



# **MONTHLY REPORT ON BANK PERFORMANCE**



**OCTOBER 2020**

## COMMENTARY IN BRIEF

**Banks saw a significant decline in profit in the first eight months of this year compared with the same period last year. Low interest rates and the economic downturn caused by the Covid-19 pandemic will also bring worse bank performance in the future. They will nevertheless most likely end the year with a profit. There was a notable increase in liquid assets over the first eight months of the year, while the stock of loans to the non-banking sector declined. Non-performing exposures (NPEs) declined slightly in August. The banking system is maintaining a good capital and liquidity position.**

**Year-on-year growth in the balance sheet total has strengthened this year, reaching 7.7% in August.** The balance sheet total increased by EUR 98 million in August to stand at EUR 43.8 billion. The main increase on the asset side of the balance sheet in August was in liquid assets held in accounts at the central bank, while there were also smaller increases in loans to the non-banking sector and investments in securities; similarly, over the year to date, the prevailing increase has been in the most liquid forms of assets, followed by the increase in investments in securities, while the stock of loans to the non-banking sector is down slightly on the end of last year.

**Credit activity has declined sharply this year.** Loans to the non-banking sector increased by just EUR 24 million in August. Year-on-year growth in loans to the non-banking sector has slowed sharply, reaching 0.6% in August, down more than 5 percentage points on December of last year.

**Growth in corporate loans has slowed sharply since March of this year.** After the stock of corporate loans increased in the first quarter of this year (driven primarily by long-term loans in the early part of the year, then by short-term liquidity loans in March in the form of credit lines), it then declined until the end of August, when the year-on-year growth rate entered negative territory for the first time since December 2016, at -1.3%.

**Year-on-year growth in household loans had declined to 1.4% by August.** The slowdown was largely driven by consumer loans, with a negative growth in August for the third consecutive month (at -3.0%), while growth in housing loans remains relatively solid. Year-on-year growth in housing loans has slowed slightly this year (after averaging 5.3% last year), but has been maintained above 4% since June, and stood at 4.2% in August. Household loans increased by EUR 44 million in August, of which the largest increase was in other loans, most notably loans tied to current account balances, which usually undergo a seasonal rise in August.

**Non-performing exposures (NPEs) declined again in August.** The stock of NPEs declined by EUR 17 million to EUR 920 million. The NPE ratio remained at just under 1.9%, down 0.3 percentage points on the end of 2019. After increasing in July, the NPE ratio remained elevated at 4.3% in the sole traders segment, but declined further in the non-financial corporations segment to 3.9%. After rising over the first half of the year, the stock of NPEs and the NPE ratio in the consumer loans segment remained at EUR 74 million and 2.7% respectively. The system level NPL ratio was down 0.3 percentage points on the end of 2019, at 2.6%.

**The growth of deposits by the non-banking sector remained high.** Household deposits were up 9.6% in year-on-year terms in August, while corporate deposits were up 10.3%. In the absence of lending, this year's increase in deposits of EUR 1.9 billion has been reflected in an increase in claims against the central bank. Sight deposits are increasing, and accounted for 77.0% of all deposits by the non-banking sector in August.

**Bank profitability is down sharply on the same period last year, but the banks are nevertheless most likely to end the year with a profit.** Gross income over the first eight months of the year was down more than a tenth on the same period last year, as a result of falls in net interest income and net non-interest income alike: non-interest income was down a fifth, while net interest income was down 4.3%. The net interest margin over the preceding 12 months declined to 1.67%. Operating costs have increased by 6.1%, slightly less than the increase in the balance sheet total. Impairment and provisioning costs have increased this year, and accounted for 12.3% of gross income. Pre-tax profit over the first eight months of the year amounted to EUR 203 million (compared with EUR 479 million in the same period last year). ROE stood at 6.1%, well down on the figure of 15.2% recorded in the same period last year.

**Capital adequacy has increased this year.** The total capital ratio increased over the first half of the year to 19.5% on a consolidated basis, while the common equity Tier 1 capital ratio remained almost unchanged at 17.7%. Both ratios were higher than the euro area average. The banking system increased its capital in the first half of the year via retained earnings and issued debt securities, while growth in risk-weighted assets slowed as credit activity declined.

