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Abbreviations:

AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
AMC	Association of Management Companies
AUP	Average unit price of mutual fund
BoS	Bank of Slovenia
BRIC	Brazil, Russia, India, China
CCBM	Correspondent Central Banking Model
CSCC	Central Securities Clearing Corporation
DS	Debt securities
ECB	European Central Bank
ECBC	European Covered Bond Council
EFAMA	European Funds and Asset Management Association
EFTA	European Free Trade Association
EIOPA	European Insurance and Occupational Pensions Authority
EMF	European Mortgage Federation
EMU	Economic and Monetary Union
EONIA	Euro OverNight Index Average (weighted average interest rate for overnight credit)
ERM2	Exchange Rate Mechanism 2
ESCB	European System of Central Banks
EU16	Euro area
EU27	EU Member States
EU3	EU member-states prior to enlargement of 1 May 2004 not in the euro area (Denmark, Sweden, Great Britain)
EU8	Poland, Hungary, Czech Republic, Slovenia, Slovakia, Estonia, Latvia, Lithuania
EURIBOR	Interbank interest rate at which representative banks in the euro area offer deposits to one another
Eurostat	Statistical Office of the European Communities
EU-SILC	European Union Statistics on Income and Living Conditions
FED	Board of Governors of the Federal Reserve System
FESE	Federation of European Securities Exchanges
HFRS	Housing Fund of the Republic of Slovenia
ICs	Investment companies
IFRS	International Financial Reporting Standards
IFs	Investment funds
IMF	International Monetary Fund
ISA	Insurance Supervision Agency
Leaseurope	European Federation of Leasing Company Associations
LJSE	Ljubljana Stock Exchange
LJSEX	Former Ljubljana Stock Exchange index calculated for entire market until October 2010
LTI	Loan-to-income ratio
LTV	Loan-to-value ratio
MCs	Management companies
MF	Mutual fund
MTS Slovenia	Part of the Euro MTS electronic trading platform for euro-denominated government and para-government benchmark bonds
NUTS	Nomenclature of territorial units for statistics
OECD	Organisation for Economic Co-operation and Development
OFIs	Other financial institutions
P/E	Price-to-earnings ratio
PDII	Pension and Disability Insurance Institute
PID	Authorised investment company (privatisation fund)
RTGS	Real-Time Gross Settlement
S&P	Standard and Poor’s
SAS	Slovenian Accounting Standards
SBI 20	Former Slovenian stock market index
SBI TOP	Blue-chip index at Ljubljana Stock Exchange
SI O/N	Interest rate on unsecured interbank euro-denominated overnight deposits concluded between Slovenian credit institutions and euro area credit institutions
SKD	Standard classification of economic activities (national version)

SLA	Slovenian Leasing Association
Slonep	Slovenian real estate portal (www.slonep.net)
SMA	Securities Market Agency
SMARS	Surveying and Mapping Authority of the Republic of Slovenia
SORS	Statistical Office of the Republic of Slovenia
TARS	Tax Administration of the Republic of Slovenia
TR	Turnover ratio
Vzajemci.com	Portal of Slovenian mutual funds (www.vzajemci.com)
WFE	World Federation of Exchanges
Z-Doh	Personal Income Tax Act

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

CONCLUSIONS

The economic crisis in Slovenia last year was primarily a reflection of developments in the real and financial sectors. The high dependence of non-financial corporations on bank loans and their over-indebtedness, and the banking system's high dependence on foreign funding and the illiquid domestic capital market result in low and unstable economic growth, which does not raise expectations of a rapid recovery.

The economy's high dependence on foreign sources of debt financing remains one of its key structural traits. Despite the banking system's debt repayments to the rest of the world, net financial liabilities to the rest of the world rose to 38% of GDP in 2010, primarily in the form of debt securities. Such a development indicates that the role played by equity in the Slovenian economy has not been well thought out. Although it has declined over the last four years, the national savings rate (23% of GDP) remains relatively high compared with the euro area average. The ratio of investment to GDP (down nearly one third during the crisis) has declined even more notably owing to the tightened funding conditions in the rest of the world. This has a negative impact on more rapid economic growth which, at 1.2% last year, was mainly driven by growth in foreign demand and the renewal of inventories, and not by growth in gross investment, which would ensure more stable, higher and sustained economic growth. Households, with a net financial surplus of 81% of GDP, were the only sector of the economy to partially satisfy the high financial needs of non-financial corporations, which disclosed a net deficit of 116% of GDP. Despite an encouraging household savings rate, which exceeds the euro area average, households' capacity to generate savings from transactions did not increase last year in the context of a decline in their disposable income. With limited opportunities to raise financing in the rest of the world and the insufficient capacity to generate domestic savings, improving the efficiency of the investment of available financial assets and stimulating domestic savings are becoming key economic policy tasks.

The Slovenian banking system is stable, but the adverse economic conditions were also reflected in developments in the banking system in the last year. The banks faced a contraction in financial intermediation for the first time in 17 years. The restructuring of the banking system's funding is progressing slowly. Liabilities to foreign banks were down one tenth last year, while short-term funding in the form of government deposits and liabilities to the Eurosystem were also down. Despite successful securities issues by certain banks, refinancing risk remains high, particularly at the banks under majority domestic ownership. The restructuring of sources results in a gradual but sustained increase in funding costs. Even more so than last year, this will be reflected in rising lending rates and in pressures to streamline the banks' operations in the future. Funding on the wholesale markets, which represents 31% of the banking system's total assets, exposes the urgent issue of the stable provision of funding. The ratio of loans to non-banking sectors to deposits by non-banking sectors is also unfavourable, standing at 137% and recording only a gradual decline. Both factors contribute to the banks' high sensitivity to refinancing conditions on the international financial markets, which is expected to rise further in the coming year. An exceptionally important element with regard to refinancing conditions will also be a potential change to the sovereign debt rating.

Credit risk rose during the second half of last year and at the beginning of this year in the form of a deterioration in the quality of the banking system's credit portfolio. The rising proportion of the banks' claims against non-financial corporations accounted for by non-performing claims and, in particular, longer arrears, is not limited to the deteriorating operations of corporates from the sectors of construction and holding companies. The sustained economic crisis is reflected in rising payment indiscipline and deteriorating corporate operations in other cyclically less-sensitive sectors of the economy, such as wholesale and retail trade, and professional, scientific and technical activities. The credit portfolio of SMEs, to which the small domestic banks' exposure is above-average, has also deteriorated recently. The banks have shifted their credit activities more intensively to households, and thus less-risky clients, owing to the level of indebtedness of non-financial corporations and the unfavourable trend of rising credit risk. The latter is the result of strong links between Slovenian companies in the business chain, and spreads rapidly to business partners during insolvency proceedings at large corporates. Contagion in the business chain and between companies from different sectors that are not closely linked commercially, is mainly the result of relatively high exposure in the form of capital investments made prior to the crisis owing to ownership consolidation. A possible further decline in the value of capital investments and real estate in corporate balance sheets would thus have an additional adverse effect on their creditworthiness and lead to a further increase in high average financial leverage.

In addition to the failure to mitigate credit and income risks and refinancing risk, the banking system's interest-rate risk also rose last year, which is unfavourable in a period in which market interest rates are expected to rise.

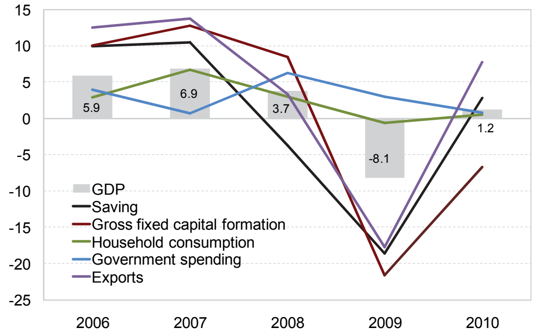
The capital adequacy of Slovenian banks remains low with respect to the average of comparable EU banks, although capital adequacy ratios only deteriorated at the large domestic banks. The diminishing capacity of the banks to generate capital internally from operating results will, in the context of the overall banking system's lower levels of capital compared with the EU average, stimulate further consolidation of the banking system in the form of mergers, acquisitions and sales, in addition to capital increases by owners.

Marko Kranjec, Ph.D.
Governor

EXECUTIVE SUMMARY

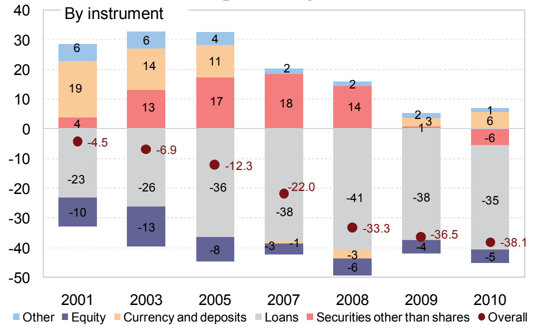
Low economic growth last year was reflected in the continuing uncertainty in the real and financial sectors. GDP growth was driven by higher foreign demand, household consumption and the renewal of inventories, while growth in gross investment remained negative.

Annual growth in selected macroeconomic aggregates



The Slovenian economy's dependence on foreign sources of funding rose to 38% of GDP. The financial sector remains the most exposed to the risk of tightening funding conditions on the international financial markets. At the same time, the government has increased its borrowing by issuing bonds. Slovenia's net external debt rose to 31.6% of GDP last year.

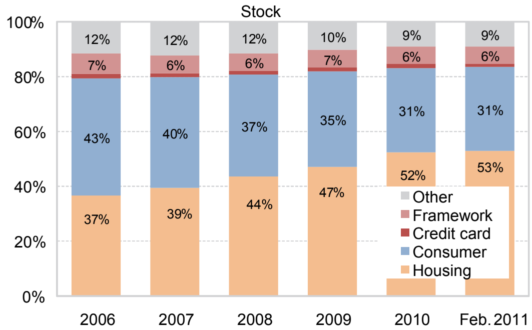
Net financial position against the rest of the world by financial instrument as percentage of GDP



Slovenia has maintained a country risk rating of "AA", accompanied by warnings from ratings agencies of the urgent need for changes in the public sector and on the labour market, and the implementation of pension reforms. The ratings agency S&P underlined its warning in December by changing Slovenia's outlook from stable to negative. An additional factor in the rising costs of foreign debt financing was the downgrading of Slovenian banks in 2010. Refinancing risk is rising with the exposure of the banks and government.

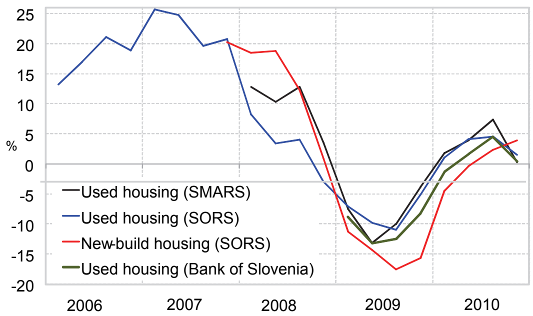
The disposable income of Slovenian households is 77% of the euro area average, while their debt is significantly lower. They are, however, more exposed to risks as they have relatively fewer net financial assets. The household sector's financial liabilities increased by 6.5% last year to EUR 12.5 billion. Bank loans account for more than four fifths of this amount. Housing loans as a proportion of bank loans to households rose to 53%, while the stock of consumer loans was down last year. Owing to the different rates of growth in financial liabilities and disposable income, households are more exposed to risks that could be transferred to the banking system, which accounts for three quarters of households' financial liabilities. Potential credit risk at the banks rises with household indebtedness. An increasing number of loans are approved with a variable interest rate, which will increase the debt servicing burden with the expected rise in interest rates. The debt servicing burden on one fifth of housing loans to households, which changes with fluctuations in the Swiss franc exchange rate, has risen for two years owing to the latter's appreciation against the euro.

Breakdown of bank loans to households



Housing prices on the Slovenian market rose moderately last year. Having risen by 30.1%, the number of used housing transactions rose above the level recorded in 2008, an indication of this market's improving liquidity. Housing affordability in Ljubljana, which takes into account housing prices, average wages and lending conditions, stagnated last year. The prices of commercial real estate in Slovenia fell by more than 10% for the second consecutive year, while the number of transactions remains low. A sharp decline in the value of construction work performed and the number of building permits issued will result in lower supply in the future. High growth in housing loans and a low number of dwellings per 1,000 inhabitants in Slovenia compared with other European countries affect the movement in demand. Demand on the housing market, however, is limited by an unfavourable ratio of average annual net disposal income to housing prices. In Slovenia net average annual income suffices to purchase 5.6 m^2 of

Year-on-year growth in prices of used and new residential real estate in Slovenia in percentages



housing, while that figure is 10 m^2 in Italy and Germany. The financial turmoil has thus not completely eliminated imbalances on the real estate market. Renewed moderate growth in prices indicates that the market has adjusted by decreasing supply and temporarily increasing the number of transactions, despite limited demand. The low level of household indebtedness and low interest rates have prevented a more significant drop in real estate prices.

Limited financing opportunities for corporates and their over-indebtedness restricted corporate operations last year. In the context of decreased needs for financing owing to a low level of investment activity, corporate financing flows were up, but remained well below the pre-2009 level. Business-to-business financing fell to one tenth of the value recorded in 2008 owing to a deteriorating liquidity position and payment indiscipline. Business-to-business financing via trade credits is increasing as a result of increased foreign trade. Corporates increased their borrowings at foreign banks last year, an indication that Slovenian banks were not responsive enough to the rising demand for loans in this segment. Owing to relatively high lending rates, such behaviour by Slovenian banks will result in a decline in the proportion of corporate financing they account for. This could have a negative impact on quality lending growth as the crisis draws to an end.

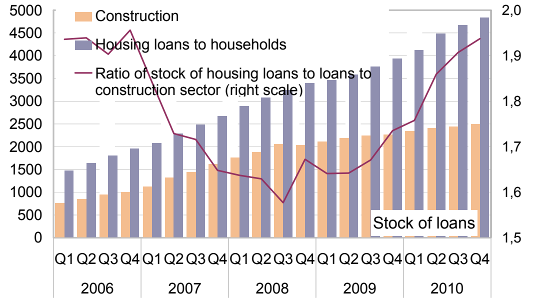
At EUR 438 million, the flow of equity to corporates was relatively low. The financing of the heavily indebted corporate sector via domestic bank loans stagnated last year. Growth in bank loans varied by individual sector, lending to the construction sector having stood out. The banks also reduced their short-term corporate financing, which primarily affected current corporate operations and reduced liquidity.

The high corporate debt-to-equity ratio deteriorated slightly last year. This resulted in a deterioration in corporate creditworthiness, which limited their growth and the restructuring process. A relatively sharp decrease in equity, primarily owing to revaluation, impacted the high financial leverage of the Slovenian corporate sector. A possible fall in commercial real estate prices and a drop in the value of corporate capital investments could lead to a further deterioration in their creditworthiness.

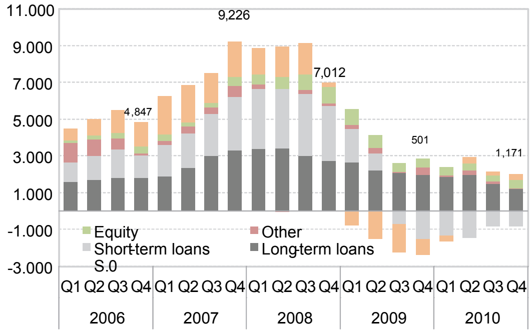
Corporate debt financing was characterised by the continuing tightened credit standards and stagnating interest rates on new loans of up to EUR 1 million. In the context of stable premiums, the costs of short-term corporate loans tied to a reference interest rate rose. Corporates primarily borrow in the short-term at fixed interest rates. There was no significant change to long-term interest rates, as lower premiums neutralised the impact of rising reference interest rates. The proportion of long-term loans with a variable interest rate rose again. Rising reference interest rates will thus increase the corporate debt servicing burden.

The Slovenian banking system's total assets were down last year. Following three years of decline, growth in total assets turned negative at the end of 2010 for the first time since 1994. The banks adapted to the adverse conditions by restructuring their funding and reducing their liabilities to foreign banks. At the same time they reduced their investments in securities and lending activity.

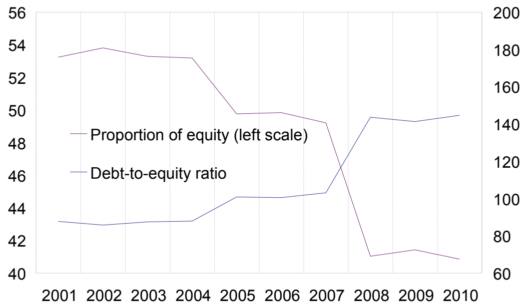
Stock of loans to the construction sector and stock of housing loans to households in EUR million and the ratio of the two



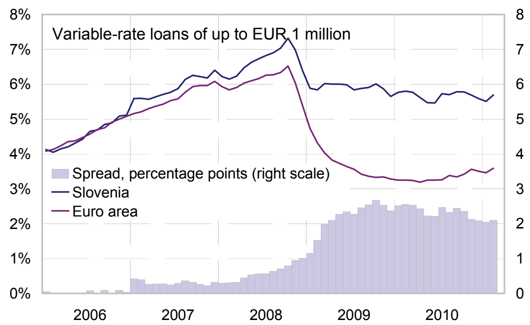
Corporate borrowing by instrument, annual moving total of flows in EUR million



Debt-to-equity ratio of the financial corporations



Interest rates on corporate loans in Slovenia and the euro area



Tightened lending standards and loan collateral requirements, and relatively high lending rates resulted in lower growth in loans to the majority of non-banking sectors. Lending to non-banking sectors was down at all bank groups last year, while all banks recorded above average lending to households. The increase in loans to households outstripped growth in corporate loans. In this way, the banks lent to a relatively less indebted sector and improved the risk profile of their credit portfolio. Housing loans contributed to the lengthening of the maturity of the banking system's credit portfolio. The maturity breakdown was also affected by the net repayment of short-term corporate loans.

The banks also made debt repayments to the rest of the world in 2010, both to foreign banks and the Eurosystem. Deposits by non-banking sectors were down due to a decline in government deposits. The banks competed for long-term deposits by non-banking sectors primarily by raising interest rates. The proportion of household deposits in the maturity interval of 1 to 2 years rose as a result. However, growth in deposits by this sector was exceptionally low. The coverage of loans to non-banking sectors by deposits by non-banking sectors stagnated last year, but had risen to its highest level since 2007 by March 2011. Nearly one half of the banking system's liabilities to the rest of the world mature over the next two years. A major portion of government-guaranteed bank securities will mature next year. Refinancing risk thus remains significant and concentrated in the maturity interval of 1 to 2 years.

The Slovenian banking system generated a loss in 2010. The banks' net interest income was up, but there was no noteworthy increase in gross income owing to declining net non-interest income. The loss was driven by a 62% increase in impairment and provisioning costs.

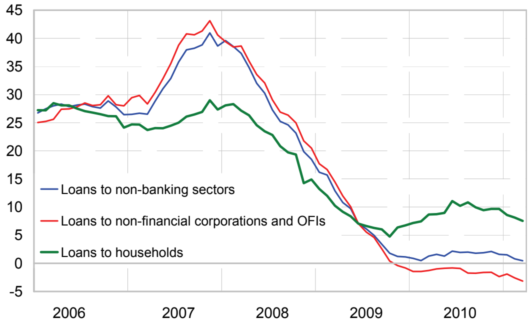
Credit risk was reflected in the deteriorating quality of the portfolio. Growth in non-performing claims reached 66% in December 2010. The banks therefore increased their impairments and provisions, and the coverage of classified claims by impairments to 4.9%. The proportion of classified claims accounted for by non-performing claims (rated D and E) reached 3.9% in February 2011.

The quality of the portfolio deteriorated most at the large domestic banks, and notably at the banks under majority foreign ownership. Nevertheless, the small domestic banks are highly sensitive to credit risk due to the rising proportion of longer arrears in sectors to which this bank group is relatively highly exposed. The portfolio of loans to non-financial corporations contributed most to the deterioration in the quality of the overall portfolio.

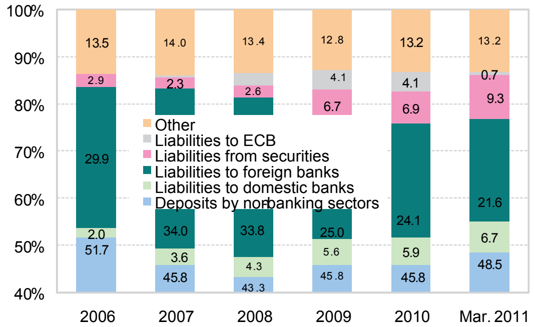
Liquidity risk has not risen. However, the dispersion of the value of the liquidity ratio and the differences between individual bank groups have widened. Nevertheless, all banks groups maintained the necessary level of liquidity at all times.

The banks reduced their exposure to non-residents and corporates, as higher-risk groups of borrowers, while increasing their lending to households and their assets with the government and central bank. Worthy of concern is the sharp rise in arrears of more than 90 days in the first two months of 2011. The proportion of the banks' claims that they account for increased to 8.4% as a result of an

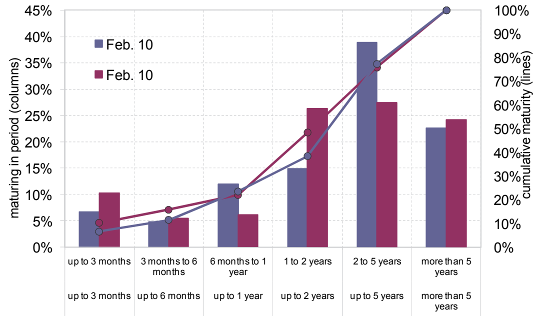
Growth in loans to non-banking sectors in percentages



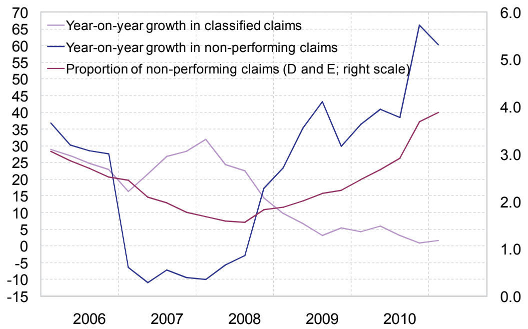
Structure of bank funding in percentages



Maturity breakdown of liabilities to foreign banks by maturity interval



Year-on-year growth in classified and non-performing claims in percentage



above-average increase the arrears of corporates and sole traders. The position of SMEs, to which the small domestic banks are most exposed, is deteriorating at an above-average rate.
The spread of the consequences of the crisis to sectors other than construction and real estate has also been noted: wholesale and retail trade, information and communication activities, financial intermediation, and professional, scientific and technical activities, where the proportion of arrears of more than 90 days exceeds 15%. The growing proportion of arrears in the repayment of loans and rising credit risk, together with a sharp increase in payment indiscipline and the rising number of bankruptcy and composition proceedings, indicate that the crisis in the corporate sector since the second half of 2010 is the worst to date.

The banks have adapted to the sharp rise in credit risk by reducing their unsecured claims more than 90 days in arrears. The proportion of new unsecured loans has fallen from one half to one fifth over the last two years, while the unsecured proportion of the credit portfolio has fallen to 45.4%.

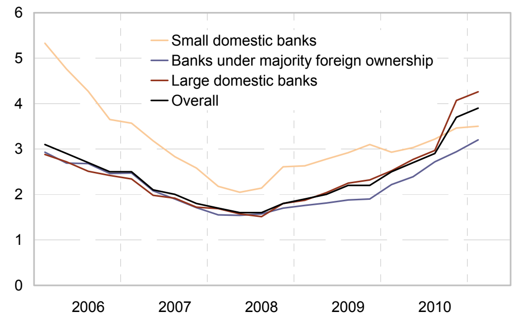
Interest-rate risk as measured by the difference between the average repricing periods for asset and liability interest rates has begun to rise. The difference of 2.8 months indicates that the banks are exposed to a rise in interest rates. The small domestic banks, who are most exposed, will be hit hardest, although their exposure was down last year, while the exposure of the other two bank groups was up. The banking system's sensitivity to rising reference interest rates has increased owing to the higher proportions of interest-sensitive assets and associated liabilities. The negative interest-rate gap widened significantly in the interval of up to 1 year.

Currency risk has increased, but remains low. The proportion of the banking system's total assets accounted for by foreign currency items has not changed significantly since the adoption of the euro. The net open foreign exchange position is relatively low, but the banks remain exposed to the appreciation of major global currencies against the euro and to the depreciation of currencies from the Balkans.

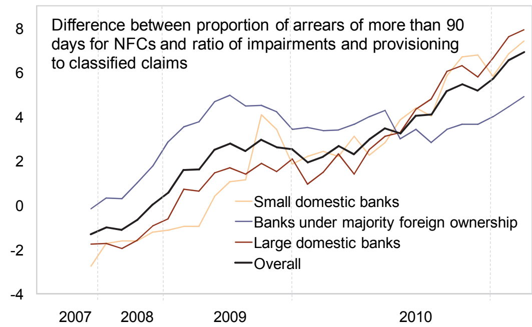
The capital adequacy of the banking system has declined, as a result of a decrease in regulatory capital at the large domestic banks owing to the loss recorded by the largest of these banks. The capital adequacy of the small domestic banks and the banks under majority foreign ownership improved. The capital adequacy of the Slovenian banking system is about 2 percentage points below the euro area average. Although the level of capital adequacy is in line with regulatory requirements, it primarily limits the banks' activities, while leading to a deterioration in financial stability.

The insurance sector was unable to generate an increase in gross written premium owing to the adverse economic situation. Nevertheless, insurers increased their total assets, improved their coverage of provisions by assets covering technical provisions, maintained a proportion of safe investments above the euro area average and increased their return on equity to the euro area average. The overall claims ratio was unchanged, although there was a notable deterioration in the ratio for life insurance and voluntary health insurance.

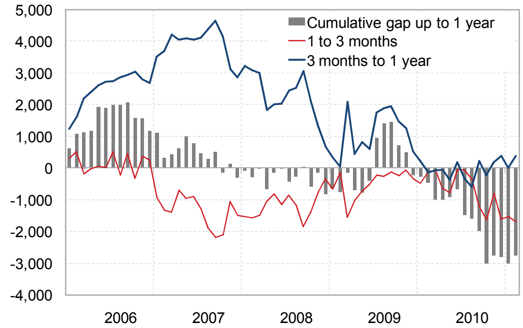
Proportion of non-performing claims by bank group in percentages



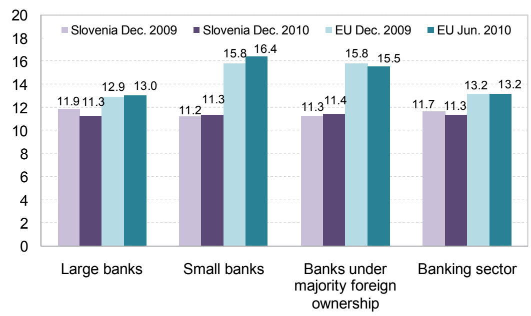
Comparison of non-financial corporations' arrears of more than 90 days with impairments and provisions as a proportion of classified claims in percentages



Gap between interest-sensitive assets and liabilities by individual bucket in EUR million



Capital adequacy by bank group on a consolidated basis in comparison with the EU average in percentages



Written premium for credit insurance was up owing to the an increase in the scope of export insurance and credit insurance for housing loans, while the associated claims ratio deteriorated slightly. In conjunction with the deterioration in the aforementioned segments, insurers were more exposed to risks on the international capital markets owing to a sharp increase in investments in foreign securities. Despite last year's capital increases, the insurance sector will be forced to raise additional capital with the introduction of the Solvency II Directive.

Assets under management at the investment funds were up 2.7%, as was the funds' exposure to risks on the international financial markets. Investment funds represent the only segment of the Slovenian financial system that is in the process of consolidating. Cross-ownership in the investment fund sector and banking sector remains low. Management companies under majority bank ownership manage just 40.5% of all assets of domestic investment funds. Borrowing by investment companies at the banks was down sharply last year.

Mutual funds' assets were up owing to net inflows of EUR 24.5 million and 6.5% growth in average unit prices. The most stable payments were made by insurers owing to contractual obligations arising from unit-linked insurance. Owing to their poor liquidity position, corporates withdrew their assets from mutual funds more intensively during the second half of 2010. Households responded to the crisis by withdrawing their assets from mutual funds relatively late. The breakdown of assets by type of mutual fund following the outbreak of the financial turmoil also reflects investors' relatively high appetite for risk. This is partly due to a lack of experience and poor financial awareness, as well as the low liquidity of assets in certain mutual funds.

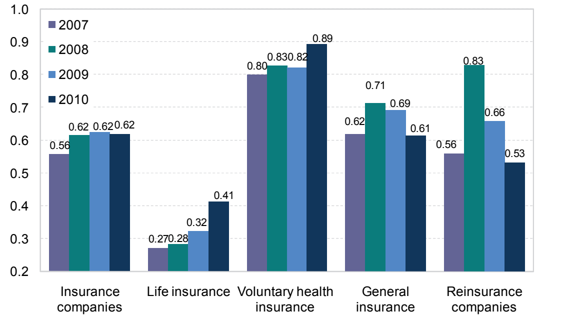
On the Slovenian capital market, the SBI TOP fell by 13.5% in 2010. The high P/E ratio for the prime market indicates that Slovenian shares are overpriced and unattractive to investors. The market capitalisation of shares fell by 17%, while the volume of trading halved. The capital market's lack of liquidity reduces interest in the investment of foreign capital in the Slovenian economy.

The volume of leasing business was up last year, while the stock of principle was down slightly. The quality of leasing companies' portfolio deteriorated. The proportion of leasing business accounted for by real estate rose to more than one quarter. The maturity of real estate leasing agreements lengthened while lease approval standards were loosened. The banks' exposure to leasing companies amounted to 3% of bank loans to non-banking sectors. Leasing companies generated a loss in 2009 owing to the adverse economic situation and more expensive sources of financing.

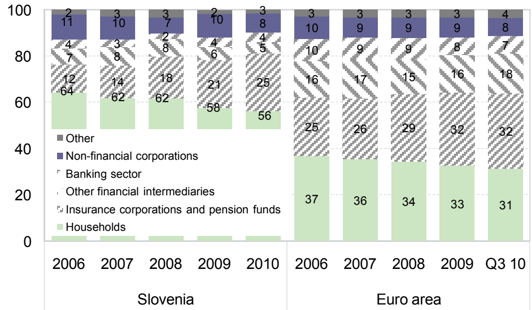
Payment systems and securities clearing and settlement systems functioned reliably in Slovenia last year. Oversight of the TARGET2 system confirmed its stable functioning.

The economic crisis requires adaptations to the structure of financing of both the real and financial sectors. This process, however, is very slow owing to the financial risks that did not diminish last year.

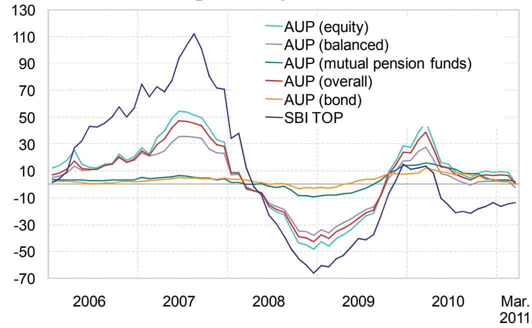
Claims ratio for major types of insurance



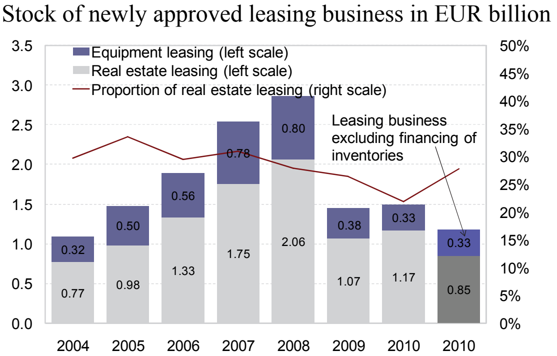
Breakdown of ownership of investment fund units/shares in percentages



Annual change in the average unit price of mutual funds and the SBI TOP in percentages



Stock of newly approved leasing business in EUR billion



1 ECONOMIC TRENDS AND INTER-SECTOR FINANCIAL CLAIMS AND LIABILITIES

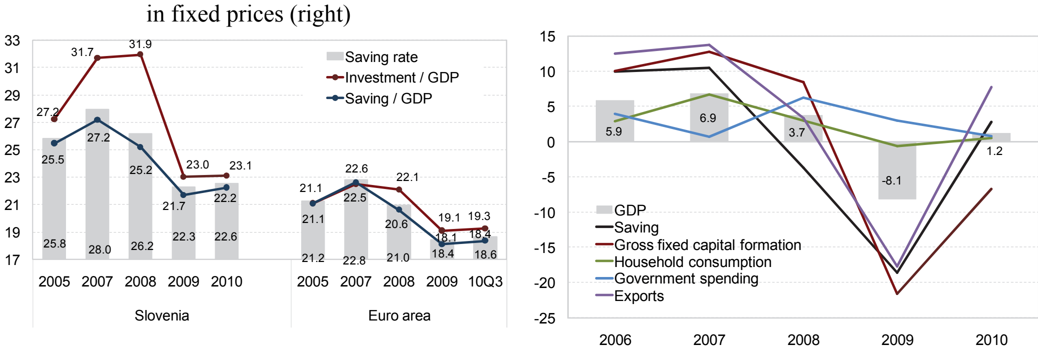
Domestic economic growth was positive in 2010, but low. The current account deficit stood at 1.1% of GDP.

The economy began showing signs of slow recovery in 2010, primarily as a result of foreign demand and renewal of inventories. GDP was up 1.2% in real terms, reaching its level of mid-2006.[1] Gross fixed capital formation declined by 6.7% in real terms, primarily as a result of a deepening crisis in construction. Gross national saving recorded low real growth of 2.8%. It is felt that a long-term economic recovery will require the creation of a more stimulative environment for effective investment and a higher level of domestic saving. Factors limiting investment can be identified in the supply of resources and in demand. In 2009 the current account deficit narrowed to 1.5% of GDP, before slowing in 2010, when it reached 1.1% of GDP.

Average inflation stood at 2.1% in 2010, 0.5 percentage points more than the euro area average.

Average inflation in 2010 as measured by the HICP stood at 2.1%, 0.5 percentage points more than the euro area average. The main factor in the rise was energy prices, but the core inflation indicators remained low and even fell further in 2010.

Figure 1.1: Percentage saving rate,[2] percentage ratio of investment and saving to GDP (left) and percentage annual growth in certain macroeconomic aggregates in fixed prices (right)



Sources: Bank of Slovenia, SORS, ECB, Eurostat

Slovenia's dependence on foreign sources of financing is increasing.

Bank loans remain the most important source of corporate financing, whereby banks are exposed to high refinancing risk. In addition, attention should also be drawn to low annual growth in domestic savings and Slovenia's relatively high net external debt. Slovenia's net external debt has increased by 14% over the last two years. The proportion accounted for by the government sector has increased, primarily at the expense of the proportion accounted for by the banking sector, which has recently had difficulty in accessing foreign funding. Unless there is an increase in domestic saving, the desired increase in investment will bring a further increase in Slovenia's net external debt.

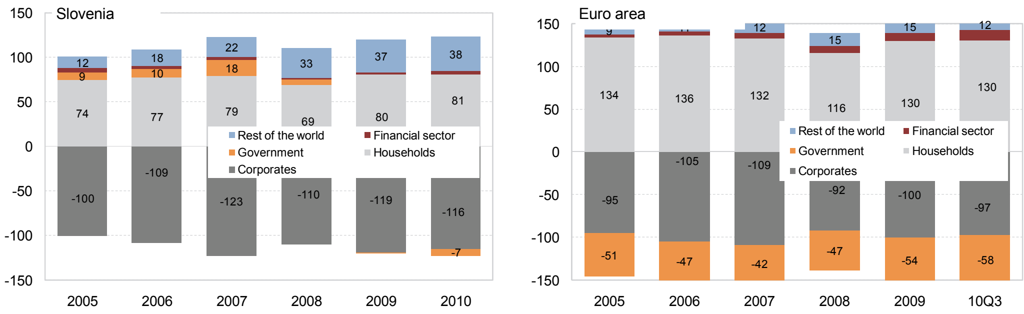
Foreign demand was a larger factor in the positive economic growth than domestic consumption.

In addition to the attraction of the requisite financing, the level of investment depends directly on domestic and foreign demand. In 2010 there was a notable recovery in foreign demand, while domestic household consumption was also up in year-on-year terms, despite an increase in unemployment and a real decline in wages. In the breakdown of GDP by expenditure components, the proportion accounted for by gross investment declined to 23%, its level of 2002, while the proportion accounted for by household consumption increased to 55%. The relatively small increase in the saving rate facilitated spending, which primarily has an impact on the economic recovery in the short term.

[1] GDP in the euro area was up 1.7% in 2010, having declined by just 4.1% in 2009.

[2] The saving rate is an indicator calculated from sectoral accounts, and is the ratio of gross saving to gross disposable income. In addition to employee compensation and social security benefits it also includes gross operating surplus from manufacturing, other current transfers (such as compensation from non-life insurance, and ownership-related income such as interest and corporate profit distributions), but does not include changes in value or capital gains.

Figure 1.2: Net financial position in individual economic sectors in Slovenia (left) and the euro area (right) as percentage of GDP



Sources: Bank of Slovenia, ECB

More-stable long-term growth requires an inflow of foreign equity and a more stimulative investment environment.

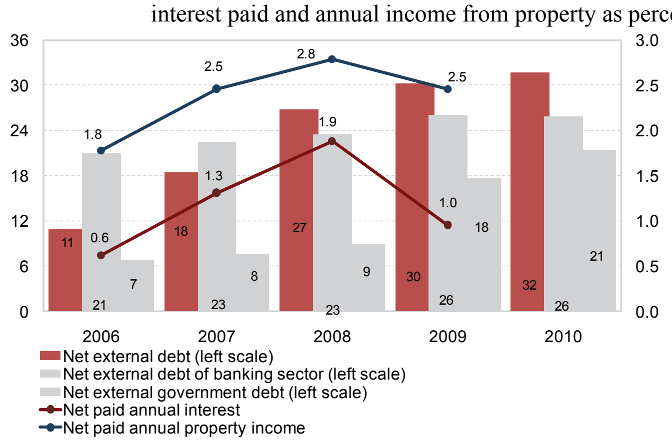
An increase in investment is in part directly dependent on an increase in domestic and foreign demand. An increase in domestic consumption would however entail lower saving, and less domestic financial resources. Growth in domestic saving and consumption is under the influence of GDP growth, which depends on investment effectiveness. In addition to a more stimulative business environment, more stable and more efficient corporate ownership structures are vital to an increase in the effectiveness of private investment. This entails a greater inflow of foreign equity and the creation of a more attractive environment for FDI. Domestic bank loans still represent the main source of financing for Slovenian corporates. During the period of growth corporates failed to generate the requisite equity resources. The reason was the failure of ownership consolidation, which is reflected in the low proportion of active owners that attend to corporate development.

Rest of the world

The government sector primarily recorded an increase in its net external debt in 2009 and 2010.

The decline in saving in 2009 was smaller than the decline in investment, while saving increased in 2010. The savings-investment gap thereby declined in 2010, to 0.6 GDP percentage points. Slovenia's net external debt increased by less in 2009 and 2010 than in the five previous years, and reached 31.6% of GDP. The figure is higher than in the majority of euro area countries, where the overall net external debt stood at 12.6% of GDP in 2009. A major factor in the increase in the net external debt as a percentage of GDP was the decline in GDP in 2009. The increase in the net external debt in 2009 and 2010 was primarily driven by the government sector, and its bond issues. The increase in the government sector's net external debt to 21% of GDP is a reflection of Slovenia's considerable dependence on foreign sources of financing.

Figure 1.3: Net external debt of Slovenia overall and of government sector, net annual interest paid and annual income from property as percentage of GDP



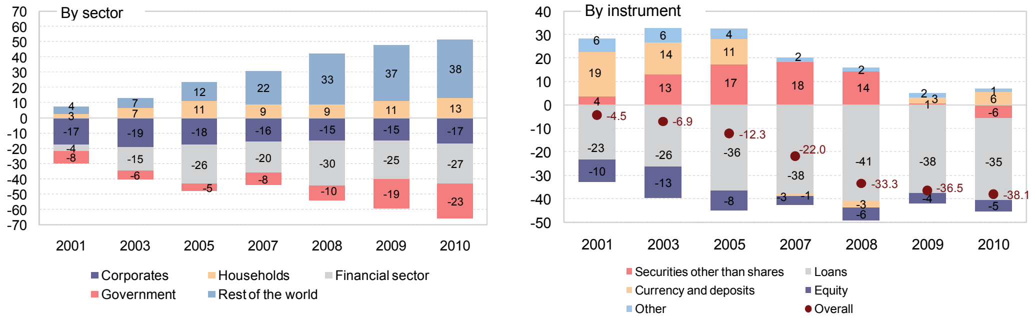
Note: The difference between Slovenia's net external debt and the net financial position of the rest of the world from the financial accounts is the result of differences in methodology. External debt does not include equity, for example.

Sources: Bank of Slovenia, SORS, ECB, Eurostat

The increase in Slovenia's external debt servicing burden stalled in 2009. It is expected to increase again.

The increase in the debt servicing burden vis-à-vis the rest of the world stalled during the last two years as a result of the smaller increase in the net external debt and lower market interest rates. Net interest paid to the rest of the world stood at EUR 337 million or 0.95% of GDP in 2009, down almost 1 percentage point on that in 2008 (compared with the euro area average of 0.2%).[3] Given the anticipated continuing rise in market interest rates and the increase in the government sector's net external debt, Slovenia's debt servicing burden vis-à-vis the rest of the world can be expected to increase in the future.

Figure 1.4: Net financial position against the rest of the world by sector and net financial position of the rest of the world against the Slovenian economy (left) and net financial position against the rest of the world by financial instrument (right) as percentage of GDP



Note: The financial sector does not include the central bank, while the position against the rest of the world is given for the entire domestic economy.
Source: Bank of Slovenia

Lack of interest on the part of foreign investors in making capital investments in Slovenia.

According to the financial accounts methodology, Slovenia's dependence on foreign sources of financing stood at 38% of GDP at the end of 2010. Net liabilities to the rest of the world in the form of equity remained low last year, an indication of the lack of interest on the part of foreign investors in making capital investments in Slovenia, and the modest importance of Slovenian equity investments in the rest of the world. The government sector's liabilities to the rest of the world in the form of debt capital as a percentage of GDP increased, while growth in the banking sector's net liabilities to the rest of the world was negligible in 2010.

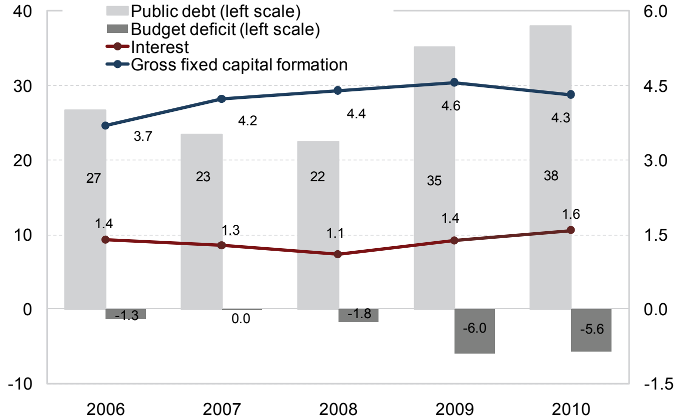
Government sector

The government has increased the budget deficit and public debt. The public debt servicing burden will increase.

The government sector moved into a net negative financial position in 2010, as a result of a decline in the value of its capital investments in the last two years, and its borrowing via bond issues. Since the outbreak of the crisis the government has been increasing the budget deficit and the public debt, gross investment by the government having contracted over the last two years. The general government debt increased to 38% of GDP last year, as a result of high borrowing via bond issues. There was a very sharp increase in the budget deficit to 6% of GDP in 2009, and according to the latest estimates it stood at 5.6% of GDP in 2010. The government had to earmark funds equivalent to 1.2% of GDP for net interest payments in 2010, or 2.9% of its revenues. Given the anticipated rise in interest rates, the government debt servicing burden will increase further.

[3] According to some assessments, it is a problem if a country's net external debt is greater then 50% of GDP or its net interest payments exceed 3% of GDP (Diz Dias: External debt statistics of the euro area, BIS, August 2010).

Figure 1.5: Public debt, budget deficit, interest payments and gross government investment as percentage of GDP



Note: The difference between the public debt and the government sector's financial liabilities from the financial accounts is the result of differences in methodology. Public debt does not include equity, for example.

Source: SORS

Gross government investment declined in 2009 and 2010.

The majority of European countries saw an increase in their public debt during the economic crisis, and their debt levels are higher than Slovenia's. Debt in the euro area overall reached 79% of GDP in 2009, while the overall budget deficit stood at 6.3% of GDP. The problem with high public debt is that instead of being spent on productive private investment a portion of private saving is spent on financing the public debt, and often on less efficient investment. Growth in gross government investment in Slovenia was negative in 2009 at –2.4% (–3.8% in 2010), while growth in expenditure on wages and on social benefits and assistance related to the rise in unemployment was relatively high at 7.3% (2.9% in 2010). In Slovenia's case, the increase in public debt entails an increase in the external debt.

The government sector moved into a negative net financial position in 2010.

The net financial position of the government sector according to the financial accounts methodology became negative in 2010, in the amount of 7% of GDP. The reason was the additional borrowing on the bond market and the weak recovery in the Slovenian economy, and thus in the capital market, where the government still holds around 50% of its capital and portfolio investments. After a high increase in net government deposits in 2009 as a result of high borrowing on the bond market, net government deposits declined in 2010. The reason was the pre-financing of general government expenditure, and the associated further increase in the negative net financial position.

Financial sector

The limited development of the Slovenian capital market is hindering the recovery of the Slovenian economy.

