BANKA SLOVENIJE

EVROSISTEM

Report on bank performance with commentary, until April 2023

June 2023

Title: Report on bank performance with commentary, April 2023

Issue: June 2023

Issued by:
Banka Slovenije
Slovenska 35, 1505 Ljubljana, Slovenia
www.bsi.si

Includes data available by 30 April 2023, unless stated otherwise.

The material was discussed at the meeting of the Governing Board of Banka Slovenije of 20 June 2023.

ISSN 2820-6312

Contents

Methodological notes:

The data in the tables and figures consists of data reported by banks to Banka Slovenije in accordance with the Guidelines for implementing the Regulation on reporting by monetary financial institutions (report on accounting items with interest rates [PORFI]). In 2020 banks changed over to a new way of disclosing interest on credit-impaired financial assets in accordance with the interpretation of the IFRS Interpretations Committee (IFRIC) of March 2019, and the application of that interpretation to a specific case of 22 July 2019, which can be found online at https://www.ifrs.org/news-and-events/2019/07/ ifrs-9-webinarcuring-of-a-credit-impaired-financial-asset/.

1 Summary

The continuing growth in economic activity and the rise in interest rates have driven a further improvement in the performance of Slovenian banks this year. The rise in the ECB's key interest rates has been reflected in a rise in banks' interest rates on loans to the non-banking sector, although lending to the non-banking sector slowed over the first four months of the year. Deposits by non-financial corporations declined over the first four months of the year, while household deposits increased, but by visibly less than in the same period of previous years. The rise in interest rates is driving up net interest income, which has been reflected in a sharp rise in bank income, while net non-interest income is down in year-on-year terms. Profit and ROE are up strongly on their figures in the same period last year, thanks in part to the low creation of net impairments and provisions. Asset quality improved over the first four months of the year, in terms of the NPE ratio and in terms of the share of Stage 2 exposures. The capital ratios rose at the majority of banks, thanks to a decline in credit exposure, retained earnings, and the revaluation of debt securities. The rise in liquidity ratios indicates that the good liquidity of the banking system has improved slightly further.

Deposits by the non-banking sector declined over the first four months of the year in all sectors other than households. In the wake of the rise in the cost of living, which is reducing real income, households have less opportunity to save. The increase in household deposits over the first four months of this year was significantly smaller than in the same period of previous years, but they nevertheless remain a robust source of funding for Slovenian banks. After strengthening last year, year-on-year growth in household deposits and deposits by non-financial corporations had slowed to 6.2% and 7.3% respectively by April of this year, but remains well above the euro area average rates. The rise in interest rates on fixed-term deposits that is clearly evident in euro area countries is now being very slowly tracked by Slovenian banks, which is encouraging savers to fix more of their savings for longer terms. Careful monitoring of the competition in the sector, and appropriate adjustments to pricing policy remain vital for the banks, given that greater differences in interest rates could drive large-scale switching of deposits between banks.

The banking system's assets declined over the first four months of the year amid the rise in interest rates and the slowdown in lending to the non-banking sector. Year-on-year growth in loans to the non-banking sector has slowed sharply this year, reaching 3.3% in April, but remained higher than the euro area average (2.4%). The largest declines in the contributions to growth compared with the end of last year were recorded by loans to other financial institutions (OFIs) and loans to non-financial corporations (NFCs), while the contribution by loans to households also declined. Lending to NFCs slowed in the majority of sectors, and in all corporate size classes, but the year-on-year rate of growth of 6.1% remained higher than the euro area average (3.8%). Interest rates on loans to NFCs continued to rise, and in April overtook the euro area average. Year-on-year growth in loans to households has slowed this year amid a continual rise in interest rates. At 5.5% in April, it remained significantly higher than the euro area average (2.5%). Amid a decline in current lending via housing loans, the housing loan stock stagnated, and the year-on-year rate of growth has declined sharply this year. It had slowed to 5.9% by April, although this was still almost double the rate in the euro area overall (3.0%). Average interest rates on new housing loans have risen this year, albeit significantly more slowly than in the second half of last year, and have

overtaken the average rates in the euro area overall. Current lending to households via consumer loans has continued to strengthen. The year-on-year rate of growth had risen to 3.2% by April, outpacing the euro area average (2.9%) again after a long period of trailing. Interest rates on consumer loans were broadly unchanged over the first four months of this year compared with the end of last year, and were slightly lower than in the euro area overall.

Indicators of the asset quality improved again over the first four months of this year. The NPE ratios fell to their lowest levels to date: 1.0% in the total portfolio, and 1.6% in the non-financial corporations portfolio and the household portfolio. After an increase in the final quarter of last year, the banks have again reduced their exposures classed as Stage 2. The sectors hit hardest during the pandemic are notable for their improvements in portfolio quality indicators, particularly accommodation and food service activities, where the NPE ratios are still high, but have begun to fall this year after a long period of increase. The share of Stage 2 exposures is above-average in manufacturing, where firms are more vulnerable on account of declining foreign demand and greater energy-dependency. Coverage of NPEs by impairments and provisions improved further, while coverage of performing exposures remains at low levels.

The banking system's gross income and net income over the first four months of this year were up almost a third and more than two-thirds respectively on the same period last year, as a result of high growth in net interest income. Net interest income over the first four months of this year doubled compared with the same period last year. This year's increase in net interest income has been driven profoundly by the rise in interest rates, i.e. price effects on the asset side. These effects and the corresponding year-on-year growth in net interest will remain strong in the coming months. Net non-interest income is down on last year, as is net fees and commission, although the decline is significantly smaller than the increase in net interest. Growth in operating costs was significantly outpaced by growth in income, which also reduced the CIR.

Pre-tax profit over the first four months of the year was up three-quarters (75.6%) on the same period last year. The increase in profit was primarily attributable to an increase in net interest income, and the resulting increase in net income. Net impairments and provisions remained low, and accounted merely for just over 1% of the disposal of gross income. Bank profitability thus continues to increase, and is outpacing the average of previous years.

The banking system's capital position remains solid. Capital ratios in the first quarter rose compared with the end of 2022. The total capital ratio on a consolidated basis rose to 19.1% and the common equity Tier 1 capital ratio to 16.4%. The rise in capital ratios is attributable to a decline in risk-weighted assets and a rise in regulatory capital driven by retained earnings and smaller losses from securities revaluations. The capital adequacy indicators increased at the majority of the banks, which also increased their surpluses over their allocated capital requirements.

The banking system's good liquidity position improved slightly further over the first four months of this year. The capacity to cover net liquidity outflows in the event of a short-term stress period increased at the level of the banking system: the liquidity coverage ratio (LCR) rose to 311% on an individual basis, thus remaining well above the minimum regulatory requirement (100%). The net stable funding ratio (NSFR), which indicates the capacity to fund liabilities over a period of one year, also improved. After increasing in the first quarter, primary liquidity declined in April, as the banks directed liquid assets held in accounts at the central bank into lending and other investments in the wake of a decline in deposits by the non-banking sector.

2 Macroeconomic Environment

After a turbulent few years, the global economy again faces huge uncertainties in 2023, and the risks to future growth are primarily on the downside. The recent period has been marked by the economic shock from the Covid-19 pandemic, the Russian military aggression against Ukraine, and persistently high inflation. Central banks have responded decisively to the last of these by tightening monetary policy. This has had a favourable impact on bank performance via an increase in interest income, but at the same time has revealed certain weaknesses in the financial systems in a number of advanced economies. Taking action to attain price stability while maintaining positive economic growth and financial stability will thus continue to present a great challenge to policymakers. Global economic activity strengthened in the first quarter of this year, the improvement in the situation driven largely by a rebound in demand following the reopening of the Chinese economy, and the resilient labour market in the US. While remaining positive in the first quarter, economic growth slowed significantly compared with last year, as a result of the tightening financing conditions and the uncertain geopolitical situation. According to the ECB's latest projections,[1] global economic growth (excluding the euro area) will slow to 3.1% this year, and will remain the same in 2024, before strengthening to 3.3% in 2025.

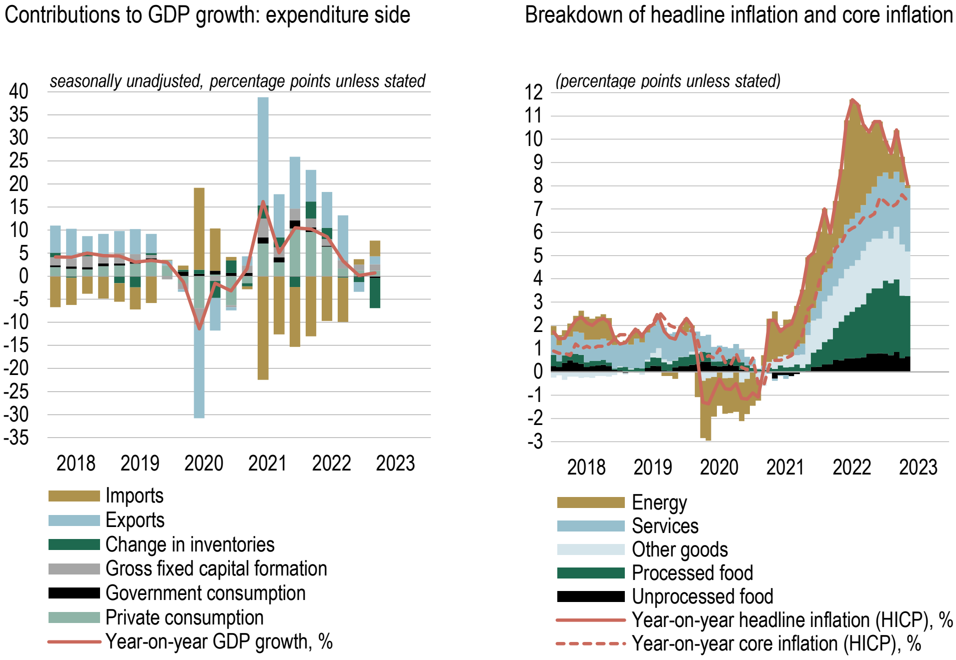
The euro area economy cooled in the early part of this year, while economic activity in Slovenia remained above previous expectations. GDP in the first quarter was up on the previous quarter in Slovenia, but down on the previous quarter in the euro area overall.[2] Domestic economic activity was driven mainly by private consumption, gross fixed capital formation, and net exports. The domestic growth factors on the output side were mainly reflected in services and in construction, while activity in manufacturing slowed in current terms amid weaker export orders. As the contribution by energy prices has declined, year-on-year growth in headline inflation has slowed this year, but it nevertheless remained high in May at 8.4%. Inflation is mainly being driven by domestic factors, which is being reflected in a rise in core inflation,[3] which has been above 7% for the last six months. By June of this year the ECB had raised its key interest rates by 4 percentage points, and subsequent decisions on interest rates will continue to be based on an assessment of the inflation outlook with regard to incoming economic and financial data, the dynamics in core inflation, and the intensity of monetary policy transmission. The rise in interest rates has had a favourable impact on the banks' interest income, considerably improving their income trends.

[1] ECB, June 2023.

[2] Eurostat, June 2023 (euro area quarterly: -0.1%, Slovenia quarterly: 0.6%; euro area year-on-year: 1.0%, Slovenia year-on-year: 0.7%). The figures are seasonally adjusted and calendar-adjusted.

[3] HICP excluding energy, food, alcohol and tobacco.

Figure 1: **GDP and inflation in Slovenia**



Note: Core inflation in the right chart is growth in the HICP excluding energy, food, alcohol and tobacco.
Sources: SORS, Banka Slovenije calculations

The conditions for economic growth will remain uncertain over the remainder of the year, but the high and broadly based inflation remains the main challenge for the economy. Higher-than-expected inflation might act as an additional headwind on private consumption, while any greater tightening of monetary policy than currently expected could have an adverse impact on the level of private investment, amid cooling economic activity in the main trading partners and a decline in foreign demand. According to our forecasts,[4] economic growth in Slovenia will slow from 5.4% last year to 2.0% this year, before recovering to 2.2% in 2024 and 2025. According to the latest ECB projections,[5] economic growth in the euro area will slow from 3.5% last year to 0.9% this year, before recovering to 1.5% in 2024 and 1.6% in 2025.

[4] Banka Slovenije, June 2023.
[5] ECB, June 2023.

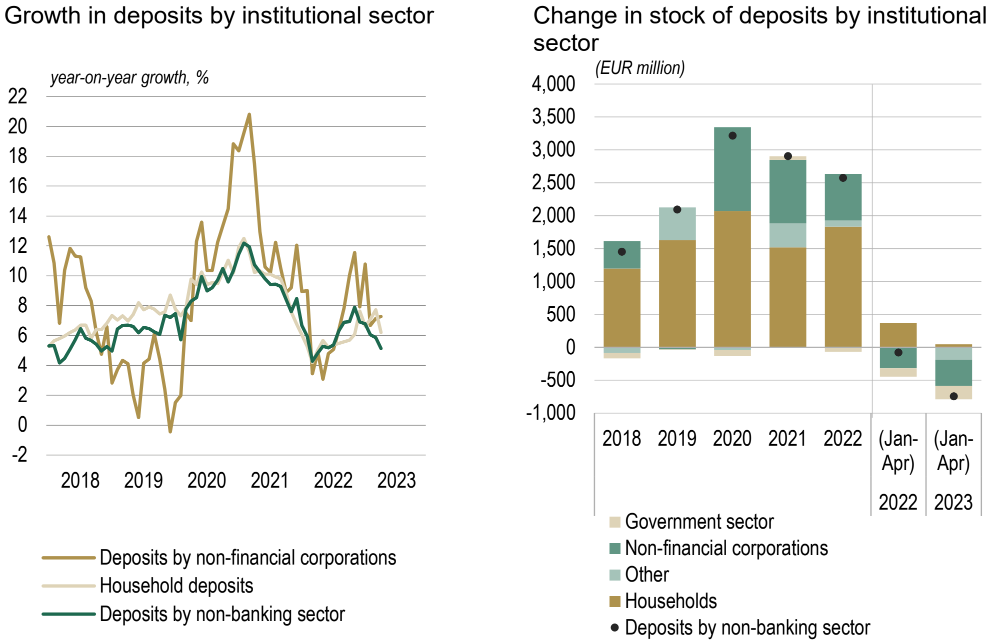
3 Bank Funding

Deposits by the non-banking sector declined over the first four months of this year, as a result of a decline in deposits by all sectors other than households. After strengthening last year, year-on-year growth in deposits by the non-banking sector slowed this year, reaching 5.1% in April, but remained higher than a year ago. Although the stock of deposits by the non-banking sector declined by EUR 748 million, they remain the most important source of funding for Slovenian banks, accounting for 78% of the balance sheet total on the liability side. Dependency on other sources of funding remained low: the banks still hold high levels of liquid assets that can be directed into lending or other investments. The banks have made early repayments of some or all of their liabilities to the Eurosystem (TLTRO-III), which accounted for just 1.1% of the balance sheet total, while only one bank issued debt securities during the first four months of this year.

