BANKA SLOVENIJE

BANK OF SLOVENIA

REPORT

ON SUPERVISION OF BANKING OPERATIONS IN THE YEAR 1996 AND THE FIRST HALF OF 1997

DECEMBER 1997
Year 1

Published by:

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Editorial Board:

Bank Supervision Department

Ljubljana, 15 December 1997

Printed by:

Inštitut za geodezijo in fotogrametrijo. Ljubljana

Po mnenju ministrstva za kulturo Republike Slovenije št.: 415-804/97-mb/sp z dne 21.10.1997 je publikacija proizvod informativnega značaja iz 13. točke tarifne številke 3 tarife davka od prometa proizvodov in storitev in na osnovi Zakona o prometnem davku , za katere se plačuje 5% davek od prometa proizvodov.

MISSION

Through effective supervision the Bank Supervision Department fosters sound and transparent operations of the banks.

OBJECTIVES

As bank supervisors we are in a position to promote principles of prudent banking, albeit we cannot force the banks and savings banks to operate along the lines of safe and sound banking, as we cannot shelter depositors from hazards either. The bottomline of market economy is to have banks managed by professionals chosen by the owners who lay down the guidelines the management shall adhere to. The Bank Supervision Department must not make decisions instead of the owners and must not cross the line fencing the field of responsibility of the management. Resorting to decrees, ordinances, recommendations and guidelines, we strive to give our contribution both to expanding the range of services and to offering more sophisticated products, thus stepping up competitiveness while spreading high ethical principles throughout the banking industry and at all levels of decision-making. Regular open communication between the Department on the one hand, and the banks and savings banks on the other, shall remain a cornerstone of our relationship.

ROLE OF INTERNAL AUDITORS

In the light of the importance of the internal auditors for a continuing and unshadowed prosperity of the banks, coupled with the growing awareness of the external auditors how really significant their role is, we wish to summarise the tasks these people are entrusted with.

Effective internal control and smoothly turning wheels of internal audit promise that the voice of conscience will rise above other rumours. Here we are talking about the mechanism designed to probe into the efficiency and integrity of the risk management, the tool to be used to manage uncertainties. Failing to deploy the internal audit will inevitably produce adverse effects.

Therefore, it should not come as a surprise that the notorious cases of bank crises have been accounted for as the results of lame internal control and audit. Furthermore, independent external auditors blame the internal control and audit of an ailing or a failed bank for the bank's miseries and have to report on such disclosures when issuing the opinion on the financial statements of such a bank.

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In accordance with Article 54, Paragraph 3, of the Law on the Bank of Slovenia (Official Gazette of the Republic of Slovenia, No. 1/91 - I), the Bank Supervision Department of the Bank of Slovenia hereby submits the Report to the Parliament of the Republic of Slovenia on the supervision of operating activities of the banks and savings banks in the year 1996 and the first half of 1997.

Guided by the idea to safeguard the stability of the banking system and determined to encourage transparency of operations of each bank and savings bank, improve understanding of the banking services these entities offer and reveal the principles the banks and savings banks follow, the Bank Supervision Department of the Bank of Slovenia has decided to make this Report public.

1. INTRODUCTION

To lay foundations for a stable and efficient financial system is one of the fundamental and the most significant tasks set forth in the Law on the Bank of Slovenia and the Law on Banks and Savings Banks. In order to perform this task, the Bank of Slovenia monitors compliance with prescribed measures (Article 50 of the Law on the Bank of Slovenia), and it examines operating activities of the banks and savings banks (Article 56 of the Law on the Bank of Slovenia). A broad array of instruments are at hand for the purpose of supervision. In addition to laws, the regulatory framework comprises also by-laws derived from them and converging with the international standards, directives and recommendations governing that area. Thus in Slovenia, as in the developed countries, the foundations for the supervision conducted by the Bank of Slovenia is the high-profile professional behaviour of the management of the commercial banks, coupled with the internal control and audit, and reports of external auditors.

The Bank of Slovenia executes the supervision of banks and savings banks primarily by examining reports and other statutory returns made available to it, but also by on-site examination. In case non-compliance has been revealed, the Bank of Slovenia introduces necessary measures pursuant to the Law on Banks and Savings Banks and the Law on the Bank of Slovenia. When major irregularities or more severe difficulties arising from business operations have been found, the Bank of Slovenia acts in accordance with the Law on Pre-rehabilitation, Rehabilitation, Bankruptcy and Liquidation of Banks and Savings Banks.

The supervision of the implementation of the measures imposed by the Bank of Slovenia is carried out by those departments which have instituted the respective measure. The supervision of the banks and savings banks is also conducted through annual audit of financial statements prescribed by law (Articles Nos. 48 to 53 of the Law on Banks and Savings Banks) and carried out by registered auditors.

The Bank Supervision Department was set up within the framework of the Bank of Slovenia at the beginning of June 1992 as a separate department in charge of prudential supervision. Right from the start, the Department mainly supervised adjustment of organisation and operations of banks to meet the stipulations of the Law on Banks and Savings Banks adopted in June 1991 when Slovenia gained independence. In the course of strengthening of the Department, the focus of attention was on the preparation of new fundamental by-laws.

In the year 1993, the programme of prudential supervision was completed and approved by the Governing Board of the Bank of Slovenia in June. The bulk of the programme has been put in practice and has already proved its merits.

In five years since it was established, the Bank Supervision Department has made a significant improvement in the organisation of the supervision of the operating activities of the banks and savings banks made along with the more efficient implementation of the supervision principles in the banks and savings banks.

Today, the Bank Supervision Department which was set up as a part of the central bank vested with the power to supervise the banking sector, ensures in accordance with best practice safe and sound operating activities of the Slovenian banks and savings banks, irrespective of their capital strength or the scope of their banking licence that also reflects the financial position of each bank.

With the international strengthening of banking supervision and prudential regulation while keeping in mind the actual level of development of the banking sector, the sophistication of the banking legislative framework and the prudential supervision as its mainstay shall be scaled to meet the needs and requirements of the industry.

2. DEVELOPMENT OF THE BANK SUPERVISION DEPARTMENT

2.1. Role and responsibility of the management, the internal control and audit, and the external auditors

Provisions of Article 45 of the Law on Banks and Savings Banks (Official Gazette of the Republic of Slovenia, Nos. 1/91-1, 28/92 and 46/93) stipulate that the managing director is responsible for the bank's operations to be conducted according to the law, without prejudice to the general provisions referring to the responsibility of managing bodies of joint-stock companies. Pursuant to Article 258 of the Law on Commercial Companies (Official Gazette of the Republic of Slovenia Nos. 30/93, 29/94 and 82/94), members of the managing board shall run operating activities with due care and diligence and they shall keep the business secret of the company. In case the members of the managing board have breached this duty, they are jointly and severally liable to the company for the damage done, unless they manage to prove that they have fairly and honestly discharged their obligations. The claim for indemnity can be filed also by the creditors but only as a subsidiary claim when the ailing company fails to settle its debt.

The members of the supervisory board are equally bound as the members of the management to act with due care and diligence.

The draft of the new Banking Law has been drawn up along the same general lines and defines as due diligence exercised by both the members of the management and the members of the supervisory board such prudential behaviour which ensures that the respective bank runs operations in accordance with the principles of safe and sound banking business promulgated by the Law and regulations deriving from it.

In compliance with the Law on Banks and Savings Banks, the bank shall set up internal control and audit as an important part of corporate governance which is directly accountable to the management of the bank, and functionally separated from other organisational parts of the bank. The internal control and audit continuously and thoroughly monitor the compliance with laws, by-laws and regulations governing banking, as well as the consistency in adhering to internal rules, and procedures. The internal control and audit function can be summarised by listing the following tasks:

- On-going and in-depth control of banking operations and their compliance with laws, prescribed procedures and terms,
- Testing functioning and reliability of the mechanism of the system of internal checks,
- Checking operating activities against endorsed business policy, and internal enactments, as well as ethical principles and standards applied in the industry,
- Auditing certain business functions of the bank such as raising funds, investment of funds, maintaining liquidity and auditing of the so-called neutral banking business,
- Testing the compliance of describing business events in accounting records and reports with accounting standards,
- Trouble-shooting and identifying causes of poor performance,

- Conducting target examinations upon the order of the bank's managing director, i.e. managing and supervisory boards,

- Liaison with external auditors and institutions.

The department for internal control and audit shall report in writing to the managing director i.e. the management of the bank on their findings. Furthermore, such reports shall contain proposals how to remedy the irregularities detected and thus improve performance. At least once a year the department of internal control and audit shall report to the supervisory board on their findings, as well as on the actions taken in order to remedy non-compliances and/or improve business performance.

Good relations between the external auditors and the well-organised internal controls and audit department may often lead to considerable reduction of data testing to be performed by the external auditor. Furthermore, the external auditor can ground their expert opinion on the findings of the internal audit. Thus through mutual back scratching, the outside audit simplifies the work done by the inside auditor who in that way saves time required for the external audit.

In accordance with the current Law on Banks and Savings Banks, and pursuant to the decision on auditing operations of banks and savings banks, external auditors shall conduct their audit by examination of evidence relevant to the amounts and disclosures in the financial statements provided by banks and savings banks. The auditor's report comprises also an assessment of significant estimates and judgements made by the management, and of the accounting policies applied and disclosed. Safety of operations and compliance with other relevant regulations are evaluated as well and reported to the Bank of Slovenia. When, for instance, a registered auditor acting in the capacity of an external auditor finds out that the bank under scrutiny is not able to fulfil its obligations, has violated the regulations, has failed to make good the irregularities revealed through previous audit, or has not been provided with all information requested, such an auditor shall report on the findings in writing to the Bank of Slovenia. On the basis of the power vested in them, external registered auditors provide crucial assistance to bank supervisors as their opinion is one of the pillars supporting the structure of prudential standards which, in turn, help us to assess how safe a bank is. After all, sound banking industry is the ultimate goal of every central bank.

Just like bank supervisors lean on the assessments made by external auditors, these external auditors follow basic auditing principles and abide by international auditing standards just as their counterparts working for banks or savings banks do, leaning on the findings made by a reliable and trustworthy department of internal control and audit in a respective bank.

2.2 Role of the banking supervision exercised by the Bank of Slovenia

2.2.1. Banking supervision - mission statement

Banking supervision designed to ensure the highest possible level of safety and full-scale compliance with the regulations ruling the banking industry provided the commercial banks meet all stipulated requirements, shall at all times be guided by its mission and shall reach the benchmark set forth in the mission.

The adopted strategy approved by the Governing Board of the Bank of Slovenia in September 1995 spells out the principal developments and priorities we wish to attain in each segment of our activity. The ultimate targets have been set and our short-term and medium-term plans provide a tool to get there. Our commitment to reach the target shall mould not only the organisational structure of the Bank Supervision Department, but also the policy of prudent supervision implemented throughout the industry.

2.2.2. Objectives set by the Bank Supervision Department

Resolute to put the mission statement of the Bank Supervision Department into action, we have defined a number of both immediate and distant objectives. By issuing regulations and recommendations with respect to specific business fields, we promote the principles of safe and sound banking. All our activities project our attitude that the responsibility for the management of risk, awareness of the paramount importance of the efficient internal controls, the choice of reporting procedures and standards which eventually lead to good business results, rests on the bank's directors and other senior bank officers.

Heading the list of the Department's long-term priorities is the task to procure a continuous, high-quality supervision of the banking system and comprehensive supervision of individual banks and savings banks. It is the only way to provide timely information on a looming crisis, avoid unpleasant surprise and solve the problem. By a co-ordinated action of all parties concerned, depositors would be protected and a disaster dodged.

Guided by the idea to reach this objective, we have drawn up a schedule of regular full-scope examinations for each bank to be scrutinised at least once every two years irrespective of the fact that each bank reports in the statutory manner to the Bank of Slovenia. We have adopted the CAMEL system (Capital, Asset Quality, Management, Earnings, Liquidity) and we are working on the system of analytical assessment of gathered data in order to give better quality to our supervisory tools and grade the banks and savings banks more objectively.

An upgraded assessment system will enable us to evaluate better the collected information, thus leading to improved capacity to present the situation more objectively, to predict changes and to influence the course of events.

2.2.3. Organisational structure of the Bank Supervision Department

Banking supervision carried out by the Bank of Slovenia has been entrusted to the Bank Supervision Department which comprises three organisational units: issuing of licences, analysing banking operations, and supervising banking operations. The staff of 31 in the beginning of 1996 grew to 37 at the end of June 1997. New employees have come from commercial banks, hence they have specialist knowledge and skills, while two new recruits are trainees.

When speaking about human resources, it is worth pointing out that the Bank Supervision Department carefully selects candidates both for new and old jobs within the Department. Although the figure of 28 employees with university degree may seem impressive enough, upgrading the staff through various forms of training is an on-going process. The Bank Supervision Department is committed to the policy of employing high-profile experts capable of facing challenges and ever-increasing demands put before them in the complex environment of market economy. To be such an expert calls for a mixture of real-life experience and constantly updated theoretical knowledge acquired sometimes at post-graduate studies but more often at courses, seminars and workshops organised at home or abroad. Full-immersion provided by visiting different kinds of banks abroad is another valuable contribution to staff training.

In addition to in-house training programmes, the employees of the Bank Supervision Department have frequently attended training programmes organised by the Banking Association of Slovenia and the Center for Management Development and Training of the Faculty of Economics at Ljubljana University. Outside Slovenia we have participated in seminars and workshops of the Bank of England and Joint Vienna Institute, we have been on working visits to Deutsche Bundesbank and Banco d'Italia, at workshops under the umbrella of Bank Supervisors Group from Central and East Europe in the National Bank of Poland and the National Bank of Slovakia, at seminars hosted by Deutsche Bank, Banque Nationale de Belgique, EIPA Maastricht and Federal Deposit Insurance Corporation.

2.2.4. Tasks carried out by respective units of the Bank Supervision Department

Licence Granting:

- Preparation of by-laws regulating granting licences and authorisations; Advising on the implementation of the by-laws granting of licences and authorisations;
- Processing applications and preparation of reports on licences and authorisations granted;
- Preparation of decisions to grant a licence and providing grounds for the decision;
- Control over the enforcement of the issued decisions, decrees, etc.

Bank Operations Analyses:

- Drawing up the system foundation for the supervision of banks and savings banks;
- Follow-up of recommendations made by relevant international institutions;
- Counselling on the enforcement of the legislation regulating the area of finance;
- Preparation of instructions on how to apply accounting standards and advising in the field of accounting;
- Supervision of the operating activities of banks and savings banks based on controlling statutory returns and other documents submitted;
- Implementing measures to remedy irregularities in the operating activities of banks and savings banks and following the processes of solving the problem;
- Analysing results of business operations of banks and savings banks; Co-operation with external domestic and international institutions;
- Participation in the preparations for on-site examinations in banks and savings banks.

On-site Supervision of Bank Operations:

- Preparatory activities leading to on-site examination based on reports and other statutory returns submitted by banks and savings banks available in the Department;
- Direct checks of business operations of banks and savings banks;
- Measures taken in order to remedy irregularities found in business operations of banks and savings banks;
- Follow-up of the enforcement of the measures taken against banks and savings banks;
- Advising within on-site supervision function on the way to improve operations of banks and savings banks;
- Close watch on banks and savings banks;
- Co-operation with foreign auditors and chartered accountants;
- Identifying the conditions required to institute bankruptcy procedure in a bank;
- Enforcing pre-rehabilitation measures against banks and savings banks;
- Preparation of assessment of the financial position of banks and evaluation of the economical justification of rehabilitation;
- Placing banks in the bank rehabilitation procedure;
- Identifying the conditions required to institute liquidation proceedings against a bank or a savings banks;
- Governing and managing banks in special cases, etc.

2.2.5 On-site examinations and remedial actions

In 1996, the examiners of the Bank Supervision Department completed eight full-scope examinations of operations of banks, one full-scope examination of a savings bank and twenty-one target examinations of both banks and savings banks. In two banks and one savings banks the examiners of the Bank of Slovenia were monitoring business activities over a longer period of time and in Komercialna Banka Triglav d.d. Ljubljana, the audit of the opening balance of this bank which was subjected to liquidation and bankruptcy procedure was conducted as well.

In co-operation with two foreign audit companies - DTTI and KPMG - two additional diagnostic examinations of the banks’ business were conducted.

In the first half of 1997, the examiners carried out six full-scope examinations of banks and savings banks and thirteen target examinations within the scope of control of certain segments of banking business.

In 1996, targeted examinations of information technology in the banking sector were triggered and were continued them also in the first half of 1997. These specialised examinations are included both in full-scope and target examinations adding up to nineteen such examinations conducted in banks in the period under review.

In the course of April and May 1997, our examiners carried out a demanding task of in-depth on-site examination of Nova Ljubljanska banka d.d., Ljubljana (hereinafter: NLB), and Nova Kreditna banka Maribor d.d. (hereinafter: NKBM) with the aim to check whether those two banks met the requirements stipulated as a precondition to terminate the rehabilitation process. For the first time the staff of the Bank of Slovenia also examined the operations of Slovenska izvozna družba d.d., Ljubljana (the Slovenian Export Corporation) in co-operation with Urad RS za zavarovalni nadzor (Insurance Supervision Authority of the Republic of Slovenia).

Full-scope examinations focused mainly on the adequacy of capital held by banks and savings banks, loan portfolio, securities portfolio, deposit-gathering, internal control and information technology. Target examinations focusing on segments of business scrutinised mainly loan portfolio of legal entities, loan portfolio of private borrowers, securities portfolio, guarantees, information technology and follow-up activities when previous examinations resulted in instructions requiring remedial action.

On the basis of the findings of external checks i.e. examinations, 25 instructions were issued to the examined banks and savings banks (10 in 1996), as well as 5 decrees (all in 1996) to take action to remedy irregularities in conducting banking business. In 1996, 3 more decrees were passed ordering the commencement of pre-rehabilitation procedure and one decision on the suspension of all operating activities. In 24 cases (13 occurred in 1996), decisions to suspend examining were taken. In addition, warnings were dispensed to banks and savings banks against looming risks detected through examinations along with recommendations as to the future developments and advisable course of action.

