents is to promote best practice in operations and controlling, they are a measure or a benchmark used to make comparison with a given environment. Such documents also mean a treasury chest of knowledge for managers as executives who implement processes, since they contain information relevant for risk management and effective and prudent resource management. COBIT exceeds similar papers by its scope and sophistication – it builds on the findings presented in previous reports drawn up primarily for top management. Furthermore, it also elaborates guidelines for conducting audit.

COBIT defines key points in four domains (planning and organisation, acquisition and implementation, provision of services and maintenance and monitoring) 34 processes for which criteria are defined in the light of resources deployed (human resources, applications, technology, technical facilities – centres and data). These criteria are set in line with targets for the control function (effectiveness, capability, confidentiality, comprehensiveness, availability, convergence and reliability). These processes are used to define significant goals of controlling. Due to such approach, COBIT is not only a manual for controllers of information systems, but also a tool for earmarking of internal controls.

Banks have to take into account the Slovenian standard PSIST BS 7799.

The Bank of Slovenia is particularly vigilant when it comes to safety of information systems. The Governing Board of the Bank of Slovenia addressed issues in this area and in May 2000 adopted a decree which requires banks to abide by the Slovenian standard PSIST BS 7799 – code of professional secrecy – when carrying out operating activities. The Bank of Slovenia intends to check if banks are compliant with the standard within the framework of ongoing examinations.

III. DEVELOPMENTS RELATED TO BANKING LEGISLATION AND THE PAYMENT SYSTEMS REFORM

1 INFORMATION ON THE ACT ON THE MODIFICATIONS AND AMENDMENTS TO THE BANKING ACT 1999

Reasons for the adoption of the Act and an overview of the activities leading to the draft of the Act

The act amending the Banking Act 1999 has been prepared upon the initiative of the Bank of Slovenia as a consequence of the visit of a joint mission of the IMF and the World Bank under the FSAP to the Republic of Slovenia in November 2000. The members of the FSAP team warned among other things against certain weaknesses of the Banking Act; hence the Bank of Slovenia has also included in its existing action plan a motion to amend the Banking Act. A task force responsible for the preparation of modifications and/or amendments to the Banking Act was formed in the Bank of Slovenia. The task force drafted a bill within a short period of time and also included other modifications and amendments not pointed out by the FSAP team but essential in the opinion of the Bank of Slovenia professional services, since they would also address some weaknesses, which have come up during the short time the Banking Act is in force. Between February and the end of April 2001, the representatives of the Ministry of Finance and the task force of the Bank of Slovenia worked intensely to reconcile the wording of the draft modifications and amendments. The Ministry of Finance sent the agreed draft to the Government of the Republic of Slovenia, which endorsed it without further changes and sent it as a bill to the National Assembly of the Republic of Slovenia for promulgation under the fast-track procedure. Afterwards, the bill was examined by the working bodies of the National Assembly and the National Council. Acting upon a motion of the Committee for Financial and Monetary Policy of the National Assembly, the bill was also agreed with the Bank Association of Slovenia, i.e. with representatives of banks and the Association of Savings and Loan Undertakings, i.e. representatives of these undertakings. The result of these discussions was an amendment officially submitted to the above-mentioned Committee.

The Banking Act amended in August 2001

On 6 July 2001, the National Assembly passed the bill and the amendment. On 19 July 2001, the Act on the Amendments and Modifications to the Banking Act was published in the Official Gazette of the Republic of Slovenia, No. 59/01 with effectiveness from 3 August 2001.

Realisation of the objectives set out in the Action Plan

Within the framework of the objectives set out in the Action Plan, which refer to the modifications to the Banking Act, which have been completely realised by adopting the Act on the Modifications and Amendments to the Banking Act 1999, the following objectives have been achieved, i.e. shortcomings have been overcome and the recommendations made by the members of the Mission of the IMF have been implemented:

- The new second paragraph of Article 25 of the Banking Act was a basis for passing secondary legislation - a decree to be issued by the Bank of Slovenia. The decree will elaborate on the statutory requirement to attach to the application for the Bank of Slovenia authorisation for performing the function of a member of a bank's management board also a completed questionnaire supplied by the central bank. By obtaining an insight into the acumen (track-record) of the candidate, the Bank of Slovenia acting as a banking supervisor will be in a position to assess more thoroughly as part of the authorisation process (the so-called licensing) if the respective candidate is fit and proper to sit on the management board.
- The amended third paragraph of Article 21 of the Banking Act defines more adequately the consequences of the decision to withdraw the authorisation for

acquisition of a qualifying holding. The new wording of the fourth paragraph of Article 21 of the Banking Act elaborates on the consequences of losing voting rights in the case where authorisation for a qualifying holding is withdrawn, i.e. where a qualifying holding has been acquired without the authorisation of the Bank of Slovenia.

- By changing Articles 80 and 83 of the Banking Act, the requirement calling for a more stringent treatment of exposure of banks to shareholders and other persons in a special relationship with the bank (connected persons) has become enforceable. The provisions allowing granting of credits to connected persons under more favourable terms and conditions have been deleted. In relation to this requirement, Article 27 of the Banking Act has been amended to accommodate new obligation imposed upon the management board to notify the supervisory board of the exposure to any persons referred to above in excess of 1 per cent of the bank's capital. In relation to curbing exposure arising from connected lending, a three-year transitional period has been provided for in Article 39 of the Act amending Banking Act.
- By amending Article 127 of the Banking Act, statutory reporting of the bank's management board on other events and circumstances, which may affect safe and sound operations of the respective bank and that the Bank of Slovenia as a bank supervisory has to be informed of in due time. Namely, this requirement elaborates on reporting concerning substantial upgrades in the field of information technology and reporting of other events, which may affect safe and sound operations of banks.
- By deleting the third paragraph of Article 228 of the Banking Act, savings banks are authorised to provide services also to medium and large legal persons, since no grounds for keeping the restriction in place any more.
- A change to the first paragraph of Article 113 brings a more elaborate classification of tasks and responsibilities of internal audit and consequently provides adequate definitions of terms connected to internal audit.
- By changing the fourth paragraph of Article 118 and amending the third paragraph of Article 59 of the Banking Act, gathering of information and data to be furnished to the Ministry of Finance by the Bank of Slovenia on the basis of statutory returns and reports commercial banks submit to the central bank, the approximation to international standards is achieved.

Other changes incorporated in the Act on the Modifications and Amendments to the Banking Act 1999

In general, the modifications and amendments to the Banking Act 1999 have introduced a number of changes designed to enhance alignment with the legislative framework of the European Union and international standards, though in some cases the changes address form rather than substance. Substantial changes and/or amendments to legal instruments are set out below:

- In addition to the provisions prohibition to carry on banking activities (acceptance of deposits and granting of loans for its own account) applying to the persons who do not have authorisation from the Bank of Slovenia, there is a provision expressly prohibiting non-bank institutions to take deposits from the public (modifications and amendments to Articles 3, 5, 171 and 235 of the Banking Act).
- Two new other financial services have been introduced: the issue of electronic money and the trusteeship service (amendment to Article 6 of the Banking Act). In order to carry on these services, the banks are to obtain an authorisation from the Bank of Slovenia. The change is linked to the new law on payment transactions (money transmission services) and investment funds and management companies where these services will be further elaborated.
- The definition of a qualifying holding has been aligned with the Banking Directive and in exceptional cases even a holding below 10 per cent of voting rights or the bank's capital is eligible as a qualifying holding, provided it enables the shareholder to exercise significant influence (modification to Article 9 of the Banking Act).
- The prohibition to finance the buy back of own shares by taking a loan has been extended to include the prohibition to finance the purchase of subordinated debt instruments with loan proceeds to be included in the

calculation of the bank's capital (own funds) and its capital adequacy ratio (amendment to Article 16 of the Banking Act).

- The obligation imposed on the bank's management board to report to the supervisory board has been extended to accommodate new provisions referring to exposure to persons in a special relationship with the bank (amendment to Article 27 of the Banking Act).
- The issue of conflict on interests of the members of the supervisory board who exercise a significant influence in competing financial institutions irrespective of their registered place of business has been defined in more details so as to prevent any such conflicts (modification to Article 29 of the Banking Act).
- Only persons authorised by the Bank of Slovenia will be eligible for the post of a receiver in the case of the bank's liquidation (modification to Article 33 of the Banking Act).
- The authorisation of the Bank of Slovenia is required also in the case where a bank is to merge with a person other than a bank (modification to Article 36 of the Banking Act).
- In accordance with the provisions laid down in the Banking Directive, the scope of regulations to be adhered to by the banks from the Member States when providing banking and/or other financial services within the territory the Republic of Slovenia has been extended (modification to Articles 48 and 122 of the Banking Act). The focus is on regulations put in place with the aim to safeguard general good, and on consumer protection in particular.
- In accordance with the Banking Directive, supervision of the provision of banking and/or other financial services provided by the banks from the Member States within the territory of the Republic of Slovenia. Competent authorities of the Member States may conduct an on-site examination of operations carried on by a branch, provided they notify the Bank of Slovenia in advance of the intended visitation. Subject to reciprocity, the Bank of Slovenia has also gained more competence to act against a branch, i.e. a bank from a Member State in the case where the measures imposed by the supervisory authority of the respective Member State prove to be ineffective (modification to Articles 50 and 51 of the Banking Act).
- The scope of obligations of branches of foreign banks operating within the territory of the Republic of Slovenia has been expanded (modification to Articles 54 and 122 of the Banking Act).
- The Bank of Slovenia is obliged to pass on any significant information to competent authorities in charge of cross-border deposit guarantee schemes in the case of the so-called supplementary coverage of a bank's branch by the deposit guarantee systems of other countries (amendment to Article 59 of the Banking Act).
- Reporting requirements conferred on the Bank of Slovenia in relation to notifications sent to the European Commission have been stepped up (amendment to Article 60 of the Banking Act).
- The Bank of Slovenia has been granted power to ask a bank to increase its capital adequacy ratio in the case where due to the nature and scope of its business, the bank's exposure to inherent risks is larger than usual (amendment to Article 69 of the Banking Act).
- Weightings to be applied to market risks have been defined more thoroughly (modification to Article 71 of the Banking Act).
- For the purpose of conducting supervision on a consolidated basis, the definition of the controlled undertaking has been elaborated, while tasks and responsibilities conferred on supervisory authorities of different countries have been distributed more evenly (modification to Article 95 of the Banking Act).
- Obligations conferred on savings and loan undertakings have expanded in accordance with the requirements set out in the Banking Directives without impeding with the alignment process (modification to Articles 123 and 241 of the Banking Act).
- The provision allowing the central government and the Bank of Slovenia privileged access to financial markets has been dismantled (modification to Article 156 of the Banking Act).
- The concept of special administration proceeding has been elaborated (amendment to Article 174 of the Banking Act).
- Power of sanction has been appropriately expanded in penal provisions (modifications to Articles 231, 234 and 236 of the Banking Act).

2. SLOVENIAN REGULATORY CAPITAL REQUIREMENTS IN THE LIGHT OF THE ADOPTION OF THE NEW BASEL CAPITAL ACCORD

The second consultative period being at disposal for submitting comments on the New Basel Capital Accord ran out on the last day of May 2001. The intensity of consultations that have been going on for several years already stepped up with the issue of the first consultative paper in June 1999, yet another proof of the importance of regulatory capital requirements for banks and what is its impact on safety and soundness in the international financial system. The extent of comments, proposals, criticism etc. indicates how seriously the interested parties (regulatory-supervisory institutions, bankers' associations, supranational institutions, etc.) in the countries around the globe have analysed the Basel proposals and scrutinised their potential consequences.

The Basel Committee on Banking Supervision has already published a preliminary proposal of major changes expected to be incorporated in the final version of the New Capital Accord expected to be released for the third consultative round towards the end of this year or the beginning of the next year. Due to a delay in formulating the final document, the implementation of the new capital rules has been rescheduled to the year 2005. The key emphases of the Basel Committee in relation to the future development can be summarised as:

- Insistence on a three-pillar structure of the New Capital Accord;
- Enhancement of capital incentives for banks resorting to more sophisticated tools to measure and determine capital requirements (the approach based on internal ratings);
- A reduction in capital charges for operational risk originally suggested to be 20 per cent of a bank's regulatory capital since it would be too big a burden on banks; and
- A different treatment of claims on small and medium-sized companies due to their important role in the economy (reduced capital requirements).

The European Commission has kept abreast with the Basel proposal to set out a new framework and in January 2001 issued a paper containing its views on the future development of the regulatory and supervisory set of rules governing capital adequacy of banks and investment companies. The points put forward in the Basel document and the document the European Commission converge even though the latter focuses on specific aspects of relevance to the European banks and the EU internal market. The EU Member States have to observe the European regulatory framework laid down in the form of directives and candidate countries have to be compliant with directives as of the date of accession to the EU. The timetable for the implementation of the new rules is also stipulated by the EU.

The New Capital Accord to be implemented in 2005.