Household deposits further increased over the first four months of the year, albeit significantly less than in previous years, and they remain a robust source of funding in the Slovenian banking system. Although the increase in household deposits over the first four months of this year was significantly smaller than in the same period of previous years, these deposits remain a robust source of funding for the Slovenian banking system. The stock increased by EUR 44 million to EUR 25.8 billion or 51.5% of the balance sheet total, which keeps Slovenia in first place among euro area countries in terms of the importance of funding of this type. After increasing last year, year-on-year growth in household deposits had slowed to 6.2% by April of this year, but remained well above the average rate in the euro area (1.4%). The trend of slowing year-on-year growth in household deposits might also have continued in the second quarter. Although May and June are usually good months for inflows of household deposits (leave payments), it is difficult to expect the extremely high inflows seen in the same period last year to be repeated this year.[6] Inflation and the resulting rise in the cost of living are reducing disposable income, and with it the ability to save, which is likely to drive changes in deposits in the future.

[6] The increase in household deposits amounted to EUR 305 million in May and EUR 405 million in June of last year.

Figure 2: **Trends in deposits by the non-banking sector**



Source: Banka Slovenije

After increasing without interruption in the second half of last year, deposits by non-financial corporations have seen greater volatility this year. Year-on-year growth in deposits by non-financial corporations slowed over the first four months of this year, but at 7.3% in April was higher than a year earlier, and strongly outpaced the euro area average (0.8%), which has been declining since the end of the pandemic. Although the stock of deposits by non-financial corporations declined by EUR 395 million over the first four months of the year, firms still hold EUR 9.3 billion of savings at banks, which they can spend on their businesses.

The gradual rise in interest rates on deposits has brought a reversal in the trend of increase in sight deposits seen in recent years. Sight deposits declined slightly over the first four months of this year, but still account for the majority of household deposits (88.4%) and deposits by non-financial corporations (80.5%). The continuing rise in interest rates is likely to encourage savers to fix at least some of their savings, for which reason the expectation is that the maturity breakdown of deposits will change in the future in the direction of an increase in fixed-term deposits. Careful monitoring of the competition in the sector remains vital for the banks, as large differences in the level of interest rates on fixed-term deposits could drive savers to switch deposits between banks. Despite the rise, interest rates on deposits remain below the euro area average for now. Given the large stock of liquid assets and deposits by the non-banking sector that can be directed into lending, Slovenian banks are in no hurry to raise interest rates, and are keeping interest expenses low.

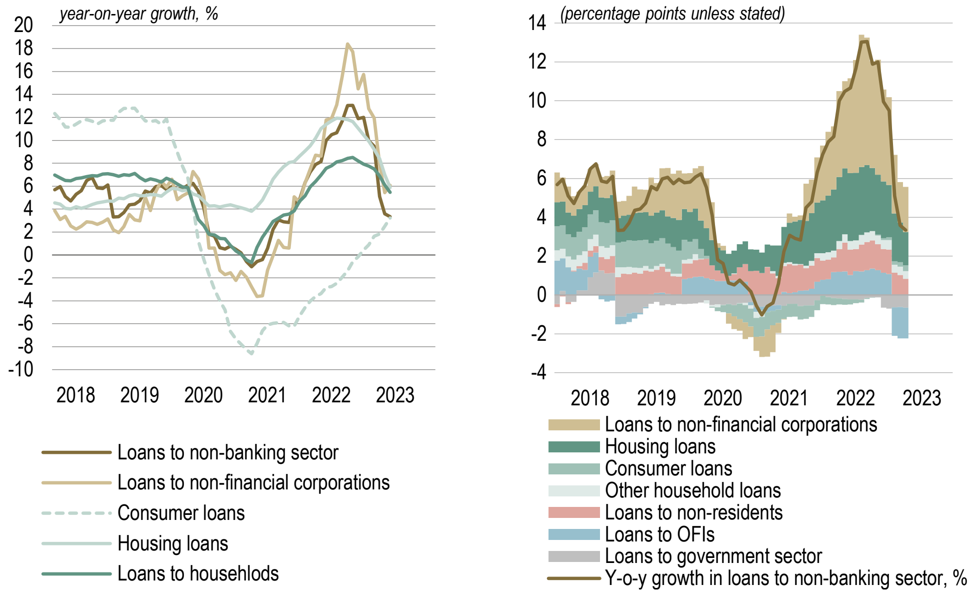
4 Bank Assets

On the asset side banks saw a decline in loans to the non-banking sector over the first four months of this year, amid the further rise in interest rates. The stock was down EUR 526 million on the end of last year, compared with an increase of EUR 1.1 billion over the same period last year (lending was above-average last year, under the influence of the anticipated rise in interest rates). This slightly reduced the share of total assets that they account for, which had declined to 53.9% by April. Year-on-year growth in loans to the non-banking sector slowed sharply this year, from 10.0% in December of last year to 3.3% in April, and has converged sharply on the euro area average (2.4%), which has also slowed. This year's decline in the stock of loans to the non-banking sector was driven above all by other financial institutions (OFIs), whose loan stock declined by EUR 602 million.[7] Loans to the government sector and to non-residents also declined. The stock of loans to NFCs and households meanwhile increased, by EUR 98 million (compared with EUR 679 million in the same period last year) and EUR 64 million (EUR 307 million in the same period last year) respectively. Consumer loans accounted for the majority of the increase in household loans. Among other assets there were declines in holdings of equity in subsidiaries, joint ventures and associates, and assets classed as loans and receivables, while loans to banks and the central bank increased markedly. Holdings of securities also increased, as to a lesser extent did liquid assets.[8]

Figure 3: **Lending to the non-banking sector**

Growth in loans by customer segment and loan type

Contributions to credit growth by customer segment and loan type



Source: Banka Slovenije

Lending to NFCs slowed over the first four months of this year in the majority of activities. Year-on-year growth in loans to NFCs slowed sharply, reaching 5.6% in April according to gross figures.[9] It was down on the end of last year in the majority of activity groups, and also slowed in all of the largest groups with regard to exposure size. There was a notable slowdown in the activities of electricity, gas, steam and air conditioning supply, albeit from the high levels seen during last year's sharp increase

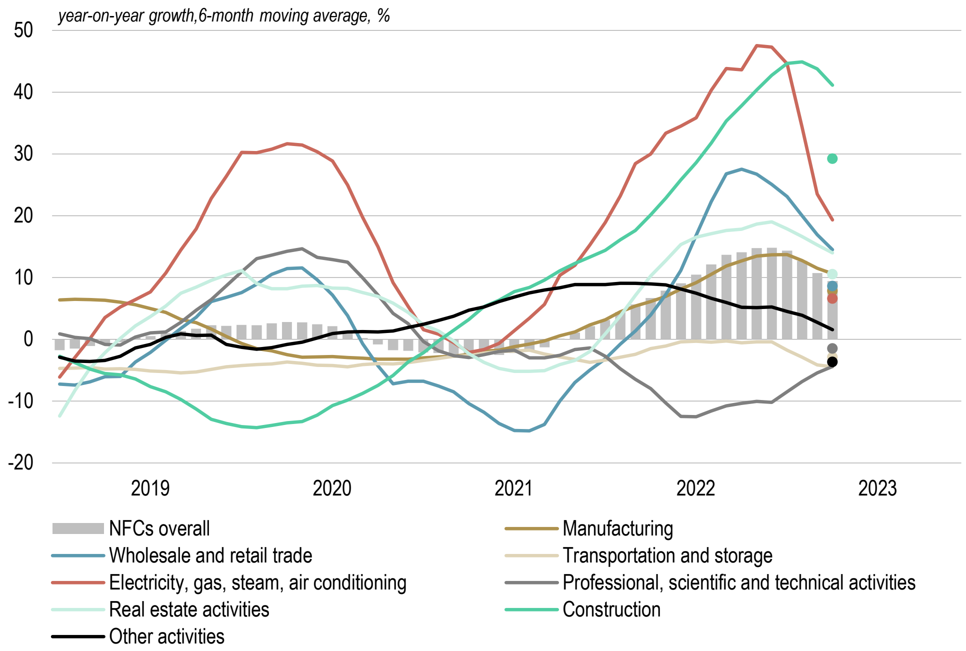
[7] This was attributable to the effect of the sale of one of the leasing companies and the repayment of its loans at banks.

[8] Comprises cash on hand, balances at the central bank and sight deposits at banks.

[9] It stood at 6.1% based on loan stock according to balance sheet figures.

in lending in connection with the above-average rise in energy prices. It slowed significantly in construction, again from very high levels (the rate in December of last year was the highest in recent years), while the slowing growth in prices on the real estate market also brought a slowdown in the real estate activities group. It was also discernibly slower in manufacturing and in wholesale and retail trade, which together account for just under half of the portfolio of bank loans to NFCs. The year-on-year decline in loan stock slowed in professional, scientific and technical activities, but growth nevertheless remained negative in April. Growth in loans to firms in transportation and storage activities also remained negative.

Figure 4: **Lending growth by activity**



Note: Gross figures. The dots denote the latest figures.
Source: Banka Slovenije

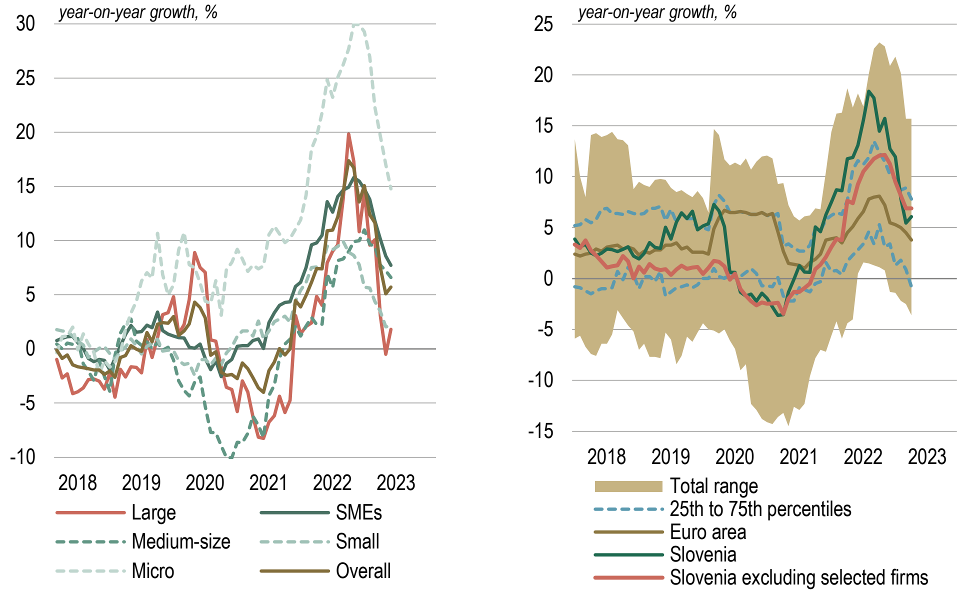
The slowdown in lending was broadly based with regard to corporate size, and growth slowed across loans for different purposes. The rate approached the euro area average, while interest rates continued to rise. Year-on-year growth in loans to NFCs declined over the first four months of the year in all corporate size classes, but the smallest enterprises saw the most pronounced decline. Growth also slowed sharply in the large enterprises portfolio, where there are many firms in the electricity, gas, steam and air conditioning supply activities. Year-on-year growth in loans for financing working capital and debt slowed the most, albeit from high levels. There was a particularly sharp decline in the contribution to aggregate growth in loans to NFCs made by loans for financing working capital. The growth of 6.1% in loans to NFCs put Slovenia a few places lower in the euro area ranking compared with last year, but the rate was still outpacing the euro area average, which had slowed to 3.8% by April. Average interest rates on new loans to NFCs continued to rise over the first four months of the year. Fixed rates have been rising since April of last year, and variable rates since September. In April of this year both were above the euro area average.[10]

[10] The average fixed interest rate on new loans to NFCs in the Slovenian banking system stood at 5.2% in April (up from 4.2% in December of last year), while the average variable rate was 4.8% (up from 3.8% in December). The average fixed rate in the euro area stood at 4.0% (up from 3.4% in December), and the average variable rate at 4.4% (up from 3.4% in December).

Figure 5: **Lending to non-financial corporations**

Growth in loans according to corporate size

Growth in loans to non-financial corporations, comparison with the euro area



Note: The left chart illustrates gross figures. SMEs includes micro, small and medium-size enterprises. The selected firms in the right chart are the five firms that borrowed most heavily during the energy crisis, and at the same time had repaid the most debt by April of this year.
Sources: Banka Slovenije, ECB SDW, Banka Slovenije calculations

Current household lending slowed over the first four months of this year to levels similar to those seen in 2019, primarily as a result of a decline in new housing loans. Amid continually rising interest rates, year-on-year growth in household loans has continued to slow from last year's high levels, but remained significantly higher than the euro area average in April. At 5.5% it was down 2.3 percentage points on December of last year, but remained 3.0 percentage points higher than the euro area average.[11] Current lending via housing loans stabilised over the first four months of this year to reach the level seen in March 2021, when the monthly volume of new loans began to increase significantly. The housing loan stock stagnated, and in April of this year was down EUR 3 million on December of last year (compared with an increase of EUR 281 million over the same period last year). The year-on-year rate of growth hit a several-year high in the middle of last year (11.9% in June and July), but slowed sharply this year to reach 5.9% in April, although it was still almost double the euro area average (3.0%). Average interest rates on new housing loans have risen this year, albeit significantly more slowly than in the second half of last year. Fixed rates have been rising since April of last year, and variable rates since July. In April of this year both were above the euro area average.[12] As current lending to households via consumer loans has continued to strengthen, the stock increased by EUR 54 million over the first four months of the year (compared with a decline of EUR 3 million over the same period last year). Having still been negative in October of last year, the year-on-year rate of growth had strengthened to 3.2% by April, thereby exceeding the euro area average (2.9%). Interest rates on consumer loans over the first four months of the year remained broadly unchanged from the end of last year, and were slightly lower than those in the euro area overall.[13]

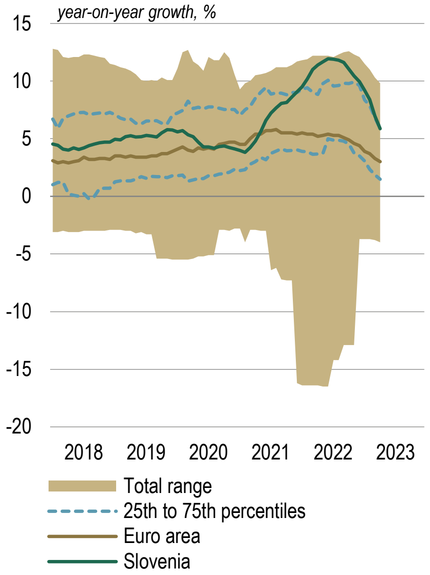
[11] Slovenia is ranked in the 75th percentile in the euro area.