**The proportion of the balance sheet accounted for by liquid assets is increasing, and the liquidity ratios are also rising.** The liquidity coverage ratio had risen to 316% by August, well above the regulatory requirement of 100%. The ratio of assets in the most liquid forms to total assets is continuing to increase, reaching 17.5% in August, while the ratio of secondary liquidity to total assets remained above 18%.

## APPENDICES

1. Main features of banks' performance and financial statements	2
2. Quality of the banking system's portfolio	4

1. MAIN FEATURES OF BANKS' PERFORMANCE AND FINANCIAL STATEMENTS<sup>1</sup>

Table 1.1: Banking system's assets and liabilities, as at 30 August 2020

EUR million unless stated, growth rates in %	Stock	Breakdown	Stock	Breakdown	Stock	Breakdown	Increase		Growth in August 20, %	
	31.12.2018	(%)	31.12.2019	(%)	31.08.2020	(%)	in August 20	in 2020	monthly	year-on-year
<b>Assets</b>	<b>47,948</b>	<b>100.0</b>	<b>41,213</b>	<b>100.0</b>	<b>43,839</b>	<b>100.0</b>	<b>98.4</b>	<b>2,626.5</b>	<b>0.2</b>	<b>7.7</b>
Cash in hand, balances at central bank and sight deposits at banks*	1,250	2.6	5,783	14.0	7,665	17.5	99.2	1,881.7	1.3	53.8
Loans to banks at amortised cost (including central bank)	4,101	8.6	1,592	3.9	1,693	3.9	-19.8	100.9	-1.2	-5.4
domestic banks	2,673	5.6	758	1.8	651	1.5	-4.7	-107.4	-0.7	-19.5
foreign banks	1,428	3.0	834	2.0	1,042	2.4	-15.1	208.3	-1.4	6.2
short-term loans to banks	2,056	4.3	563	1.4	495	1.1	-37.5	-68.1	-7.0	-37.1
long-term loans to banks	2,046	4.3	1,029	2.5	1,198	2.7	17.7	169.1	1.5	19.4
Loans to non-banking sector*	33,718	70.3	23,520	57.1	23,459	53.5	23.9	-60.5	0.1	0.6
of which non-financial corporations	20,260	42.3	8,877	21.5	8,884	20.3	-25.9	6.8	-0.3	-1.3
households	7,558	15.8	10,703	26.0	10,641	24.3	43.7	-62.1	0.4	1.4
of which residential			6,493	15.8	6,626	15.1	22.7	133.0	0.3	4.2
consumer			2,809	6.8	2,665	6.1	-11.0	-144.3	-0.4	-4.0
government	506	1.1	1,634	4.0	1,567	3.6	6.5	-67.5	0.4	-6.5
other financial institutions	2,829	5.9	1,239	3.0	1,249	2.8	1.7	9.2	0.1	16.2
non-residents	2,515	5.2	1,036	2.5	1,091	2.5	-0.9	55.2	-0.1	5.2
Other financial assets classed as loans and receivables (at amortised cost)	0	0.0	148	0.4	140	0.3	-10.1	-7.8	-6.7	-17.6
Securities / financial assets**	7,323	15.3	8,838	21.4	9,110	20.8	17.2	271.6	0.2	0.1
a) Financial assets held for trading	1,177	2.5	63	0.2	72	0.2	4.0	9.0	5.8	-56.3
of which debt securities held for trading	571	1.2	8	0.0	5	0.0	5.0	-2.6	0.0	-93.8
... government debt securities held for trading	56	0.1	8	0.0	5	0.0	5.0	-2.6	0.0	-93.8
b) Financial assets measured at fair value through P&L not held for trading	0	0.0	52	0.1	66	0.2	-1.7	14.7	-2.5	4.9
of which debt securities measured at fair value through P&L not held for trading	0	0.0	0	0.0	0	0.0	0.0	0.0	0.0	0.0
c) Financial assets designated for measurement at fair value through P&L	179	0.4	6	0.0	6	0.0	0.0	0.0	0.1	0.4
of which debt securities designated for measurement at fair value through P&L	163	0.3	6	0.0	6	0.0	0.0	0.0	0.1	0.4