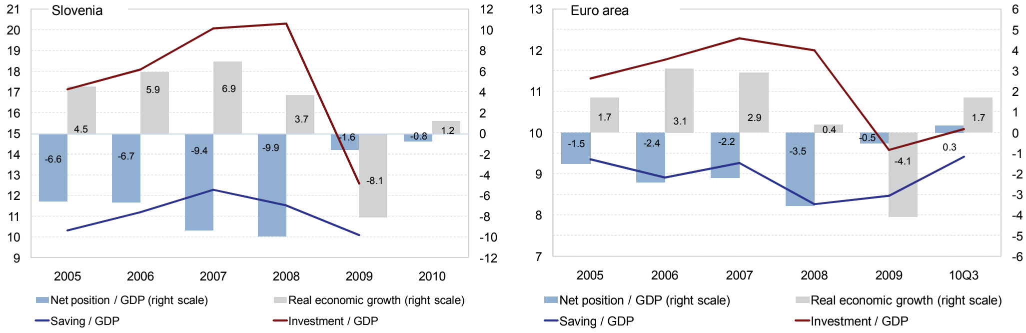
The Slovenian capital market had little influence on economic development, given its lack of depth and lack of liquidity. Among their financial liabilities non-financial corporations in the euro area recorded around 49% of GDP in marketable equities and 99% of GDP in other forms of equity at the end of the third quarter, while corporates in Slovenia recorded around 16% of GDP in marketable shares and 83% of GDP in other forms of equity at the end of 2010. The proportion of corporate financing accounted for by bonds was less than 1% in Slovenia, compared with 3.5% in the euro area overall. In the past the Slovenian financial sector was not active enough in acquiring participating interests in Slovenian corporates, which was related to the limited development of the Slovenian capital market and the pension system (investment funds) in Slovenia. In the euro area overall the financial sector's holdings of equity equate to 80% of GDP, while in Slovenia the financial sector's holdings are just 15% of GDP. A major difference between Slovenia and the euro area overall is the still-high participating interest in domestic corporates held by the government, and the low participating interest held by other financial intermediaries.

Non-financial corporations

The impact of demand on investment is set to improve in 2011 according to the survey; available financing will remain a limiting factor.

The decline in corporate investment activity in 2009 brought a decline in their negative net financial position and their demand for financing. The economic sentiment indicator, which is calculated by the SORS and measures confidence in manufacturing, in the retail sector, in the service sector and among consumers, has been below its long-term average since the end of 2008. At the end of March 2011 the indicator was still 6 percentage points below its long-term average, despite rising by 14 percentage points in 2010. The figure indicates that the feeling in the economy remains relatively uncertain. A survey of the impact on investment of various factors, also conducted by the SORS, reveals that the influence of demand improved significantly in 2010. The expectations for 2011 are even better, primarily as a result of export demand.

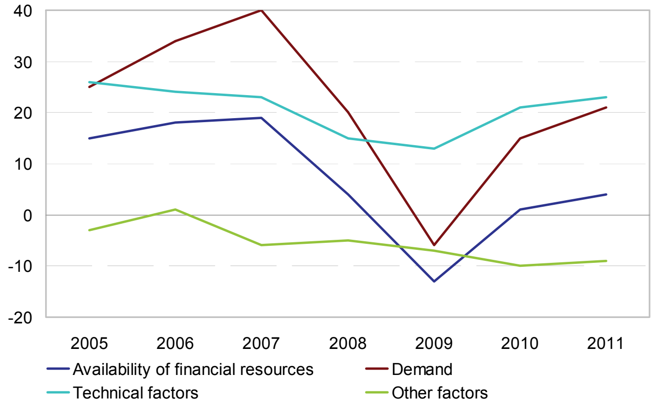
Figure 1.6: Investment, saving and net position in transactions of non-financial corporations as a percentage of GDP, and real economic growth in Slovenia and the euro area in percentages



Note: The Q3 2010 figure for the euro area is the total for the preceding four quarters. The net financial position represents the difference between financial transactions from assets and liabilities in the period in question.

Sources: Bank of Slovenia, SORS, ECB, Eurostat

Figure 1.7: Results of the survey of the impact of various factors on investment in industry

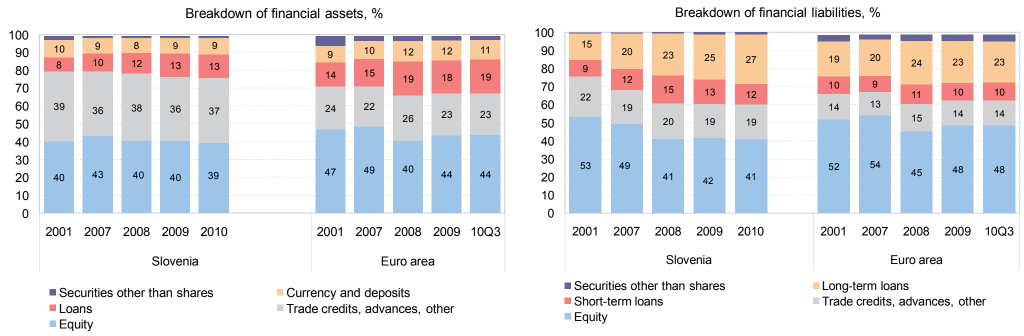


Source: SORS

Loans to corporates declined in 2010.

In line with corporate reporting of difficulty in obtaining financial resources at the end of 2008, growth in liabilities in the form of loans declined sharply in 2009 and 2010, and loans now account for around 39% of the liabilities of Slovenian corporates. Growth in loans was less than 1% in 2009, and then declined to –0.2% in 2010. The proportion accounted for by loans increased, as a result of the low valuation of equity. The decline in the proportion of corporate liabilities in the euro area overall accounted for by loans was more evident as a result of the recovery of the capital markets. Compared with 2009, when the situation was very bad, business-to-business lending with the rest of the world increased again in 2010, primarily with euro area corporates.

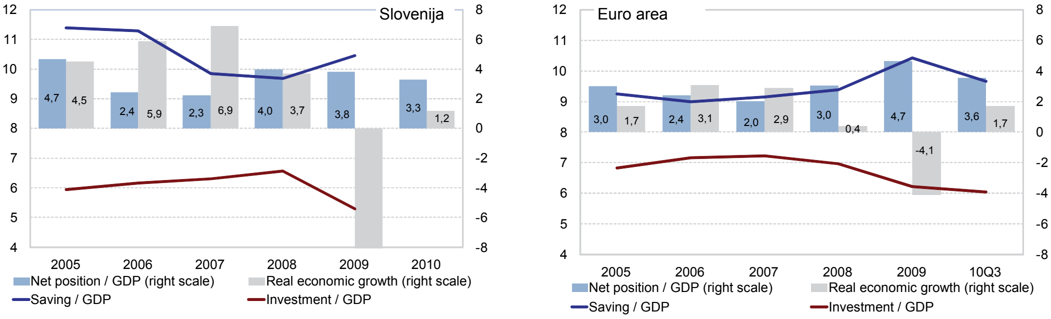
Figure 1.8: Breakdown of non-financial corporations' financial assets (left) and liabilities (right) in percentages



Sources: Bank of Slovenia, ECB

Households

Figure 1.9: Investment, saving and net position in transactions of households as a percentage of GDP, and real economic growth in Slovenia and the euro area in percentages



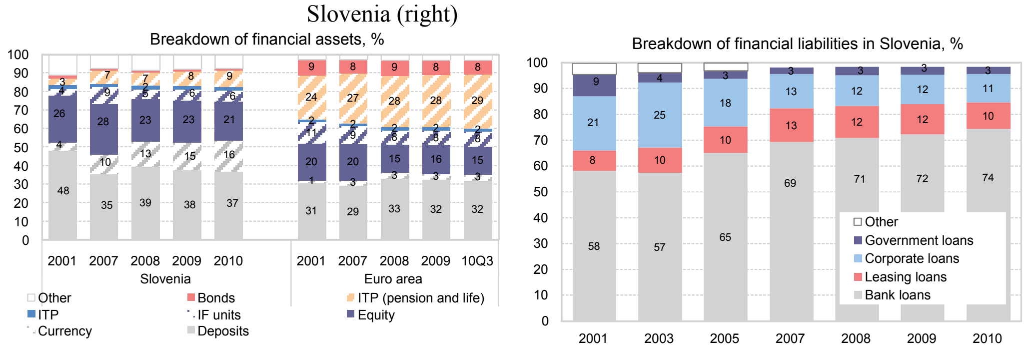
Note: The Q3 2010 figure for the euro area is the total for the preceding four quarters. The net financial position represents the difference between financial transactions from assets and liabilities in the period in question.
Sources: Bank of Slovenia, SORS, ECB, Eurostat

The consumer confidence indicator in 2010 was higher than in 2009, but was nevertheless below its long-term average.

In 2009 the ratio of household investments to GDP declined significantly, which coincided with a decline in growth in bank loans to households and a rise in the ratio of savings to GDP. Similar developments were seen in the household sector in the euro area overall. The average value of the consumer confidence indicator calculated by the SORS was higher in 2010, but was nevertheless below its long-term average. The first months of 2011 saw pessimism spread, in connection with the continuing rise in unemployment.

The proportion of household financial assets accounted for by life and pension insurance is gradually increasing, although it remains significantly lower than in the euro area overall. Given the low valuations on the capital market, the proportion of Slovenian households' assets accounted for by equity declined.

Figure 1.10: Percentage breakdown of financial assets of households in Slovenia and the euro area (left), and breakdown of financial liabilities of households in Slovenia (right)



Note: ITP: insurance technical provisions; IF: investment funds. Includes the household sector (S.14) and non-profit institutions serving households (S.15).
Sources: Bank of Slovenia, ECB

1.1 Country risk

Ratings of country risk

Slovenia's country risk rating remained unchanged in 2010.

There was no change in Slovenia's country risk ratings last year. The ratings reflect its relatively stable position among the countries with an AA rating. In the outlook over the medium and long term, the international rating agencies are warning of specific problems such as the ageing population, the urgency of certain structural reforms and the increase in government indebtedness in the years after the outbreak of the international financial turmoil.

Moody's held Slovenia at Aa2 in September of last year, with a stable outlook. In its most recent rating of Slovenia's country risk, the positive factors cited by the agency were a) the wide political consensus for political and economic decisions, b) the country's achievements in fiscal sustainability and debt management before the crisis, and c) the stock of debt that it is able to manage. The challenges cited by the agency were a) the large public sector, which could hinder the re-establishment of the past fiscal stability, b) labour market rigidity and c) the ageing population and the urgency of carrying out further pension reforms.

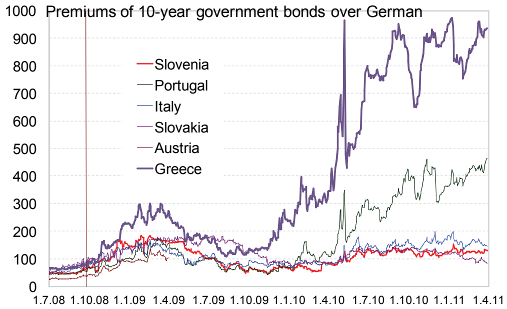
S&P confirmed Slovenia's rating as AA/A-1+ in December 2010. The factors cited by the agency as strengthening the rating included the government's achievements in fiscal prudence, and the contribution made to economic growth by exports. The agency cited the low level of welfare compared with other AA-rated countries and reticence in certain structural reforms as factors reflecting the country's weakness. However in December it changed the outlook from stable to negative, an indication of the possibility of a downgrading in the next two years, unless the public debt burden is stabilised.

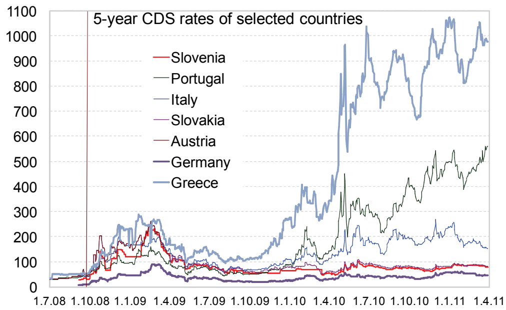
Risk premium on Slovenian government securities

The risk premium on Slovenian government securities over the German benchmarks declined in 2010, but rose slightly in the first quarter of this year.

The premiums on Slovenian government bonds over the benchmark German bonds during the first quarter of 2011 averaged 122 basis points on the 3-year bonds and 127 basis points on the 10-year bonds. Compared with 2010, the premiums in the first quarter of 2011 were down 22 basis points on the 3-year bonds, but up 20 basis points on the 10-year bonds. The values are tens of basis points lower than the value recorded a few months after the outbreak of the international financial turmoil. The premiums on 3-year Slovenian government bonds over the benchmark German bonds in the first quarter of 2011 were comparable to those of Italy and Slovakia, and lower than those of Spain, while the premiums on the 10-year bonds were significantly lower than those of Italy and Spain, although they were just over a fifth larger than those of Slovakia.

Figure 1.11: Premiums on 10-year government bonds of Slovenia and selected countries over the comparable German bonds in basis points (left), and 5-year credit default swap rates in basis points





Note: The vertical lines on the two figures mark the worsening of the financial turmoil in September 2008.
Source: Bloomberg

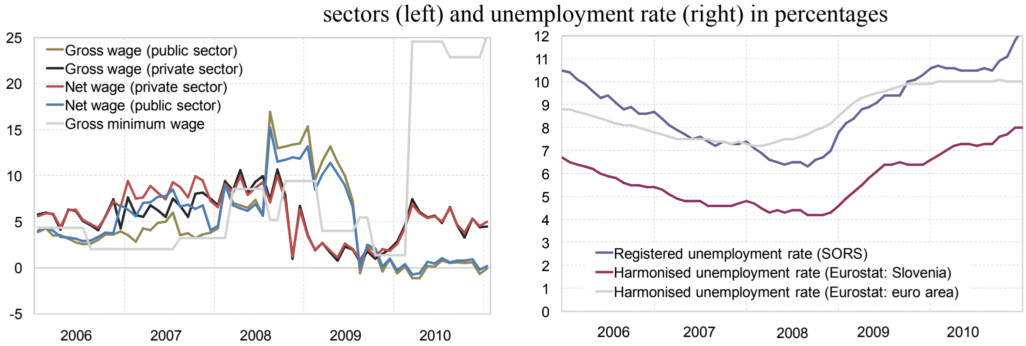
Similar movements have been exhibited by credit default swap rates. The spread between 5-year CDSs for Slovenia and Germany stood at 32 basis points in the first quarter of this year. The spread has now remained stable for a long time, and comparable to last year.

2 HOUSEHOLD SECTOR

The household saving rate increased temporarily in 2009.

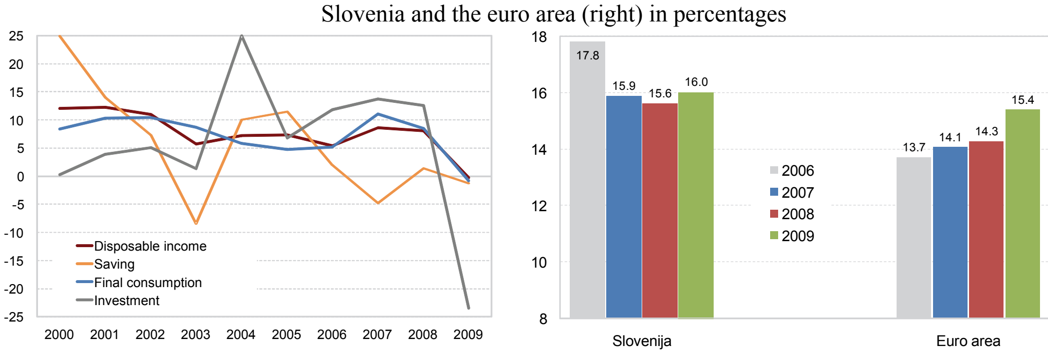
The annual disposable income of the household sector declined by 0.2% in 2009. The saving rate of Slovenian households increased in 2009, primarily as a result of saving recording a smaller decline in growth than disposable income. Given the expectations of moderate wage growth in the private sector and the persistence of high unemployment in the coming years, no major changes in disposable income are expected. On the contrary, the anticipated gradual increase in household consumption could result in a decline in the saving rate. The household saving rate in the euro area overall also rose in 2009, primarily as a result of higher annual growth in the saving and lower growth in disposable income.

Figure 2.1: Year-on-year growth in net and gross wages in the private and public sectors (left) and unemployment rate (right) in percentages



Sources: SORS, Eurostat

Figure 2.2: Year-on-year growth in disposal income, saving, final consumption and household investment in Slovenia (left) and household saving rate in Slovenia and the euro area (right) in percentages



Sources: SORS, ECB

Disposable income in Slovenia is 77% of the euro area average.

A comparison of disposable income per capita in terms of purchasing power parity between Slovenia and the euro area overall shows Slovenia recording around 77% of the euro area average. A higher saving rate entails a smaller proportion of disposable income being spent on consumption and a greater proportion being earmarked for saving, and not an absolute increase in the amount of savings. Households in Slovenia and the euro area overall recorded an increase in net lending to other economic sectors in 2009. Given the high growth in housing loans to households in Slovenia in 2010, net lending by households can be expected to have declined again in 2010.

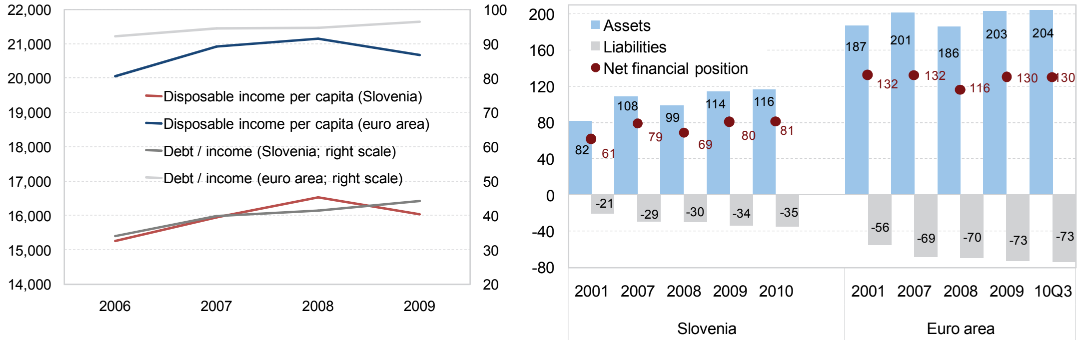
The ratio of debt to disposable income is lower in households in Slovenia than in the euro area overall, although they also have lower net financial assets.

The ratio of debt to disposable income at households in Slovenia was 44%, significantly lower than the overall euro area figure of 96%, which ranks it among the less-indebted countries. However, households in Slovenia have significantly less net financial assets, and thus a significantly smaller safety reserve in the event of difficulties in repaying debt.[4] Aggregate household figures allow for very limited possibilities of analysing the risks associated with excessive household debt.[5]

[4] Households in Slovenia were net recipients of interest in the amount of 0.3% of disposable income in 2009, compared with 1.6% for households in the euro area overall.

[5] The aggregate figures do not allow for any distinction between indebted households and households without debt, and it is therefore not possible to reasonably correlate figures on debt and assets. At the end of this section is a brief analysis of the mortgage indebtedness of Slovenian

Figure 2.3: Gross disposable income per capita in euros and ratio of debt (loans) to income in percentages (left), and financial assets, liabilities and net financial position of households as percentage of GDP in Slovenia and the euro area (right)



Sources: SORS, Eurostat

Factors in saving

Long-term economic growth demands investment. The most important domestic source of financing for investment is household savings. The net external debt in Slovenia has risen sharply, and domestic saving should therefore be given a greater role. By contrast, domestic consumption contributes to economic growth. A potential increase in the saving rate and a decline in household consumption could entail a need for a greater contribution to future GDP growth from corporate investment and net exports. Given the expectations of a gradual increase in household consumption and almost no change in income, no major changes in the saving rate can be expected.

Greater emphasis should be given to domestic saving.

Several factors influence saving: the first is growth in disposable income. However, higher income does not necessarily entail higher saving. The saving rate in European households is higher than that of households in the US, despite lower income. The second factor is demographic trends. A higher proportion of older people often entails a lower saving rate.[6] An important role in saving is also played by the third factor, the credit market. When households find it harder to obtain loans, they spend less. Credit standards were also loosened in Slovenia in the pre-crisis period. The fourth factor is the pay-as-you-go public pension system, when households replace their own assets with claims against the public social security system, as in Slovenia. Fifth, unemployment as an indicator of individual uncertainty often has a positive impact on saving. Sixth, high interest rates or high asset values (the wealth effect) can increase current consumption and reduce saving given the expectation of growth in disposable income, but households may also limit current consumption and increase saving given the possibility of greater consumption in the future. Different tax systems, and cultural and social factors also have an impact on saving.

Factors in saving.

2.1 Households' financial assets

The increase in households' financial assets in 2010 was less than in the previous year, primarily as a result of the adverse developments on the domestic capital market. Household assets increased by EUR 2 billion or 5%. Households primarily recorded an increase in deposits and assets from life insurance and pension insurance tied to regular contributions. The rise in interest rates brought an increase in assets in the form of deposits. Household assets in mutual funds also increased last year, primarily as a result of value changes. Household assets in the form of equity declined, as a result of adverse developments on the domestic capital market. Given continued regular contributions to life insurance and pension insurance, household assets in this form can be expected to increase in the future; the level in Slovenia is still significantly below the euro area average. In 2010 transactions accounted for almost the entire increase in households' financial assets, the value changes in individual instruments almost entirely negating one another.

In 2010 transactions accounted for 95% of the increase of EUR 2 billion in households' financial assets.

households based on microdata obtained from the survey of living conditions (EU-SILC) conducted annually by the SORS (see Section 2.2).

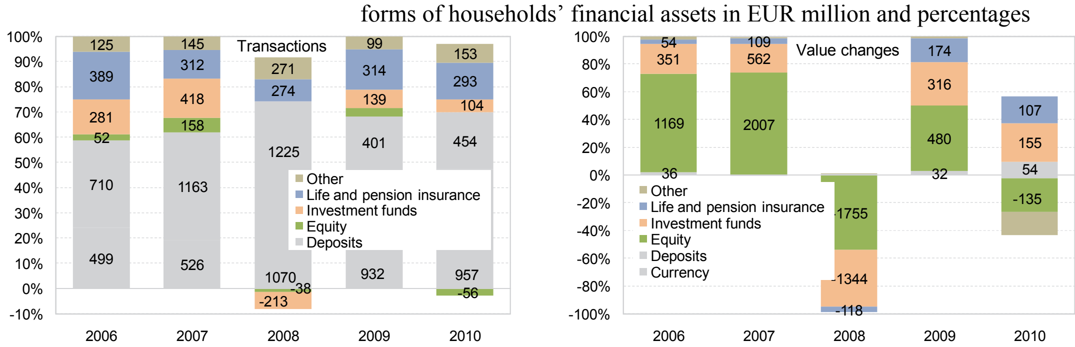
[6] In Japan, which has a notable ageing population, the saving rate has fallen from 8% to 3% in the last ten years.

Table 2.1: Stock of household financial investments by instrument

	2005	2006	2007	2008	2009	2010
Total, EUR million	28,264	31,973	37,397	36,823	39,800	41,788
growth, %	8.8	13.1	17.0	-1.5	8.1	5.0
change, EUR million	2,289	3,709	5,424	-574	2,977	1,988
as % GDP	98.3	103.0	108.2	99.2	114.1	116.2
	Breakdown, %					
Currency	10.2	10.6	10.4	13.5	14.8	16.4
Deposits	40.2	37.9	35.5	39.5	37.6	37.0
Bonds	1.8	1.6	1.3	1.3	1.3	1.2
Loans	3.1	2.6	2.3	2.5	2.4	2.3
Equity	24.4	25.4	27.5	23.1	22.7	21.2
Investment funds	6.5	7.7	9.2	5.1	5.9	6.2
Life insurance	4.0	4.5	4.5	4.7	5.2	5.5
Pension insurance	1.8	2.0	2.2	2.5	2.7	3.0
Other	7.9	7.7	7.0	7.8	7.4	7.2

Source: Bank of Slovenia

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



Source: Bank of Slovenia

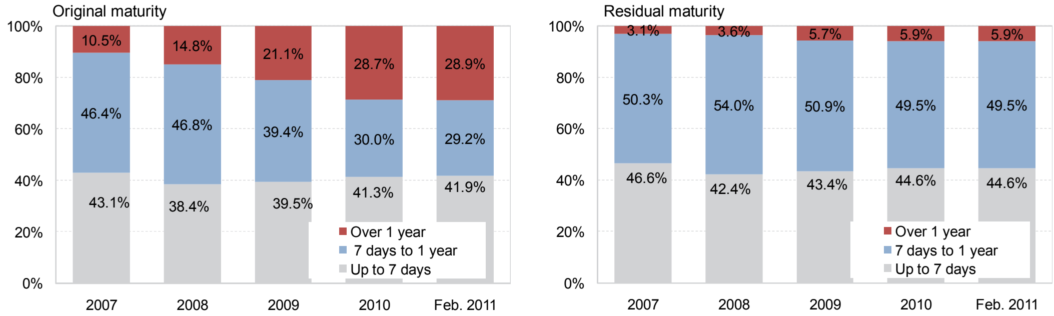
The banks cannot expect significantly higher inflows of household deposits.

Households hold just over 36% of their assets in the form of claims against the domestic banks, primarily in the form of deposits. The proportion is declining as a result of the increasing prominence of life insurance and pension insurance. The increase in deposits at domestic banks from transactions in 2010 was similar to that in 2009 at around EUR 450 million. Given the expectation of a relatively small increase in household savings and an increase in the importance of pension-related saving, the banking sector cannot expect a significant increase in household deposits, although the anticipated rise in interest rates will be encouraging.

An increase in the proportion accounted for by deposits of more than 1 year in terms of original maturity.

The banks are also attracting household funds by marketing structured deposits, the majority of whose interest is tied to funds that they themselves market. This allows investors to achieve higher returns, although they are also exposed to market risk in the portion relating to the interest. The nature of structured deposits is investment products that are marketed directly to households during a period of low interest rates. Here doubts are being raised as to whether small investors are aware of the market risk taken up. The banks are using interest rates to compete for savings, most notably for deposits of more than 1 year. Households are opting more often to commit funds for more than a year. The proportion of household deposits accounted for by deposits of more than 1 year has increased by almost 15 percentage points since 2008 to 30%. The proportion of deposits accounted for by deposits of more than 1 year in terms of residual maturity is also increasing, although it has not yet reached 6%. This is a reflection of the actual extension of bank funding with regard to household deposits.

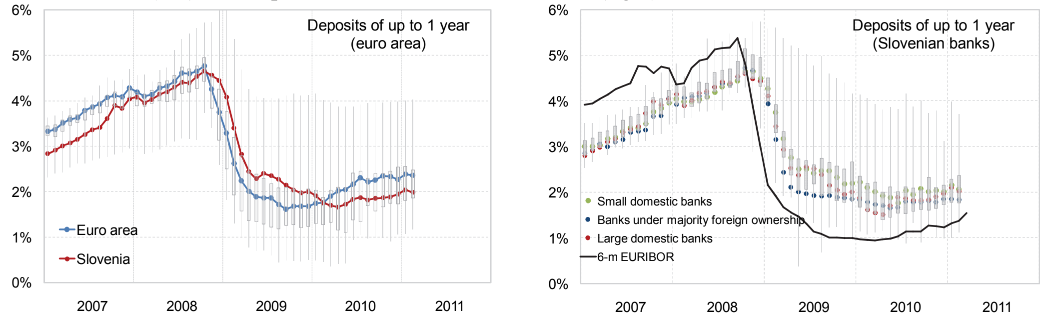
Figure 2.5: Proportions of the stock of household deposits accounted for by deposits of up to 7 days, deposits of 7 days to 1 year, and deposits of more than 1 year in terms of original maturity (left) and residual maturity (right) in percentages



Source: Bank of Slovenia

Slovenian banks have had lower interest rates on short-term deposits than the euro area average since the beginning of 2010. The spread between euro area countries and Slovenian banks widened during the crisis. Germany and Italy, for example, have lower average interest rates than Slovenia. Interest rates on deposits are also rising in line with the rise in market interest rates. In the segment of deposits of up to 1 year, the interest rates offered by the large domestic banks are approaching those of the small domestic banks.

Figure 2.6: Dispersion of interest rates on deposits of up to 1 year in the euro area (left) and dispersion between Slovenian banks (right)

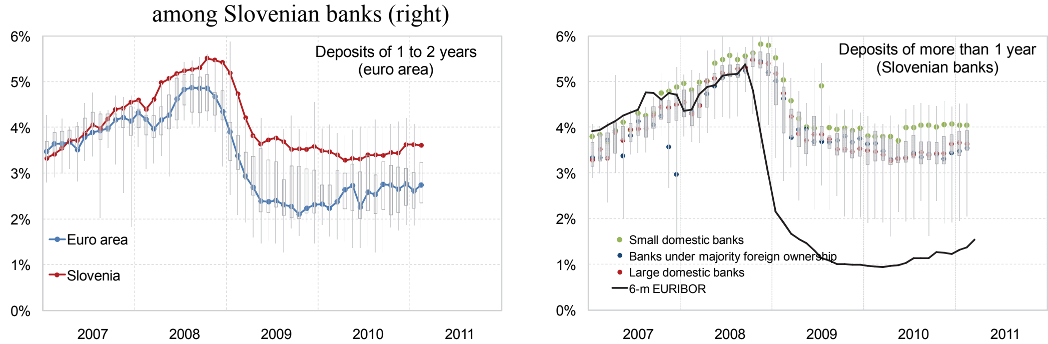


Note: Does not include all euro area countries, because of non-availability of data.
Sources: Bank of Slovenia, ECB

The domestic banks have recently had higher average liability interest rates than the banks under majority foreign ownership.

Average interest rates on long-term deposits in Slovenia have been higher than the euro area average since 2007. The spread widened during the crisis. Only Cyprus has higher average interest rates than Slovenia. The small domestic banks in particular raised interest rates on long-term deposits in 2010, because they are more dependent on domestic funding than the large domestic banks. The banks under majority foreign ownership can maintain a lower level of interest rates, as they generally have lower refinancing risk than the domestic banks. Competition for deposits means that the domestic banks will maintain relatively high liability interest rates, although it is questionable how much additional funding they will thereby succeed in attracting. They will also have to secure funding in other ways, such as securities issues, covered bonds, mortgage bonds and the sale of investments.

Figure 2.7: Dispersion of interest rates on deposits of 1 to 2 years in the euro area (left) and dispersion of interest rates on deposits of more than 1 year among Slovenian banks (right)



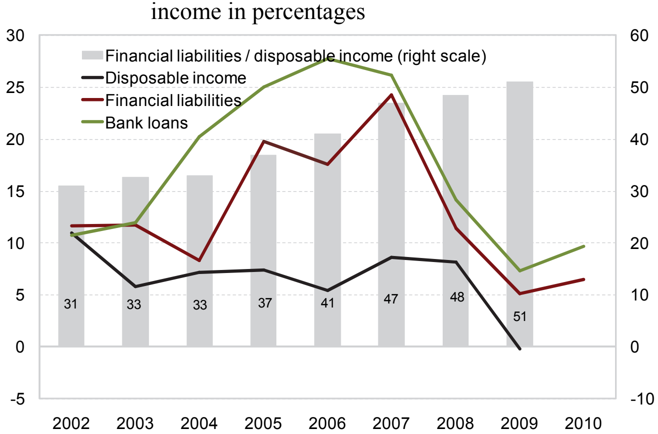
Note: Does not include all euro area countries, because of non-availability of data.
Sources: Bank of Slovenia, ECB

2.2 Household borrowing

Growth in household loans is raising household financial debt.

Households' financial debt increased by 6.5% in 2010, primarily as a result of an increase in housing loans. The ratio of total financial liabilities to households' annual disposable income increased to 51%, but was still significantly below the average in western European countries. Loans by the domestic banks accounted for three-quarters of total household financial liabilities. The proportion of financial liabilities accounted for by bank loans has been rising continually in recent years.

Figure 2.8: Annual growth in disposable income, financial liabilities, bank loans to households and ratio of total financial liabilities to annual disposable income in percentages



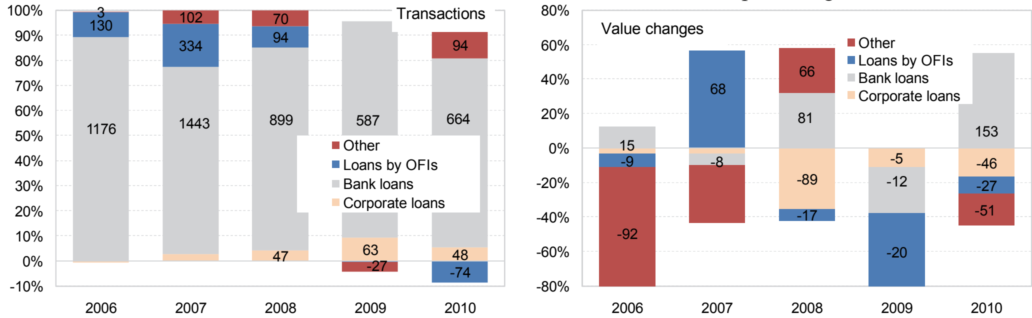
Sources: Bank of Slovenia, SORS

Table 2.2: Stock of household financial liabilities by instrument and disposable income

	2005	2006	2007	2008	2009	2010
Financial liabilities, EUR million	6,882	8,093	10,054	11,203	11,778	12,538
change, EUR million	1,135	1,211	1,961	1,149	575	760
growth, %	19.7	17.6	24.2	11.4	5.1	6.5
as % GDP	23.9	26.1	29.1	30.0	33.3	34.8
	Breakdown, %					
Loans	79.7	83.7	85.7	86.6	87.5	87.7
corporates	6.3	5.0	4.5	3.5	3.9	3.7
banks	78.4	81.0	80.3	81.4	82.3	84.5
other financial intermediaries	12.2	11.7	13.9	13.1	12.1	10.4
other	0.4	0.3	0.4	0.3	0.3	0.2
Other	20.3	16.2	14.3	13.3	12.5	12.3
Disposable income, EUR million	18,699	19,714	21,409	23,147	23,092	-
change, EUR million	1,281	1,015	1,695	1,739	-56	-
growth, %	7.4	5.4	8.6	8.1	-0.2	-
as % GDP	65.0	63.5	61.9	62.0	65.3	-
Debt as % disposable income	36.8	41.1	47.0	48.4	51.0	-

Sources: Bank of Slovenia, SORS

Figure 2.9: Breakdown of transactions (left) and value changes (right) in individual forms of households' financial liabilities in EUR million and percentages



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

Source: Bank of Slovenia

Household borrowing at banks

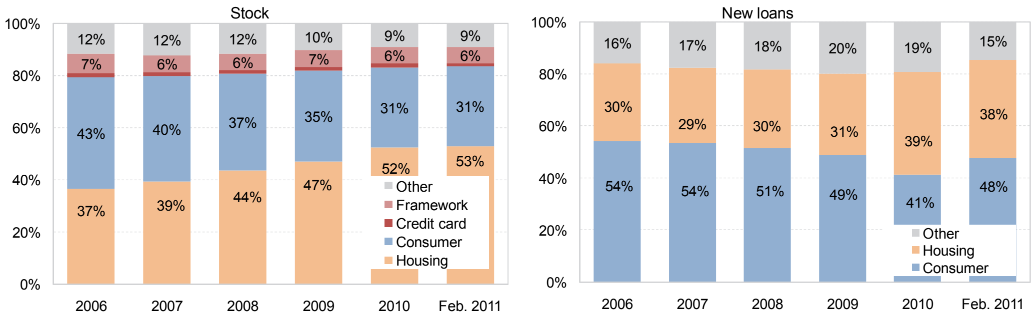
The household loan-to-deposit ratio is increasing.

The household loan-to-deposit ratio at the domestic banks increased to 64.5% in 2010. The ratio has been increasing continually, and reveals a significantly higher increase in household loans than household deposits, which is bringing a deterioration in the domestic banks' funding structure. The proportion of household loans accounted for by housing loans is increasing, and had reached 53% by the end of February 2011 (up 20 percentage points on 2005). Housing loans account for around 70% of household loans in the euro area overall, the proportion having increased by 2 percentage points since 2005. The proportion of new loans in Slovenia accounted for by housing loans increased to 40% in 2010, as a result of low growth in household consumption.

The loan repayment burden on households is increasing.

According to bank surveys, the annual repayment of household loans in 2010 was equivalent to 7.5% of household disposable income in 2009, while paid interest accounted for 1%. The loan repayment burden in 2010 was up slightly on the previous year as a result of growth in housing loans. The proportion accounted for by paid interest was down on the previous year, although given the rise in market interest rates it can be expected to increase in the future. The proportion of loans not in arrears increased last year. The proportion of loans up to 180 days in arrears declined, while the proportion of loans more than 180 days in arrears increased, although according to survey data they form a negligible proportion of total household loans. New loans were classed as risk-free, which was reflected in the proportion of household loans rated A increasing by 5.4 percentage points to 94% in 2010. The LTV ratio averaged 58% last year according to the bank survey.

Figure 2.10: Percentage breakdown of bank loans to households by type in stock (left) and new loans (right)



Source: Bank of Slovenia

Table 2.3: Household loans and deposits

	2006	2007	2008	2009	2010	Feb. 2011
Loans, EUR million	5,344	6,781	7,793	8,345	9,290	9,225
housing	1,956	2,671	3,405	3,935	4,837	4,852
consumer	2,285	2,745	2,887	2,903	2,833	2,803
other	1,103	1,366	1,501	1,507	1,620	1,571
Loans as % GDP	17.2	19.6	20.9	23.6	25.8	
housing	6.3	7.7	9.1	11.1	13.4	
consumer	7.4	7.9	7.7	8.2	7.9	
other	3.6	4.0	4.0	4.3	4.5	
Annual increase, EUR million	1,136	1,437	1,012	552	945	-65
housing	589	714	735	530	902	14
consumer	320	459	142	16	-70	-30
other	227	263	135	7	113	-49
Annual growth, %	27.0	26.9	14.9	7.1	11.3	-0.7
housing	43.1	36.5	27.5	15.6	22.9	0.3
consumer	16.3	20.1	5.2	0.5	-2.4	-1.1
other	25.9	23.8	9.9	0.4	7.5	-3.0
New loans, EUR million	2,759	3,548	3,316	3,080	3,085	373
housing	820	1,023	1,001	960	1,213	141
consumer	1,500	1,899	1,708	1,509	1,277	178
short-term	185	399	370	287	197	25
long-term	1,315	1,500	1,338	1,222	1,079	153
other	439	625	608	611	595	54
Loans / deposits	51.4	58.7	58.4	59.6	64.5	63.1
deposits, EUR million	10,396	11,544	13,332	13,998	14,394	14,630
annual increase, EUR million	858	1,148	1,788	666	395	236
annual growth, %	9.0	11.0	15.5	5.0	2.8	1.6

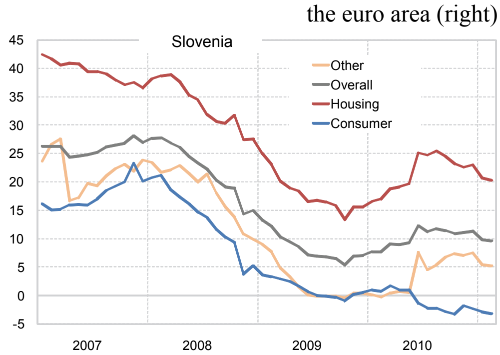
Note: The bank figures shown are statistical, not book-keeping figures. The values are therefore comparatively higher. The figures for February 2011 refer to the first two months of 2011 alone.

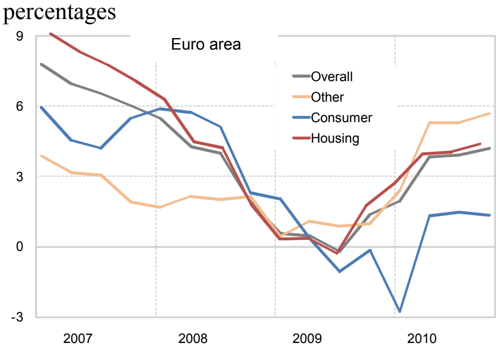
Source: Bank of Slovenia

The average maturity of housing loans is lengthening.

The average maturity of housing loans has continually increased, reaching 15.5 years in February 2011. The lengthening of the average maturity of housing loans is allowing borrowers to obtain larger loans and also allowing households with lower income to gain access to loans. The proportion of new loans accounted for by loans with a maturity of more than 20 years is increasing, and exceeded 50% for new housing loans last year. The proportion of loans with a variable interest rate (predominantly tied to the EURIBOR) is increasing: the figure is 95% for the stock of housing loans, and 58% for the stock of consumer loans. The increase has been evident since 2009, when reference interest rates reached very low levels, and variable-rate loans were therefore more attractive than fixed-rate loans. Given the anticipated rise in interest rates, the household debt servicing burden will increase. Loans tied to the Swiss franc still account for 22% of the stock of housing loans. The Swiss franc's rise against the euro is increasing the debt servicing burden for holders of these loans.

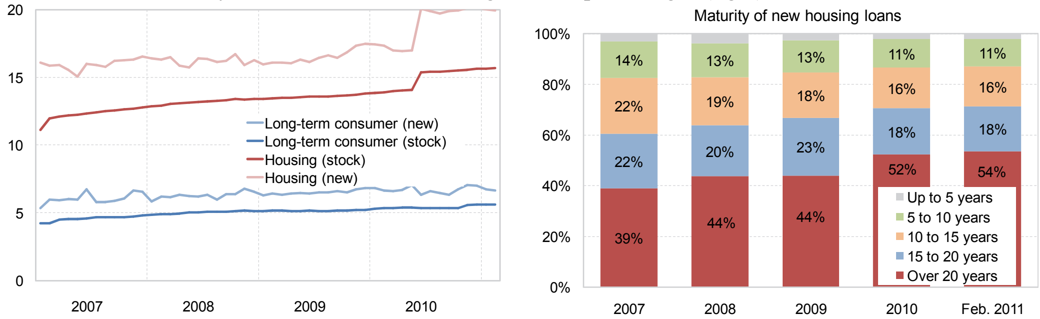
Figure 2.11: Annual growth in various types of household loans in Slovenia (left) and the euro area (right) in percentages





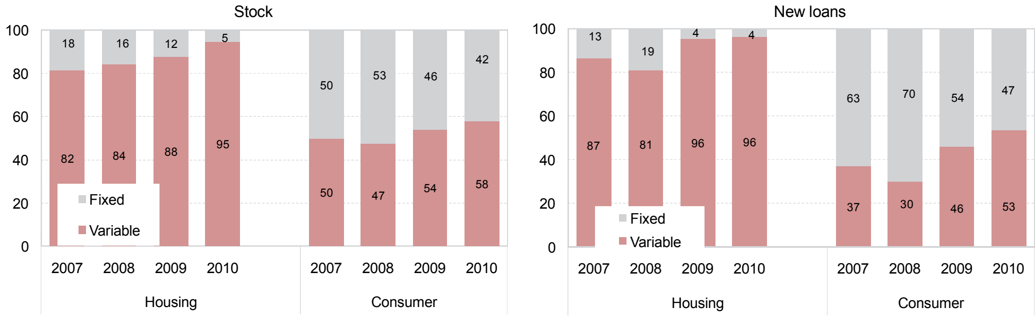
Sources: Bank of Slovenia, ECB

Figure 2.12: Average maturity of various types of housing loans in years (left) and maturity breakdown of new housing loans in percentages (right)



Sources: Bank of Slovenia, ECB

Figure 2.13: Percentage breakdown of housing and consumer loans by type of interest rate for stock (left) and new loans (right)

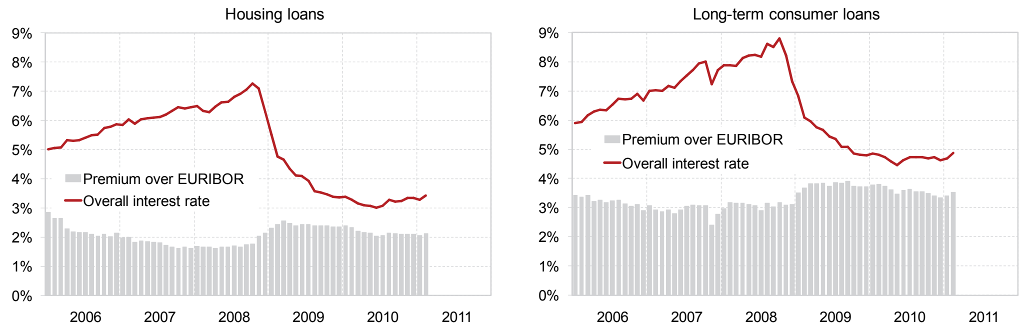


Source: Bank of Slovenia

The premiums on housing loans declined by 0.2 percentage points last year. There was thus no significant change in the overall variable interest rate when the reference interest rates rose. The banks used lower premiums over the Euribor to compete for borrowers in the housing loan segment. This mostly involved banks that are less exposed to the construction sector and have below-average impairment and provisioning costs. In the event of the anticipated rise in interest rates, the banks will have to cover the risk of an inability to repay loans with the relatively low premiums set when the long-term housing loans were concluded. Banks use favourable credit offers to attract new clients, from whom they expect an increase in deposits and increased sales of other banking services.

Premiums on housing loans declined slightly in 2010.

Figure 2.14: Overall interest rate tied to the EURIBOR and premiums on new housing loans (left) and long-term consumer loans (right) in percentages

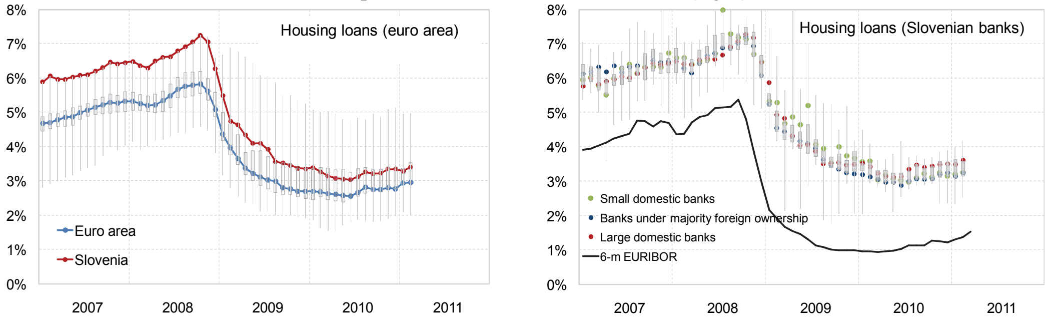


Note: Includes loans on which the contractual interest rate is variable or fixed for up to 1 year, and the reference interest rate is the EURIBOR.