External examinations performed in banks and savings banks mostly identified irregularities listed below which appear to be common and typical for the industry:

- Inadequate classification of customers and poor provisioning coupled with a failure to suspend recording related income,
- Inappropriate accounting policies,
- Inadequate valuation of business exposure,
- Inadequately secured loans,
- Flawed updating of credit files,
- Sub-standard recovery of past-due liabilities,
- Violation of Article 26 of the Law on Banks and Savings Banks (large exposure),
- Violation of stipulations of the Law on Banks and Savings Banks i.e. the Bank of Slovenia Decree (applying to savings banks) when loans are granted,
- Irregularities in connection with setting up and computing lending interest rate,
- Sources of funds inadequately dispersed (especially in savings banks),
- Violation of Article 43 of the Law on Banks and Savings Banks (the so-called net debtors),
- Inappropriate internal control structure,
- Unauthorised securities trading (savings banks),
- Legal status not duly registered and incomplete internal enactments (savings banks),
- Faulty information technology.

In the field of information technology the current state of affairs regarding hardware, software (application packages), safeguards, development strategy etc. has been examined. By the end of 1997, information technology in nine other banks will be examined.

2.2.6. Granting licences and authorisations

On the basis of the opinion made by the members of the Committee of the Governing Board of the Bank of Slovenia, the members of the Governing Board of the Bank of Slovenia decide on granting licences and authorisations in the cases listed below:

- Licence to a bank or a savings bank to conduct banking operations,
- Licence to a foreign bank to set up a subsidiary on the territory of the Republic of Slovenia,
- Authorisation to go on with mergers and acquisitions involving banks or savings banks, as well as the approval for dissolution,
- Licence to a foreign bank to set up a business unit or a representative office,
- Authorisation to an individual domestic founder of a bank or shareholder to acquire more than 15 per cent of voting shares in the bank, i.e. authorising further increase of ownership of the respective bank,
- Licence to conduct banking operations falling beyond the scope of the original licence (the so-called additional banking operations), and
- Licence to trade in securities.

The opinion as to whether to approve the proposed appointment of the director of a bank or members of the bank's management, as the case may be, is given by the Committee of the Governing Board of the Bank of Slovenia to the Governing Board itself.

In the course of 1996 and in the first six months of 1997, not a single new licence to engage in banking operations or to operate as a savings banks, or to establish a subsidiary or a representative office of a foreign banks in Slovenia, has been issued. While in the year 1996, most of licences were granted to banks and savings banks for the so-called additional banking operations (7 in 1996 and 2 in the first half of 1997), by the end of June 1997 the bulk of authorisations granted went to domestic shareholders to increase their stakes in the respective bank (4 authorisations in 1996 and 2 in the first half of 1997). In the period under review, one take-over got green light (in 1996), while one licence for trade in securities was withdrawn (in the first half of 1997). During 1996, five authorisation to foreign shareholders to acquire stakes in the Slovenian banks were given. In the first half of 1997, three such deals were approved. In 1996, appointments of three directors, i.e. the president and the members of the management were endorsed, while in the first half of 1997 three nominees for the management of banks were confirmed and one failed to get the support.

2.2.6.1. Banking groups and financial conglomerates

Although mergers and acquisitions have gained momentum elsewhere, in Slovenia this trend is practically at the beginning. In the wake of the merger between LB Posavska Banka d.d. Krško and NLB and between Banka Noricum d.d. Ljubljana to Banka Celje d.d. in 1996, first banking groups were formed earlier this year. In accordance with the Law on Banks and Savings Banks, a banking group means that one bank directly or indirectly has at least a 40 per cent share in the foundation i.e. authorised capital of another bank. In other words, it participates directly or indirectly in managing that bank.

In the first half of 1997, three banking groups were formed: Banka Celje and Hmezad banka d.d. Žalec, NLB and LB-Pomurska banka d.d., Murska Sobota, LB Koroška banka d.d., Slovenj Gradec, Ljubljanska Banka - Splošna banka Velenje d.d., Velenje, and LB-Banka Zasavje d.d., Trbovlje and SKB banka d.d., Ljubljana and UBK univerzalna banka d.d., Ljubljana. In the second half of 1997, i.e. after the reporting date of 30th June 1997, LB Banka Domžale d.d., Domžale joined the banking group of NLB. The fourth banking group which followed suit is Banka Koper d.d. and M Bank d.d.

The reasons underlying consolidation in the banking sector are basically the same as in mature economies: cost effectiveness of the financial intermediation and increased competitiveness. In some cases, however, tight prudential measures introduced by the Bank of Slovenia have driven smaller banks to look for an ally.

Within the framework of a banking group the member banks work out their business policy both for daily operations and long-term strategy. Above all, harmony is sought in the field of international operations, marketing new products, information technology, credit policy, ATM network etc. Risk management is handled both at the level of the individual bank and the banking group and members having liquidity problems first try to raise funds on the capital market and from the Bank of Slovenia. If these efforts prove to be futile, the member of the banking group come to its rescue under terms and conditions previously agreed upon.

The same happens when a member of the banking group is faced with solvency problems, other member banks implement measures aimed at resolving the solvency risk along the lines previously agreed upon. The parent bank has the predominant role in all activities within the banking group. Accounting standards and policy are, however, uniformly applied by all members of the bank group. The umbrella internal control and audit set up according to the internal control and audit policy in the parent bank apply also to member banks.

The same auditor that conducts the audit of the parent bank shall audit also the member banks pursuant to the agreement on setting up banking groups.

In addition to banking groups, financial conglomerates have been operating in Slovenia for some time already. Therefore, 17 Slovenian banks and one savings bank have consolidated their financial statements. As pursuant to the Law on Banks and Savings Banks, the Bank of Slovenia is not authorised to conduct supervision of other commercial companies within the financial conglomerate which are not banks (even though such supervision may be required for the purpose of monitoring operations of the bank which is a member of the financial conglomerate), the extent of the supervision of the financial conglomerate is limited to the banks and savings banks only.

2.2.7. Liaison with supervisory institutions

2.2.7.1. Liaison with domestic supervisory institutions

Universal banking predominates in Slovenia and comprises the full-range of operations in the area of both commercial and investment banking. With the aim to implement regulations adopted for the financial field, and driven by the need to reconcile different segments of the financial system, the Bank of Slovenia and the Agency for the Securities Market signed the Protocol on Co-operation in July 1996 laying the foundations for harmonised activities primarily with respect to the following:

- Preparation of systematic measures applicable to the core tasks of both institutions, i.e. to the segments of the financial system controlled by both institutions as regulators,

- Granting licences to banks thus qualifying them to act as certified participants on the securities market,
- Controlling the banks authorised as certified participants or issuers of securities on the securities market, whereas the Agency for the Securities Market would exercise control over operations involving securities and the Bank of Slovenia would control operations of the entire bank,
- Exchange of information on related entities regardless the form or manner of association doing business on the securities exchange and/or in commercial banking,
- Exchange of various information the two institutions collect in the routine course of their work which would serve in the preparation of analyses and surveys either institution may need in order to improve efficiency, and
- In all other fields where such collaboration is assessed as potentially useful for better performance of both institutions.

Developments in the banking industry of Slovenia have blurred the line between banking and insurance business and some banks are already establishing links with insurance companies mostly by acquiring equity stakes. Therefore, the need to lay grounds for the co-operation between the authority which supervises insurance companies and the Bank of Slovenia resulted in the conclusion of the Agreement on Co-operation between the Bank of Slovenia and the Ministry of Finance - Insurance Supervision Authority of the Republic of Slovenia in May 1996. The Agreement lays down the framework for the following activities to be carried out:

- Exchange of data and information on the entities falling within the scope of control of the Bank Supervision Department of the Banks of Slovenia and the Insurance Supervision Authority of the Republic of Slovenia,
- Joint examinations and collaboration in the field of supervision,
- Liaison in other fields where convergence of activities may step up performance efficiency of both institutions.

Joint examinations have already become a routine, as the Bank of Slovenia has co-operated with the Agency for the Securities Market and the Insurance Supervision Authority of the Republic of Slovenia, so joint examinations could also include the Office for Prevention of Money Laundering of the Republic of Slovenia within the framework of the Ministry of Finance. The Bank Supervision Department has successfully-operated-operated with this Office when supervising banks, savings banks and savings co-operatives with respect to measures put in place with the aim to detect and prevent money laundering, as well as in the area of drafting by-laws, training, contacts with money laundering experts etc.

2.2.7.2. Cross-border liaison

Slovenia is a member of the Group of Bank Supervisors from Central and Eastern Europe and the representatives of the Bank Supervision Department attend meetings and conferences organised for the member countries. The staff of the Bank Supervision Department also give their opinion about the documents prepared by other members of the Group and the Basle Committee on Banking Supervision (e.g. Foundation Principles for Effective Bank Supervision), attend seminars and take part in workshops organised under the umbrella of this association.

Liaison with foreign supervisory organisations in the field of banking supervision has not been formally regulated yet. Hence we are planning to make official arrangements with those central banks which supervise branches and subsidiaries of the Slovenian banks abroad. Valuable input has already been made through close relations with several European central banks - the Bank of England, Deutsche Bundesbank, De Nederlandsche Bank, Banque National de Belgique, Banca d'Italia - and the central bank of the U.S.A. - the Federal Reserves Bank. The contact with the World Bank is highly appreciated as it enhances our knowledge and broadens perspectives.

Within the framework of the association agreement and the Slovenian application for membership of the European Union presented on 10th June 1996, the Bank Supervision Department as the part of the central bank in charge of supervising banks and savings banks has hosted representatives of the European Commission, its staff participated in talks with the missions of the World Bank and the IMF, hosted foreign registered auditors/ chartered accountants on working visits, as well as representatives of rating companies and foreign banks.

In the course of examining certain Slovenian banks, the Bank Supervision Department has participated with auditors from KPMG and DTTI over the past two years within the PHARE programme.

2.2.8. Liaison with auditors

Financial statements of the Slovenian banks were audited for the financial year ended 31st December 1996 by three registered auditors/chartered accountants: Coopers & Lybrand, d.d. in most banks, KPMG Slovenija, d.o.o. in one bank, and Deloitte & Touche, d.o.o. made audit for the first time and examined four Slovenian banks. Audit in all savings banks was conducted by ITEO Revizija, Podjetje za revizijo d.o.o., Ljubljana (registered auditing company).

Auditors' opinion on all banks and savings banks is positive, i.e. in their opinion, the financial statements give a true and fair view of the financial position and the state of affairs of the banks and savings banks. Auditors have responsibility for forming and expressing their independent opinion on balance sheet, profit and loss statement and cash flow statement and the management of the respective bank or savings bank are responsible to keep the adequate accounting records.

Once a year a meeting is held with auditors as a forum to express opinion on audited banks and savings banks and auditors' reports, as well as to exchange views on related issues. In case a severe non-compliance or heavily impaired position of a bank or savings bank has been identified, meetings with auditors may be organised more often. Contacts between the Bank Supervision Department and auditors regarding unresolved professional issues in day-to-day business are more frequent.

Efforts have been made within the framework of the Bank Supervision Department to develop further auditing profession, especially in co-operation with the Slovenian Audit Institute. Pro-active role the Department plays in the field has often resulted in taking part in finding solutions to problems arising in accounting, as well as in upgrading accounting standards through the Accountancy Board operating within the Banking Association of Slovenia.

3. BUSINESS PERFORMANCE OF BANKS AND SAVINGS BANKS FOR THE YEAR 1996 AND FOR THE FIRST HALF OF 1997[1]

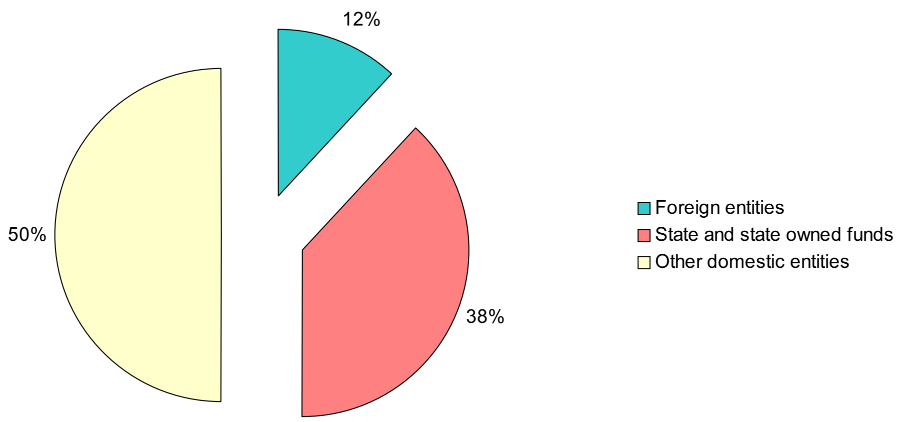
3.1. Structure of the banking sector

At the end of 1996 there were 29 banks in the Slovenian banking community. In addition, two more banks set up in accordance with the Constitutional Law, seven savings banks and 71 savings co-operatives (mutual banks) operated in Slovenia. The year 1996 also witnessed a merger between LB Posavska banka d.d. Krško and NLB, as well as the failure of KBT. Following the merger between Banka Noricum d.d. Ljubljana and Banka Celje d.d. becoming effective as of 1st January 1997, the number of banks on 30th June 1997 was 28. The number of savings banks fell by three with respect to 1995 due to the liquidation of Hranilnica HIPO d.d. Domžale, and two savings banks merging with KBT: Hranilnica Hmezad Agrina d.o.o. Žalec, and Hranilnica in posojilnica Val d.o.o. Izola. The number of savings co-operatives decreased in 1996 by one with respect to the end of 1995. In the first half of 1997, the number of the savings co-operatives has remained unchanged.

Market share of savings banks and savings co-operatives in comparison with banks was rather insignificant both in 1996 and in the first half of 1997, and the mere 1.8 per cent shows that the market share achieved in 1995 has stayed the same.

Out of 28 operating banks, 13 banks are completely in domestic ownership and 11 banks are controlled by Slovenian owners. There are 4 banks either wholly-owned or controlled by foreign owners (at the end of 1995 there were 5 such banks). Substantial change in the ownership structure occurred in Factor banka in 1996 when the majority stake went from foreign hands to Slovenian shareholders. In SKB bank, however, the stake in foreign ownership grew in the first half of 1997 but still remains a minority share.

Figure 1: Ownership structure of the banking system



1 Figures for half-year 1997 are unaudited.

All banks in Slovenia are private with the exception of NLB and NKBM which boast a combined market share just below 40 per cent (at the end of June 1997). Poštna banka Slovenije d.d. (Slovenian Post Office Bank) is indirectly also in state ownership.
All savings banks are owned by domestic shareholders.

In the period under review, 15 banks had full banking licence. Full licence to carry out operations in commercial and investment banking is held by 7 banks, 6 banks hold licence allowing them to engage in commercial banking only, 2 banks are authorised for commercial banking without any constraints, as well as for certain investment banking operations.

The half year market share of the top seven banks measured by total assets was 72.3 per cent, a slight increase with respect to the end of 1996 mostly due to hefty total assets of five biggest banks. Differences in size of total assets are considerable even among seven best-ranked banks. At the end of June 1997, the top performer recorded assets totalling SIT 530 billion, assets of the seventh-placed bank totalled SIT 80 billion, while the smallest Slovenian bank recorded SIT 3 billion. Although the concentration of banks has been diluted with respect to the situation in the banking sector five years ago, the aggregate market share of 10 minor banks is still quite low standing at just below 7 per cent.

Table 1: Total assets and market share of seven biggest banks

in millions of tolars, in %

Bank	Total assets			Market share		
	31.dec.95	31.dec.96	30.jun.97	31.dec.95	31.dec.96	30.jun.97
NLB [2]	445,096	490,319	532,386	29.7	28.3	28.5
SKB banka	179,740	206,584	224,655	12.0	11.9	12.1
NKBM	168,587	197,201	213,998	11.2	11.4	11.5
Banka Koper	82,650	99,695	110,548	5.5	5.8	5.9
Banka Celje	69,401	89,504	97,105	4.6	5.2	5.2
Abanka	68,567	88,348	90,169	4.6	5.1	4.8
Gorenjska banka	67,008	73,164	79,998	4.5	4.2	4.3
Total - top 7 banks	1,081,049	1,244,815	1,348,859	72.1	71.9	72.3
Total - all banks	1,499,922	1,732,152	1,868,922	100.0	100.0	100.0

Differences in the size of total assets are considerable also in savings banks, notwithstanding their market share dwarfed by banks (standing at 0.3 per cent since 1995). While total assets of the top savings banks amounted to almost SIT 2.3 billion, the assets of the smallest one are just below SIT 200 million. The biggest three savings banks hold 72.9 per cent of aggregate assets of all savings banks, the smallest three savings banks add up to 15 per cent.

Rapid growth of the banking sector is also reflected in GDP and at the end of 1996 total assets of banks and savings banks accounted for 0.68 per cent of GDP.

Table 2: Total assets and GDP

in millions of tolars, in %

Year	Total assets	GDP (at current prices)	Total assets/GDP
1994	1,184,458	1,852,997	63.9
1995	1,499,922	2,221,459	67.5
1996	1,732,153	2,512,000	68,9

2 Consolidated figures including NLB branch in Milan

3.2. Bank rehabilitation

Due to considerable volume of bad assets, thin capital adequacy and poor liquidity, Ljubljanska Banka d.d. and Kreditna Banka Maribor d.d. were placed under a formal rehabilitation programme at the end of January 1993 and the end of March 1993 respectively. Pursuant to the amendment to the Constitutional Law on the implementation of the Constitutional Charter on Independence and Sovereignty of the Republic of Slovenia, a part of operations of the former bank was transferred to Nova Ljubljanska banka d.d. (NLB) and of the latter to Nova Kreditna banka Maribor d.d. (NKBM) at the end of July 1994.

In February 1994, LB Komercialna Banka Nova Gorica d.d. was also placed under the rehabilitation programme, while in December 1994 LB Komercialna Banka Nova Gorica d.d. was acquired by NKBM and the change of its legal status was entered in the court register with effect as of 1 January 1995.

The requirements set by the Bank of Slovenia to be met in order to conclude the rehabilitation programme in both banks were as follows:

1. To be liquid,
2. To implement measures of monetary policy
3. To maintain capital required by law (regulatory capital) at least in the amount necessary to sustain the current volume of banking operations carried out under a full banking licence,
4. To adjust the volume of banking operations so that regulatory capital reaches at least 8 per cent of total assets and off balance sheet assets allotted and indexed according to the degree of risk incurred,
5. To make prudent provisions against potential losses,
6. To abide by stipulations restricting maximum credit exposure to a single customer,
7. To observe the ceiling regarding investments in land, buildings, business equipment and equity stakes in banks and non-bank organisations.