[12] The average fixed interest rate on new housing loans in the Slovenian banking system stood at 4.8% in April (up from 3.8% in December of last year), while the average variable rate was 4.0% (up from 3.7% in December). The average fixed rate in the euro area stood at 3.3% (up from 2.8% in December), and the average variable rate at 4.0% (up from 3.1% in December).

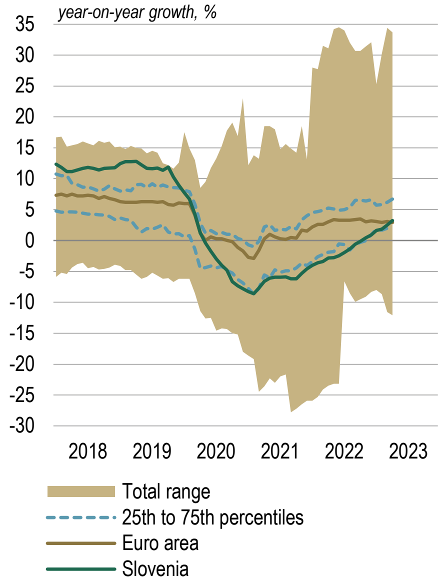
[13] The average fixed interest rate on new consumer loans in the Slovenian banking system stood at 6.7% in April (unchanged from 6.7% in December of last year), while the average variable rate was 6.9% (up from 6.8% in December). The average fixed rate in the euro area stood at 7.4% (up from 6.4% in December), and the average variable rate at 8.3% (up from 6.7% in December).

Figure 6: **Household lending**

Growth in housing loans, comparison between Slovenia and the euro area



Growth in consumer loans, comparison between Slovenia and the euro area



Sources: Banka Slovenije, ECB SDW, Banka Slovenije calculations

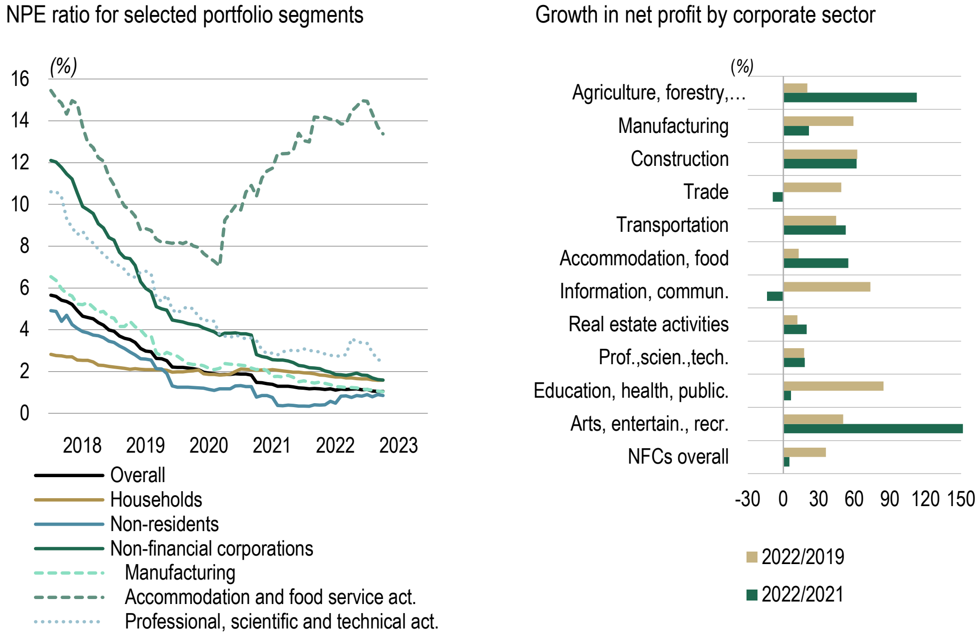
5 Bank Asset Quality

The NPE ratios have declined this year in all segments of the credit portfolio, including in the accommodation and food service activities portfolio after two and a half years of increase. Over the last three years of the pandemic and the war in Ukraine, the NPE ratios at banks have declined from 2.2% at the end of 2019 to a new low of 1.0% in the total portfolio, and 1.6% in the NFCs portfolio. In challenging conditions for business, NFCs saw an increase of 5.4% in net profit last year, or 13.0% if electricity, gas, steam and air conditioning supply is excluded, as the only sector to record a loss last year. All other sectors generated higher net profit last year than in the pre-pandemic year of 2019. The otherwise favourable indicators of corporate indebtedness meanwhile did not deteriorate. The NPE ratios declined over the first four months of the year in all sectors, accommodation and food service activities included. After reaching 15% at the end of last year following two years of increase, the NPE ratio in the aforementioned sector had declined to 13.4% by April of this year. The stock of NPEs in the NFCs portfolio had declined to EUR 272 million by April, and accounted for 46% of all NPEs in the banking system, 22 percentage points less than the peak figure in 2018.[14] The relative decline in this figure is attributable to NPEs declining more rapidly in the NFCs portfolio than in other customer segments.

The NPE ratio in the household portfolio declined over the first four months of this year, in the housing loans portfolio and the consumer loans portfolio alike. After several years of a trend of increase, the NPE ratio in the housing loans portfolio had declined to 1.1% by April. The stock of NPEs in the household portfolio amounted to EUR 205 million in April: EUR 88 million in the consumer loans portfolio, EUR 91 million in the housing loans portfolio and EUR 26 million in the other loans portfolio. The decline in NPEs has been seen since the second half of 2021 in the consumer loans portfolio. The decline in 2021 and 2022 was significantly slower than in the housing loans portfolio, but picked up pace in 2023, as the NPE ratio declined from 3.5% in December to 3.3% in April. The decline is attributable partly to a decline in the stock of NPEs, and partly to the renewed growth in consumer loans since the second half of 2022. Amid low indebtedness, low unemployment, and rising wages, the household sector also gained further in financial strength, which has had a favourable impact on its debt servicing capacity in relation to banks.

[14] Data according to the EBA methodology is available as of October 2016.

Figure 7: **NPE ratios**



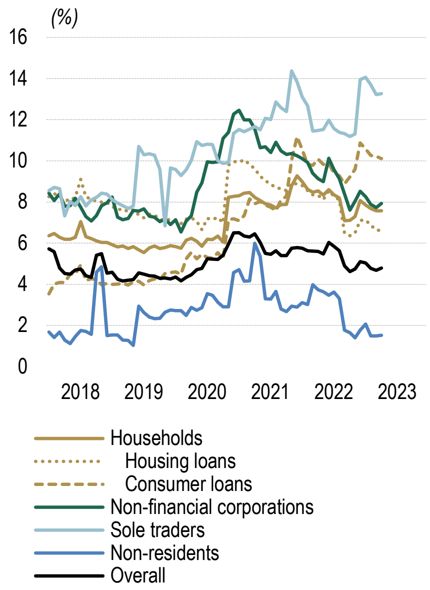
Note: Excludes electricity, gas, steam and air conditioning supply, in light of the loss generated in 2022.
Source: Banka Slovenije

After an increase in reclassification to Stage 2 in the final months of last year, the banks again reduced the share of Stage 2 exposures over the first four months of this year. The share of Stage 2 exposures at overall portfolio level stood at 4.8% in April, down from 5.1% in December, although it had ticked slightly upwards again in April. The decline relative to the end of last year and the slight increase in April were seen in all customer segments. In the NFCs portfolio the sectors of accommodation and food service activities and arts, entertainment and recreation are notable for their high shares of Stage 2 exposures, but they have now declined sharply from their past figures of more than 50%. Manufacturing is also notable in terms of this indicator: its figure was 11.6% in April, compared with 7.9% in the NFCs portfolio overall. In contrast to services, whose performance is largely dependent on domestic demand, manufacturing is exposed to greater risk as a result of reduced foreign demand, a decline in confidence indicators, and the above-average energy dependency of individual sectors.[15] The shares of Stage 2 exposures in these sectors are higher than in the NFCs portfolio overall, and are generally higher than in manufacturing overall.

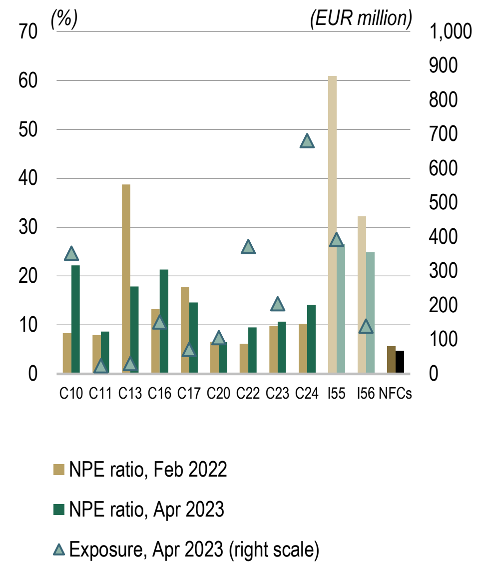
[15] Energy-intensive manufacturing sectors are defined according to the criterion of energy consumption relative to value-added in the April 2023 issue of the Review of macroeconomic developments (windows.net).

Figure 8: **Share of Stage 2 exposures**

Share of Stage 2 exposures in selected portfolios



Share of Stage 2 exposures in selected manufacturing segments and accommodation and food service activities



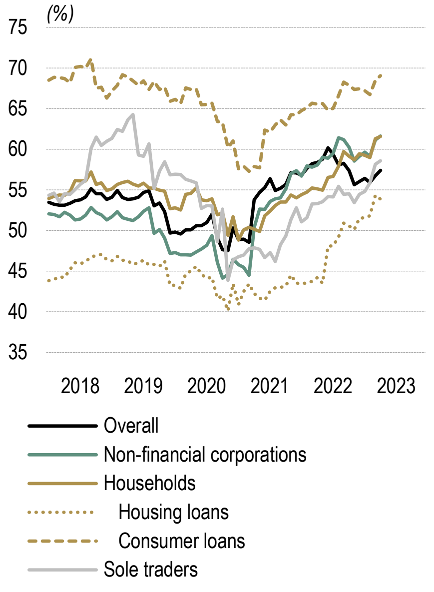
Note: Key to right chart: C10: Manufacture of food products; C11: Manufacture of beverages; C13: Manufacture of textiles; C16: Manufacture of wood, wood products and related products; C17: Manufacture of paper and paper products; C22: Manufacture of rubber and plastic products; C24: Manufacture of basic metals; I55: Accommodation; I56: Food and beverage service activities.
Source: Banka Slovenije

Coverage of NPEs by impairments and provisions improved further over the first four months of this year. Coverage by impairments and provisions at the level of the total portfolio had increased to 57.4% by April. Coverage was above-average in the NFCs and household portfolios, at 61.6% in April in both, the highest figure in each portfolio in recent years.

Coverage of performing exposures by impairments and provisions increased slightly in April, following a moderate decline in the first quarter. From its peak of 0.69% in mid-2020, coverage had declined to 0.44% by September of last year, before ranging between 0.43% and 0.45%. It stood at 0.45% in April of this year. There was a notable decline in coverage of performing exposures in the NFCs portfolio, which went from a peak of averaging 1.20% in 2020 to 0.66% in April of this year. The opposite trend is evident in the consumer loans portfolio, where coverage of performing exposures by impairments has been increasing since June of last year. The rate reached 1.23% in April, thereby exceeding the levels from previous years. Performing consumer loans have one of the highest levels of coverage of any portfolio segment.

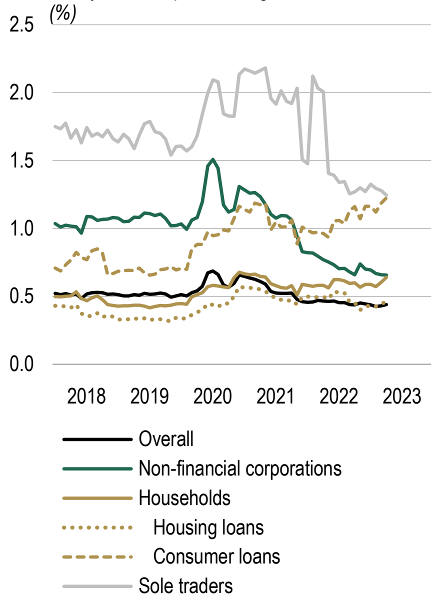
Figure 9: **Coverage by impairments and provisions**

Coverage of NPEs by impairments and provisions by selected portfolio segment



Source: Banka Slovenije

Coverage of performing exposures by impairments and provisions by selected portfolio segment

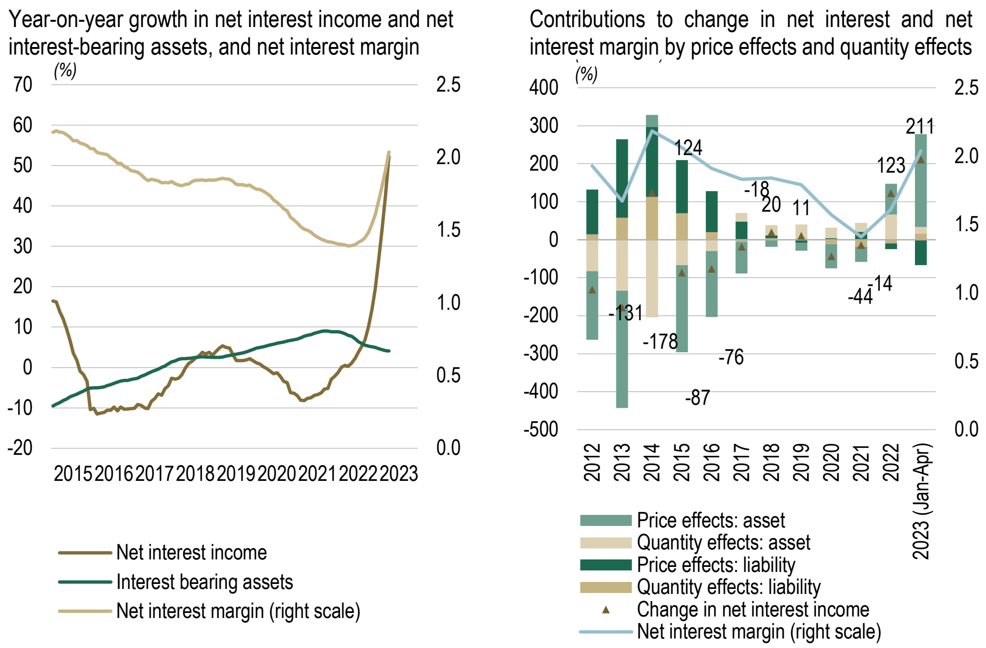


6 Bank Income Generation

The Slovenian banking system's income over the first four months of this year was up sharply in year-on-year terms. Income risk is declining, thanks to the high growth in net interest. The rapid increase in net interest income, which has doubled this year compared with the same period last year, is attributable to the rise in interest rates on the asset side of bank balance sheets. Net non-interest income is down on last year's figure. Gross income over the first four months of the year was up more than a third in year-on-year terms (38%), while net income was up fully 69%.