Source: Bank of Slovenia

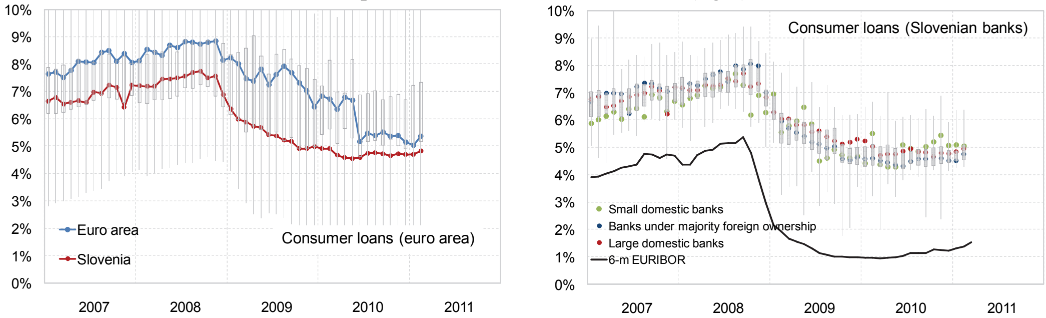
Interest rates on housing loans in Slovenia are still slightly higher than the euro area average. It is primarily the banks under majority foreign ownership that use lower interest rates to compete against the domestic banks. The interest rate spreads on housing loans between the euro area countries narrowed last year. The interest rate dispersion between countries on consumer loans is wider, partly as a result of larger variation in loan maturity. The effective interest rates on consumer loans vary considerably from bank to bank as a result of the different approval and collateral costs. The average interest rates on consumer loans in Slovenia are below the euro area average.

Figure 2.15: Dispersion of interest rates on housing loans in the euro area (left) and dispersion between Slovenian banks (right)



Note: Does not include all euro area countries, because of non-availability of data.
Sources: Bank of Slovenia, ECB

Figure 2.16: Dispersion of interest rates on consumer loans in the euro area (left) and dispersion between Slovenian banks (right)



Note: Does not include all euro area countries, because of non-availability of data.
Sources: Bank of Slovenia, ECB

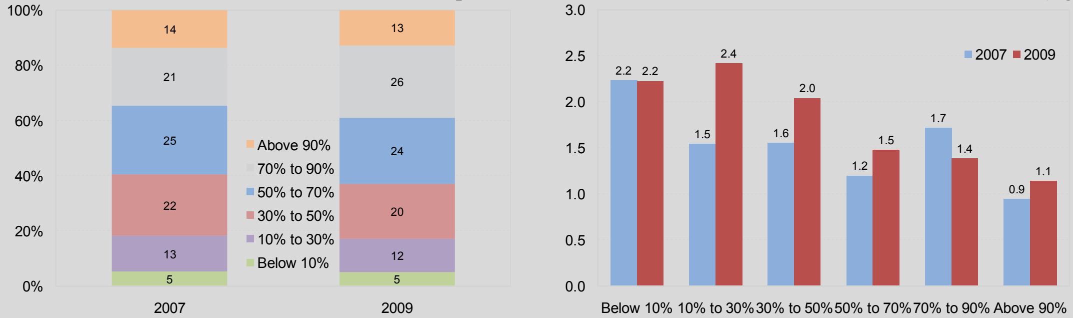
Box 2.1: Microdata on household mortgage indebtedness

The analysis of selected indicators of household indebtedness is based on microdata from the survey of living conditions (EU-SILC) conducted annually by the SORS. The latest available data is for 2009. The data is not weighted. The initial mortgage debt is taken into consideration, which means that the portion already repaid is also included. Households are divided into six income brackets (percentiles).

Housing loans increased by an average of 33.7% each year between 2007 and 2009, while household disposable income as the source of housing loan repayments increased by just 5.7% annually. The gap between growth in housing loans and growth in disposable income is rather unfavourable from the aggregate point of view. It is evident from analysis of household microdata that the indebtedness of higher-income households is increasing, as they increase the value of their debt when extending the maturity of the loans.

The proportion of households with a mortgage loan increased by almost 1 percentage point in 2008 to 5.5%. Their initial mortgage debt increased by 98% between 2006 and 2008 (housing loans increased by 75%), while their disposable income increased by 83% (disposable income at households overall increased by 17% during this period). With growth in debt outpacing growth in disposable income during this period, the ratio of initial debt to annual income for households with a mortgage loan increased by 0.15 to 1.87. The reason is that households are raising larger loans, for longer periods. Heavier borrowing by higher-income households is evident. The proportion of households with outstanding mortgage debt that have below median income is less than 40%. The proportion fell to 37% in 2008.

Figure 2.17: Percentage breakdown of households with a mortgage loan in terms of income bracket (left) and median ratio of initial debt to annual disposable income at households in individual income brackets (right)



Source: SORS (EU-SILC survey)

The mortgage debt burden is increasing at low-income households in particular. The average (Me) ratio between mortgage debt and annual disposable income at households that have below-median annual disposable income, and therefore already have a relatively high debt-to-income ratio (over 2 in 2008), is increasing. The debt burden is also increasing at households in the 50th to 70th percentile, whose ratio nevertheless remains relatively low at 1.48. The median ratio of the monthly loan instalment to monthly disposable income reached 15% in 2008. The debt burden diminishes with higher monthly income. Households in the lowest income bracket earmark an average of a quarter of their monthly income on loan repayments, while the figure in the highest income bracket is around 10%. The proportion of households seeing their mortgage debt as a heavy burden is increasing (to stand at 47%) in all income brackets other than the third, where the proportion of mortgage loan holders is declining, and the highest income bracket.

The proportion of households with a mortgage loan whose holders are aged 30 to 45 is increasing, and stood at 46%, while 78% of householders are employed. The proportion of households with a mortgage loan whose holders are retired is increasing (to stand at 16%). Their mortgage debt burden is also increasing, reaching 1.52 in 2008. The reason could be that younger generations are earning less income, are finding it harder to find permanent employment and are having greater difficulty in accessing bank loans, and their parents are therefore getting involved in the process of obtaining loans. The majority of householders with a mortgage loan (68%) hold a secondary level qualification. The proportion of those who have a tertiary qualification is increasing (having reached 29%).

2.3 Real estate market

The number of transactions in real estate in 2010 was at the level of 2008, and was up just under a third on 2009, when there was a pronounced decline. There is still uncertainty in the market. Prices of new-build housing were up 3.9%, while prices of used housing were up 1.5%. At the same time there were increasing arrears in the settlement of liabilities by construction companies, and bankruptcies in the sector increased. Construction companies were also mostly investors that made use of debt financing at banks. Banks have seen impairment costs rise as a result of downgradings and liquidations. The same process is underway at leasing companies, which similarly underestimated the risks in real estate projects during the boom. There remains an interest in preserving real estate prices on the part of both corporates and banks. A fall in commercial real estate prices is having an adverse impact on corporate performance, and in the given circumstances is reducing their creditworthiness. Lower residential real estate prices at the investors is additionally bringing a deterioration in the LTV ratio, which is forcing investors to pay down debt. The fall in real estate prices is also having an adverse impact on bank balance sheets. The decline in the value of real estate collateral is demanding the increased creation of impairments, or even repossessions from non-creditworty debtors.

According to international experience, in the event of higher stocks of unsold housing or a fall in housing prices the interconnection between the banking system and the real estate sector would further restrict the amount of investment in the corporate sector. An easing of the situation would therefore have a favourable impact on subsequent lending to non-banking sectors and demand for residential real estate.

During the crisis housing purchasers were in part those with above-average wealth who exploited the difficult economic position of real estate investors to purchase more expensive real estate in elite locations under better terms than they would otherwise have been able to. This is confirmed by the rise in prices of new-build housing and higher growth in housing loans compared with growth in the number of transactions. Many households whose savings, income and creditworthiness allowed them to purchase housing were encouraged by the low interest rates on housing loans. The low level of interest rates and the low level of household indebtedness thus helped to maintain real estate prices.

The high demand for housing among younger generations, who usually have lower income and higher unemployment, and a decline in net disposable income are creating a residual group of potential customers addressing their housing problems, whom the existing stocks and supply of old housing is failing to reach as a result of low price differentiation between new and old units. Should there be no distinction in prices in terms of housing age and quality, leading to greater accessibility, the burden placed on income by housing expenditure for this group will be particularly high, given the absence of well-designed projects and the lack of a well-regulated rental market.

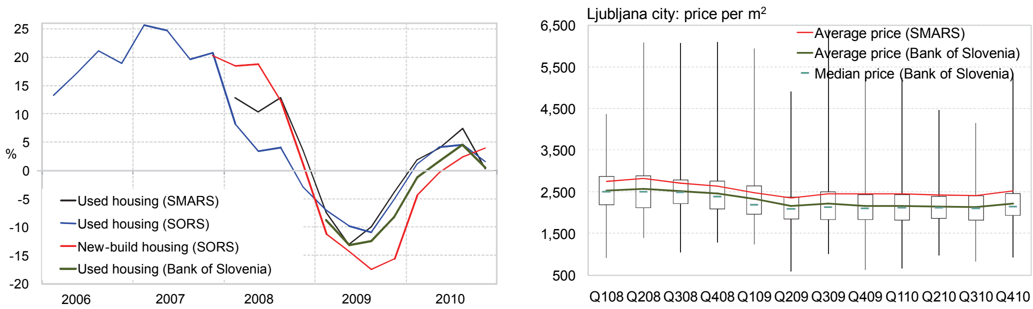
Published growth in real estate prices in Slovenia

Prices of used housing at the end of 2010 were down 10% on the peak in the second quarter of 2008 in both Ljubljana and Slovenia as a whole; prices rose by 0.3% last year in Slovenia overall, and by 2.9% in Ljubljana.

According to housing prices monitored by the Surveying and Mapping Authority, which primarily captures transactions in existing housing, prices in Slovenia at the end of 2010 were comparable to the level of the final quarter of 2009. The peak average of EUR 1,930 / m^2 was recorded in the second quarter of 2008, since which prices had fallen by 10% by the end of last year.

Housing prices in Ljubljana were more volatile in the last two years than in other regions, and rose by 2.9% in 2010. Housing prices in the capital peaked at the same time as national prices, at an average of EUR 2,820 / m^2 , and by the final quarter of 2010 had fallen by 10.5% to reach their level of the beginning of 2007.

Figure 2.18: Year-on-year growth in prices of used and new-build residential real estate in Slovenia in percentages (left) and dispersion of transaction prices of housing in Ljubljana in EUR / m^2 (right)



Sources: Bank of Slovenia, TARS, SMARS, SORS

Prices of new-build housing rose by 19.8% between the beginning of 2007 and their peak in the third quarter of 2008, before falling by 14.1% by the end of 2010. They rose by 3.9% in 2010.

The SORS calculates a real estate price index using a hedonic method that reflects the quality of the housing units, and is illustrating the same trend as the SMARS price index. Prices of existing housing in Slovenia rose slightly to finish 2010 up 1.5% on a year earlier, while prices of new build captured by the survey rose by 3.9% over the same period.

Transaction prices of housing and growth calculated from the Fischer index

The Fischer index calculated by the Bank of Slovenia shows housing prices in Slovenia to have finished 2010 up 0.5%. Prices of studio flats fell sharply last year, by 8%. The largest rise was recorded by two-room flats, at 2.4%. Prices of one-room flats and larger flats remained unchanged in year-on-year terms. Similarly, in Ljubljana prices of studio flats fell significantly, by 10.4%, while prices of other housing in the capital rose by 2.3% to 3.5%.

Table 2.4: Year-on-year growth in transaction prices of used flats and houses calculated using the Fischer index in percentages

(%)	Slovenia	Ljubljana city	Ljubljana surroundings	Rest of Slovenia	Euro area
2005	10.3	10.6	4.5	11.1	7.4
2006	14.0	14.0	12.2	14.3	6.6
2007	23.4	17.4	12.5	26.5	4.6
2008	4.9	2.8	7.4	5.1	1.3
2009	-9.3	-12.5	-14.9	-6.9	-2.8
2010	-1.0	1.3	4.1	-3.1	1.8

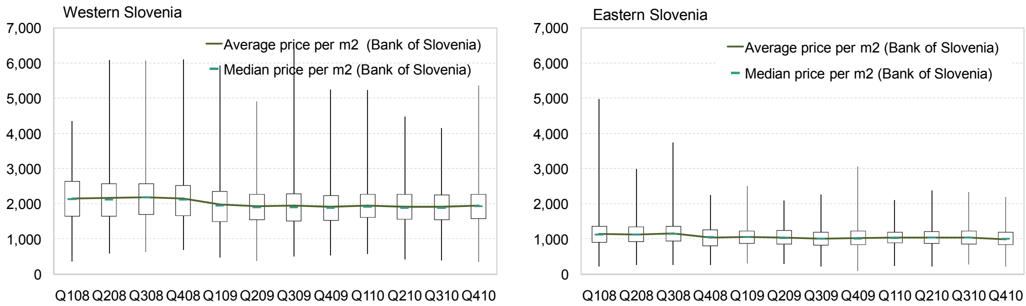
Sources: TARS, ECB, SMARS, Bank of Slovenia calculations

Housing prices in Ljubljana were 40% higher on average than in the country overall, while the average net wage was 14.5% higher.

The Fischer index illustrates the different trends in residential real estate prices in different regions of Slovenia. There was little convergence in real estate prices between the capital and the other regions during the period of falling prices, and the gap between price levels widened again in the final quarter of 2010. Prices in Ljubljana were 40% higher on average than in the country overall, while the average net wage was 14.5% higher. The large divergence is also the result of uneven economic development, different employment opportunities, etc.

The ratio of prices in capital cities to national prices varies throughout Europe. Housing prices are generally higher in the capital: by around 20% in Ireland, around 44% in Estonia and Italy, by 37% on new build and 54% on used housing in Finland, and by 88% in Sweden, while in the UK, as a financial and logistics centre London's prices are double those of the rest of the country.

Figure 2.19: Dispersion of transaction prices of housing in western (left) and eastern (right) Slovenia in EUR / m^2



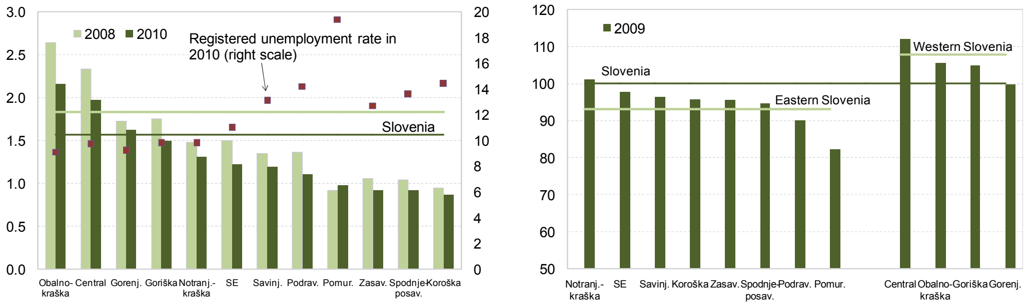
Note: The division of the regions in this section is in line with the European NUTS 2 classification: eastern Slovenia comprises the statistical regions of Pomurska, Podravska, Koroška, Savinjska, Zasavska, Spodnjeposavska, Southeast Slovenia and Notranjsko-Kraška, while western Slovenia comprises West Slovenia, Central Slovenia, Gorenjska, Goriška and Obalno-Kraška.
Sources: TARS, SMARS, Bank of Slovenia calculations

Housing affordability is lower in western Slovenia, as a result of higher variation in housing prices than in the average net wage. Affordability in eastern Slovenia is adversely affected by high unemployment.

The dispersion of prices is wider in western Slovenia than in eastern Slovenia, primarily on account of the capital and the coast. This region also has the highest ratio of housing prices to the average net wage.[7] The net disposable income per capita is lower in eastern Slovenia, but the gap by which prices exceed the average monthly net wage in each region is not proportionate to its level. The discrepancy is seen primarily in the regions of Podravska and Pomurska, where unemployment is highest and the gap is partly the result of non-residents' interest in purchasing real estate. Eastern Slovenia has accounted for 40% to 48% of transactions in the last three years.

[7] The average monthly net wage used is the 12-month moving average of average monthly net wages in the region.

Figure 2.20: Ratio of housing prices to the average monthly net wage, and registered unemployment by region in percentages (left) and regional variation in net disposable income per capita in percentages (right)



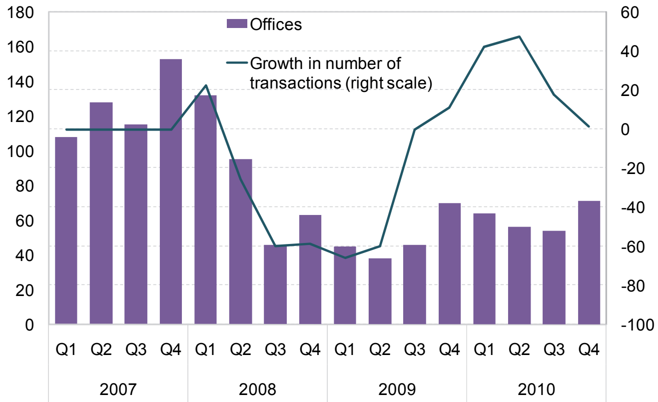
Sources: SMARS, SORS, Bank of Slovenia calculations

Commercial real estate prices

The number of transactions in commercial real estate is low.

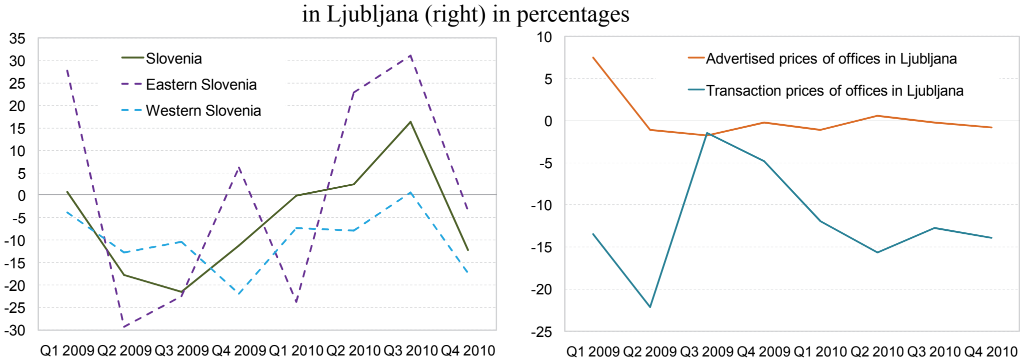
The low number of transactions restricts any explanation of trends in commercial real estate prices. As a result of the different way in which the selling price is determined for commercial real estate compared with residential real estate, advertised prices of commercial real estate have not tracked realised prices during the last two years. Commercial real estate prices fell in 2010, similarly to 2009: the fall was 11.1% in 2009, and 12.1% in 2010. The fall in commercial real estate prices is having an adverse (indirect) impact on corporate balance sheets, in terms of both investment property and non-current assets, and is also reducing the value of collateral for bank loans. Higher growth in prices is not anticipated, as there is still significant unoccupied capacity available.

Figure 2.21: Number of transactions in commercial premises (offices) included in the average price calculation, and growth in prices in percentages



Source: SMARS

Figure 2.22: Growth in prices of commercial premises (offices) in Slovenia (left) and growth in advertised and realised prices of commercial premises (offices) in Ljubljana (right) in percentages



Sources: SMARS, Slonep, Bank of Slovenia calculations

Advertised prices of housing

Advertised prices are faster in tracking transaction prices in a period of rising real estate prices than in a period of falling prices.

A trend of slow decline in average advertised prices of housing in Ljubljana has been seen for three years now. The smallest fall in prices was recorded by the most heavily sold three- and two-room flats, while prices of studio flats fell by 1%, and prices of one-room flats fell by 2.4%. Advertised prices fell significantly more last year in the area surrounding Ljubljana, having tracked the fall in prices in the capital since the crisis with a lag of one year. Prices of studio flats and two-room flats fell by more than 7% on average last year in the area surrounding Ljubljana, compared with a fall of just under 6% in prices of three-room flats, and a fall of less than 1% in prices of one-room flats.

Advertised prices of residential real estate in Ljubljana tracked the dynamics of the rise in transaction prices before 2007. They most closely approached realised prices in the first half of 2008, when transaction prices peaked. Advertised prices failed to closely track the subsequent fall in transaction prices, which again increased the market disconnect. Given that it is primarily prices of used housing that are advertised, it can be concluded that the majority of sellers are inactive, and that owners that can defer sales are less willing to sell.

Figure 2.23: Year-on-year growth in advertised prices of housing (left) and gap by which advertised prices per square metre exceed transaction prices (right) in percentages

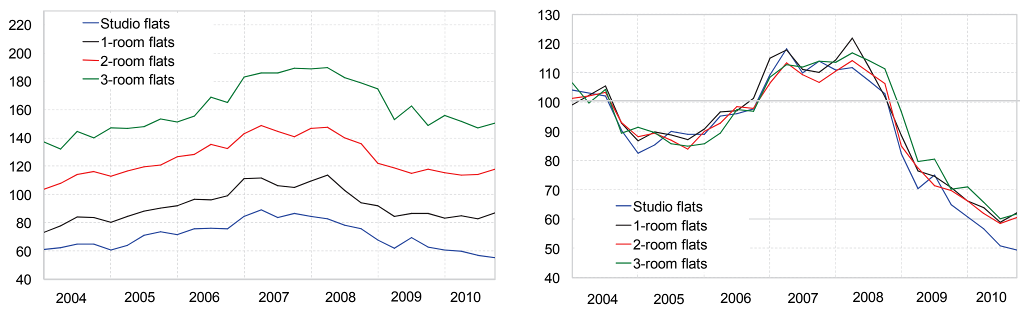
Sources: TARS, SMARS, Slonep, Bank of Slovenia calculations

Housing affordability in Ljubljana

There was no significant change in the housing affordability indicators covering housing prices, the average net wage and loan terms.

Housing affordability, which is expressed as the ratio of housing prices to the annual moving average of net monthly wages in Ljubljana, recorded no significant change last year. There was solely a slight improvement for studio flats, prices of which fell overall. Prices of used housing in the capital rose by an average of 2.3% to 3.5%, but the affordability level was maintained by virtue of an increase of 2.3% in the annual moving average of net wages. The saving in the purchase of a studio flat in Ljubljana amounted to just over 7 net monthly wages at the end of 2010 compared with the final quarter of 2009; there was no significant change for other types of housing.

Figure 2.24: Percentage ratio of housing prices to annual moving average of net monthly wages in Ljubljana (left) and housing affordability index (2004 = 100) (right)



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

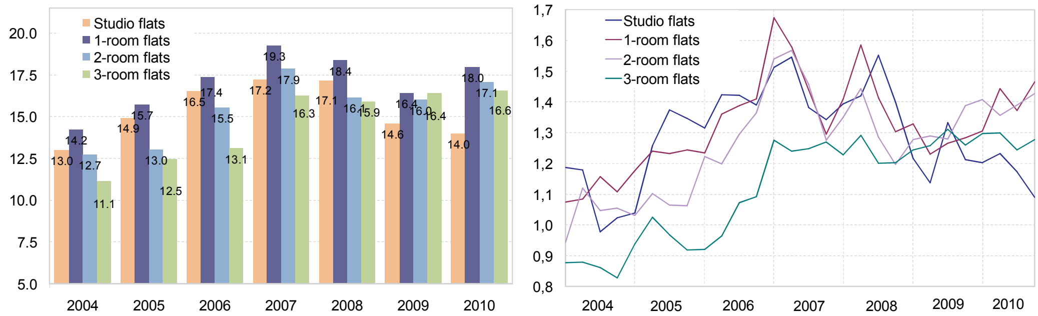
The ratios of housing loan annuities to the average net wages at the end of 2010 were down primarily as a result of the lengthening of average loan maturity; they stood at 31% for studio flats, 50% for one-room flats, 67% for two-room flats and 91% for three-room flats. The pace of increase in the mortgage debt burden is higher for low-income households. Borrowers are facing significant rises in instalments as a result of the appreciation of the Swiss franc against the euro. This is a result of past borrowing in Swiss francs, which accounts for 22% of the stock of housing loans. Given the stagnation or even the continuing decline in household disposable income, more difficulties can be expected in the repayment of loans by this category of borrowers.

The decline in housing rents in the first half of 2010 came to an end, and was followed by a slight increase at the end of the year.

Advertised rents in Ljubljana declined in the first half of 2010 as a result of a slight increase in the supply of unsold housing on the rental market, but increased again in the final quarter. Advertised rents for one-room flats were down 9.5% on average at the end of 2010, while rents for studio flats, two-room flats and three-room flats remained almost unchanged.

The P/E ratio rose slightly for one-room and two-room flats, which saw an overall annual decline in rents and a rise in prices. The yield for owners renting out housing as an investment in 2010 was 6% to 7.2% of the market value, similar to the previous year. Compared with the past, the P/E ratio is still showing considerable overvaluation for one-room and two-room flats in particular.

Figure 2.25: Ratio of housing prices to rents (P/E) (left), and ratio of actual prices to fundamental prices of housing in Ljubljana calculated on this basis[8] (right)

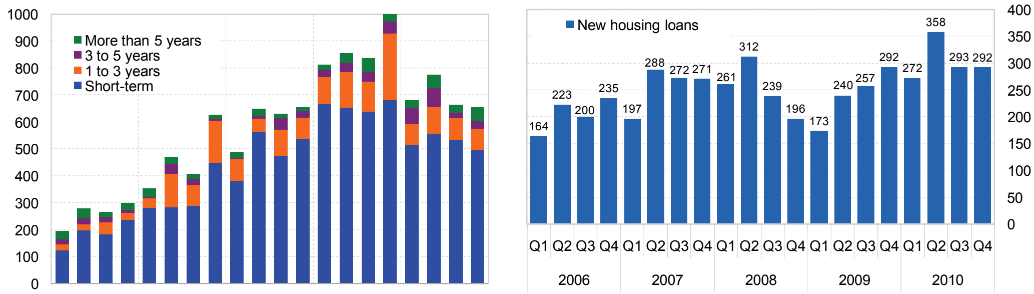


Sources: Slonep, TARS, SMARS, Bank of Slovenia calculations

Last year the gap between actual prices and fundamental prices of housing narrowed on studio flats but widened on one-room flats. Prices of larger housing were still significantly above fundamental prices at the end of the year. The premium over fundamental prices was around 10% for studio flats, but more than 28% for other types of housing.

Supply and demand factors in real estate prices

Figure 2.26: Newly approved loans to the construction sector (left) and newly approved housing loans to households (right) in EUR million



Source: Bank of Slovenia

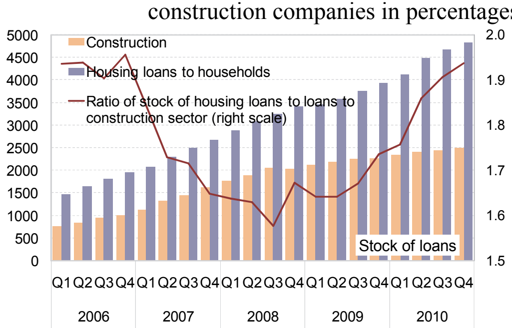
Housing loans are increasing rapidly, at one of the highest rates in the euro area.

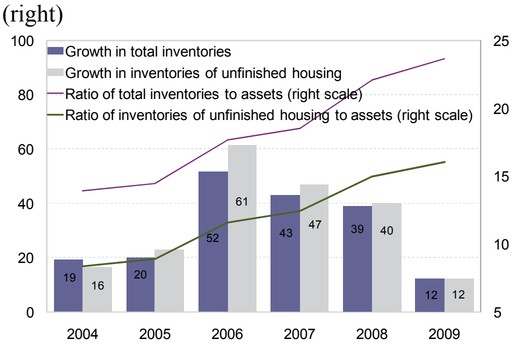
Newly approved housing loans to households in 2010 were up 26.1% on the previous year at EUR 1,215 million, and up just under a half on 2007, when transactions in used and new-build housing were 55% and 36% higher than last year respectively. Prices of used

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

housing have fallen by 2.6% on average since 2007 according to SORS methodology, while prices of new-build housing have fallen by 4%. In the years after the crisis less new-build housing was built by private individuals, and the completion of in-house projects was also down. Because the average LTV ratio in the approval of housing loans remained almost unchanged at 59%, it can be concluded from the amount of newly approved housing loans that there was greater demand last year for more expensive real estate. The stock of housing loans increased rapidly in 2010, by an average of 22%, one of the highest rates in the euro area, reaching 13.4% of GDP.

Figure 2.27: Stock of loans to the construction sector and stock of housing loans to households in EUR million (left) and inventories on the balance sheets of construction companies in percentages (right)



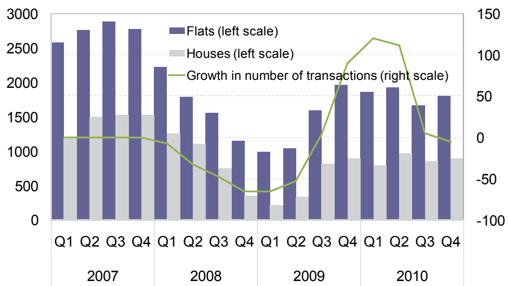


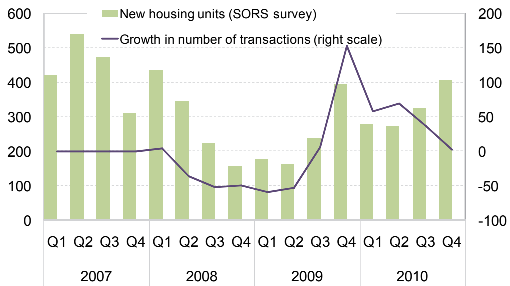
Sources: Bank of Slovenia, AJPES

Inventories of unsold real estate remain high, despite a rise in the number of transactions in real estate.

The number of recorded transactions in flats and houses on the real estate market was up just over a third last year, but was nevertheless still below its three-year average. The rise in the ratio of the stock of housing loans to the stock of construction loans is an indication of the banks' greater willingness to finance demand for housing than to finance the supply of real estate. Construction companies' statements of financial position reveal increasing inventories on the asset side at the end of 2009. Unfinished real estate accounts for two-thirds of all inventories, while the proportion accounted for by completed housing was up a half at 10%. Given the sharp decline in new projects, growth can be expected to slow. The market will show whether companies and banks have sufficient reserves for waiting for the rental or sale of vacant housing units, or whether they are already exhausted and greater price elasticity will be required on the supply side.

Figure 2.28: Number of recorded transactions in flats and houses and growth in number of transactions in percentages for used (left) and new-build (right) housing





Sources: SMARS, SORS, Bank of Slovenia calculations

Non-residents' demand for Slovenian real estate halved during the crisis; last year's figure of 258 purchases was similar to the previous year. Non-residents have traditionally been more active on the coast and in the regions of Pomurska and Podravska.

Table 2.5: Completed housing units, building permits issued and gross investment in residential construction

	2005	2006	2007	2008	2009	2010
	Estimate of housing stock					
Number of dwellings[1]	750,355	757,522	765,552	775,199	783,404	
Number of dwellings per 1,000 inhabitants	375	377	378	381	385	
	New build, including extensions and change of purpose					
Number of new dwellings	7,516	7,538	8,357	9,971	8,561	
Number of new dwellings per 1,000 inhabitants	3.8	3.7	4.1	4.9	4.2	
Floor area, m²	807,607	860,537	928,941	1,100,436	980,980	
	Building permits issued					
Number of dwellings	7,235	8,463	10,204	8,376	5,914	4,801
Floor area, m²	880,751	1,028,024	1,127,420	970,034	736,335	597,967
	Supply of the Housing Fund of the Republic of Slovenia (HFRS)					
Number of dwellings delivered	353	453	685	35	120	51
proportion of new dwellings, %	4.7	6.0	8.2	0.4	1.4	
	Gross investment in residential construction					
Growth, %	26.3	11.6	20.6	18.7	-19.6	-18.2
As % GDP	3.8	3.9	4.3	4.7	4.0	3.2
	Growth, %					
Construction costs - new-build housing[2]	3.2	9.3	4.4	4.7	-4.0	5.5
material costs	4.3	5.6	5.4	3.2	-3.6	6.9
labour costs	1.6	13.9	4.0	7.6	-4.7	1.6

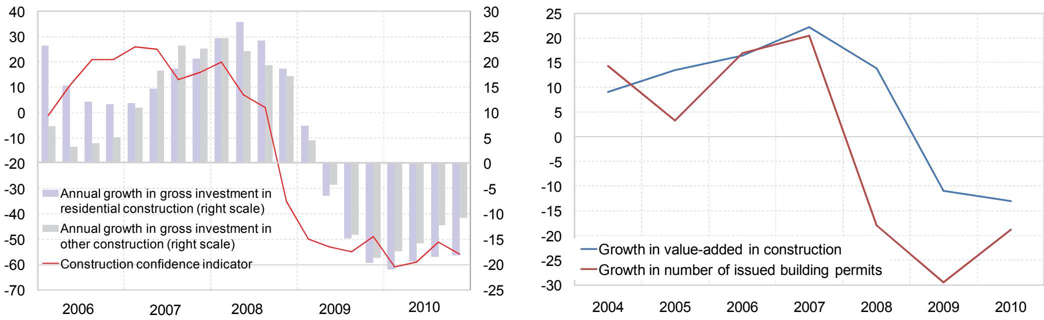
Notes: [1] The housing stock includes occupied and temporarily unoccupied housing for permanent use.
[2] Costs of construction, finishing work, and fixtures on new housing, excluding land costs.

Sources: SORS, NHF, Bank of Slovenia calculations

The sharp contraction in residential construction will apply upward pressure on prices in the future.

The contraction in construction activity is evident from the decline in the value of construction put in place and contracts for residential buildings, at 34% in 2010, and in the number of issued building permits, which was down for the third consecutive year, by 18.8%. Gross investment in residential construction is declining, as expected. In future years this will result in a lower supply of housing, although demand for housing will persist in Slovenia according to international quality of life indicators.

Figure 2.29: Construction confidence indicator and annual growth in gross investment in construction (left) and annual growth in value-added in construction and building permits issued (right) in percentages



Sources: SORS, Bank of Slovenia calculations

Buying housing as an alternative financial investment

The level of return on investments of own resources in the real estate market improved slightly last year. An annual loss was realised on investments made by means of a housing loan. As a result of poor corporate performance and reliance on the fluctuation of the index when an individual transaction is undertaken, the loss was even larger for investments in a basket of domestic shares.

Table 2.6: Return on investments in housing in Ljubljana allowing for loan repayment, and comparison of return on investments in housing with other forms of financial investment in percentages

(%)	Purchase of housing with loan	Investment of own funds: Housing	Shares SBI TOP	Mutual funds VEP VS	Deposit rate[1]
2006	6.8	14.1	30.3	15.1	2.7
2007	6.0	13.9	62.5	22.4	3.4
2008	-3.0	5.4	-67.5	-42.8	4.3
2009	-14.6	-8.4	8.3	19.2	3.3
2010	-1.8	3.5	-13.5	5.2	3.0
	Average annual return				
2006-2010	-1.3	5.7	4.0	3.8	3.3

Note: Return is calculated post tax. Capital gains (on real estate, securities, investment coupons) are subject to a final tax. A 20% tax applies after the first year of disposal. Rental income is included in the annual taxable base for personal income tax. In the calculation it is subject to the middle personal income tax rate of 27% (a 33% rate has been applied to the figures for 2006 under the ZDoh-1 then valid). The amount of money invested in shares, investment coupons and bank deposits is equal to the money invested in purchasing housing. The return is calculated on the basis of capital market indices and the average annual interest rates on time deposits of more than 1 year.
The calculation of the return on shares relies on the SBI 20 for the period to 2009, and the SBI TOP subsequently.
[1] Average annual interest rate on time deposits of more than 1 year.
Sources: Bank of Slovenia, SMARS, SORS, LSE, SMA, Bank of Slovenia calculations

The available figures suggest that households are continuing with passive asset management.

Table 2.7: Changes in households' time deposits and alternative financial investments, volume on the real estate market and change in the stock of housing loans

	2006	2007	2008	2009	2010
	(EUR million)				
Change in stock of household time deposits excluding sight deposits	163	1,177	1,301	177	-8
Change in stock of household financial assets	3,707	5,425	-574	2,977	1,981
Volume of trading in shares on capital market	1,451	3,035	953	720	361
Volume of trading on real estate market	1,559	1,900	1,818	1,105	1,255
Change in stock of housing loans	504	712	727	532	910
	Growth, %				
Household time deposits excluding sight deposits	2.9	20.6	18.9	2.2	-0.1
Household financial assets	13.1	17.0	-1.5	8.1	5.0
Volume of trading in shares on capital market	54.3	109.1	-68.6	-24.4	-49.9
Volume of trading on real estate market	15.7	21.9	-4.4	-39.2	13.6

Sources: Bank of Slovenia, TARS, LSE, Bank of Slovenia calculations

Box 2.2: International comparison of changes in real estate prices and rents

Real estate prices

Balance in the real estate market is an important prerequisite for a sustained economic recovery. Analysis of the euro area and the EU3[1] shows that the countries that had the highest growth in residential real estate prices before the crisis also saw the largest falls. This was evident in Ireland, Slovakia, Spain, Slovenia and Cyprus.

Figure 2.30: Dispersion of growth in residential real estate prices in the euro area and the EU3 (left) and dispersion of growth in housing loans (right) in percentages

Note: The dispersion does not include Luxembourg, and Slovenia is excluded for the purpose of the analysis. There are no figures for growth in residential real estate prices for Estonia.

Sources: ECB, SORS, Eurostat, Bank of Slovenia calculations

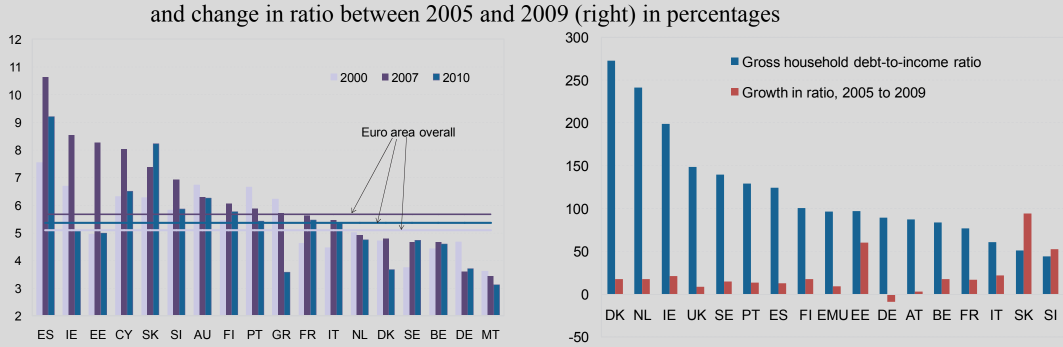
Real estate prices first fell sharply in Ireland, where they have fallen by 38% from their peak over the last three years; they are also down 18% in Slovakia and 13% in Spain over the last two years. The fall was slightly smaller in Cyprus (around 8.5%), while the 9.8% fall in Greece was more the result of its fiscal stability difficulties.

The aforementioned countries had very high growth in housing loans before the crisis and an above-average proportion of GDP accounted for by construction, which fell sharply after the end of the boom, except in Slovakia. These two indicators do not apply to Denmark, where the overheating of the housing market between 2004 and 2007 was followed by an 18% fall in prices by the first quarter of 2010. Analysis suggests that the overheating of the Danish real estate market was the result of low lending rates. Average growth in housing loans of around 12% led to an additional deterioration in the debt-to-income ratio, according to which the Danes are the most-indebted people in Europe.

Prices in the Netherlands and the UK were down around 6% on their peak. When real estate values fell, there was a sharp increase in growth in loans for real estate, which was followed abruptly by growth in housing prices.

The fall was larger in countries where households are significantly more indebted. As a result of housing denationalisation, the gross debt-to-income ratio in Slovenia is half of the euro area average, but its growth in the last four years has been higher than in western European countries.

Figure 2.31: Ratio of value-added in construction to GDP (left) and gross household debt-to-income ratio from 2009 and change in ratio between 2005 and 2009 (right) in percentages



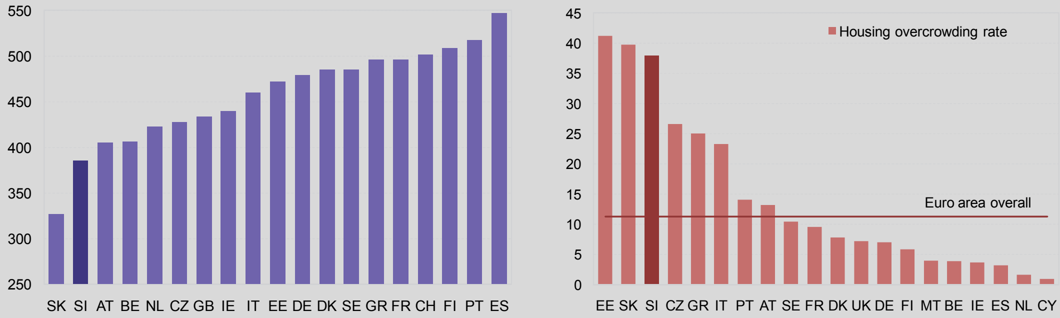
Sources: Eurostat, Bank of Slovenia calculations

The assessment is that the ratio of housing prices to household income is still above its long-term average in many European countries (Spain, Ireland, Netherlands, France, UK). From an investment point of view, having increased in several European countries in the period to 2006, the P/E ratio declined during the crisis as a result of the fall in prices, while rents remained stable. Some analysis suggests that the indicator is still overvalued compared with the long-term average in France, Spain, Sweden, Ireland and Finland.[2]

In some wealthier European countries the number of completed housing units tracked the increased demand caused by rising income, although there was no increase in the number of households. The assessment is that there is mainly a supply-side problem in Spain, Ireland and Finland, while supply has adjusted reasonably well to the developments in the economy in the UK and Sweden.

The number of housing units per 1,000 people in Slovenia is lower than in wealthier euro area countries. According to the latest Eurostat research, the proportion of people living in housing with an insufficient number of rooms given the number of household members, i.e. the housing overcrowding rate, was 38% in Slovenia, 26.7 percentage points higher than the euro area average. In terms of age, the rate is higher for young children at 47%, and lower for people aged over 64 at 20%. An international comparison suggests that in Slovenia there is still demand aimed at addressing housing problems.

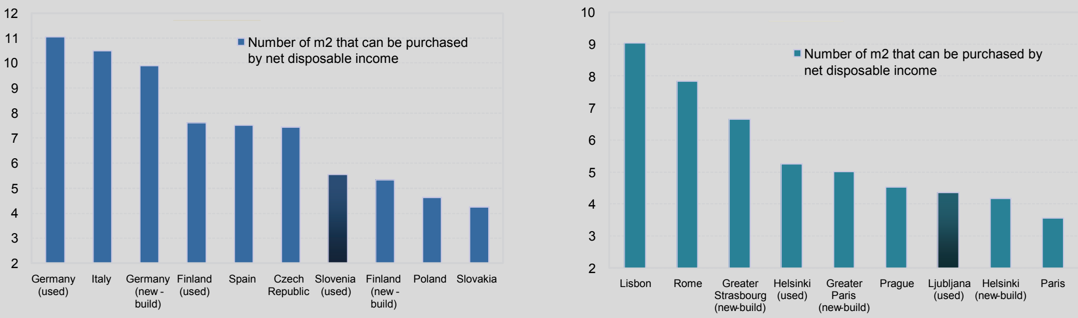
Figure 2.32: Number of housing units per 1,000 people (left) and housing overcrowding rate in 2009 in percentages (right)



Note: The figures for the number of housing units per 1,000 people are from 2005, and from 2009 for Slovenia.
Source: OECD Econ. Dept. WP No. 836; Eurostat, Bank of Slovenia

The ratio of net disposable income to the price of a square metre of housing shows that housing is generally less affordable in the transition countries than in the wealthier western European countries. The average net disposable income allows people in Slovenia to purchase housing space of comparable size to those in transition countries. It allows for the purchase of 5.6 m^2 of used housing in Slovenia, and slightly less in Poland and Slovakia, while the figures are 7.5 m^2 for the Czech Republic and Spain, 10.5 m^2 for Italy, and 9.9 m^2 of new build and 11 m^2 of used housing in Germany. In Finland the figures are 7.6 m^2 for used housing and 5.3 m^2 for new build. The availability of housing on the rental market also needs to be taken into consideration for a better understanding of affordability.

Figure 2.33: Housing affordability indicator in European countries as the ratio of net disposable income to housing prices per square metre



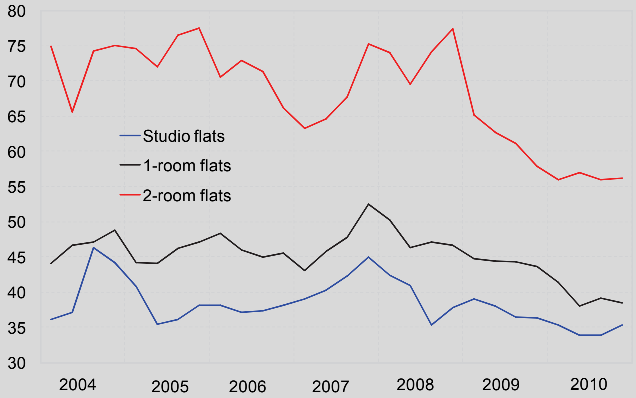
Note: For the purpose of international comparability net disposable income means the net disposable income per capita from the national accounts and regional accounts under the NUTS classification. The latest figures available are those for 2007.
Where there is no designation of used or new-build housing in the key, the figure is the average for all types of housing.
The figures for housing prices are for 2010, except for Italy, Slovakia, Portugal and the Czech Republic, where the figures are for 2009.
Sources: National statistical offices, central banks and ministries, SMARS, Eurostat, Bank of Slovenia calculations

Housing funds that would invest in real estate and carry out their fundamental duty would make a long-term contribution to the stability of the economy. From an international comparison it could be concluded that given its current asymmetry the Slovenian real estate market is no longer of interest for the investment of foreign private capital. Intervention on the market for the purpose of addressing the situation could prove to be risky in the long term. According to the experience of other countries and certain other assessments, there could be a return to irrational behaviour by the construction sector.

Rental market

Advertised rents excluding current costs for a studio flat in Ljubljana stood at 35% of the average monthly wage last year, which means more than a third of income is expected to be earmarked for housing expenditure in the long term. The figures for studio flats and two-room flats (56%) were at the same level as the end of 2009. Expenditure on one-room flats was down 4.4. percentage points at 39% of the average net wage. The majority of people prefer to opt for purchasing as an answer to their housing problems given the small differences between monthly rents and monthly loan repayment annuities for housing purchases. The absence of housing funds to rent out housing at a price to rent-capable people is risking greater price volatility in the future.