The decree on the termination of the rehabilitation procedure dated 6 June 1997 reads that the two banks have fulfilled the requirements listed above as the precondition for the completion of the rehabilitation process with the exception of the requirement regarding the ratio between regulatory capital and investments in land, buildings, equipment and equity investments (Article 28 of the Law on Banks and Savings Banks). NLB did not meet this requirement up to the effective date of the decision, so it was to submit to the Bank of Slovenia within 30 days after passing the decree a detailed plan of gradual convergence with the stipulated ratios until 31 December 1998. The decision was binding upon both banks to adopt the articles of association and to appoint governance and management bodies.

As both banks have met all the requirements stipulated by the Bank of Slovenia in the decree on the termination of the rehabilitation process, the rehabilitation process was concluded in both banks on 16 July 1997. Thus the Slovenian bank rehabilitation model proved to be successful and efficient.

The end of the rehabilitation process also means that the two banks have ceased to enjoy special treatment and shall follow the guidelines of prudent banking as all banks in private hands do.

3.3. The case of Komercialna banka Triglav d.d. Ljubljana

Stability of the Slovenian banking system was shaken in 1996 following the collapse of Komercialna Banka Triglav d.d. (hereinafter: KBT), and will be remembered as the first case of a bank failure since Slovenia gained independence in 1991.

The supervisory approach implemented by the Bank of Slovenia in KBT was the same as in other banks, and is founded on the premise that statutory returns and other data furnished by the management of the banks monitored by the central bank are true and fair. It is assumed that the responsibility of the management is to run the bank with prudence and due diligence pursuant to stipulations of the law. It is also assumed that other supervisory bodies operating within the framework of corporate governance also duly perform controlling tasks entrusted to them and applicable to joint-stock companies in private ownership.

The figures presented in the non-audited financial statements for the year 1995 did not indicate that KBT was going through a bad patch. It regularly met its obligations to the Bank of Slovenia and showed the profit at year end in the amount of SIT 211.6 million.

The Bank of Slovenia continuously checks operations of banks and prior to instituting the liquidation proceedings in July 1996, it scrutinised several times certain segments of operating activities as part of its routine bank examination scheme. No defaults asking for the implementation of stringent measures were found and minor irregularities were remedied within stipulated dead-lines. Chartered accountants were outcontracted as well to conduct the annual audit of financial statements which prior to the audit for the year 1995 did not show significant misstatements.

In spring 1996, KBT started to borrow in the interbank market at increased pace, consenting to higher interest rate than commonly paid in the market. In addition to raising expensive funds, KBT offered its depositors higher deposit interest rates and then lent the money collected in that way to high risk customers who could not service the debt as scheduled. This eventually proved to be fatal for KBT.

As soon as the Bank of Slovenia recognised that KBT was having liquidity problems, and having received the audited profit and loss account showing red figures, it reinforced supervision and introduced extraordinary examination of the operating activities of KBT. As the findings revealed deterioration of the bank's position, pre-rehabilitation measures were implemented in June 1996. As the pre-rehabilitation measures proved to be inadequate to rescue the ailing bank, the Bank of Slovenia froze business activities of KBT for fifteen days in compliance with its competence to act under such circumstances. Within fifteen days the bank failed to make necessary retrenchment and collect delinquent payments from its borrowers. All attempts to make alliances with other banks fell on barren soil, and the strivings to rehabilitate the bank by joint efforts of its owners fell short of the target. The Bank of Slovenia could not give aid to KBT in solving its liquidity problems as the bank possessed neither bills issued by the Bank of Slovenia or the Republic of Slovenia, nor other government debt instruments which could be given as lien to the central bank in order to bridge over liquidity problems. Hence the liquidation proceedings were instituted in the beginning of July, followed by bankruptcy procedure introduced in December 1996.

3.4. Total assets

Audited figures showing aggregate assets of all Slovenian banks (including the branch of NLB in Milan) as at 31st December 1996 amounted to SIT 1,732.2 billion which means nominal increase[3] of 15.5 per cent with respect to December 1995, but still below the 26.6 per cent increase of total assets at the end of 1994. Similar rate of growth could be expected in 1997 as the nominal growth in the first half of the year with respect to December 1996 was 7.9 per cent[4], while the aggregate assets of all 28 operating banks totalled SIT 1,868.9 billion.

In the course of 1996, total assets of banks grew gradually in the first half of the year, regressed in summer months due to more intense outflow of deposits, and regained pace in autumn. While three banks recorded a drop in assets at the end of summer 1996 with respect to the beginning of the year, at the end of June 1997 the same scenario was repeated in two banks.

By the end of 1996, savings banks augmented assets at the same rate as banks, i.e. nominally by 15 per cent[5] with respect to 1995. Total assets of SIT 5.1 billion showed essentially lower growth rate than in 1995 when it hit 60.7 per cent, mostly due to shrunk nominal volume of business handled by two savings banks. Although other savings banks recorded heftier total assets, the increase was generally thinner than in 1995 with the exception of one savings bank.

In the first half of 1997, total assets grew in all savings banks and as at 30th June 1997 reached the aggregate figure of SIT 6.2 billion, i.e. 22.9 per cent growth. Such a growth rate has already exceeded the overall growth rate for the year 1996. It is worth mentioning that each and every savings bank has contributed to the expansion of operations and the positive growth rate.

3.5. Balance sheet structure

A comparison between banks focusing on the average structure of liabilities in the first half of 1997 with respect to the end of 1996 indicates that the trends prevailing in the past years - decrease in the share of liabilities to the banking sector and rising of liabilities to customers other than banks - will continue. The trend to reduce loans and advances to the banking sector has not been reversed, while loans and advances to customers other than banks which were on the rise prior to the period under review, slightly diminished as the result of investments shifting to securities.

As in the case of the banks, in the first half of 1997, the analysis of the savings banks showed that in the average composition of liabilities, deposits from the banking sector were shrinking, while in the average structure of assets, loans and advances to customers other than banks decreased. These figures mean that the trend prevailing in 1995 when loans and advances to non-banks soared, did not continue in 1996. When examining the savings banks, loans and advances to the banking sector, as well as deposits from non-banks, a significant change with respect to 1996 is noticeable.

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3 Taking into account 8.8% consumer price increase in 1996, real growth rate is 6.2%, while by taking into account exchange rate increase for D-mark of 3.5%, total assets real growth rate is 11.6%.

4 Taking into account 5.6% consumer price increase in 1H97, real growth rate is 2.2% i.e. decrease in real terms as exchange rate for D-mark at end-June 1997 was lower than at 31st Dec. 1996.

5 Real growth rate is 5.7% if increase of consumer prices is taken into account, i.e. 11.1% if D-mark exchange rate movement is considered.

3.5.1. Liabilities

On average, deposits from customers other than banks were the main source of funds for the Slovenian banks in the first half of 1996. The share of these deposits in the composition of liabilities grew from 63.2 per cent at the end of 1996 to 67.5 per cent at the end of June 1997. The bulk of deposits comes from private individuals and stands at 36 per cent of the average total liabilities (increase of the share by 1.9 percentage points compared with the end of 1996), corporate deposits trail behind standing at 16.5 per cent (increase of the share by 0.2 percentage points), while public sector deposits stand at 8.7 per cent of average total liabilities (increase of the share by 0.7 percentage points).

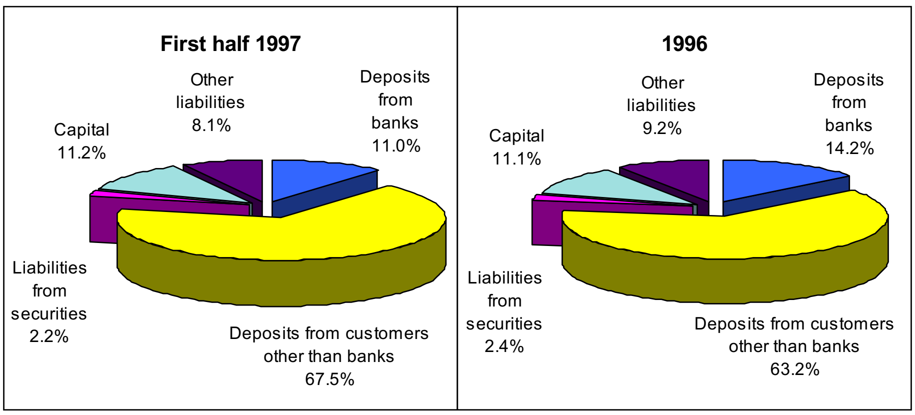
Deposits from customers other than banks that at 30th June 1997 amounted to SIT 1,256.7 billion, fell in January 1997 below the level recorded at the end of December 1996 when deposits from non-banking sector totalled SIT 1,167.2 billion, picked up eventually and in March 1997 exceeded the figure from the year-end 1996. As deposits from individuals were steadily growing in the first half of 1997, plunging of non-bank deposits in January 1997 was caused by sluggish deposit-making by companies. Corporate deposits regained momentum in February and in March this kind of deposits exceeded December figures. In April and May corporate deposits were again below the level in December 1996, a new record high in the year 1997 was registered at the end of June. The overall growth of deposits from customers other than banks in the period under review by 7.7 per cent is mainly due to the growth of retail deposits (by 9 per cent) and marginally due to the growth of corporate deposits (1.3 per cent), which shows a major year-on-year change. In 1996, the change with respect to 1995 was 25.2 per cent increase in corporate deposits, and 22.9 per cent increase in retail deposits.

The share of the banks and savings banks in the average composition of liabilities continued to drop in the first half of 1997, thus sliding from 14.2 per cent at year-end 1997 to 11 per cent, whereas at the end of 1995 it stood at 15.9 per cent. In absolute terms, funds of the banking sector in the period from end-December 1996 to end-June 1997 fell from SIT 216.1 billion to SIT 201.8 billion, in other words, a 6.6 per cent fall (with respect to 1995, the fall in 1996 was 11.2 per cent). Funds deposited by the banking sector were gradually decreasing until the end of April 1997, in May and June these deposits grew but failed to reach the level from year-end 1996.

The share of permanent sources of funds in the structure of the banking sector liabilities was on average 11.2 per cent for the first six months in 1997, a slight increase with respect to the average percentage for 1996 but a decrease by 0.4 percentage points compared to the 1995 average.

Proportionally high share in the composition of liabilities is the item called other liabilities. It includes accrued costs and deferred income, provisions for liabilities and charges, and general provisions. In the first half of 1997 the share of these liabilities dropped on average from 9.2 per cent to 8.1 per cent, mainly as the result of lowering the share of liabilities arising from business relations with associated undertakings and accrued costs and deferred income which was reduced from 4.7 to 4.5 per cent.

Figure 2: Average structure of banks' liabilities



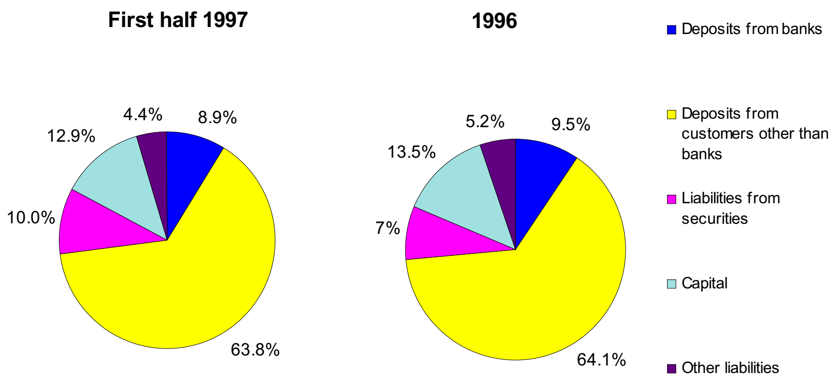
The main source of funds fuelling the growth of savings banks' business were deposits from customers other than banks. The share of these funds is still somewhat lower than the respective share in the banks as in the first half of 1997 the share in the overall liabilities structure decreased from 64.1 per cent in December 1996 to 63.8 per cent, mostly due to the growth of debt securities, i.e. liabilities evidenced by paper from 7.7 to 10 per cent during the reviewed period. The average liabilities structure in the overall non-banking sector shows the biggest share of deposits made by public sector - 25.8 per cent of the total average liabilities. Ranked second are retail deposits standing at 20.1 per cent but going up in the first six months of 1997, while the corporate deposits lag behind being at 16.3 per cent and going down in the period under review.

Despite smaller share of customer deposits, the figures recorded show a growth of 24.3 per cent as total deposits increased from SIT 3.2 billion to SIT 3.9 billion. Retail deposits grew by 28.5 per cent and corporate ones by 8 per cent.

Other sources of funds decreased as the result of the increased share of funds provided through issuing of securities. Hence the share of bank deposits and capital in the average liabilities structure in the period under review fell by 0.6 percentage points, and in other liabilities by 0.8 percentage points.

Despite the decrease in the share of deposits from the banking sector, this kind of deposits, as well as the deposits from customers, grew in the first half of 1997 by 44.5 per cent (from SIT 434.6 million to SIT 628.2 million) and have reached the level recorded at year-end 1995.

Figure 3: Average structure of savings banks' liabilities



3.5.2. Assets

In the course of 1996 and in the first half of 1997, the banks and savings banks deployed their assets as loans and advances to customers. In absolute terms, lending surged at relatively stable pace from SIT 720.8 billion at end-1996 to SIT 766.5 billion six months later, which means that lending grew by 6.3 per cent. The share of lending to customers in the first half of 1997 slightly decreased in the average structure of assets (from 41.9 to 41.2 per cent) at the expense of the increased investment in securities.

The portion of retail lending slightly grew (by 0.2 percentage points thus standing at 11.6 per cent at end-June 1997), while the share of corporate lending decreased by 0.7 percentage points (standing at 26.8 per cent at end-June 1997).

Although the growth of retail lending is still ahead of corporate lending in the first half of 1997, it was rather modest - just 8 per cent. The growth of corporate lending was meagre 1.7 per cent over the same period. Upward trend in retail lending indicates relatively high consumer spending. Provided the current trends persists throughout the second half of 1997, loans granted to private individuals will remain at a steady level after the record-high growth at the end of 1995 (77.2 per cent) and the moderate 22.9 per cent.

A significant part of banks' assets are investments in securities. The majority of securities are eligible bills such as the bills of the Bank of Slovenia, rehabilitation bonds, bonds for paid-out and unpaid foreign currency deposits, bonds issued for the rehabilitation of the Slovenian iron and steel works, as well as other bonds of the Republic of Slovenia. The share of assets held as investment securities grew from 24.5 per cent at the end of 1996 to 28.3 per cent at half year 1997. In absolute terms, investment securities swelled from SIT 449.2 billion to SIT 531 billion due to the increased demand for the bills issued by the Bank of Slovenia. The explanation for such behaviour lies in tighter requirements imposed: pushing up the stipulated minimum for banks' investments in the Bank of Slovenia bills denominated in foreign currency required for the foreign exchange minimum for the banks from 40 to 50 per cent by 30th May 1997 (by 30th August 1997 the foreign exchange minimum was pushed up to 60 per cent). Other stringent measures include creating new additional liquidity reserves by the banks, avoiding maturity mismatch by balancing maturities of receivables and payables, and offsetting foreign currency mismatch, i.e. closing short position of most banks.

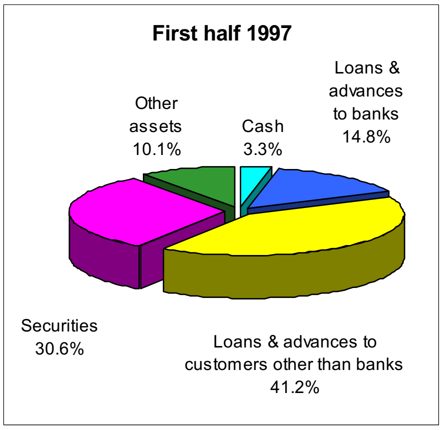
Although the portion of securities held for dealing purposes in the average assets structure increased from 1.6 per cent to 2.3 per cent in the first half of 1997, it is still low. In absolute terms, investments in trading securities swelled from SIT 29.4 billion to SIT 45.2 billion, mainly due to doubling of the issue of the Bank of Slovenia bills and the considerable increase in investing in bonds issued by the Republic of Slovenia and the banks.

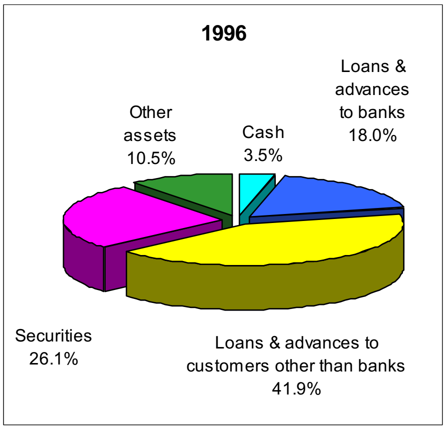
At the end of June 1997, the secondary level of liquidity of banks has been strengthened as the percentage of investment securities grew by 18.2 per cent and the percentage of trading securities increased by 53.7 per cent with respect to the end of 1996.

In the average assets structure, loans and advances to banks and savings banks in the first half of 1997 kept on decreasing both in terms of the percentage and the amount attributable to this balance sheet item, as the lending to banks plunged by 18.7 per cent (down to SIT 255.8 billion as at 30th June 1997).

In the first half of 1997, the portion of the so-called other assets slightly decreased with respect to year-end 1996 from 10.5 to 10.1 per cent, mainly due to smaller portion of equity investments in controlled entities, subscribed but un-paid capital and other assets. The share of equity investments in related undertakings, tangible fixed assets, as well as prepayments and accrued income remain the same, while the share of intangible long-term assets slightly increased.

Figure 4: Average structure of banks' assets

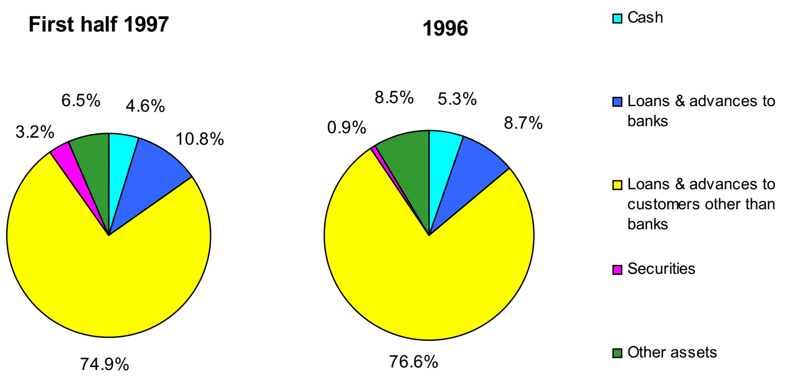




Loans and advances to customers other than banks are the biggest portion in the average assets structure both for banks and **savings banks**, though the portion of such loans in the average asserts structure for savings banks is considerably higher than in case of banks standing at 74.9 per cent at end-June 1997 (2 percentage points lower than at end-year 1996). Further analysis of this type of lending shows that loans to the corporate sector decreased from 26.1 to 21 per cent, while loans to individuals increased from 49.7 to 53 per cent in the period under review.