Net interest income has increased sharply this year, and has more than doubled in year-on-year terms. While the increased growth in net interest was driven by quantity effects last year as a result of increased lending in the first half of the year, positive price effects (rising interest rates and an increase in interest income) strengthened sharply in the second half of last year and the first four months of this year. The net interest margin is thus displaying a trend of rapid increase. It reached its low of 1.39% at the beginning of the second quarter of last year, before rising to 1.61% in December, and fully 2.04% in April of this year. The increase in interest income has strongly outpaced the increase in interest expenses. The increase in net interest income is being driven on the asset side of the balance sheet. The high growth in interest income was driven by assets of all forms, most notably interest income from loans to the non-banking sector and from the most liquid assets. Growth in interest expenses is also rising. However their nominal increase is relatively small compared with the increase in interest income,[16] on account of the high share of sight deposits and the slower rise in interest rates on deposits of longer maturities. This year's sharp rise in interest rates will also drive an increase in net interest income and the net interest margin over the coming months.

Figure 10: **Net interest margin and contributions to change in net interest by price effects and quantity effects**



Note: The net interest margin at any point is calculated over the preceding 12 months.
Source: Banka Slovenije

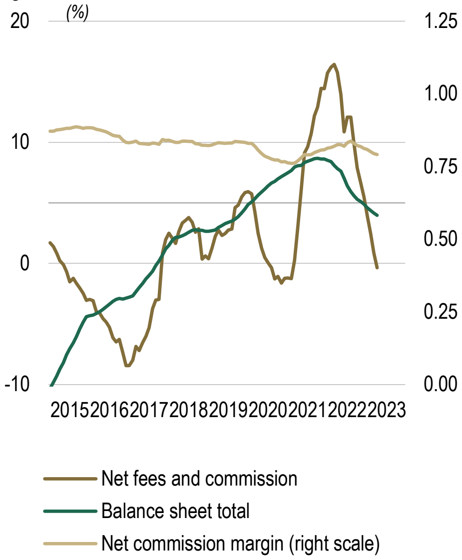
Total net non-interest income is down in year-on-year terms this year, but the decline is much smaller than the increase in net interest. The effect of the sale of

[16] The increase in interest income (EUR 263 million) strongly outpaced the increase in interest expenses (EUR 51 million)

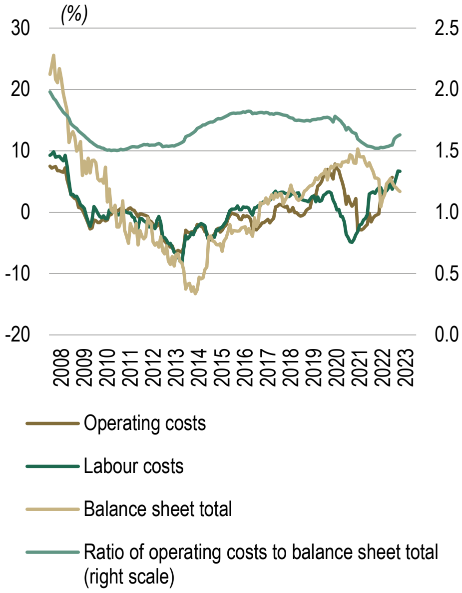
a leasing company at one of the large banks was a major factor in the year-on-year decline in net non-interest income. Excluding this effect, net non-interest income would be down just over 7% or EUR 13 million in year-on-year terms, while the year-on-year increase in net interest income amounted to EUR 211 million. Net fees and commission this year were down 4.3% in year-on-year terms, which took the net commission margin down a fraction to 0.79%. The developments in net fees and commission coincide with the abolition of custody fees in the second half of last year and the rapid rise in net interest income. Similarly to total net non-interest income, this year's decline in net fees and commission has been minimal. The year-on-year decline amounted to just EUR 5.7 million.

Figure 11: **Net commission margin and operating costs**

Year-on-year growth in net fees and commission and balance sheet total, and net commission margin



Year-on-year growth in operating costs, labour costs and balance sheet total, and ratio of operating costs to balance sheet total



Note: The net commission margin and the ratio of operating costs to the balance sheet total at any point are calculated in both charts over the preceding 12 months.
Source: Banka Slovenije

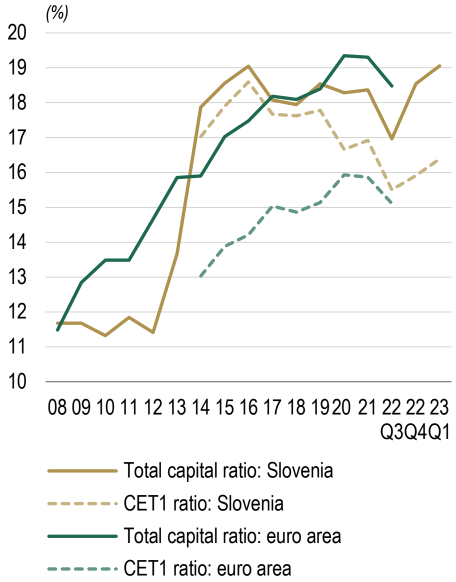
Growth in operating costs is moderate in the current situation, and is being strongly outpaced by growth in gross income. Operating costs this year were up 20.6% in year-on-year terms, but the growth is largely (around 10 percentage points) attributable to contributions to the resolution fund and the deposit guarantee fund, which this year were recognised in full in the early months of the year. In light of this, growth in total operating costs was thus moderate, and comparable to inflation. Growth in labour costs stood at 10.4%. The ratio of operating costs over the preceding 12 months to the balance sheet total stood at 1.63%, up slightly on the end of last year, while the CIR was down by 8.1 percentage points in year-on-year terms at 55.3% on account of high growth in income (it stood at 57.6% overall last year).

7 Capital Adequacy, Profitability and Liquidity in the Banking System

The banking system's capital ratios were higher in the first quarter of this year than in 2022, as a result of a decline in risk-weighted assets, and an increase in regulatory capital driven primarily by retained earnings. The total capital ratio on a consolidated basis increased by 0.5 percentage points over the first quarter of 2023 to 19.1%, while the CET1 ratio increased by 0.5 percentage points to 16.4%. Risk-weighted assets declined (by 1.6%), primarily as a result of a decline in exposure to credit risk caused by the sale of a leasing company by one of the banks. Regulatory capital increased over this period, as a result of an increase in retained earnings and a decline in revaluation losses from debt securities.

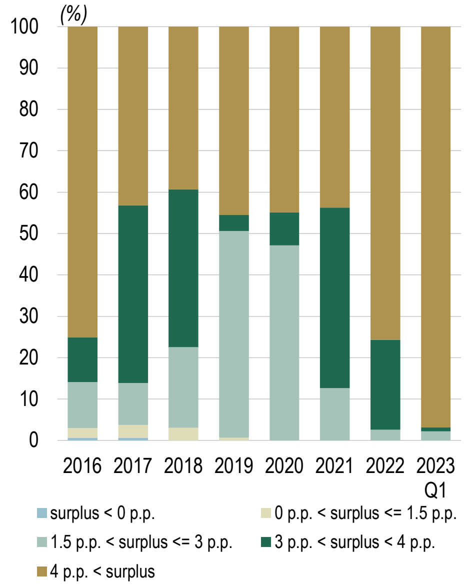
Figure 12: **Capital ratios and surpluses over capital requirements**

Capital ratios, comparison with the euro area, consolidated basis



Sources: Banka Slovenije, ECB SDW, own calculations

Breakdown of capital surpluses over overall capital requirement (excluding P2G) in the banking system expressed as a ratio to the balance sheet total



The overall capital adequacy in the Slovenian banking system on a consolidated basis had been below the euro area average since the end of 2020, but this trend came to an end in the final quarter of 2022.[17] The total capital ratio in the euro area overall at the end of the third quarter of 2022 stood at 18.5%, and the CET1 ratio at 15.1%. Banks in Slovenia are currently highly profitable, which could increase their resilience in the future if they take prudent options in their profit distributions, and also use them to strengthen regulatory capital. This would increase their capacity to absorb any negative effects that might arise in the event of the realisation of systemic risks.

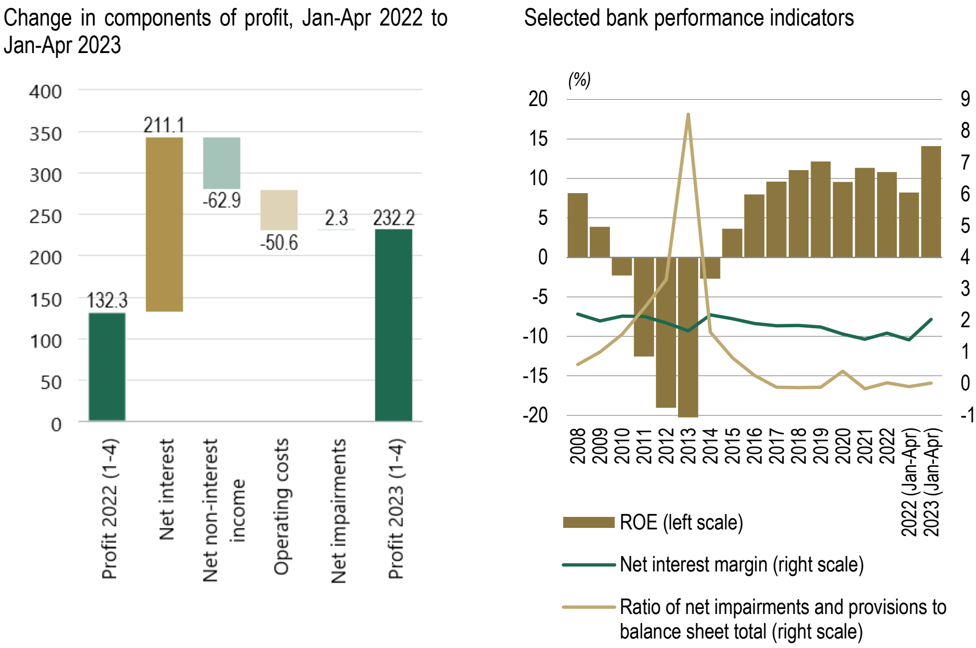
The banks generated a pre-tax profit of EUR 232 million over the first four months of this year, up three-quarters on the same period last year. The increase of EUR 100 million in pre-tax profit was attributable mainly to an increase in net income (of EUR 97.6 million), and also to a slight decline in net impairments and provisions (of EUR 2.3 million). Net creation of impairments and provisions has amounted to EUR 7.6 million this year, compared with EUR 9.9 million in the same period last year. Only six

[17] At the time of writing the latest data available for the euro area was for the third quarter of 2022; the data is on a consolidated basis.

banks have been net creators of impairments and provisions. Pre-tax ROE stood at 14.1% this year, well above the figures from the same period last year (8.2%) and from the whole of last year (10.8%).

The improvement in bank performance is being driven by net income, and specifically net interest income. Given the sharp rise in interest rates, there is an expectation of an increase in interest income, and thus in net interest, which is the main driver of the increase in profit. With their current net interest income the banks are more than compensating for the year-on-year decline in net non-interest income and the rise in operating costs, and for any increase in net impairments and provisions. Net impairments and provisions are currently very low, and this year have accounted merely for just over 1% of the disposal of gross income, which remains an additional and significant factor in the increase in profitability. Should the situation remain the same, profitability can be expected to grow further this year, and the banks' resilience to strengthen with it.

Figure 13: **Changes in components of profit and selected bank performance indicators**



Source: Banka Slovenije

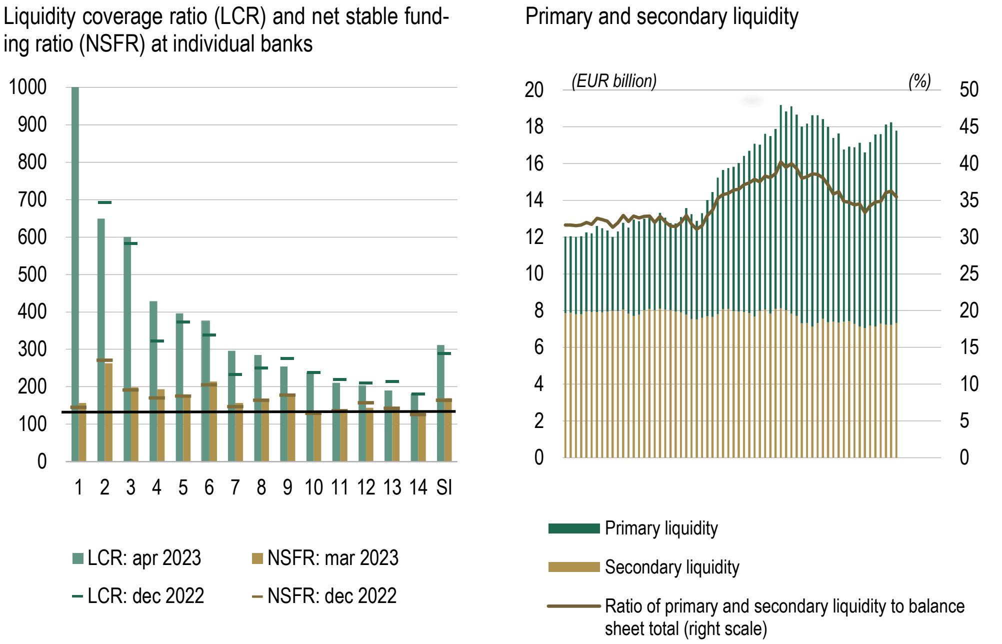
The banking system's sound liquidity position improved slightly further over the first four months of this year, but there remain considerable differences in the capacity to cover net liquidity outflows at individual banks. The liquidity coverage ratio (LCR) on an individual basis increased by 21 percentage points to 311%, as a result of the increase in the liquidity buffer outpacing that in net liquidity outflows. The LCR thus remains still well above the regulatory requirement of 100%, which ranks Slovenia among the euro area countries[18] with high capacity to cover net liquidity outflows over a short-term stress period. Furthermore, the capacity to fund liabilities over a one-year period also increased at the level of the banking system. Amid an increase in the available stable funding and a decline in the required stable funding, the net stable funding ratio (NSFR) increased by almost 5 percentage points in the first quarter of this year to 169%. All the banks exceeded the minimum requirements (100%) for the LCR and the NSFR, but the differences between banks in their capacity to cover the adverse effects of any sudden stress events remain considerable, which means that

[18] The comparison between countries takes account of the latest data, namely consolidated data for the third quarter of 2022.

diligent liquidity management is vital, particularly at the banks with low liquidity surpluses.