The new Basel capital rules, i.e. capital directives will thus become reality in 2005 also for the Slovenian banks and for the Bank of Slovenia as their competent regulator and supervisor. Regardless of the fact that there are still at least three more years to go until the New Capital Accord becomes effective, it is crucial to be fully aware beforehand of the changes the Accord will bring to Slovenia's banking environment.

Modifications and amendments to the Banking Act

The implementation of the New Capital Accord will call for amendments to the Banking Act.

The implementation of the New Capital Accord will lead to minor modifications to the Banking Act, a framework law serving as a foundation of the existing legislative framework in the area of capital and capital adequacy in Slovenia. At present, the Banking Act promulgates the standardised approach to the determination of capital requirements, which means assessing risk associated with claims (loans) and consequentially the weighting to be added when calculating risk-adjusted assets on the basis of uniform criteria ("one-size-fits-all"). To allow the use the approach based on internal ratings or internal systems for the classification of clients to the banks, which will meet regulatory criteria would require the Banking Act to be extended to accommodate this approach.

Large-scale activities in the regulatory area

To implement three pillars of the New Capital Accord, *viz.* minimum capital requirements (pillar 1), supervisory review (pillar 2), and market discipline (pillar 3), will call for major changes to the existing legislation governing safe and sound banking.

A prerequisite for the implementation of the capital legislation is in place in Slovenia this very moment:

- the banks subscribe to a provisioning system generally regarded as functioning and relatively rigorous,
- accounting infrastructure, with the exception of some specific solutions being the legacy of the previous economic system (e.g.: revaluation/indexing), does not derogate substantially from internationally accepted accounting standards; nevertheless, it should align faster in the future to developments in the banking sector and the expected/forthcoming changes to the international accounting framework, and
- Slovenian banking oversight complies with the majority of the Core Principles for Effective Banking Supervision.

Changes to secondary legislation will also be necessary.

In order to make the groundwork for changes to the standardised approach with regard to the existing regulatory framework, the Decree on Capital Adequacy (Official Gazette of the Republic of Slovenia, No. 16/01) will have to be amended so as to introduce risk weights to be applied when calculating risk-adjusted assets and grossly based on external ratings, i.e. assessment of credit standing assigned to a bank’s borrowers by rating agencies. When evaluating sovereign risk in Slovenia along the lines laid down in the Decree on Capital Adequacy, the so-called club approach built upon the grading of risks associated with a particular country on the basis of it being member of the OECD or not has not been taken as a benchmark; hence Slovenian banks should not expect any major changes.

Neither when determining risk weights for bank counterparties under the existing rules do Slovenian banks apply the club approach. The currently used benchmarks are the bank’s grade (the so-called investment grade) and maturity and Slovenian banks will be faced only with minor changes upon the implementation of the new rules. For the time being, the portion of banks’ counterparties (corporate clients) rated by rating agencies is small in Slovenia although this could be reversed in future. In that case, capital requirements to be applied to corporate borrowers indebted to Slovenian banks could be reduced for the clients with a high rating. Ultimately, the Bank of Slovenia would be the authority qualified to judge the adequacy of the respective external rating, i.e. methodology used by rating agencies for data collection and data pooling.

Modifications to the Decree on Capital Adequacy will be necessary also on the account of some other innovations to be implemented under the new capital rules, e.g.: more rigorous and complex techniques designed for credit risk mitigation, more stringent treatment of claims/loans secured by pledging property, the introduction of higher risk items (weighting 150 per cent), etc. A novelty for Slovenian banks will also be the introduction of capital requirements for operational risk, which could lead to a drop in the capital adequacy ratios.

In the area of consolidated supervision, the implementation of the New Capital Accord will bring changes mainly due to mandatory sub-consolidation meaning that compliance with capital limits and requirements will be required at all levels (tiers) of banking groups and not only at the level of the parent (controlling) bank in the banking group. Therefore, no major changes to the Decree on Supervision of Banks and Savings Banks on a Consolidated Basis (Official Gazette of the Republic of Slovenia, No. 109/99) will be necessary.

Once the third pillar of the New Capital Accord is in place, i.e. by enhancing market discipline, Slovenian banks will be obliged to disclose more significant quantitative and qualitative details of their financial standing, operating results, risk management, etc. The Bank of Slovenia has a mandate under law to lay down more stringent reporting requirements, i.e. to prescribe to the banks the minimum disclosure of data to be put in practice by amending the secondary legislation (e.g.: Decree on Books of Account and

Annual Report and Accounts of Banks and Savings Banks – Official Gazette of the Republic of Slovenia, Nos. 39/99, 50/99, 63/99, 102/00 and Decree on the Implementation of Article 127 of the Banking Act – Official Gazette of the Republic of Slovenia, Nos. 32/99, 89/99).

Bolstering on-site supervision in response to wider authorisations and new tasks

On-site examinations in banks will highlight non-credit risk.

Acting in its capacity of a banking supervisor, the Bank of Slovenia will have to adjust its supervisory and surveillance methods to the new analytical approaches currently used by banks (or to be used in the future) for the purpose of making a self-assessment of capital adequacy and setting internal capital targets. As regards on-site supervision of Slovenian banks, it will be also necessary to pay particular attention in the future to the areas associated with other (non-credit) risks - interest rate and operational risks come to one's mind. The implementation of the new supervisory review within the framework of the second pillar will include grading clients and their adequacy to be used for regulatory purposes, as well as the evaluation of internal processes banks put in place to allocate their capital.

Article 69 of the Banking Act 1999, amended by the Act on Modifications and Amendments to the Banking Act (Official Gazette of the Republic of Slovenia, No. 59/01), gives the Bank of Slovenia a mandate to require that an individual bank meets a capital adequacy ratio higher than the minimum 8 per cent, whereby the cornerstone for effective implementation of the second pillar of the New Capital Accord has been laid down.

Information dissemination to banks in relation to capital regulatory framework and supervisory review including professional training

Banks will have to start to prepare intensively for the implementation of the three pillars of the Capital Accord, particularly if they are to resort to different forms of capital benefits or allowances offered under the new capital standards. The implementation of new capital rules will be accompanied by a number of new requirements the banks have to be familiar with in order to be able to respond timely and adequately to these new requirements.

3. SAVINGS AND LOAN UNDERTAKINGS

As at 30 June 2001 there were 57 savings and loan undertakings operating in Slovenia.

At the end of June 2001, there were 57 operating savings and loan undertakings in Slovenia. Most of them were established within the framework of agricultural and forestry co-operatives and are members of the Association of Savings and Loan Undertakings, a savings and loan undertaking in its own right. Up to now, the savings and loan undertakings in the Republic of Slovenia were founded under a special law on savings and loan undertakings promulgated for the first time back in 1969, and superseded in 1990 by the present law. No minimum initial capital was prescribed when setting up a savings and loan undertaking, and the founders of each savings and loan undertaking laid down terms and conditions of operations. Under the law, the founders are jointly and severally liable for savings deposits and all liabilities of the respective savings and loan undertaking. Only in the case where a savings and loan undertaking has obtained a bank guarantee, the Republic of Slovenia appears as a surety for the savings deposits covered by the guarantee. Savings and loan undertaking, which belong to the Association of Savings and Loan Undertakings, are obliged to maintain a liquidity reserve at the Association in the amount of at least 5 per cent of deposits repayable on demand for the purpose of providing liquidity relief to the members faced with difficulties.

The bottom line of operations carried on by the savings and loan undertakings is to collect savings deposits from individuals (mainly farmers) and to inject the funds back into the agricultural sector by extending loans to their founders - co-operatives and individuals. Consequently, the services provided by savings and loan undertakings mainly serve the local community of its founders.

As at 30 June 2001, the aggregate total assets of savings and loan undertakings in Slovenia amounted to 59.7 billion tolars - roughly a size of a medium-sized bank incorporated in Slovenia. Savings and loan undertakings are small institutions providing services to a narrow circle of clients.

Savings and loan undertakings are small institutions serving a limited circle of clients.

Even before the Banking Act came into force, the Bank of Slovenia was responsible for monitoring savings and loan undertakings for statistical purposes and within the framework of implementing its monetary policy. In accordance with the Law on Banks and Savings Banks, the savings and loan undertakings had to keep books of account and comply with the mandatory reserve requirement. Thus since 1992, the Bank of Slovenia has been receiving monthly reports on book balances on accounts of these undertakings, their annual financial statements and reports on compliance with the mandatory reserve requirement on a regular basis. As from 1995, the savings and loan undertakings have also been submitting reports on average interest rates. The savings and loan undertakings started to send their first prudential reports in March 2001 as at the last day of 2000 with the classification of on- and off-balance sheet items.

The provisions of the Banking Act take account of the specific position of the savings and loan undertakings, without losing sight, however, of the fact that by definition, savings and loan undertakings are credit institutions and that they will have to get in line with the requirements laid down in the European directives applicable to credit institutions. The Banking Act stipulates in line with the Second Banking Directive that both savings banks and savings and loan undertakings must have minimum initial capital in the amount of 220 million tolars (1 million euros). A five-year transitional period (calculated from the effectiveness of the Banking Act) left to the savings and loan undertakings will give them breathing space to adjust to the minimum capital requirements and reconcile their operations with other statutory provisions addressing risk management and standards for safe and sound operations.

A transitional period has been granted to the savings and loan undertakings through the negotiations with the European Union (until 31 December 2004) to implement capital and other requirements in relation to safe and sound operations carried on in line with European banking directives.

The Bank of Slovenia passed in December 1999 the Decree on Compliance of Savings and Loan Undertakings with the Provisions of the Banking Act. In accordance with the provisions of this Decree, the savings and loan undertakings are to gradually reach the required level of compliance with the provisions applying to credit institutions, so as to be fully compliant at the end of the five-year transitional period in 2004. In plain language, the savings and loan undertakings, which intend to comply with the requirements have to increase »capital« by 31 December 2001, so as to dispose of minimum capital for a start, and then must step up capital in order to reach from 31 December 2003 onward at least the level of mandatory minimum initial capital (220 million tolars). As from that date, the savings and loan undertakings must also comply with the statutory capital adequacy ratio and observe the limits on exposures to a single client or a group of related clients, as well as the limits set with respect to the sum of all large exposures. The Decree elaborates on mandatory classification of assets/claims, establishing provisions for credit and other risks, as well as reporting requirements to the Bank of Slovenia.

Savings and loan undertakings have to converge with the provisions of the Banking Act.

No savings and loan undertaking adopted a decision to instigate liquidation proceedings by 29 January 2001, although the majority of savings and loan undertakings opted for joining the Association of Savings and Loan Undertakings, a bank or a financial institution. The remaining (estimated 17 savings and loan undertakings) are obliged to harmonise with the provisions under the Banking Act in the manner and by the deadlines stipulated under the Decree on Compliance of Savings and Loan Undertakings with the Provisions of the Banking Act. This also applies to those savings and loan undertakings, which would eventually decide to merge with another institution. This alignment process shall continue until the entry into a court register.

Savings and loan undertakings failing to achieve full compliance by February 2004 will be remanded to compulsory (forced) liquidation.

4. DEPOSIT-GUARANTEE SCHEME

Since 1 January 2001, banks and savings banks incorporated in Slovenia guarantee that deposits placed with a bank or a savings bank will be paid out.

Under the new deposit-guarantee scheme drafted in line with the EC Directive on Deposit-Guarantee Schemes (94/19/EC) and determined by provisions of the Banking Act 1999 (Official Gazette of the Republic of Slovenia, No. 7/99), which became effective on 1 January 2001, the responsibility for repaying eligible funds to the public rests with banks and savings banks whose registered office is within the territory of the Republic of Slovenia. Detailed standards have been elaborated in the Decision on Deposit-Guarantee Scheme (Official Gazette of the Republic of Slovenia, No. 61/00) and the Decree on Adjustment of Minimum Initial Capital of Banks, Guaranteed Deposits and Minimum Initial Capital of Savings Banks (Official Gazette of the Republic of Slovenia, No. 102/00)

Save in exceptional cases, deposits from individual depositors are guaranteed up to 4.2 million tolars.

The mechanism of the scheme is activated by the bankruptcy proceedings in a bank or a savings bank providing repayment of guaranteed deposits placed by individual depositors in the amount of up to 4.2 million tolars (approximately 20,000 euros). For the purpose of calculating the amount of guaranteed deposits, the sum of all balances on accounts of a single depositor is reduced by the sum of the bank's claims on that depositor. Guaranteed deposits shall be repaid from liquid funds provided by the Bank of Slovenia by the receiver (a bank appointed by the Bank of Slovenia) no later than three months after bankruptcy proceedings were initiated in the failed bank or a savings bank.