Figure 2.34: Percentage ratio of housing rents excluding current expenses to average net monthly wage in Ljubljana



Note: Given the lack of available data for actual agreed rents, average advertised rents for Ljubljana are used in the calculation. The average net monthly wage is calculated from the annual moving averages of net monthly wages for Ljubljana.
Sources: Slonep, TARS, SMARS, Bank of Slovenia calculations

The average advertised housing rents in Ljubljana were EUR 10 per m^2 for two- and three-room flats, EUR 11 per m^2 for one-room flats, and EUR 13 per m^2 for studio flats. Given the small size of the rental market and the high demand for housing, it is estimated that the average advertised rents do not differ significantly from the transaction rents.

In comparison with housing rental in Germany and Sweden, which have a higher proportion of well-developed rental market, it can be concluded that in Slovenia there is greater disparity in disposable income than in the price of renting a square metre of housing. The average advertised price of renting new-build housing with high-quality equipment for a rented size of 60 m^2 to 80 m^2 was EUR 7.3 per m^2 in Berlin in the third quarter of 2009, while Munich recorded one of the highest figures for German cities at EUR 12 per m^2.[3] In Stockholm last year the average market rent for housing was close to EUR 9.5 per m^2, for the average rented size of 66 m^2.[4]

A comparison of net disposable income shows that a heavier burden is placed on the income of Slovenian tenants of market housing. Per capita net disposable income in Slovenia in 2007 was merely just over half of that in Germany and Sweden. Per capita net disposable income is also down a half when the Central Slovenia region in which Ljubljana is located is compared with Stockholm and Bavaria, although it is 70% of the value recorded by Berlin.

Institutional supervision of the rental market is conducted in several northern and western European countries. In some countries (France, Germany), the initial price when a contract is concluded is set freely between the contracting parties, and later increases are monitored relative to the changes in a specific index, which can be a composite of growth in living costs and construction costs, maintenance costs and growth in comparable rents. In Sweden approximately half of the rental market consists of public real estate companies, who rent out housing at a price that does not differ significantly from the market price. Given a sufficient number of rented housing units, the market and public rents converge.[5] Sweden had 148 rented housing units per 1,000 people in 2009.[6]

[1] EU3: Denmark, Sweden, UK.
[2] Deutsche Bank Research 2010: Housing markets in OECD countries.
[3] Source: BBSR – Synopse Immobilienpreisbeobachtung in Deutschland 2010 in IDN-Immodaten
[4] Source: Statistics Sweden
[5] RICS 2011 – European housing review.
[6] Source: Statistics Sweden

3 CORPORATE SECTOR

During the recovery of economic activity, non-financial corporations' financing options remained limited. Financing flows were up slightly on 2009, but were significantly lower than before the outbreak of the financial and economic crisis. Financing between domestic and foreign business partners is increasing in particular, corporates using this to partly compensate for the loss of financing at banks. To reduce high corporate indebtedness and improve the financing structure, which will reopen the possibility of new borrowing, corporates will have to seek new and stable sources of financing, equity in particular.

Interest rates on corporate loans stagnated in 2010. The banks slightly reduced their high premiums in the interest rate structure, thereby reducing the gap by which interest rates surpass those in the euro area overall. Although corporate financial liabilities have stagnated recently, their high indebtedness in combination with high premiums for loans raised in the last two years remains a risk factor in future corporate debt servicing.

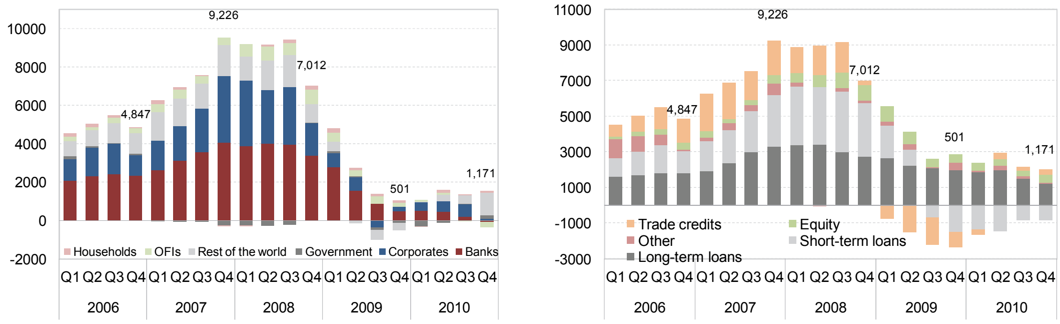
3.1 Corporate financing and net indebtedness

Corporate financing flows

Corporate financing flows increased by 134% last year. Financing in 2010 was nevertheless just 17% of that recorded in 2008. The main factor on the demand side was lower corporate demand for resources, as a result of low investment activity and the streamlining demanded by the crisis. However, it will not be possible to finance the recovery in economic activity, which is being driven primarily by rising export demand, with such modest resources. The limits on the financing supply side could slow the corporate economic recovery.

Corporate financing flows increased in 2010, but were significantly lower than in the years before the outbreak of the crisis.

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



Source: Bank of Slovenia

Business-to-business financing was the second-largest source of corporate financing in the years before the financial turmoil. After declining in 2009, when business-to-business financing fell to just a tenth of that in 2008, there was no improvement in 2010. Business-to-business financing via loans declined for the second consecutive year, while there were net repayments of trade credits between corporates in Slovenia. The poor corporate liquidity position and payment indiscipline are hindering any increase in transfers between corporates. Legal entities' unpaid liabilities are increasing rapidly: having risen by 74% in 2009, they had increased by a further 60%[9] by the end of February 2011. Payment indiscipline hits suppliers and subcontractors hardest, mostly small and micro enterprises, which are driven from the market in large numbers in this type of situation. New legislation on payment discipline and the offsetting of mutual claims and liabilities could have a partial impact on corporate balance sheets, but will not address the problem of inadequate corporate financing structure and additional financing flows.

Business-to-business financing: the flow of financing declined further in 2010.

[9] The available figures only include non-payments on the basis of tax debt and those that acquire an epilogue in the form of court orders of enforcement, not all remaining unsettled mutual corporate claims and liabilities. The data source is the AJPES.

Business-to-business financing via loans declined again in 2010.

Business-to-business lending activity accounted for almost 80% of the total flow of loans into corporates in 2010, compared with just 5.7% in 2008. After the outbreak of the financial turmoil corporates used business-to-business loans to partly compensate for the loss of bank financing, most notably in 2008, then significantly less as a result of low economic activity and a lack of liquidity.

Financing via trade credits is increasing as a result of the recovery in foreign trade.

Financing via trade credits has a larger role at Slovenian corporates than at euro area corporates overall. Trade credits account for 19% of financing, compared with 14% overall in the euro area.[10] In 2009, when economic activity was low, corporates made net repayments of trade credits. With the renewed recovery of the economy in 2010, a new wave of lending via trade credits began. The flows are still significantly lower than in the pre-crisis years, and for the moment come solely from the rest of the world, as the expansion of foreign trade is the main engine of renewed economic growth. Trade credits granted to and received from the rest of the world are both increasing.

Table 3.1: Flows and stock of corporate financing (total, via loans and via trade credits) in EUR million

	Flows			Stock		Growth
	2008	2009	2010	2009	2010	2010
	(EUR million)					(%)
Total	7,012	501	1,171	87,191	86,544	-0.7
growth,%	-24.0	-92.9	133.6	0.2	-0.7	
	of which:					
Loans	5,742	480	418	33,653	33,575	-0.2
business-to-business	864	488	326	3,748	3,582	-4.4
from banks	3,128	211	54	20,908	21,014	0.5
from NMFIs	722	147	-208	3,182	2,733	-14.1
from rest of the world	960	-410	195	4,788	5,195	8.5
of which: from corporates	332	-478	-160	1,040	988	-5.0
from banks	271	103	278	1,966	2,307	17.0
Trade credits	269	-860	300	12,485	12,609	1.0
business-to-business	335	-488	-169	7,401	7,143	-3.5
from rest of the world	-113	-429	468	3,938	4,343	10.3

Source: Bank of Slovenia

Foreign financing: loans from rest of world increased moderately last year.

Alongside the increase in trade credits, loans raised from the rest of the world also began to increase in 2010, with a varying dynamic for individual foreign creditors. The inflow of loans from foreign banks amounted to just under EUR 280 million, more than in 2009 and similar to that recorded two years ago. Borrowing from international financial institutions was a fraction of that in the years before the financial turmoil at EUR 45 million, although as a result of past borrowing it still accounts for a third of the stock of corporate loans from the rest of the world. Corporates continued to repay debt to corporates in the rest of the world, but to a lesser extent than in 2009. The total inflow of loans into the corporate sector, including repayments of debt to foreign corporates, amounted to EUR 195 million in 2010. Despite the positive change, this was down significantly on the boom years, when annual inflows of loans from the rest of the world amounted to EUR 0.5 billion to EUR 1 billion, and was also insufficient to successfully replace the loss of financing at domestic banks.

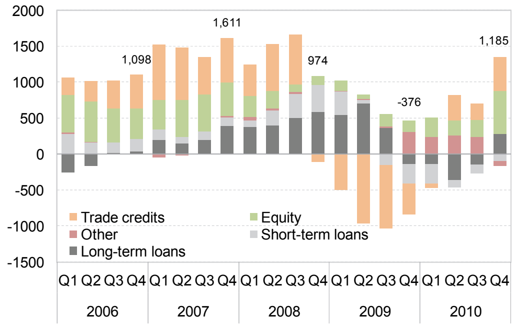
[10] A comparison with the euro area can be made at the level of the "trade credits and other" aggregate, which includes certain forms of financing not covered in other standard aggregates.

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

	Stock at year end			
	2007	2008	2009	2010
Total, EUR million	14,490	15,619	15,339	16,661
growth, %	14.7	7.8	-1.8	8.6
	Breakdown, %			
Securities[1]	0.2	0.1	1.9	1.5
Loans	26.0	31.8	31.2	31.2
of which: at foreign banks	9.0	10.7	12.6	13.4
at MFIs[2]	9.6	10.9	11.2	10.7
at foreign corporates	6.6	9.2	6.7	6.4
Equity	42.9	38.3	39.6	40.0
Trade credits and other	30.9	29.7	27.3	27.3

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

Figure 3.2: Corporate financing flows in the rest of the world in EUR million



The inflow of new equity into corporates in 2010 was similar to that in 2009, at a total of EUR 438 million, primarily from foreign investors. Almost EUR 600 million of equity investments flowed in from the rest of the world, while domestic investors reduced their holdings of corporate equity.

The inflow of FDI into corporates increased in 2010.

The flow of loans from banks to corporates in 2010 was similar to that in 2009, and reflects a continuing standstill in this key source of corporate financing. Corporates are citing access to financing as one of the major factors holding back performance. In 2010 financing problems represented a major obstacle to performance in every fifth manufacturing company. In financing corporates in the manufacturing sector, over the last two years the banks have reduced loans to corporates with a high proportion of exports in their turnover, which was understandable given the lack of orders, particularly exports. Under the current conditions of rising export demand, which first and most directly expands manufacturing activity, it can be expected that the banks will also find it in their interest to give greater support to the export sector, and to subsequently benefit from financing such investments.

Financing at banks continues to stagnate, despite increasing activity in the export sector.

Figure 3.3: Proportion of corporates citing financing difficulties as a limiting factor (left) and financing of manufacturing (right) in percentages

Note: Loans to exporters of more than 50%: the ratio of loans to manufacturing exporters that generate at least 50% of net turnover via exports to total loans to the manufacturing sector; export orders: balance between responses of higher than normal, the same or lower than normal.
Sources: SORS, Bank of Slovenia

The transportation and storage sector is recovering, and corporates in this sector are given better support by the banks in the form of loans.The wholesale and retail trade sector also began its recovery last year, without significant support from the banks. The level of financing remains high at construction corporates compared with other sectors, particularly given the contraction in activity, and they are actually succeeding in increasing their debts to banks despite their clear failures.

The decline in corporate financing at banks varies from sector to sector.

Table 3.3: Increases in bank loans by sector in EUR million

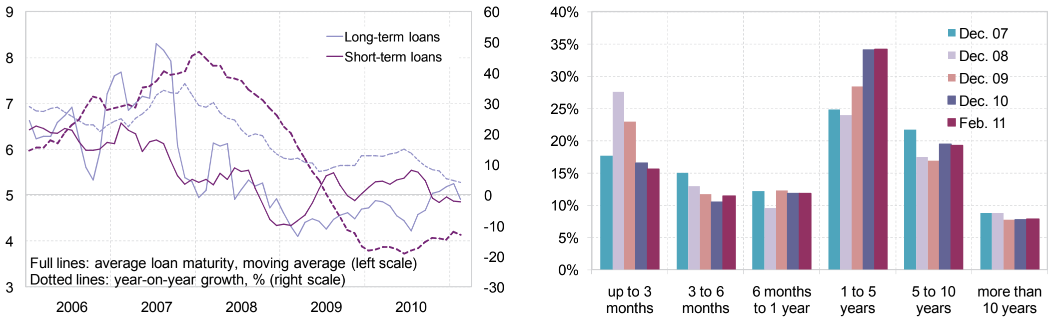
	Manufacturing	Construction	Wholesale and retail trade	Transportation and storage	Accommodation and food service activities	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities	Non-financial corporations overall
2006	582.0	314.9	171.0	240.6	53.8	241.4	297.7	244.5	2,301.0
2007	692.1	619.5	714.9	349.6	84.9	745.0	286.8	568.9	4,517.3
2008	951.9	424.9	715.3	321.4	120.0	253.3	247.9	164.4	3,440.0
2009	64.2	233.7	-183.6	227.2	73.1	-443.5	22.4	66.9	240.8
2010	21.9	225.7	-3.7	86.1	31.5	-195.7	-13.1	-64.1	159.7

Note: The purchase of claims against subsidiary banks in the rest of the world by parent banks in Slovenia also has an impact on increases in loans.
Source: Bank of Slovenia

The limited financing at banks has primarily hit current corporate financing.

Corporates have been making repayments of short-term loans for current financing since the second half of 2009, having not succeeded in renewing maturing loans in full. Short-term corporate indebtedness at banks has been declining for a year and a half. At the same time the average maturity of long-term loans could be seen to lengthen again. The proportion of loans with residual maturity of more than 1 year increased by 3 percentage points in 2009, and by an additional 8 percentage points in 2010. Although the changes in the maturity breakdown of loans can largely be explained by corporate repayment of short-term bank loans, it is evident from the terms applied on long-term loans that maturities of new loans are lengthening, which entails qualitative shifts in corporate financing at banks.

Figure 3.4: Average maturity of new corporate loans at banks and growth (left) and distribution of stock of loans by residual maturity (right)



Note: The average loan maturity on the vertical axis refers to months for short-term loans, and to years for long-term loans.
Source: Bank of Slovenia

Corporate financial liabilities

Despite a positive flow of financing, corporate indebtedness declined in absolute terms and in ratio to GDP.

The stock of non-financial corporations' financial liabilities declined to EUR 86.5 billion in 2010. The decline in corporate indebtedness from the end of 2009 is entirely a reflection of value changes, primarily the fall in share indices in 2010, and thus in the value of corporate equity. The ratio of corporate financial liabilities to GDP declined by 6.4 percentage points to 240%.

A fall in real estate prices could cause a further deterioration in the debt-to-equity ratio.

Debt financing is prevalent among corporate financial liabilities. The proportion accounted for by equity declined during the years since the outbreak of the financial turmoil from almost a half in 2007 to just under 41% in December 2010. Alongside the absence of capital increases, the major factor in the decline in this proportion was the devaluation of equity as a result of negative trends on the stock exchanges. In the event of a further fall in real estate prices, which could be accompanied by a deterioration in the construction sector, further devaluation in fixed assets on one side of corporate balance sheets and equity on the other side could be expected, along with the consequent further deterioration in the debt ratio. A decline in the value of commercial real estate could have a further adverse impact on the availability of collateral for loans. An increase in the debt-to-equity ratio of financing, which averaged at high 145% in 2010, could in the event of a further fall in real estate prices have serious consequences for construction corporates, and could also impact on asset values in other sectors.

Table 3.4: Stock and breakdown of financial liabilities by instrument, and corporate debt at year end in EUR million and percentages

	2005	2006	2007	2008	2009	2010
			(EUR million)			
Total liabilities	62,984	71,305	87,946	87,002	87,191	86,544
growth, %	11.4	13.2	23.3	-1.1	0.2	-0.7
as % GDP	219.4	230.0	254.4	233.2	246.4	240.0
Debt[1]	18,972	21,403	27,928	33,830	34,480	34,416
growth, %	19.0	12.8	30.5	21.1	1.9	-0.2
as % GDP	66.1	69.0	80.8	90.7	97.4	95.4
			Breakdown, %			
In Slovenia	81.2	82.3	83.5	82.0	82.4	80.7
corporates	31.1	29.9	30.0	29.9	29.4	28.5
banks	18.0	19.4	20.9	24.9	25.4	25.6
bank loans	16.7	18.0	19.9	23.8	24.0	24.3
NMFIs	6.6	6.8	7.4	6.2	6.2	5.4
government	11.9	12.5	12.2	9.0	8.8	8.7
households	13.6	13.5	13.0	12.0	12.6	12.6
In rest of the world	18.8	17.7	16.5	18.0	17.6	19.3
loans at foreign banks	2.3	1.7	1.5	1.9	2.3	2.7

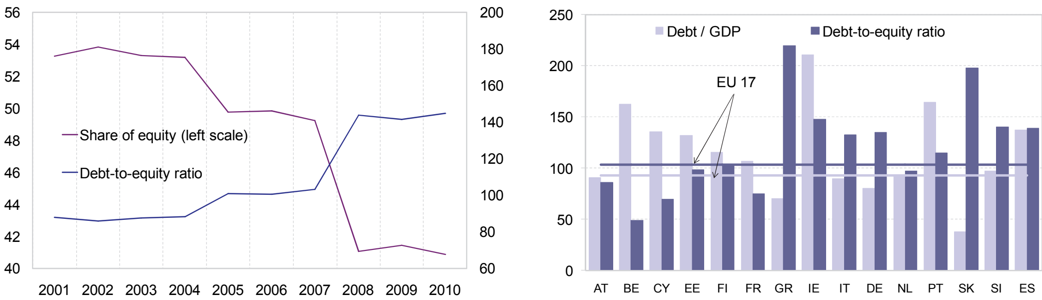
Note: [1] Debt includes loans, debt securities (excluding derivatives) and insurance technical provisions, and in the Slovenian corporate sector practically consists solely of loans raised.
Source: Bank of Slovenia

The debt-to-equity ratio is lower in the euro area overall, and stood at 103.3% in September 2010. Only Greece, Slovakia and Ireland recorded a higher level of debt financing according to the latest figures. Three other countries are at a comparably high level: Spain, Italy and Germany. The limits that corporates are exposed to in financing because of high financial leverage and the heavy burden of servicing the high level of debt reached are a major obstacle to corporate development and growth.

The proportion of corporate financing accounted for by short-term resources is high.

The proportion of corporate financial liabilities accounted for by short-term resources (loans and trade credits) was slightly lower in 2010 than in the previous year, but at 31% it was still significantly above the overall euro area figure of 24%. The widespread method of financing at banks via the regular renewal of maturing loans, primarily short-term loans, is a factor in operational instability for corporates. This proved to be the case in the crisis years, when these resources diminished rapidly and irreplaceably.

Figure 3.5: Corporate debt-to-equity ratio (left) and comparison of corporate indebtedness in the euro area in 2009 in percentages (right)



Source: Bank of Slovenia

Corporate financial assets and net financial position

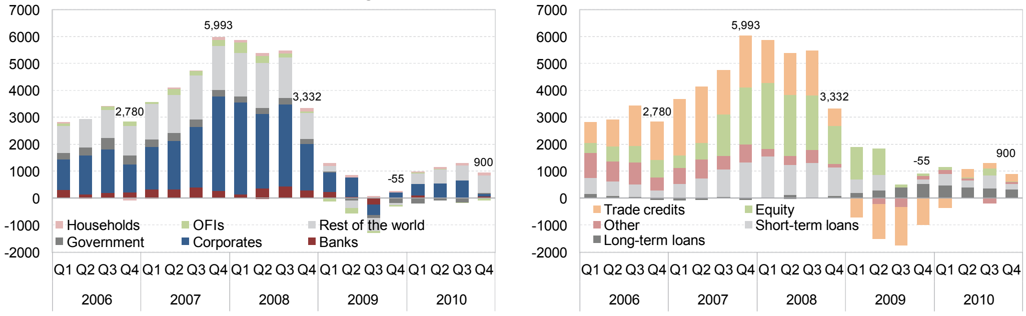
Trade credits for the rest of the world are prevalent among corporate financial investments.

Corporate investments were low in 2010, with a trend of slow increase. In line with the rising economic activity, the prevailing place among corporate investments goes to those that increase sales, in particular loans and trade credits to business partners. The largest proportion of corporate financial investments in 2010 was earmarked for financing the rest of the world via trade credits. Trade credits received and granted are reflecting the recovery in merchandise trade with the rest of the world.

Financing of households via loans and trade credits increased.

Financing of households again increased among financial investments in domestic sectors. After disinvestment in 2009, trade credits granted to households are again approaching the levels seen in 2007 and 2008. Together with loans to households they are reflecting last year's moderate increase in household demand.

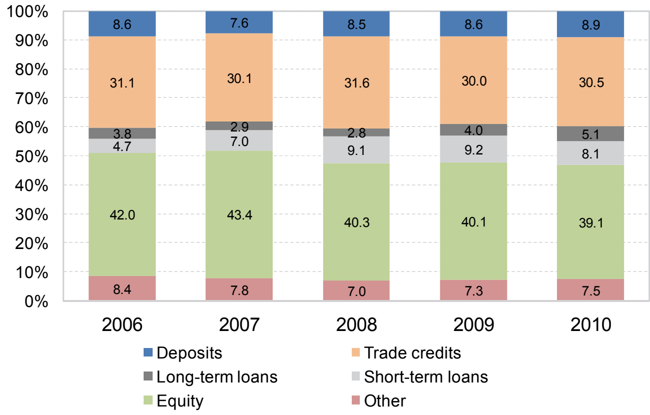
Figure 3.6: Corporate investments by sector (left) and instrument (right), annual moving sum of flows in EUR million



Source: Bank of Slovenia

Investments account for 39% of non-financial corporations' financial assets. However, these investments are not necessarily the result of business links, but are to a great extent the result of the ownership consolidation that took place in the corporate sector before the outbreak of the financial turmoil. These investments are often between different sectors that are not directly linked in commercial terms, or exceed the capital power of the individual corporates. With the devaluation of equity investments in economic sectors under the greatest cyclical impact, these effects are being transferred to corporates in other sectors less affected in economic terms, which is hindering and slowing the economic recovery. The devaluation of such investments is being reflected in write-downs of equity of related undertakings.

Figure 3.7: Percentage breakdown of the stock of corporate investments by instrument



Source: Bank of Slovenia

A net outflow of loans from corporates to foreign owners was again a feature of 2010.

While financing of the rest of the world via trade credits is generally aimed at business partners, loans were mostly used to finance corporate equity links in 2009 and 2010. The largest proportion of loans granted to the rest of the world were approved for foreign owners of Slovenian corporates. In respect of loans received from foreign owners, the last two years have again mostly seen an outflow of funds, i.e. a net repayment of loans raised in the past. The inflow of loans from foreign owners into subsidiaries in Slovenia ceased in 2009. It was instead replaced with net repayment, which was particularly strong in 2009, but also continued to a lesser extent in 2010.

The overall effect of loans granted to and received from foreign owners in 2010 was a net outflow of EUR 220 million (compared with EUR 582 million in 2009). Given the large amount of distributed earnings, which in the last two years have not been significantly down on those seen during the boom,[11] the outflow of equity to foreign owners has been significant. Under the conditions of problematic access to capital, this has further exhausted domestic corporates.

[11] According to balance of payments figures (for all domestic sectors, not just S.11), the outflow of distributed earnings to the rest of the world amounted to EUR 390 million in 2009 and EUR 418 million in 2010. Reinvested earnings were significantly lower, at EUR 38 million and EUR 135 million.

Table 3.5: Loans[1] received from and granted to the rest of the world, by type of ownership relation in EUR million

	Loans from rest of the world				Loans to rest of the world				
	From foreign investors in Slovenia	From Slovenian corporates in rest of the world	Without ownership links	Total	To foreign investors in Slovenia	To Slovenian corporates in rest of the world	Without ownership links	Total	Net loans granted
2007	127	58	319	503	124	297	68	489	-15
2008	372	14	571	957	-81	138	45	102	-855
2009	-467	22	52	-392	115	99	91	306	698
2010	-98	-30	223	95	122	44	-15	151	56
	From EU	From ex-YU	From other countries	Total	To EU	To ex-YU	To other countries	Total	
2007	64	19	421	503	277	188	24	489	-15
2008	393	51	513	957	-62	76	88	102	-855
2009	-172	-16	-204	-392	150	127	29	306	698
2010	148	2	-56	95	134	5	12	151	56

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

The corporate sector's net debt position declined to 115.2% of GDP.

The stock of corporates' investments declined by 1.2% in 2010 to EUR 45 billion. In light of the slightly smaller decline in financial liabilities, corporates' net financial liabilities declined by 0.3 GDP percentage points to 115.2% of GDP.

Table 3.6: Net corporate financial liabilities, stock at year end in EUR million and percentages

	2006	2007	2008	2009	2010
			(EUR million)		
Total	33,696	42,382	40,957	41,659	41,551
growth, %	17.0	25.8	-3.4	1.7	-0.3
as % GDP	108.7	122.6	109.8	117.7	115.2
			Breakdown, %		
In Slovenia	84.8	87.2	86.6	87.7	85.7
banks	28.5	32.6	41.3	41.5	41.3
NMFIs	9.9	10.3	9.2	9.2	8.0
government	21.4	20.6	14.1	14.0	13.7
households	25.1	23.9	22.3	23.2	22.9
In rest of the world	15.2	12.8	13.4	12.3	14.3

Source: Bank of Slovenia

The loan-to-deposit ratio at banks improved for the second consecutive year.

Corporates' net indebtedness at banks declined by 1.3 GDP percentage points in 2010 to 47.8% of GDP. The decline was the result of a stagnation in loans to non-financial corporations while their deposits at banks recorded moderate growth. The loan-to-deposit ratio thus declined for the second consecutive year. Corporate deposits at banks increased slightly in the final quarter of 2010, which reduced the absolute level of corporates' net indebtedness at banks, although it increased again in the early months of 2011.

Table 3.7: Corporate loans[1] from and deposits at banks, stock at year end in EUR million and percentages

	Corporate borrowing at banks		Corporate deposits	Net corporate borrowing at banks		
	Corporate loans					
	(EUR million)	(as % GDP)	(EUR million)	(EUR million)	Ratio	(as % GDP)
	(1)	(2)=(1)/BDP	(3)	(4)=(1-3)	(5)=(1/3)	(6)=(4)/GDP
2006	13,019.7	41.9	3,341.1	9,678.6	3.9	31.2
2007	17,733.8	51.3	3,674.2	14,059.5	4.8	40.7
2008	21,003.7	56.3	3,711.8	17,291.8	5.7	46.4
2009	21,211.3	59.9	3,825.5	17,385.9	5.5	49.1
2010	21,280.8	59.0	4,032.7	17,248.1	5.3	47.8

Note: [1] Loans are shown as gross principal, excluding impairments.
Source: Bank of Slovenia

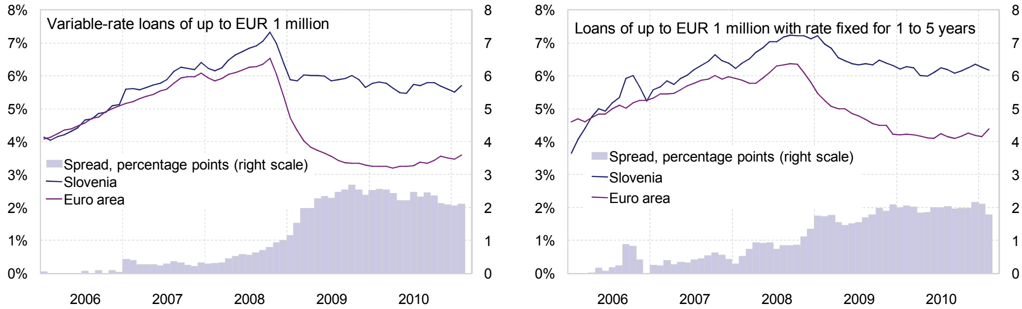
3.2 Interest rates and interest rate risk for corporates

Lending rates

There has been no significant change in interest rates on corporate loans in 2011.

There was no significant change in interest rates on corporate loans last year. The interest rate on new variable-rate loans of up to EUR 1 million granted in December 2010 was down 0.1 percentage points on the figure at the end of 2009. Neither was there any significant change in the level of fixed interest rates on corporate loans.

Figure 3.8: Comparison of interest rates at banks in Slovenia and in the euro area, and interest rate spread in percentage points



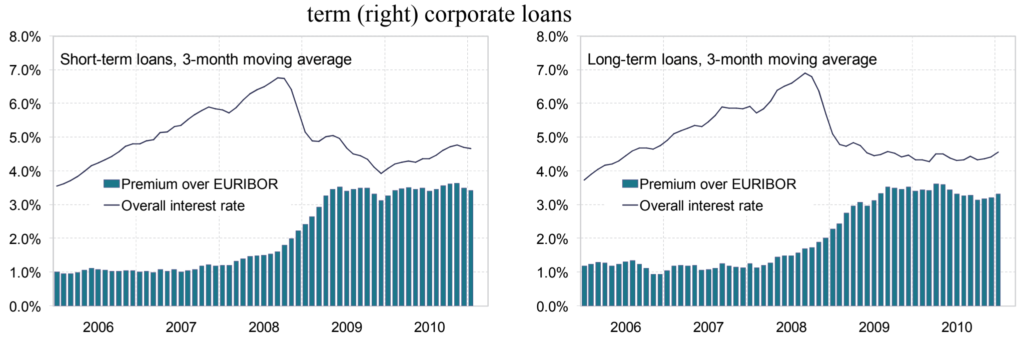
Sources: ECB, Bank of Slovenia

Having ranged between 2.3 and 2.5 percentage points for almost a year and a half, the spreads between banks in Slovenia and in the euro area overall narrowed in the final months of 2010. With interest rates in Slovenia stagnating, the main factor in the narrowing of the spread was the rise in lending rates in the euro area that followed the rise in market reference interest rates. The spread between variable interest rates on loans at banks in Slovenia and those in the euro area overall had narrowed to just over 2 percentage points by February 2011.

The premiums over the EURIBOR on long-term corporate loans are declining.

The dynamic in interest rates varied according to loan maturity. Long-term interest rates remained almost unchanged, despite a rise in the reference interest rates. The stable interest rates on loans of this maturity were the result of a decline in the premiums over the EURIBOR from 3.5 percentage points in the final quarter of 2009 to 3.2 percentage points in the final quarter of 2010. As a result of the lower premiums, which represent the fixed portion of the interest rate, loans granted in the final months of 2010 were more favourable than loans granted in the period between the final quarter of 2009 and the end of the first half of 2010, despite the nominally equal interest rate. Further rises in the reference interest rates, which picked up pace in early 2011, will nevertheless entail a rising servicing burden for corporates overburdened by debt financing.

Figure 3.9: Increase in premiums over the EURIBOR on short-term (left) and long-term (right) corporate loans



Source: Bank of Slovenia

Premiums over the EURIBOR on short-term corporate loans remained relatively unchanged.

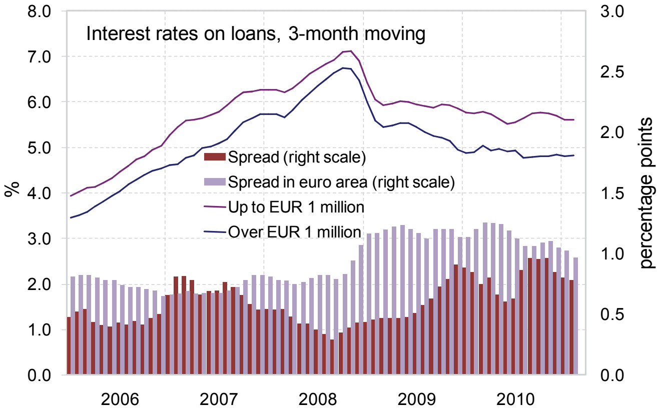
By contrast, the premiums over the EURIBOR on short-term loans were more or less stable in 2010, with fluctuations around an average of 3.5 percentage points. As a result, the interest rate on short-term corporate loans tied to a reference interest rate was up 0.7 percentage points in year-on-year terms at 4.8% in the final quarter of 2010. There was nevertheless no significant change in the financing conditions for corporates via short-term loans, as around 70% of short-term loans are raised at a fixed rate, which on new loans actually fell slightly in 2010.

Differences in corporate financing conditions with regard to the size of the loan are increasing.

Small businesses have less favourable financing conditions at banks, given their weaker negotiating opportunities and their smaller possibilities of offering high-quality collateral. The spreads in interest rates with regard to the size of the loan can illustrate the different terms of borrowing for smaller and larger corporates, given the prevailing proportion of smaller corporates in low-value loans, and the contrasting greater presence of large corporates in larger loans. Low-value loans continuously had higher interest rates than larger loans. The widening of the difference in the terms of more-difficult borrowing at banks depending on the size of the loan has been particularly pronounced since the second half of 2009. Interest rates on new loans of more than EUR 1 million fell by 1.5 percentage points in 2010, while interest rates of loans of up to EUR 1 million fell by just 1.1 percentage points. The spread widened slightly more in 2010, by 0.1 percentage points, to stand at 0.8 percentage points at the end of the year.

An increase in spreads between interest rates with regard to the size of the loan was also seen in the euro area overall, although it began approximately half a year earlier than in Slovenia, and the spread remained at a slightly higher level throughout. The differences between Slovenia and the euro area overall in the differentiation of interest rates with regard to the size of the loan have narrowed, particularly in the last six months.

Figure 3.10: Spreads in interest rates on corporate loans with regard to the size of the loan

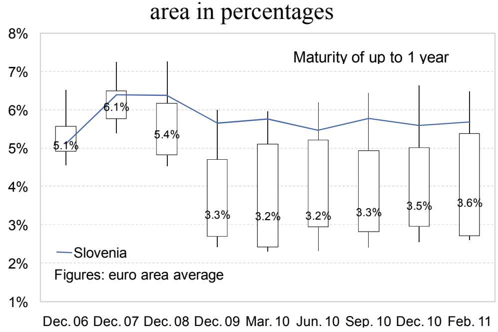


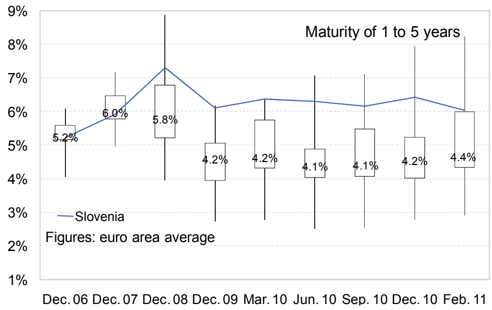
Sources: ECB, Bank of Slovenia

The spreads in interest rates between euro area countries are increasing. Interest rates in Slovenia are among the highest.

The differences between individual euro area countries in lending rates for corporates remain large, particularly in the segment of smaller loans of shorter maturities. The spread between the highest and lowest interest rates on loans of up to EUR 1 million and up to 1 year widened from 3.6 percentage points at the end of 2009 to 4.1 percentage points at the end of 2010, and the average interest rates at Slovenian banks were among the highest in the euro area. The dispersion of interest rates on long-term loans is even wider than on short-term loans, but the dispersion in the middle two quartiles is narrower.

Figure 3.11: Dispersion of interest rates on loans of up to EUR 1 million in the euro area in percentages





Sources: ECB

Risk premiums on loans with regard to debtor's credit rating

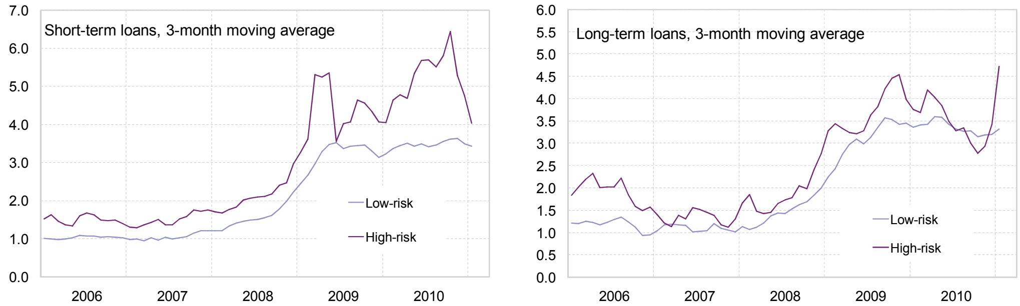
The deterioration in the banking system's credit portfolio in the last two years has brought an increase in the premiums charged by the banks to their higher-risk clients. In the boom years, when the proportion of bad clients was relatively small and credit risk losses were low, impairment costs could be controlled with lower risk premiums. The rise in the proportion of bad clients and the uncertainty surrounding the further deterioration in the credit portfolio brought an increase in the risk premium within the pricing structure of bank loans.

Risk premiums increased in 2010, more notably on high-risk loans.

On newly approved short-term loans the risk premium for high-risk loans began increasing in 2009, and rose very markedly in 2010. The premiums over the EURIBOR on high-risk loans averaged 6.6 percentage points in certain months late in the year, 3 percentage points more than the premiums on risk-free loans. In the years before the financial turmoil, the spread was around 0.5 percentage points. The premium over the EURIBOR on high-risk loans averaged 5.2 percentage points across the whole of 2010, 1.7 percentage points more than that on risk-free loans.

The risk premiums on long-term loans approved in 2010 do not reflect the actual risk to which the banks are exposed. In certain months high-risk loans were actually approved under more-favourable terms than risk-free loans, which deviates markedly from the tightened credit standards for approving loans to non-financial corporations.

Figure 3.12: Premiums over the EURIBOR for short-term (left) and long-term (right) euro-denominated corporate loans, by client credit rating, 3-month moving average in percentage points



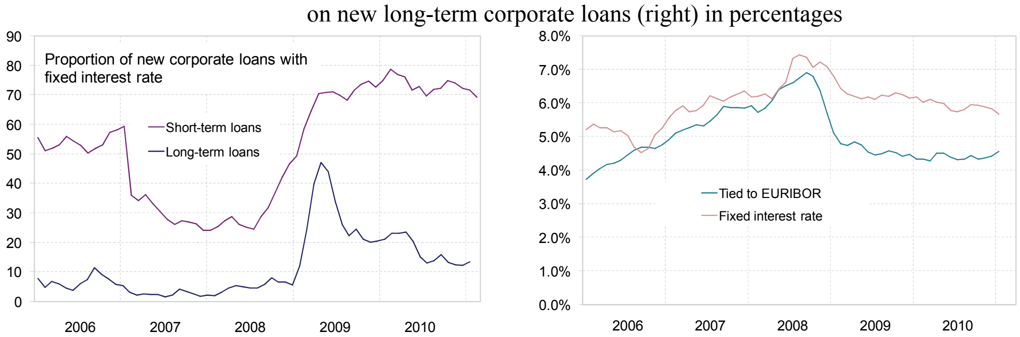
Source: Bank of Slovenia

Interest rate risk for corporates (proportions of fixed and variable remuneration)

The proportion of new loans with a variable interest rate is increasing.

Corporates at Slovenian banks mostly borrow in euros, at interest rates tied to the market reference interest rates. The large increase in new long-term loans with a fixed interest rate that occurred in early 2009 was merely temporary in nature, and coincided with a sharp fall in general interest rates. Through fixed interest rates that were 1.6 percentage points above the variable interest rates, the banks maintained expectations of a renewed rise in market interest rates. The decline in the proportion of new loans accounted for by fixed-rate loans continued in 2010. From an average of 26.7% in 2009, it declined to 11% in 2010. The proportion of new short-term loans accounted for by fixed-rate loans has stabilised at a round 70% in the last two years.

Figure 3.13: Proportion of new loans with a fixed interest rate (left) and interest rates on new long-term corporate loans (right) in percentages



Source: Bank of Slovenia

The proportion of loans with a fixed interest rate is approaching the euro area average.

Fixed-rate loans account for a significantly higher proportion in the euro area overall, particularly among low-value loans. According to ECB methodology, fixed-rate loans account for almost 11% of loans in the euro area, compared with 4.3% in Slovenia. The temporary increase in fixed-rate remuneration in 2009 was more pronounced for larger loans, which until 2008 were almost entirely variable-rate. The proportion of larger loans accounted for by fixed-rate loans declined to 4.4% in 2010, a half lower than the overall figure for euro area banks.

Table 3.8: Proportion of new corporate loans with a variable interest rate[1]

	2007	2008	2009	2010
		(%)		
Euro area	87.6	90.3	90.7	89.3
up to EUR 1 million	85.5	86.1	86.0	83.9
over EUR 1 million	88.4	91.6	92.1	91.1
At domestic banks	99.2	99.2	92.5	95.7
up to EUR 1 million	98.1	98.4	94.9	96.1
over EUR 1 million	99.6	99.4	91.9	95.6

Note: [1] For comparability with ECB methodology, variable-rate loans include loans on which the agreed interest rate is fixed for a period of less than one year (the table includes all short-term loans otherwise shown as fixed-rate loans in the separate disclosure of short-term loans).

Sources: ECB, Bank of Slovenia

Corporate loan repayment burden

The fall in interest rates in the last two years had a beneficial impact on the corporate interest servicing burden. The terms of borrowing at predominantly variable interest rates in the context of high indebtedness brought a decline in the flow of interest servicing. The decline in economic activity and in the revenues generated also brought a decline in the basis for repaying debt, but not to the extent that would increase the average debt repayment burden for corporates.

The interest repayment burden is continuing to increase in the sectors of construction, transportation and storage, and real estate activities.

The repayment burden increased in several sectors. In the construction sector, which recorded above-average borrowing from banks in 2010 and also saw a decline in economic activity, net interest paid increased to 1.2% of revenue generated. The debt servicing burden has also been increasing continually in the transportation and storage sector. The servicing burden is also extremely high and rising in the real estate activities sector at 6.8%, and in the financial and insurance activities sector at 9.5%.

Table 3.9: Corporate interest repayment burden indicators

	2006	2007	2008	2009	2010
Ratio of interest paid to income,%	0.7	0.8	1.1	1.0	1.0
Ratio of net interest paid to income, %	0.5	0.6	0.7	0.7	0.7
agriculture, forestry, fishing, mining, quarrying	0.7	0.9	0.8	0.9	0.9
manufacturing	0.5	0.5	0.7	0.6	0.6
electricity, gas, water; remediation	0.3	0.1	0.1	0.0	0.0
construction	0.6	0.7	0.9	1.1	1.2
wholesale and retail trade	0.3	0.4	0.4	0.3	0.4
transportation and storage	0.6	0.6	0.8	0.8	1.0
accommodation and food service activities	0.9	1.0	1.6	1.7	1.4
information and communication activities	0.2	0.1	0.5	0.8	0.1
financial and insurance activities	5.0	4.7	6.9	9.5	9.5
real estate activities	2.6	3.0	5.9	5.5	6.8
professional, scientific and technical activities	0.7	0.8	1.3	1.0	0.9
public services	0.6	0.6	1.0	0.8	0.9

Sources: AJPES, own calculations

The anticipated rise in interest rates will increase the corporate debt servicing burden, particularly at those corporates that in 2010 raised long-term loans at variable interest rates, with high premiums over the current low market reference interest rates.

Box 3.1: Payment indiscipline

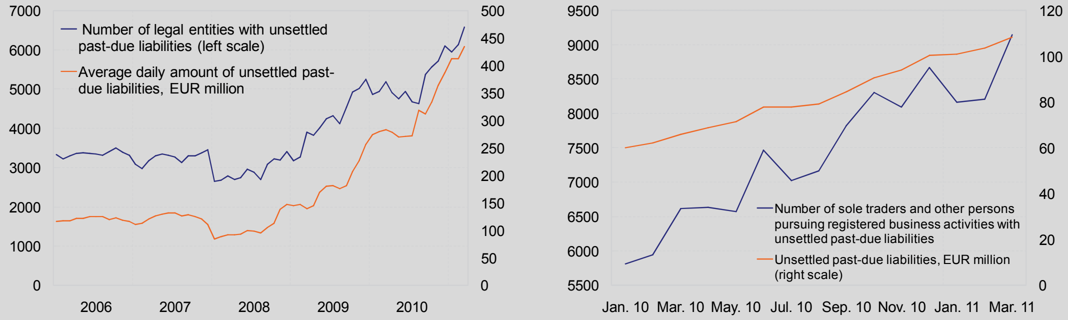
Their increased borrowing in the years before the financial turmoil and the subsequent decline in demand forced corporates to make use of internal financial reserves. Judging by the figures for unsettled past-due financial liabilities, corporates exhausted their internal reserves towards the end of 2008. In the specific regulatory and business environment, which traditionally favours debtors, the problem of payment indiscipline has increased rapidly since that time.

An increase in unsettled past-due financial liabilities in 2010

The AJPES figures for unsettled past-due financial liabilities only include the figures from court enforcement orders or from official tax debts, not the remaining unsettled liabilities from unpaid invoices between creditors and debtors. Consequently payment indiscipline is greater than suggested by the AJPES figures.

The number of legal entities with unsettled past-due liabilities increased sharply in the second half of the year. The figure of more than 6,000 corporates at the end of last year represents a doubling of the level from before the financial turmoil. Similarly to the number of legal entities with unsettled past-due liabilities, the average daily amount of unsettled past-due liabilities also changed, an indication of how quickly and sharply the problem of payment indiscipline is spreading. The position of sole traders and individuals pursuing registered business activities deteriorated over the entire year, with occasional monthly fluctuations. The number of those unable to settle past-due liabilities increased by 29%, while the average daily amount of unsettled liabilities was up 41%.

Figure 3.14: Number of legal entities (left) and sole traders and individuals pursuing registered business activities (right) with unsettled past-due liabilities and average daily amount of unsettled past-due liabilities in EUR million



Source: AJPES

Given the number of legal entities with unsettled past-due financial liabilities, payment indiscipline became a greater problem in the wholesale and retail trade sector than in the construction sector. The two aforementioned sectors together accounted for a third of last year's increase in the number of legal entities with unsettled past-due financial liabilities, and for 43% of the total number of legal entities with unsettled past-due financial liabilities.