Just like in 1996, in the first six months of 1997 no savings bank had investment securities, though the percentage of trading securities increased from 0.9 to 3.2 per cent thus being ahead of banks with respect to this balance sheet item. Bills of the Bank of Slovenia prevail in portfolios of savings banks.

Figure 5: Average structure of savings banks' assets



3.6. Regulatory capital and capital adequacy

The trend persisting in the Slovenian banking industry until the end of 1995 was a noticeable growth of capital adequacy[6] mostly as the consequence of the requirement introduced by the Bank of Slovenia forcing banks to increase the so-called regulatory capital. Following the rise of capital adequacy across the industry at end-1995 with respect to end-1994 (from 20.5 per cent to 21.5 per cent) due to capital strengthening i.e. recapitalisation of most banks, capital adequacy of banks dropped at 19.7 per cent at end-1996 but recovered to 20.1 per cent at the end of June 1997.

Lower capital adequacy from the end of 1995 till the end of 1996 was caused by accelerated growth of risk-weighted assets (it grew by 16.2 per cent) that grew at faster pace than capital adequacy (it grew by 6.8 per cent). Capital adequacy growth resumed pace and stood at 8.8 per cent at end-June 1997, while risk-weighted assets lost momentum (7 per cent growth rate).

Average capital adequacy of the Slovenian banking industry is relatively high enabling banks to control new risks using their own funds. Banks are better protected against actual and potential impaired or non-performing assets and risk-weighted assets can continue to grow with respect to regulatory capital.

As at 30th June 1997 no bank had capital adequacy below 9.6 per cent being the minimum for creating general provisions. Capital adequacy of banks ranged from 12 per cent to 76.4 per cent.

6 Capital adequacy is calculated as a ratio between the total amount of regulatory capital and total risk-weighted assets. The Law on Banks and Savings Banks stipulates that total regulatory capital shall be at least 8% of total assets and active off-balance sheet items classified and indexed according to risk involved.

Figure 6: Growth in risk-weighted assets and regulatory capital (in billions of tolars) and in capital adequacy (in %)

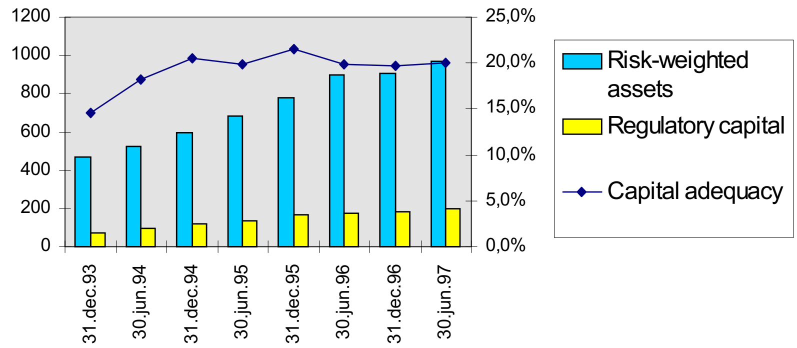
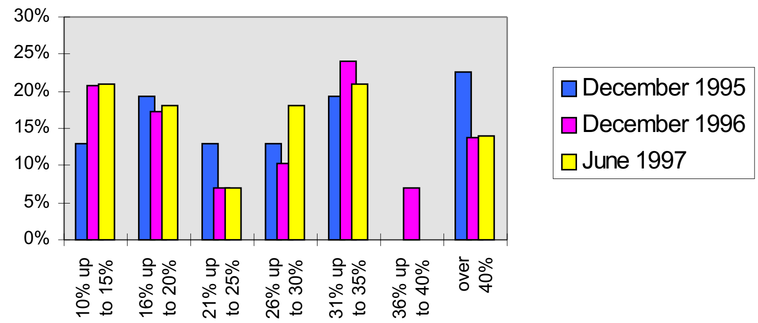


Figure 7: Distribution of banks in terms of capital adequacy



Savings banks reported as at 31st January 1996 and 30th June 1997 average capital adequacy standing at 18.8 per cent and 17.6 per cent, respectively. Although capital adequacy is lower than in banks, it is well above the regulatory minimum. The span between the lowest and the highest capital adequacy percentage in savings banks is even wider than in banks.

3.7. Profitability

Profitability of the Slovenian banks has been rising for some years, especially when we are talking about the two banks in which the rehabilitation has been concluded only recently - NLB and NKBM. In the first half of 1997, aggregate profits of banks before taxes totalled SIT 13.2 billion (positive revaluation balance was SIT 5.4 billion or 42.2 per cent of total profits before taxes). With respect to the first half of 1996 when profits stood at SIT 14.9 billion, they fell by 11.4 per cent (positive revaluation balance was 85 per cent i.e. SIT 12.7 billion). At end-year 1996 profits before tax totalled SIT 18.3 billion or a 33.3 per cent rise with respect to 1995. Losses were reported by two banks at the end of 1996, while at the end of June 1997, only one banks was in red figures.

Net interest income earned by the Slovenian banks from January to the end of June 1997 was SIT 38.3 billion or 10.2 per cent less than for the same period a year before. Lower net interest earnings are the result of decreased net revaluation interest by 35.5 per cent (from SIT 18.2 billion at the end of June 1996 to SIT 11.7 billion at end-June 1997) due to a considerable drop in earnings from revaluation interest.

Fees and commissions receivables increased in the first half of 1997 with respect to the same period a year before by 9.2 per cent (from SIT 11.7 billion to SIT 12.8 billion), net dealing income[7] from financial transactions soared by 55.5 per cent. Despite net fees and commissions increasing during the period under review, net interest income fell, hence net interest of the banking system remain two times bigger than net fees and commissions.

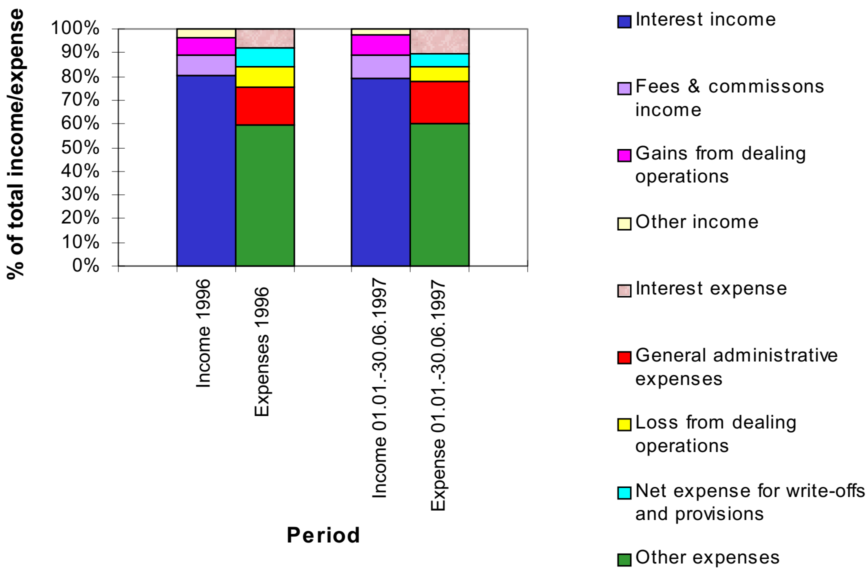
Net expenses for write-offs and provisions[8] decreased by 30.1 per cent in the first half of 1997 with respect to the first half 1996. Net income from write-backs and unutilised provisions soared by over 400 per cent.

Net write-offs of unrecoverable debts decreased from SIT 3.1 billion to SIT 2.4 billion or by 22.5 per cent, as the result of fewer write-offs and increased income from the collection of sour debts.

In the structure of banks' income in the first half of 1997 with respect to 1996 year-end, smaller share of interest income in total income (a drop from 80.4 per cent to 79.1 per cent) at the expense of bigger share of commissions and fees received (from 8.7 per cent to 9.7 per cent) and dealing income (from 7.3 per cent to 8.5 per cent) is noticeable. The share of other income decreased as well: from securities, other operating income, net income from write-backs and unutilised provisions and extraordinary income.

In the structure of banks' expenses in the first half of 1997, the share of interest expense slightly rose (from 59.3 per cent in 1996 to 60.1 per cent at end-June 1997), while the share of general administrative expense grew by 2 percentage points reaching 18% on account of shrinking the loss from dealing operations and net expense for write-offs and provisions. The share of other expenses including fees and commissions paid, depreciation and amortisation, other operating expenses, capital revaluation balance, fixed assets, equity investment and extraordinary expense jumped from 7.8 per cent to 10.6 per cent (all components of this item were inflated but a lion's share goes to capital revaluation balance, fixed assets and equity investment).

Figure 8: Structure of income and expenses of banks for 1996 and the first half of 1997



7 Net dealing income is the sum of net gain/loss from financial operations and income from dealing in securities. Profit from dealing or the so called financial operations is the sum of income from trading securities, income from own shares bought back, income from valuation of investment securities and income from buying/ selling foreign currencies and precious metals.

8 General provisions (for unspecified risk) in the amount of 1% of the claims classified as "A" in the banks with capital adequacy above 9.6% are not recognised as expense for tax purposes. Specific provisions (for known commitments in off-balance sheet liabilities of banks) are not recognised as expense for tax purposes if the bank exceeds capital adequacy of 18%. If capital adequacy is between 14% and 18%, then 50% of expense for provisioning against known risk is recognised as tax-deductible. The expense for provisioning against recognised risk is fully tax-deductible for the banks with capital adequacy below 14%.

Table 3: Balance of profit and loss revaluation for banks in the first half of 1997

in millions of tolars

Balance of reval. profit & loss during the year	5,445.0
Net reval. interest	11,720.1
reval. Income (9)	69,229.0
reval expense (10)	57,508.9
Other (net)	-6,275.1
reval income (fixed assets, capital investments, other)	4,784.6
reval. Expense (capital other)	11,059.8
reval. Capital adjustment	10,998.0

At the end of June 1997 a half of all banks had negative balance of revaluation sub-balance due to the reasons listed below:

- Revaluation of capital (capital is revalued as consumer prices go up, assets are revalued as the so-called base interest rate -TOM[11] goes up) and faster growth of consumer price index (CPI) than the base interest rate growth,
- In some cases it is due to switching to the paid realisation system (exclusion of all interest income even when accruing on loans to first-class customers), or
- Due to earmarking collected tolar funds in loans with foreign exchange clause.[12]

Increased profitability of the Slovenian banking system is underlined not only by nominal amount of profit but is also demonstrated by the following indicators:

Table 4: Profitability ratios for banks

	31 December 1995	31 December 1996	30 June 1997
Return on average assets (ROAA)	1.0	1.1	1.5
Return on average equity (ROAE)	9.1	10.2	13.9
Net interest margin (13)	4.9	5.6	4.9
Labour cost/average assets	2.0	1.9	1.9
Other operating expense/average assets	1.8	1.7	1.7
Net non-interest income/operating expenses	43.9	29.4	40.3

Owing to good operating results return on average assets of *banks* increased by 0.4 percentage points up to 1.5 per cent in comparison with 1996, while return on average equity grew by 3.7 percentage points in the same period. Interest margin was rising over some years in the past (from 3.7 per cent in 1994 to 5.6 per cent in 1996) but dropped in the first half of 1997 as from 1st April 1997 new cartel agreement capping interest rates on deposits (the so-called passive interest rate) entered into force squeezing the spread further and forcing banks to lower lending (the so-called active) interest rates.

9 Positive exchange rate movements are included, as well as revalued income from tolar loans, loans with foreign exchange clause, securities and other revalued income.

10 Negative exchange rate translations are included, revalued expenses for taken loans, deposits, liabilities in tolars with foreign exchange clause and issued securities and other certificates of deposit, and other revalued expenses.

11 In 1H97 base interest rate (TOM) was 3.8%, CPI was 5.6%.

12 Exchange rate for D-mark on 30 June 1997 was lower by 0,35% in comparison with 31 December 1996.

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

Interest spread as the difference between average nominal interest rate receivable and average nominal interest rate payable on assets from customers other than banks in the first six months of 1997 was 8.2 percentage points (17.1 per cent - 8.9 per cent) and interest spread for loans and advances to banks and savings banks was 0.3 percentage points (11.1 per cent - 10.8 per cent).

Operating expense of banks in the first half of 1997 remained unchanged with respect to the year 1996, but were reduced in comparison with 1995 by 0.2 percentage points (as at 30th June 1997, banks' operating expenses account for 3.6 per cent of average assets). This item is still quite high as staff cost was 1.9 per cent of average assets and other operating expenses account for 1.7 per cent of average assets.

Profitability of banks' operations is clearly depicted also by the ratio between non-interest income and operating expense (optimal ratio is 1). This ratio varies from bank to bank but, on the whole, it is unfavourable across the industry as at end-June 1997 net non-interest income covered only 40.3 per cent of operating expense.

In the first half of 1997, **savings banks** achieved higher profit before taxation than in the entire 1996 totalling SIT 50.6 million (SIT 48.1 million in 1996) and in comparison with the first half of 1996 the rise is 4.6 per cent. In four savings banks, however, profit before taxation decreased at the end of June 1997 with respect to the first six months in 1996, but profit before taxation in other three savings banks (especially in one savings banks) was proportionally higher. Thus the good performance of these three savings banks increased aggregate profit. Among those savings banks whose performance deteriorated is also the savings bank which at end-year 1996 and in the first half of 1997 was the only one in red ink.

Higher aggregate profit of savings banks is due to higher interest and non-interest earnings. Net interest income rose in the first half of 1997 by 12.9 per cent keeping abreast with real interest income, while net fees and commissions grew by 72.3 per cent and net dealing operations by 43.7 per cent.

Higher profits of savings banks in the first six months of 1997 are reflected also on some of the most significant indicators illustrating savings banks' performance.

Return on average assets (ROAA) and return on average equity (ROAE) increased considerably from 1 per cent to 1.8 per cent and from 7.5 per cent to 14.3 per cent, respectively. Interest margin plunged (as it happened in banks as well) from 8 per cent down to 6.9 per cent and at the end of June 1997 it varied from one savings bank to another from 2.7 per cent to 16.5 per cent.

Interest spread of savings banks for the first half of 1997 was 8.8. percentage points (21.8% - 13%) for deposits from customers and 4.8 percentage points (14.8% - 10%) for deposits from the banking sector.

Operating expense of savings banks in the first half of 1997 with respect to end.-year 1996 decreased from 6.9 per cent down to 6.4 per cent, failing, however, to hit the 1995 level (staff cost is still above the 1995 level). Despite this slight decrease, expenses of savings banks compared with banks' expenses are quite high. On the other hand, savings banks are more successful than banks in covering operating expense boasting 41.5 per cent.

3.8. Credit risk

Banks assess credit risk, which by definition occurs when there are overdue amounts pertaining to whole loans and advances or to a part thereof, in accordance with criteria laid down in the Decree on the Classification of the Balance Sheet Assets and Off-balance Sheet Items of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, No. 78/96). The criteria for classification of debts in groups from A to E were tightened from the loose demands laid down in 1992 when the basic criteria was the case of default, to more precise requirements defined in 1993 and being in force until the end 1996 when even more stringent criteria were enforced entering into full force and effect as of 1st January 1997. The methodology applied from 1993 until 1996 took into account the assessment of creditworthiness of a customer, but it was allowed to classify a loan secured by lien both on real estate and movable property under certain circumstances as lending in group A. Since January 1997, the loan secured by a lien on property could be graded as a higher class asset than the creditstanding of that particular borrower would otherwise allow, but only for one step higher. As the more stringent criteria will affect the quality of the credit portofolio, additional provisions will be introduced gradually by the end of 1997.

The quality of the credit portfolio of Slovenian **banks** was on the rise in 1993, 1994 and 1995, but a certain degree of deterioration was noticeable in 1996 with respect to 1995. Performing assets (claims graded as best and second best - A and B class, respectively) represented 93.7 per cent or 0.5 percentage points less than at the end of 1995. The share of non-recoverable assets (loans and advances graded as D- and E-class of assets classified as loss) declined from 3.9 per cent at the end of 1995 to 3.8 per cent a year later.

Due to the modifications of the Decree on the Classification of Balance Sheet Assets and Off-balance Sheet Items of Banks and Savings Banks, the share of loans and advances graded as A-classified assets dropped on 30 June 1997 by almost one percentage point, i.e. 88.6 per cent with respect to 31 December 1996. Non-performing assets (loans and advances graded as C-, D- and E-classified assets) remained unchanged standing at 6.2 per cent.

Provided the claims on the Republic of Slovenia and the Bank of Slovenia were subtracted from total claims classified in A category, the share of these assets as at 30 June 1997 would be reduced from 88.6 per cent to 84.2 per cent, the share of claims graded as B-class assets would rise from 5.1 per cent to 7.1 per cent, while the share of other assets would soar from 6.2 per cent to 8.7 per cent.

Table 5: Classification of balance sheet and off-balance sheet assets of the Slovenian banks

in %

Category	31 December 1993	31 December 1994	31 December 1995	31 December 1996	30 June 1997
A	81.1	86.1	89.4	89.5	88.6
B	6.6	5.7	4.8	4.2	5.1
C	4.7	2.5	1.9	2.4	2.3
D	3.2	2.6	2.1	2.2	2.2
E	4.3	3.1	1.8	1.6	1.7

Aggregate exposure of all Slovenian banks to credit risk totalling SIT 2,097 billion as at 30 June 1997, included loans and advances graded as A assets totalling SIT 1,858.5 billion. If we were to assess only the creditstanding of corporate borrowers disregarding the quality of collateral, the share of A-graded loans and advances would drop from 88.6 per cent to 83.3 per cent, the share of assets graded as B-class would increase from 5.1 per cent to 8.3 per cent, and the share of non-performing assets would follow suit rising from 6.2 per cent to 8.3 per cent.