In terms of the Banking Act 1999, a deposit shall mean the aggregate balance of all contractual claims of the respective client/depositor on the bank to keep a current or giro account, savings deposits, cash balances and certificates of deposit, i.e. treasury bills provided they have been issued as registered securities. A deposit is not guaranteed in the cases listed below:

1. When a deposit is placed by another bank or a financial institution in their own name and for their own account,
2. When a deposit is related to activities for which the owner of the deposit has been charged with money laundering and the sentence passed against the defendant is final
3. When a deposit is placed by other governments, central banks and local communities,
4. When a deposit is placed by a member of the bank's management, i.e. supervisory board or by a member of his/her immediate family
5. When a deposit is placed by a shareholder who has at least a 5 per cent equity holding in the bank's capital, i.e. in voting rights,
6. When a deposit is placed by a legal person controlled by the bank,
7. When a deposit is placed by a member of management, i.e. supervisory board of a legal person under items 5 and 6 or a member of his/her immediate family,
8. When a deposit is eligible to be included in the calculation of the bank's capital (subordinated deposit),
9. When a deposit is placed by a legal person classified under the Company Law as a large or a medium-sized company.

Furthermore, the following deposits are not covered by the deposit-guarantee scheme: bearer's deposits and all anonymous deposits where a positive identification of the depositor is not possible prior to the opening of bankruptcy proceedings against a bank or a savings bank.

Participation in the deposit-guarantee scheme is obligatory for all banks, savings banks and savings and loan undertakings authorised by the Bank of Slovenia to provide banking services including accepting deposits, as well as for branches of banks with the registered office outside the territory of the Republic of Slovenia, which are partly or fully included in the host country deposit-guarantee scheme. All banks (including the branches of foreign banks), savings banks and savings and loan undertakings authorised by the Bank of Slovenia are obliged to invest at least 2.5 per cent of the balance of guaranteed deposits placed with the respective bank or savings bank as at the last day of the preceding half-year in short-term securities issued by the Bank of Slovenia or by the Republic of Slovenia.

As from the day of full-fledged membership of the European Union, deposits placed with the branch of a bank from a Member State will be guaranteed under the deposit-guarantee system effective in the Member State where the bank has its registered seat of office (home country), provided the Bank of Slovenia recognises the deposit-guarantee scheme in place in the Member State as equal to the scheme provided in the Republic of Slovenia. Branches of foreign banks may be included in the deposit-guarantee scheme in place in the Republic of Slovenia for supplementary cover. Before Slovenia's accession, the Bank of Slovenia may at its discretion rule require for the authorisation to establish a branch of a foreign bank that the branch joins the deposit-guaranteed scheme in the Republic of Slovenia, in the case where the deposit-guarantee scheme of the home country falls short of the level of protection provided in the Republic of Slovenia.

5. PAYMENT SYSTEMS REFORM AND CASH OPERATIONS

5.1. Payment systems

The reform of payment systems continued in 2000 and 2001 being carried out as an inter-institutional project co- ordinated by the Bank of Slovenia. Having put in place the infrastructure for effecting real time gross settlement payment system (hereinafter referred to as the RTGS system) and the net clearing system known as the Giro Clearing system in 1998 as the first tier of the objectives on the agenda for the payment systems reform, the migration of accounts of legal persons from the environment of the Agency for Payments to banks has been underway since 11 September 2000.

Key goal of the payment systems reform is migration of accounts of legal persons from the Agency for Payments to banks.

During the period under review, the focus was on the migration of accounts of legal persons to the banking environment, regarded as the ultimate objective of the payment systems reform.

Migration of accounts of legal persons to the banking environment

Eligibility of a bank to be authorised for the provision of payment operations following the migration of accounts of legal persons to the banking environment is established on the basis of the criteria laid down for the banking institutions applying for a licence to carry on payment operations for the account of legal persons within the territory of the Republic of Slovenia. These criteria laid down in accordance with the third paragraph of Article 73 of the Law on the Agency for Payments have been approved by the Governor of the Bank of Slovenia and the Minister of Finance. The criteria comprise formal and technical requirements the banks have to meet to be authorised for this type of service.

After the Criteria were announced (Official Gazette of the Republic of Slovenia, Nos. 37/00 and 39/00), the Bank of Slovenia and the Ministry of Finance went further by issuing instructions with organisational and technical details necessary for the implementation of the tasks envisaged to be carried out. These instructions are the fruit of joint efforts of experts from a number of authorities: the Bank of Slovenia, the Agency for Payments, the Tax Administration of the Republic of Slovenia, and the Ministry of Finance.

Simultaneously with the preparation of the instructions for the implementation of the tasks set out in the Criteria, the activities were going on for the purpose of issuing special authorisations to eligible banks to take over keeping of accounts of legal persons and to start effecting domestic payment operations for them. The banks were asked to present to the Bank of Slovenia documentation proving that they fulfil the terms and conditions set out in the Criteria. At the end of July 2000, the Bank of Slovenia and the Ministry of Finance signed the decisions authorising all banks to engage in payment operations for legal persons in the country. The date for the kick-start of the migration of accounts of legal persons to commercial banks was set - 11 September 2000.

The migration of accounts of legal persons to banking environment scheduled to be completed by June 2002.

As for the migration of accounts of legal persons to a competitive environment being the second tier of the goals planned to be achieved through the payment systems reform, it has been running smoothly and steadily in line with the milestones agreed with the Ministry of Finance and the Agency for Payments. The migration of accounts of legal persons has been planned in seven phases (i.e. in quarterly steps) and is scheduled for completion in June 2002.

By the end of 2000, 1,553 and by the end of June 2001 as many as 8,425 legal persons transferred their accounts from the Agency for Payments to the banking environment.

In the light of the fact that the primary objective of the payment systems reform is the migration of accounts of legal persons and payment operations for legal persons from the Agency for Payments into the banking environment, as early as in 1999, the decision was taken to proceed with the implementation of the reform by preparing banks to keep accounts of legal persons through trialling-related tasks generally referred to as the bank pilot training.

Through various trialling phases, the objective to train staff at banks has been achieved primarily in the following segments:

- to prepare environment in banks to keep accounts of legal persons and to provide payment operations as part of a package of client-oriented services,
- to acquire the necessary practical experience for the migration of accounts of legal persons to banks on both sides: the banks and the legal persons,
- to provide conditions enabling all banks to be ready at the same time to take over keeping of accounts of legal persons, and
- to benchmark banks' readiness to conduct payment operations.

Having successfully completed the process of account migration and by verifying that the designated banks are ready for the job, the pilot project of training for banks was completed in June 2001.

Law on payment operations

The law on payment operations is in preparation.

During the period under review, part of the activities aimed at overhauling the payment systems focused on the preparation of a new law on payment operations. The authority responsible for the preparation of the law is the Ministry of Finance, which drafted a new text for the second reading in Parliament.

The draft law sets out provisions elaborating on the provision of services related to payment operations, *viz.* interbank settlement, services connected with payment operations, provisions governing keeping of a transaction account and issue of a payment instrument. The draft also lays down significant provisions related to oversight and reduction of risks associated with payment systems, without losing focus on its priority objective: alignment with the European directives and recommendations issued by the European Central Bank (ECB) regarding the area of payment systems. The new law will provide legal grounds for the transformation of the Agency for Payments and the establishment of new institutions, *viz.* the Agency of the Republic of Slovenia for Public Records and Services and the Bureau for Public Payments.

Review of the function of payment operations implementation in banks

A committee of the Bank of Slovenia has screened organisational-technical and HR requirements of banks for the transfer of accounts of legal persons to banks.

In accordance with the decisions made by the Governing Board of the Bank of Slovenia at its 203rd and 205th session, a committee of the Bank of Slovenia has been formed to benchmark the documents prepared by banks which lay down details of payment operations conducted on behalf of legal persons within the territory of the Republic of Slovenia by banks against the situation on the ground. The committee basically conducted the task through oversight of operations of the payment systems. The committee screened the requirements in relation to organisational and technical, as well as human resources, the banks had to meet in order to get the green light for the migration of accounts of legal persons from the Agency for Payments to the banking environment.

The mandate was to review the payment operation functions when conducting examinations of the business cash-related area connected with the respective function, information technology and internal audit i.e. when verifying compliance of the actual situation in the respective bank with the documentation presented as evidence that the bank meets the Criteria for providing payment operations for legal persons within the territory of Slovenia.

Minutes for all 24 banks were drawn up reflecting identified weaknesses and putting forward recommendations and setting milestones to remedy non-compliance. The observed weak spots mostly derive from subjective and organisational errors (lack of management oversight). On the whole, however, a satisfactory level of readiness of banks to take over and keep accounts of legal persons has been found.

Implementation of cash leg of settlement of securities trading through the RTGS system

The project for settling the cash leg of trading operations through the reformed payment systems has continued.

In 2000 and the first half of 2001, the activities on the inter-institutional project aimed at enabling the settlement of the cash side of securities trading through the reformed payment systems, led by the Bank of Slovenia and Central Securities Clearing Corporation (abbreviated to KDD in the Slovenian language) continued.

The project comprises two fundamental parts. One deals with setting up infrastructure for a simultaneous exchange of cash for securities traded in the organised securities market (Ljubljana Stock Exchange), through the RTGS system, while the other deals with the migration of special accounts of banks and stock-broking companies from the Agency for Payments to commercial banks and the Bank of Slovenia, as well as effecting cash settlement of trading deals concluded outside the organised securities market (OTC deals) with central bank funds/cash and in real time on the basis of the DVP principle (*Delivery versus Payment*). By connecting the DVP with the RTGS system in place in the Bank of Slovenia, final settlement of concluded deals has been made possible (simultaneous exchange of cash for securities) within extremely short time period on the same day (the deals made in the organised market are settled on a T+2 basis, i.e. with a two-day delay).

The project has focused on the part that addresses the settlement of OTC deals, mainly with the aim to contain risks associated with the settlement of this kind of deals. After all, under the present method for the settlement there is no DVP mechanism; hence participants are exposed to credit risk of losing the principal in the first place. By putting in place these procedures, the risks associated with such settlements are effectively controlled. Furthermore, by setting up the infrastructure for ready transfers of funds between accounts, the foundations for building an efficient and liquid market for short-term debt securities are made.

For the purpose of facilitating this kind of operations, the Bank of Slovenia opened a clearing settlement account for the Central Securities Clearing Corporation (KDD) within the framework of the RTGS system in June this year. This account will primarily serve cash for cash settlement of trading with securities with central bank funds (this is one of significant international recommendations - *Recommendations for Securities Settlement Systems*), and will be used both for settlements of deals concluded outside the stock-exchange floor (OTC deals) as well as those concluded in the organised securities market.

Risk management and the Core Principles for Systemically Important Payment Systems

Essential part of activities performed under the project of the payment systems reform is oriented towards reducing, i.e. managing risks in new payment systems and harmonisation with international recommendations and directives - above all with the Lamfalussy standard, Minimum Common Requirements for Domestic Payment Systems and the Core Principles for Systemically Important Payment Systems. The Core Principles for Systemically Important Payment Systems provide basic guidance and not a blueprint for designing payment systems. They deal with the part of payment systems that handles interbank migration of funds, but all systemically important payment systems have to be designed and implemented along those lines. These principles put at the forefront concern for safety and effectiveness of payment systems.

Special attention has been paid to achieving compliance with the Core Principles for Systemically Important Payment Systems.

In 2000, particular attention was paid to ten Core Principles for Systemically Important Payment Systems and compliance of the overhauled payment systems in the Republic of Slovenia with these international standards. To this end, a self-assessment of compliance with the Core Principles was made, and compliance with the Core Principles, i.e. implementation of standards and practices deriving from them was subject of scrutiny of the FSAP team in November 2000.

The representatives of the IMF mission have assessed that the RTGS system and the Giro Clearing system comply with or largely comply with nine out of ten principles and that the system the Agency for Payments (which was not included in the assessment) presented the only substantial weakness from the standpoint of financial risks. Therefore, the processing leading to then full-scope reform is to be completed as soon as practicable. “Largely non-compliant” was the assessment of the present situation benchmarked against the principle requiring that in a multilateral net payment system there must be time completion of settlement even in the case that the participant with the highest net liability is not able to pay. For the purpose being compliant with this principle, steps will be taken in the course of 2001 to incorporate a safety scheme in the Giro Clearing system.

Having completed the reforms, Slovenia will have advanced effective and safe payment systems.

The assessment based on findings has confirmed that the evolution of the payment systems in Slovenia is on track and that once the reform has been completed, Slovenia will have in place particularly advanced, efficient and safe payment systems providing the users with a wide array of choices as to monitoring risks, costs and the quality of services, as well as managing liquidity. Nevertheless, by benchmarking the domestic systems against the requirements set out in the Core Principles certain weaknesses have come to the fore and in the future they will serve as a checklist intended to remind the architects of the reform what activities are to be taken in order to improve the functioning of the payment systems in the country.

Other activities within the framework of the payment systems reform

Within the framework of the reform processes and tasks of the Bank of Slovenia, there is also learning process and dissemination of information to the professional public in relation to the migration of payment operations to banks, with an emphasis on training banking staff for a wide range of activities. It does not refer solely to the function of effecting payment services, but training staff in all related areas of activities connected with payment transactions.

In the same way, significant activities aimed at the standardisation of payment operations, which are spreading from the segment of standardisation of interbank payment operations (with the Bank of Slovenia still playing the leading role) to the area of the relationship between a client and the bank of their choice.

5.2. Cash operations

The supply of the state with tolar cash is organised through banknote depots of the central bank, coin depositories and organisational units of Agency for Payments.