The banks have maintained a high level of primary liquidity.[19] After increasing in the first quarter of this year, it declined by EUR 0.5 billion in April to EUR 10.5 billion, i.e. its level at the end of 2022. Amid a decline in deposits by the non-banking sector, the banks directed built-up liquid assets held in accounts at the central bank into lending and other assets in April. Despite the decline, primary liquidity still accounts for more than a fifth of the balance sheet total on the asset side, well above its long-term average (6.8%).[20] Should the growth in deposits by the non-banking sector continue to slow in the future, the stock of primary liquidity might gradually decline. Another factor in this decline will be the maturity of liabilities to the Eurosystem (TLTRO-III), but only at the individual banks that have not yet made early repayment of these liabilities.

Figure 14: **Liquidity indicators**



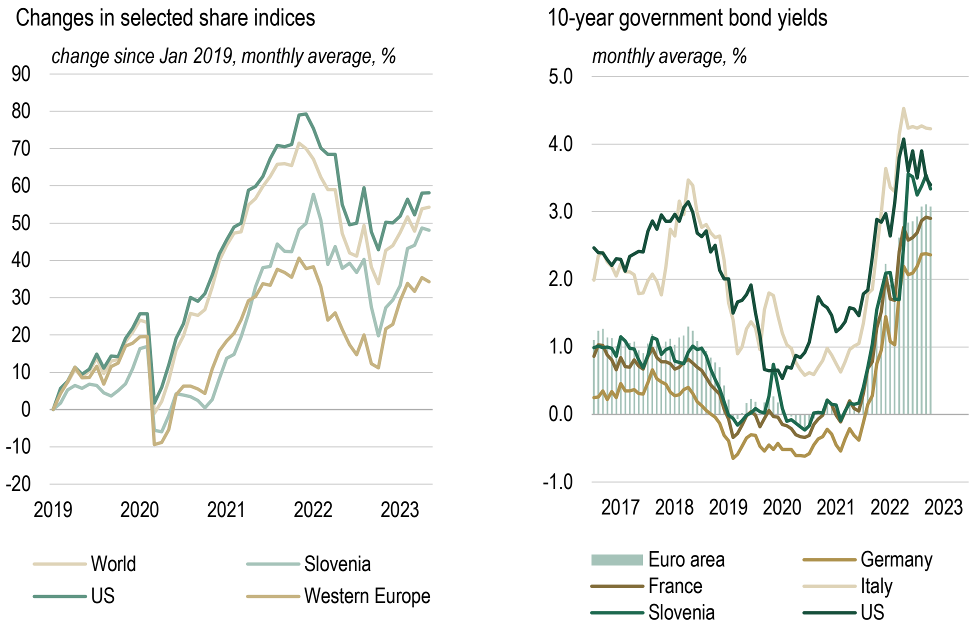
Note: For the sake of transparency, the full value of one of the banks is not illustrated in the left chart. Its LCR stood at 4504% in April 2023, and 1814% in December 2022. The horizontal blue line in the left figure denotes the minimum requirements for the LCR and the NSFR in accordance with the CRR (100%). Primary liquidity in the right chart comprises cash on hand, balances at the central bank and sight deposits at banks, while secondary liquidity comprises Slovenian government securities and foreign marketable securities rated BBB or higher.
Source: Banka Slovenije

[19] Primary liquidity comprises cash on hand, balances at the central bank and sight deposits at banks.
[20] The average ratio of primary liquidity to the balance sheet total is computed for the period of 2000 to 2022.

8 Capital Markets and Mutual Funds

The hikes in key interest rates and the expectations of the further normalisation of monetary policy are having an impact on share markets and government bond yields. The main focus in the early part of this year was nevertheless on the consequences of the collapse of Silicon Valley Bank in the US and Credit Suisse in Switzerland, and concerns for the stability of the global banking system. The main European share indices were boosted by there being no signs of major deposit withdrawals at banks in the euro area amid the latest shocks to the banking sector. Yields on 2-year and 10-year government bonds in the US and Germany at the end of April were down compared with the end of 2022. By May of this year Slovenia's SBI TOP had gained 14.5% on the end of last year. Over the same period the SPX gained 5.4% in the US, while the SXXE for western Europe rose by 9.3%.

Figure 15: **Share indices and government bond yields**

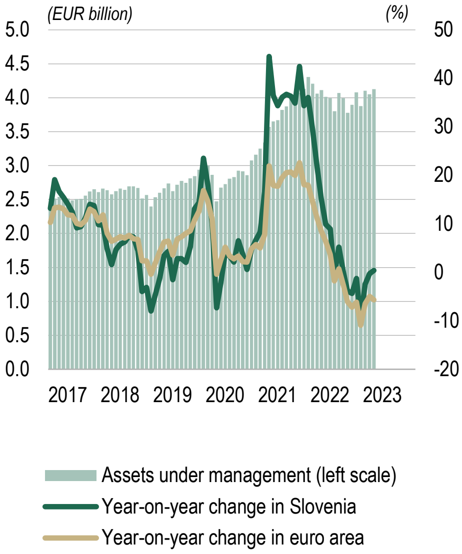


Note: The indices in the left chart are the S&P 500 for the US, the Euro Stoxx 600 for western Europe, the SBI TOP for Slovenia and the MSCI World Net Total Return Index for global equities. The data in the left chart is up to May 2023 inclusive, while the data in the right chart is up to April 2023 inclusive.
Sources: Bloomberg, Eurostat, Banka Slovenije

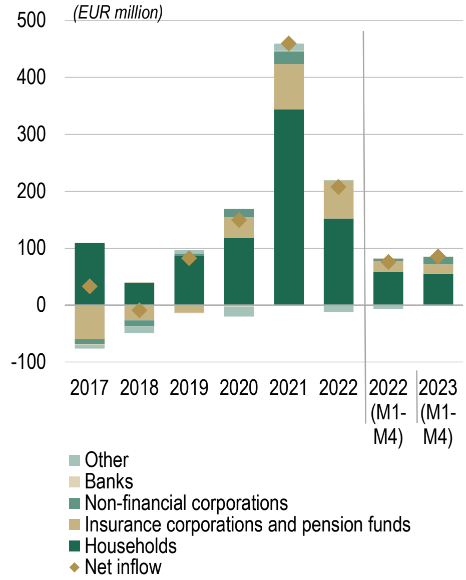
Domestic mutual funds' assets under management increased over the first four months of this year compared with the end of 2022, and net inflows into mutual funds remain positive despite the increased volatility on global equities markets. Mutual funds' assets under management in April of this year were up EUR 251 million on the end of 2022 at EUR 4.2 billion. Equity funds are the prevalent form of mutual fund in Slovenia, and account for 66% of domestic mutual funds' total assets under management. Net inflows into mutual funds remained positive over the first four months of this year, with the majority (61.7%) coming from households. Equity funds saw the largest cumulative inflows over the first four months of the year, while money-market funds saw net withdrawals.

Figure 16: **Domestic mutual funds' assets under management and net inflows**

Stock and year-on-year change in mutual funds' assets under management



Net inflows into domestic mutual funds by investor sector

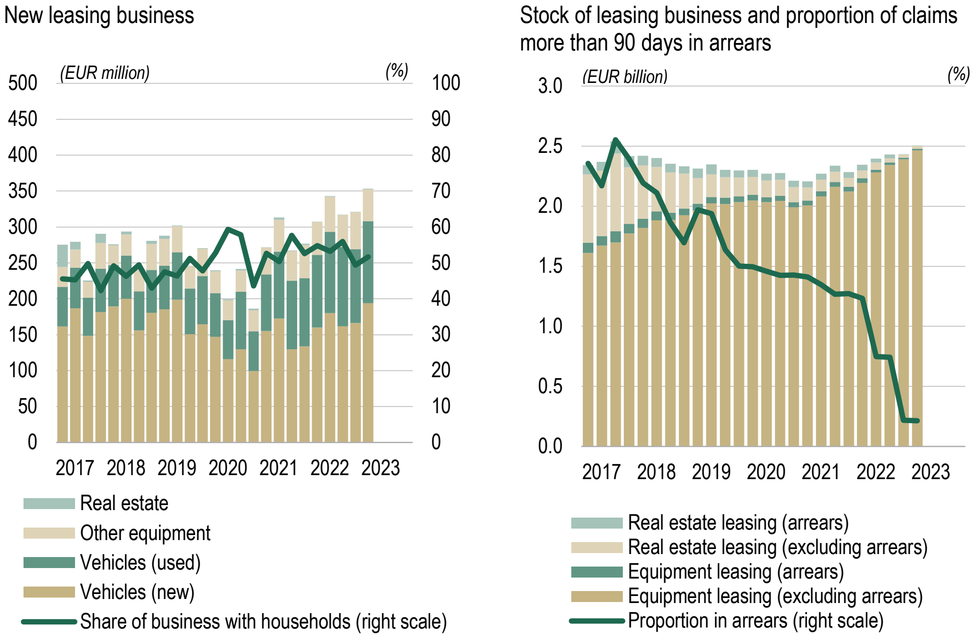


Note: The left chart does not include money-market funds.
Sources: ECB SDW, SMA, Banka Slovenije

9 Performance of Leasing Companies

The increase in leasing companies' business continued in the first quarter of 2023. Leasing companies approved EUR 353.5 million of new business over the first three months of the year, up 15.0% in year-on-year terms. Most business was entered into with households (51.5% of the total) and NFCs (48.0%). As in the past, purchases of cars and of commercial and goods vehicles accounted for the majority of new business. The positive trend in new business seen since the spring of 2021 is also being reflected in the stock of leasing business. This amounted to EUR 2.5 billion at the end of March 2023, up 6.9% in year-on-year terms. Equipment leasing accounts for the majority of the stock of leasing business, leasing companies having withdrawn from real estate leasing for several years now. Car leasing business accounts for the majority of equipment leasing (61.2% of the total).

Figure 17: **New business, stocks of leasing business, and arrears**



Note: Data until March 2023.
Source: Banka Slovenije

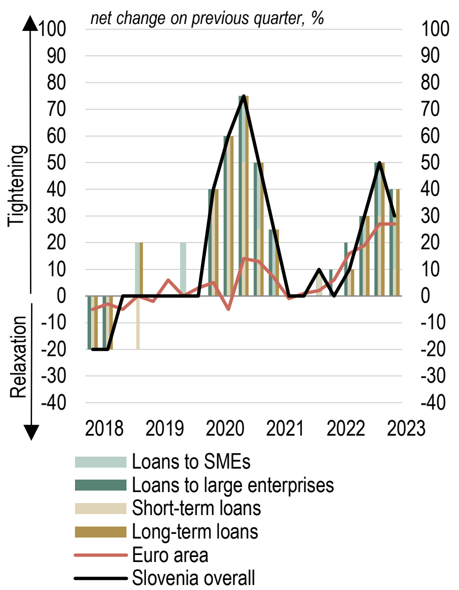
The proportion of claims more than 90 days in arrears stood at 0.64% in the first quarter of 2023, down again in year-on-year terms. Households account for the majority of arrears (58.3%). The arrears remain highly concentrated: three leasing companies account for almost 65% of the arrears. Leasing companies' pre-tax profit amounted to EUR 9.1 million in the first quarter of this year, down 29.9% in year-on-year terms. The decline in profitability is attributable to an increase in finance expenses driven by rising interest rates. The increase in leasing business and the strengthening of resilience continued to be reflected in a rise in the balance sheet total. Leasing companies' balance sheet total stood at EUR 3.0 billion at the end of March 2023, up 14.3% in year-on-year terms. ROE meanwhile declined to 9.0%.

10 Bank Lending Survey

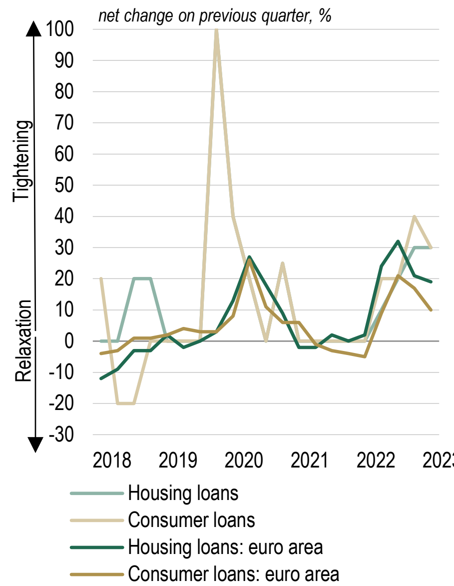
According to the Bank Lending Survey (BLS),[21] banks have been reporting tightening credit standards for several consecutive quarters now.[22] A tightening of standards for NFCs and households alike has been evident since the third quarter of last year. Standards in the NFCs portfolio have been tightened for large enterprises and SMEs, and for short-term and long-term loans. Banks cite the general economic situation and the industry-specific situation as the main factors driving the tightening standards. In the household portfolio both housing loans and consumer loans are seeing tightening credit standards. The main factors cited for household loans are the general economic situation, the margins on riskier loans and, for consumer loans, competition from non-banks. According to the latest survey conducted in March, banks were expecting a further moderate tightening of credit standards in the second quarter of this year for loans to NFCs and, to a lesser extent, for consumer loans, while they were no longer citing any additional tightening in respect of housing loans.