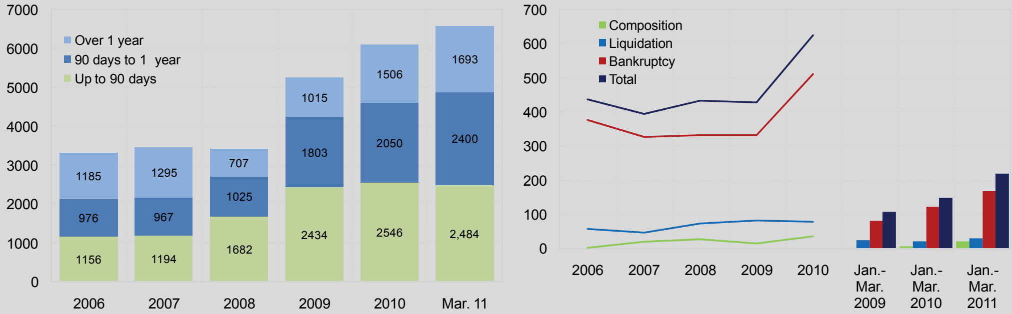
Table 3.10: Number of legal entities with unsettled past-due liabilities and average daily amount of unsettled past-due liabilities, total and largest sectors, in EUR million

	Number of legal entities			Average daily amount, EUR million		
	Dec. 08	Dec. 09	Dec. 10	Dec. 08	Dec. 09	Dec. 10
Total	3414	5252	6102	147.3	256.7	387.0
Construction	732	1288	1319	27.0	78.2	113.9
Financial and insurance activities	41	55	81	24.1	46.2	49.4
Manufacturing	431	662	785	18.5	28.9	40.6
Wholesale and retail trade	806	1083	1330	32.2	38.1	54.7
Professional, scientific and technical activities	354	537	671	17.6	20.8	42.2
Other	1050	1627	1916	27.9	44.5	86.3

Source: AJPES

The average daily amount of legal entities' unsettled past-due liabilities increased by a half. Construction stands out over the last two years for its increase of more than four times in this amount. The wholesale and retail trade sector became more risky than last year as a result of payment indiscipline.

Figure 3.15: Number of legal entities according to the continuous period of unsettled past-due liabilities (left) and number of bankruptcy, composition and liquidation proceedings initiated (right)



Source: AJPES

A corporate's inability to settle its financial liabilities leads to composition, bankruptcy or liquidation proceedings. The number of composition proceedings doubled in 2010, while the number in the first two months of 2011 was almost three times that in the same period last year. Last year's 35% rise in the number of corporate bankruptcies was particularly notable, taking the total to 510. Alongside all the negative consequences, the corporate bankruptcies accelerated the otherwise slow adjustment of the corporate sector to the requirements of the market. However, they also diverted focus from the more important and more troubling slow pace of creation of new businesses making products or providing services with high value-added.

The movement in low-value payments in the SEPA ICT system indicates stagnation in payment activity, while unsettled past-due financial liabilities have increased. The SEPA ICT system is the main system for settling low-value payments between bank clients. The value of payments sent was highest in 2008, declined by 8.6% in 2009, then increased by just 1.2% last year. The number of transactions increased only symbolically over the last two years.

Table 3.11: Value and number of transactions in the Giro Clearing / SEPA ICT system

	2006	2007	2008	2009	2010	Q1 2011
Value, EUR billion	22.9	45.7	49.1	44.9	45.4	11.1
Year-on-year growth, %	9.3	99.3	7.5	-8.6	1.2	5.6
Number of transactions, million	52.1	53.6	55.9	55.1	56.1	13.8
Year-on-year growth, %	5.4	2.9	4.3	-1.4	1.8	4.0

Source: Bank of Slovenia

Measures in the area of payment indiscipline[7]

Given the worsening of the problem of payment indiscipline, the Slovenian government intervened with a range of measures that entered into force in March 2011, the regulations having previously been unchanged for many years. The measures will not have a significant impact on the systemic reasons for the increase in unsettled financial liabilities, and will not encourage or facilitate corporate financial restructuring. Overall they do not increase liquidity:

1. The Prevention of Late Payments Act (ZPreZP) transposes Directive 2011/7/EU on combating late payment in commercial transactions into Slovenian law. The key provisions are as follows:

a) Stipulation of the length of payment deadlines:
- a payment deadline of 60 days for economic entities (or 120 days where the deadline has been agreed to in written form, and the deadline does not represent a clearly unjustifiable contractual agreement);
- a payment deadline of 30 days for public authorities;
- a general payment deadline of 30 days if the deadline has not been stipulated by contract.

b) Reimbursement of collection costs: the ZPreZP stipulates the right to the reimbursement of recovery costs in the amount of EUR 40. The creditor has the right to the aforementioned amount without having to prove that any damage was incurred by the debtor's lateness. The amount of the reimbursement is set out in accordance with Directive 2011/7/EU, and EUR 40 is an approximation of the costs incurred by the creditor on the basis of a lawyer's fee, where the creditor would have to hire a lawyer to draw up the notice of lateness.

c) The introduction of the obligation to register monetary liabilities in the first round of mandatory multilateral offsetting: the law introduced mandatory multilateral offsetting. The obligation to register a monetary liability in the first round of multilateral offsetting applies to debtors that fail to settle their due liabilities by the contractual or legal deadline.

d) The introduction of a register of bills of exchange protested for reason of non-payment: the ZPreZP creates a public register of bills of exchange protested for reason of non-payment, administered by the AJPES. The data in the register of bills of exchange protested for reason of non-payment constitutes information for all other market participants that the debtor has failed to regularly meet his/her/its liabilities to contracting parties. Under the Bill of Exchange Act, protestation of a bill of exchange is done in the presence of a notary, who then sends the data to the newly created register in electronic form.

2. The Act Amending the Value Added Tax Act (ZDDV-1D) has introduced a measure under which taxpayers who fail to pay an invoice to a supplier by the deadline set out in the ZPreZP or only pay it in part and who have already claimed a VAT deduction on the unpaid invoice will have to increase their tax liability by the amount of the VAT deduction claimed on the invoice. Even when the taxpayer is late in paying the invoice or only pays it in part, but has not yet claimed the VAT deduction on the invoice, he/she/it will not be able to claim the deduction in the tax period in which the deadline for payment of the invoice passed, or in subsequent periods. Here it should be noted that in the case of tax liabilities under the invoice and a VAT deduction under the invoice that was registered in the first round of the mandatory multilateral offsetting system but was not offset or only offset in part in the first round, there is no need to increase the liability, and the VAT deduction can be claimed in full.

3. The Act Amending the Public Procurement Act (ZJN-2C) rectifies a deficiency in the implementation of the Public Procurement Act. Direct payments by the contracting authority in a public contract procedure were mandatory solely for the first round of subcontractors, for which reason some tenderers registered their own subsidiaries or companies to which they are related via capital links as subcontractors, while the subcontractors that actually performed the public contract were consequently excluded from direct payments. To prevent this, an amendment to the law was adopted that changed the definition of a subcontractor.

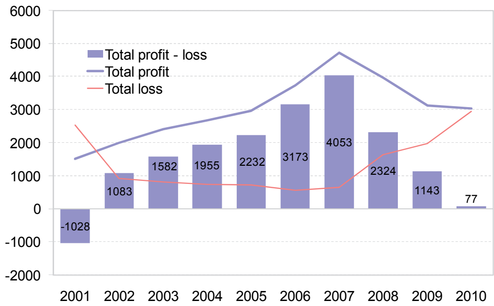
The government drew up the measures to restrict payment indiscipline, demanded for many years, in conjunction with other stakeholders, and enacted them, although it was not possible to achieve a consensus about the details. The government also amended the Tax Procedure Act, based on which since 1 January 2011 the Tax Administration can no longer defer the payment of contributions for pension and disability insurance. The latter increased the moral hazard on the part of employers, who in their financial planning and operations could apply the possibility of deferring the payment of contributions irrespective of the liabilities to their employees. The possibility of deferring the payment of contributions is a form of financial indiscipline, and the government was justified in eliminating it. At the same time the government rejected a measure to increase the transparency of the Slovenian business environment and to restrict payment indiscipline whereby the Tax Administration would be allowed to disclose data on those failing to pay contributions. Their business partners thus remain denied access to this information necessary for a comprehensive credit assessment. This arrangement encourages the spread of payment indiscipline.

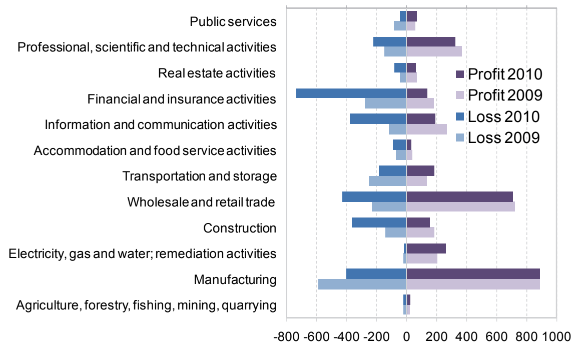
[7] The sources for points 1 to 3 are the Ministry of Finance and the TARS.

3.3 Corporate performance and risk by sector

Corporate business reports for 2010 reveal a further deterioration in performance. Total profit declined from its peak of EUR 4.8 billion in 2007 to EUR 3 billion in 2010, but the decline in profit in 2010 was less than in the two previous years. Corporate losses increased sharply. They were up a half on the previous year, and almost equalled the profit generated. The corporate sector's net profit declined to just EUR 77 million.

Figure 3.16: Total profit and loss by year (left) and by sector (right) in EUR million





Sources: AJPES, Bank of Slovenia

Losses increased sharply last year, particularly in construction, financial and insurance activities, and information and communication activities.

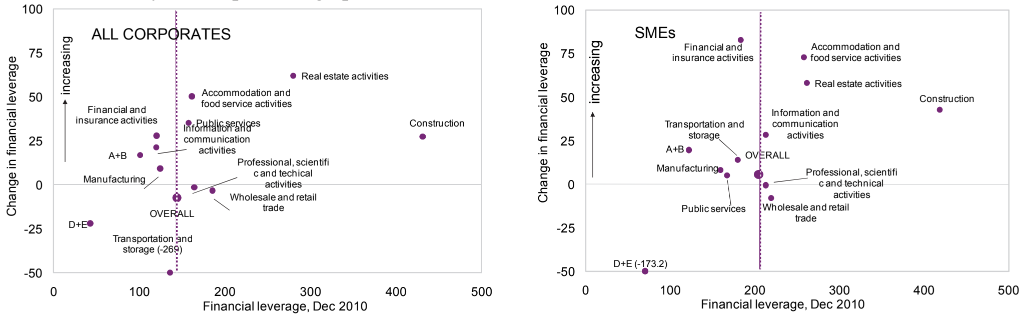
Corporates in three sectors generated half of non-financial corporations' total loss last year. Losses in construction increased rapidly for the second consecutive year. Corporates in the information and communication activities sector and the financial and insurance activities sector also recorded a large increase in losses. Corporates in these three sectors generate a total of 12% of non-financial corporations' total revenues.

Corporate performance improved in the manufacturing sector. Profit remained at the same level as 2009, but a decline in losses meant that net profit was up 60% on the previous year.

Corporate financial leverage declined to 144% in 2010, primarily as a result of the transportation and storage sector.

Leverage remained high in the majority of sectors, and actually increased. As a result of limited access to financing, corporate indebtedness was often down in nominal terms, but the value of equity on corporate balance sheets also declined as a result of movements on the stock exchanges. In some sectors leverage in 2010 was down on the previous year, most notably in transportation and storage, where it declined from 479% in 2009 to 136%.[12] This had a profound impact in a decline of 18 percentage points in average leverage across the whole corporate sector to 144%.

Figure 3.17: Financial leverage by sector at year end 2010 and change in the last three years in percentage points



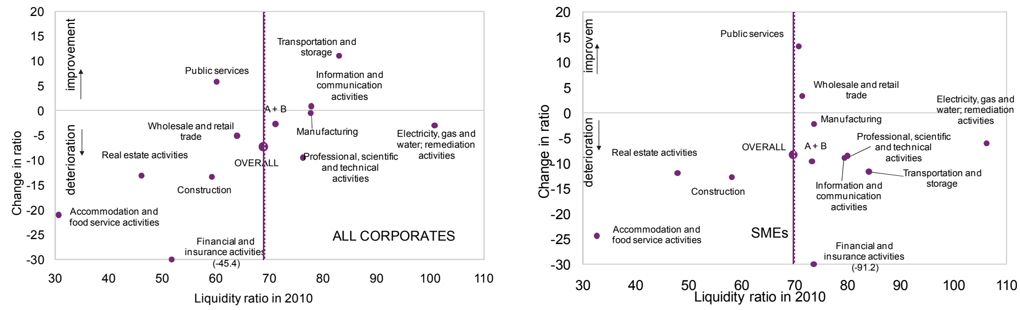
Notes: A+B: agriculture, forestry, fishing, mining and quarrying; D+E: electricity, gas, water supply and environmental remediation.
Financial leverage is calculated as debt liabilities / equity * 100.
Sources: AJPES, Bank of Slovenia

SMEs are more indebted than large enterprises.

The highest level of indebtedness is recorded by corporates in the construction sector, where debt capital exceeded equity by more than four times at the end of 2010. Indebtedness in the real estate activities sector was slightly lower but still high, the ratio of debt capital to equity standing at three. In the majority of sectors SMEs are more indebted than large enterprises. Only in construction and real estate activities do SMEs record slightly lower indebtedness, although it is nevertheless at such a high level that the differences are insignificant. The financial leverage of SMEs stood at 205% at the end of 2010, 61 percentage points higher than the average figure for all non-financial corporations.

Corporate liquidity was low last year. The majority of sectors have seen a notable deterioration in liquidity over the last three years. It declined most at corporates in the sectors of construction, accommodation and food service activities, financial and insurance activities, and real estate activities. Further evidence of the poor liquidity in these sectors comes from the figures for unsettled liabilities, 55% of which were concentrated in these four sectors.

Figure 3.18: Liquidity ratios at year end 2010 by sector and change in the last three years in percentage points



Notes: A+B: agriculture, forestry, fishing, mining and quarrying.
The liquidity ratio is calculated as current receivables / current liabilities * 100.
Sources: AJPES, Bank of Slovenia

Liquidity deteriorated more at SMEs than at large enterprises. A major factor in this was payment indiscipline, which allows liquidity problems at large enterprises to be transferred to smaller corporates, and the problem of insufficient diversification in the operations of SMEs, which increases their dependence on a small number of business partners.

[12] The decline in financial leverage in transportation and storage was the result of a capital increase in DARS by means of a non-cash contribution by the government consisting of assets granted by the Republic of Slovenia in the past to finance the national motorway construction programme. Source: DARS, Annual Report 2010.

As a result of high corporate indebtedness and a lack of current corporate liquidity, arrears in the settlement of liabilities to banks are increasing. Corporate arrears of more than 90 days almost doubled in 2010 to reach 12.3% of classified corporate claims. Longer arrears increased markedly at corporates in the sectors of construction, information and communication activities, professional, scientific and technical activities, and administrative and support service activities. Around a fifth of the banking system's portfolio in these sectors is more than 90 days in arrears.

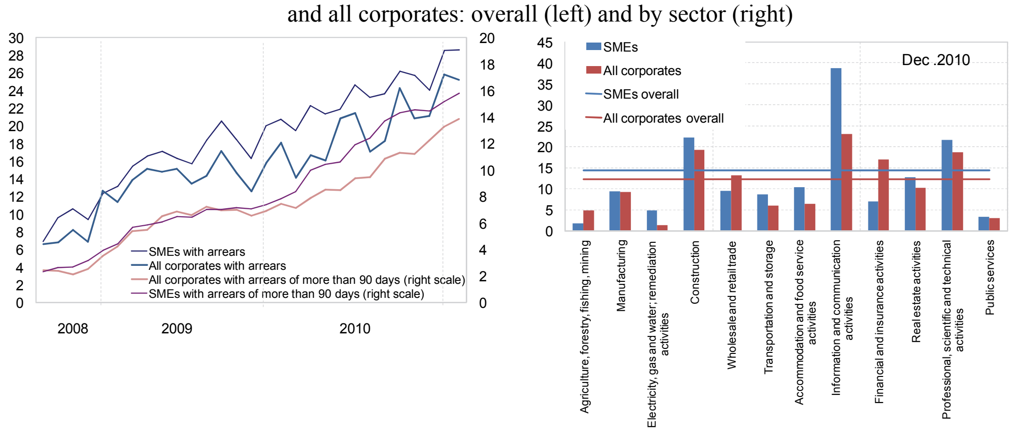
Table 3.12: Arrears of non-financial corporations by sector

	Number of corporates in arrears	% of total number of corporates at banks in arrears: total	of which, more than 90 days in arrears		Average number of days in arrears	% of classified claims in bank portfolio in arrears: total	of which, more than 90 days in arrears		
		Dec. 10	Dec. 09	Dec. 10		Dec. 10	Dec. 09	Dec. 10	Feb. 11
Agriculture, forestry, fishing, mining, quarrying	41	17.8	12.0	13.0	429	11.5	5.5	4.9	4.9
Manufacturing	778	19.3	11.0	12.7	365	16.2	6.3	9.3	9.6
Electricity, gas, water; remediation	27	9.2	3.7	4.1	95	5.3	0.8	1.5	1.6
Construction	825	27.8	15.2	20.7	245	35.8	7.7	19.3	21.1
Wholesale and retail trade	1215	18.1	13.1	13.5	334	21.5	5.1	13.2	15.7
Transportation and storage	326	23.7	15.0	17.5	161	13.8	1.9	6.0	8.8
Accommodation and food service activities	261	25.1	16.9	18.3	366	12.8	7.9	6.5	7.8
Information and communication activities	148	11.0	6.0	7.3	279	26.7	1.8	23.1	22.7
Financial and insurance activities	34	21.0	13.8	11.7	252	23.5	21.6	17.1	18.8
Real estate activities	145	21.3	10.8	13.2	212	27.9	4.8	10.3	18.0
Professional, scientific and technical activities	598	11.8	6.9	8.1	304	27.1	7.6	18.8	19.5
Public services	131	10.5	6.1	6.9	254	8.3	2.2	3.2	3.0
Overall	4,530	18.0	11.1	12.7	289	21.1	6.6	12.3	13.9

Note [1] Includes wound-up corporates and corporates undergoing bankruptcy and liquidation proceedings.
Source: Bank of Slovenia

Arrears of more than 90 days increased during the first two months of 2011 to 13.9% of the banking system's classified claims against non-financial corporations. The largest contribution came from arrears in wholesale and retail trade, which began to increase rapidly at the end of 2010, reaching 15.7% of the banking system's total classified claims against the sector in February. Arrears in the real estate activities sector also increased sharply, from 10.3% in December to 18.0% in February. The proportion accounted for by longer arrears increased to 21.1% in the construction sector. Longer arrears can be expected to continue increasing in the construction sector in the months ahead. By February 46% of all the banking system's claims against the construction sector were in arrears, a large increase from the figure of 35% in December, which warns of the appearance of new clients in arrears, which are highly likely to lengthen given the bad position of the sector.

Figure 3.19: Comparison of arrears as percentage of banks' classified claims for SMEs and all corporates: overall (left) and by sector (right)



Source: Bank of Slovenia

Arrears at banks are longer for SMEs.

Arrears in the settlement of liabilities to banks are longer for SMEs, and the proportion of corporates with arrears is higher than for large enterprises. The differences in arrears with regard to corporate size widened significantly last year. The proportion of arrears of more than 90 days at SMEs increased more rapidly, reaching 15.8% of classified claims by February 2011, just under 2 percentage points more than the figure for the corporate sector overall. The difference in arrears with regard to corporate size widened rapidly over the course of the year, reaching 3.3 percentage points by November. It then narrowed slightly, as a result of growth in arrears in wholesale and retail trade, particularly at large retailers.

SMEs disclose longer arrears in all sectors other than wholesale and retail trade, and financial and insurance activities. SMEs in the information and communication activities sector are particularly noteworthy: almost 40% of their liabilities in December 2010 were in longer arrears, compared with a figure of 23% at all corporates. The difference in arrears of more than 90 days with regard to corporate size is relatively small in the manufacturing sector, but fluctuates around 3 percentage points in the majority of other sectors.

Risk premium at banks by sector

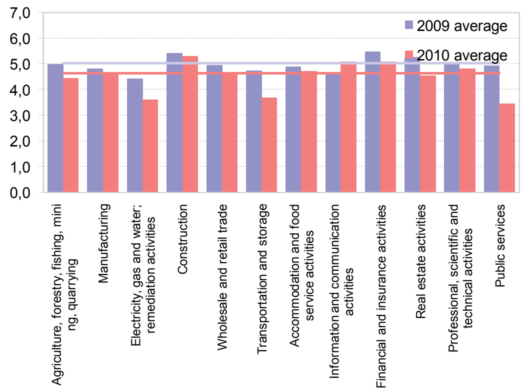
Average premiums over the EURIBOR in 2010 were 0.9 percentage points higher than in 2009.

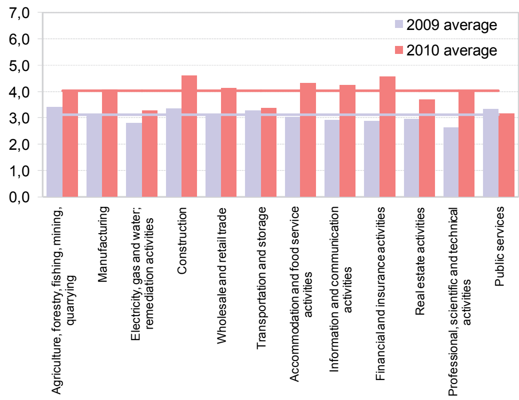
The realised interest rates tied to the EURIBOR on new long-term corporate loans averaged 4.6% last year, down 0.4 percentage points on 2009. The premiums over the EURIBOR on these loans increased rapidly in 2009, but stabilised last year. As a result of the rapid growth in 2009, last year's average was 0.9 percentage points higher than the average in the previous year.

The risk premiums are highest in the sectors of construction, transportation, agriculture and public services.

The banks increased their differentiation in interest rates according to corporate sector in 2010. The spread in the premiums in lending rates between sectors ranged from 3.2 to 4.6 percentage points. The spread between the highest and lowest premiums increased from 0.8 percentage points in 2009 to 1.4 percentage points. The premiums over the EURIBOR were notably high in the sectors of construction, financial and insurance activities, accommodation and food service activities, and information and communication activities. There was a notable increase in the upward deviation in the premiums in construction, and in financial and insurance activities, the spreads by which they exceeded the average premium on new loans reaching 0.6 percentage points and 0.5 percentage points respectively.

Figure 3.20: Overall interest rate (left) and premiums over the EURIBOR (right) on long-term bank loans by sector in percentages and percentage points





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

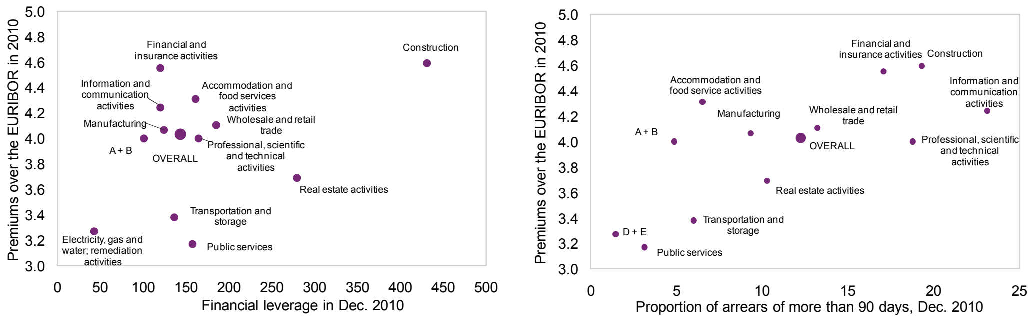
The link between the risk premium and the financial position is more evident in some sectors than in others.

The banks set the highest premiums over the EURIBOR on new loans last year for corporates in the sectors of construction, and financial and insurance activities. Construction was notable for its high indebtedness and low liquidity, which caused long arrears in the settlement of liabilities to banks. The financial and insurance activities sector was not particularly notable for excessive indebtedness, but its liquidity problems and the consequent long arrears at banks brought a sharp rise in the cost of loans for corporates in the sector.

The high cost of loans was also a feature of last year for corporates in the accommodation and food service activities sector, which are not yet disclosing longer arrears, but whose liquidity ratio deteriorated the most of all sectors, which means that banks face a high risk of defaults in the future. The information and communication activities sector is also notable for its above-average premiums; according to the financial indicators illustrated the sector deviates little from the average, but the difficulties of certain corporates in the sector were reflected in an extreme increase in longer arrears at banks.

The link between the risk premium and the financial position of a corporate is not evident in all sectors, as loans are mostly approved for corporates with higher-than-average creditworthiness.

Figure 3.21: Average premium over the EURIBOR on new bank loans to corporates in relation to corporate financial indicators by sector in percentage points



Note: The premiums refer to those on long-term loans tied to the EURIBOR.
Sources: AJPES, Bank of Slovenia

Table 3.13: Selected financial performance indicators by sector, and premiums over the EURIBOR on new loans at the domestic banks

	Debt ratio, %	Financial leverage, %	Liquidity ratio, %[1]	% more than 90 days in arrears[2]	Overall rank[3]	Premium over EURIBOR, percentage	Rank
	Dec. 10					2010	
Agriculture, forestry, fishing, mining, quarrying	46.4	101.3	71.1	4.9	2	4.0	6
Manufacturing	53.2	124.8	77.7	9.3	4	4.1	7
Electricity, gas, water; remediation	28.7	43.0	100.8	1.5	1	3.3	2
Construction	77.7	431.4	59.3	19.3	12	4.6	12
Wholesale and retail trade	63.7	185.7	64.0	13.2	10	4.1	8
Transportation and storage	56.2	136.4	83.0	6.0	3	3.4	3
Accommodation and food service activities	58.8	161.6	30.6	6.5	8	4.3	10
Information and communication activities	51.9	120.2	77.8	23.1	5	4.2	9
Financial and insurance activities	53.4	120.4	51.8	17.1	7	4.6	11
Real estate activities	72.2	280.0	46.1	10.3	11	3.7	4
Professional, scientific and technical activities	60.1	164.6	76.3	18.8	9	4.0	5
Public services	59.0	157.6	60.1	3.2	6	3.2	1
Overall	57.0	143.9	68.9	12.3		4.0	

Notes: [1] For the liquidity ratio, a higher ratio represents better liquidity, while for all the other indicators a higher value is less favourable.
[2] Proportion of banks' classified claims accounted for by arrears of more than 90 days by sector.
[3] The overall ranking is calculated from the individual rankings for each indicator, where a higher ranking indicates higher risk.
[4] The premiums refer to those on long-term loans tied to the EURIBOR.
Sources: AJPES, Bank of Slovenia, own calculations

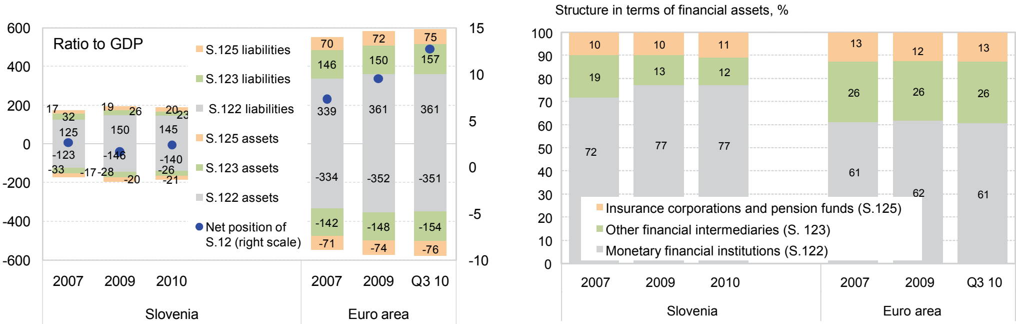
4 FINANCIAL SYSTEM

4.1 Structure of the financial system

The depth of the Slovenian financial system reached 189% of GDP in 2010, 32% of the average figure in the euro area. The difference increased.

The difference between the depth of the Slovenian financial system[13] and the depth of the financial system in the euro area overall widened in 2010. Given that the banking sector is dominant in Slovenia, at 145% of GDP, the difference increased as a result of greater difficulty in accessing funding on the international financial markets, and low credit growth. At 189% of GDP, the size of the Slovenian financial system is 32% of the average figure in the euro area. Further convergence depends on the performance of the economy and the process of contraction of financial intermediation in the rest of the world. The banking sector is predominant in Slovenia and in the euro area overall, although at 77% its relative proportion in Slovenia is 16 percentage points larger.

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



Note: S.122: Other monetary financial institutions (commercial banks and savings banks); S.123: Other financial intermediaries, except insurance corporations and pension funds (includes investment funds and leasing companies); S.125: Insurance corporations and pension funds.

Sources: Bank of Slovenia, ECB, Eurostat, SORS

The performance of non-bank financial institutions mostly improved last year. Lower growth is primarily expected in the insurance sector, and indirectly in the mutual funds sector, as a result of life insurance investments. Direct investments by other sectors in mutual fund units declined. However, a new pension law will raise inflows into pension companies and funds. Growth in the volume of leasing business, which is closely intertwined with the business cycle, will remain limited. The proportion of the financial sector accounted for by the aforementioned sectors will consequently increase slowly from its current 23%.

Table 4.1: Overview of the Slovenian financial sector

	Total assets, EUR million			Structure, %			As % GDP			Growth, %	
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2009	2010
Monetary financial institutions[1]	47,948	52,009	50,761	76.3	76.6	75.4	128.5	147.0	140.8	8.5	-2.4
NMFIs	14,925	15,857	16,567	23.7	23.4	24.6	40.0	44.8	45.9	6.2	4.5
insurers[2]	5,151	5,660	6,059	8.2	8.3	9.0	13.8	16.0	16.8	9.9	7.0
pension companies/funds[3]	1,041	1,287	1,538	1.7	1.9	2.3	2.8	3.6	4.3	23.6	19.5
investment funds	1,912	2,234	2,294	3.0	3.3	3.4	5.1	6.3	6.4	16.8	2.7
leasing companies[4]	6,146	6,094	6,094	9.8	9.0	9.1	16.5	17.2	16.9	-0.9	-
BHs, MCs, others[4]	675	582	582	1.1	0.9	0.9	1.8	1.6	1.6	-13.7	-
Total	62,873	67,866	67,328	100.0	100.0	100.0	168.5	191.8	186.7	7.9	-0.8

Notes: The figures for leasing companies, brokerage houses, management companies and others are obtained from the AJPES 2008 database of closing accounts.
[1] Monetary financial institutions do not include the central bank.
[2] The latest figure for the total assets of reinsurance companies is for the end of the third quarter of 2010.
[3] The First Pension Fund is included among pension funds.
[4] Total assets in 2010 according to the figures for the end of 2009.

Sources: Bank of Slovenia, ISA, SMA, AJPES

[13] The analysis for Slovenia does not include the central bank.

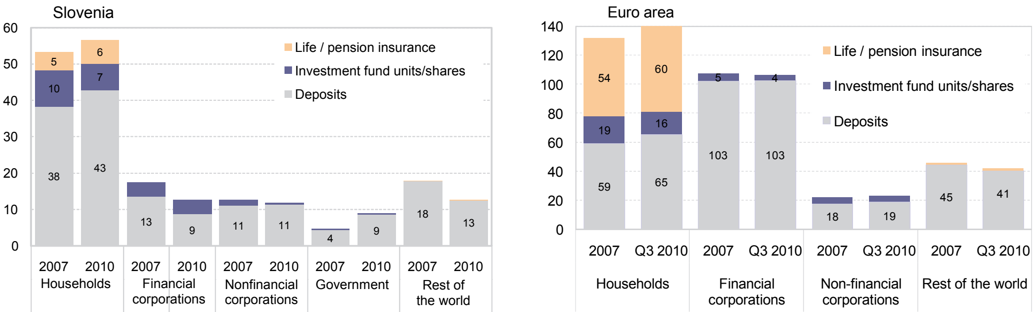
Comparison of financial institutions in terms of intermediation of savings

Deposits are prevalent among savings. Pension reform could bring a change in the structure.

There is a lack of saving in medium-risk investments in the breakdown of Slovenian households' investments. Consumer awareness of inflows of financial assets in various stages of life and awareness of demographic changes is still significantly lower than the euro area average, with regard to the modification of the structure of their investments. Life insurance and pension insurance account for 9% of households' financial assets in Slovenia, compared with the euro area average of 29%. The majority of savings in Slovenia are in the form of deposits. There have been no more direct investments in equities during the last two years; disinvestment is occurring.

The government accounts for a higher proportion of investments as a result of borrowing via bond issues in the last two years. The proceeds obtained last year are changing the level of government deposits at banks, depending on government expenditure on current operations and the maturing of the bonds. The banks continued to make repayments to the rest of the world, and foreign deposits in the Slovenian financial system declined.

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



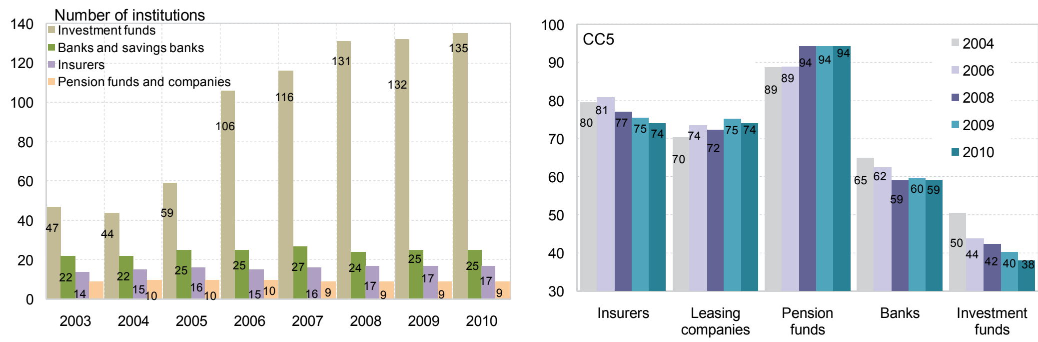
Note: The central bank is not included in the figures for Slovenia.
Sources: Bank of Slovenia, ECB, Eurostat, SORS

Market concentration in the financial sector

Market concentration in the banking and insurance sector remains high.

A trend of gradual decline in concentration has been seen in the insurance sector and in investment funds. Three investment funds were established in 2010. There were no market entrants among other financial institutions. The volume of assets under management per institution is lower in Slovenia compared with more advanced financial systems, which in addition to domestic money also attract savings from developing countries. Given an adequate level of competition, careful consolidation would therefore have a beneficial impact on cost-effectiveness. However, the decline in concentration in the banking and insurance sector remains slow and unremarkable. At the same time, the high concentration is partly the result of the uncritical evaluation by clients of quality of service and the returns achieved by providers, as a result of which there are no major switches between them. Consolidation of smaller financial institutions within a particular sector and between different sectors could raise efficiency and excellence.

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



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

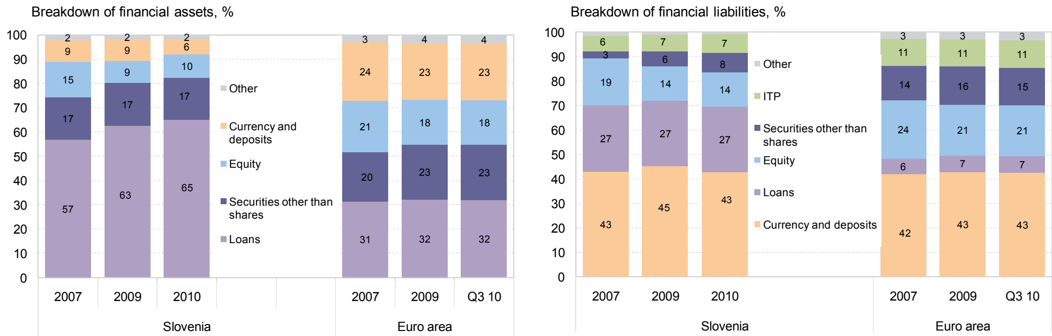
Comparison of the breakdown of the Slovenian financial sector's financial assets and liabilities with the euro area

The attributes of the Slovenian financial system explain the differences in the breakdown compared with the euro area.

The breakdown of the financial sector's assets reflects the low level of development of non-banking financial institutions, as the large relative size of the banking sector means that loans account for two-thirds of assets. The lower proportion accounted for by equity in Slovenia is the result of the lower importance of investment funds relative to the absolute value of assets, while European insurers also hold more equity investments. The small size of bond mutual funds and balanced mutual funds with a bond-focused investment policy is responsible for the lower proportion accounted for by debt securities.

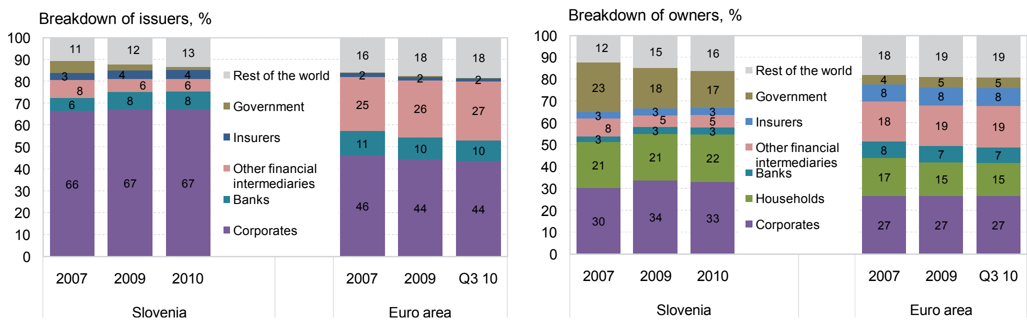
The breakdown of liabilities reflects financial institutions' high dependence on borrowing via loans in the rest of the world, which is not merely a consequence of the dominance of the banking sector. Bonds were a stable long-term source of funding in the rest of the world. The Slovenian capital market has low absorption capacity for new issues, while in the rest of the world Slovenian bond issues are made more expensive by withholding tax, which is converted into a higher interest rate. The competitiveness of this form of funding is further dented by high costs relative to the size of the issue. In the euro area overall there has been a significant renewed increase in the proportion accounted for by equity since 2008, when the figure declined to 18% as a result of capital losses, the figure now reaching 21%. The proportion accounted for by equity at Slovenian financial institutions remains low at 14%, and is not increasing. This is an indication that the process of balance sheet restructuring is not yet complete. The proportion of liabilities accounted for by insurance technical provisions was almost unchanged at 7%.

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



Sources: Bank of Slovenia, ECB

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



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

Sources: Bank of Slovenia, ECB

The proportion of total equity accounted for by shares is declining, and stood at 45% at the end of 2010. In Slovenia the proportion of all equity issues accounted for by the corporate sector amounted to two-thirds, significantly above the euro area average. The smaller proportion of issued equity accounted for by financial institutions is the result of their funding via loans and the ownership structure, which is not encouraging the functioning of the domestic capital market. The proportion accounted for by issued equity was 20 percentage points lower than the euro area average at 18%.

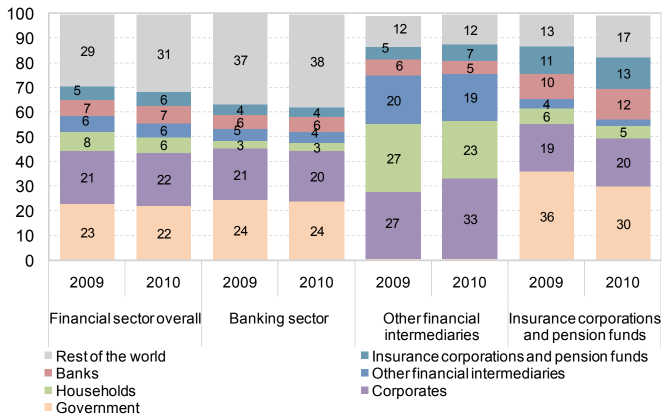
A comparison of the breakdown of equity ownership reveals two basic attributes. First, there is significantly more government ownership in Slovenia, where the figure is 17%, than in the euro area overall. Second, direct investments by Slovenian households account for 22% of equity, 7 percentage points more than in the euro area overall, where their assets are placed indirectly via investment funds, pension funds and insurers. Last year defaults by clients led the banks to expropriate shares in several corporates. Revaluation meant that there was no significant change in their proportion of equity ownership, and some of this collateral had already been redeemed for the repayment of claims.

Capital links in the financial sector

Cross-ownership between financial institutions is low at 18%.

Cross-ownership between domestic financial institutions remains relatively low at 18%. Lower share prices represent an opportunity for greater consolidation in the financial sector. The banking and insurance sector needs financially stable owners that are capable of providing additional capital, development and easier access to markets. As a result of the lack of domestic capital, high indebtedness and the increased capital requirements for the financial sector in light of the introduction of Basel III and Solvency II, it will be necessary to create an environment that encourages the inflow of stable long-term funds. A long-term development strategy for owners will be of key importance. Given the deterioration in the public finances and the economic situation, the capital position of financial institutions is of key importance to ensuring financial stability. In light of the high proportion of direct government ownership in the banking sector (24%) and the insurance sector (30%), and the rising general government deficit, doubts are increasing about the ability to recapitalise the financial sector on time and to a sufficient extent. The decline of 6 percentage points in government ownership of the insurance sector was the result of capital increases in insurers by banks and non-financial corporations, and the market valuation of investments. As a result of larger net withdrawals from investment funds by households, their direct exposure at other financial intermediaries is continuing to decline.

Figure 4.6: Ownership structure of financial sectors in percentages



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

Mutual exposure of the financial sector

Mutual exposure in the financial sector is relatively low. The difficulties of non-financial corporations and households represent a greater risk to it.

The banks' exposure to other financial intermediaries stood at 4.4% of the banking system's total financial assets at the end of 2010, while their exposure to insurance corporations and pension funds stood at 0.3%. The majority of the capital investments are in leasing companies, to whom loan exposure also varies depending on the volume of leasing business.

On the other hand, the greatest exposure to the banking sector within other financial intermediaries is recorded by investment funds, which invest in bank bonds and have their liquid assets invested in bank accounts. A portion of their assets is also invested as a capital investment. However, these are low, as is the total exposure to banks in their financial assets, at 5.8%. Investments in bank deposits, bonds and shares account for 23.2% of the total financial assets of insurance corporations and pension funds. Despite a rise in the insurance sector's investments in the rest of the world, the proportion of investments accounted for by domestic debt securities of the banking sector remained almost unchanged at 14.6%, while the proportion accounted for by capital investments declined by 1.5 percentage points to 9%.

The financial system's mutual investment exposure, primarily in the form of equity, is relatively low. However, the difficulties faced by over-indebted non-financial corporations and the weak economic position of households, which are taking on further borrowing, represent a higher risk to the financial sector. This could trigger the spread of contagion between financial institutions.

Table 4.2: Investment links between Slovenian financial institutions

	2005	2007	2009	2010	2005	2007	2009	2010
	Domestic banks' exposure to[1]							
	other financial intermediaries (S.123)				insurance corporations and PFs (S.125)			
Value, EUR million	867	2,124	2,459	2,290	57	94	158	157
bank investments in debt securities[3]	2	0	0	0	14	14	15	11
bank loans granted	685	1,840	2,234	2,104	0	0	27	26
bank capital investments	180	284	225	186	42	79	116	120
As % of:								
total bank financial assets	2.9	4.9	4.6	4.4	0.2	0.2	0.3	0.3
bank investments in debt securities	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2
bank loans granted	4.1	6.1	5.9	5.3	0.0	0.0	0.1	0.1
bank capital investments	15.3	15.9	12.0	10.5	3.6	4.5	6.2	6.8
	Exposure to domestic banks of[2]							
	other financial intermediaries (S.123)				insurance corporations and PFs (S.125)			
Value, EUR million	590	930	581	481	816	983	1,433	1,703
investments in bank deposits	408	602	318	244	384	495	732	963
investments in bank debt securities	132	132	73	59	359	383	530	576
investments in bank capital	51	196	191	178	72	106	171	164
As % of:								
total financial assets of S.123 / S.125	8.7	8.3	6.4	5.8	20.9	16.5	21.4	23.2
investments in bank deposits	93.8	99.1	98.2	98.3	99.4	93.6	99.1	99.6
investments in debt securities	28.6	37.2	29.9	24.8	15.1	12.2	14.3	14.6
capital investments	1.8	3.7	6.5	6.2	9.7	5.8	10.5	9.0

Notes: The table shows the investment links between the banking sector, and both the sector of other financial intermediaries (including investment funds and leasing companies) and the sector of insurance corporations and pension funds.
[1] Investments by domestic banks in the other two sectors, via equity, debt securities and loans granted. The proportion of total bank financial assets accounted for by the aforementioned investments, and the ratio of exposure to the two aforementioned sectors via a particular instrument to the total value of the instrument are illustrated.
[2] Investments by other financial intermediaries and insurers in bank equity, debt securities and deposits. The proportion of the total assets of these two sectors accounted for by these investments and the proportion of exposure to banks via a particular instrument are also given.
[3] DS: debt securities.

Source: Bank of Slovenia

4.2 Financial markets

4.2.1 Money market

The excess liquidity on the money market declined in the second half of 2010 and the first quarter of 2011.

The main development on the euro area money market in 2010 was the maturing of the ECB's LTROs (long term refinancing operations). By providing unlimited liquidity at a fixed interest rate the ECB continued to replace the role of the money market in the reallocation of liquidity between banks. As a result of the debt crisis in certain countries the abolition of non-standard measures did not occur as intended in 2010. Despite the maintenance of a low interest rate by the ECB, the decline in excess liquidity and the market expectations raised market interest rates on the financial markets. The decline in excess liquidity was also reflected in greater volatility in the EONIA as a result of the markets' expectations of ECB actions. Volume on the Slovenian interbank market declined even further last year, and for the second consecutive year it was sharply down on the years before the crisis.