Supply of the state with cash in tolars in accordance with the concept of migration of cash payment operations to the banking environment has been running smoothly through depots of banknotes of the Bank of Slovenia (hereinafter referred to as: the depots), coin vaults and also through organisational units of the Agency for Payments as long as such units continue to operate.

In 2000 and first half of 2001 there were eight depots for banknotes of the Bank of Slovenia operating within the framework of seven commercial banks - depositories. Following the transitional period from 1 July 1999 until 31 December 1999 when the Bank of Slovenia was still supplying and taking over cash at the headquarters of the depot, as from 1 January 2000 the depositories arrange transport of cash from the depot to the Bank of Slovenia and vice versa. Commitment to rationalising operations, the branches of the Agency for Payments have continued to supply cash to the depot operating in the area until these branches are closed down.

The depots of banknotes of the Bank of Slovenia obtain a certain amount of cash from regular cash operations the banks and savings banks perform with legal and natural persons who use their services.

Direct users of a depot enter into a contract agreement with the respective depository for the provision of the services of a depot. The transactions conducted in accordance with such contracts are effected in standard quantities of 1,000 banknotes (bundle) for withdrawals from and payments in the depot. Indirect users of the services of a depot effect transactions involving non-standard quantities of banknotes, i.e. quantities of less than 1,000 pieces for each denomination in the retail market of banknotes, i.e. by buying from and selling banknotes to depositories. As of 27 February 2001, the Bank of Slovenia formally allows the banks and savings banks to obtain also larger quantities of banknotes than mentioned above and thus cut back costs incurred by cash supply.

By phasing in accounts of legal persons into the banking environment and consequently by taking cash payment operations from the Agency for Payments and transferring them to commercial banks, the banks take-over from and pay out cash to legal persons. The banks obtain cash from clients in the retail cash market, whereas cash supply at distribution outlets of the central bank (banknote depots of the Bank of Slovenia) serves to achieve balance between cash surplus and deficit arising from operations - the bottom line of the cash distribution concept.

6. ORGANISATIONAL STRUCTURE AND TASKS OF THE BANKING SUPERVISION DEPARTMENT

The Banking Supervision Department has three operational parts.

The Banking Supervision Department was established as at 1 July 1992 within the framework of the Bank of Slovenia. The Department comprises three separate units:

- Licensing
- Off-site supervision of banking operations
- On-site supervision of banking operations

The nucleus of the Banking Supervision Department was a 17-strong staff that increased by the end of June 2001 to 46 people. The breakdown of the headcount at end-June 2001 shows that there were 8 people in the executive and administrative section, 16 employees were working in the off-site supervision section, 19 people were engaged in on-site examinations, while 3 employees handled licensing issues. With the effectiveness of the Banking Act, the Banking Supervision Department has been given a mandate to discharge new tasks (supervision on a consolidated basis, supervision of legal and natural persons suspected of unauthorised provision of banking services, supervision of savings and loan undertakings, etc.). The Banking Supervision Department has new responsibilities also under the Consumer Credit Act (Official Gazette of the Republic of Slovenia, No. 70/00). Due to new tasks, which include alignment with the European legislation, Basel recommendations, direct oversight of credit institutions in relation to the prevention of money laundering, and supervision of banks and savings banks under the Payment Operations Act, the number of employees is expected to rise.

Changes to the legislative and regulatory framework pose new challenge and necessitate HR strengthening.

The Banking Supervision Department subscribes to a pro-active human resource policy. In addition to the careful selection of new recruits from the ranks of dedicated professionals, it pays a lot of attention to vocational and on-the-job training of staff. High standards have been achieved through a combination of hands-on experience and up-to-minute theoretical knowledge acquired either at post-graduate studies, or at tailored courses. Seminars, workshops, and working visits to high-profile foreign supervisory authorities were the most common forms of professional training during the period under review.

Core tasks carried out by individual units of the Department:

Granting authorisations (Licensing)

- Preparation of secondary legislation that governs licensing requirements and/or rules,
- Advising on the implementation of secondary legislation that governs licens ing requirements and/or rules,
- Processing applications and the preparation of reports on authorisations granted,

- Drafting decisions and explaining grounds for the decisions taken,
- Monitoring of the enforcement of the decisions issued.

Off-site supervision of banking operations

- Drawing up the legal framework for the carrying out supervision and surveillance of banks and savings banks,
- Monitoring international recommendations in the field of supervision,
- Counselling in the implementation of financial legislation,
- Preparation of instructions with regard to implementation of accounting standards and accounting counselling,
- Controlling operations carried out by banks and savings banks on the basis of prudential reports and statutory returns,
- Corrective actions launched with the aim of resolving non-compliance identified in operating activities of banks and savings banks, and monitoring of implementation of such corrective actions,
- Analysis of results of operations of banks and savings banks,
- Co-operation with domestic and international institutions,
- Participation in the preparation for on-site examinations in banks and savings banks,
- Legal counselling,
- Electronic data processing and other related services.

On-site supervision of banking operations

- Preparatory activities leading to on-site examination on the basis of prudential reports of banks and savings banks and other statutory returns,
- On-site examinations of business operations of banks and savings banks, elaboration of reports and proposals for corrective measures,
- Implementation of corrective measures designed to mitigate deficiencies that have been detected in operations of banks and savings banks,
- Monitoring of the enforcement of corrective measures taken against banks and savings banks,
- Advising within on-site supervising function on the way to improve banking operations of banks and savings banks,
- Monitoring banks and savings banks,
- Preparation of measures aimed at preventing deterioration in the financial position of banks and savings banks,
- Co-operation in assessing conditions for instituting special administration in banks and savings banks,
- Co-operation in assessing conditions for liquidation of banks and savings banks,
- Co-operation in assessing conditions for bankruptcy of banks and savings banks,
- Governing and managing banks and savings banks in special cases,
- Co-operation with local and foreign supervisory authorities,
- Co-operation with foreign chartered accountants/certified auditors, etc.

The Report was prepared by:

Banking Supervision Department and
Payment Systems and Banknote Department (Reform of Payment Systems and Cash Operations)

Samo Nučič
Deputy Governor

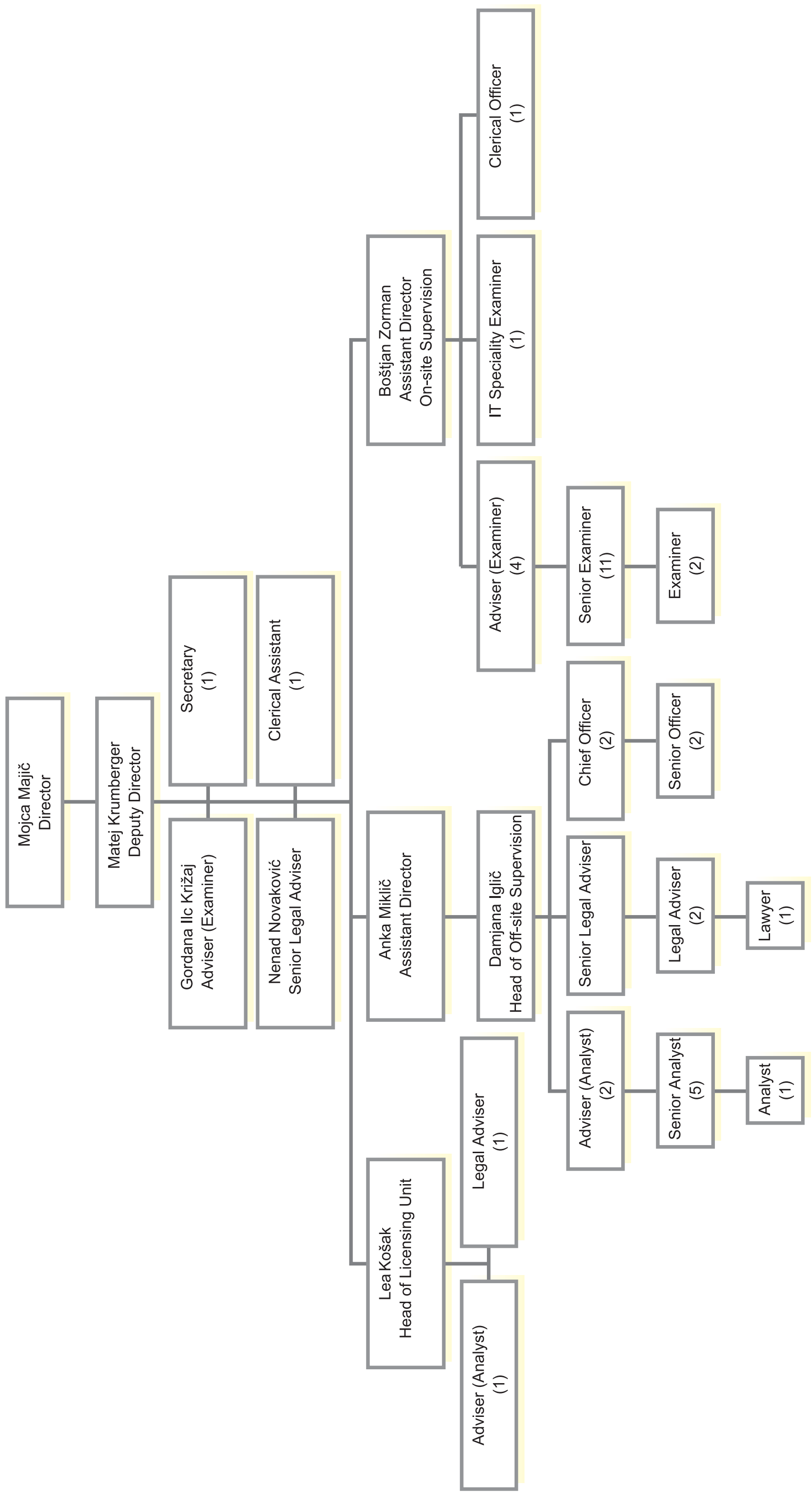
Mojca Majič
Director
Banking Supervision Department

APPENDICES

All figures for the first half of 2001 i.e. 30 June 2001 are unaudited and do not include the Nova ljubljanska banka branch in Italy.

APPENDIX 1

ORGANISATIONAL STRUCTURE OF THE BANKING SUPERVISION DEPARTMENT AS AT 30 JUNE 2001



TOTAL NUMBER OF BANKS AND SAVING BANKS AND OWNERSHIP STRUCTURE

1. Number of operating banks and savings banks

	31 Dec 1992	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
Banks [1)]	30	32	33	31	29	28	24	25	25	25
Savings banks	15	13	11	8	7	6	6	6	3	3

2. Number of banks with majority foreign share [2)]

	31 Dec 1992	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
Banks [1)]	2	5	6	6	4	4	3	5	6	6

3. Number of banks with majority state share [3)]

	31 Dec 1992	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
Banks	1	3	3	3	3	3	3	3	3	3

1) Foreign branch established in 1999 included.
2) Foreign-owned stake over 50%; all savings banks are owned by domestic shareholders.
3) State ownership over 50%; Poštna banka Slovenije d.d. (Slovenian Post Office Bank) is included in the figures. From the establishment until 31 December 1994 fully owned by PTT company, from 1 January 1995 to 20 December 1996 fully owned by the Republic of Slovenia, since 21 December 1996 owned by Pošta Slovenije d.o.o., Maribor (established by the Republic of Slovenia).

APPENDIX 3

TOTAL ASSETS AND OFF-BALANCE SHEET ITEMS OF BANKS AND SAVINGS BANKS

4. Total assets

in billions of tolars

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
Banks	937.2	1,183.4	1,497.5	1,729.0	2,022.0	2,350.4	2,687.6	3,192.8	3,489.3
Savings banks	2.1	2.7	4.4	5.1	7.2	9.5	11.0	12.3	13.7

4.a. Growth rate of total assets

in %

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
Banks	49.3	26.3	26.5	15.5	16.9	16.2	14.3	18.8	9.3
Savings banks	-19.2	28.6	63.0	15.9	41.2	31.9	15.8	11.4	11.3

5. Risk-weighted off-balance sheet items[1)]

in billions of tolars

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
Banks	288.7	292.5	347.0	338.9	382.6	503.7	568.5	701.7	789.4
Savings banks	0.059	0.004	0.027	0.122	0.036	0.093	0.088	0.038	0.061

5.a. Growth rate of risk-weighted off-balance sheet items

in %

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
Banks		1.3	18.6	-2.3	12.9	31.7	12.9	23.4	12.5
Savings banks		-93.2	575.0	351.9	-70.5	158.3	-5.5	-56.2	57.7

1) Off-balance sheet items include guarantees, letters of credit, endorsed and accepted bills of exchange, irrevocable commitments and other.