... government debt securities designated for measurement at fair value through P&L	0	0.0	0	0.0	0	0.0	0.0	0.0	0.0	0.0
d) Financial assets measured at fair value through other comprehensive income	4,552	9.5	5,012	12.2	5,285	12.1	31.3	273.7	0.6	4.6
of which debt securities measured at fair value through other comprehensive income	4,318	9.0	4,807	11.7	5,081	11.6	31.0	273.4	0.6	5.0
... government debt securities measured at fair value through other comprehensive income	2,875	6.0	3,385	8.2	3,533	8.1	-17.7	148.2	-0.5	5.6
e) Debt securities at amortised cost	1,415	3.0	3,706	9.0	3,680	8.4	-16.3	-25.8	-0.4	-3.6
of which government debt securities at amortised cost	1,182	2.5	2,862	6.9	2,799	6.4	-19.4	-62.4	-0.7	-7.9
Investments in subsidiaries, joint ventures and associates	627	1.3	509	1.2	956	2.2	0.0	447.3	0.0	85.2
Other assets	928	1.9	823	2.0	816	1.9	-12.0	-6.7	-1.5	-2.2
<b>Equity and liabilities</b>	<b>47,948</b>	<b>100.0</b>	<b>41,213</b>	<b>100.0</b>	<b>43,839</b>	<b>100.0</b>	<b>98.4</b>	<b>2,626.5</b>	<b>0.2</b>	<b>7.7</b>
Financial liabilities measured at amortised cost (deposits)	41,895	87.4	35,803	86.9	38,304	87.4	77.3	2,501.3	0.2	8.6
a) Financial liabilities to central bank (Eurosystem)	1,229	2.6	983	2.4	1,356	3.1	-0.5	372.8	0.0	30.4
b) Liabilities to banks	18,168	37.9	2,821	6.8	2,527	5.8	-18.5	-294.2	-0.7	-22.3
of which to domestic banks	2,065	4.3	856	2.1	802	1.8	-12.9	-54.2	-1.6	-10.9
of which to foreign banks	16,098	33.6	1,965	4.8	1,725	3.9	-5.6	-240.0	-0.3	-26.6
c) Liabilities to non-banking sector (deposits by NBS)	20,883	43.6	31,069	75.4	32,986	75.2	98.6	1,917.1	0.3	9.2
of which to non-financial corporations	3,728	7.8	6,758	16.4	7,481	17.1	63.8	723.7	0.9	10.3
households	13,407	28.0	20,365	49.4	21,651	49.4	2.4	1,286.4	0.0	9.6
government	1,879	3.9	1,037	2.5	925	2.1	1.0	-111.8	0.1	-15.8
other financial institutions	1,065	2.2	1,243	3.0	1,289	2.9	28.1	45.6	2.2	-3.3
non-residents	475	1.0	1,228	3.0	1,188	2.7	4.0	-39.8	0.3	42.6
d) Debt securities	1,276	2.7	600	1.5	1,062	2.4	1.1	462.3	0.1	170.5
e) Other financial liabilities measured at amortised cost***	1,568	3.3	329	0.8	373	0.9	-3.4	43.3	-0.9	1.4
Provisions	176	0.4	187	0.5	179	0.4	-6.4	-8.3	-3.5	-2.4
Shareholder equity	4,010	8.4	4,963	12.0	5,097	11.6	40.6	134.1	0.8	4.1
Other liabilities	1,867	3.9	260	0.6	259	0.6	-13.0	-0.6	-4.8	-31.6
<b>BALANCE SHEET TOTAL</b>	<b>47,948</b>	<b>100.0</b>	<b>41,213</b>	<b>100.0</b>	<b>43,839</b>	<b>100.0</b>	<b>98.4</b>	<b>2,626.5</b>	<b>0.2</b>	<b>7.7</b>

Notes: \* Loans to non-banking sector not held for trading comprise "Loans and other financial assets at amortised cost" (from A.VI of the "Methodology for compiling the recapitulation of the statement of financial position", the category of "Loans (and other financial assets) designated for measurement at fair value through profit and loss" (from A.III), the category of "Loans (and other financial assets) designated for measurement at fair value through other comprehensive income" (from A.IV) and the category of "Loans (and other financial assets) measured at fair value through other comprehensive income".