At the end of 1996 when out of the aggregate credit exposure in the amount of SIT 1,984.6 billion, loans and advances graded as A-class assets totalled SIT 1,657.2 billion, the share of these assets would shrink from 89.5 per cent to 83.5 per cent, provided different forms of collaterals securing borrowed funds were not taken into consideration. Under the same scenario the share of assets graded as B-class would rise from 4.2 per cent to 7.7 per cent, just like the share of non-performing assets which would be blown up by 2 percentage points, i.e. increasing from 6.2 to 8.8. per cent.

Applying more rigorous criteria on the assessment of credit portfolio quality at the end of June 1997 with respect to the end of 1996 resulted in bigger share of assets classified as substandard and doubtful (a rise from 10.3 per cent to 10.4 per cent), bigger share attributed to value adjustment (from 5.6 per cent up to 5.8 per cent) in the gross assets of banks, while the rise in allowance to cover doubtful and problem assets by means of value adjustment increased by 1.5 percentage points to reach 56.3 per cent, indicates better return on substandard, i.e. doubtful assets and helps make banks safer.

In the first half of 1997, the volume of substandard and doubtful balance sheet assets of the Slovenian banks was growing somewhat faster than the total volume of banking operations. Half-year figures for 1997 show that the rate of growth of the so-called bad and doubtful on-balance sheet assets stood at 8.5 per cent, while the rate of growth of the banking operations was 7.9 per cent.

The number of legal entities - customers of the Slovenian banks at the end of 1996 - was 17,847. The upward trend persisted and the number of corporate customers increased by 3.5 per cent to 18,479.

Average large exposures granted to a single customer grew in the period from the end of December 1996 to the end of June 1997 from SIT 96 million to SIT 97.3 million.

Credit portfolio of the Slovenian **savings banks** on both reporting dates (31 December 1996 and 30 June 1997) was branded by the rising share of customers graded as A-class (from 85.8 per cent to 88.8 per cent) up to the approximately same share of eligible customers as in banks. Another feature was the increase of the share of un-collectable assets (from 4.2 per cent up to 4.6 per cent) at the expense of shifting B- and C-graded customers down the ladder.

Table 6: Classification of balance sheet and off-balance sheet assets of the Slovenian savings banks

in %

Category	31 December 1993	31 December 1994	31 December 1995	31 December 1996	30 June 1997
A	89.8	91.6	86.2	85.8	88.8
B	5.9	4.1	7.2	6.3	4.0
C	1.0	2.2	3.4	3.7	2.6
D	0.3	0.5	1.3	2.3	2.5
E	3.0	1.6	1.9	1.9	2.1

Since the end of 1996, the savings banks have been increasing on average the coverage for bad and doubtful loans and advances by means of value adjustment. As at 30 June 1997, the savings banks managed to make allowance for substandard assets of 50 per cent (a rise of 9.6 percentage points with respect to the end of 1996), though they still have not caught up with the banks.

Notwithstanding the fact that the savings banks expanded the volume of operating activities in the first half of 1997 in comparison with the end of 1996 by 22.9 per cent, the volume of bad and doubtful on-balance sheet loans and advances decreased in the same period by 7 per cent.

The number of legal entities - customers of the savings banks at the end of June 1997 - was lower by 18 in comparison with the end of December 1996 when there were 470 corporate customers. The average exposure to a single customer rose from SIT 3.8 million to SIT 5.1 million in the period under review.

3.9. Liquidity risk

The most significant features of the Slovenian banking system are, on the one hand, hefty retail deposits growing steadily which due to wide dispersion of individual depositors help reduce liquidity risk, and, on the other hand, a comparatively high degree of dependence of a significant portion of banks on a fistful of large depositors.

Concentration in the field of deposit-taking differs enormously from one bank to another and the share of thirty largest depositors in the average for the banking sector (excluding banks and private individuals) at the end of the first half of 1997 ranged from 40.8 per cent to 93 per cent, while the average for the banking system was 54.3 per cent of all gathered deposits falling in that particular category.

The ratio between short-term assets and short-term liabilities in **banks** did not improve significantly on average for the year 1996 and the first half of 1997 (increase from 0.85 at the end of 1995 to 0.86 at the end of 1996, i.e. to 0.87 at the end of June 1997), thus still lagging behind the optimum ratio of 1.

The share of customer accounts repayable on demand, i.e. demand deposits, on the liabilities side (excluding capital) is relatively large and keeps on growing. In the average for the year 1996 it has grown by 0.1 percentage point pushing the figure to 28.7 per cent. The share of demand deposits continued to grow also in the first half of 1997, resulting in 29.2 per cent share in the average for the period under review. The share of demand deposits above the average for the industry is mainly the feature characterising those banks which gather the bulk of their deposits from private individuals, whereas the banks with strong foothold in corporate sector have less retail and more wholesale deposits.

Following 1996 when the ratio between average liquid assets[14] and demand deposits as sources of funds was reduced from 0.23 at the end of 1995 to 0.19 a year later, the ratio started to rise again and reached 0.22 - still falling short of the desired level.

In the average for the first half of 1997, there are 47.5 per cent of long-term sources of funds were activated in long-term investments which represents a drop with respect to 1996 but a slight improvement with respect to 1995.

The stability of the Slovenian banking system in the course of 1996 was shaken by the liquidity failure of KBT followed by the liquidation proceedings triggered in July 1996 and transformed in bankruptcy proceedings in December 1996. The failure of KBT to maintain liquidity was caused by lending assets collected by offering relatively high interest rates to risky companies. As KBT had no bills of the Bank of Slovenia, no government bills or marketable bonds of the Republic of Slovenia, the Bank of Slovenia as the lender of last resort could do nothing to solve liquidity problems of KBT.

One of the actions launched after the liquidation proceedings were begun was to enforce the required maturity structure for assets and liabilities[15] and the result was substantially better secondary liquidity.[16] Secondary liquidity of the Slovenian banks deteriorated in the first half of 1996 (prior to triggering the liquidation proceedings) and recorded a drop from SIT 110.6 billion to SIT 87.4 billion, but recovered in the second half of the year and was boosted to SIT 163.8 billion at the end of the year. By 30 June 1997, the secondary liquidity of the banks reached SIT 254.1 billion.

14 Liquid assets include item designated as A.I. cash and balances at central bank, current accounts at home and abroad in foreign currency (accounts nos. 3100,3101, 3109, 311), as well as eligible securities (accounts nos. 1340, 1342, 1350).

15 Classification in three classes of assets and liabilities is made on the basis of maturity. First-class assets are assets payable on demand and those claims which are eligible for re-financing in case of emergency by the central bank; the second-class assets include first-class assets and claims repayable within 30 days; third-class assets include first- and second-class assets and claims due within 180 days.

16 Secondary liquidity of banks refers to T-bills of the Bank of Slovenia in domestic and foreign currency, as well as T-bills and bonds of the Republic of Slovenia.

As at 31 August 1996 which was the deadline for the submission of reports, eleven banks failed to meet the required ratio between maturity structure of first-class assets and liabilities, but the situation improved dramatically by 30 June 1997 and all banks as at 31 January 1997 have first-class assets exceeding their liabilities falling in the same class. Banks faced more difficulties when trying to fulfil the requirements of the second class and at the end of June 1997, one bank failed to meet the requirement, although the situation improved further and as at 31 July 1997 all banks were along the statutory lines. The required ratio for the third class was beyond the reach of eight banks in the beginning, but as at 31 August 1997, only two banks fell short of the notch.

Savings banks have faced more difficulties in adjusting to the statutory ratio than banks. Out of five savings banks which as at 31 August 1996 fell short of the ratio prescribed for the first class, only one managed to improve the ratio and meet the set target at the end of June 1997 and another followed suit at the end of July 1997. Reaching the criteria set for the second class proved to be even more troublesome and at the beginning of the period under review only one savings bank reached the set target. No change was recorded at the end of June 1997, but a month later, three class savings banks made the notch. In the third class no major changes have been observed since the decree regulating the adjustment between due dates for borrowings and lending was enacted.

Supplementary liquidity reserves in the Slovenian savings banks comprising bills of the Bank of Slovenia have been increasing in the course of 1997. Secondary liquidity of the savings banks which stood at SIT 109.7 million at the end of 1996, increased to SIT 313.8 million at the end of June 1997.

3.10. Interest-rate risk

Year-on-year comparison of audited financial statements of **banks** for 1995 and 1996 shows that the share of assets and liabilities not earning interest was reduced at the end of 1996. Non-interest earning assets (tangible fixed assets, cash and balances at central bank being the biggest items) dropped from 13 per cent at the end of 1995 to 11.1 per cent at year-end 1996, while the share of non-interest liabilities (capital, prepayments and accrued income, and long-term reserves being the biggest items) fell from 20.5 per cent to 18.3 per cent in the same period.

Net exposure to interest rate-risk at the end of 1996 amounted to SIT 124.2 billion, in other words, interest-earning assets exceeded interest-earning liabilities by SIT 124.2 billion, i.e. non-interest earning assets are by the aforementioned amount lower than the non-interest liabilities.

With respect to 1995, net exposure to interest-rate risk grew by 12 per cent as non-performing assets were by SIT 110.9 billion lower than corresponding items on liabilities side of balance sheet.

Maturity structure of interest-earning assets and liabilities for interest

The bulk of total interest-earning assets which at the end of 1996 amounted to SIT 1,537.4 billion comprised loans and advances over 1 year (39.5 per cent) followed by loans and advances falling due in 1 month (excluding those repayable on demand) standing at 26 per cent, loans and advances falling due between 3 and 12 months standing at 14.7 per cent, loans and advances falling due between 1 and 3 months standing at 11.5 per cent, and loans and advances repayable on demand standing at 8.3 per cent.

Liabilities for interest totalled SIT 1,413.2 billion at the end of 1996. Deposits with one-month maturity stood at 25.5 per cent, demand deposits closed at 23.6 per cent, deposits over 1 year accounted for 19.9 per cent, deposits between 1 and 3 months stood at 16 per cent and those with maturity between 3 and 12 months accounted for 14.9 per cent.

Figure 9: Maturity structure of interest-earning assets and liabilities for interest as at 31 December 1995

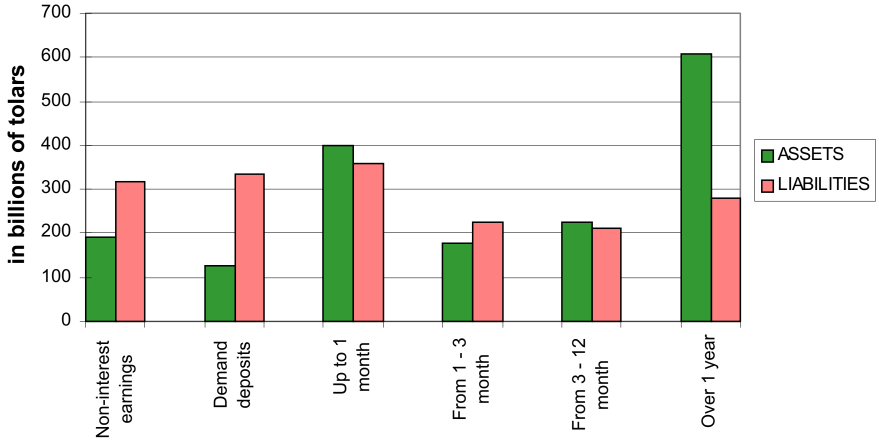
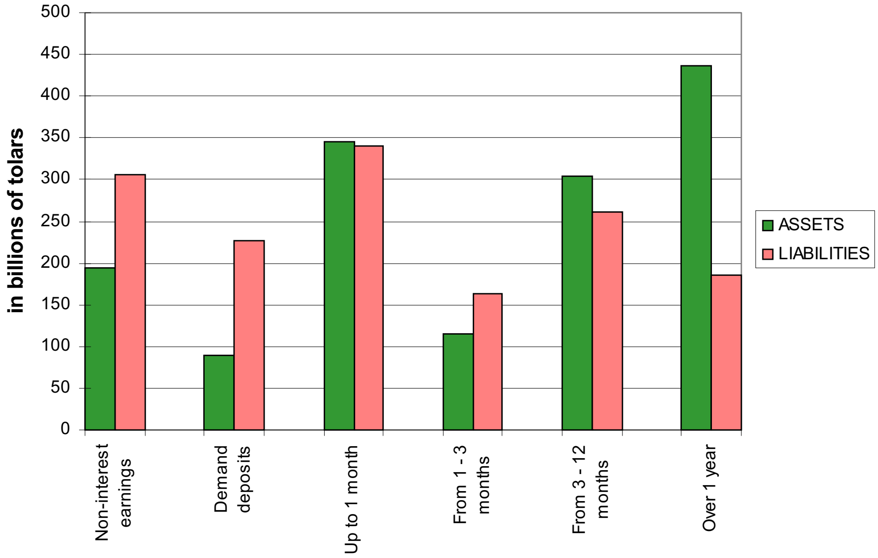


Figure 10: Maturity structure of interest-earning assets and liabilities for interest as at 31 December 1996



As far as non-interest earning assets and liabilities are concerned, the figures of the Slovenian **savings banks** are similar to the figures disclosed by banks. At the end of 1996, 10.1 per cent of assets and 17.3 per cent of liabilities do not earn/pay interest. Bigger differences are revealed in the structure of interest-bearing assets and liabilities for interest. Funds repayable on demand head the list (33.3 per cent), followed by funds maturing from 3 to 12 months (30.3 per cent), funds maturing after one year (16.3 per cent), and funds falling due from 1 to 3 months (13.7 per cent). The structure of liabilities for interest shows that demand deposits prevail (31.4 percent), followed by deposits from 1 to 3 months (21.4 per cent), deposits over 12 months (13 per cent), and deposits up to one months (8.7 per cent). The last-mentioned group prevails in the structure of liabilities of the Slovenian banks.

3.11. Currency risk

1. Foreign currency mismatch

Audited financial statements of **banks** show that net exposure to foreign exchange risk in the foreign currency sub-balance as at 31 December 1996 amounted to SIT 101.1 billion, i.e. that liabilities in foreign currencies exceeded by SIT 101.1 billion assets in foreign currencies. It is the so-called short foreign currency position or open position in foreign currency which as at 31 December 1996 accounted for 56.4 per cent of regulatory capital of the Slovenian banks. In comparison with 31st December 1995 when net foreign currency exposure totalled SIT 64.2 billion, this type of risk grew in one year by 57.5 per cent.

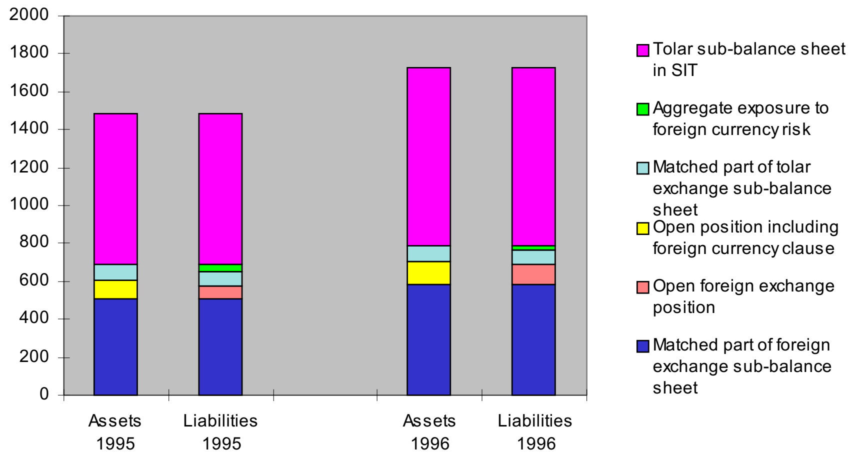
2. Mismatch in transactions with foreign exchange clause

Liabilities in tolars assumed under contracts including the so-called foreign exchange clause were lower than receivables in tolars with foreign currency clause by SIT 119.3 billion at the end of 1996. This amount represents a 21.6 per cent year-on-year growth. The issue here is the so-called long position with foreign currency clause.

3. Aggregate exposure to currency risk

Aggregate net exposure to the impact of movements in the exchange rate of foreign currencies (foreign currency mismatch and foreign exchange clause) amounted to SIT 18.2 billion at the end of 1996, which is less than a year before when this kind of exposure was SIT 33.9 billion. The result of aggregating foreign currency position and foreign exchange clause position is long overall foreign exchange position.

Figure 11: Exposure of banks to currency risk as at 31 Dec. 1995 and 31 Dec. 1996



At the end of 1996, only three **savings banks** had claims i.e. receivables in foreign currency (at the end of 1995, only one savings bank had foreign currency claims) totalling SIT 12.9 million, while no savings bank had any interest accruing in foreign currency. Receivables in tolars for transactions with foreign exchange clause were at the end of 1996 by 21.5 per cent lower than payables in tolars with foreign exchange clause, while other tolar receivables exceeded tolar payables by SIT 8.6 million.

As at 15th June the Decree on the Mismatch between Assets and Liabilities of Banks in Foreign Currency (open foreign exchange position of banks) (Official Gazette of the Republic of Slovenia, No. 35/97) came into force, stipulating that the bank that conducts operations involving payment instruments in foreign currency, shall calculate the daily open foreign currency position in order to control its exposure to currency risk and maintain a matched position in assets and liabilities in foreign currencies.

A bank is considered to be exposed to currency risk due to movements in exchange rates if the sum of items on the liabilities side of its balance sheet in foreign currencies is higher or lower than the sum of items on the assets side of its balance sheet in foreign currencies.

In the first half of 1997, the Slovenian banks recorded short foreign exchange position, which means that the sum of balance sheet items on the assets side in foreign currencies was lower than the sum of balance sheet items on the liabilities side in foreign currencies.[17]

In compliance with the above-mentioned Decree on Unmatched Assets and Liabilities Items of Banks in Foreign Currency (open foreign exchange position of banks), short or long foreign exchange position per day must not exceed 20 per cent of the regulatory capital of the respective bank.

As at 30th June 1997, the open foreign exchange position in 16 banks was above the prescribed ceiling of 20 per cent of the regulatory capital for each non-complying bank. Therefore, the banks have been warned to close the gap and gradually reduce the mismatch, i.e. the open position, by 1st July 2002, and to meet the required ratio. By the end of 1997, the banks operating in Slovenia will be examined in order to establish how sound they are in this matter and subject to the results obtained by analysing the key elements pertaining to their performance, the deadline would be adjusted accordingly. It may be assumed that the banks will be in tune well ahead of the above-mentioned date.

3.12. Market risk

In April 1997, the Bank of Slovenia released recommendations advising banks how to conduct dealing transactions. These recommendations also apply to the branch offices of the Slovenian banks abroad. These recommendations have been drawn up as the basis for more elaborate and thorough internal dealing rules which should reflect the nature of the dealing business of each bank.