LENDING OF BANKS AND SAVINGS BANKS TO CUSTOMERS AND DEPOSITS FROM CUSTOMERS

6. Lending to non-banks

in billions of tolars

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
Banks	347.3	416.4	607.9	725.6	862.4	1,108.8	1,388.4	1,636.6	1,754.6
Savings banks	1.4	1.9	3.2	4.0	5.2	7.1	8.8	10.8	11.9

6.a. Growth rate of lending to non-banks

in %

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
Banks	53.5	19.9	46.0	19.4	18.9	28.6	25.2	17.9	7.2
Savings banks	-12.5	35.7	68.4	25.0	30.0	36.5	23.9	22.4	10.4

7. Deposits from non-banks

in billions of tolars

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
Banks	492.0	712.6	916.6	1,169.4	1,412.2	1,667.7	1,859.0	2,157.5	2,369.0
Savings banks	1.6	1.7	2.8	3.2	4.6	6.0	7.7	9.5	10.1

7.a. Growth rate of deposits from non-banks

in %

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
Banks	64.1	44.8	28.6	27.6	20.8	18.1	11.5	16.1	9.8
Savings banks	-27.3	6.3	64.7	14.3	43.8	30.4	28.5	23.6	6.4

APPENDIX 5

TOTAL ASSETS AND MARKET SHARES OF SLOVENIAN BANKS

in millions of tolars / in %

	Banks	Total Assets 31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001	Market Shares 31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
1	Nova Ljubljanska banka d.d. Ljubljana	549,225	648,595	752,343	918,828	989,026	27.2	27.6	28.0	28.8	28.3
2	Nova Kreditna banka d.d. Maribor	237,654	285,029	321,813	368,109	409,007	11.8	12.1	12.0	11.5	11.7
3	SKB d.d. Ljubljana	241,010	281,184	307,637	323,353	334,713	11.9	12.0	11.4	10.1	9.6
4	Banka Koper d.d. Koper	120,299	137,190	167,905	198,310	222,514	5.9	5.8	6.2	6.2	6.4
5	Abanka d.d. Ljubljana	103,055	123,151	149,301	188,133	217,643	5.1	5.2	5.6	5.9	6.2
6	Banka Celje d.d. Celje	109,246	135,094	155,712	185,182	204,152	5.4	5.7	5.8	5.8	5.9
7	Gorenjska banka d.d. Kranj	90,706	108,041	130,310	159,137	173,694	4.5	4.6	4.8	5.0	5.0
8	Dolenjska banka d.d. Novo mesto	64,675	77,476	87,574	101,129	109,086	3.2	3.3	3.3	3.2	3.1
9	Bank Austria Creditanstalt d.d. Ljubljana	49,808	83,379	83,633	95,367	107,781	2.5	3.5	3.1	3.0	3.1
10	Pomurska banka d.d. M. Sobota, Bs NLB	51,426	55,936	62,138	74,052	80,446	2.5	2.4	2.3	2.3	2.3
11	Krekova banka d.d. Maribor	40,092	50,868	57,811	66,305	70,300	2.0	2.2	2.2	2.1	2.0
12	Banka VIPA d.d. Nova Gorica	43,378	49,446	54,114	60,683	64,438	2.1	2.1	2.0	1.9	1.8
13	Poštna banka Slovenije d.d. Maribor	24,927	37,500	47,811	58,884	64,254	1.2	1.6	1.8	1.8	1.8
14	Probanka d.d. Maribor	29,434	34,204	40,982	48,135	53,457	1.5	1.5	1.5	1.5	1.5
15	Banka Dom□ale d.d. Dom□ale, Bs NLB	27,852	32,967	38,023	45,693	51,143	1.4	1.4	1.4	1.4	1.5
16	Koroška banka d.d. Sl. Gradec, Bs NLB	29,351	33,493	38,013	46,370	49,626	1.5	1.4	1.4	1.5	1.4
17	SZKB d.d. Ljubljana	29,263	36,930	41,552	49,407	49,227	1.4	1.6	1.5	1.5	1.4
18	Banka Velenje d.d. Velenje, Bs NLB	27,505	32,395	37,343	41,710	43,711	1.4	1.4	1.4	1.3	1.3
19	Volksbank-Ljudska banka d.d. Ljubljana	17,149	19,730	24,311	31,748	34,875	0.8	0.8	0.9	1.0	1.0
20	S I B d.d. Ljubljana	20,137	21,249	24,595	30,054	34,250	1.0	0.9	0.9	0.9	1.0
21	Banka Zasavje d.d. Trbovlje, Bs NLB	19,921	26,157	25,976	30,258	31,803	1.0	1.1	1.0	0.9	0.9
22	Factor banka d.d. Ljubljana	13,450	14,913	17,490	25,167	31,324	0.7	0.6	0.7	0.8	0.9
23	Hypo Alpe-Adria-Bank d.d. Ljubljana			10,392	23,487	28,014	0.0	0.0	0.4	0.7	0.8
24	Banka Societe Generale d.d. Ljubljana	10,649	11,205	9,568	13,228	18,287	0.5	0.5	0.4	0.4	0.5
25	Kaerntner Sparkasse, podru□nica v Sloveniji			1,254	10,063	16,553	0.0		0.0	0.3	0.5
	Banka Creditanstalt d.d. Ljubljana	31,232					1.5				
	M banka d.d. Ljubljana, Bs Banke Koper	13,501	14,227				0.7	0.6			
	UBK banka d.d. Ljubljana, Bs SKB	12,511					0.6				
	Hmezad banka d.d. □alec, Bs Banke Celje	11,481					0.6				
	Hipotekarna banka d.d. Bre□ice	3,099					0.2				
	Total - all operating banks	**2,022,036**	**2,350,359**	**2,687,600**	**3,192,792**	**3,489,324**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

APPENDIX 6

BALANCE SHEET OF SLOVENIAN BANKS

in millions of tolars

Item. No.	Balance Sheet Designation		DESCRIPTION	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
1.	A.	I.	Cash in hand and balances with Central Bank	39,602	58,786	58,475	73,888	84,696	88,761	98,631	94,022
2.	A.	II.	Government securities and other bills eligible for discount by Central Bank	0	0	0	0	0	0	0	0
3.	A.	III.	Loans and advances to banks and savings banks	248,059	253,566	309,936	214,874	227,331	252,615	364,388	375,899
4.	A.	IV.	Loans and advances to customers	417,233	607,884	725,610	862,406	1,108,798	1,388,440	1,636,557	1,754,575
5.	A.	V.	Investment securities	316,257	387,411	449,161	628,059	615,876	584,586	638,610	734,998
6.	A.	VI.	Securities held for dealing purposes	20,686	27,293	29,436	61,563	98,690	124,036	154,570	199,836
7.	A.	VII.	Investments in non-associated companies	16,400	16,082	15,996	15,650	16,173	25,096	26,974	28,872
8.	A.	VIII.	Investments in associated companies	6,727	10,022	11,499	16,168	31,479	34,743	39,620	44,688
9.	A.	IX.	Intagible assets	974	1,350	2,311	3,625	5,011	8,912	11,022	12,424
10.	A.	X.	Tangible fixed assets	49,403	56,748	60,877	73,223	77,863	92,606	105,721	109,779
11.	A.	XI.	Subscribed capital unpaid	1,262	0	0	0	0	0	0	0
12.	A.	XII.	Own shares	5,235	3,486	3,231	2,421	2,026	2,195	1,961	877
13.	A.	XIII.	Other assets	55,997	65,063	53,266	56,529	67,979	70,809	94,034	110,798
14.	A.	XIV.	Prepayments and accrued income	5,587	9,854	9,287	13,629	14,437	14,802	20,705	22,557
			TOTAL ASSETS	**1,183,423**	**1,497,544**	**1,729,083**	**2,022,037**	**2,350,359**	**2,687,600**	**3,192,792**	**3,489,324**
15.	P.	I.	Deposits and borrowings from banks and savings banks	205,836	236,602	213,852	204,084	223,738	309,002	399,712	402,727
16.	P.	II.	Deposits and borrowings from customers	712,624	916,608	1,169,449	1,412,196	1,667,695	1,859,009	2,157,509	2,369,014
17.	P.	III.	Liabilities evidenced by paper	20,782	45,066	37,082	52,418	57,649	44,755	69,405	90,109
18.	P.	IV.	Other liabilities	16,871	24,316	18,726	22,827	22,595	24,025	32,892	56,641
19.	P.	V.	Accruals and deferred income	55,098	65,402	56,920	66,547	79,958	91,937	113,198	138,976
20.	P.	VI.	Provision for liabilities and charges	30,172	32,905	35,518	36,218	42,443	49,258	57,557	61,944
21.	P.	VII.	General banking risks	0	0	0	0	0	4,502	7,644	9,042
22.	P.	VIII.	Subordinated liabilities	0	0	0	0	0	25,831	39,264	37,744
23.	P.	IX.	Subscribed capital	48,963	56,695	56,789	60,385	54,925	58,765	74,315	75,214
24.	P.	X.	Share premium account	6,696	10,094	8,420	7,720	7,681	9,029	5,447	7,900
25.	P.	XI.	Reserves	67,363	68,129	72,891	77,512	94,882	98,490	96,557	98,328
26.	P.	XII.	Capital revaluation adjustment	18,596	31,203	44,580	62,338	76,154	92,633	108,387	122,936
27.	P.	XIII.	Net profit or loss brought forward	65	-447	1,127	4,393	6,578	10,292	10,953	18,757
28.	P.	XIV.	Net profit or loss for the financial year	358	10,971	13,729	15,398	16,061	10,073	19,951	-6
			TOTAL LIABILITIES	**1,183,423**	**1,497,544**	**1,729,083**	**2,022,037**	**2,350,359**	**2,687,600**	**3,192,792**	**3,489,324**
29.	B.		OFF-BALANCE SHEET ITEMS (B.1. - B.3.)	402,723	509,513	489,456	615,597	758,145	942,196	1,190,458	1,296,098
			Total assets - average of the year [1)]	1,060,858	1,324,570	1,640,467	1,879,618	2,184,297	2,541,098	2,953,787	3,374,957
			Number of banks	33	31	29	28	24	25	25	25

1) Calculated as average balance at month-end.

APPENDIX 7

COMPOSITION OF THE BALANCE SHEET OF BANKS

as % of total assets at month-end

Item. No.	Balance Sheet Designation		DESCRIPTION	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
1.	A.	I.	Cash in hand and balances with Central Bank	3.3	3.9	3.4	3.7	3.6	3.3	3.1	2.7
2.	A.	II.	Government securities and other bills eligible for discount by Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.	A.	III.	Loans and advances to banks and savings banks	21.0	16.9	17.9	10.6	9.7	9.4	11.4	10.8
4.	A.	IV.	Loans and advances to customers	35.3	40.6	42.0	42.7	47.2	51.7	51.3	50.3
5.	A.	V.	Investment securities	26.7	25.9	26.0	31.1	26.2	21.8	20.0	21.1
6.	A.	VI.	Securities held for dealing purposes	1.7	1.8	1.7	3.0	4.2	4.6	4.8	5.7
7.	A.	VII.	Investments in non-associated companies	1.4	1.1	0.9	0.8	0.7	0.9	0.8	0.8
8.	A.	VIII.	Investments in associated companies	0.6	0.7	0.7	0.8	1.3	1.3	1.2	1.3
9.	A.	IX.	Intagible assets	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.4
10.	A.	X.	Tangible fixed assets	4.2	3.8	3.5	3.6	3.3	3.4	3.3	3.1
11.	A.	XI.	Subscribed capital unpaid	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12.	A.	XII.	Own shares	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.0
13.	A.	XIII.	Other assets	4.7	4.3	3.1	2.8	2.9	2.6	2.9	3.2
14.	A.	XIV.	Prepayments and accrued income	0.5	0.7	0.5	0.7	0.6	0.6	0.6	0.6
			TOTAL ASSETS	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
15.	P.	I.	Deposits and borrowings from banks and savings banks	17.4	15.8	12.4	10.1	9.5	11.5	12.5	11.5
16.	P.	II.	Deposits and borrowings from customers	60.2	61.2	67.6	69.8	71.0	69.2	67.6	67.9
17.	P.	III.	Liabilities evidenced by paper	1.8	3.0	2.1	2.6	2.5	1.7	2.2	2.6
18.	P.	IV.	Other liabilities	1.4	1.6	1.1	1.1	1.0	0.9	1.0	1.6
19.	P.	V.	Accruals and deferred income	4.7	4.4	3.3	3.3	3.4	3.4	3.5	4.0
20.	P.	VI.	Provision for liabilities and charges	2.5	2.2	2.1	1.8	1.8	1.8	1.8	1.8
21.	P.	VII.	General banking risks	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.3
22.	P.	VIII.	Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	1.0	1.2	1.1
23.	P.	IX.	Subscribed capital	4.1	3.8	3.3	3.0	2.3	2.2	2.3	2.2
24.	P.	X.	Share premium account	0.6	0.7	0.5	0.4	0.3	0.3	0.2	0.2
25.	P.	XI.	Reserves	5.7	4.5	4.2	3.8	4.0	3.7	3.0	2.8
26.	P.	XII.	Capital revaluation adjustment	1.6	2.1	2.6	3.1	3.2	3.4	3.4	3.5
27.	P.	XIII.	Net profit or loss brought forward	0.0	0.0	0.1	0.2	0.3	0.4	0.3	0.5
28.	P.	XIV.	Net profit or loss for the financial year	0.0	0.7	0.8	0.8	0.7	0.4	0.6	0.0
			TOTAL LIABILITIES	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
29.	B.		OFF-BALANCE SHEET ITEMS (B.1. - B.3.)	34.0	34.0	28.3	30.4	32.3	35.1	37.3	37.1