Figure 18: **Credit standards for non-financial corporations and households according to the BLS**

Credit standards for loans to non-financial corporations



Credit standards for household loans



Source: Banka Slovenije

According to the BLS, demand for loans to NFCs has been declining moderately since the third quarter of last year, while demand for housing loans has seen a more pronounced decline. Demand for consumer loans has increased slightly over the last three quarters. Similarly to previous quarters, banks cited the decline in investment as the factor driving reduced demand at NFCs. In contrast to previous quarters, on this occasion they highlighted inventories and working capital, which in previous quarters had strengthened NFCs' demand for loans considerably more, as factors increasing demand. The majority of the banks cited the general level of interest rates

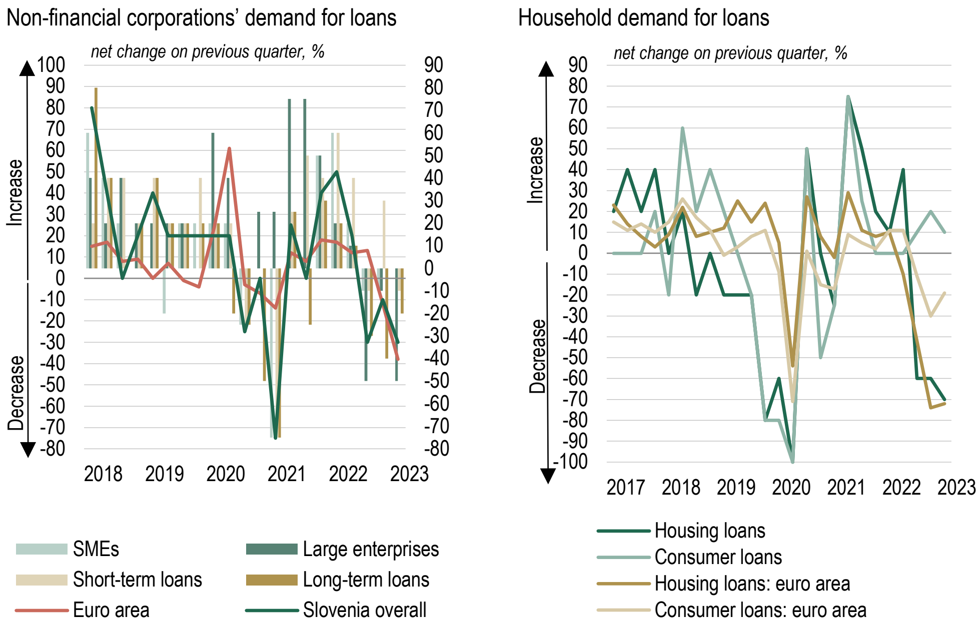
[21] A total of ten credit institutions have reported in the BLS for Slovenia since late 2021 and early 2022. This is six more banks than previously. They accounted for 87.9% of the banking system in terms of the balance sheet total at the end of March 2023, and for 82.2% of loans to NFCs, 93.6% of housing loans, and 90.0% of consumer loans. The shares are calculated on the basis of data reported to Banka Slovenije on an individual basis.

[22] Credit standards are the internal guidelines and criteria according to which a bank approves a loan. They are established before the actual negotiation of loan terms, and before the actual decision to approve or deny a loan. Credit standards according to the BLS for bank loans in the euro area define the required attributes of the borrower (e.g. assets, income situation, age, employment status) based on which a loan can be obtained. The survey also takes account of documented lending policy and its implementation. Credit standards may for example be modified on account of changes in the bank's asset costs and balance sheet situation, changes in competition, changes in the risk perception at the bank, changes in the level of acceptable risk at the bank, and legislative changes.

as the main driver of reduced demand for housing loans. At the same time the survey shows relatively small but positive changes in demand for consumer loans.[23] The expectations for the next quarter in the April survey point to an additional decline in demand (albeit smaller than in previous quarters) for housing loans; there is no such indication from the banks in respect of loans to NFCs or consumer loans.

The trends are similar in the euro area overall: credit standards are tightening, and demand is also declining, for loans in all three segments. Similarly to Slovenia, there was a pronounced decline in demand in the housing loans segment. The sole contrast with Slovenia is in demand for consumer loans, where banks in the euro area overall cited a decline in demand, unlike those in Slovenia. The expectations for the second quarter of this year in the euro area point to a moderate tightening of standards and also a further decline in demand for loans, most notably housing loans, albeit less significant than in previous quarters.

Figure 19: **Corporate and household demand for loans according to the BLS**



Source: Banka Slovenije

[23] In the BLS banks report changes in standards, conditions and demand with regard to the previous quarter, for which reason the developments do not necessarily coincide with the year-on-year rates of growth in lending. The changes are illustrated as net percentages defined as the difference between the total percentage of banks reporting for example an increase in demand and the total percentage of banks reporting a decrease in demand, for which reason this illustration may differ for example from growth in loans at system level. For example, the decline in demand in the first quarter in respect of NFCs was relatively moderate compared with that in respect of housing loans, where the vast majority of banks cited a decline in demand, i.e. seven banks more than cited increased or unchanged demand.

11 Risk and Resilience Dashboard

The assessment of systemic risks to financial stability is gradually improving again in the second quarter of this year. This was attributable to the improving outlook for Slovenia and for elsewhere in Europe, and the fact that there has not been a realisation of individual risks. The assessment of the banking system's resilience remains unchanged.

The assessment of the risk inherent in the real estate market was lowered to moderate for the second quarter with a stable outlook for the following quarters. This was attributable to the slowdown in growth in loans, and the slowdown in the persistently high growth in residential real estate prices according to the latest data. Conditions regarding credit risk are also improving, with the assessment still being elevated but with improved expectations for the coming quarters. The further improvement in the credit risk situation was attributable to the non-realisation of risks that might drive an increase in NPE ratios. The NPE ratio therefore had reached a record low by April. The assessment of interest rate risk also remains elevated, albeit with a stable outlook for the following quarters. The other risk assessments remain moderate, with a stable or improving outlook. The assessment of the banking system's resilience, and the corresponding capacity to absorb the negative effects that would arise in the event of the realisation of systemic risks remains unchanged in the second quarter of this year.

Table 1: **Banka Slovenije's risk and resilience dashboard for the Slovenian financial system**

	Risk and resilience dashboard								
	Q4 2020	**Q4 2021**	**Q1 2022**	**Q2 2022**	**Q3 2022**	**Q4 2022**	**Q1 2023**	**Q2 2023**	**Trend of change**
Systemic risk									
Risk inherent in the real estate market	yellow	orange	orange	orange	orange	orange	orange	yellow	⇨
Funding risk in the banking system	yellow	yellow	yellow	yellow	yellow	yellow	yellow	yellow	⇨
Interest rate risk in the banking system	yellow	yellow	orange	orange	orange	orange	orange	orange	⇨
Credit risk in the banking system	orange	orange	orange	orange	orange	orange	orange	orange	⇩
Income risk in the banking system	orange	orange	orange	orange	orange	yellow	yellow	yellow	⇩
Risk inherent in leasing companies	orange	yellow	yellow	yellow	yellow	yellow	yellow	yellow	⇩
Resilience to systemic risks									
Solvency and profitability of the banking system	green	yellow	yellow	yellow	yellow	yellow	yellow	yellow	⇨
Liquidity of the banking system	green	green	green	green	green	green	green	green	⇩
Other risks									
Cyber risk		yellow	yellow	yellow	yellow	yellow	yellow	yellow	⇨
Climate risks		yellow	yellow	yellow	yellow	yellow	yellow	yellow	⇨

Colour code:

	green	yellow	orange	red
Risk	low	moderate	elevated	high
Resilience	high	medium	low	very low

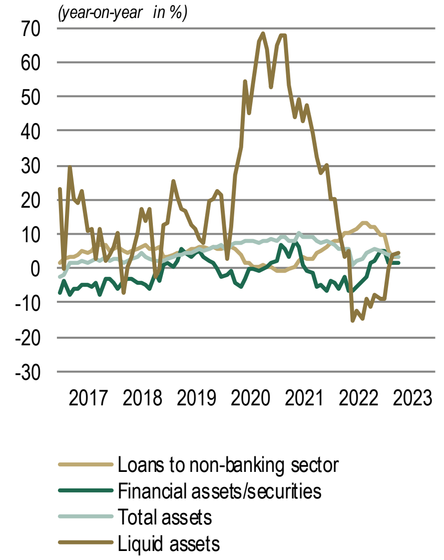
Note: The colour code in the risk and resilience dashboard relates to the assessment for up to one quarter in advance. The arrow illustrates the expected change in risk or resilience in the scale (up or down) over a slightly longer horizon of around one year. For risks, an up arrow means an increase in risk, and vice-versa, while for resilience it means strengthening, and vice-versa. The risk and resilience dashboard is based on analysis of key risks and resilience in the Slovenian banking system, and is defined as the set of quantitative and qualitative indicators for defining and measuring systemic risks and resilience.
Source: Banka Slovenije

12 Appendix

Key trends in the banking system

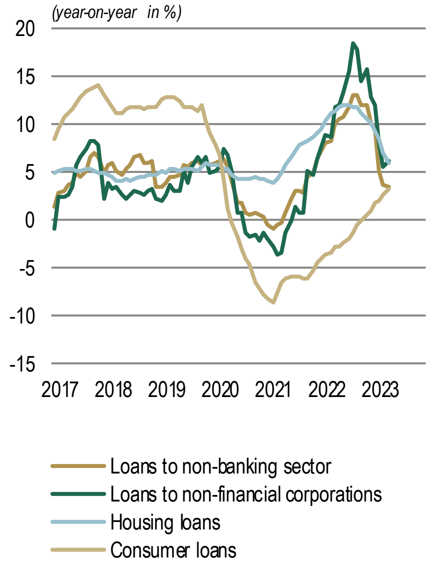
Figure 20: **Assets and loans**

Bank assets



Note: The category “Financial assets / securities” also includes debt securities from the category of loans and receivables.
*SD: sight deposits
Source: Banka Slovenije

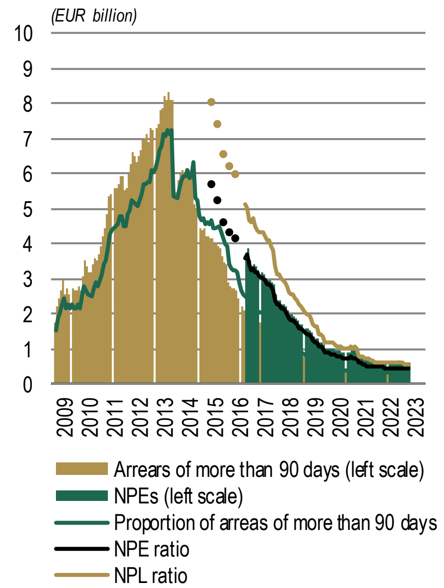
Loans by institutional sector and loan type



Source: Banka Slovenije

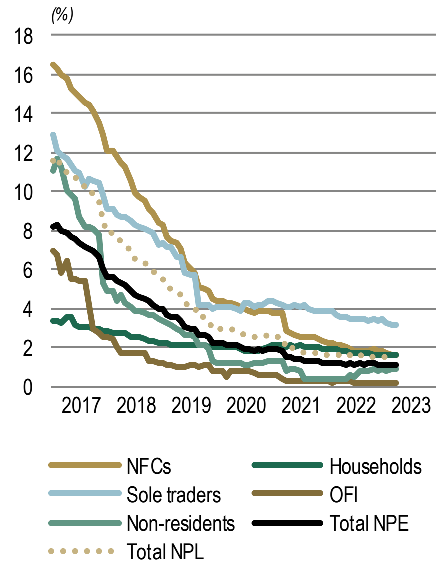
Figure 21: **NPEs at banks**

NPEs, NPLs and claims more than 90 days in arrears, stocks and ratios



Source: Banka Slovenije

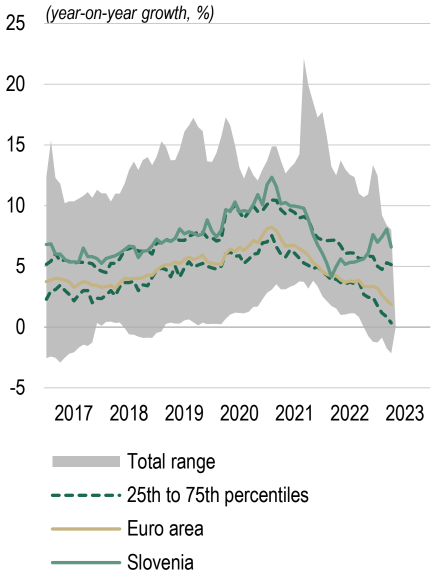
NPE ratios by customer segment



Source: Banka Slovenije

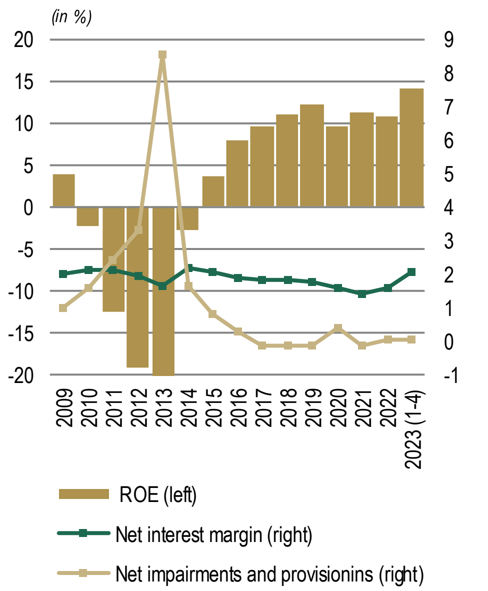
Figure 22: **Deposits and profitability indicators**

Growth in household deposits in Slovenia and the euro area



Source: ECB SDW

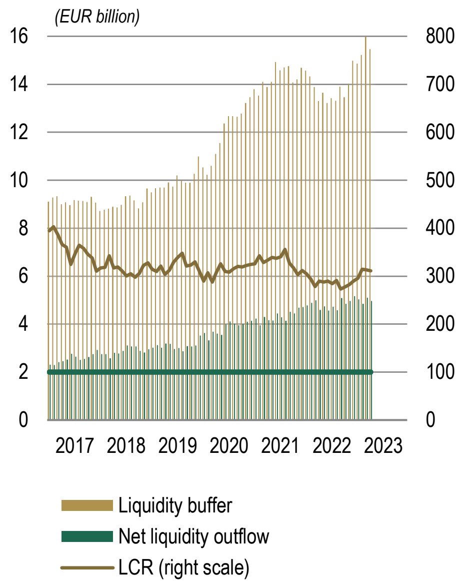
ROE, net interest margin, and ratio of impairment and provisioning costs to balance sheet total



Note: The net interest margin on interest-bearing assets and the ratio of net impairment and provisioning costs to the balance sheet total are always calculated for the preceding 12 months. Pre-tax ROE is calculated during the year on a cumulative basis up to the most recent data available.
Source: Banka Slovenije