Dealing operations are defined as those activities carried out by a bank on its own behalf and for its account or on its behalf but for the account of others, provided that such activities fall within the scope of the following:

- Transactions in the capital market,
- Transactions involving securities (excluding primary issue of securities),
- Transactions involving foreign currencies,
- Trading in precious metals,
- Trading in derivatives and/or hybrid instruments.

Dealing operations also include repos or repurchase agreements.

The recommendations define the responsibility of the management, qualifications required for staff, code of conduct, control and management of risk, internal control and audit, code of conduct for special deals etc.

The management is responsible to set up adequate organisation structure and are also responsible for monitoring of dealing operations, and for ensuring all necessary conditions for this sort of business. Dealing business may be conducted only in the line

17 As can be seen from the definition of foreign currency risk, contracts with foreign exchange clause are not included.

with instructions in writing approved by the management of the bank. The management shall ensure that the employees conducting dealing are properly qualified and trained, and that they have adequate experience in the field.

With the aim to control risk related to dealing, a system designed to measure and monitor risk-sensitive positions shall be put in place along with a system designed to identify possible losses and manage the risk. Risk-control function shall be entrusted to people who are not accountable to dealers. Imposing restrictions on exposed positions is the responsibility of the management. Dealing-related operating procedures draw a clear demarcation line between dealing, back office procedures and supervision, accounting and follow-up activities.

When the decision to issue recommendations to banks regarding dealing (rather than to prescribe minimum dealing standard) was made by the Bank of Slovenia, the size of the engagement of the Slovenian banks in dealing in securities varied enormously. The financial instruments the banks used for dealing purposes also differed widely, therefore, it would be most difficult to cover all by one umbrella.

Although the volume of dealing transactions varies from one bank to another, the aggregate volume of dealing transactions for the banking system is modest with the share of securities held for dealing purposes as a percentage of total assets is merely 2.4 per cent as at 30th June 1997. On the last day of December 1996 it stood at 1.7 per cent. Income and profit derived from dealing transactions at the end of June 1997 rose to 3.3 per cent of total earnings (2.2 per cent at the end of 1996).

3.13. Country risk

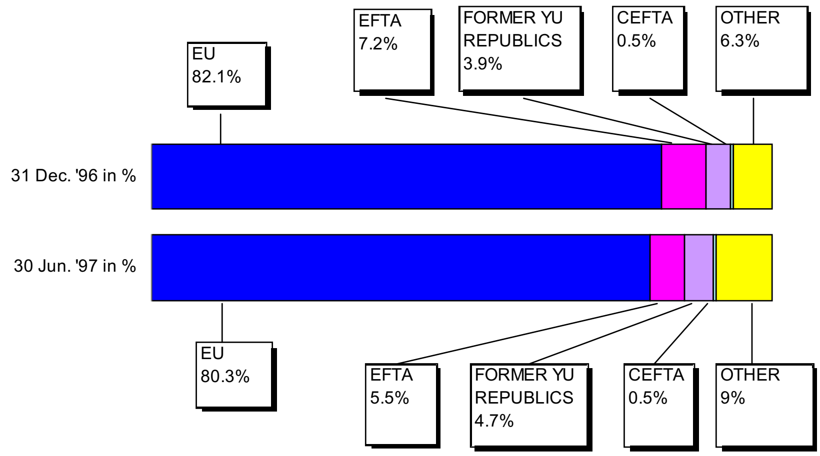
Better insight into country-related exposure was promulgated by issuing the Decree on the Classification of the Balance Sheet Assets and Off-balance Sheet Items of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, No. 78/96) that went into full force and effect as of 1st January 1997. The Decree stipulates that each time they assess their exposure to foreign entities, the banks have to make the assessment of country risk along with the assessment of creditworthiness of the foreign entity. In compliance with the recommendation issued in February 1997, the banks shall make adequate provisions to safeguard their financial condition from the country-related risk not later than the end of 1997.

At the end of June 1997, the combined cross-border exposure of the Slovenian **banks** totalled SIT 276.1 billion, which is by 15.5 per cent lower than at 1996 year-end when this amount stood at SIT 318.7 billion. In the period under review, the largest exposure of the Slovenian banks was to entities from the European Union (hereinafter: the EU), although it declined from SIT 261.7 billion as at 31 December 1996 to SIT 221.6 billion according to half-year figures. While at the end of 1996 the entities from the EFTA countries headed by Switzerland came right after the entities from the EU, at the end of June 1997, the entities from the United States (hereinafter: the USA) and other entities from the countries which are not members of the EU, EFTA, CEFTA or from the republics which used to be in former Yugoslavia, were listed right after the EU-based entities. As at 30 June 1997, in terms of the exposure which stood at SIT 15.2 billion, the entities from the EFTA countries ranked third, ahead of the entities from the republics of former Yugoslavia and from the CEFTA countries.

Cross-border exposure to entities from the republics of former Yugoslavia and the members of CEFTA did not change considerably during the period under review. Thus the exposure related to entities from the republics of former Yugoslavia stood at SIT 13 billion on 30 June 1997 (SIT 627 million more than on 31 December 1996), while the exposure related to entities from the CEFTA countries was reduced from SIT 1.6 billion on 31 December 1996 to SIT 1.3 billion on 30 June 1997. By analysing on 30 June 1997 the composition of entities from other countries dominated by the USA, Japan and the Commonwealth of Independent States (Russia and other republics of former U.S.S.R.), it becomes clear that the increasing cross-border exposure from SIT 20 billion to SIT 24.9 billion is mainly due to significantly larger exposure to entities from Japan and the Commonwealth of Independent States. The exposure related to entities from the USA somewhat decreased.

Only for one EU country provisioning has been deemed necessary, although total exposure to the entities from that particular country did not exceed SIT 10 million either on 31 December 1996, or on 30 June 1997. The same applies to the EFTA countries and making provisions for just one EFTA country is required even though the Slovenian banks have not had any claims on debtors from that country so far. Provisions are compulsory for all debtors from the republics of former Yugoslavia and the CEFTA countries, but the size of these provisions varies from country to country. Adequate increase in provisions to reflect substantial exposure to entities from the Commonwealth of Independent States recorded on 30 June 1997 shall be made, whereas the figures as of 30 June 1997 related to entities from other countries besides the USA, Cyprus, Canada and Australia, do not reach SIT 80 million per country.

Figure 12: Exposure of banks to country risk as at 31 Dec.1996 and 30 Jun. 1997



As the Slovenian **savings banks** are not authorised to carry out international payments and credit transactions with foreign countries, there is no cross-border exposure.

3.14. Information technology risk

Technology has become an indispensable part of modern business environment and the line separating business and technology has been blurred. Information technology (hereinafter: IT) holds a key position and has a far-reaching impact on business, and, above all, on financial sector which is one of the pillars supporting the whole economy of the country. Rapid development of IT, upgraded communications and knowledge exploited to push frontiers, provide the cutting edge in the highly competitive ambit financial markets at home and abroad. Banking sector has been confronted not only with the challenges of the technological progress, but also with the lack of proper regulations in the area and risks inherent in the systems. At this level of development, the banking industry has still not caught pace with trends, standards, new financial products and principles ruling the environment described as the information society.

Versatile resources available through IT serve as support for a wide range of operating activities. The actual state of affairs shows that the support offered to business processes is, generally speaking, poor or moderate. There is room for improvement of the business process regarding criteria of economy, efficiency and performance. The main data processing operations are still in batch mode. Decision-making systems tailored to specific needs are few or cannot be acquired at all. The first encouraging signs reflect the impact of globalisation and the beginning of business re-engineering. Some weaknesses have been be detected at conceptual level of business processes. The problems identified in the telecommunications are due to the underdeveloped public network. In the year 2000 problems deriving from date-related types and algorithms which may be slow to adapt and standardise early enough are likely to appear (as envisaged for systems such as SWIFT). WEB[18] technology is developing slowly and cyber-trading and cyber money will be available shortly. As Slovenian banks were waiting for the new payment system, there were no signs of major technological changes in 1996. In 1997, however, IT made first big strides.

Although IT systems and the treatment of IT issues differ greatly from one bank to another, convergence is to be expected due to the similarities in business activities conducted by the banks.

Conventional wisdom tells us that the assessment of risk inherent in the IT area will eventually become a part of the daily risk management.

As some banks still lack the methodology required for risk management in the IT area, and as other shortcomings such as lack of development strategy[19] and vision, lack of the culture of risk with reference to organisation and information systems, alongside undocumented system[20], falling short of professional security in the controlled area, inadequate stress on knowledge, development etc. are all too obvious, the Slovenian banks should adopt a pro-active stance regarding IT in banking.

Table 7: The standpoint in IT with respect to the future development of the banking sector

All banks will be affected by:	Competitive advantages:	Included in business processes:
Year 2000	Overhaul of business reengineering	Risk assessment methods in IT area
New Payment System	Introduction of new financial products	IT internal control
World-wide standards	Integration as advanced process	IT security
Globalisation	WEB technology (Intranet, Internet, Extranet)	Quality dimension
Object technology, Componentware	Intelligent operations, nets, applications, agents	Reliability, availability, access to data, information, knowledge
Continuous process program	Knowledge management	Value chains
Newly-developed tools, new culture, new values	Business intelligence	Speed of reacting to events
Industrial trends & Directions	Multimedia support environment	Forecast processes
Strategic management	Intellectual capital	Innovations
Cyber-trading	Management of changes	Parallel processing
Knowledge engineering	Artificial intelligence	Data mining
JAVA[21] applications	Excellence in business	Speech recognition
Upgrading IT Infrastructure	Cutting costs through IT	Better decision making

18 Internet, Intranet, Extranet

19 Strategy in our context means including all segments from the vision, goals, policy, planning, safety, education, responsibility, control, stimulation and incentives.

20 Refers to system documents, applications, procedures, instructions, programmes, standards, data models etc.

21 JAVA is the programing language designed for programing on the Internet

To this end the following should be upgraded or built from scrap:

- Strategic orientation,
- Intelligent competitive operations[22] (gathering, selection, analysis, dissemination of information),
- Project efficiency,
- Modernisation of IT infrastructure,
- Support information systems (applications),
- Productivity, quality, relations (value added, management),
- Reduction of operating costs by means of IT,
- Event-oriented organisation structure (organisation + events),
- Integration (as an advanced process).

As IT falls within the scope of the internal control and audit function, better terms and conditions for the supervision carried out by the Bank Supervision Department are to be expected.

Overhaul or modernisation of the business processes and the IT infrastructure, as well as good command of new knowledge in the field, will be necessary undoubtedly be capital investment for the Slovenian banks. A certain degree of development activities already exists and there is awareness of the growing importance of IT. Nevertheless, the synergy will fully come out if the categories listed in Table 7 are taken into consideration.

In the field of IT control, examinations shall be completed in all banks by the end of 1997. Thus it will be possible to establish IT resources such as staff, applications, technology, support facilities, data, as well as processes for each area or domain falling within the IT scope or the support to business processes such as planning and organisation, acquisition and implementation, delivery and support, and monitoring. In the year 1998, monitoring along the principles of the Continuous Process Audit Systems (CPAS) and the development of the monitoring system for electronic links with the internal and audit function in the banks, as well as with the persons responsible for IT activities by virtue of the position they hold in the organisation structure of the bank should be in place with the aim to enable the exchange of quality information that would eventually result in timely warning signals.

3.15. Bank deposits guarantee scheme

The Bank of Slovenia carries out insurance business in banks and savings banks on behalf of and for the account of the Republic of Slovenia in accordance with the Law on the Agency of the Republic of Slovenia for the Insurance of Deposits of Banks and Savings Banks. In case a bankruptcy of a bank or a savings bank, the Bank of Slovenia has to pay insured deposits which means that under such a deposit protection scheme the central bank indirectly guarantees for these deposits. Payments of deposits is effected through the bank or the savings banks which takes over savings operations of the bank or the savings bank which went bust.

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22 Knowledge Discovery

The Law on Banks and Savings Banks (Article 78) and the Law on the Bank of Slovenia (Article 99) contain provisions stipulating the insurance of deposits gathered by banks and savings banks. This issue is also dealt with in the Law on Foreign Exchange Operations (Article 98). Provisions laid down in Article 19 of the Constitutional Law on the Implementation of the Charter on Independence and Sovereignty (hereinafter: the Constitutional Law) enacted in 1991 bearing in mind the confidence of depositors in the Slovenian banks, provide the cornerstone for the legislation allowing for the uncapped guarantee for bank deposits. Thus the Republic of Slovenia has assumed surety for the payment of all savings deposits in tolars and foreign currency deposited in the banks and savings banks authorised by the Bank of Slovenia to take deposits.

Such a deposit guarantee scheme of the Republic of Slovenia protects all forms of private savings regardless the currency or term. In other words, deposits in tolars and foreign currency, as well as deposits repayable on demand and time deposits are protected by the scheme. The scheme encompasses also current accounts and pass-books issued in the name of a private individual or to the bearer and represents an identification document in which all pay-in transactions and withdrawals are entered. The guarantee scheme provided by the Republic of Slovenia does not protect funds in the so-called giro accounts of private individuals, nor does it cover funds deposited upon the subscription of various securities such as certificates of deposit issued by a bank.

The issue of deposit protection for funds of private individuals is treated differently under the draft Banking Law. Eligible deposits from private individuals will be defined by the new Banking Law, including the ceiling for guaranteed deposits. If the funds earmarked by the banks under the joint and several guarantee to pay out eligible deposits do not suffice, the Republic of Slovenia will pay the difference up to the required amount but not exceeding SIT 3,400,000 per private depositor per single bank in case of bank bankruptcy.

4. DEVELOPMENTS IN THE LEGISLATIVE FRAMEWORK

4.1. Progress on preparation for accession of Slovenia to the EU

The ratification of the Europe Agreement signed on 10th June 1996 between the Republic of Slovenia and the European Union by the Slovenian Parliament on 23rd July 1997, provides a framework for dialogue and paves the way for Slovenia's accession. Although Slovenia as the associated country is not expected to harmonise its legislation with the legislation of the Union, by signing the Agreement it made a commitment to create the conditions for the gradual integration leading to Slovenia's capacity to adopt the obligations of membership (*acquis*, the secondary legislation, and the policies of the Union). Legislation regulating banking sector is high on the agenda listing convergence activities dealt with in Article 71 of the Agreement.

The bill of the Banking Law has been in the pipeline since 27th June 1996 and as all relevant EU directives have been taken into account, it targets at adjusting Slovenia's banking sector to the international criteria and standards.

The government legislative office has prepared "The Survey of Convergence of the Legislation of the Republic of Slovenia with the Recommendations Contained in the White Paper. In Chapter 13 the harmonisation of the draft Banking Law and the present by-laws of the Bank of Slovenia (enacted on the basis of the Law on Banks and Savings Banks currently in force, with the relevant EU Directives. The draft Banking Law has been fully harmonised with the EU Directives listed below:

- First Banking Directive of 12 December 1977;
- Directive on Required Capital for Credit Institutions of 17 April 1989;
- Directive on a Solvency Ratio for Credit Institutions of 18 December 1989;
- Directive on the Guarantee for Bank Deposits of 30 May 1994;
- Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions of 8 December 1986;
- Directive on Large Credit Exposure of 21 December 1992;
- Directive on Supervision of Credit Institutions on Consolidated Basis of 6 April 1992.

The draft Banking Law is partly in conformity with:

- Second Banking Directive of 15 December 1989.

The divergent stipulations of the draft Banking law refer to the two principles laid down in the Second Directive set forth below:

Single banking licence authorising banks to provide financial service and to set up branch offices in the Member States without any limitations. A credit institution authorised to operate in one Member State may conduct operating activities in another Member State through branch offices or other organisational forms without a licence issued by the authorities of that State.

To set up a branch office or some other form of operating unit in another Member State does not require authorisation granted by the host country, but calls only for exchange of opinions between supervising authorities of both countries concerned.

The diverging stipulations of the draft Banking Law envisage that a foreign bank may provide financial services in the territory of the Republic of Slovenia through a branch office. Setting up a branch office of a foreign bank in Slovenia is subject to authorisation given by the Bank of Slovenia. The same procedure applies to representative offices of foreign banks to be opened in Slovenia.

Home country control - the core of this principle is that the supervising authority of the country in which the bank has its registered office is competent to grant the licence and to supervise the bank as the entire entity (including all its branches and business units throughout the EU). A branch of a foreign bank operating in the territory of the Member State and not the entire bank falls within the supervisory jurisdiction of the authorities of that State only as far as the monetary supervision is concerned. Authorities of the host country may only request from the branch office of a foreign bank to abide by any special measures within the framework of the national legislation, provided it is in compliance with laws of the EU, and should benefit all parties concerned.

The draft Banking Law stipulates that in addition to the supervision of the domestic banks, the Bank of Slovenia is also authorised to supervise operating activities of branches and representative offices of foreign banks operating in the territory of the Republic of Slovenia.

Therefore, the membership of Slovenia of the EU will call for two modifications of the Banking Law, both in connection with the Second Banking Directive:

- Authorisation procedure - licensing branches and representative offices of foreign banks, and
- Supervision of branches and representative offices of foreign banks.

4.2. By-laws applicable to the banks and savings banks

In the course of 1996 and the first half of 1997, several by-laws were drawn-up in the Bank of Slovenia. In July 1996, the Bank of Slovenia prescribed how to match maturity in the structure of the funds taken from customers and the funds owed to customers. Furthermore, acting as the lender of last resort, the Bank of Slovenia offered to ailing banks the possibility to obtain special loans, it also started with reports on banks' biggest depositors, as well as on tolar liquidity flows, it capped the growth of net cross-border indebtedness and introduced the gradual transition to the system of compulsory share (40 per cent) of T-bills denominated in foreign currency aimed at further strengthening of secondary liquidity of banks and savings banks.[23] The prudential standard regarding the liquidity of foreign exchange deposits was improved in the same period.

At the end of 1996, the new Decree on the Classification of Balance Sheet Assets and Off-balance-sheet Items for Banks and Savings Banks, as well as new instructions providing the guidelines for the implementation of the Decree mentioned above and for the restructuring of non-performing assets were adopted taking full force and effect on 1 January 1997.

Due to the introduction of custody accounts in February and May 1997, the Decree on Conditions and Criteria for Granting Licences to Banks were modified, i.e. amended.

23 Secondary liquidity of a bank encompasses bills of the Bank of Slovenia denominated in domestic and foreign currency, and marketable T-bills and bonds of the Republic of Slovenia.