APPENDIX 8

PROFIT AND LOSS ACCOUNT OF BANKS

in millions of tolars

		1994	1995	1996	1997	1998	1999	2000	Jan - Jun 2001
1.	Interest income	136,038	242,324	266,484	293,258	280,785	300,353	434,505	227,292
2.	Interest expense	101,244	183,615	183,790	208,746	190,632	205,583	311,207	163,828
3.	Net interest income	34,794	58,709	82,694	84,512	90,153	94,770	123,298	63,464
4.	Net other income	9,284	14,291	9,430	16,926	20,437	26,173	32,733	13,395
	- net fees and commisions	11,695	19,736	23,627	26,923	30,206	33,726	37,858	21,213
	- net financial transactions	7,194	8,386	-886	7,462	6,691	9,541	13,355	6,616
	- other income[1)]	-9,605	-13,832	-13,310	-17,460	-16,460	-17,094	-18,480	-14,434
5.	Gross income (3+4)	44,078	73,000	92,124	101,438	110,590	120,944	156,032	76,860
6.	General administrative expenses	28,151	42,280	50,293	58,111	65,808	74,408	86,228	45,964
	- labour costs	1,921	26,911	31,843	35,361	38,343	43,701	49,085	26,712
7.	Net income (5-6)	15,927	30,720	41,831	43,327	44,782	46,536	69,804	30,896
8.	Net provisions and write-offs	-11,253	-16,962	-23,489	-22,240	-18,806	-26,401	-37,233	-11,634
9.	Profit before taxation (7-8)	4,673	13,759	18,342	21,087	25,976	20,134	32,571	19,262
10.	Taxation	243	1,487	2,550	5,747	9,915	10,085	12,620	
11.	Profit after taxation (9-10)	4,430	12,271	15,792	15,340	16,061	10,049	19,951	

1) Other income = other operating profit + extraordinary income - depreciation and amortization - other operating expense - revaluation of capital, fixed assets and capital investments - extraordinary expense.

APPENDIX 9

COMPOSITION OF THE PROFIT AND LOSS ACCOUNT OF BANKS

as % of average total assets

		1994	1995	1996	1997	1998	1999	2000	Jan - Jun 2001
1.	Interest income	12.8	18.3	16.2	15.6	12.9	11.8	14.7	6.7
2.	Interest expense	9.5	13.9	11.2	11.1	8.7	8.1	10.5	4.9
3.	Net interest income	3.3	4.4	5.0	4.5	4.1	3.7	4.2	1.9
4.	Net other income	0.9	1.1	0.6	0.9	0.9	1.0	1.1	0.4
	- net fees and commisions	1.1	1.5	1.4	1.4	1.4	1.3	1.3	0.6
	- net financial transactions	0.7	0.6	-0.1	0.4	0.3	0.4	0.5	0.2
	- other income	-0.9	-1.0	-0.8	-0.9	-0.8	-0.7	-0.6	-0.4
5.	Gross income (3+4)	4.2	5.5	5.6	5.4	5.1	4.8	5.3	2.3
6.	General administrative expenses	2.7	3.2	3.1	3.1	3.0	2.9	2.9	1.4
	- labour costs	0.2	2.0	1.9	1.9	1.8	1.7	1.7	0.8
7.	Net income (5-6)	1.5	2.3	2.5	2.3	2.1	1.8	2.4	0.9
8.	Net provisions and write-offs	-1.1	-1.3	-1.4	-1.2	-0.9	-1.0	-1.3	-0.3
9.	Profit before taxation (7-8)	0.4	1.0	1.1	1.1	1.2	0.8	1.1	0.6
10.	Taxation	0.0	0.1	0.2	0.3	0.5	0.4	0.4	
11.	Profit after taxation (9-10)	0.4	0.9	1.0	0.8	0.7	0.4	0.7	

APPENDIX 10

ITEMS FROM THE PROFIT AND LOSS ACCOUNT IN BANKS' INCOME

in %

		1994	1995	1996	1997	1998	1999	2000	Jan - Jun 2001
	% of gross income								
1.	Net interest income	78.9	80.4	89.8	83.3	81.5	78.4	79.0	82.6
2.	Net non-interest income	21.1	19.6	10.2	16.7	18.5	21.6	21.0	17.4
	- net fees and commissions	26.5	27.0	25.6	26.5	27.3	27.9	24.3	27.6
	- net financial transactions	16.3	11.5	-1.0	7.4	6.1	7.9	8.6	8.6
	- other	-21.8	-18.9	-14.4	-17.2	-14.9	-14.1	-11.8	-18.8
3.	General administrative expenses	63.9	57.9	54.6	57.3	59.5	61.5	55.3	59.8
	- labour costs	4.4	36.9	34.6	34.9	34.7	36.1	31.5	34.8
4.	Net income[1)]	36.1	42.1	45.4	42.7	40.5	38.5	44.7	40.2
5.	Net provisions and write-offs	-25.5	-23.2	-25.5	-21.9	-17.0	-21.8	-23.9	-15.1
6.	Profit before taxation	10.6	18.8	19.9	20.8	23.5	16.6	20.9	25.1
7.	Taxation	0.6	2.0	2.8	5.7	9.0	8.3	8.1	
8.	Profit after taxation	10.1	16.8	17.1	15.1	14.5	8.3	12.8	
	% of net income								
1.	Net provisions and write-offs	-70.7	-55.2	-56.2	-51.3	-42.0	-56.7	-53.3	-37.7
2.	Profit before taxation	29.3	44.8	43.8	48.7	58.0	43.3	46.7	62.3
3.	Taxation	1.5	4.8	6.1	13.3	22.1	21.7	18.1	
4.	Profit after taxation	27.8	39.9	37.8	35.4	35.9	21.6	28.6	

[1)] Net income = Gross income - general administrative expenses

APPENDIX 11

RATIOS IN THE SLOVENIAN BANKING INDUSTRY

in %

		31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
I. Capital adequacy	1. Regulatory capital / Risk-weighted assets	20.5	21.5	19.7	19.0	16.0	14.0	13.5	13.5
	2. Core capital / Risk-weighted assets	17.8	19.5	18.2	17.6	15.6	14.0	12.6	12.8
II. Asset quality	1. Value adjustments / Bad and doubtful claims	49.3	47.7	54.8	55.6	51.5	49.5	44.3	44.6
	2. Bad and doubtful claims / Gross assets	12.0	11.0	10.3	9.4	10.9	11.6	13.1	12.8
III. Profitability	1. Net interest margin [1)]	3.7	4.9	5.6	4.9	4.5	4.0	4.5	4.1
	2. Return on average assets	0.4	1.0	1.1	1.1	1.2	0.8	1.1	1.2
	3. Return on average equity	4.0	9.2	10.3	10.3	11.3	7.8	11.3	12.5
	4. Net provisions and write-offs / Net income	70.7	55.2	56.2	51.3	42.0	56.7	53.3	37.7
IV. Liquidity	1. Average liquid assets / Average demand deposits	21.5	21.7	17.7	23.4	26.8	25.9	23.6	24.8
	2. Average demand deposits / Average total liabilities (equity excl.)	27.7	28.6	28.8	28.7	27.1	28.1	27.1	25.5
V. Operating expenses	1. Labour costs / Average total assets	1.7	2.0	1.9	1.9	1.8	1.7	1.7	1.6
	2. Net non-interest income / Operating costs	42.2	44.2	29.7	39.4	41.2	44.8	46.5	39.9

1) Net interest margin is calculated as the ratio between net interest income (real and revaluation interest) and average gross interest-bearing assets.

NON-PERFORMING ON- AND OFF-BALANCE SHEET ITEMS IN BANKS

Non-performing on- and off-balance sheet items

All banks	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
Non-performing assets [1] (in millions of tolars)	91,638	80,169	104,118	107,969	126,651	141,702	170,741	172,820
Non-performing assets / Total assets	8.1%	5.8%	6.4%	5.6%	5.7%	5.6%	5.6%	5.2%
Non-performing assets and off-balance sheet items [2] (in millions of tolars)	115,837	101,603	124,386	126,240	147,514	161,428	194,177	205,259
Non-performing assets and off-balance sheet items / Total assets and off-balance sheet items	8.2%	5.8%	6.2%	5.5%	5.4%	5.2%	5.2%	5.0%

Bad on- and off-balance sheet items

All banks	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	30 Jun 2001
Bad assets [3] (in millions of tolars)	62,026	55,402	64,315	64,120	81,545	88,227	104,874	109,447
Bad assets / Total assets	5.5%	4.0%	4.0%	3.3%	3.7%	3.5%	3.5%	3.3%
Bad assets and off-balance sheet items [4] (in millions of tolars)	80,723	68,560	76,921	73,246	91,179	98,306	117,034	123,743
Bad assets and off-balance sheet items / Total assets and off-balance sheet items	5.7%	3.9%	3.8%	3.2%	3.3%	3.2%	3.1%	3.0%

1) Non-performing assets are defined as all on-balance sheet items classified in groups C (substandard), D (doubtful) and E (loss).

2) Non-performing assets and off-balance sheet items are defined as all on- and off-balance sheet items classified in groups C (substandard), D (doubtful) and E (loss).

3) Bad assets are defined as all on-balance sheet items classified in groups D (doubtful) and E (loss).

4) Bad assets and off-balance sheet items are defined as all on- and off-balance sheet items classified in groups D (doubtful) and E (loss).

APPENDIX 13

STRUCTURE OF AGGREGATE (ON- AND OFF-BALANCE SHEET) EXPOSURE OF BANKS PER TYPE OF ACTIVITY

in millions of tolars, in %

ACTIVITY	31 Dec 1994	Share	31 Dec 1995	Share	31 Dec 1996	Share	31 Dec 1997	Share	31 Dec 1998	Share	31 Dec 1999	Share	31 Dec 2000	Share	30 Jun 2001	Share
A. CORPORATE SECTOR	**1,070,587**	**74.6**	**1,289,088**	**72.8**	**1,436,658**	**71.3**	**1,753,786**	**75.3**	**2,117,982**	**76.3**	**2,381,241**	**75.1**	**2,849,536**	**74.9**	**3,128,390**	**74.5**
1. Agriculture, hunting and forestry	10,054	0.7	12,195	0.7	13,413	0.7	13,614	0.6	15,796	0.6	17,821	0.6	18,916	0.5	18,225	0.4
2. Fishing	174	0.0	187	0.0	220	0.0	280	0.0	303	0.0	300	0.0	325	0.0	332	0.0
3. Mining and quarrying	541	0.0	956	0.1	4,496	0.2	5,518	0.2	4,831	0.2	6,590	0.2	5,580	0.1	6,153	0.1
4. Manufactoring	193,658	13.5	259,851	14.7	278,894	13.8	302,348	13.0	377,898	13.6	426,675	13.5	514,408	13.5	578,329	13.8
4.1. Manufacture of food products; beverages and tobacco	15,395	1.1	23,893	1.3	24,341	1.2	31,023	1.3	48,596	1.8	57,656	1.8	71,236	1.9	75,987	1.8
4.2. Manufacture of textiles and textile products and manufacture of leather products	25,584	1.8	31,086	1.8	31,859	1.6	34,769	1.5	39,207	1.4	44,360	1.4	52,756	1.4	59,422	1.4
4.3. Manufacture of wood and wood products and manufacture of paper and paper products	30,377	2.1	33,378	1.9	35,694	1.8	37,457	1.6	41,553	1.5	47,539	1.5	47,082	1.2	49,010	1.2
4.4. Manufacture of chemical, chemical products man made fibres	29,344	2.0	45,667	2.6	48,004	2.4	52,341	2.2	77,025	2.8	79,666	2.5	105,851	2.8	127,148	3.0
4.5. Manufacture of basis metals and fabricated metal products and manufacture of machinery and equipment	43,925	3.1	55,794	3.2	63,317	3.1	69,831	3.0	79,806	2.9	99,738	3.1	134,603	3.5	151,333	3.6
4.6. Manufacture of electrical and optical equipment	20,929	1.5	29,169	1.6	31,225	1.5	31,374	1.3	40,357	1.5	44,829	1.4	51,993	1.4	60,831	1.4
4.7. Manufacture of transport equipment	20,123	1.4	30,498	1.7	31,612	1.6	31,818	1.4	35,450	1.3	33,604	1.1	28,338	0.7	29,336	0.7
4.8. Manufacture of furniture, manufacturing not elsewhere classified and recycling	7,981	0.6	10,366	0.6	12,842	0.6	13,735	0.6	15,906	0.6	19,283	0.6	22,549	0.6	25,263	0.6
5. Electricity, gas and water supply	49,846	3.5	57,932	3.3	57,859	2.9	61,325	2.6	109,237	3.9	111,774	3.5	102,475	2.7	100,362	2.4
6. Construction	27,527	1.9	31,900	1.8	35,953	1.8	51,297	2.2	75,817	2.7	102,762	3.2	116,376	3.1	130,007	3.1
7. Wholesale and retail trade; repair of motor vehicles, personal and household goods	90,941	6.3	135,477	7.6	165,200	8.2	205,612	8.8	266,753	9.6	347,658	11.0	440,837	11.6	469,171	11.2
8. Hotels and restaurants	6,603	0.5	11,940	0.7	16,360	0.8	21,481	0.9	27,567	1.0	38,642	1.2	44,214	1.2	49,329	1.2
9. Transport, storage and communications	66,466	4.6	55,126	3.1	64,817	3.2	70,177	3.0	108,571	3.9	150,082	4.7	185,743	4.9	215,853	5.1
10. Public administration and defence; compulsory social security[1]	147,834	10.3	290,770	16.4	317,261	15.7	351,583	15.1	368,947	13.3	415,733	13.1	474,974	12.5	490,105	11.7
11. Health and social work	4,929	0.3	5,690	0.3	5,968	0.3	6,458	0.3	8,087	0.3	8,882	0.3	11,475	0.3	13,488	0.3
12. Education	520	0.0	535	0.0	884	0.0	1,186	0.1	1,278	0.0	2,468	0.1	2,685	0.1	2,949	0.1
13. Other community, social and personal service activities	3,005	0.2	4,913	0.3	7,187	0.4	8,784	0.4	13,238	0.5	19,185	0.6	21,845	0.6	23,807	0.6
14. Financial intermediation[2]	323,964	22.6	250,557	14.1	299,621	14.9	480,186	20.6	504,997	18.2	501,882	15.8	641,300	16.9	733,930	17.5
15. Real estate, leasing and business activities	73,835	5.1	87,675	5.0	98,135	4.9	109,081	4.7	146,913	5.3	168,075	5.3	196,775	5.2	219,716	5.2
16. Other items	70,690	4.9	83,384	4.7	70,391	3.5	64,857	2.8	87,749	3.2	62,711	2.0	71,609	1.9	76,634	1.8
B. PRIVATE INDIVIDUALS	**117,555**	**8.2**	**200,425**	**11.3**	**259,148**	**12.9**	**309,334**	**13.3**	**381,693**	**13.8**	**468,858**	**14.8**	**534,059**	**14.0**	**587,185**	**14.0**
C. NON-RESIDENTS	**247,672**	**17.2**	**281,591**	**15.9**	**319,057**	**15.8**	**266,124**	**11.4**	**275,728**	**9.9**	**318,680**	**10.1**	**421,071**	**11.1**	**484,342**	**11.5**
TOTAL (A+B+C)	**1,435,814**	**100.0**	**1,771,104**	**100.0**	**2,014,864**	**100.0**	**2,329,244**	**100.0**	**2,775,403**	**100.0**	**3,168,778**	**100.0**	**3,804,667**	**100.0**	**4,199,917**	**100.0**