\*\* Financial assets / securities on the asset side comprise total financial assets from A.II, including loans held for trading, while equities and debt securities other than loans are captured from other categories of financial asset (A.III, A.IV and A.V).

\*\*\* Includes subordinated debt until 31 December 2017. Under the IFRS 9 methodology, the item of "subordinated debt" is abolished, and these liabilities are included under liabilities to banks.

<sup>1</sup>The bank performance data in this publication is based on the banks' own book figures, which differ in methodological terms from the published statistics. The data on loans also differs because the data in this publication includes loans to non-residents, applies the net principle (amounts are minus value adjustments), and does not include non-marketable securities.

Source: Bank of Slovenia.

Table 1.2: Income statement for 2018, 2019 and 2020

	2018	Breakdown	2019	Breakdown	2019	Breakdown	2020	Breakdown	Annual growth, %
(EUR million unless stated)		(%)		(%)	Jan-Aug	(%)	Jan-Aug	v %	Jan.- Aug 20/ Jan.- Aug. 19
Interest income	775.3		790.0		522.2		506.8		-2.9
Interest expenses	103.6		107.3		71.0		74.9		5.5
<b>Net interest</b>	<b>671.7</b>	<b>58.2</b>	<b>682.7</b>	<b>54.4</b>	<b>451.1</b>	<b>51.1</b>	<b>431.8</b>	<b>55.4</b>	<b>-4.3</b>
<b>Non-interest income</b>	<b>481.6</b>	<b>41.8</b>	<b>573.4</b>	<b>45.6</b>	<b>431.2</b>	<b>48.9</b>	<b>347.4</b>	<b>44.6</b>	<b>-19.4</b>
of which net fees and commission	315.4	27.3	333.8	26.6	224.3	25.4	216.1	27.7	-3.6
of which net gains/losses on financial assets and liabilities held for trading	13.0	1.1	12.1	1.0	7.2	0.8	10.2	1.3	42.6
<b>Gross income</b>	<b>1,153.3</b>	<b>100.0</b>	<b>1,256.1</b>	<b>100.0</b>	<b>882.4</b>	<b>100.0</b>	<b>779.2</b>	<b>100.0</b>	<b>-11.7</b>
<b>Operating costs</b>	<b>-669.5</b>	<b>-58.0</b>	<b>-709.3</b>	<b>-56.5</b>	<b>-452.8</b>	<b>-51.3</b>	<b>-480.5</b>	<b>-61.7</b>	<b>6.1</b>
<b>Net income</b>	<b>483.8</b>	<b>42.0</b>	<b>546.8</b>	<b>43.5</b>	<b>429.5</b>	<b>48.7</b>	<b>298.7</b>	<b>38.3</b>	<b>-30.5</b>
<b>Net impairments and provisions</b>	<b>47.1</b>	<b>4.1</b>	<b>45.7</b>	<b>3.6</b>	<b>49.6</b>	<b>5.6</b>	<b>-96.1</b>	<b>-12.3</b>	<b>-293.8</b>
<b>Pre-tax profit</b>	<b>530.9</b>	<b>46.0</b>	<b>592.5</b>	<b>47.2</b>	<b>479.1</b>	<b>54.3</b>	<b>202.6</b>	<b>26.0</b>	<b>-57.7</b>
Taxes	-35.7		-62.0		-53.8		-17.5		-67.4
<b>Net profit</b>	<b>495.2</b>		<b>530.5</b>		<b>425.3</b>		<b>185.0</b>		<b>-56.5</b>

Source: Bank of Slovenia.