In April 1997, the Instructions for the Calculation of the Most Common Interest Rates on Deposits and on Loans came into effect in addition to the recommendations to the banks regarding trading business. In May 1997, the Instructions for the Preparation of Reports on Operating Activities of Banking Groups under which the bank in charge of the banking groups shall submit to the central bank consolidated balance sheet and profit and loss account for the banking group twice a year, in addition to the measurement of regulatory capital and capital adequacy of the banking group, and the report on the classification of the on-balance sheet assets and off-balance sheet items.

In May 1997, two modifications of the Decree on the Method of Calculating Capital Adequacy for Banks and Savings Banks to reflect minor changes in the method for measuring capital adequacy of the Slovenian banks were passed, and the Decree on the Amount of Provisions and the Method to Calculate Provisions to Protect Banks and Savings Banks Against Potential Losses was amended as well.

4.3. Draft Banking Law - supervisory actions by the Bank of Slovenia

The draft Banking Law harmonises the most significant laws, i.e. relevant sections thereof, and, above all, the Law on the Bank of Slovenia (section on bank supervision) (Official Gazette of the Republic of Slovenia No. 1/91-I), the Law on Banks and Savings Banks, the Law on Pre-rehabilitation, Rehabilitation, Bankruptcy and Liquidation of Banks and Savings Banks (Official Gazette of the Republic of Slovenia Nos. 1/91-I, and 46/93), as well as by-laws enacted by the Bank of Slovenia. The modifications and amendments contained in the draft Banking Law (Journal of the National Assembly of the Republic of Slovenia, No. 26/96) entail significant changes which will transform the banking sector. The developments summarised in the new Banking Law range from the scope of banking activities to supervisory arrangements made by the Bank of Slovenia, and prudential conditions to be followed by banks and savings banks.

New definition of banking activities, separating banking business from other financial transactions and drawing a demarcation line between financial transactions and all other types of transactions, redefining the concept of eligible shareholders of banks, harmonisation of those provisions which define corporate governance in banks with the provisions related to corporate governance in other joint-stock companies, and substantially different approach to regulating operating activities of foreign banks in Slovenia - all these innovations call for changes to be implemented in the bank supervision framework set up under the umbrella of the Bank of Slovenia. The draft Banking Law proposes a modified approach to understanding of business risks and the introduction of a new deposit guarantee scheme and these changes will be reflected in the reports compiled by banks and submitted to the central bank with the aim to enable supervision of their business.

Apart from the changes related to the supervision of banking operations, the new Banking Law will strengthen the supervisory role of the Bank of Slovenia primarily by defining more clearly and explicitly the supervisory function and by straightforward remedial actions whenever non-conformity or irregularities in banking operations are revealed.

Routine reporting to the Bank of Slovenia is envisaged to continue without major changes as the new Banking Law stipulates that banks and savings banks shall keep the Bank of Slovenia informed on the following issues:

changes of status:

- entry in court registrar
- changed composition of the management and/or supervisory board, new proxy, and other personnel changes at top management level,
- appointment of new external auditor,

- proposed changes with respect to branches, subsidiaries and representative offices at home and abroad,
- changing the registered office,

important changes regarding equity capital and ownership:

- planning increase or decrease of equity by 25 per cent or more,
- acquiring more than 5 per cent of voting shares,
- significant changes in the structure of equity;

increase of credit risk and other types of exposure:

- large exposure identified,
- granting loans to directors of the banks,
- open foreign exchange position,
- developments impeding the management to execute the powers vested in them by the virtue of legal and status authorisations;

termination of some banking transactions or other financial operations.

In comparison with the present regulatory role of the central bank in the field of bank supervision, the key change is the authorisation given to the Bank of Slovenia to supervise also operating activities of other companies which form a financial conglomerate together with banks. The draft Banking Law explicitly authorises the Bank of Slovenia to liaise with other authorities which supervise providing financial services to clients. Both authorisations mean an additional step in the direction of the full convergence with the developed banking establishment.

With respect to the actions designed to dig into the core of the so-called grey market, the important innovation incorporated in the draft Banking Law is vesting the Bank of Slovenia with the authorisation to carry out examinations of business activities of legal entities other than banks, as well as to examine the business of sole traders who allegedly render banking services (Article 102, Paragraph 3). In relation with the punitive measure of commencing liquidation proceedings ex officio as envisaged by general provisions of the draft Banking Law (Article 4), tangible means will be provided with the purpose to control unauthorised and unsupervised financial services. Above all, general provisions of the draft Banking Law which specifically separate banking services to be performed solely by banks from other financial services which are to be distinguished from all other types of activities.

The new banking legislation describes the forms of prudential supervision defined more thoroughly than before. The essence of the great part of supervision to be performed by the bank of Slovenia will not undergo visible changes, thus remaining basically similar to the set of controls already in place. The bulk of activities aimed at monitoring banking operations will be founded on the control of data contained in statutory returns submitted by banks and savings banks (off-site examination of banks and savings banks). Tasks executed by examiners within the framework of on-site examination will basically consist of examining documentation obtained in the bank and detecting possible non-compliance with statutory returns.

By their substance, the measures of the Bank of Slovenia are:

- related to the increase of capital and capital adequacy,
- drawn up with the aim to set the ceiling on granting loans to risky groups of customers and oriented at achieving a higher degree of collectability,

designed to contribute to reducing operating costs, viz.:

- by improved risk management
- by improving the composition of staff and by appointing auditors who can perform the job at a higher standard,
- by direct impact reflected in the demand for lower remuneration, fringe benefits and allowances due to directors i.e. board members, as well as by curbing other costs incurred by banks.

The groundbreaking innovation proposed by the draft Banking Law is the special administration to be introduced by the Bank of Slovenia within the framework of crisis proceedings, i.e. when a bank does not abide by the measures imposed by the Bank of Slovenia as its regulator. The same applies in the case when the business of that particular bank has deteriorated to a point that the bank's liquidity and/or solvency are threatened.

Under the above-mentioned circumstances, the Bank of Slovenia will appoint one or more special administrators by issuing a decree.

Under the administrative proceedings, and bearing in mind the consequences thereof, the decree is final. The special administrator may be an examiner of the Bank of Slovenia or an independent expert. The appointment of the special administration shall be duly registered with the competent court of registry.

The special administrator would be vested with extraordinary powers and would be authorised to supersede the rights and obligations of all management bodies of the bank. The special administrator shall follow only the instructions issued by the Bank of Slovenia.

Within three months at the latest, the special administrator should send a report to the Bank of Slovenia and to the bank's shareholders on the state of affairs. The shareholders would be entitled to propose re-capitalisation i.e. strengthening of the capital base, as well as other measures aimed at reducing the exposure including winding-up and liquidation of the bank.

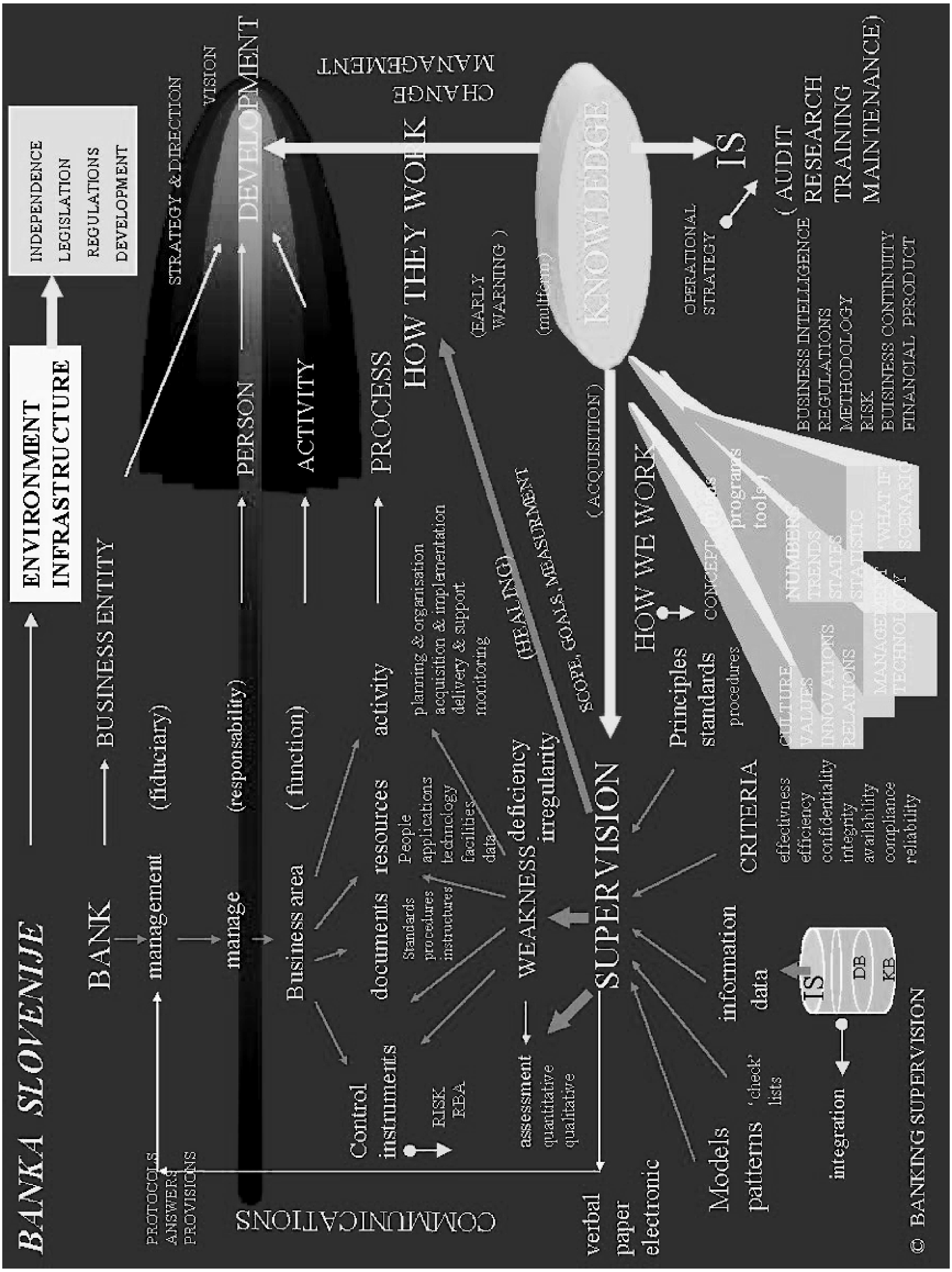
At least every three months, the Bank of Slovenia would have to evaluate the results achieved by putting in place the special administration, and would rule on the termination of the special administration on the basis of such an evaluation.

The termination of the special administration would mean that the bank has been rescued, or that liquidation proceedings leading to bankruptcy would commence.

The draft Banking Law encompasses some innovations tailored primarily to strengthen banking supervision. On the other hand, the truth of the matter is that despite a wide range of additional tools, the stress placed on the responsibility of the members of the management, examiners of the central bank and also of the special administrators, the role to be played by the owners of banks and savings bank is of paramount importance. The general meeting of shareholders - owners of banks or savings banks - and their representatives on supervisory boards shall not act as debtors of "their" banks, but shall strive to ensure constant yield in form of dividends. Encouraging better safety all segments of banking service should be regarded as a constituent part of these efforts. Bank supervision carried out by the central bank, which by definition means the audit above the audit carried out on the basis of legal framework set forth for the comprehensive supervision and audit conducted by internal auditors in the first place and by independent auditors but only in the second phase, could also in the years ahead merely be just another custodian of the prudential banking.

Aleš Žajdela
Director
Bank Supervision Department

Samo Nučič
Deputy Governor



BANKA SLOVENIJE
ENVIRONMENT
INFRASTRUCTURE
INDEPENDENCE
LEGISLATION
REGULATIONS
DEVELOPMENT
BANK
BUSINESS ENTITY
management
(fiduciary)
manage
(responsability)
Business area
(function)
PROTOCOLS
ANSWERS
PROVISIONS
STRATEGY & DIRECTION
VISION
DEVELOPMENT
PERSON
ACTIVITY
PROCESS
HOW THEY WORK
CHANGE
MANAGEMENT
COMMUNICATIONS
Control
instruments
RISK
RBA
documents
Standards
procedures
instructures
resources
People
applications
technology
facilities
data
activity
planning & organisation
acquisition & implementation
delivery & support
monitoring
WEAKNESS
deficiency
irregularity
(HEALING)
SCOPE, GOALS, MEASUREMENT
(EARLY
WARNING)
(uniform)
KNOWLEDGE
(ACQUISITION)
assessment
quantitative
qualitative
SUPERVISION
verbal
paper
electronic
Models
patterns
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lists
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confidentiality
integrity
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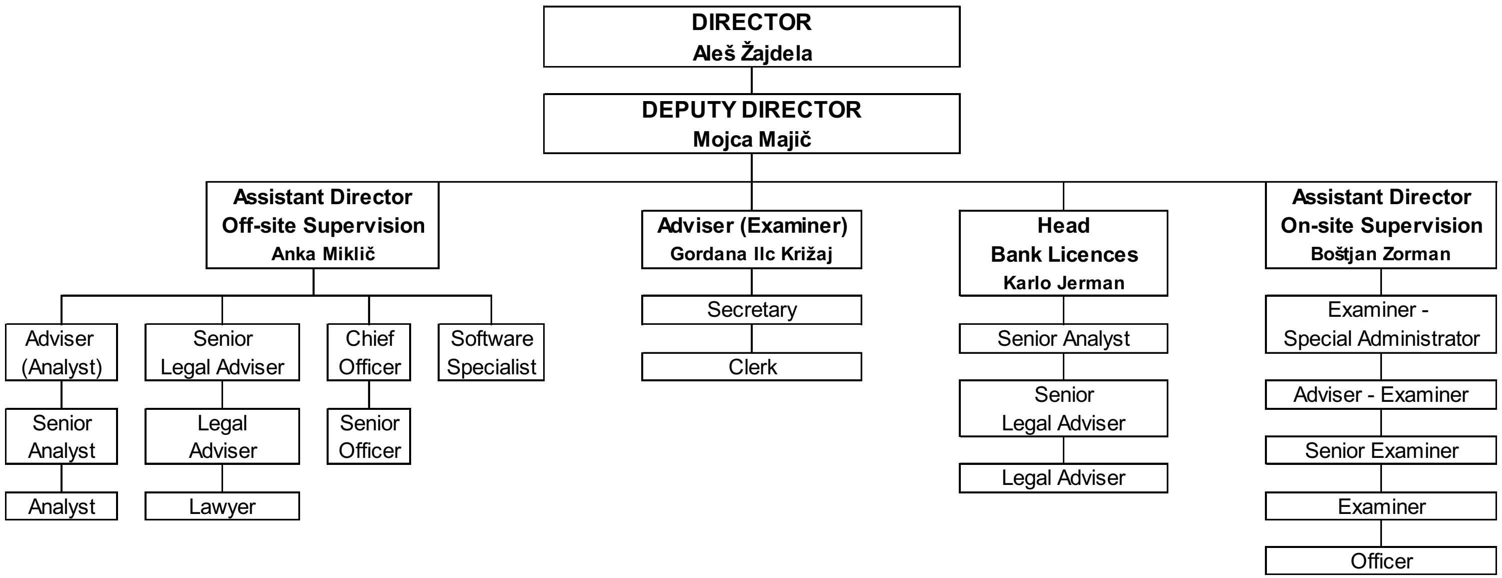
Principles
standards
procedures
HOW WE WORK
CONCEPT
programs
tools
CULTURE
VALUES
INNOVATIONS
RELATIONS
NUMBERS
TRENDS
STATES
STATISTIC
MANAGEMENT
TECHNOLOGY
"WHAT IF"
SCENARIO
BUSINESS INTELLIGENCE
REGULATIONS
METHODOLOGY
RISK
BUSINESS CONTINUITY
FINANCIAL PPRODUCT
OPERATIONAL
STRATEGY
IS
(AUDIT
RESEARCH
TRAINING
MAINTENANCE)
© BANKING SUPERVISION

APPENDIX 1

ORGANISATIONAL STRUCTURE OF THE BANK SUPERVISION DEPARTMENT



APPENDIX 2

BANKS AND SAVINGS BANKS IN SLOVENIA

authorised by the Bank of Slovenia to conduct operating activities as at 30 June 1997

Slovenian universal banks holding the full licence for commercial and investment banking (all activities listed in Article 2 of the Law on Banks and Savings Banks and in Article 39 of the Law on the Securities Market):

BANKA VIPA, d.d. Nova Gorica
GORENJSKA BANKA, d.d., Kranj
NOVA LJUBLJANSKA BANKA d.d., Ljubljana
PROBANKA d.d.
SKB BANKA d.d. Ljubljana
SLOVENSKA ZADRUŽNA KMETIJSKA BANKA d.d. Ljubljana
BANKA KOPER d.d.

Bank with full licence for commercial banking, as well as for stockbroking, dealing in securities and market-making:

BANK AUSTRIA d.d. Ljubljana

Bank with full licence for commercial banking, as well as for stockbroking and dealing in securities:

BANKA CREDITANSTALT d.d.

Banks with full licence for commercial banking:

ABANKA d.d. Ljubljana
BANKA CELJE d.d.
DOLENJSKA BANKA d.d.
KREKOVA BANKA d.d.
NOVA KREDITNA BANKA MARIBOR d.d.
VOLKSBANK - LJUDSKA BANKA d.d.

Universal bank with full licence for commercial banking (excluding personal foreign currency deposits, custody accounts of foreign persons, and accounts of foreign persons, unless these are current or giro accounts of foreign banks and financial organisations dealing in international payments) and with full licence for investment banking:

UBK UNIVERZALNA BANKA d.d. Ljubljana

Bank with full licence for commercial banking (excluding personal foreign currency deposits, custody accounts of foreign persons, and accounts of foreign persons, unless these are current or giro accounts of foreign banks and financial organisations dealing in international payments) and with licence for stockbroking and dealing in securities:

SLOVENSKA INVESTICIJSKA BANKA, d.d.

Banks with full licence for commercial banking (excluding personal foreign currency deposits, custody accounts for foreign persons, and accounts of foreign

persons, unless these are current or giro accounts of foreign banks and financial organisations dealing in international payments):

BANKA SOCIETE GENERALE LJUBLJANA d.d.
M BANKA d.d.