1) Public administration also comprises securities issued by the government.
2) Financial intermediation includes also claims on the Bank of Slovenia.

BANKS AND SAVINGS BANKS IN SLOVENIA AS AT 30 JUNE 2001

I. BANKS

ABANKA D.D. LJUBLJANA
1517 LJUBLJANA
Tel.: +386 1 471 81 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- collection, analysis and provision of information on the credit-worthiness of legal persons
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- services in connection with securities, in accordance with the law governing the securities market
- administering pension or investment funds in accordance with the law governing pension funds
- performance of payment transactions.

BANK AUSTRIA CREDITANSTALT D.D., LJUBLJANA
Wolfova 1
1000 LJUBLJANA

Tel.: +386 1 477 76 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- services in connection with securities, in accordance with the law governing the securities market
- performance of payment transactions.

BANKA CELJE D.D.
Vodnikova 2
3000 CELJE
Tel.: +386 3 543 10 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments

- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

BANKA KOPER D.D.
6502 KOPER
Tel.: +386 5 665 11 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- services in connection with securities, in accordance with the law governing the securities market
- administering pension or investment funds in accordance with the law governing pension and investment funds
- performance of payment transactions.

BANKA SOCIETE GENERALE LJUBLJANA D.D.
Trg republike 3
1000 LJUBLJANA
Tel.: +386 1 200 16 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- collection, analysis and provision of information on the credit-worthiness of legal persons
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- mediation in the conclusion of loan and credit transactions
- performance of payment transactions.

BANKA VELENJE D.D., VELENJE
BANČNA SKUPINA NOVE LJUBLJANSKE BANKE
Rudarska 3
3320 VELENJE
Tel.: +386 3 899 52 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions;
- trading in foreign means of payment, including foreign exchange transactions

- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

BANKA VIPA D.D.
Kidričeva 7
5000 NOVA GORICA
Tel.: +386 5 338 50 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions;
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- collection, analysis and provision of information on the credit-worthiness of legal persons
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- mediation in the conclusion of loan and credit transactions
- services in connection with securities, in accordance with the law governing the securities market;
- performance of payment transactions.

DOLENJSKA BANKA D.D., BANČNA SKUPINA NOVE LJUBLJANSKE BANKE
Seidlova cesta 3
8000 NOVO MESTO
Tel.: +386 7 331 65 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

FACTOR BANKA D.D.
Železna 16
1000 LJUBLJANA
Tel.: +386 1 431 11 36

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- collection, analysis and provision of information on the credit-worthiness of legal persons
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- services in connection with securities, in accordance with the law governing the securities market

- administering pension or investment funds in accordance with the law governing pension or investment funds
- performance of payment transactions.

GORENJSKA BANKA, D.D., KRANJ
Bleiweisova cesta 1
4000 KRANJ
Tel.: +386 4 208 40 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- services in connection with securities, in accordance with the law governing the securities market
- administering pension or investment funds in accordance with the law governing pension or investment funds
- performance of payment transactions.

HYPO ALPE ADRIA BANKA D.D., LJUBLJANA
Trg Osvobodilne fronte 12
1000 LJUBLJANA
Tel.: +386 1 300 44 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

KOROŠKA BANKA D.D., SLOVENJ GRADEC,
BANČNA SKUPINA NOVE LJUBLJANSKE BANKE
Glavni trg 30
2380 SLOVENJ GRADEC
Tel.: +386 2 884 91 11

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

KREKOVA BANKA D.D. MARIBOR
Slomškov trg 18
2000 MARIBOR
Tel.: +386 2 229 31 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- services in connection with securities, in accordance with the law governing the securities market
- performance of payment transactions.

NOVA KREDITNA BANKA MARIBOR D.D.
2505 MARIBOR
Tel.: +386 2 229 22 90

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

NOVA LJUBLJANSKA BANKA D.D., LJUBLJANA
1520 LJUBLJANA
Tel.: +386 1 425 01 55

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- collection, analysis and provision of information on the credit-worthiness of legal persons
- mediation in sales of insurance policies, in accordance with the law governing the insurance sector
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- mediation in the conclusion of loan and credit transactions
- safe custody services
- services in connection with securities, in accordance with the law governing the securities market
- performance of payment transactions.

POMURSKA BANKA D.D., MURSKA SOBOTA,
BANČNA SKUPINA NOVE LJUBLJANSKE BANKE
Trg zmage 7
9000 MURSKA SOBOTA
Tel.: +386 2 433 21 32

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

POŠTNA BANKA SLOVENIJE D.D.
Vita Kraigherja 5
2000 MARIBOR
Tel.:+386 2 228 82 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- performance of payment transactions.

PROBANKA D.D.
Gosposka ulica 23
2000 MARIBOR
Tel.: +386 2 252 05 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- services in connection with securities, in accordance with the law governing the securities market
- administering pension or investment funds in accordance with the law governing pension and investment funds
- performance of payment transactions.

SKB BANKA D.D. LJUBLJANA
1513 LJUBLJANA
Tel.: +386 1 433 21 32

The bank has been authorised to provide the following other financial services:
- factoring
- financial leasing
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions

- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- collection, analysis and provision of information on the credit-worthiness of legal persons
- mediation in sales of insurance policies, in accordance with the law governing the insurance sector;
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- mediation in the conclusion of loan and credit transactions
- services in connection with securities, in accordance with the law governing the securities market
- performance of payment transactions.

SLOVENSKA INVESTICIJSKA BANKA, D.D., /DELNIŠKA DRUŽBA/, LJUBLJANA
Čopova 38
1101 LJUBLJANA
Tel.: +386 1 426 11 81

The bank has been authorised to provide the following other financial services:
- factoring
- financial leasing
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

SLOVENSKA ZADRUŽNA KMETIJSKA BANKA D.D., LJUBLJANA
Miklošičeva 4
1000 LJUBLJANA
Tel.: +386 1 472 71 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- services in connection with securities, in accordance with the law governing the securities market
- performance of payment transactions.

VOLKSBANK - LJUDSKA BANKA D.D.
Miklošičeva 30
1000 LJUBLJANA
Tel.: +386 1 431 10 09

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- performance of payment transactions.

BANKA DOMŽALE D.D., DOMŽALE,
BANČNA SKUPINA NOVE LJUBLJANSKE BANKE
Ljubljanska cesta 62
1230 DOMŽALE
Tel.: +386 1 724 53 00

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

BANKA ZASAVJE D.D., TRBOVLJE,
BANČNA SKUPINA NOVE LJUBLJANSKE BANKE
Trg revolucije 25c
1420 TRBOVLJE
Tel.: +386 3 562 12 33

The bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

Branch office:

KAERNTNER SPARKASSE AG, CELOVEC,
PODRUŽNICA V SLOVENIJI
Dunajska 63
1000 LJUBLJANA
Tel.: +386 1 309 23 99

The branch office has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- collection, analysis and provision of information on the credit-worthiness of legal persons
- mediation in the conclusion of loan and credit transactions.

II. SAVINGS BANKS

DELAVSKA HRANILNICA D.D. LJUBLJANA
Dalmatinova 4
1000 LJUBLJANA
Tel.: +386 1 300 02 20

The savings bank has been authorised to provide the following other financial services:
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- performance of payment transactions.

LLT HRANILNICA IN POSOJILNICA D.D., MURSKA SOBOTA
Staneta Rozmana 11/a
9000 MURSKA SOBOTA
Tel.: +386 2 527 18 00

The savings bank has been authorised to provide the following other financial services:
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange).

HRANILNICA LON D.D., KRANJ
Bleiweisova 2
4000 KRANJ
Tel.: +386 4 280 07 77

The savings bank has been authorised to provide the following other financial services:
- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- collection, analysis and provision of information on the credit-worthiness of legal persons
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- mediation in the conclusion of loan and credit transactions
- performance of payment transactions.

APPENDIX 14a

REPRESENTATIVE OFFICES OF FOREIGN BANKS IN SLOVENIA AS AT 30 JUNE 2001

Head office	Representative office
Die Kärntner Sparkasse AG, Celovec Neuer Platz 14 A-9020 Klagenfurt Avstrija	Kärntner Sparkasse AG, Celovec Predstavništvo Ljubljana Dunajska 156 1000 Ljubljana Tel.: +386 1 568 83 09
LHB Internationale Handelsbank AG Frankfurt am Main Grosse Gallusstrasse 16 D-60311 Frankfurt am Main Nemčija	LHB Internationale Handelsbank AG, Frankfurt am Main Predstavništvo Ljubljana Slovenska cesta 54 1000 Ljubljana Tel.: +386 1 300 04 50
Cassa di Risparmio di Udine e Pordenone S.p.a. Via del Monte 1 IT-33100 Udine/Videm Italija	CRUP S.p.a. Predstavništvo Nova Gorica Ulica tolminskih puntarjev 4 5000 Nova Gorica Tel.: +386 5 302 55 68
European Bank for Reconstruction and Development One Exchange Square London EC2A 2JN Velika Britanija	European Bank for Reconstruction and Development Trg republike 3 1000 Ljubljana Tel.: +386 1 426 36 00
Raiffeisen Zentralbank Österreich AG Am Stadpark 9 A-1030 Wien Avstrija	Raiffeisen Zentralbank Österreich AG Predstavništvo Slovenija Trg republike 3 1000 Ljubljana Tel.: +386 1 200 18 00
Bank für Kärnten und Steiermark AG St. Veiter Ring 43 A-9020 Klagenfurt Avstrija	BKS Predstavništvo v RS Komenskega ulica 12 1000 Ljubljana Tel.: +386 1 300 09 20
Bank für Arbeit und Wirtschaft AG Seitzergasse 2-4 A-1010 Wien Avstrija	Bank für Arbeit und Wirtschaft AG Wien- Predstavništvo Trg republike 3 1000 Ljubljana Tel.: +386 1 470 08 58
UniCredito Italiano S.p.A. Via Dante 1 IT-16121 Genova Italija	UniCredito Italiano S.p.A Predstavništvo Koper Zore Perello Godina 3 6000 Koper Tel.: +386 5 639 83 01