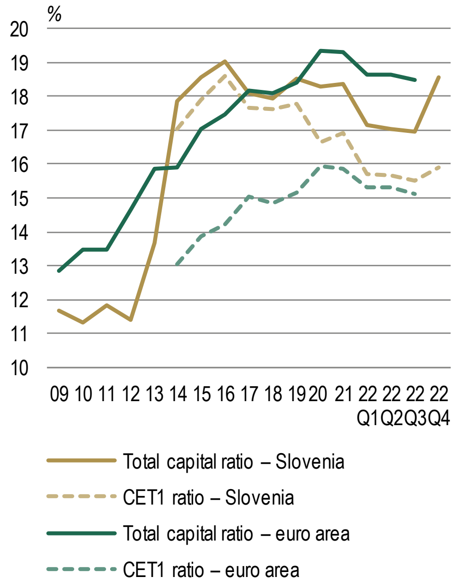
Figure 23: **Liquidity and solvency indicators**

Liquidity coverage ratio (LCR)



Note: The horizontal line denotes the minimum requirement for the LCR (100%) in accordance with the CRR.
Source: Banka Slovenije

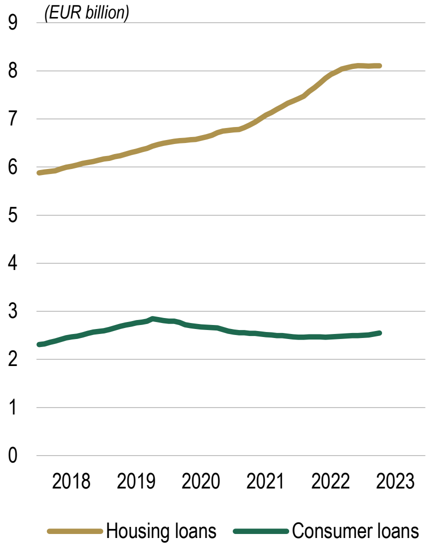
Total capital ratio, consolidated basis, comparison with the euro area



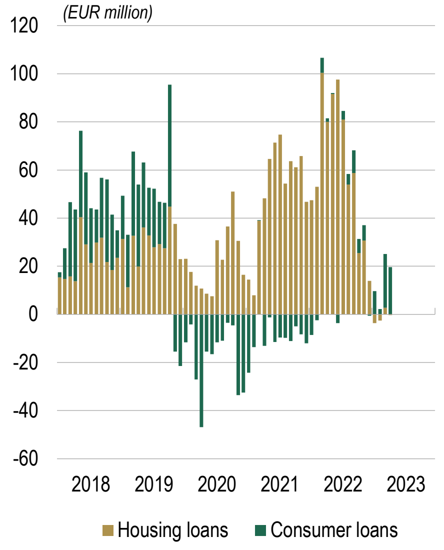
Sources: Banka Slovenije, ECB SDW

Figure 24: **Stock of housing loans and consumer loans**

Comparison of stock of housing loans and consumer loans



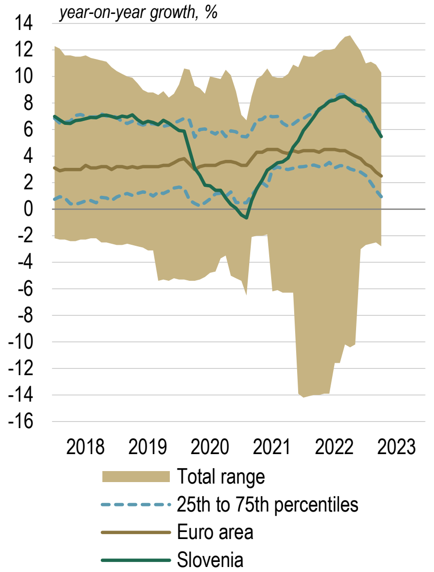
Increases in stock of housing loans and consumer loans



Sources: Banka Slovenije

Figure 255: **Household lending**

Growth in household loans, comparison with the euro area



Sources: Banka Slovenije, ECB SDW, Banka Slovenije calculations

Table 2: **Banking system balance sheet as at 30 April 2023**

	Stock	Breakdown	Stock	Breakdown	Stock	Breakdown	Increase in mio EUR		Growth in %	
EUR million unless stated, growth rates in %	dec.09	(%)	dec.22	(%)	apr.23	(%)	apr.23	in 2023	apr.23	year-on-year
Assets	52,009	100.0	50,575	100.0	50,145	100.0	-176.2	-430.3	-0.4	3.4
Cash in hand, balances at CB and sight deposits at banks	1,468	2.8	10,445	20.7	10,455	20.9	-559.1	10.5	-5.1	4.6
Loans to banks at amortised cost (including central bank)	5,763	11.1	1,665	3.3	1,820	3.6	-16.2	154.3	-0.9	6.9
domestic banks	3,531	6.8	361	0.7	451	0.9	-4.1	89.3	-0.9	-28.4
foreign banks	2,232	4.3	1,304	2.6	1,369	2.7	-12.1	65.1	-0.9	27.5
short-term loans to banks	3,020	5.8	687	1.4	522	1.0	-26.5	-165.9	-4.8	-17.7
long-term loans to banks	2,743	5.3	978	1.9	1,298	2.6	10.3	320.2	0.8	21.5
Loans to non-banking sector*	34,132	65.6	27,538	54.4	27,012	53.9	274.2	-525.6	1.0	3.3
of which non-financial corporations	20,201	38.8	10,487	20.7	10,585	21.1	255.3	97.7	2.5	6.1
households	8,072	15.5	12,138	24.0	12,202	24.3	17.1	64.3	0.1	5.5
of which residential			8,106	16.0	8,103	16.2	-0.2	-3.2	0.0	5.9
consumer			2,494	4.9	2,548	5.1	19.7	54.4	0.8	3.2
government	735	1.4	1,319	2.6	1,265	2.5	-12.6	-54.4	-1.0	-11.9
other financial institutions	2,719	5.2	1,652	3.3	1,050	2.1	9.8	-602.1	0.9	-28.3
non-residents	2,354	4.5	1,914	3.8	1,883	3.8	6.3	-30.9	0.3	13.0
Other FA classed as loans and receivables (at amortised cost)	0	0.0	266	0.5	226	0.5	58.6	-39.6	35.0	16.0
Securities / financial assets (FA)**	8,907	17.1	8,759	17.3	8,847	17.6	60.2	87.6	0.7	1.4
a) FA held for trading	890	1.7	129	0.3	145	0.3	9.9	16.6	7.3	68.9
of which debt securities held for trading	381	0.7	0	0.0	27	0.1	13.0	26.4	94.5	869.8
... government debt securities held for trading	30	0.1	0	0.0	27	0.1	13.0	26.4	94.5	869.8
b) FA measured at FV through P&L not held for trading	0	0.0	92	0.2	95	0.2	2.7	2.8	2.9	-3.4
of which debt securities measured at FV through P&L not held for trading	0	0.0	1	0.0	2	0.0	0.0	0.1	-0.9	-48.9
c) FA designated for measurement at FV through P&L	270	0.5	0	0.0	0	0.0	0.0	0.0	0.0	0.0
of which debt securities designated for measurement at FV through P&L	264	0.5	0	0.0	0	0.0	0.0	0.0	0.0	0.0
... government debt securities designated for measurement at FV through	0	0.0	0	0.0	0	0.0	0.0	0.0	0.0	0.0
d) FA measured at FV through other comprehensive income	6,237	12.0	3,702	7.3	3,513	7.0	-51.0	-188.4	-1.4	-23.5
of which debt securities measured at FV through other comprehensive income	5,627	10.8	3,513	6.9	3,322	6.6	-51.5	-190.6	-1.5	-24.4
... government debt securities measured at FV through other comprehensive income	3,870	7.4	2,406	4.8	2,334	4.7	-35.2	-72.1	-1.5	-21.4
e) Debt securities at amortised cost	1,511	2.9	4,837	9.6	5,094	10.2	98.6	256.6	2.0	28.9
of which government debt securities at amortised cost	1,231	2.4	3,487	6.9	3,672	7.3	81.6	184.8	2.3	35.9
Investments in subsidiaries, joint ventures and associates	696	1.3	1,097	2.2	980	2.0	0.0	-117.4	0.0	-2.5
Other assets	1,042	2.0	805	1.6	805	1.6	6.1	-0.2	0.8	8.4
Equity and liabilities	52,009	100.0	50,575	100.0	50,145	100.0	-176.2	-430.3	-0.4	3.4
Financial liabilities measured at amortised cost (deposits)***	46,927	90.2	45,026	89.0	44,440	88.6	-186.0	-586.1	-0.4	2.8
a) Financial liabilities to central bank (Eurosystem)	2,121	4.1	758	1.5	567	1.1	1.5	-191.4	0.3	-73.9
b) Liabilities to banks	15,949	30.7	2,034	4.0	2,145	4.3	-43.0	111.0	-2.0	8.9
of which to domestic banks	2,920	5.6	600	1.2	654	1.3	-8.2	54.3	-1.2	-23.3
of which to foreign banks	13,024	25.0	1,434	2.8	1,491	3.0	-34.8	56.8	-2.3	33.4
c) Liabilities to non-banking sector (deposits by NBS)	23,892	45.9	39,756	78.6	39,009	77.8	-184.3	-747.5	-0.5	5.1
of which to non-financial corporations	3,850	7.4	9,710	19.2	9,315	18.6	-108.2	-395.2	-1.1	7.3
households	14,049	27.0	25,784	51.0	25,829	51.5	-15.2	44.2	-0.1	6.2
government	4,008	7.7	940	1.9	733	1.5	-21.8	-206.3	-2.9	-16.4
other financial institutions	1,130	2.2	1,467	2.9	1,302	2.6	-36.5	-165.5	-2.7	-9.4
non-residents	537	1.0	1,307	2.6	1,288	2.6	-8.1	-19.8	-0.6	0.3
d) Debt securities	3,442	6.6	2,066	4.1	2,224	4.4	6.0	158.0	0.3	44.0
e) Other financial liabilities measured at amortised cost******	1,523	2.9	411	0.8	495	1.0	33.7	83.8	7.3	15.3
Provisions	175	0.3	142	0.3	140	0.3	-5.3	-1.9	-3.7	-4.4
Shareholder equity	4,310	8.3	5,153	10.2	5,309	10.6	19.5	155.7	0.4	7.7
Other liabilities	597	1.1	254	0.5	256	0.5	-4.3	1.9	-1.7	23.3
Balance sheet total	52,009	100.0	50,575	100.0	50,145	100.0	-176.2	-430.3	-0.4	3.4

Notes: * Loans to non-banking sector not held for trading are defined on the basis of the methodology for producing the recapitulation of the statement of financial position, and comprise loans and other financial assets at amortised cost (from A.VI), at fair value through profit or loss (from A.III) and at fair value through other comprehensive income (from A.IV).

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

*** Total financial liabilities at amortised cost in 2008 also include liabilities to the central bank.

**** Includes subordinated debt until 31 December 2017. Under the IFRS 9 methodology, the item of "subordinated debt" is abolished, and these liabilities are included under liabilities to banks.[24]

Source: Banka Slovenije

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

Table 3: **Income statement for 2009, 2021, 2022 and 2023**

(EUR million unless stated)	2009	Breakdown (%)	2021	Breakdown (%)	2022	Breakdown (%)	2022 jan.-apr.	Breakdown (%)	2023 jan.-apr.	Breakdown (%)	Annual growth, % jan.- apr. 23/ jan.- apr. 22
Interest income	2,114.7		737.2		884.3		255.7		518.2		102.7
Interest expenses	1,175.1		112.0		136.5		44.0		95.5		117.0
Net interest	**939.6**	**65.2**	**625.2**	**51.9**	**747.8**	**56.9**	**211.7**	**54.6**	**422.8**	**78.8**	**99.7**
Non-interest income	**500.5**	**34.8**	**580.5**	**48.1**	**567.3**	**43.1**	**176.3**	**45.4**	**113.4**	**21.2**	**-35.7**
of which net fees and commission	342.7	23.8	377.3	31.3	398.1	30.3	133.8	34.5	128.1	23.9	-4.3
of which net gains/losses on financial assets and liabilities held for trading	41.5	2.9	17.7	1.5	31.3	2.4	13.4	3.5	4.6	0.9	-65.9
Gross income	**1,440.2**	**100.0**	**1,205.6**	**100.0**	**1,315.1**	**100.0**	**388.0**	**100.0**	**536.2**	**100.0**	**38.2**
Operating costs	**-777.0**	**-54.0**	**-717.1**	**-59.5**	**-757.6**	**-57.6**	**-245.8**	**-63.4**	**-296.4**	**-55.3**	**20.6**
Net income	**663.2**	**46.0**	**488.5**	**40.5**	**557.6**	**42.4**	**142.2**	**36.6**	**239.8**	**44.7**	**68.7**
Net impairments and provisioi	**-501.0**	**-34.8**	**73.7**	**6.1**	**-14.1**	**-1.1**	**-9.9**	**-2.6**	**-7.6**	**-1.4**	**-23.6**
Pre-tax profit	**162.1**	**11.3**	**562.2**	**46.6**	**543.4**	**41.3**	**132.3**	**34.1**	**232.2**	**43.3**	**75.6**
Taxes	-39.1		-36.9		-41.7		-15.0		-34.4		129.9
Net profit	123.0		525.3		501.7		117.3		197.8		68.6

Source: Banka Slovenije

Table 4: **Selected performance indicators**

in %	2017	2018	2019	2020	2021	2022	2022 jan.-apr.	2023 jan.-apr.	apr.2022 (last 12 mon.)	apr.2023 (last 12 mon.)
Profitability										
Financial intermediation margin*	2.88	3.01	3.13	3.16	2.58	2.68	2.46	3.27	2.50	2.95
ROA	1.19	1.39	1.48	1.10	1.20	1.11	0.83	1.41	1.08	1.30
ROE	9.58	11.07	12.16	9.57	11.33	10.82	8.22	14.11	10.30	12.65
Interest margin on interest-bearing assets	1.83	1.84	1.79	1.57	1.41	1.61	1.41	2.71	1.39	2.04
Net non-interest income / operating costs	62.67	71.93	80.84	100.35	80.95	74.89	71.72	38.27	77.88	62.42
Operating costs										
Labour costs / average assets	1.02	1.02	1.00	0.90	0.85	0.84	0.82	0.87	0.84	0.86
Other costs / average assets	0.78	0.73	0.77	0.77	0.69	0.71	0.72	0.91	0.68	0.77
Asset quality										
Impairments of financial assets	4.09	2.64	1.53	1.59	1.14	1.03	1.15	1.05	/	/