Bank with full licence for commercial banking (excluding personal foreign currency deposits, custody accounts of foreign persons, and accounts of foreign persons, unless these are current or giro accounts of foreign banks and financial organisations dealing in international payments) and with full licence for investment banking:

FACTOR BANKA d.d.

Banks with licence for all domestic commercial banking operations and international payments and with full licence for investment banking:

LJUBLJANSKA BANKA - POMURSKA BANKA d.d., Murska Sobota
LJUBLJANSKA BANKA - SPLOŠNA BANKA VELENJE d.d., Velenje

Banks with licence for all domestic commercial banking operations and international payments:

LJUBLJANSKA BANKA - BANKA DOMŽALE d.d., Domžale
LJUBLJANSKA BANKA - KOROŠKA BANKA d.d., Slovenj Gradec
LJUBLJANSKA BANKA - BANKA ZASAVJE d.d. Trbovlje

Bank with licence for all domestic commercial banking operations (excluding personal foreign currency deposits, custody accounts of foreign persons, and accounts of foreign persons):

HIPOTEKARNA BANKA d.d. Brežice
HMEZAD BANKA, d.d. Žalec

Bank with licence for all domestic commercial banking operations (excluding personal foreign currency deposits, custody accounts of foreign persons, and accounts of foreign persons, unless these are current or giro accounts of foreign banks and financial organisations dealing in international payments) and for international payments with international postal instruments:

POŠTNA BANKA SLOVENIJE d.d.

Banks with licence granted under the Constitutional Law:

KREDITNA BANKA MARIBOR d.d.
LJUBLJANSKA BANKA d.d., Ljubljana

Banking groups:

Banka Celje Banking Group:
BANKA CELJE d.d.
HMEZAD BANKA, d.d. Žalec

NLB Banking Group:
NOVA LJUBLJANSKA BANKA d.d., Ljubljana
LJUBLJANSKA BANKA - BANKA ZASAVJE d.d. Trbovlje

LJUBLJANSKA BANKA - KOROŠKA BANKA d.d., Slovenj Gradec
LJUBLJANSKA BANKA - POMURSKA BANKA d.d., Murska Sobota
LJUBLJANSKA BANKA - SPLOŠNA BANKA VELENJE d.d., Velenje

SKB Banking Group:
SKB BANKA d.d. Ljubljana
UBK UNIVERZALNA BANKA d.d. Ljubljana

Subsidiaries of foreign banks:

BANK AUSTRIA d.d. Ljubljana
BANKA CREDITANSTALT d.d.
VOLKSBANK - LJUDSKA BANKA d.d.
BANKA SOCIETE GENERALE LJUBLJANA d.d.

Representative offices of foreign banks:

CASSA DI RISPARMIO DI TRIESTE
CASSA DI RISPARMIO DI UDINE
DIE KAERTNER SPARKASSE
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT
HUNGARIAN FOREIGN TRADE BANK
OESTERREICHIESCHE VOLKSBANKEN AG

Savings banks:

Hranilnica LON d.d. Kranj
Hranilnica in posojilnica KGP Kočevske d.d.
Mariborska hranilnica in posojilnica d.o.o.
LLT Hranilnica in posojilnica d.d. Murska Sobota
Hranilnica in posojilnica Tilia d.o.o. Novo mesto
Delavska hranilnica d.o.o. Ljubljana
Istrska hranilnica in posojilnica d.o.o. Ljubljana

APPENDIX 3

CHANGES IN THE LEGAL STATUS OF SLOVENIAN BANKS AND SAVINGS BANKS IN THE PERIOD FROM 1ST JANUARY 1996 TO 30TH JUNE 1997

	Banks, Saving Banks	Type of Change	Date of Change
1.	Ljubljanska banka - Posavska banka Krško d.d.	Take-over by Nova Ljubljanska banka d.d., Ljubljana	01. April 1996
2.	Hranilnica Hmezad Agrina Žalec d.o.o.	Take-over by Komercialna banka Triglav d.d.	03. July 1996
3.	Hranilnica Val d.o.o. Izola	Take-over by Komercialna banka Triglav d.d.	04. July 1996
4.	Komercialna banka Triglav d.d.	Liquidation proceeding started	05. July 1996
5.	Komercialna banka Triglav d.d. - liquidation	Bankruptcy proceeding started	27. December 1996
6.	Banka Noricum d.d. Ljubljana	Take-over by Banka Celje d.d., Celje	31. December 1996

APPENDIX 4

BALANCE SHEET OF SLOVENIAN BANKS

in millions of tolars

Item No.	Balance Sheet Designation		DESCRIPTION	1995	1996	30. June 1997
1	A.	I.	Cash in hand and balances at central bank	62.249	63.341	68.464
2	A.	II.	Government securities and other eligible bills	0	0	0
3	A.	III.	Loans and advances to banks and savings banks	257.530	314.699	255.834
4	A.	IV.	Loans and advances to customers	603.919	720.847	766.543
5	A.	V.	Investment securities	387.411	449.161	530.972
6	A.	VI.	Dealing securities	27.293	29.436	45.235
7	A.	VII.	Trade investments	16.082	15.996	18.161
8	A.	VIII.	Investments in related companies	10.022	11.499	10.625
9	A.	IX.	Intangible assets	1.350	2.311	3.027
10	A.	X.	Tangible fixed assets	56.748	60.877	67.304
11	A.	XI.	Subscribed capital unpaid and own shares	3.486	3.231	1.144
12	A.	XII.	Other assets	63.979	51.469	80.303
13	A.	XIII.	Prepayments and accrued income	9.854	9.287	14.036
			TOTAL ASSETS	**1.499.922**	**1.732.153**	**1.861.646**
14	P.	I.	Deposits and borrowings from banks and savings banks	243.226	216.061	201.776
15	P.	II.	Deposits and borrowings from customers	909.984	1.167.240	1.256.660
16	P.	III.	Liabilities from securites	45.066	37.082	42.375
17	P.	IV.	Other liabilities	26.694	21.796	35.880
18	P.	V.	Accruals and deferred income	65.402	56.920	85.621
19	P.	VI.	Provision for liabilities and charges	27.272	28.814	29.827
20	P.	VII.	Subscribed capital and foundation capital of savings banks	56.695	56.789	56.900
21	P.	VIII.	Over-subscribed capital	10.094	8.420	8.048
22	P.	IX.	Reserves	68.129	72.891	78.711
23	P.	X.	General provisions	5.237	6.132	5.827
24	P.	XI.	Capital revaluation adjustment	31.600	45.152	55.513
25	P.	XII.	Net profit or loss brought forward	-447	1.127	4.439
26	P.	XIII.	Net profit or loss for the financial year	10.971	13.729	68
			TOTAL LIABILITIES	**1.499.922**	**1.732.153**	**1.861.646**

Total assets - average for the year [1]	1.327.052	1.644.738	1.796.303
Number of banks	31	29	28
Number of employees at year-end	10.138	10.317	

[1] Calculated as average balance at month-end

APPENDIX 5

COMPOSITION OF THE BALANCE SHEET

Item No.	Balance Sheet Designation		DESCRIPTION	1995	1996	30. June 1997
1	A.	I.	Cash in hand and balances at central bank	4,2	3,7	3,7
2	A.	II.	Government securities and other eligible bills	0,0	0,0	0,0
3	A.	III.	Loans and advances to banks and savings banks	17,2	18,2	13,7
4	A.	IV.	Loans and advances to customers	40,3	41,6	41,2
5	A.	V.	Investment securities	25,8	25,9	28,5
6	A.	VI.	Dealing securities	1,8	1,7	2,4
7	A.	VII.	Trade investments	1,1	0,9	1,0
8	A.	VIII.	Investments in related companies	0,7	0,7	0,6
9	A.	IX.	Intangible assets	0,1	0,1	0,2
10	A.	X.	Tangible fixed assets	3,8	3,5	3,6
11	A.	XI.	Subscribed capital unpaid and own shares	0,2	0,2	0,1
12	A.	XII.	Other assets	4,3	3,0	4,3
13	A.	XIII.	Prepayments and accrued income	0,7	0,5	0,8
			TOTAL ASSETS	**100,0**	**100,0**	**100,0**
14	P.	I.	Deposits and borrowings from banks and savings banks	16,2	12,5	10,8
15	P.	II.	Deposits and borrowings from customers	60,7	67,4	67,5
16	P.	III.	Liabilities from securites	3,0	2,1	2,3
17	P.	IV.	Other liabilities	1,8	1,3	1,9
18	P.	V.	Accruals and deferred income	4,4	3,3	4,6
19	P.	VI.	Provision for liabilities and charges	1,8	1,7	1,6
20	P.	VII.	Subscribed capital and foundation capital of savings banks	3,8	3,3	3,1
21	P.	VIII.	Over-subscribed capital	0,7	0,5	0,4
22	P.	IX.	Reserves	4,5	4,2	4,2
23	P.	X.	General provisions	0,3	0,4	0,3
24	P.	XI.	Capital revaluation adjustment	2,1	2,6	3,0
25	P.	XII.	Net profit or loss brought forward	0,0	1,0	0,2
26	P.	XIII.	Net profit or loss for the financial year	0,7	0,8	0,0
			TOTAL LIABILITIES	**100,0**	**100,0**	**100,0**

APPENDIX 6

PROFIT AND LOSS ACCOUNT

in millions of tolars

		1995	1996	Jan. - Jun. 1997
1.	Interest income	243.262	267.217	126.734
2.	Interest expense	185.280	186.175	88.430
3.	Net interest income	57.982	81.042	38.303
4.	Net other income	14.806	10.990	9.108
	- net fees and commissions	19.736	23.627	12.777
	- net financial transactions	8.386	-886	5.200
	- other income[1)]	-13.316	-11.751	-8.868
5.	Gross income (3 + 4)	72.789	92.032	47.412
6.	General administrative expenses	42.280	50.293	26.430
	- labour costs	24.351	28.691	14.897
7.	Net income (5 - 6)	30.509	41.738	20.982
8.	Net provisions	-16.750	-23.396	-7.780
9.	Profit before taxation (7 - 8)	13.759	18.343	13.202
10.	Taxation	1.551	2.571	
11.	Profit after taxation (9 - 10)[2)]	12.207	15.772	13.202
12.	Profit available for appropriation	3.657	3.250	
13.	Retained profit[3)]	9.992	13.007	

1) Other operating profit + extraodinary income - depreciation and amortisation - other operating expense - revaluation adjustment of capital, fixed assets and capital investments - extraodinary expense.

2) Less the loss incurred in 1995 and 1996 totalling SIT 1,459 million and SIT 627 million, respectively.

3) Reserves, fund for own shares and retained profit.

APPENDIX 7

COMPOSITION OF THE PROFIT AND LOSS ACCOUNT

as % of average total assets

		1995	1996	Jan. - Jun. 1997
1.	Interest income	18,3	16,2	7,1
2.	Interest expense	14,0	11,3	4,9
3.	Net interest income	4,4	4,9	2,1
4.	Net other income	1,1	0,7	0,5
	- net fees and commissions	1,5	1,4	0,7
	- net financial transactions	0,6	0,1	0,3
	- other income	1,0	0,7	0,5
5.	Gross income (3 + 4)	5,5	5,6	2,6
6.	General administrative expenses	3,2	3,1	1,5
	- labour costs	1,8	1,7	0,8
7.	Net income (5 - 6)	2,3	2,5	1,2
8.	Net provisions	1,3	1,4	0,4
9.	Profit before taxation (7 - 8)	1,0	1,1	0,7
10.	Taxation	0,1	0,2	0,0
11.	Profit after taxation (9 - 10)	0,9	1,0	0,7
12.	Profit available for appropriation	0,3	0,2	
13.	Retained profit[1)]	0,8	0,8	

1) Reserves, fund for own shares and retained profit

APPENDIX 8

ITEMS FROM THE PROFIT AND LOSS ACCOUNT IN BANKS' INCOME

in %

	Income	1995	1996	Jan. - Jun. 1997
	% of gross income			
1.	Net interest income	79,7	88,1	80,8
2.	Net non-interest income	20,3	11,9	19,2
	- net fees and commissions	27,1	25,7	26,9
	- net financial transactions	11,5	1,0	11,0
	- other operating income	18,3	12,8	18,7
3.	General administrative expense	58,1	54,6	55,7
	- labour costs	33,5	31,2	31,4
4	Net income[1)]	41,9	45,4	44,3
5	Net provisions	23,0	25,4	16,4
6	Profit before taxation	18,9	19,9	27,8
7	Taxation	2,1	2,8	
8	Profit after taxation	16,8	17,2	
	% of net income			
1	Net provisions	54,9	56,1	37,1
2	Profit before taxation	45,1	43,9	62,9
3	Taxation	5,1	6,2	
4	Profit after taxation	40,0	37,8	

1) Gross income - General administrative expense

APPENDIX 9

RATIOS IN THE SLOVENIAN BANKING INDUSTRY

in %

				1995	1996	30 June 1997
I.	Capital adequacy	1.	Regulatory capital / Risk-weighted assets	21,5	19,7	20,1
		2.	Core capital / Risk-weighted assets	19,5	18,2	18,3
II.	Assets quality	1.	Value adjustment / Doubtful and bad loans	47,7	54,8	56,3
		2.	Doubtful and bad loans / Gross assets	11,0	10,3	10,4
III.	Profitability	1.	Interest balance / Average gross interest bearing assets = Net interest margin	4,9	5,6	4,9
		2.	Total profit on assets	1,0	1,1	1,5
		3.	Total profit on equity	9,1	10,2	13,9
		4.	Net write-offs, reconciliations and provisions / Net income	55,6	56,3	37,4
IV.	Liquidity	1.	Average liquid assets / Average on-call liabilities	22,9	19,1	22,2
		2.	Average on-call liabilities / Average total liabilities equity excl.	28,6	28,7	29,2
V.	Operating expenses	1.	Labour expense / Average total assets	2,0	1,9	1,9
		2.	Net non-interest income / Operating expense	43,9	29,4	40,3

APPENDIX 10

LEGISLATION REGARDING REGULATION OF SUPERVISION OF BANKS AND SAVINGS BANKS

1. **Law on the Bank of Slovenia**
(Official Gazette of the Republic of Slovenia/I, No. 1/91)

2. **Law on Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia/I, Nos. 1/91, 38/92, 46/93)

3. **Law on Pre-rehabilitation, Rehabilitation and Liquidation of Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia/I, Nos. 1/91, 46/93)

4. **Decree on Conditions and Criteria for Granting Licences to Banks**
(Official Gazette of the Republic of Slovenia, Nos. 59/92, 51/93, 6/97, 29/97)

5. **Decree on Detailed Conditions and Criteria for Granting Licences and Authorisations to Banks and savings Banks by the Bank of Slovenia**
(Official Gazette of the Republic of Slovenia, Nos. 53/94, 2/95)

6. **Decree on the Measures for Determining Market Concentration**
(Official Gazette of the Republic of Slovenia, Nos. 15/95, 18/95)

7. **Decree on Supervision of Operating Activities of Banks and Savings Banks** (Official Gazette of the Republic of Slovenia, No. 55/92)

8. **Decree on Monitoring the Implementation of Remedial Actions and Measures Taken Against Banks**
(Official Gazette of the Republic of Slovenia, Nos. 22/91, 55/92)

9. **Decree on the Method of Calculating Capital Adequacy for Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, Nos. 55/93, 66/93, 46/94, 10/95, 54/95, 25/97)

10. **Instructions for the Implementation of the Decree on the Method of Calculating Capital Adequacy for Banks and Savings Banks**
(issued on 7 July 1995)

11. **Decree on the Classification of the Balance Sheet Assets and Off-balance Sheet Items of Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, No. 78/96)

12. **Instructions for the Implementation of the Decree on the Classification of Balance Sheet Assets and Off-balance Sheet Items of Banks and Savings Banks**
(issued on 24 January 1997, and the amendment to the Instructions issued on 5 May 1997)

13. **Instructions for Maintaining Credit Files**
(issued on 6 January 1994)

14. **Instructions for Restructuring Non-performing Assets**
(issued on 24 January 1997)

15. **Decree on the Amount of Provisions and the Method to Calculate Provisions to Protect Banks and Savings Banks Against Potential Losses**
(Official Gazette of the Republic of Slovenia, Nos. 66/93, 25/97)

16. **Decree on Chart of Accounts for Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, Nos. 5/94, 28/94, 40/94, 19/95, 8/97)

17. **Decree on Accounting Reports of Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, Nos. 40/94, 23/95)

18. **Instructions for Implementation of the Decree on Financial Statements of Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, Nos. 40/94, 23/95, 8/97)

19. **Decree on External Audit of Operating Activities of Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, Nos. 6/95, 19/96)

20. **Instructions for Implementation of Stipulations of Article 28 of the Law on Banks and Savings Banks**
(issued on 8 December 1995)

21. **Instructions for Implementation of Stipulations of Article 19 of the Law on Banks and Savings Banks**
(issued on 31 March 1993)

22. **Decree on the Required Adjustments of the Maturity Structure between Assets and Liabilities**
(Official Gazette of the Republic of Slovenia, Nos. 41/96, 40/97)

23. **Instructions for Preparation of Monthly Reports on Effective Proportion between Loans Graded as First, Second and Third Class**
(issued on 1 October 1996, amended on 4 July 1997)

24. **Decree on Granting Special Liquidity Loans in Co-operation with Banks**
(Official Gazette of the Republic of Slovenia, No. 25/97)

25. **Instructions for Preparation of Reports on Major Depositors and Amendments to the Instructions**
(the Instructions issued on 26 July 1996, the amendment dated 30 October 1996)

26. **Instructions for Preparation of the Report on Movements in Tolar Liquidity**
(issued on 24 July 1996)

27. **Law on the Agency of the Republic of Slovenia for Insurance of Deposits Gathered by Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia/I - 1/91)

28. **Instructions for Calculation of the Most Common Interest Rates on Deposits and on Loans**
(issued on 3 April 1997)

29. **Instructions for Preparation of Reports on Operating Activities of Banking Groups**
(issued on 15 May 1997)

30. **Recommendations for Conducting Dealing Transactions in Banks**
(issued in April 1997)

31. **Decree on Tariffs for Services Rendered by the Bank of Slovenia**
(Official Gazette of the Republic of Slovenia, Nos. 23/91, 3/92, 44/92, 3/94, 4/94, 5/94, 73/94)

32. **Rules on Charges for Banking Supervision of Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, No. 3/94)

33. **Decree on the Mismatch between Assets and Liabilities of Banks in Foreign Currency (open foreign exchange position of banks)**
(Official Gazette of the Republic of Slovenia, No. 35/97)