APPENDIX 15

CHANGES IN LEGAL STATUS OF SLOVENIAN BANKS AND SAVINGS BANKS FROM 1991 TO 30 JUNE 2001

I. BANKS

Name	Type of change	Date of change
	MERGERS AND ACQUISITIONS	
Ljubljanska banka Komercialna banka Nova Gorica d.d., Nova Gorica	Taken over by Nova Kreditna banka Maribor d.d.	30 Dec 1994
E banka d.d. Maribor	Taken over by Nova Ljubljanska banka d.d., Ljubljana	12 Jan 1995
Ljubljanska banka Posavska banka d.d., Krško	Taken over by Nova Ljubljanska banka d.d., Ljubljana	01 Apr 1996
Banka Noricum d.d. Ljubljana	Taken over by Banka Celje d.d.	19 Dec 1996
Hmezad banka d.d. Žalec	Taken over by Banka Celje d.d.	30 Sep 1998
Banka Creditanstalt d.d. Ljubljana	Taken over by Bank Austria d.d.	02 Nov 1998
UBK banka d.d. Ljubljana (bančna skupina SKB)	Taken over by SKB banki d.d. Ljubljana	30 Dec 1998
M banka d.d. Ljubljana	Taken over by Banka Koper d.d.	01 Oct 1999
	BANKRUPTCIES AND LIQUIDATIONS	
Komercialna banka Triglav d.d. Ljubljana	Liquidation proceedings commenced	05 Jul 1996
	Bankruptcy proceedings commenced	27 Dec 1996
Hipotekarna banka d.d. Brežice	Liquidation proceedings commenced	02 Dec 1998
	Bankruptcy proceedings commenced	19 Apr 2000

APPENDIX 15

CHANGES IN LEGAL STATUS OF SLOVENIAN BANKS AND SAVINGS BANKS FROM 1991 TO 30 JUNE 2001

II. SAVINGS BANKS

Name	Type of change	Date of change
	MERGERS AND ACQUISITIONS	
HIP Fiba d.d. Koper	Taken over by Abanka d.d. Ljubljana	30 Dec 1994
Hranilnica Magro d.d. Grosuplje	Taken over by Hranilnica Lon d.d., Kranj	21 Aug 1995
Hranilnica Hmezad Agrina d.o.o. Žalec	Taken over by Komercialna banka Triglav d.d. Ljubljana	03 Jul 1996
HIP Val d.o.o. Izola	Taken over by Komercialna banka Triglav d.d. Ljubljana	04 Jul 1996
Hranilnica Hipo d.d. Domžale	Taken over by Ljubljanska banka – Banka Domžale d.d., Domžale	14 Mar 1997
Mariborska hranilnica – posojilnica d.o.o. Maribor	Taken over by Delavska hranilnica d.d., Ljubljana	30 Jun 2000
Hranilnica in posojilnica KGP Kočevska d.d., Kočevje	Taken over by Slovenska zadružna kmetijska banka d.d. Ljubljana	29 Dec 2000
	BANKRUPTCIES AND LIQUIDATIONS	
Kranjska hranilnica in posojilnica Ljubljana d.d., Ljubljana	Bankruptcy proceedings commenced Completion of bankruptcy proceedings	09 Mar 1993 09 Mar 2001
Štajerska hranilnica d.d., Maribor	Bankruptcy proceedings commenced	27 Jul 1993
Alea d.d. hranilnica Ajdovščina	Wound up	29 Mar 1999
Mestna hranilnica d.o.o., Krško	Wound up	20 Nov 1995
Hranilnica in posojilnica Tilia d.o.o. Novo mesto	Wound up	11 Nov 1997
Poteza - Hranilnica d.o.o., Ljubljana	Regular (voluntary) liquidation commenced	24 Nov 2000

LEGISLATION REGARDING REGULATION OF BANKING SUPERVISION

1. **Law on the Bank of Slovenia**
(Official Gazette of the Republic of Slovenia, No. 1/91 - I)
2. **Banking Act**
(Official Gazette of the Republic of Slovenia, Nos. 7/99, 59/01)
3. **Law on Savings and Loan Undertakings**
(Official Gazette of the Republic of Slovenia, Nos. 14/90, 30/90, 17/91, 55/92, 66/93, 7/99)
4. **Law on Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, Nos. 1/91, 38/92, 46/93, 45/94, 7/99) –superseded by the 1999 Banking Act except for Article 79.
5. **Decree on the Adjustment of the Minimum Initial Capital of Banks, Guaranteed Deposits and the Minimum Initial Capital of Savings Banks**
(Official Gazette of the Republic of Slovenia, No. 102/00)
6. **Decree on Supervision of Operating Activities of Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, Nos. 55/92, 89/98)
7. **Decree on the Capital Adequacy of Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, No. 16/01)
8. **Decree on Large Exposure of Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, No. 32/99)
9. **Decree on the Classification of the On-Balance Sheet Assets and Off-Balance Sheet Items of Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, No. 32/99)
10. **Instructions for the Implementation of the Decree on the Classification of On- Balance Sheet Assets and Off-Balance Sheet Items as well as of the Decree on Establishing Specific Provisions of Banks and Savings Banks**
(issued on 10 May 1999)
11. **Instructions for Restructuring Claims of Banks and Savings Banks**
(issued on 20 May 1999)
12. **Decree on Establishing Specific Provisions of Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, No. 32/99)
13. **Decree on the Implementation of Article 127 of the Banking Act**
(Official Gazette of the Republic of Slovenia, Nos. 32/99, 89/99)
14. **Decree on Books of Account and Annual Report and Accounts of Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, Nos. 39/99, 50/99, 63/99, 102/00)

15a. **Instructions for Implementation of the Decree on Books of Account and Annual Report and Accounts of Banks and Savings Banks –** methodology for the preparation of balance sheet including detailed items
(issued on 27 May 1999, amended on 22 June 1999, 27 July 1999, 7 Novem ber 2000)

15b. **Instructions for Implementation of the Decree on Books of Account and Annual Report and Accounts of Banks and Savings Banks –** methodology for the calculation of ratios
(issued on 21 Jan 2000)

16. **Instructions for Submitting Monthly Reports on Balances on Banks' Accounts**
(issued on 27 May 1999)
17. **Decree on the Minimum Scope and Content of Audit and Auditor's Report**
(Official Gazette of the Republic of Slovenia, No. 39/99)

18. **Decree on the Detailed Method for the Calculation of Liabilities, Claims and Holdings for the Purpose of Determining Net Indebtedness**
(Official Gazette of the Republic of Slovenia, No. 42/99)
19. **Decree on Determining and Prudential Reporting of Value of Holdings of Banks and Savings Banks in Non-financial Institutions and Investments in Tangible Fixed Assets**
(Official Gazette of the Republic of Slovenia, No. 42/99)
20. **Decree on the Foreign-Exchange Maturity Ladder**
(Official Gazette of the Republic of Slovenia, Nos. 87/00, 54/01)
21. **Decree on Tolar Maturity Ladder**
(Official Gazette of the Republic of Slovenia, No. 54/01)
22. **Decree on Tolar Maturity Ladder of Savings Banks**
(Official Gazette of the Republic of Slovenia, No. 62/01)
23. **Instructions for Reporting on Largest Depositors**
(issued on 5 July 2001)
24. **Instructions for Completing the Report on Tolar Liquidity Flows in Banks**
(issued on 5 July 2001)
25. **Instructions for Drawing Up the Report on Tolar Liquidity Ratios of Tolar Maturity Ladder**
(issued on 5 July 2001)
26. **Decree on Granting Special Liquidity Loans in Co-operation with Banks**
(Official Gazette of the Republic of Slovenia, Nos. 25/97, 37/98, 31/99, 38/01)
27. **Decree on the Provision of Integral Data on Balances on Customer Accounts of Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, No. 85/98)
28. **Instructions for Calculation of Some Common Interest Rates on Deposits from Non-Bank Sector and Loans to Non-Bank Sector**
(issued on 20 May 1999 – revised as of 2 March 2000)
29. **Decree on the Mismatch between Assets and Liabilities of Banks in Foreign Currency (Open Foreign Currency Position)**
(Official Gazette of the Republic of Slovenia, No. 37/99)
30. **Decree on Compliance of Savings and Loan Undertakings with the Provisions of the Banking Act**
(Official Gazette of the Republic of Slovenia, Nos. 109/99, 62/01)
31. **Decree on the Supervision of Banks and Savings Banks on a Consolidated Basis**
(Official Gazette of the Republic of Slovenia, No. 109/99)
32. **Decree on Minimum Requirements for Obtaining Authorisation for the Provision of Banking and Other Financial Services and Documents to Be Attached to Application**
(Official Gazette of the Republic of Slovenia, Nos. 109/99, 52/00)
33. **Decree on Minimum Scope of Documents to Be Submitted by a Foreign Bank with Application to Establish a Branch**
(Official Gazette of the Republic of Slovenia, Nos. 109/99, 52/00)
34. **Decree on the Notification of the Intended Disposal of Shares**
(Official Gazette of the Republic of Slovenia, No. 109/99)
35. **Decree on the Conditions to be Met by Credit Intermediary**
(Official Gazette of the Republic of Slovenia, Nos. 110/99, 11/01)
36. **Decision (Decree) on Deposit-Guarantee Scheme**
(Official Gazette of the Republic of Slovenia, No. 61/00)
37. **Instructions for Completing the Report on Guaranteed Deposits**
(issued on 10 August 2000)
38. **Decree on Guarantee Scheme for Investors' Claims on Stock-Broking Companies**
(Official Gazette of the Republic of Slovenia, No. 56/01)
39. **Recommendations for Trading Activities in Banks**
(issued in April 1997)
40. **Recommendations for Capital Management in Banks**
(issued in October 1998)
41. **Recommendations for Credit Risk Management in Banks**
(issued in October 1998)
42. **Recommendations for Liquidity Risk Management in Banks**
(issued in October 1998)

43. **Recommendations for Currency Risk Management in Banks**
(issued in October 1998)

44. **Recommendations for Internal Control Systems in Banks**
(issued in October 1998)

45. **Operational Risk Management, Basel Committee on Banking Supervision**
(issued in September 1998)

46. **Enhancing Bank Transparency, Basel Committee on Banking Supervision**
(issued in September 1998)

47. **Best Practices for Credit Risk Disclosure, Basel Committee on Banking Supervision**
(issued in September 2000)

48. **Principles for the Management of Credit Risk, Basel Committee on Banking Supervision**
(issued in September 2000)

49. **Supervisory Guidance for Managing Settlement Risk in Foreign Exchange Transactions, Basel Committee on Banking Supervision**
(issued in September 2000)

50. **Decree on Annual Supervisory Fee, Lump Sum Supervisory Charges and Authorisation Duties**
(Official Gazette of the Republic of Slovenia, No. 23/01)

51. **Code of Practice on the Co-operation between Supervisory Authorities**
(Official Gazette of the Republic of Slovenia, Nos. 55/99, 87/00)

52. **Instructions for Setting Criteria Regarding Other Financial Services**
(Official Gazette of the Republic of Slovenia, No. 55/99)

APPENDIX 17

INTERNATIONAL RATINGS OF SLOVENIAN BANKS AND SOVEREIGN RATINGS OF SLOVENIA

Fitch

Rated banks	Short-term rating	Long-term rating	Individual rating	Support
Nova Ljubljanska banka	F2	A-	C	2
Nova Kreditna banka Maribor	F3	BBB	C/D	2
SKB	F1	A	D	3
Banka Koper	F3	BBB-	C/D	4
Banka Celje	F3	BBB	C	4
Abanka	F3	BBB-	C/D	4
Gorenjska banka	F2	BBB+	B/C	4

Country	Long-term rating		Short-term rating
	in foreign currency	in domestic currency	
Slovenia	A	AA	F1

Moody's

Rated banks	Bank deposits - short-term	Bank deposits - long-term	Financial strength
Nova Ljubljanska banka	P-2	Baa2	C-
Nova Kreditna banka Maribor	P-2	Baa2	C-
SKB banka	P-1	A2	D+

Country	Government Bonds		Country Ceiling
	in foreign currency	in domestic currency	
Slovenia	A2	Aa3	A2/P-1

Standard & Poor's

Rated banks	Short-term counterparty rating	Long-term counterparty rating		Outlook
		Foreign currency	Domestic currency	
Nova Ljubljanska banka	A-3	BBB-	BBB-	stable
Nova Kreditna banka Maribor			BBpi	
Banka Koper			Bpi	
Banka Celje			BBpi	
Abanka			Bpi	
Gorenjska banka			BBpi	

Country	Outstanding sovereign rating	
	Foreign currency	Local currency
Slovenia	A/Stable/A-1	AA/Stable/A-1+

Capital Intelligence

Rated banks	Short-term rating	Long-term rating	Domestic strength rating	Support	Outlook
Nova Ljubljanska banka	A 2	A-	A-	2	stable
Nova Kreditna banka Maribor	A 2	BBB	BBB	2	stable
SKB banka	A 3	BBB-	BB+	2	stable
Banka Koper	A 3	BBB-	BBB-	4	stable
Banka Celje	A 3	BBB-	BBB-	3	stable
Abanka	B	BB+	BBB-	4	stable
Gorenjska banka	A 3	BBB-	BBB-	4	stable

Country	Long-term rating	Short-term rating
Slovenia	A-	A2

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