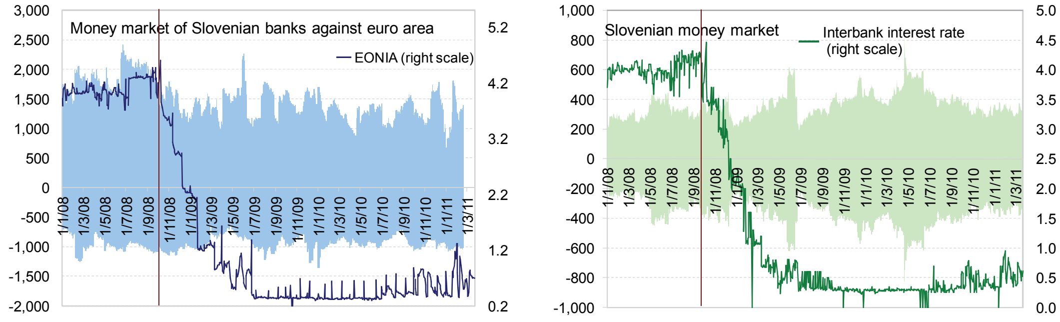
There was a rise in interest rates in 2010.

The EONIA and the interest rate on the Slovenian interbank market rose last year. The rise in the two interest rates was relatively coordinated, and reflected a decline in excess liquidity in the Eurosystem and the markets' expectations. The rise in interest rates continued in the first quarter of this year. The SI/ON and the interbank interest rates on the Slovenian money market were again lower than the EONIA last year. The EONIA averaged 0.42% in 2010, compared with an average of 0.35% for the SI/ON and an average of 0.34% for the interbank interest rates on the Slovenian money market, as a result of greater familiarity with the situation on the local market.

Slovenian banks' net claims against the rest of the world on the unsecured interbank deposits market declined slightly in 2010.

Slovenian banks have been net creditors of the rest of the world on the euro area money market for unsecured interbank loans since Slovenia introduced the euro, but their net claims against the rest of the world averaged EUR 338 million in 2010, having been net lenders in the amount of EUR 508 million the previous year. The banks' net position against the rest of the world has fluctuated sharply on several occasions last year and this year. Claims against banks in the rest of the world first increased sharply before the final repayment of ECB LTROs in December 2010. After the repayment of the liabilities to the ECB, the banks' net lending on this market declined sharply, and actually became negative. The banks also had a negative position against the rest of the world in the first ten days of March 2011.

Figure 4.7: Stock of unsecured deposits of Slovenian banks placed and received on the euro area money market (left) and the Slovenian money market (right) in EUR million, and movement of the EONIA and the interbank interest rate on the Slovenian money market in percentages



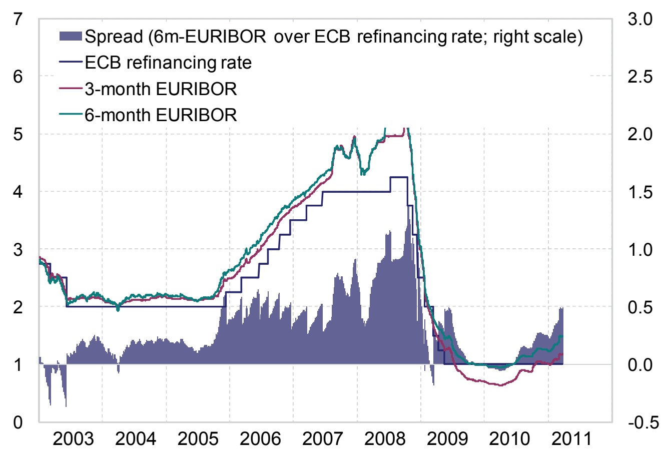
Source: Bank of Slovenia

Volume on the Slovenian interbank market in 2010 was down 14% on 2009.

Monthly volume on the Slovenian interbank market declined by 14% last year to EUR 4.1 billion, and for the second consecutive year it was sharply down on the years before the crisis. Last year the banks traded loans of similar maturities to the previous year. The average maturity shortened by 1.5 days to 15.8 days. The volume of overnight transactions increased in the second half of 2010. The proportion of the interbank deposit market accounted for by overnight deposits increased from 34% in 2009 to 40% in 2010.

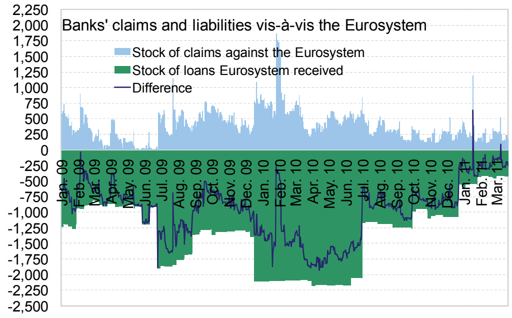
Interest rates on the financial markets began to rise last spring. With the ECB's key interest rate remaining unchanged, and interest rates on the financial markets rising, the spread between the 6-month EURIBOR and the ECB's key interest rate widened to just under a quarter of a percentage point at the end of the year, and then to 0.5 percentage points by the final third of March 2011. The market interest rates on longer maturities on the money market also rose in the first quarter of this year, in light of the expectation of a rise in the ECB's interest rates. The 12-month EURIBOR exceeded 2% in the first week of April. On 7 April 2011 the ECB raised its key interest rate to 1.25%.

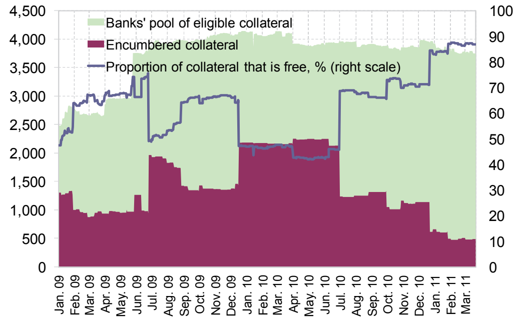
Figure 4.8: Comparison of the EURIBOR market rate with the ECB refinancing rate in percentages



Source: Bank of Slovenia

Figure 4.9: Commercial banks' claims, liabilities and net position vis-à-vis the Eurosystem in EUR millions (left), and pool of eligible collateral at the Eurosystem in EUR millions (right)





Source: Bank of Slovenia

Having recorded a sharp increase in their funding at the Eurosystem the previous year, the banks' longer-term refinancing instruments at the ECB matured in 2010. The banks' liabilities to the Eurosystem nearly halved to EUR 1.2 billion with the maturity of the first 12-month LTRO in July in the amount of EUR 1.05 billion. The banks repaid two-thirds of the funds received from the Eurosystem in September, when EUR 395 million in liabilities arising from 3-, 6- and 12-month LTROs matured. The banks repaid the third and final 12-month LTRO in the amount of EUR 728 million on 23 December last year. The banks continued to make repayments of debt to the ECB in the first quarter of 2011. The banks reduced their liabilities to the ECB by EUR 1,513 million in total in 2010 to EUR 602 million at the end of the year.

The banks made significant repayments of debt to the Eurosystem in 2010.

There was no significant change last year in the pool of eligible collateral for Eurosystem operations, which stood at EUR 3,844 million at the end of the year. As a result of the maturing and non-renewal of the 12-month LTROs at the ECB, the proportion of the pool of eligible collateral that is free increased. Before the maturity of the first LTRO at the end of June it stood at 46%, compared with 84% at the end of the year. This proportion of the pool of eligible collateral that is free increased to 87% in the first months of this year.

There was an increase in the proportion of the pool of eligible collateral for Eurosystem operations that is free in 2010.

4.2.2 Capital market

After the recovery in the SBI TOP[14] in 2009, the first half of 2010 saw a renewed fall to almost 800, followed by a period of stagnation until March 2011. The SBI TOP saw a moderate fall in February 2011 as a result of the announcement of corporate results for 2010, but rose by 2% in March as a result of increased confidence. The Slovenian stock market index stopped tracking global stock markets after 2009, the SBI TOP recording a negative year-on-year change for the majority of 2010. The uncertainty of the economic recovery is still having a profound impact on the movement of the Slovenian stock market index, while confidence on foreign capital market is almost at its level of the first half of 2008, before the crisis.

The SBI TOP saw a renewed fall to almost 800 in 2010, followed by a period of stagnation until March 2011.

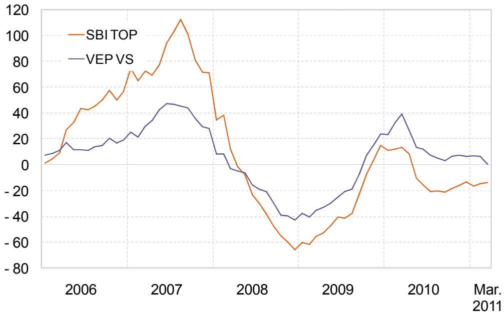
The beginning of 2010 was reasonably promising for the capital markets, investors again beginning to invest in emerging countries. The MSCI Eastern Europe recorded a year-on-year change of +80%, while China's Hang Seng was up 61%. The S&P 500 in the US and the DJ Euro Stoxx in Europe also recorded very positive growth in the early part of the year: the year-on-year changes stood at +50% and +45% respectively. There was a downturn on the European market after May 2010 as a result of the Greek debt crisis. Investors continued to have concerns about the indebtedness of certain euro area periphery countries, and thus of a fall in the euro against the US dollar. Investors also retreated to safe investments in debt securities from countries whose economies are recovering relatively rapidly. The indices revealed a period of prudent growth until the end of 2010, this continuing in early 2011. Almost all of the major international stock market indices ended March 2011 with a positive year-on-year change.

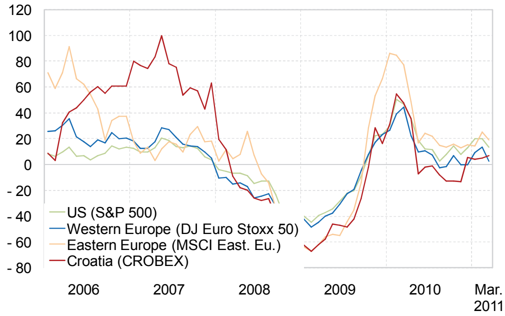
[14] In March 2010 the Ljubljana Stock Exchange changed the names of its indices and their methodology of calculation. The SBI 20 was renamed the LJSE Composite (LJSEX), becoming an index for the entire share market at the Ljubljana Stock Exchange, while the SBI TOP remains the Ljubljana Stock Exchange's blue-chip index. The calculation of the LJSEX was abolished in October 2010, having lost any informative and useful value as the main benchmark and market index for the Ljubljana Stock Exchange with the establishment of the SBI TOP.

The establishment of the European Financial Stability Facility, which can lend up to EUR 440 billion to countries in difficulty, was also a major factor in the stabilisation of the financial markets.

Confidence was renewed by the successful Irish bailout at the end of November 2010, and the successful sale of Spanish and Portuguese bonds in early 2011. The establishment of the European Financial Stability Facility, which can lend up to EUR 440 billion to countries in difficulty, was also a major factor in the stabilisation of the financial markets. Ireland was the first country to receive assistance in this form. The other country to receive assistance from the EFSF was Portugal, which requested assistance in early April 2011, when the yield on its 10-year bonds exceeded 8.5%. In March 2011 an agreement was reached between euro area countries on the establishment of a European Stability Mechanism, which by July 2013 will assume the role of the two current instruments for providing assistance to euro area countries in difficulty (the EFSF with EUR 440 billion and the EFSM with EUR 60 billion), and which will have a total capital of EUR 700 billion.

Figure 4.10: Year-on-year change in domestic (left) and foreign (right) stock exchange indices in percentages





Sources: LSE, Bloomberg

The P/E ratio for the Ljubljana Stock Exchange's prime market is significantly higher than for leading global indices.

The P/E ratio[15] for the Ljubljana Stock Exchange's prime market stood at 35 in March 2011, more than the figure on several leading global indices. This means that Slovenian shares were relatively overpriced, and thus less attractive to investors. The main factors were the over-indebtedness of the majority of corporates, deficient corporate governance and, in certain cases, outmoded business models that prevented corporates from successfully adjusting to the new situation on the market.

The Ljubljana Stock Exchange began trading on Xetra, the international trading system, in December 2010. This makes it easier in technological terms for foreign financial intermediaries to access the Slovenian market, which could have a beneficial impact on liquidity.

Table 4.3: P/E ratios for the Ljubljana Stock Exchange's prime market and standard market, and selected global indices

	LJSE prime market	LJSE standard market[1]	DJ EURO STOXX 50	S&P 500	DAX	MSCI EM EAST. EUROPE
Dec. 06	28.5	23.5	12.6	17.7	14.5	12.0
Dec. 07	33.8	32.6	12.2	17.3	13.7	12.6
Dec. 08	10.6	8.3	9.2	13.6	10.4	3.7
Dec. 09	19.4	23.0	16.5	18.0	60.2	16.0
Dec. 10	43.2		11.3	14.8	14.4	8.7
Mar. 11	34.5		11.8	15.5	12.8	9.6

Note: [1]Calculation no longer worthwhile after April 2010.
Sources: LJSE, Bloomberg

The market capitalisation of shares declined by 17% in 2010, while the volume of trading halved.

The market capitalisation of shares[16] on the domestic capital market gradually declined over the entire year, ending 2010 down 17%. It declined by a further 6% in the first quarter of 2011. The decline in the market capitalisation of shares was to a great extent the result of delistings from Ljubljana Stock Exchange. Shares in six corporates were delisted in 2010, of which three were because of a delisting resolution passed by the relevant general meeting, and one was because of a merger. Center naložbe was delisted for reason of bankruptcy, while MP Finance was delisted for reason of liquidation and deletion from the companies register. Just one share was admitted for trading in 2010. The turnover ratio nevertheless increased in early 2010 as a result of the delisting of predominantly illiquid shares. Liquidity on the Ljubljana Stock Exchange declined sharply in the second half of 2010 and early 2011. Volume in 2010 amounted to EUR 361

[15] The P/E ratio is the ratio of the share price to the most recent annual net earnings per share.
[16] Shares in investment companies are not included in the market capitalisation of shares or in volume.

million, down a half on 2009. The proportion of total stock exchange volume accounted for by trading in shares stood at 73%, down 8% on 2009, as a result of the unattractiveness of the Slovenian capital market.

Table 4.4: Overview of Slovenia's regulated capital market

	2006	2007	2008	2009	2010	Mar. 2011
			Shares			
Market capitalisation						
amount, EUR billion	11.5	19.7	8.5	8.5	7.0	6.6
as % GDP	38.7	58.7	22.8	24.2	19.5	18.4
annual growth, %	72.0	71.5	-57.1	-0.1	-16.9	-21.2
% held by non-residents	4.8	5.9	7.1	7.2	10.0	11.2
Volume						
amount, EUR billion	1,451.3	3,034.8	952.6	719.8	360.8	136.4
as % GDP	4.9	9.0	2.6	2.1	1.0	0.4
annual growth, %	54.3	109.1	-68.6	-24.4	-49.9	24.9
Annual growth in SBI TOP, %	56.6	71.0	-66.1	15.0	-13.5	-13.8
P/E (prime)	28.5	33.8	10.6	19.4	43.2	34.5
Dividend return (prime), %	1.2	1.0	3.9	2.1	2.1	2.2
			Bonds			
Market capitalisation						
amount, EUR billion	6.6	5.9	6.8	10.8	13.2	15.7
as % GDP	22.3	17.6	18.3	30.9	36.8	43.9
annual growth, %	9.6	-10.5	14.5	59.2	21.9	20.2
Volume						
amount, EUR billion	188.1	165.9	257.0	156.3	108.9	25.1
as % GDP	0.6	0.5	0.7	0.4	0.3	0.1
annual growth, %	-74.9	-11.8	54.9	-39.2	-30.3	-30.0

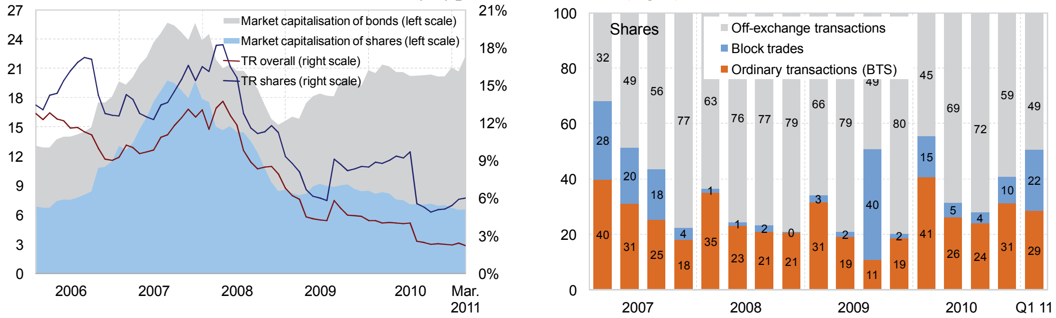
Note: Excludes listed investment companies and mutual funds. Block trades are included.
Sources: LJSE, SORS

The market capitalisation of bonds increased by 22% while the volume of trading decreased by 30%.

The market capitalisation of bonds stood at EUR 13.2 billion at the end of 2010, up 22%. This was primarily the result of the listing of six new bank bonds, two new government bonds, two financial corporate bonds and one non-financial corporate bond. Just one bond was delisted. The market capitalisation of bonds had increased by a further 19% by March 2011, to stand at EUR 15.7 billion. This was the result of the RS69 10-year benchmark government bonds issued in January 2011 with a nominal value of EUR 1.5 billion, which achieved great regional diversification, having been sold to more than 110 investors. Just 10% of the issue was sold to Slovenian investors.[17] The volume of trading in bonds stood at EUR 108.9 million in 2010, down 30% on 2009. The turnover ratio in bonds in 2010 and early 2011 remained at almost the same level as the second half of 2009, a reflection of the low liquidity for almost two years. The low volume of trading in both bonds and shares was a reflection of the low liquidity of securities on the Ljubljana Stock Exchange. This reduced the attractiveness of investing in Slovenian securities, particularly shares, including for foreign investors at exactly the time when an influx of foreign capital into the economy is of key importance to a faster recovery. The low liquidity on the Ljubljana Stock Exchange is simultaneously deterring domestic institutional investors from investing, which is contributing to even lower mobilisation of domestic savings in securities. The anticipated rise in market interest rates does not entail greater pressure on bond prices, which could encourage investment in shares and in subordinated bank bonds.

[17] The remaining 90% of the issue was sold to international investors, prime among which were residents of France (29%), Germany (19%) and the UK (11%). In structural terms, more than half of the purchases were made by fund operators, followed by banks with a quarter, and insurers with 12%.

Figure 4.11: Market capitalisation on the Ljubljana Stock Exchange in EUR billion, and annual turnover ratios (left), and percentage breakdown of trading in shares by type of transaction (right)



Note: Excludes listed investment companies and mutual funds. The turnover ratio (TR) is the ratio of annual volume to market capitalisation at the end of the year. Block trades are included.
Source: LJSE

There was a gentle trend of decline in the proportion accounted for by off-exchange transactions in 2010 compared with the averages in 2008 and 2009. The reason is likely a decline in options and futures transactions in individual packages of securities between legal entities in particular as a result of the deterioration in the economic situation. The majority of off-exchange transactions in bonds were made in government securities via the MTS Slovenia system. Off-exchange trading in shares is partly deterring institutional investors from investing in domestic securities.

Despite weaker access to bank financing Slovenian corporates did not opt to obtain financing on the capital market via bond issues.

Despite weaker access to bank financing Slovenian corporates did not opt to obtain financing on the capital market via bond issues; only four bonds were issued by non-financial corporations between 2009 and February 2011, with a total nominal value of EUR 379 million. The number of new issues during this period was actually down on the period before 2009. Given the good response by investors to the issue of bonds by Petrol in 2009 and Sava in 2010, corporates are not making sufficient use of this method of financing.

Table 4.5: Overview of number of new bond issues by residents in Slovenia and in the rest of the world, and total value

	Issued in Slovenia				Value, EUR million	
	Bank	Financial	Government	Non-financial corporations	Total	of which: NFCs
2006	8	2	2	1	858	6
2007	7	0	0	3	178	7
2008	6	2	1	3	1,841	50
2009	6	2	3	1	4,183	50
2010	5	1	2	1	2,674	27
Feb. 2011	0	0	1	1	1,502	2
	Issued in rest of the world					
2006	1	0	0	0	50	0
2007	1	0	1	0	1,100	0
2008	0	0	0	0	0	0
2009	2	0	0	1	2,300	300
2010	4	0	0	0	1,000	0
Feb. 2011	0	0	0	0	0	0

Sources: CSCC, Bank of Slovenia

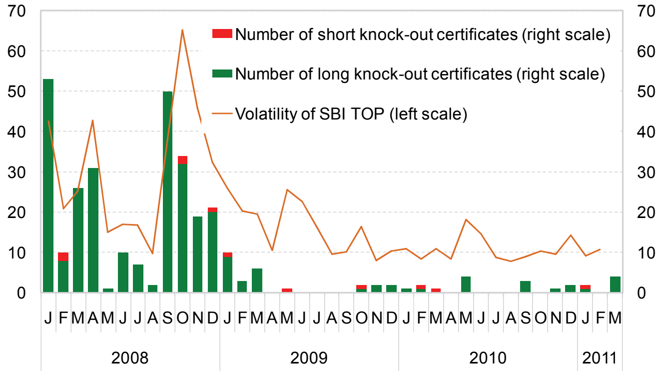
Foreign banks' retail certificates on Slovenian corporate shares

A total of 12 long retail certificates and two short retail certificates reached the knock-out barrier in 2010.

Low liquidity and the fall in prices meant that the majority of foreign banks' retail certificates on shares in Slovenian corporates had reached the knock-out barrier by March 2009. A total of 12 long retail certificates and two short retail certificates reached the knock-out barrier in 2010. Given that the majority of retail certificates issued on Slovenian shares were long, the largest proportion expired in the early period of the crisis, as a result of which the stock of issued long retail certificates is now much reduced. The stock of issued short retail certificates is still low.

The correlation coefficient between the number of retail certificates reaching the knock-out barrier and the volatility in the SBI TOP between 2007 and 2009 stood at 0.77, which indicates that knock-out certificates had a significant impact on the volatility of the stock market index as a result of low liquidity. When the knock-out barrier is reached, the issuer of the retail certificate is obliged to sell shares on the market, which given the low liquidity can cause strong downward pressure on the price and consequently faster liquidation of retail certificates with a lower knock-out barrier. There was significant decline in the volatility of the SBI TOP in 2009 and 2010, as the number of retail certificates reaching the knock-out barrier was significantly lower than in 2008. As a result, the correlation coefficient also declined, to stand at just 0.5 during this period.

Figure 4.12: Number of expiring knock-out certificates issued on Slovenian shares or indices incorporating Slovenian shares, and volatility of the SBI TOP



Note: The volatility of the index is calculated as the standard deviation in the daily percentage changes in the closing values of the index in a month multiplied by the square root of the number of trading days in a year (WFE and FESE reporting methodology).
Sources: LJSE, FESE, Boerse Stuttgart

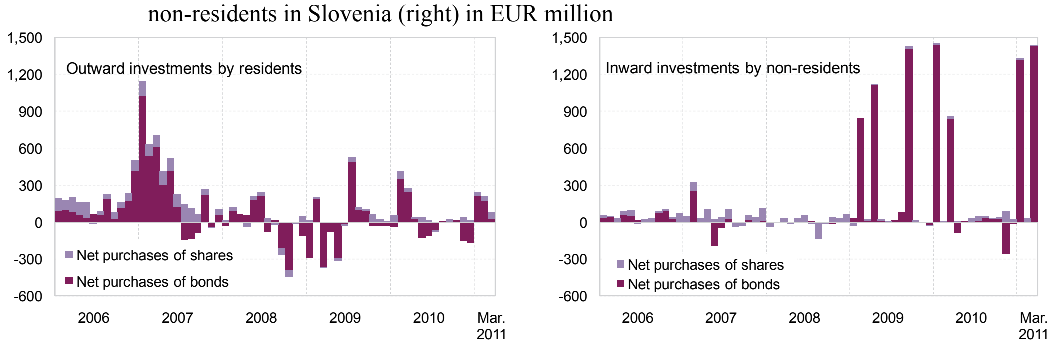
Investment links with the rest of the world

Non-residents' net purchases in Slovenia amounted to EUR 2.3 billion in 2010, down 34% on 2009. They still reach a peak of over EUR 1 billion during government bond issues, but otherwise they have fluctuated around or just below zero since the end of 2007. The peak was recorded in January and March 2010, when the RS67 and RS68 government bonds were issued. The next issues, the RS69 and RS70, followed in January and March 2011, and also attracted high demand from non-residents.

Non-residents' net purchases in Slovenia were down 34% in 2010. The greatest demand was for RS67, RS68 and RS69 government bonds.

The decline in demand was primarily the result of the low liquidity of the stock market and the greater attraction of investment opportunities in the rest of the world. Non-residents are also being driven away by the negative attitude to the sale of holdings in Slovenian companies to non-residents.

Figure 4.13: Monthly net investments by residents in the rest of the world (left) and by non-residents in Slovenia (right) in EUR million



Sources: CSCC, Bank of Slovenia, own calculations

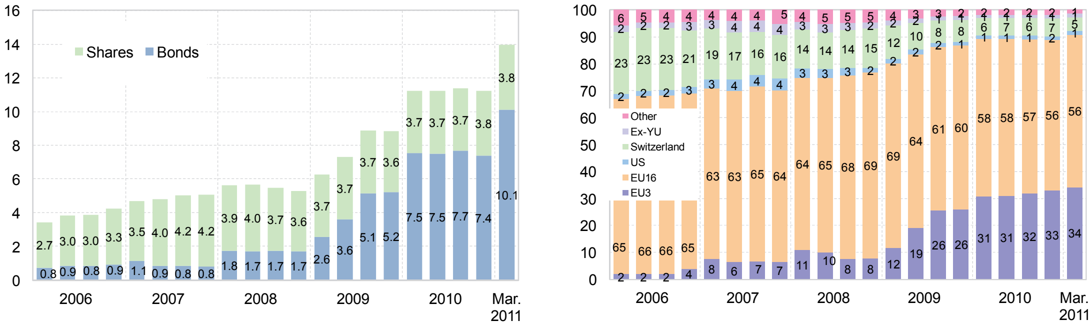
Non-residents recorded a moderate increase in investments in Slovenian shares in 2010. Their net purchases of Slovenian shares amounted to EUR 251.5 million. The majority of net purchases were made in Slovenian blue-chips, most notably Krka, Mercator and Gorenje. Shares nevertheless accounted for just 11.1% of total net purchases in 2010. In 2009 there was almost no investment in Slovenian shares, while an increase was seen in 2010, the amount peaking at EUR 87.3 million in November. November's peak was the result of purchases of EUR 73.6 million in shares in Mercator. The proportion of market capitalisation accounted for by non-residents is consistently increasing, and reached 11.2% in March 2011.

Non-residents made net purchases of EUR 251.5 million in Slovenian shares.

Net purchases of Slovenian bonds by non-residents declined by 40% last year.

Net purchases of Slovenian bonds by non-residents remained very high, albeit down 40% on 2009. This was the result of higher net sales, of government bonds in particular. The greatest demand was during the issues of the RS67, RS68, RS69 and RS70 government bonds. The largest purchasers of Slovenian debt securities were residents of the UK and Luxembourg. As in 2009, the proportion of the stock of investments in debt securities accounted for by non-residents was higher than the equivalent figure for equities.

Figure 4.14: Stock of non-residents' investments in securities of Slovenian issuers in EUR billion (left), and regional percentage breakdown (right)



Note: Includes investments in listed shares and bonds, and in those not listed on the exchange.
EU3: UK, Denmark, Sweden
EU16: euro area
Ex-YU: former Yugoslav republics

Sources: CSCC, own calculations

Investments in the rest of the world by Slovenian investors increased by 4.5%, and amounted to 24% of GDP at the end of 2010.

Investments by Slovenian investors in securities of foreign issuers stood at EUR 8.5 billion at the end of December 2010, up 4.5% in year-on-year terms and equivalent to 24% of GDP. Residents made net purchases of EUR 281 million in shares of foreign issuers in 2010, the highest amount since 2007, when net purchases totalled just over EUR 1 billion. The situation with investments in bonds of foreign issuers was similar: they peaked in 2007, when residents made net purchases of EUR 2.9 billion, whereas last year saw net sales of EUR 41 million.

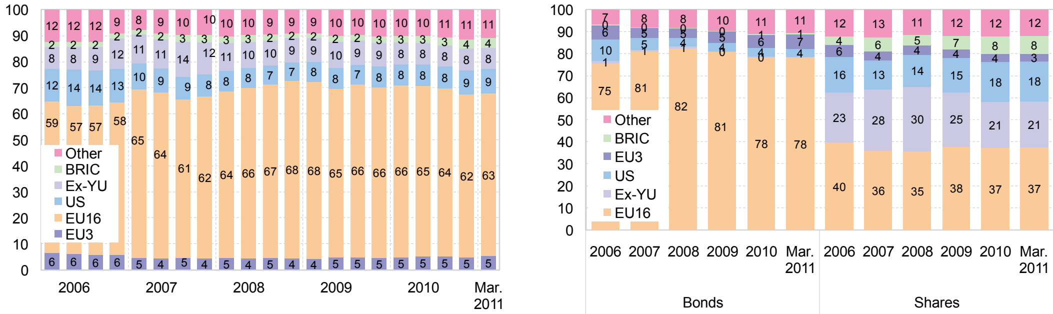
The largest net purchases of foreign shares were made by domestic insurance corporations and pension funds and other financial intermediaries, in the total amount of EUR 238 million, 83% of total net purchases. Among the Slovenian sectors the largest investments were made by the sector of other financial intermediaries (except insurance corporations and pension funds), whose main investments were in the US and the former Yugoslav republics. The domestic insurance corporations and pension funds sector was the second-largest investor, which invested primarily in euro area countries. The largest reduction in holdings of foreign securities was recorded by households, who primarily sold shares in issuers from the former Yugoslav republics (EUR 5 million) and the euro area (EUR 5 million). The largest investments by Slovenian households were made in the US (EUR 10 million).

Investments by the insurance corporations and pension funds sector in the amount of EUR 434 million, primarily bonds of issuers from the euro area, accounted for 85% of net purchases of bonds. The banks were the main net sellers of bonds, primarily those from the euro area. Residents made net purchases of EUR 406.1 million in foreign bonds in the first quarter of 2011.

Investments in the US and the BRIC countries increased.

In the regional breakdown of investments in the rest of the world by residents there was a small increase in exposure to issuers from the US and the BRIC countries in 2010, and a decline in exposure to issuers from the euro area and the former Yugoslav republics. The proportion of investments in foreign bonds accounted for by issuers from the euro area declined to 78%, but nevertheless remains very high. The proportion of the portfolio of foreign shares accounted for by shares from the former Yugoslav republics declined, while that of shares from the US increased. This is an indication of the further withdrawal from the markets of the former Yugoslavia, where growth in stock market prices is relatively low, and the economic recovery is uncertain.

Figure 4.15: Regional breakdown of investments by residents in foreign securities overall (left), and bonds and shares separately (right) in percentages



Note: EU3: UK, Denmark, Sweden
EU16: euro area
BRIC: Brazil, Russia, India, China
Ex-YU: former Yugoslav republics
Source: Bank of Slovenia

Table 4.6: Overview of investment links with the rest of the world

	2006	2007	2008	2009	2010	Mar. 11
	Residents' investments in rest of the world					
Shares						
stock, EUR billion	2.6	4.1	2.3	2.9	3.3	3.5
as % GDP	11.0	11.7	6.2	8.3	9.2	9.7
annual growth, %	73.7	55.9	-43.2	25.5	13.9	12.8
as % of total stock of ISEs	10.7	11.9	9.4	12.4	15.5	16.9
net purchases, EUR billion	0.83	1.04	0.00	0.15	0.28	0.13
Bonds						
stock, EUR billion	2.9	5.7	5.3	5.2	5.2	5.5
as % GDP	12.1	16.4	14.4	14.9	14.4	15.5
annual growth, %	89.7	95.2	-5.7	-2.6	-0.8	-4.2
as % of total stock of ISDSs	37.5	87.3	74.6	43.2	37.8	34.4
net purchases, EUR billion	1.38	2.87	-0.22	-0.27	-0.04	0.41
	Non-residents' investments in Slovenia					
Shares						
stock, EUR billion	3.2	4.2	3.6	3.6	3.8	3.8
as % GDP	10.7	12.2	9.7	10.4	10.7	10.7
annual growth, %	28.5	30.6	-14.8	1.2	5.0	2.7
as % of total stock of ISEs	13.3	12.3	14.7	15.6	18.0	18.5
net purchases, EUR billion	0.28	0.48	0.02	0.03	0.25	0.05
Bonds						
stock, EUR billion	0.9	0.8	1.7	5.2	7.4	10.1
as % GDP	3.0	2.4	4.6	14.9	20.7	28.3
annual growth, %	85.2	-7.4	103.2	205.1	42.5	34.6
as % of total stock of ISDSs	11.8	12.9	23.8	43.2	54.3	62.8
net purchases, EUR billion	0.38	0.11	0.89	3.40	2.01	2.75

Note: The 2011 figures are for net purchases in the first three months of the year only. Includes all investments in Slovenia by non-residents, in both listed and unlisted securities.
ISDSs: issued Slovenian debt securities
ISEs: issued Slovenian equities
Sources: CSCC, Bank of Slovenia, SORS, own calculations

Exposure to debt securities from euro area periphery countries

At the end of February 2011, Slovenian residents held EUR 374.2 million in debt securities from Portugal, Ireland, Greece and Spain, representing 6.9% of the entire stock of their investments in foreign debt securities. Slovenian residents reduced their investments in debt securities from the periphery countries by 52.5% in year-on-year terms, and are continuing to reduce them because of the debt problems in these countries. In part this is the result of a decline in the value of the securities, but it is also partly a withdrawal from highly indebted markets. Investments in the debt securities of other countries were up 6.2%. The largest investments in the debt securities of the periphery countries are in Spain (45.7% of the total) and Greece (26.9%).

The proportion of Slovenian residents' portfolio of debt securities accounted for by the periphery countries stood at 6.8% at the end of February 2011.

Table 4.7: Exposure of Slovenian sectors to the debt securities of the periphery countries at the end of February 2011 in EUR million

	Exposure to periphery countries, EUR million			Exposure to periphery countries as % investments		
Sector	Bank DS	Government DS	Other DS	Bank DS	Government DS	Other DS
Non-financial corporations	0.2	0.5	0.0	0.3	0.8	0.0
Banks and savings banks	49.6	118.8	6.5	1.5	3.7	0.2
Other financial intermediaries	0.0	1.7	2.7	0.0	1.2	2.0
Financial auxiliaries						
Insurance corporations and pension funds	38.0	90.4	57.3	2.0	4.8	3.0
Government	0.0	5.2	1.9	0.0	3.5	1.3
Households	0.5	0.8	0.2	0.8	1.3	0.4
Non-profit institutions					2.3	
Total	88.3	217.3	68.6	1.6	3.9	1.2

Note: DS: debt securities
Source: Bank of Slovenia

The banking and insurance sectors were the most exposed to debt securities from the euro area periphery countries in February 2011.

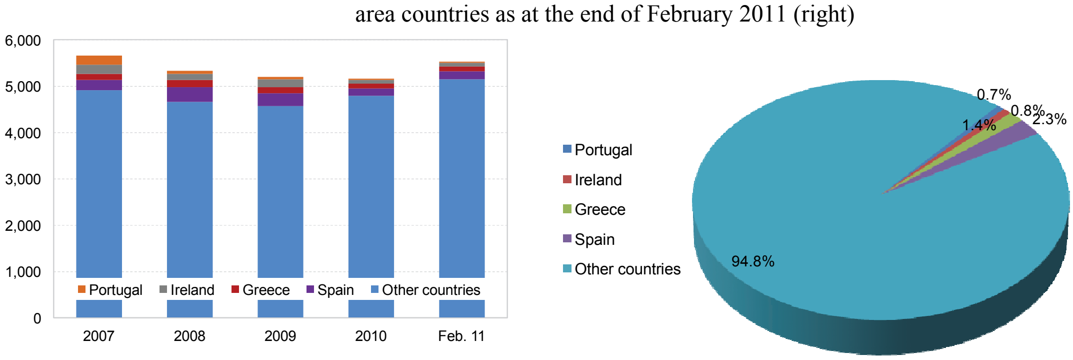
The banking and insurance sectors held the largest proportions of Slovenian residents' investments in the debt securities of Portugal, Ireland, Greece and Spain in February 2011, at 46.7% and 49.6% respectively. The banking and insurance sectors are also prevalent in the euro area overall. Due to the conservative nature of the investments of these institutions, the breakdown of investments was primarily weighted towards government and bank bonds, which account for 81.7% of total investments in the debt securities of the periphery countries. Government bonds from the periphery countries account for 5.9% of the banking system's portfolio of debt securities, while bank bonds account for 4.4%. The equivalent figures for the insurance sector were 13.5% for government bonds and 6.2% for bank bonds. The banking sector's investments were unevenly distributed across the periphery countries. Spain accounted for 45.6% of the banking sector's investments of EUR 174.9 million in the debt securities of the periphery countries, while Greece accounted for 26.6%. The proportion accounted for by banks bonds was highest in Spain, at 79.4%, while the proportion accounted for by government bonds was highest in Greece, at 39.1%. The insurance sector invested EUR 185.6 million in debt securities, which was also unevenly distributed among the periphery countries: 47.8% in Spain, 28% in Greece, 23.3% in Ireland and 0.9% in Portugal.

Table 4.8: Exposure of Slovenian sectors to the debt securities of issuers in the euro area and other countries at the end of February 2011

	Euro area DS, EUR million			DS of other countries, EUR million		
Sector	Bank DS	Government DS	Other DS	Bank DS	Government DS	Other DS
Non-financial corporations	16		37	2		5
Banks and savings banks	811	1,877	39	323	131	44
Other financial intermediaries	13	11	70	11	3	25
Financial auxiliaries						
Insurance corporations and pension funds	426	482	403	189	190	205
Government	21	32	42	18	23	15
Households	18	2	23	6	3	6
Non-profit institutions			1			
Total	1,304	2,404	615	549	349	300

Note: DS: debt securities.
Source: Bank of Slovenia

Figure 4.16: Regional percentage breakdown of residents' investments in the periphery countries and other countries in EUR million (left) and regional percentage breakdown of the Slovenian banking system's investments in bank and government bonds from the periphery countries and other euro area countries as at the end of February 2011 (right)



Source: Bank of Slovenia

5 BANKING SECTOR

5.1 Structural features of the banking sector

Banking sector size and changes of status

A total of 25 credit institutions operated in Slovenia in 2010. There is no consolidation process in the Slovenian banking sector.

There were 19 banks, three savings banks and three branches of foreign banks operating in Slovenia at the end of 2010. The total number of credit institutions was unchanged from the previous year. The consolidation of banking systems in EU Member States was intensive in 2005 and 2006, but has continued at a slower pace during the financial turmoil. In contrast, Slovenia has not witnessed a consolidation in the banking sector, as the total number of credit institutions has remained constant since 2004 at 25. Consolidation was not stimulated by typical factors such as an increase in the value of shareholders' assets and changes in the environment, i.e. financial integration in the EU and technological changes. Likewise, the consolidation process was not stimulated last year by the sharp deterioration in operating results, the stagnation in lending, the contraction in total assets or by the diminishing capital adequacy of the Slovenian banking sector. The effects of consolidation within the Slovenian banking system, in particular operational synergies in the form of cost reduction and financial synergies through a reduction in the costs of equity, would likely improve the position of certain credit institutions. The reasons behind deteriorating operations and changing conditions in the long-term demand the comprehensive adaptation of the banks' business strategies. Ownership consolidation should be included if this could give rise to an increase in the volume of lending, improved risk management and greater capital strength.

The Bank of Slovenia confirmed notifications from 18 credit institutions and two special financial institutions in 2010, for a total of 302 credit institutions and 34 special financial institutions.

The banking system's total assets stood at slightly less than 140% of GDP at the end of 2010.

Banks remain the most important financial intermediaries, while the proportion of savings banks remains negligible. The banks had total assets of EUR 50.3 billion in December 2010, while those of savings banks stood at EUR 441 million. The banking system's total assets thus stood at 140% of GDP.[18] The total assets of banks and savings banks as a percentage of GDP were down, as a result of decline in total assets in nominal terms.

The banking system's total assets were down EUR 1,292 million or 2.5%, the first time a decrease has been recorded since the rehabilitation of two banks in the mid-1990s. The highest growth, of nearly 29%, was recorded for the second consecutive year by SID banka, as a result of government-guaranteed borrowing on the international financial market. SID banka lends the funds it raises to the banking and household sectors.

Table 5.1: Total assets of banks compared with GDP

	2006	2007	2008	2009	2010
Total assets, EUR million	33,868	42,343	47,628	51,612	50,319
GDP (current prices), EUR million	31,050	34,569	37,304	35,385	36,062
Total assets as % of GDP	109.1	122.5	127.7	145.9	139.5
Ratio of growth in loans to non-banking sectors to GDP growth	3.3	3.4	2.3	…	0.8
No. of bank employees	11,707	11,868	12,046	11,933	11,935

Note: The ratio of growth in lending to growth in GDP in 2009 is not shown owing to the negative GDP growth.
Source: Bank of Slovenia

Bank ownership

Ten banks were under majority domestic ownership at the end of 2010.

There were eight subsidiary banks and three branches of foreign banks operating in Slovenia at the end of 2010. One bank was under full domestic ownership, while nine banks were under majority domestic ownership. The proportion of equity held by non-residents was up 0.5 percentage points in 2010 to stand at 37.1%, of which the proportion held by non-residents with equity holdings exceeding 50% stood at 27.9%. The proportion of the Slovenian banking system held by non-residents in

[18] The total assets of banks as a percentage of GDP averaged 333% in the euro area in 2009 and 357% in EU Member States.

terms of total assets at the end of 2010 was 1.2 percentage points higher than in terms of equity. Government ownership as measured by equity fell slightly last year, to stand at 20% at the end of last year.

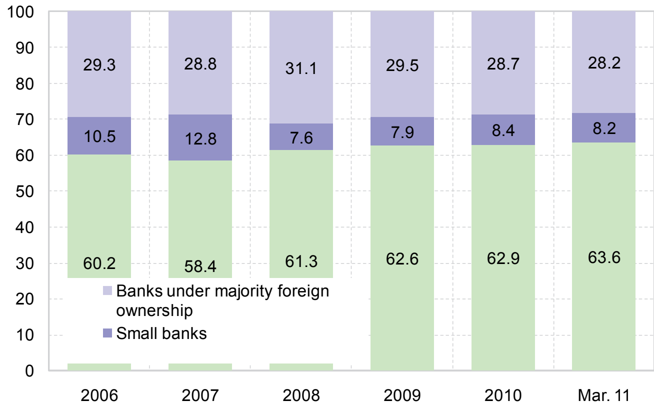
Table 5.2: Ownership structure of the banking sector (in terms of equity)

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

Source: Bank of Slovenia

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

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



Source: Bank of Slovenia

Concentration in the banking sector

Market concentration in the banking system diminished in 2010, but remains higher the euro area average.

Market concentration diminished in 2010, both in terms of liabilities to non-banking sectors and in terms of lending. Concentration in Slovenia remains higher than the euro area average, although that gap, as measured by the Herfindahl-Hirschman index, narrowed again in 2010. The market share of the five largest banks was 3 percentage points higher than the unweighted euro area average for 2009.

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

	2006	2007	2008	2009	2010	Change 2010/2009
	Herfindahl-Hirschman index					
Total assets	1,342	1,313	1,292	1,282	1,169	-113
Total assets (euro area)	634	659	687	663		
unweighted	1022	1,032	1091	1076		
Loans to non-banking sectors	1,232	1,214	1,231	1,179	1,138	-41
Liabilities to non-banking sectors	1,434	1,477	1,619	1,630	1,516	-114
Liabilities to banks	1,236	1,170	1,229	1,054	1,260	206
	Market share of top 3 banks, %					(percentage points)
Total assets	50.0	49.0	48.0	47.9	46.1	-2
Loans to non-banking sectors	48.0	47.0	46.6	46.0	46.3	0
Liabilities to non-banking sectors	54.0	54.2	56.6	56.5	55.2	-1
Liabilities to banks	48.0	41.4	36.4	46.2	54.3	8
	Market share of top 5 banks, %					(percentage points)
Total assets	62.7	59.9	59.4	60.1	59.8	-0.3
Total assets (euro area)	42.8	44.1	44.7	44.6		-45
unweighted	54.4	54.7	57.1	57		-57
Loans to non-banking sectors	61.3	58.4	59.3	58.7	59.4	0.7
Liabilities to non-banking sectors	66.7	65.8	65.7	68.8	67.8	-1.0
Liabilities to banks	61.4	50.9	51.2	61.3	68.3	7.0

Source: Bank of Slovenia, ECB: Report on EU Banking Structures, September 2010

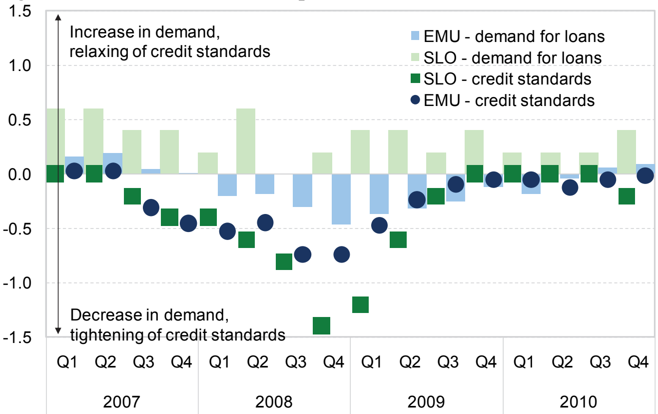
5.2 Banks' assessment of demand for loans and credit standards in Slovenia and the euro area[19]

Corporate loans

Demand for corporate loans was up slightly in 2010. The bank have maintained tightened credit standards.

The survey responses of the banks indicate a slight rise in demand for corporate loans. The rise in demand was even more evident owing to the adverse liquidity situation, but was dampened by high corporate indebtedness, as well as the slow economic recovery. Nevertheless, survey answers also reflect a portion of loan demand from corporates that was not creditworthy.