** Gross income / average assets*

* Gross income / average assets

Source: Banka Slovenije

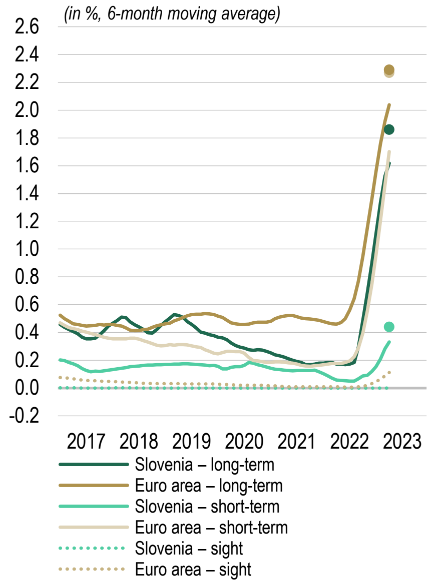
Table 5: **Comparison of interest rates on new variable-rate loans in Slovenia with the euro area overall**

	Interest rate	Loans								Household deposits			
		Households				Corporates				up to 1 year		over 1 year	
		Housing		Consumer		up to EUR 1m		over EUR 1m					
v %	ECB	EMU	SLO	EMU	SLO	EMU	SLO	EMU	SLO	EMU	SLO	EMU	SLO
dec.17	0.00	1.7	2.0	4.5	4.4	2.1	2.4	1.3	2.0	0.3	0.1	0.5	0.5
dec.18	0.00	1.6	1.9	4.9	4.7	1.9	2.2	1.3	1.8	0.3	0.2	0.5	0.6
dec.19	0.00	1.5	1.8	5.4	4.6	1.9	2.2	1.3	1.5	0.2	0.2	0.5	0.4
dec.20	0.00	1.4	1.8	5.0	4.5	1.8	2.3	1.3	1.8	0.2	0.1	0.5	0.3
dec.21	0.00	1.3	1.6	5.1	4.7	1.7	1.9	1.1	1.4	0.2	0.1	0.5	0.2
dec.22	2.50	3.1	3.8	6.7	6.7	3.7	4.0	3.4	3.7	1.4	0.2	1.9	1.4
jan.23	2.50	3.5	4.4	7.4	6.8	4.0	4.4	3.5	4.2	1.5	0.2	2.0	1.4
feb.23	3.00	3.7	4.6	7.5	6.7	4.3	4.4	3.7	3.9	1.9	0.4	2.2	1.5
mar.23	3.50	3.9	4.7	7.8	5.2	4.6	4.3	4.1	4.4	2.1	0.6	2.2	1.9
apr.23	3.50	4.1	4.8	8.3	6.7	4.8	4.5	4.3	4.8	2.3	0.4	2.3	1.9

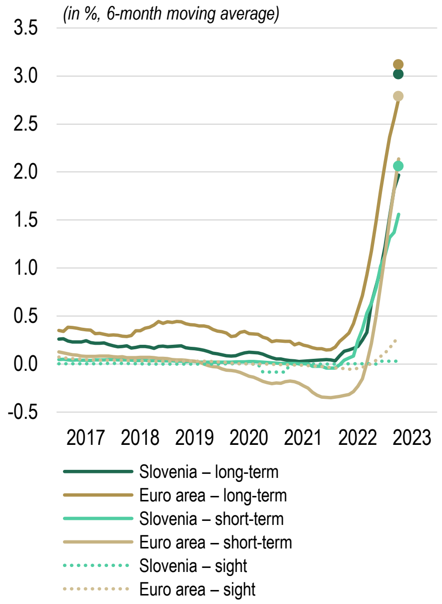
Note: Household deposits are itemised by maturity, irrespective of type of remuneration (fixed-rate and variable-rate deposits are combined).
Sources: Banka Slovenije, ECB

Figure 26: **Average interest rates on new deposits**

Average interest rates on new household deposits



Average interest rates on new deposits by NFCs



Note: The dots denote the latest data.
Sources: Banka Slovenije, ECB SDW

Table 6: **Comparison of interest rates on new fixed-rate loans in Slovenia with the euro area overall**

								Loans
				Households				Corporates
		Housing		Consumer		up to EUR 1m		over EUR 1m
v %	**EMU**	**SLO**	**EMU**	**SLO**	**EMU**	**SLO**	**EMU**	**SLO**
dec.17	1.9	2.9	5.4	6.1	2.0	3.4	1.5	1.8
dec.18	1.9	2.9	5.5	6.2	2.0	3.3	1.6	1.5
dec.19	1.4	2.7	5.3	6.2	1.7	3.5	1.4	1.1
dec.20	1.3	2.2	5.1	6.0	1.7	3.3	1.3	1.7
dec.21	1.3	1.7	5.1	6.0	1.6	2.2	1.2	1.2
dec.22	2.8	3.6	6.4	6.7	3.8	4.7	3.3	3.5
jan.23	3.0	3.8	7.0	6.8	4.0	5.9	3.4	-
feb.23	3.1	4.0	7.1	6.8	4.3	5.7	3.6	4.0
mar.23	3.3	4.0	7.2	6.7	4.4	5.6	3.9	4.6
apr.23	3.4	4.0	7.4	6.7	4.5	5.7	3.7	4.4

Sources: Banka Slovenije, ECB

Table 7: **Non-performing exposures by customer segment**

	Exposures		Non-performing exposures (NPEs)							
	EUR million	in %	EUR million				ratio, in %			
	Apr.23	Apr.23	Dec.21	Dec.22	Mar.23	Apr.23	Dec.21	Dec.22	Mar.23	Apr.23
NFCs	17,112	30.7	347	310	275	272	2.3	1.8	1.6	1.6
large NFCs	8,382	15.0	71	47	43	42	0.9	0.6	0.5	0.5
SME	8,591	15.4	276	263	232	230	3.7	3.1	2.7	2.7
OFIs	1,236	2.2	4	3	2	2	0.2	0.1	0.2	0.2
Households	13,668	24.5	261	236	228	229	2.1	1.7	1.7	1.7
sole traders	755	1.4	27	25	24	24	3.9	3.4	3.2	3.2
individuals	12,912	23.1	233	211	204	205	2.0	1.6	1.6	1.6
consumer loans	2,626	4.7	94	90	87	88	3.7	3.5	3.3	3.3
housing loans	8,042	14.4	114	95	91	91	1.6	1.2	1.1	1.1
other	2,244	4.0	24	25	25	25	1.2	1.1	1.1	1.1
Non-residents	9,619	17.2	30	79	85	82	0.3	0.8	0.9	0.9
Government	3,749	6.7	0	0	0	0	0.0	0.0	0.0	0.0
Banks and savings banks	886	1.6	0	0	0	0	0.0	0.0	0.0	0.0
Central bank	9,516	17.1	0	0	0	0	0.0	0.0	0.0	0.0
Total	**55,785**	**100.0**	**641**	**628**	**590**	**586**	**1.2**	**1.1**	**1.1**	**1.0**

Source: Banka Slovenije

Table 8: **Non-performing exposures to non-financial corporations by sector**

	Exposures		Non-performing exposures (NPEs)				NPE ratio			
	EUR million	in %	EUR million				(%)			
	Apr.23	Apr.23	Dec.21	Dec.22	Mar.23	Apr.23	Dec.21	Dec.22	Mar.23	Apr.23
Agriculture, forestry, fishing, mining	149	0.9	2	2	2	2	1.5	1.4	1.3	1.2
Manufacturing	4,871	28.5	61	55	50	50	1.5	1.2	1.1	1.0
Electricity, gas, water, remediation	1,918	11.2	8	3	3	3	0.5	0.2	0.2	0.2
Construction	1,758	10.3	41	34	31	31	2.8	2.0	1.8	1.7
Wholesale and retail trade	3,075	18.0	75	60	52	52	2.8	2.0	1.7	1.7
Transportation and storage	1,585	9.3	19	17	17	17	1.3	1.1	1.1	1.1
Accommodation and food service	535	3.1	78	80	73	72	13.4	15.0	13.7	13.4
Information and communication	551	3.2	4	3	3	3	0.7	0.5	0.5	0.6
Financial and insurance activities	270	1.6	0	0	0	0	0.1	0.0	0.0	0.0
Real estate activities	787	4.6	6	5	5	5	0.9	0.7	0.6	0.6
Professional, scientific and technical	1,379	8.1	43	46	35	35	3.0	3.4	2.6	2.5
Education, health, public admin.	138	0.8	4	2	2	2	2.8	1.2	1.2	1.2
Arts, recreation and entertainment	95	0.6	6	2	2	2	5.2	1.9	1.7	1.7
Total	**17,112**	**100.0**	**347**	**310**	**275**	**272**	**2.3**	**1.8**	**1.6**	**1.6**

Source: Banka Slovenije

Table 9: **Breakdown of exposures by credit risk stage and customer segment**

	Share in %									Exposure to stage 2 amount, EUR million		
	S1			S2			S3					
	Dec 21	Dec 22	Apr 23	Dec 21	Dec 22	Apr 23	Dec 21	Dec 22	Apr 23	Dec 21	Dec 22	Apr 23
NFCs	87.5	89.7	90.5	10.2	8.5	7.9	2.3	1.8	1.6	1,549	1,449	1,356
large NFCs	91.9	94.2	95.1	7.2	5.2	4.4	0.9	0.6	0.5	527	427	355
SME	83.3	85.3	86.2	13.2	11.7	11.3	3.5	3.0	2.6	1,022	1,021	1,000
OFIs	99.5	98.1	97.4	0.2	1.8	2.4	0.2	0.1	0.2	3	32	30
Households	88.4	89.9	90.4	9.5	8.4	7.9	2.1	1.7	1.7	1,199	1,139	1,079
sole traders	82.3	82.8	83.6	13.8	13.9	13.3	3.9	3.3	3.2	98	105	100
individuals	88.8	90.3	90.8	9.3	8.1	7.6	2.0	1.6	1.6	1,101	1,034	979
consumer loans	85.1	85.6	86.6	11.2	10.9	10.1	3.7	3.5	3.3	283	279	265
housing loans	89.5	91.7	92.3	8.9	7.1	6.6	1.6	1.2	1.1	644	571	531
other	90.5	90.5	90.7	8.3	8.3	8.1	1.2	1.2	1.2	174	184	182
Non-residents	96.8	97.4	97.7	2.9	1.8	1.5	0.3	0.8	0.8	251	169	147
Government	99.1	98.7	98.6	0.9	1.3	1.4	0.0	0.0	0.0	39	46	51
Total	**93.0**	**93.8**	**94.2**	**5.8**	**5.1**	**4.8**	**1.2**	**1.1**	**1.0**	**3,060**	**2,847**	**2,667**

Source: Banka Slovenije

Table 10: **Breakdown of exposures to non-financial corporations by credit risk stage and sector**

	Share in %									Exposure to stage 2 amount, EUR million		
	S1			S2			S3					
	Dec 21	Dec 22	Apr 23	Dec 21	Dec 22	Apr 23	Dec 21	Dec 22	Apr 23	Dec 21	Dec 22	Apr 23
Agriculture, forestry, fishing, mining	91.6	91.2	90.1	6.9	7.4	8.7	1.5	1.4	1.2	9	11	13
Manufacturing	86.8	86.0	87.4	11.7	12.8	11.6	1.5	1.2	1.0	477	608	565
Electricity, gas, water, remediation	96.9	95.8	97.0	2.6	4.0	2.8	0.5	0.2	0.2	40	75	54
Construction	90.8	91.5	92.4	6.5	6.5	5.9	2.7	1.9	1.7	95	113	103
Wholesale and retail trade	89.1	92.2	92.1	8.0	5.8	6.2	2.8	2.0	1.7	212	180	190
Transportation and storage	92.3	94.7	94.7	6.5	4.2	4.2	1.3	1.1	1.1	100	68	67
Accommodation and food service	32.6	55.7	60.9	54.5	29.7	26.1	12.9	14.5	12.9	314	157	139
Information and communication	96.8	94.3	95.4	2.5	5.1	4.1	0.7	0.5	0.6	16	32	22
Financial and insurance activities	95.4	96.0	96.0	4.5	4.0	4.0	0.1	0.0	0.0	6	11	11
Real estate activities	86.6	94.0	93.2	12.5	5.3	6.2	0.9	0.7	0.6	84	41	48
Professional, scientific and technical	88.5	88.2	89.7	8.5	8.4	7.8	3.0	3.4	2.5	121	114	107
Education, health, public admin.	88.5	85.6	86.6	8.7	13.2	12.2	2.8	1.2	1.2	13	19	17
Arts, recreation and entertainment	38.8	77.8	78.6	56.0	20.3	19.7	5.2	1.9	1.8	61	20	19
Total	**87.5**	**89.7**	**90.5**	**10.2**	**8.5**	**7.9**	**2.3**	**1.8**	**1.6**	**1,549**	**1,449**	**1,356**

Source: Banka Slovenije

Table 11: **Coverage of NPEs and credit risk stages by impairments and provisions by customer segment**

	Credit risk stages									NPE		
	S1			S2			S3					
	Dec.21	Dec.22	Apr.23	Dec.21	Dec.22	Apr.23	Dec.21	Dec.22	Apr.23	Dec.21	Dec.22	Apr.23
NFCs	0.4	0.4	0.4	4.4	4.0	3.8	57.2	59.1	61.6	57.4	59.1	61.6
OFIs	0.4	0.2	0.2	1.6	0.6	0.4	92.8	87.6	99.2	92.8	87.6	99.2
Households	0.2	0.3	0.3	4.3	4.6	5.1	53.9	59.1	61.2	53.9	58.9	61.3
sole traders	0.9	0.7	0.7	5.1	4.9	4.8	52.6	56.0	58.6	52.8	54.5	58.6
individuals	0.2	0.2	0.3	4.2	4.5	5.1	54.0	59.5	61.5	54.0	59.4	61.6
consumer loans	0.4	0.5	0.5	6.0	6.6	7.3	64.3	67.4	69.0	64.3	67.4	69.0
housing loans	0.2	0.2	0.2	3.9	3.9	4.3	43.5	51.5	53.8	43.5	51.5	53.9
other	0.2	0.3	0.3	2.7	3.2	4.1	62.8	59.7	62.3	63.6	61.0	63.4
Non-residents	0.2	0.3	0.3	4.3	5.5	4.7	77.2	35.8	33.0	77.2	34.3	31.6
Government	0.1	0.1	0.1	2.8	1.1	0.8	92.8	54.3	47.1	92.8	10.7	47.1
Total	**0.2**	**0.2**	**0.2**	**4.3**	**4.2**	**4.3**	**57.0**	**56.4**	**57.7**	**57.1**	**56.0**	**57.4**

Source: Banka Slovenije

Figures

Tables