Table 1.3: Selected performance indicators

	2014	2015	2016	2017	2018	2019	2019	2020	Aug-19	Aug-20
in %							Jan-Aug.	Jan-Aug.	(last 12 mon.)	(last 12 mon.)
<b>Profitability</b>										
Financial intermediation margin*	3.10	3.05	3.05	2.88	3.01	3.13	3.35	2.76	3.19	2.75
ROA	-0.27	0.42	0.99	1.19	1.39	1.48	1.82	0.72	1.53	0.75
ROE	-2.69	3.63	7.96	9.58	11.07	12.16	15.23	6.14	12.51	6.34
Interest margin on interest-bearing assets	2.18	2.06	1.91	1.83	1.84	1.79	1.80	1.62	1.81	1.67
Net non-interest income / operating costs	58.05	60.05	68.53	62.67	71.93	80.84	95.23	72.30	83.78	66.42
<b>Operating costs</b>										
Labour costs / average assets	0.92	0.97	1.01	1.02	1.02	1.00	0.98	0.90	1.00	0.95
Other costs / average assets	0.81	0.84	0.80	0.78	0.73	0.77	0.73	0.79	0.75	0.81
<b>Asset quality</b>										
Impairments of financial assets at amortised cost / gross assets	8.98	7.84	5.38	4.09	2.64	1.53	1.89	1.61	/	/

\* Gross income / average assets

Source: Bank of Slovenia.

## 2. QUALITY OF THE BANKING SYSTEM'S CREDIT PORTFOLIO

Table 2.1:<sup>1</sup> Non-performing exposures by client segment

	Exposures						Non-performing exposures (NPEs)					
	amount, EUR million			breakdown, %			amount, EUR million			ratio, %		
	Dec.19	Jul.20	Aug.20	Dec.19	Jul.20	Aug.20	Dec.19	Jul.20	Aug.20	Dec.19	Jul.20	Aug.20
NFCs	14,272	14,495	14,480	31.3	30.1	30.1	636	578	563	4.5	4.0	3.9
OFIs	1,372	1,419	1,411	3.0	2.9	2.9	11	10	11	0.8	0.7	0.7
Households	11,794	11,841	11,856	25.9	24.6	24.6	247	238	238	2.1	2.0	2.0
sole traders	691	687	686	1.5	1.4	1.4	28	30	29	4.0	4.3	4.3
individuals	11,104	11,154	11,170	24.4	23.2	23.2	219	208	208	2.0	1.9	1.9
Non-residents	7,587	7,762	7,851	16.6	16.1	16.3	99	89	86	1.3	1.1	1.1
Government	5,176	5,593	5,504	11.4	11.6	11.4	12	12	12	0.2	0.2	0.2
Banks and savings banks	897	876	878	2.0	1.8	1.8	0	0	0	0.0	0.0	0.0
Central bank	4,440	6,152	6,186	9.7	12.8	12.8	0	0	0	0.0	0.0	0.0
Total	45,592	48,137	48,165	100.0	100.0	100.0	1,006	927	910	2.2	1.9	1.9

Table 2.2: Classified claims more than 90 days in arrears by client segment

	Classified claims						Claims more than 90 days in arrears					
	amount, EUR million			breakdown, %			amount, EUR million			ratio, %		
	Dec.19	Jul.20	Aug.20	Dec.19	Jul.20	Aug.20	Dec.19	Jul.20	Aug.20	Dec.19	Jul.20	Aug.20
NFCs	14,041	14,279	14,264	34.6	33.3	33.3	201	275	195	1.4	1.9	1.4
OFIs	1,369	1,418	1,410	3.4	3.3	3.3	5	4	4	0.3	0.3	0.3
Households	11,794	11,841	11,856	29.1	27.6	27.6	214	201	202	1.8	1.7	1.7
sole traders	691	686	686	1.7	1.6	1.6	20	19	19	2.9	2.7	2.7
individuals	11,103	11,154	11,170	27.4	26.0	26.0	194	183	183	1.8	1.6	1.6
Non-residents	4,846	5,022	5,015	11.9	11.7	11.7	41	47	44	0.8	0.9	0.9
Government	3,175	3,363	3,338	7.8	7.8	7.8	6	6	5	0.2	0.2	0.2
Banks and savings banks	916	825	827	2.3	1.9	1.9	0	0	0	0.0	0.0	0.0
Central bank	4,440	6,152	6,186	10.9	14.3	14.4	0	0	0	0.0	0.0	0.0
Total	40,581	42,898	42,895	100.0	100.0	100.0	466	533	450	1.1	1.2	1.0