Figure 5.2: Demand for corporate loans and credit standards



Source: ECB, Bank of Slovenia

The banks maintained the relatively tight credit standards seen in 2008 and 2009 throughout most of 2010. Similar movements were seen in the euro area. Slovenian banks tightened credit standards slightly in the final quarter of last year. Survey responses indicate that funding costs, balance sheet limitations and competition were the main factors in maintaining tightened credit standards. Risks associated with individual sectors, collateral requirements and uncertainty regarding expected general

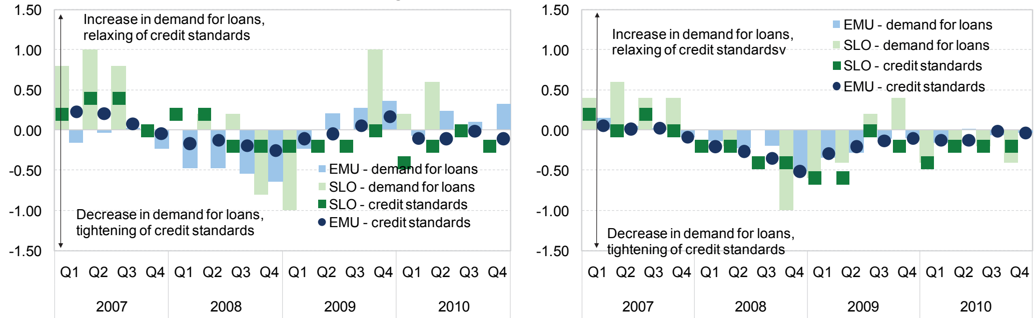
[19] Five Slovenian banks take part in the survey. Methodological limitations mean that the results for Slovenia and for the euro area as a whole are not directly comparable, and the substantive conclusions are less solid than in quantitative analyses.

economic activity could lead to the further tightening of credit standards. The additional tightening of collateral requirements was evident, but not a prevailing factor. To a lesser degree, the banks limited the scope of their lending activities and tightened other loan agreement provisions.

Loans to households

Household demand for housing loans rose until the middle of 2010. The banks' survey responses indicate a stagnation in this demand since that time. The banks tightened credit standards for housing loans in the first half of last year and in the final quarter. The tightening was the result of risks associated with general economic activity and with risks associated with developments on the housing market. Specific responses, which cannot be generalised for the banking system as a whole, indicate that the banks adapted to the changing situation by tightening collateral requirements for housing loans, and by raising premiums on higher-risk loans during the second half of the year.

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



Source: ECB, Bank of Slovenia

The banks stated a decline in purchases of durables as the reason for the slowing decline in demand for consumer loans, and the impact of the sustained economic crisis as another reason at the end of the year. A small number of banks responded to this last year by tightening credit standards for consumer loans and by tightening loan collateral requirements.

5.3 Changes in balance sheet structure

The banking system's total assets declined by 2.5% or EUR 1.3 billion in 2010.

The main factors in the last year's decline in the banking system's total assets were debt repayments to the ECB, declining government deposits and the continuing repayment of debt to banks in the rest of the world.

Debt repayments to banks in the rest of the world continued for the third consecutive year, reaching EUR 1.3 billion in 2010, down on the figure of EUR 3.1 billion in 2009. Having still compensated for the loss of funding in 2009 by increasing government deposits, these deposits were down in 2010. The stock of banks' debt to the Eurosystem was down sharply last year on account of the maturing of all three 12-month ECB operations. Growth in household deposits was down significantly on the years prior to the crisis. The largest increase, of EUR 1 billion, was seen in funding raised via the issue of securities. However, this source of bank funding was down one half on 2009.

Last year's increase in loans to non-banking sectors amounted to a mere EUR 540 million. Contributing most to the aforementioned increase was lending to households, while loans to non-financial corporations were down EUR 399 million. The banks continued to reduce their investments in securities, while their exposure to the interbank market was down relatively sharply. They thus adjusted the asset side of their balance sheets to the debt repayments on the liability side.

Table 5.4: Market shares and growth in total assets and loans to non-banking sectors by individual groups of banks in percentages

(%)	Market shares					Growth				
	2007	2008	2009	2010	Mar. 11	2007	2008	2009	2010	Mar. 11
Total assets										
large banks	61.5	61.3	62.6	62.9	63.5	26.5	7.7	10.8	-2.1	2.3
banks under majority foreign ownership	28.8	31.1	29.5	28.7	28.2	22.7	21.8	2.6	-5.1	0.4
small banks	9.8	7.6	7.9	8.4	8.2	22.0	18.2	12.8	3.9	3.0
overall	100	100	100	100	100	25.0	12.5	8.4	-2.5	1.8
Loans to non-banking sectors										
large banks	56.4	56.7	56.8	57.3	57.0	37.5	13.9	1.2	2.5	0.7
banks under majority foreign ownership	34.1	36.2	35.6	35.0	35.1	40.0	25.7	-0.5	0.0	-0.5
small banks	9.5	7.1	7.7	7.7	7.9	42.0	22.0	9.0	2.6	3.1
overall	100	100	100	100	100	38.6	18.5	1.1	1.6	0.5

Source: Bank of Slovenia

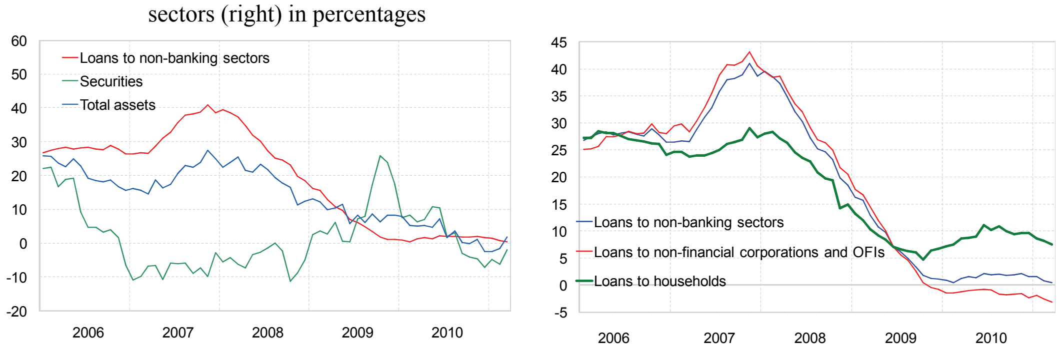
5.3.1 Major factors in the decline in lending growth

Bank lending to non-financial corporations continues to stagnate.

The continuing stagnation in the banks' corporate lending activity last year was the result of several factors: a) a high level of corporate indebtedness; b) low creditworthy corporate demand; c) the banks' tightened collateral and lending policies; and d) persistent relatively high premiums over reference interest rates. Taking into account the gross value of corporate loans (i.e. the value of corporate loans excluding impairments and value adjustments), growth in lending would have been positive in 2010, at 0.3%, and not -2% as it was in net terms. Instead of a recording a net decline of EUR 399 million, the banks would have recorded a gross increase of EUR 71.5 million. The level of bank funding in the rest of the world remained relatively limited in 2010, the banks having repaid more loans than they raised. In the absence of other forms of funding, this represented a significant limiting factor on the supply of loans by banks.

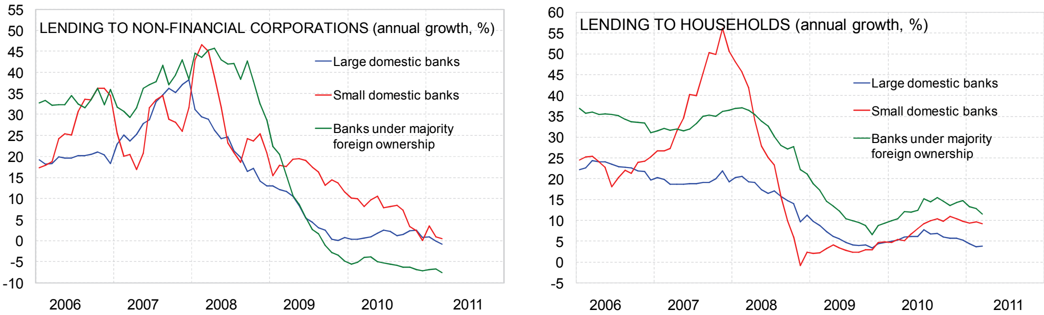
A decline in lending growth was characteristic of all bank groups last year. The domestic banks, however, recorded positive growth in loans to non-financial corporations, while growth at the banks under majority foreign ownership was negative throughout the year. The banks under majority foreign ownership reduced their lending to corporates, while recording above-average lending to households. The banks approved primarily new short-term loans to corporates, while long-term housing loans were prevalent among households. Growth in housing loans stood at 23% at the end of 2010, while the volume of consumer loans was down 2.3% last year.

Figure 5.4: Year-on-year growth in bank investments (left) and loans to non-banking sectors (right) in percentages



Source: Bank of Slovenia

Figure 5.5: Year-on-year growth in loans to non-financial corporations and households by bank group in percentages



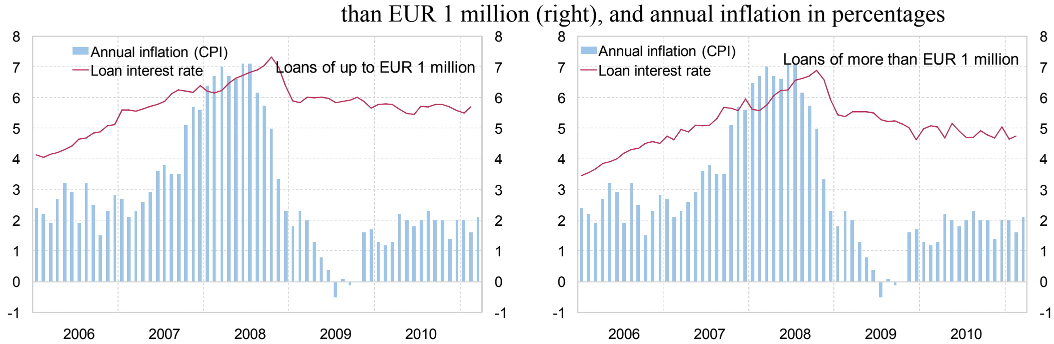
Source: Bank of Slovenia

Movement of interest rates and inflation as a factor of demand for loans

The real interest rate on corporate loans fell.

The real interest rate fell last year in the context of rising inflation and the relatively unchanged levels of nominal interest rates. The spread between the interest rate on corporate loans of up to EUR 1 million and inflation narrowed from 5 percentage points in 2009 to 3.9 percentage points, and from 4.4 percentage points to 3.1 percentage points on corporate loans of more than EUR 1 million. However, the narrowing of these spreads did not result in an increase in corporate lending.

Figure 5.6: Interest rates on corporate loans of up to EUR 1 million (left) and more than EUR 1 million (right), and annual inflation in percentages

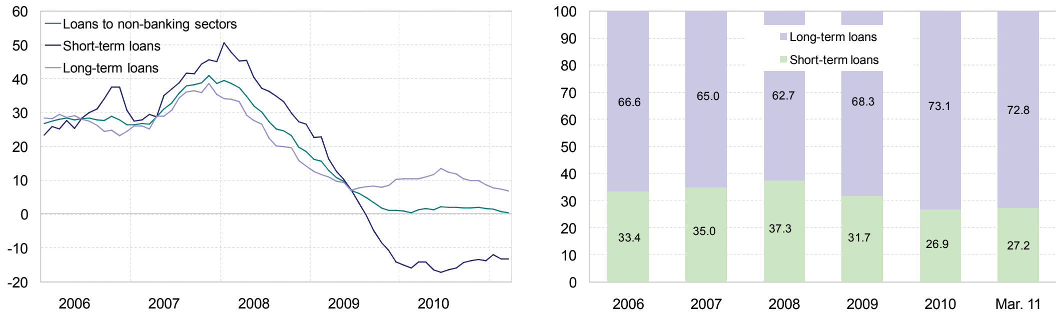


Source: Bank of Slovenia

5.3.2 Structure of assets

The trend of lengthening maturities on loans to non-banking sectors continued last year. The proportion of loans to non-banking sectors accounted for by long-term loans increased from 68.3% to 73.1%.

Figure 5.7: Year-on-year growth in loans to non-banking sectors by maturity, and percentage breakdown of loans to non-banking sectors by maturity



Source: Bank of Slovenia

Changes were seen in the loan maturity breakdown.

Similar to the previous year, the banks approved mainly short-term corporate loans in 2010. The volume of newly approved short-term loans was 2.5 times higher than that of newly approved long-term loans. However, the stock of short-term loans declined, as maturing loans exceeded the volume of newly approved loans. Year-on-year growth in bank loans to non-financial corporations was sharply negative. The proportion of long-term loans to non-banking sectors was up last year owing to the prevalence of long-term loans among loans to households. Worthy of note is the proportion of household loans accounted for by long-term loans, which stood at 80% at the end of the year. That proportion stood at two thirds for non-financial corporations at the end of 2010.

Foreign currency loans to non-banking sectors declined throughout the year, and accounted for merely 4.3% of all loans at the end of the year and 3.9% at the end of March 2011. The proportion of loans accounted for by foreign currency loans is highest in household loans, the figure standing at 10% at the end of the first quarter of this year. The same proportion is negligible, or just 1.6%, with respect to corporate loans.

Table 5.5: Structure of and growth in balance sheet items in the banking sector at year-end in percentages

						Growth, %				
	2007	2008	2009	2010	Mar. 11	2007	2008	2009	2010	Mar. 11
Total assets, EUR million	42,343	47,628	51,612	50,319	51,743	25.0	12.5	8.4	-2.5	1.8
Assets	Structure, %									
Cash	1.4	2.6	2.8	2.2	3.4	-42.9	105.9	17.0	-22.9	66.0
Loans to banks	9.6	8.5	11.1	9.6	10.0	32.8	-1.0	41.6	-15.7	4.0
Loans to non-banking sectors	66.8	70.4	65.7	68.5	67.3	38.6	18.5	1.1	1.6	0.5
corporate loans	40.2	42.5	39.1	39.3	40.1	37.8	18.8	-0.4	-2.0	-3.0
household loans	15.2	15.5	15.3	17.2	15.9	27.1	14.9	6.8	9.6	7.5
loans to government	1.1	1.1	1.4	2.3	1.5	-18.9	8.9	45.1	58.2	59.2
loans to others	10.3	11.3	9.9	9.7	9.9	80.7	23.4	-5.0	-4.9	-5.5
Financial assets/securities	18.2	15.3	17.2	16.4	17.2	-2.2	-5.7	21.9	-6.8	-1.4
of which government	10.1	8.6	9.9	8.9	9.4	57.5	-4.8	24.9	-12.4	-3.0
Capital investments	1.5	1.3	1.3	1.4	1.4	43.9	2.0	11.0	-0.8	-3.1
Other assets	2.4	1.9	1.9	1.9	2.0	2.5	-11.1	5.6	0.0	1.1
Liabilities										
Liabilities to Eurosystem	0.4	2.6	4.1	1.2	4.1	…	683.4	71.3	-72.3	-83.5
Liabilities to banks	37.6	38.1	30.9	30.2	30.2	47.5	13.9	-12.2	-4.5	-4.6
to foreign banks	34.0	33.8	25.2	23.3	24.3	42.5	11.7	-19.1	-10.0	-9.6
Liabilities to non-banking sectors	45.8	43.3	45.7	46.7	45.7	10.7	6.4	14.3	-0.3	8.1
to corporates	11.4	10.0	9.6	10.6	9.9	0.7	-1.0	3.8	7.4	5.4
to households	28.6	27.7	26.7	28.4	27.5	9.3	9.1	4.5	3.6	2.4
to government	3.6	3.9	7.7	6.0	6.7	35.6	22.9	114.9	-24.1	36.5
to others	2.2	1.6	1.6	1.7	1.6	78.8	-18.1	6.8	5.4	4.6
Liabilities from securities	2.3	2.6	6.7	8.9	6.9	-1.3	30.6	172.9	31.0	38.9
Other liabilities	1.6	1.3	1.1	1.3	1.2	…	…	…	…	44.1
Provisions	0.5	0.4	0.3	0.3	0.3	12.6	-15.4	-0.8	0.4	20.1
Subordinated liabilities	3.5	3.4	3.0	3.1	3.1	48.1	8.6	-2.9	2.2	0.5
Capital	8.4	8.4	8.3	8.2	8.5	25.2	12.4	7.5	-4.1	-4.7

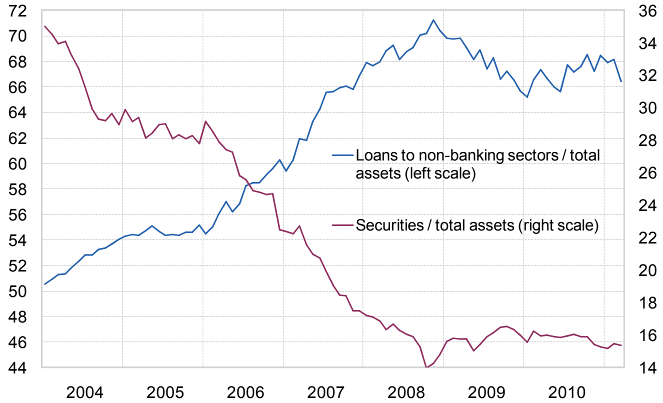
Note: The category of financial assets is wider than securities in methodological terms, and also includes available-for-sale loans and certain available-for-sale securities with the function of capital investments.

Source: Bank of Slovenia

The stock of securities was down EUR 590 million last year. However, the proportion of total assets accounted for by securities was little changed, having averaged slightly less than 16%. The banking system's claims against banks were also down, by EUR 0.9 billion. Despite low growth in lending, the proportion of total assets accounted for by loans to non-banking sectors was up 2.8 percentage points.

The proportion of loans to non-banking sectors was up 2.8 percentage points owing to a contraction in the banking system's total assets.

Figure 5.8: Proportion of total assets accounted for by lending to non-banking sectors and securities in percentages



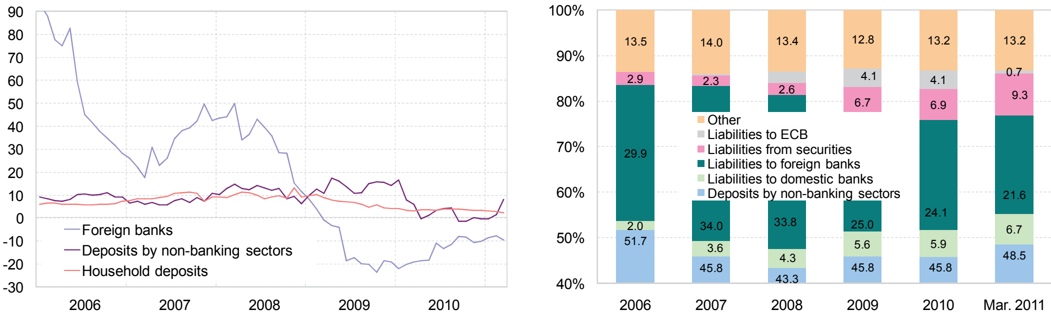
Source: Bank of Slovenia

5.3.3 Bank funding

Last year was characterised by debt repayments to the rest of the world, declining liabilities to the ECB and the gradual withdrawal of government deposits.

The banking system's stock of borrowings at banks in the rest of the world was down 10% at the end of last year. The banks made debt repayments of EUR 1.3 billion, compared with EUR 3.1 billion in 2009. The banks were no longer able to use government deposits to compensate for the loss of funding from the rest of the world, the government sector having gradually reduced its bank deposits by a total of EUR 0.96 billion. As expected, the banks reduced their liabilities to the Eurosystem from EUR 2.1 billion at the end of 2009 to EUR 0.58 billion at the end of 2010 owing to the maturing of 12-month longer-term refinancing operations. The banks only partly compensated for the loss of other funding by issuing debt securities. Three banks issued a total of EUR 1 billion in debt securities.

Figure 5.9: Growth in funding (left) and the breakdown of banks' funding (right) in percentages

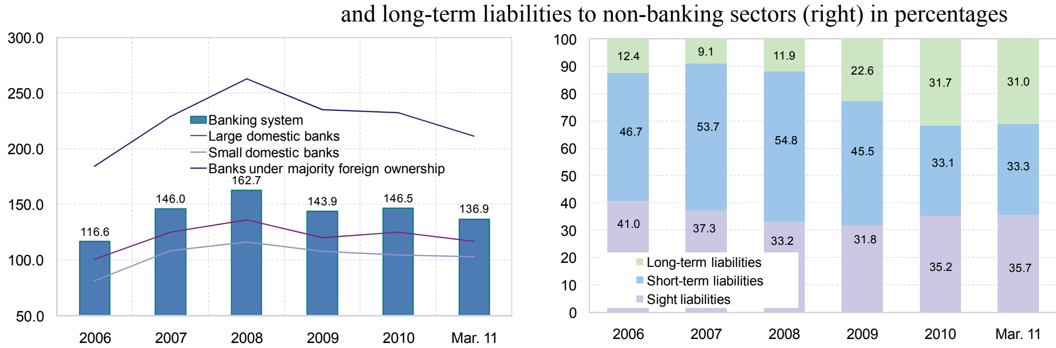


Source: Bank of Slovenia

Growth in household deposits was down on the pre-crisis levels.

Last year's increase in household deposits of EUR 490 million was down sharply on pre-crisis growth for the second consecutive year. The total deposits of non-banking sectors were down EUR 63 million last year, in the context of a diminished effect from other sectors, owing to the decline in government deposits. Restrictions on the funding side have also resulted in lower growth in lending to non-banking sectors.

Figure 5.10: Ratio of loans to non-banking sectors and deposits by non-banking sectors at year-end by bank group (left) and breakdown of banks' sight, short-term and long-term liabilities to non-banking sectors (right) in percentages



Source: Bank of Slovenia

The proportion of deposits by non-banking sectors accounted for by long-term deposits was up.

The proportion of deposits by non-banking sectors accounted for by long-term deposits was up last year, by 9 percentage points to 32%. That proportion was nearly 28% for household deposits. The majority of the increase in household deposits was accounted for by long-term deposits with maturities of between 1 and 2 years. Also contributing to the increase in the proportion of deposits by non-banking sectors accounted for by long-term deposits was an increase in government deposits with an original maturity of more than one year. The proportion of government deposits accounted for by long-term deposits was up last year, as the government mainly reduced deposits of shorter maturities. The proportion of total assets accounted for by deposits by non-banking sectors stood at 46.7% at the end of 2010, an increase of 1 percentage point.

The ratio of loans to non-banking sectors to deposits by non-banking sectors has declined in recent years.

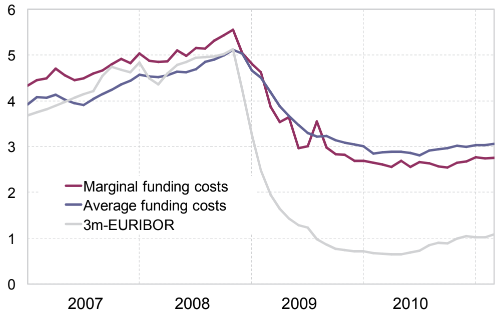
The ratio of loans to non-banking sectors to deposits by non-banking sectors has declined since 2008. The trend of decline in that ratio came to a halt last year. However the ratio remains high. Having stood at 163% at the peak of the credit cycle, it fell to 146.5% at the end of 2010. Contributing most to the improvement in that ratio over the last two years were increased government deposits, a large portion of which has remained in the banking system, despite last year's partial withdrawal. Excluding the effect of government deposits, the ratio would have stood at a high 168% at the end of 2010. The ratio of loans to non-banking sectors to deposits by non-banking sectors varies between individual bank groups. The highest ratio is recorded by the banks under majority foreign ownership, and the lowest by the small banks, although it still exceeds 100%.

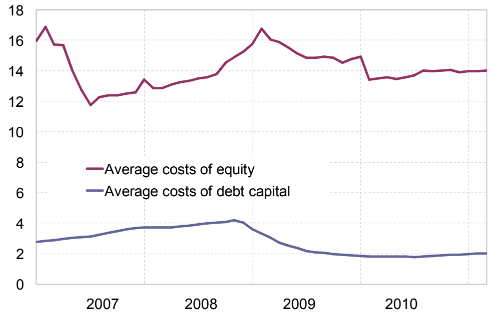
5.3.4 Costs of bank funding

Costs of bank funding have risen owing to rising market interest rates and changes in the structure of funding.

The banks' average funding costs stood at 3% at the end of February 2011, exceeding the lowest level recorded in June 2010 by 0.25 percentage points. The increase in funding costs was a result of rising market interest rates and an increase in the proportion of funding accounted for by relatively more expensive sources.[20] Since reaching its lowest level in June 2010, the 3-month EURIBOR had risen by more than 0.5 percentage points by March 2011. Market participants expect interest rates to continue rising. The proportion of bank funding accounted for by the least expensive funding obtained via the Eurosystem (which accounted for merely 0.9% at the end of February 2011) and the proportion accounted for by funds raised at banks in the rest of the world recorded the sharpest declines. Conversely, the proportion accounted for by the most expensive sources (deposits by non-banking sectors and the issuing of securities) was up.

Figure 5.11: Average and marginal funding costs of banks (left), and average costs of equity and debt capital (right) in percentages





Source: Bank of Slovenia

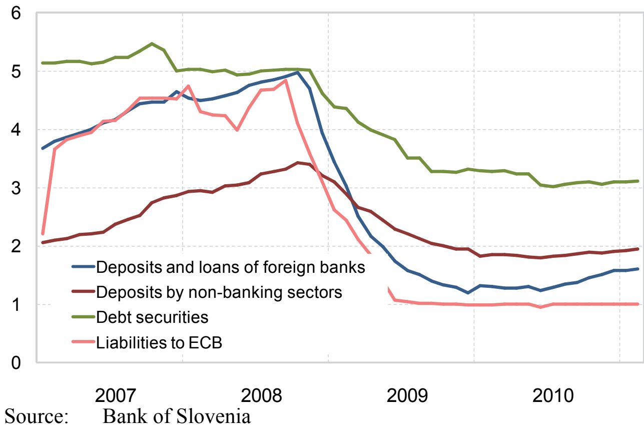
Equity is the most expensive form of funding, the average costs having fluctuated at around 14% last year. The average costs of debt financing rose by slightly less than one quarter of a percentage point between June last year and the end of February. At 3.1%, the most expensive form of debt financing remains the issue of securities, followed by funding via deposits by non-banking sectors, at around 2%, and funding raised at foreign banks at around 1.6%. The costs of Eurosystem sources stood at 1% last year. From June 2010, when funding costs reached their lowest level, until February 2011, the costs of all forms of debt financing rose, most notably liabilities to banks in the rest of the world, by 37 basis points, and deposits by non-banking sectors, by 16 basis points.

The domestic banks only partly compensated for relatively less expensive sources through the issue of securities.

Having risen significantly during the first year of the crisis, the funding of major Slovenian banks via the issue of debt securities was up EUR 1 billion last year. The government guarantee on securities, which was a temporary measure in force until the end of 2010, helped banks access relatively less expensive sources on the international markets through the issue of securities. The small domestic banks also used the government guarantee to borrow in the rest of the world to a lesser extent last year. The largest proportion of funding raised in the rest of the world was accounted for by the issue of securities by SID banka, the liabilities for which are indirectly guaranteed by the government. In the context of the crisis, the issue of bonds became a more important source than in the past for the banks under majority domestic ownership.

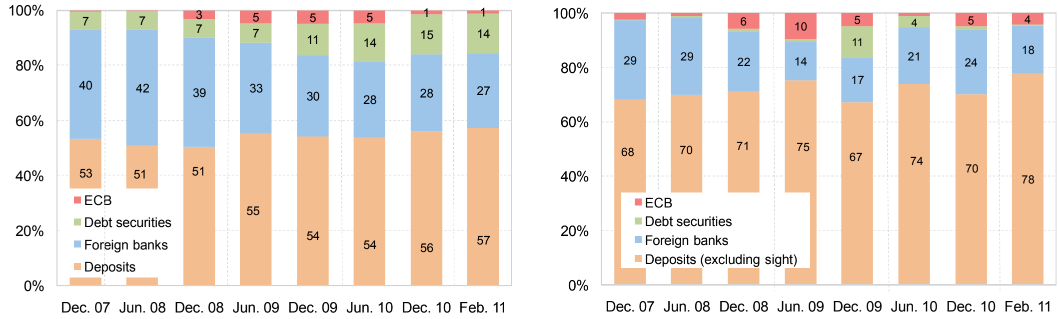
[20] The sources of bank funding taken into account in the calculation represent 93% of the banking system's total assets (February 2010). The banks' funding costs are calculated on a pre-tax basis. Costs of debt are calculated on the basis of the movement of interest rates on deposits by non-banking sectors, liabilities to the rest of the world (e.g. to banks in the form of loans and deposits, to the ECB and to other sectors) and debt securities (including subordinated debt securities). The costs of equity are estimated using a two-stage dividend discounting model for banks whose shares are listed on the Ljubljana Stock Exchange.

Figure 5.12: Average costs of bank's debt financing in percentages



Source: Bank of Slovenia

Figure 5.13: Structure of the stock of bank funding (left) and half-yearly and quarterly flows of debt financing (right) in percentages



Source: Bank of Slovenia

Differences in funding costs between bank groups[21]

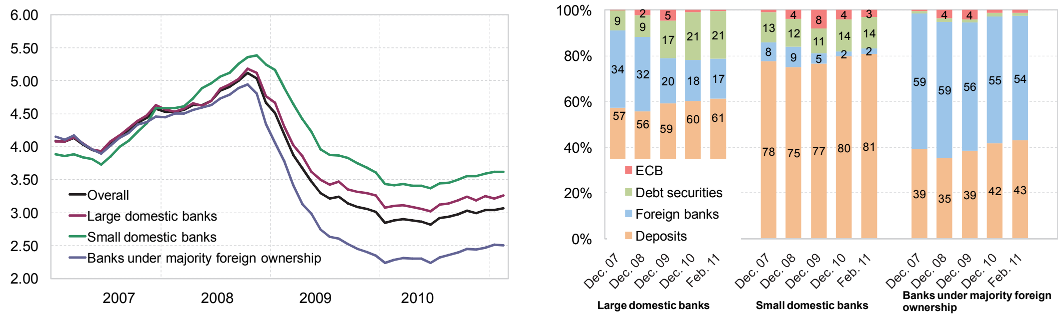
The banks under majority foreign ownership have the lowest funding costs owing to a more favourable structure of sources.

The banks under majority foreign ownership have the lowest average funding costs. These stood at 2.5% at the end of February 2011, followed by the large domestic banks at 3.3% and the small domestic banks at 3.6%. From June 2010 to the end of February 2011, interest rates rose by 24 basis points at both groups of domestic banks, and by 27 basis points at the banks under majority foreign ownership, which have the most favourable structure of funding in terms of costs, as nearly 50% of sources are from foreign banks. Having widened in the first year following the outbreak of the crisis, there were no significant changes in the differences in funding costs between individual bank groups. Because, following the outbreak of the crisis, the banks under majority domestic ownership found access to sources in the rest of the world more difficult and under less favourable conditions, their average funding costs remain higher than those of the banks under majority foreign ownership: the funding costs of the large domestic banks were 0.75 percentage points higher than the banks under majority foreign ownership in February 2011, while the costs of the small domestic banks were 1.1 percentage points higher.

The proportion of the domestic banks' total liabilities accounted for by liabilities to foreign banks has declined by 12 percentage points in the last year two years. Conversely, the proportion of funding accounted for by liabilities to foreign banks has risen by 11 percentage points in the last two years on account of the issue of securities. Despite the fact that the banks competed amongst themselves again last year via interest rates on deposits by non-banking sectors, the proportion of funding accounted for by deposits at the end of 2011 was up primarily owing to the repayment of sources, in particular liabilities to the Eurosystem.

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

Figure 5.14: Average funding costs (left) and the structure of the stock of debt financing by bank group (right) in percentages



Source: Bank of Slovenia

The banks under majority foreign ownership have the most favourable structure of funding.

The proportion of banks' funding accounted for by deposits by non-banking sectors was up. The differences in funding costs via deposits between the domestic banks and the banks under majority foreign ownership were unchanged last year. The average costs of deposits at the banks under majority foreign ownership were 52 basis points lower than at the large domestic banks, while marginal funding costs were 43 basis points lower.

Rising interest rates and a more unfavourable structure of funding could result in more expensive loans in the future.

Given the expectations of participants on the international financial markets, a sustained rise in bank funding costs can be expected. As no improvement is currently expected in the structure of bank funding costs (temporary ECB operations have been exhausted owing to their short-term nature, banks are borrowing less from banks in the rest of the world and the stock of domestic deposits by non-banking sectors is limited during the economic crisis), this will result in pressure to raise interest rates on loans.

Differences in the structure of funding by individual bank group

Table 5.6: Forms of funding as a proportion of total assets by individual bank group

(%)	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Banking system overall
	Liabilities to foreign banks			
2008	27.7	6.8	52.3	33.8
2009	16.8	3.5	48.9	25.2
2010	15.0	1.7	47.8	23.3
Mar. 2011	13.8	1.7	45.0	21.6
	Deposits by non-banking sectors			
2008	47.8	56.7	31.1	43.3
2009	49.6	59.2	33.7	45.7
2010	49.8	60.2	36.0	46.7
Mar. 2011	51.0	61.8	39.1	48.5
	Household deposits			
2008	32.0	30.6	18.6	27.7
2009	30.3	30.3	18.2	26.7
2010	31.4	31.7	20.9	28.4
Mar. 2011	30.1	32.4	20.7	27.7
	Government deposits			
2008	4.3	6.6	2.5	3.9
2009	8.7	10.9	4.7	7.7
2010	6.9	10.2	2.9	6.0
Mar. 2011	9.9	13.2	5.8	9.0
	Issued debt securities			
2008	3.5	6.4	0.0	2.6
2009	10.0	5.2	0.0	6.7
2010	13.2	7.8	0.0	8.9
Mar. 2011	13.7	7.7	0.0	9.3
	Liabilities to Eurosystem			
2008	2.1	3.0	3.3	2.6
2009	3.9	6.4	3.7	4.1
2010	0.9	3.1	1.2	1.2
Mar. 2011	0.4	2.1	0.8	0.7

Source: Bank of Slovenia

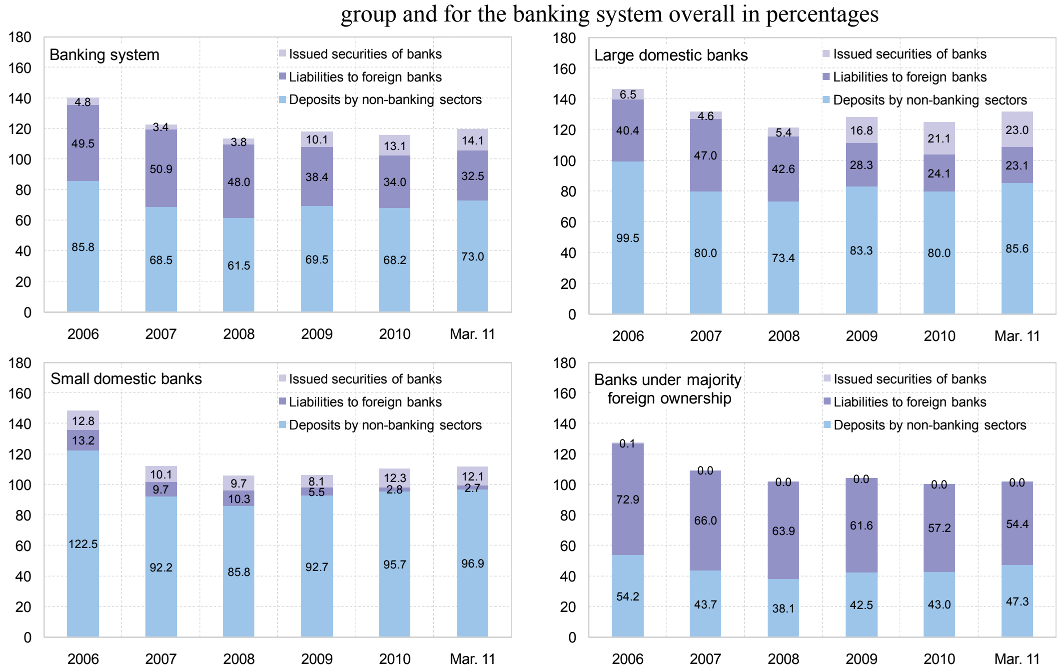
The proportion of total assets accounted for by bank funding raised on the wholesale market at the end of 2010 was comparable with the previous year. Securities issued and liabilities to banks in the rest of the world together accounted for around 32% of total assets, the same amount accounted for by just liabilities to foreign banks prior to the escalation of the financial turmoil. The proportion of total liabilities accounted for by securities has risen from 2.6% over the last three years to stand at nearly 9% at the end of 2010. The large domestic banks are most successful in this form of funding, with securities accounting for 13.2% of total liabilities.

5.3.5 Coverage of bank loans by sources of funding

The coverage of loans by deposits deteriorated slightly in 2010.

The coverage of loans by deposits by non-banking sectors deteriorated slightly in 2010, by 1.3 percentage points to 68.2%. In the context of the withdrawal of government deposits from banks, the main reason for this was the stagnation in lending activity. The coverage of loans by liabilities to foreign banks was down last year, while the coverage of loans by bank securities was up slightly.

Figure 5.15: Coverage of loans to non-banking sectors by various sources by bank group and for the banking system overall in percentages



Source: Bank of Slovenia

The different structure of funding between individual bank groups is reflected in differences in the coverage of loans by those sources.

The importance of individual forms of funding by individual bank group is reflected in the coverage of loans by deposits by non-banking sectors. At the end of 2010 coverage of loans to non-banking sectors by deposits by non-banking sectors stood at 80% at the large domestic banks, and 96% at the small domestic banks, while the figure at the banks under majority foreign ownership was merely 43%. The coverage of loans by foreign bank funding was slightly less than 25% at the large domestic banks, but was 57% at the banks under majority foreign ownership. At the end of last year the coverage of loans by issued securities stood at 21% at the large domestic banks and 12% at the small domestic banks. The banks under majority foreign ownership did not issue securities for funding purposes last year, as they are primarily funded directly by their parent banks.

Off-balance-sheet items and fiduciary operations

Year-on-year growth in off-balance-sheet items slowed sharply last year, by more than 20 percentage points to 9.9%. The ratio of off-balance-sheet items to the banking system's total assets was up slightly, to reach 218% at the end of 2010, owing to the negative growth in total assets. Guarantees received accounted for the majority (EUR 8 billion) of the nearly EUR 10 billion increase in off-balance-sheet items.

Table 5.7: Structure of and growth in off-balance-sheet items in the banking sector at year-end in percentages

	2007	2008	2009	2010	Mar. 11	Growth, % 2007	2008	2009	2010	Mar. 11
Off-balance sheet items, EUR million	68,843	76,185	99,637	109,540	112,837	39.2	10.7	30.8	9.9	12.0
	Breakdown, %									
Letters of credit	0.3	0.2	0.1	0.0	0.0	19.5	-37.1	-10.6	-74.4	-69.5
Guarantees and assets pledged as collateral	4.6	4.5	3.6	3.5	3.3	17.8	10.1	4.1	7.8	4.0
Assumed financial liabilities	7.6	5.8	4.4	3.4	3.2	30.1	-15.1	0.2	-16.2	-15.6
Derivatives	16.2	14.7	14.0	12.9	13.2	73.1	0.6	24.4	1.6	9.7
Depo and other securities records	12.0	7.6	6.4	4.3	4.4	24.2	-29.8	10.1	-26.6	-12.6
Records of written-off claims	0.2	0.2	0.2	0.2	0.2	18.6	34.4	-1.2	5.9	6.3
Other off-balance sheet items	59.3	67.0	71.3	75.7	75.7	38.5	25.1	39.2	16.7	16.5
warranties received	36.8	43.6	49.1	51.9	50.2	38.7	31.1	47.4	16.3	10.4
guarantees and government sureties received	2.0	3.0	3.2	4.0	4.0	21.1	65.2	42.5	37.2	34.3
other	20.5	20.4	18.9	19.7	21.5	40.0	10.3	21.1	14.4	30.1

Source: Bank of Slovenia

5.4 Profitability and performance indicators

The Slovenian banking system recorded a loss last year of EUR 101 million.

The performance of the banks deteriorated sharply last year on account of weak economic growth and the realisation of credit risk. According to unaudited figures, the banks generated a pre-tax loss of EUR 101.2 million in 2010. The banks' net interest income was up 11.3%, while net non-interest income was down 11.5%. A net loss on financial assets and liabilities held for trading resulted in the decline in net non-interest income. The banking system's gross income was up slightly last year. The impairments and provisions created in 2010 by the banks exceeded those created the previous year by EUR 810 million or 62%.

Table 5.8: Banking sector income statement

	Amount, EUR million 2009	2010	Mar. 11	Growth, % 2009	2010	Mar. 11	Ratio to gross income, % 2009	2010	Mar. 11
Net interest	932.2	1037.8	256.2	-1.3	11.3	-0.5	65.4	70.4	72.0
Net non-interest income	493.1	436.6	96.6	18.7	-11.5	-3.6	34.6	29.6	28.0
of which net fees and commissions	335.5	343.2	85.5	-1.2	2.3	1.9	23.5	23.3	23.5
of which net gain/loss on financial assets and liabilities held for trading	41.5	-48.5	2.7	…	…	…	2.9	-3.3	-7.1
Gross income	1425.3	1474.4	352.7	4.8	3.4	-1.4	100	100	100
Operating costs	765.2	765.9	181.6	-1.4	0.1	0.2	53.7	51.9	50.6
labour costs	415.5	413.3	103.2	0.8	-0.5	0.1	29.1	28.0	28.8
Net income	660.2	708.5	171.2	13.0	7.3	-3.0	46.3	48.1	49.4
net impairments and provisioning	499.6	809.7	126.2	79.8	62.1	12.5	35.1	54.9	31.4
of which impairments and provisioning at amortised cost	433.9	638.7	109.0	157.9	47.2	-2.1	30.4	43.3	31.1
Pre-tax profit	160.5	-101.2	45.0	-47.6	…	…	11.3	-6.9	18.0
corporate income tax	38.7	-3.1	8.3	-33.9	…	…	2.7	-0.2	3.4
Net profit	121.8	-98.1	36.7	-50.8	…	…	8.5	-6.7	14.6

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The proportion of the banking system's gross income accounted for by net interest is rising.

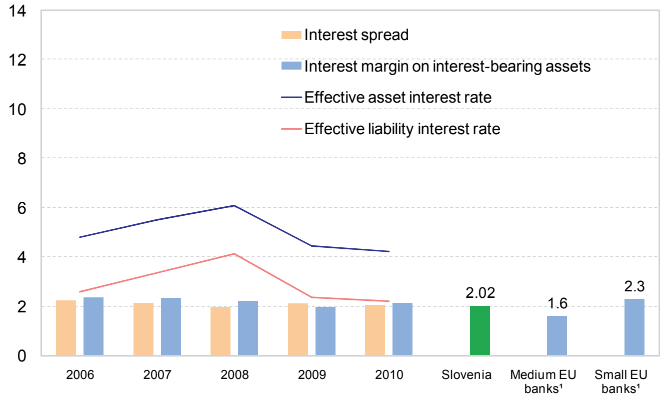
The proportion of gross income accounted for by net interest rose to 70.4% last year, owing to the decline in net non-interest income. The interest margin on interest-bearing assets rose to 2.13%, as a result of growth in net interest outstripping growth in interest-bearing assets. Net interest was up 11%, while growth in average gross interest-bearing assets was slightly less than 4%. The growth in net interest income was the result of a faster decline in interest expenses that in interest income. Growth in net interest income was positive last year at all the bank groups. The largest increase, of 19.5%, was recorded by the small domestic banks. All the bank groups recorded a decline in net non-interest income, the small domestic banks recording the largest decline of 22%. The highest proportion of gross income accounted for by net interest was recorded by the small domestic banks, at nearly 75%, while the highest proportion of net non-interest income was recorded by the large domestic banks, at 32%.

Table 5.9: Average effective asset and liability interest rates calculated from interest income and expenses, interest spread and net interest margin in percentages

(%)	2006	2007	2008	2009	2010
Average asset interest rate	4.81	5.51	6.09	4.45	4.23
Average liability interest rate	2.59	3.37	4.11	2.61	2.20
Effective interest rate spread	2.22	2.14	1.98	1.84	2.03
Net interest margin on interest-bearing assets	2.37	2.33	2.20	1.99	2.13

Source: Bank of Slovenia

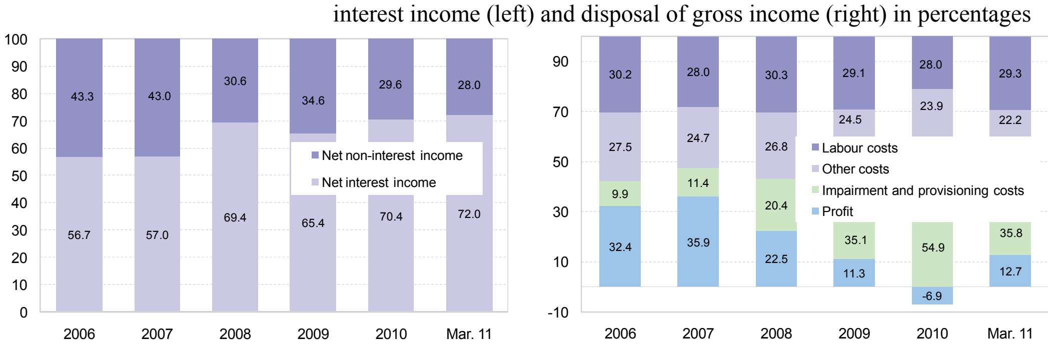
Figure 5.16: Average effective asset and liability interest rates calculated from interest income and expenses, interest spread and interest margin in percentages



Note: [1] The separate figures for the interest margin are for 2010 in Slovenia and for 2009 for EU Member States reporting under international accounting standards, and were calculated as the ratio of net interest income to total assets. The interest margin for EU banks was taken as the net interest margin for medium-sized banks and small banks.

Sources: Bank of Slovenia, EU Banking Sector Stability, September 2010

Figure 5.17: Proportion of banks' gross income accounted for by net interest and non-interest income (left) and disposal of gross income (right) in percentages



Source: Bank of Slovenia

High impairment and provisioning costs at the banks are a result of the persistently harsh economic conditions.

The main factor in the loss recorded by the banking system in 2010 was high impairment and provisioning costs, which reflected the deterioration in the structure of the banks' claims owing to the harsh economic conditions. The proportion of gross income accounted for by impairment and provisioning costs was up nearly 20 percentage points to stand at 54.9%. The proportion of the banking system's gross income accounted for by operating costs has declined only slowly in recent years, and still exceeds 50%.