Table 2.3:<sup>1</sup> Non-performing exposures to non-financial corporations by sector

	Exposures			Non-performing exposures (NPEs)			NPE ratio		
	(EUR million)			(EUR million)			(%)		
	Dec.19	Jul.20	Aug.20	Dec.19	Jul.20	Aug.20	Dec.19	Jul.20	Aug.20
Agriculture, forestry, fishing, mining	132	135	135	3	3	3	2.0	2.0	1.9
Manufacturing	4,038	4,080	4,063	114	88	85	2.8	2.2	2.1
Electricity, gas, water, remediation	1,297	1,427	1,426	8	9	9	0.6	0.6	0.7
Construction	1,159	1,214	1,227	84	73	70	7.3	6.0	5.7
Wholesale and retail trade	2,556	2,587	2,577	229	216	213	9.0	8.4	8.3
Transportation and storage	1,751	1,653	1,649	20	22	22	1.2	1.3	1.3
Accommodation and food service	474	536	540	40	42	42	8.5	7.8	7.7
Information and communication	655	640	640	6	5	5	0.9	0.8	0.8
Financial and insurance activities	61	61	60	0	0	0	0.7	0.0	0.0
Real estate activities	585	605	603	46	43	38	7.9	7.1	6.3
Professional, scientific and technical	1,306	1,310	1,311	65	59	58	5.0	4.5	4.4
Public services	258	247	249	20	18	18	7.8	7.5	7.4
Total	14,272	14,495	14,480	636	578	563	4.5	4.0	3.9

Source: Bank of Slovenia.

Note: <sup>1</sup> The data on non-performing exposures is calculated on the basis of the banks' modified reporting under the Guidelines for implementing the Regulation on reporting by monetary financial institutions in accordance with the CRD IV and the EBA definition published in Commission Implementing Regulation (EU) 2015/227 (OJ L 48 of 20 April 2015).

Table 2.4: Classified claims against non-financial corporations more than 90 days in arrears

	Classified claims			Classified claims more than 90 days in arrears			Proportion of classified claims more than 90 days in arrears		
	(EUR million)			(EUR million)			(% )		
	Dec.19	Jul.20	Aug.20	Dec.19	Jul.20	Aug.20	Dec.19	Jul.20	Aug.20
Agriculture, forestry, fishing, mining	132	135	135	1	1	1	0.6	0.8	0.7
Manufacturing	4,029	4,074	4,056	42	107	37	1.0	2.6	0.9
Electricity, gas, water, remediation	1,289	1,420	1,419	4	5	5	0.3	0.4	0.4
Construction	1,157	1,212	1,225	58	42	39	5.0	3.4	3.2
Wholesale and retail trade	2,435	2,470	2,460	36	41	35	1.5	1.7	1.4
Transportation and storage	1,719	1,623	1,618	5	7	7	0.3	0.5	0.5
Accommodation and food service	455	532	536	18	20	20	4.0	3.8	3.8
Information and communication	634	618	619	1	1	1	0.1	0.2	0.1
Financial and insurance activities	61	61	60	0	0	0	0.0	0.0	0.3
Real estate activities	588	602	599	5	12	12	0.9	2.0	2.0
Professional, scientific and technical	1,284	1,285	1,287	31	38	37	2.4	2.9	2.9
Public services	258	247	249	1	1	1	0.3	0.4	0.4
Total	14,041	14,279	14,264	201	275	195	1.4	1.9	1.4

Source: Bank of Slovenia.