There were no major shifts by individual bank group with respect to the proportion of the banking system's disposal of gross income accounted for by operating costs. The banks under majority foreign ownership recorded a slight decline (of just over 4 percentage points) in the proportion of income accounted for by operating costs, to 53.2%, and still have the highest such proportion. All bank groups saw a sharp increase in impairment and provisioning costs in 2010: by 67% at the large domestic banks, by 62% at the banks under majority foreign ownership and by 25% at the small domestic banks.

Bank performance indicators deteriorated.

The banking system recorded a negative ROE of 2.4%, owing to the loss it generated. The interest margin on total assets rose to 2.13%, while the interest margin on interest-bearing assets fell to 0.85%.

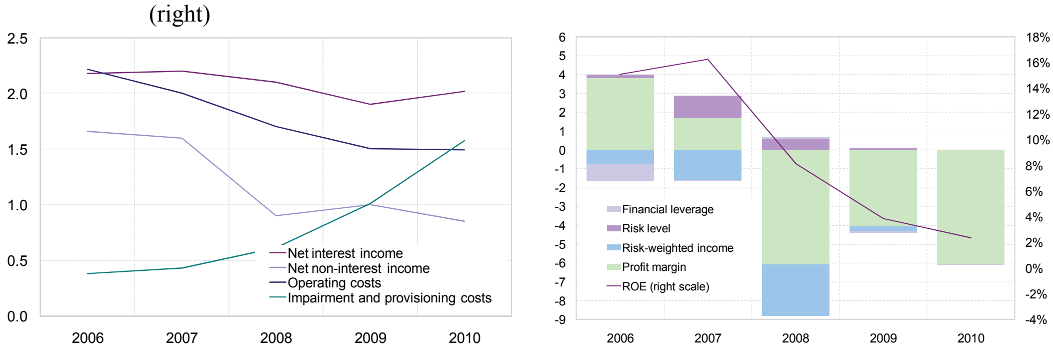
Table 5.10: Bank performance indicators in percentages

(%)	2006	2007	2008	2009	2010
ROA	1.25	1.36	0.67	0.32	-0.20
ROE	15.06	16.28	8.14	3.85	-2.36
Costs / gross income	57.76	52.75	57.05	53.68	51.95
Interest margin on interest-bearing assets	2.35	2.32	2.20	1.99	2.13
Interest margin on total assets	2.18	2.15	2.08	1.88	2.02
Non-interest margin	1.67	1.63	0.92	0.99	0.85
Gross income / average assets	3.85	3.78	3.00	2.87	2.87

Source: Bank of Slovenia

The financial intermediation margin was relatively similar at the two bank groups in 2010. It stood at 2.84% at the domestic banks, and at 2.97% at the banks under majority foreign ownership. In 2010 the domestic banks operated with a slightly lower interest margin, at 1.96%, than the banks under majority foreign ownership, at 2.18%. The ratios of operating costs to average assets stood at 1.58% at the banks under majority foreign ownership and 1.46% at the domestic banks.

Figure 5.18: Net interest income, net non-interest income, operating costs and net provisioning as a percentage of average assets (right), and movement in ROE and impact of four factors on the direction of the movement in ROE (right)



Source: Bank of Slovenia

The movement of the banks' ROE can be analysed by breaking down profitability into four components: profit margin, risk-weighted income, risk level and financial leverage.

A lower profit margin contributed significantly to last year's decline in the banking system's profitability, while the contribution of other components to the increase or decrease in profitability was negligible. The negative profit margin thus resulted in a considerable decline in the banking system's profitability.

Table 5.11: Breakdown of ROE into four factors

Year	Profit margin: pre-tax profit / gross income	*	Risk-weighted income: gross income / risk-weighted assets	*	Risk level: risk-weighted assets / total assets	*	Financial leverage: total assets / equity	=	Profitability: ROE
2006	0.32		0.06		0.66		12.12		0.151
2007	0.36		0.05		0.71		12.05		0.163
2008	0.23		0.04		0.77		12.17		0.081
2009	0.11		0.04		0.78		11.91		0.039
2010	-0.07		0.04		0.78		11.99		-0.024

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5.5 Risks in the banking sector

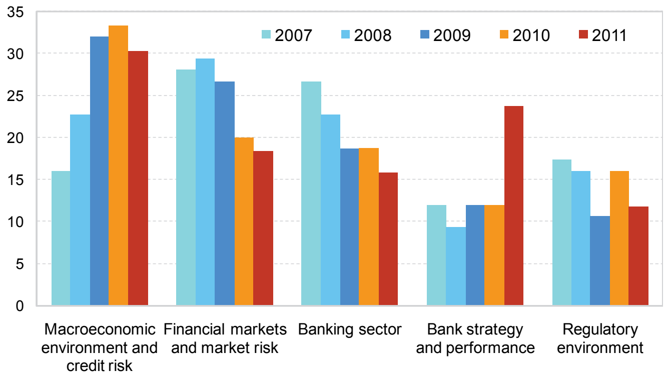
Survey of risks in the banking sector

The banks assess that macroeconomic risks will be joined in the coming year by the risk of changing bank strategies.

The banks' exposure to specific types of risk in the current year is assessed on the basis of survey responses provided by the various bank groups. The survey results indicate a significant increase in the risks associated with bank strategies, as other risks diminish. The banks provide a number of factors to explain this phenomena, the main factor being concerns owing to the efficiency of operations. They also state reputation risk, which is noteworthy but not prevalent, among other risks.

Before the banks lies a period of strategic adaptation in conditions dominated by the need for capital increases, a continuation of weak corporate results and a slow economic recovery. Risks associated with the macroeconomic environment and credit risk are therefore prevalent, although credit risk is considerably more evident than the risks associated with the macroeconomic environment, and partly linked to risks on the real estate market. The banks assess that credit risk and risks associated with the situation on the real estate market will increase in 2011, and that the risks are relatively less worrisome owing to the economic situation in the international environment.

Figure 5.19: Results of 2007 to 2011 surveys on main origins of risk for the coming year in percentages



Source: Bank of Slovenia, annual bank surveys

The risks associated with the financial markets have diminished.

Risks associated with the financial markets have diminished according to this year's assessments, but remain third in terms of importance. The reasons given by the banks for this are expected changes in interest rates, while they also express a certain amount of concern with regard to access to funding, the liquidity of the markets and movements in exchange rates.

Downgrading of Slovenian banks

The ratings agency Moody's downgraded Slovenian banks last year owing to the deteriorating quality of the credit portfolio, declining capital adequacy and the uncertain economic recovery.

How and why Slovenian banks were downgraded in 2010 is illustrated using the example of the ratings agency Moody's.

In April 2010 Moody's downgraded the hybrid securities of NLB d.d., NKBM d.d. and Abanka Vipa d.d. as the result of changes to assumptions in Moody's assessments. Prior to the financial turmoil, assessments were based on the assumption that support provided by governments and central banks to troubled banks would benefit the holders of such instruments, which has not been seen in many cases during the turmoil.[22]

In June 2010 Moody's placed the ratings of [23]NLB d.d. (and one of its subsidiaries) and NKBM d.d. on review for a possible downgrade. The review is based on the worse than expected deterioration in the quality of the asset portfolio in the second half of 2009 and on continuing uncertainty about the economic recovery in Slovenia and the neighbouring markets on which the banks operate.[24]

[22] Source: http://www.moodys.com/viewresearchdoc.aspx?lang=en&cy=global&docid=PR_197897
[23] "deposit ratings" and "bank financial strength rating (BFSR)"
[24] Source: http://www.moodys.com/viewresearchdoc.aspx?lang=en&cy=global&docid=PR_200414

Three banks were downgraded in September 2010[25]:

- NLB d.d.'s deposit ratings were downgraded two notches to "A3/Prime-2" and its bank financial strength rating to "D+". All ratings carry a negative outlook. One of NLB d.d.'s subsidiaries was also downgraded.
- NKBM d.d.'s deposit ratings were downgraded two notches to "Baa1/Prime-2" and its bank financial strength rating to "D". All ratings carry a negative outlook.
- Abanka Vipa d.d.'s deposit ratings were downgraded one notch to "Baa1". Its bank financial strength rating was confirmed at "D+", while its short-term P-2 rating remained unchanged. All ratings carry a negative outlook.

The downgradings were driven by pressures from the business environment and the slow economic recovery following the recession of 2009, an increase in the number of corporate insolvencies and the resulting deterioration in the asset portfolio, and the sharp increase in impairments in the second half of 2010. Capital adequacy was assessed as appropriate. However, the banks' financial positions remain under severe pressure of a possible increase in the proportion of non-performing claims and the diminishing capacity of the banks to increase capital from profits. The likelihood of these conditions continuing was the reason for the negative outlook.

In January 2011 Moody's placed the deposit ratings and bank financial strength ratings of NLB d.d., NKBM d.d. and Abanka Vipa d.d. on review for possible downgrades.[26] The decision was based on weakness in the corporate sector, which is expected to cause a further deterioration in the quality of the banks' asset portfolio in the future. The decision was partly based on defaults by three major Slovenian corporate borrowers from the sectors of construction and holding companies. Moody's said it will assess in more detail the extent of further deterioration in the quality of assets at the three aforementioned banks and their needs for additional capital.

5.6 Liquidity risk and refinancing risk

The banks raised fewer loans under less favourable conditions last year owing to the tightening of funding conditions on the international financial markets. The banks made net debt repayments to the rest of the world last year in the amount of EUR 1.3 billion. The cumulative total of debt repayments from autumn 2008 to March 2011 reached EUR 5.5 billion.

The banks were no longer able to replace diminishing foreign funding with government deposits in 2010, as the government gradually withdrew its deposits from the banking system. The banks also reduced their liabilities to the Eurosystem by EUR 1.5 billion last year. The banks were unable to ensure lending growth with these short-term, temporary sources. The only increase seen was in the risk associated with the refinancing of the banks' liabilities at maturity.

The banks will be most exposed to refinancing risk over the next two years, when half of all liabilities to the rest of the world will mature.

The Slovenian banking system's liquidity risk in 2010, as measured by the first-bucket liquidity ratio, remained at the level of the previous year. While the banks were able to maintain the aforementioned ratio at a relatively high level, the second-bucket liquidity ratio was down notably. The banks responded to the decline in funding, in particular in the form of government deposits, and a reduction in liabilities to the Eurosystem by reducing the stock of securities, and thus secondary liquidity. The withdrawal of government deposits from the banking system was also a reason for the decline in coverage of loans to non-banking sectors by deposits by non-banking sectors. Also evident from liquidity ratios is the banks' debt repayments to the rest of the world. Despite a widening of the differences between individual banks, all banks disclosed satisfactory liquidity in 2010.

[25] Source: http://www.moodys.com/viewresearchdoc.aspx?lang=en&cy=global&docid=PR_205915
[26] Source: http://www.moodys.com/viewresearchdoc.aspx?lang=en&cy=global&docid=PR_213160

5.6.1 Impact of the instability on the financial markets on funding conditions in the rest of the world

Debt repayments to banks in the rest of the world

The banks made net repayments to banks in the rest of the world during for the second consecutive year in 2010.

The banks have been operating in conditions of significantly limited foreign funding for three years. The stock of newly raised loans in the rest of the world was down again last year. The banks made net debt repayments of EUR 1.3 billion in 2010 due to the maturing of loans. They were able to compensate for a portion of lost funding last year by issuing debt securities. By the end of February 2011 liabilities to foreign banks were down 9.6% in year-on-year terms to stand at 21.6% of the banking system's total assets. In 2010 the large domestic banks made the largest debt repayments to foreign banks, of EUR 701 million, followed by the banks under majority foreign ownership at EUR 533 million and the small domestic banks at EUR 70 million. The banks made additional debt repayments to the rest of world of EUR 555 million in the first quarter of this year.

The banks borrowed less in the rest of the world last year than the previous year.

Liabilities to foreign banks stood at EUR 14.5 billion in February 2011.[27] Similar to 2009, the majority (or nearly two thirds) of net funding in the rest of the world was generated by the banks under majority foreign ownership in the form of new transactions. Sources from their parent banks represent the primary form of funding for the banks under majority foreign ownership, although the stock of newly raised loans has also declined at this bank group during the financial turmoil.

The proportion of banks' short-term liabilities to foreign banks was comparable to last year, while the breakdown of maturities of up to 1 year was slightly less favourable.

At 22%, the proportion of liabilities to foreign banks with a maturity of up to 1 year in February 2011 was down on February 2010's figure of 23.5%.There was a slight change in the maturity breakdown in intervals of up to one year. The proportion accounted for by liabilities with a maturity of up to 6 months was up, while the proportion accounted for by liabilities with a maturity of between 6 months and 1 year was down. In February 2011 the proportion of debt with a maturity of up to 1 year was highest at the banks under majority foreign ownership (34.2%), up 4.7 percentage points on the previous year. That same proportion was down more than 6 percentage points at the large banks, at 11%. A total of 23.6% of the small banks' liabilities to foreign banks mature over the next 12 months.

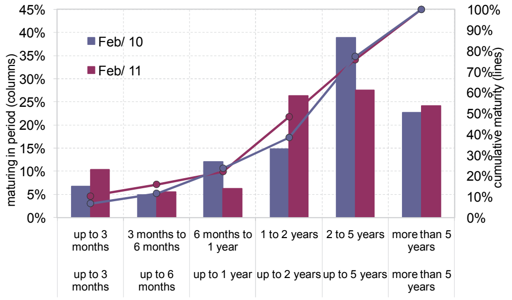
The majority of debt to the rest of the world is concentrated in the maturity interval of 1 to 2 years. Refinancing risk will therefore be most notable in 2010.

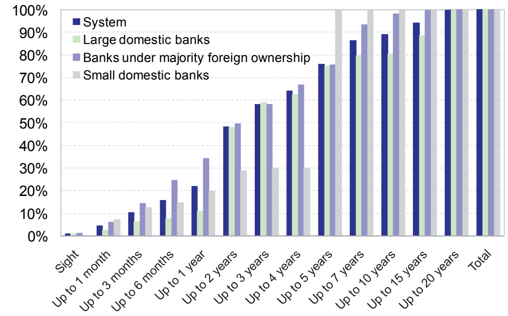
The decline in debt to the rest of the world was still fastest at the small domestic banks in early 2010, as three quarters of all liabilities to foreign banks in this bank group have a maturity of up to 1 year. The breakdown of liabilities to the rest of the world improved significantly last year with the issue of two medium-term bonds by two small banks. However, this type of liability is still a relatively negligible source of funding for this bank group compared with the other groups. Liabilities to the rest of the world and issued debt securities accounted for merely 9.4% of total assets in this bank group at the end of March 2011.

The proportion of liabilities in the maturity interval of 1 to 2 years was up last year owing to the maturity of two major bonds issued by two large domestic banks in 2009. Thus a total of 48% of the banks' debt to the rest of the world matures in the next two years. In February securities in the amount of EUR 2 billion and maturing in the second half of 2012 accounted for 13.9% of the banking system's total liabilities to the rest of the world, and 27% of the large domestic banks' total liabilities to the rest of the world. The majority of other debt securities totalling EUR 930 million in February will mature in four to five years. The proportion of liabilities in the maturity interval of 2 to 3 years was down on last year. One half of all liabilities to the rest of the world mature in the next two years at the large domestic banks and the banks under majority foreign ownership. In February 2010 the vast majority (78%) of the banking system's total liabilities to banks in the rest of the world still had maturities of more than 1 year, while nearly one quarter (24%) had maturities of more than 5 years.

[27] In addition to liabilities to the rest of the world from loans raised and deposits at foreign banks, the figure includes debt securities issued by banks in the rest of the world.

Figure 5.20: Maturing of liabilities to foreign banks by maturity interval (left) and bank group (right) in percentages





Source: Bank of Slovenia

Table 5.12: Current liabilities to foreign banks (loans, deposits and securities) and the maturity structure as at 28 February 2011 for the banking system and by bank group in percentages

	Cumulative maturing of liabilities to foreign banks				Breakdown of liabilities by maturity			
	System	Large domestic banks	Banks under majority foreign ownership	Small domestic banks	System	Large domestic banks	Banks under majority foreign ownership	Small domestic banks
Total, EUR million	14,468	7,409	6,803	256				
	Breakdown, %							
Overnight, sight	1.1	1.1	1.2	0.8	1.1	1.1	1.2	0.8
Up to 1 month	4.4	2.6	6.2	3.6	3.3	1.5	5.0	2.8
1 to 3 months	10.3	6.5	14.4	6.7	6.0	3.9	8.2	3.1
3 to 6 months	15.8	7.7	24.7	11.6	5.5	1.2	10.3	4.9
6 months to 1 year	22.0	10.9	34.2	23.6	6.2	3.2	9.5	12.0
1 to 2 years	48.3	48.0	49.5	38.4	26.3	37.1	15.2	14.9
2 to 3 years	58.1	59.0	58.2	67.2	9.7	11.0	8.7	28.7
3 to 4 years	64.0	62.6	66.8	70.3	5.9	3.6	8.7	3.1
4 to 5 years	75.8	75.0	75.8	77.3	11.8	12.4	9.0	7.0
5 to 7 years	86.5	79.7	93.5	88.7	10.7	4.6	17.7	11.4
7 to 10 years	89.3	80.6	98.3	92.8	2.7	0.9	4.8	4.1
10 to 15 years	94.1	88.6	100.0	94.6	4.9	8.0	1.7	1.7
15 to 20 years	99.9	99.7		100.0	5.7	11.1	0.0	5.4
More than 20 years	100.0	100.0			0.1	0.3		
Total					100.0	100.0	100.0	100.0

Source: Bank of Slovenia

The continuing financial turmoil was reflected last year in the relatively low stock of new loans raised in the rest of the world, compared with pre-crisis figures. The banks under majority domestic ownership reduced their stock of newly raised loans in the rest of the world by one quarter compared with 2009, while the banks under majority foreign ownership borrowed to a similar extent in the rest of the world.

Table 5.13: New loans of banks raised at foreign banks by maturity and currency

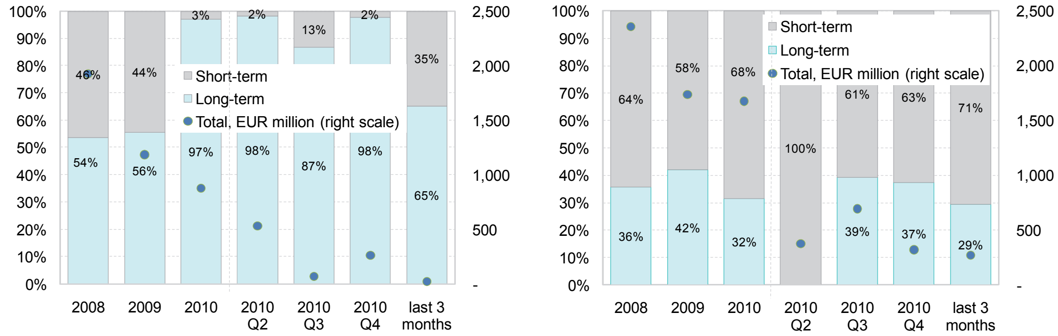
	Loans by maturity, EUR million			Breakdown by currency, %			
	Total	Short-term	Long-term	CHF	EUR	SIT	USD
2006	1,904.2	539.2	1,365.0	6.8	87.8	5.4	0.0
2007	5,304.8	1,877.8	3,426.9	8.2	91.5	-	0.3
2008	4,862.0	2,408.8	2,453.2	5.2	93.5	-	1.3
2009	2,924.8	1,536.4	1,388.5	11.2	88.8	-	0.0
2010	2,557.2	1,172.5	1,384.6	16.1	83.9	-	0.0
Q1 2010	292.1	145.9	146.1	25.9	74.1	-	0.0
Q2 2010	912.1	387.1	525.0	6.8	93.2	-	0.0
Q3 2010	766.3	431.8	334.5	19.6	80.4	-	0.0
Q4 2010	586.8	207.7	379.0	21.1	78.9	-	0.0

Source: Bank of Slovenia

There was no significant change in the maturity breakdown of the newly raised loans.

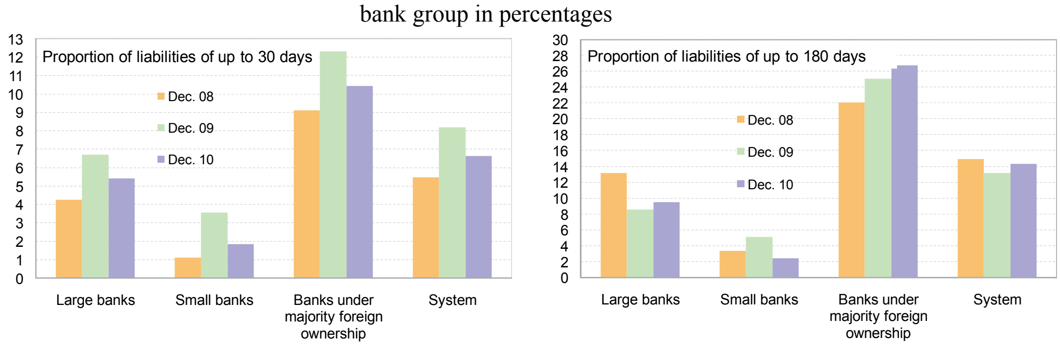
The stock of newly raised long-term loans was slightly higher than the stock of newly raised short-term loans in 2010. The stock of new loans raised in the rest of the world was down by 23.6% for short-term loans, and comparable with 2009 long-term loans. The domestic banks reduced their new short-term borrowings in the rest of the world by EUR 502 million to just EUR 25 million, while increasing their long-term borrowings by EUR 195 million to EUR 856 million. The banks under majority foreign ownership increased their short-term borrowings in the rest of the world by EUR 137 million to EUR 1,148 million, while reducing their new long-term borrowings by EUR 199 million to EUR 529 million. The banks under majority foreign ownership, which last year raised 66% of the banking system's new loans in the rest of the world, were primarily funded by raising new short-term loans.

Figure 5.21: Maturity breakdown of new loans for banks under domestic ownership (left) and banks under majority foreign ownership (right) in percentages



Source: Bank of Slovenia

Figure 5.22: Liabilities to foreign banks as a proportion of total liabilities with a residual maturity of up to 30 days (left) and up to 180 days (right), by bank group in percentages

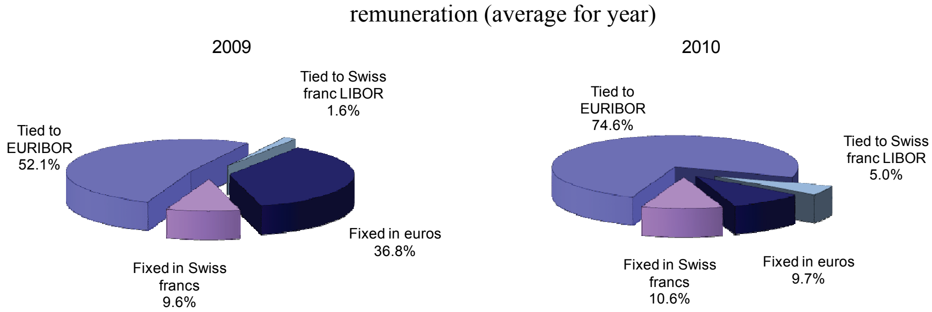


Source: Bank of Slovenia

The proportion of loans with a variable interest rate increased.

The breakdown of borrowing in the rest of the world by type of remuneration changed last year. The proportion of all new loans accounted for by euro loans raised by banks with a fixed interest rate fell to 9.7%, while the proportion accounted for by loans raised with a variable interest rate (tied to the EURIBOR) was up, these loans representing nearly three quarters of all new loans last year.

Figure 5.23: Breakdown of banks' new loans in the rest of the world by type of remuneration (average for year)

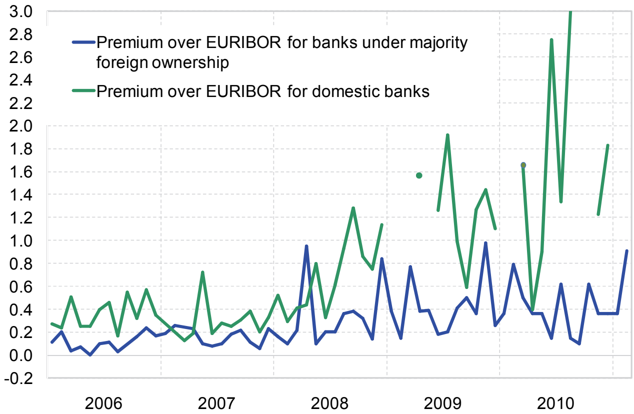


Source: Bank of Slovenia

Risk premiums over reference interest rates on loans raised in the rest of the world rose last year for the banks under majority domestic ownership, to 1.64 percentage points on average, compared with 1.27 percentage points in 2009. In their borrowing in the rest of the world, the banks under majority foreign ownership achieved an average premium over the EURIBOR of 0.39 percentage points in 2010, similar to the previous year when it stood at 0.41 percentage points. The banks under majority domestic ownership thus continued to borrow at less favourable terms in the rest of the world.

Risk premiums on borrowing in the rest of the world increased. The banks under majority domestic ownership borrowed at less favourable terms in the rest of the world.

Figure 5.24: Premium over the EURIBOR for banks' loans raised in the rest of the world, with regard to majority ownership, in percentage points



Source: Bank of Slovenia

Debt repayments by banks via Eurosystem instruments, declining government deposits and the impact of refinancing risk

The decline in bank refinancing last year resulted in a contraction in total assets. Having maintained growth in total assets (seen merely as an increase in the most liquid assets and the absence of corporate lending) over the first year and a half of the financial turmoil via short-term funds from the ECB and government, the banking system's total assets contracted in 2010 in the context of the repayment of 12-month LTROs at the ECB and the simultaneous withdrawal of government deposits. It was noted already in last year's Financial Stability Review that short-term sources do not represent a stable source of funding. Thus the banks are exposed to relatively high refinancing risk.

The banks only partly compensated for the loss of funding from the rest of the world by issuing debt securities.

Government deposits declined by EUR 960 million in 2010. The main source for last year's increase in deposits was the issue of bonds. The government issued two bonds, in January and March 2010, in the amount of EUR 2.5 billion, which was initially reflected in an increase in government deposits. The government, however, reduced its deposits over the next months. Government deposits declined to EUR 3,030 million by the end of 2010.

Government deposits were down EUR 0.96 billion last year, but up EUR 1.6 billion during the first quarter of this year owing to the issue of two government bonds.

Table 5.14: Maturing of banks' liabilities from deposits by the Slovenian Ministry of Finance placed at banks as at 4 April 2011

	Cumulative maturing of Ministry of Finance deposits			
(%, unless stated)	Large domestic banks	Banks under majority foreign ownership	Small domestic banks	System
Total, EUR million	2,236	435	582	3,254
Up to 3 months	17.6	17.9	54.1	24.2
3 to 6 months	19.2	21.8	71.3	28.9
6 months to 1 year	42.7	49.4	83.3	50.9
1 to 2 years	53.7	63.3	100.0	63.3
2 to 3 years	100.0	100.0		100.0
Total				

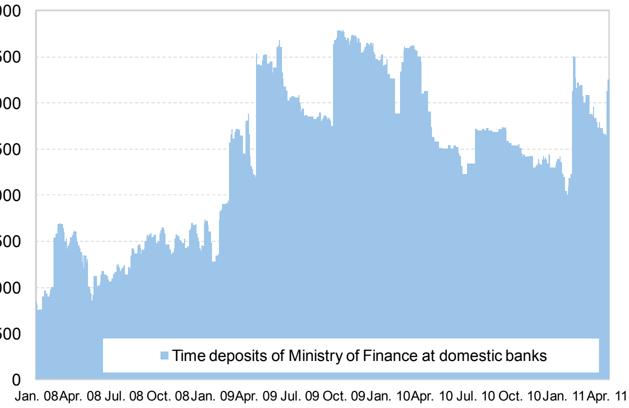
Source: Bank of Slovenia

The trend of declining government deposits came to a halt in January and March this year owing to the issue of two government bonds, each in the amount of EUR 1.5 billion. However, the maturity breakdown of debt was slightly less favourable in early April than last year.

The stock of government deposits declined in 2010.

The average stock of the Slovenian Ministry of Finance's deposits at the banks stood at EUR 2.7 billion in 2010, down on the average stock of the previous year of more than EUR 3 billion. Deposits by the Slovenian Ministry of Finance were down one third in year-on-year terms to stand at EUR 2.2 billion at the end of 2010. They rose again in the first quarter of 2011, when they exceeded EUR 3.2 billion. The government thus remains a significant depositor at banks, similar to periods before the outbreak of the turmoil. Its deposits accounted for 5.2% of the banking system's total assets in 2010, compared with 6.1% the previous year and less than 3% prior to the outbreak of the turmoil.

Figure 5.25: Stock of short-term deposits by the Slovenian Ministry of Finance at banks in EUR million



Source: Bank of Slovenia

A total of 29% (20% last year) of the banking system's debt or EUR 944 million matures over the next six months, 51% within one year (48% last year) and nearly two thirds (63% last year) within two years. The maturity breakdown of debt would be slightly less favourable had the government not extended a deposit at the beginning of April 2011 in the amount of EUR 1.2 billion for two years, until April 2014. The highest proportion of liabilities to the government (69%) is concentrated at the large domestic banks.

At the end of the first quarter of 2011 the proportion of liabilities accounted for by government deposits was highest at the small domestic banks (13.2%), followed by the large domestic banks (9.9%) and the banks under majority foreign ownership (6.8%).

5.6.2 Liquidity ratios

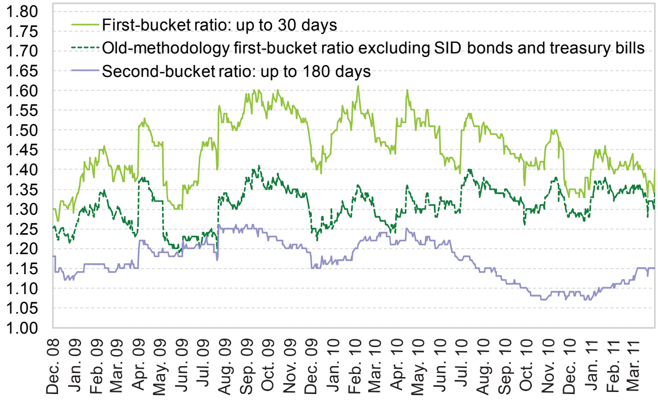
The first-bucket liquidity ratio remained at the average of the previous year in 2010.

The first-bucket liquidity ratio averaged 1.47 in 2010 up 0.01 on the previous year. The temporary decline in the ratio was primarily a result of the repayment of liabilities to the Eurosystem from 12-month LTROs. The value of the first-bucket liquidity ratio was down 0.06 in the first quarter of 2011 to stand at 1.41, mainly owing to the increase in government deposits resulting from the issue of two new government bonds.

The second-bucket liquidity ratio fell to its pre-crisis level.

There was a notable decline in the second-bucket liquidity ratio in 2010, which had fallen to 1.08 by early October, thus reaching its pre-crisis level. The reason for the decline was an increase in the liabilities used to calculate the aforementioned liquidity ratio, by EUR 1.9 billion, owing to the shortening of maturities on liabilities to banks and savings banks and deposits by non-banking sectors. Investments used to calculate the second-bucket liquidity ratio were also down, by EUR 1.1 billion.

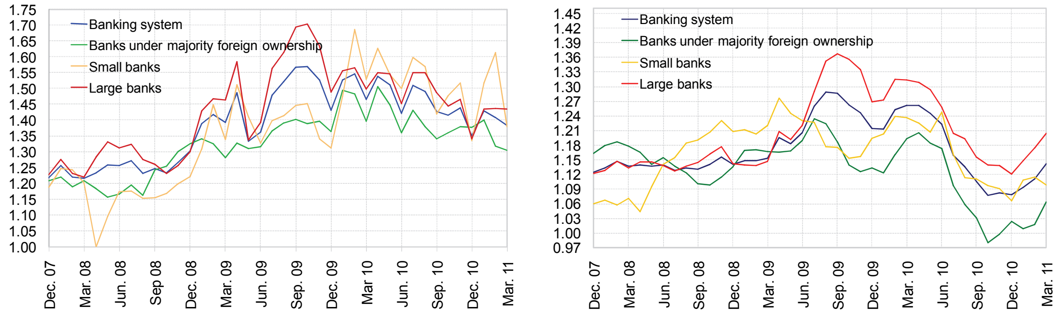
Figure 5.26: Daily liquidity ratios for first and second buckets of liquidity ladder



Source: Bank of Slovenia

The value of the first-bucket liquidity ratio was down at the large domestic banks, by 0.03 to 1.50, but was up at the other two bank groups, most notably at the small domestic banks, by 0.13 to stand at 1.52, and by 0.06 at the banks under majority foreign ownership to stand at 1.41.

Figure 5.27: Liquidity ratios for first bucket (0 to 30 days; left) and second bucket (0 to 180 days; right) of liquidity ladder by individual bank group, monthly averages

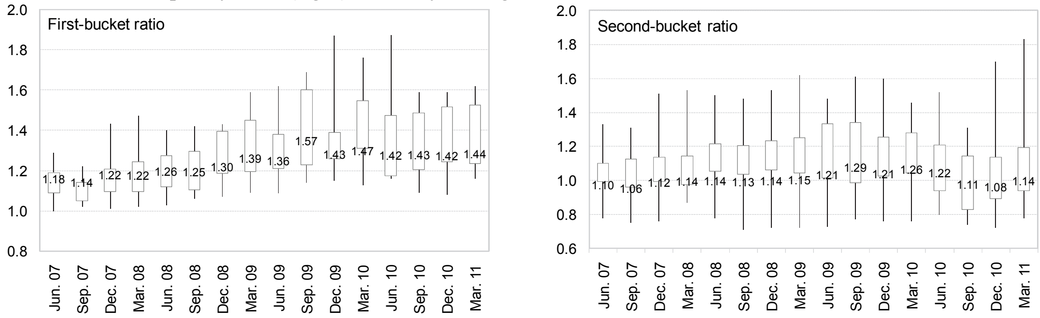


Source: Bank of Slovenia

Although the first-bucket liquidity ratio remains at a relatively high level, its distribution across individual banks remains wider than before the outbreak of the crisis. Despite the fact that the second-bucket liquidity ratio declined during the second half of last year, its distribution across individual banks likewise remains wide.

The distribution of ratios across individual banks remains wider than before the outbreak of the crisis.

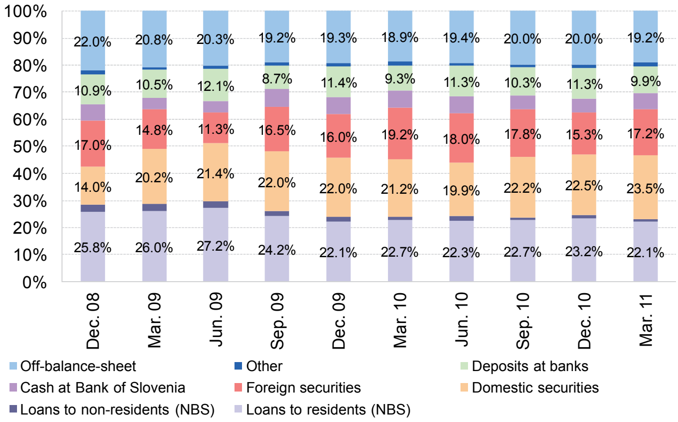
Figure 5.28: Distribution of first-bucket liquidity ratio (left) and second-bucket liquidity ratio (right), monthly averages



Source: Bank of Slovenia

There were structural changes in 2010 in investments included in the coverage of the ratio in the formation of the average first-bucket liquidity ratio. Total investments included in the calculation of the first-bucket liquidity ratio were down 7.6% on average last year to stand at EUR 17.6 billion. All asset categories contributed to the decline in absolute terms, most notably investments in domestic and foreign securities and banks' assets at the central bank.

Figure 5.29: Structure of assets taken into account in the calculation of the first-bucket liquidity ratio (with a residual maturity of up to 30 days) in percentages



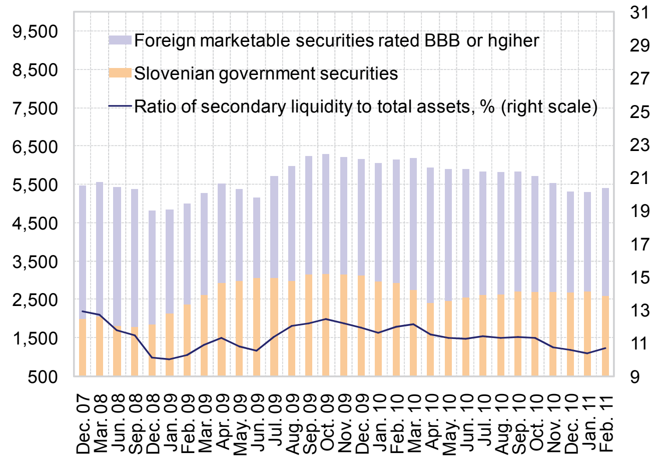
Source: Bank of Slovenia

5.6.3 Other liquidity indicators

The stock of banks' secondary liquidity was down in 2010.

The stock of secondary liquidity stood at EUR 5.3 billion at the end of 2010, down EUR 0.8 billion on the end of 2009. The banks responded to the decline in funding by reducing the stock of securities, and thus secondary liquidity. Despite the contraction in total assets, the proportion of total assets accounted for by secondary liquidity also declined to stand at 10.6% at the end of 2010, down 1.4 percentage points on the end of the previous year. The stock of secondary liquidity and the proportion of total assets it accounts for were down at all bank groups in 2010, most notably at the large domestic banks.

Figure 5.30: Changes in the amount of secondary liquidity (monthly averages in EUR million) and as a proportion of total assets in percentages



Note: Secondary liquidity is calculated from liquidity ladder data as the sum of the monthly average of Slovenian government securities (taking into account Bank of Slovenia bills up to March 2007 inclusive) and foreign marketable securities rated BBB or higher.
Source: Bank of Slovenia

5.7 Credit risk

The deterioration in the banking system's credit portfolio continued in 2010, and accelerated in the final months of the year. The banks were restrained in their lending to corporates, and shifted a portion of their investments to less-risky clients. In the context of a slow recovery in economic activity, the limited financing of non-financial corporations could act as an inhibiting factor to a more rapid recovery, investments and growth in profits. This, in turn, could contribute to further problems in the settlement of corporate liabilities to banks and the deterioration of this portion of the credit portfolio.

In the final months of 2010, corporates from the construction sector and holding companies, who have contributed an above-average share to the deterioration in the quality of the banking system's portfolio for two years, were joined by corporates from the sectors of wholesale and retail trade and professional, scientific and technical activities as those companies recording high growth in longer arrears. This could result in the deterioration of this portion of the portfolio in the coming months. Composition and bankruptcy proceedings initiated against large corporates in 2010 and 2011 have a significant impact on the operations and financial positions of small companies and sole traders, particularly those whose entire activity is linked to a single major business partner.

The banks have improved the coverage of their portfolio by collateral, particularly by real estate. Any significant redemption of collateral through the sale of real estate and the resulting drop in prices could mean additional requirements for the creation of impairments and a further decline in the banking system's profit.

5.7.1 Credit standards

Loan-to-income (LTI) ratio

The maximum LTI ratio was unchanged in 2010 at the majority of banks, and was actually up at two banks, resulting in an increase in the average LTI ratio.

The maximum LTI ratio was unchanged in 2010 at the majority of banks.

The banks were somewhat stricter in practice with regard to this ratio than they were in 2009. The proportion of newly approved housing loans on which the LTI ratio exceeds 33% was up in 2010, while the proportion of loans on which the LTI exceeds 50% was down. Both of the aforementioned proportions were down for consumers loans, indicating the tightening of approval terms for loans to households.

Table 5.15: Loan-to-income (LTI) ratio in percentages

	Average maximum LTI under bank's business policy	Actual proportion of newly approved housing loans with		Actual proportion of newly approved consumer loans with	
		LTI >= 33%	LTI >= 50%	LTI >= 33%	LTI >= 50%
2009	54.5	50.9	8.3	35.4	7.3
2010	55.1	51.6	8.0	27.7	4.7

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

Loan-to-value (LTV) ratio

The LTV ratio on loans with real estate collateral was down in 2010. The LTV ratio on corporate loans remains more favourable than on loans to households, although the former recorded the sharpest drop, from 71% in 2009 to 67% in 2010. The average LTV ratio on newly approved housing loans was 58%.

The LTV ratio on loans with real estate collateral declined.

Table 5.16: Average loan-to-value (LTV) ratio for loans with real estate collateral

	LTV for real estate collateral	
	2009	2010
Corporate loans	71.0	67.1
Non-housing loans to households	43.3	41.0
Housing loans	56.7	57.9

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

According to survey data, the banks loosened their requirements regarding the LTV ratio on loans with securities collateral compared with the previous year. However, the banks tightened approval terms for loans with securities collateral by requiring the submission of other forms of collateral.

The banks required additional collateral on loans with securities collateral.

Owing to negative developments on the domestic capital market, the amount of loans on which the LTV ratio exceeded internal requirements reached EUR 330 million, or 2.9% of all corporate loans,[28] an increase of 0.4 percentage points on 2009. The banks obtained additional collateral for around 40% of such loans.

Table 5.17: Average loan-to-value (LTV) ratio for loans with securities collateral

	LTV for securities / mutual funds units collateral, %		Loans whose LTV rose above the internally defined LTV in 2010		Loans for which banks obtained additional collateral in 2010	
	2009	2010	value, EUR million	proportion of all corporate loans, %	value, EUR million	proportion of all corporate loans, %
Corporate loans	99.2	107.1	330.2	2.9	128.7	1.1
Non-housing loans to households	94.1	69.0	6.2	0.2	1.4	0.0
Housing loans	29.6	65.2	2.8	0.1	0.0	0.0

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

5.7.2 Portfolio quality

High growth in the banks' non-performing claims continued in 2010.

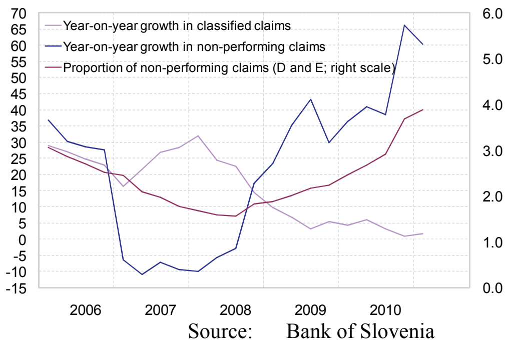
Growth in the banking system's classified claims has stagnated since the second half of 2009.The deterioration in the banking system's credit portfolio continued in 2010, and accelerated in the final months of the year. Non-performing claims (rate D and E) were up 66% in year-on-year terms in December 2010. The proportion of the banking system's total classified claims accounted for by non-performing claims had risen to 3.7% by the end of the year, a year-on-year increase of 1.4 percentage points.

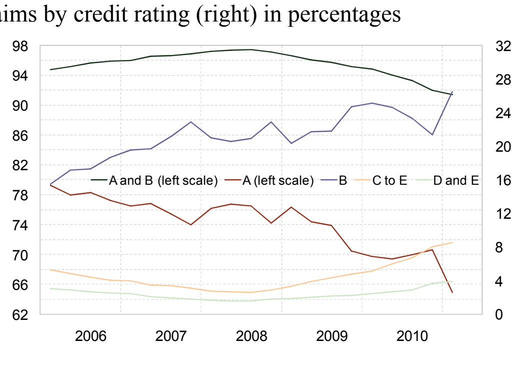
Further changes in the quality of the portfolio will depend on the speed of the recovery of clients' operations, particularly in the corporate sector. The banks' reluctance to lend to frequently over-indebted corporates in a pessimistic business environment leads to a deterioration in corporate financing conditions and restricts the scope of operations and investment. The renewal of maturing loans accounts for the majority of the banks' corporate lending activity, while the financing of increased export demand and new projects accounts for less. The result is a deterioration in corporate profitability and the ability of corporates to repay their debts to the banks. It also has an adverse effect on efforts to increase corporate capital.

The coverage of claims by impairments and provisions rose to 5.1% in February 2011.

The banks have created additional impairments and provisions owing to the deteriorating quality of claims. By the end of 2010 the stock of impairments and provisions was up 33% in year-on-year terms at EUR 2.4 billion. The coverage of classified claims by impairments was up on the previous year at 4.9%, and rose to 5.1% in the first two months of 2011.

Figure 5.31: Year-on-year growth in classified and non-performing claims (left) and the breakdown of claims by credit rating (right) in percentages

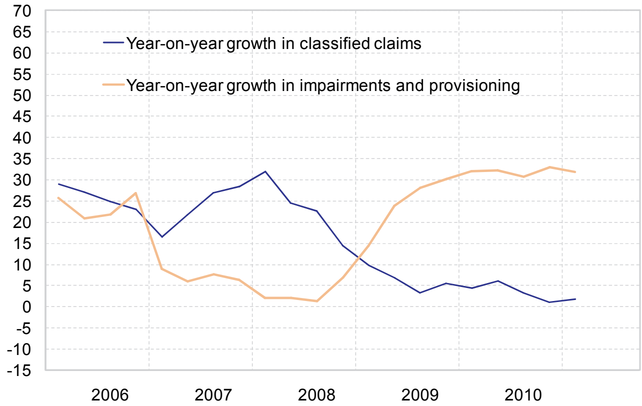




Source: Bank of Slovenia

[28]Only the stock of loans at those banks that provided such data in the survey is taken into account.

Figure 5.32: Year-on-year growth in classified claims compared with growth in impairments and provisions in percentages



Source: Bank of Slovenia

The proportion of classified claims accounted for by non-performing claims rose to 3.9% in February 2011.

Last year the banks downgraded 3.3% of classified claims from less risky claims (rated A and B) to higher-risk claims. The proportion of C rated claims was up, by 1.7 percentage points to 4.3%. A portion of this portfolio is likely to be downgraded in the coming period to lower ratings. The proportion of non-performing claims (rated D and E) rose by 1.4 percentage points during the year to stand at 3.7% at the end of 2010. Deterioration of the portfolio continued in the first two months of 2011, with a decline in the proportion of the highest rated claims (rated A) by 5.7 percentage points to 64.9%. The proportion of classified claims accounted for by non-performing claims rose to 3.9% in February 2011.

Table 5.18: Breakdown of classified claims and coverage of claims by impairments and provisions

	31 December 2009			31 December 2010			28 February 2011		
	Classified claims	Impairments	Coverage of claims by impairments, %	Classified claims	Impairments	Coverage of claims by impairments, %	Classified claims	Impairments	Coverage of claims by impairments, %
Total, EUR million	49,257	1,823	3.7	49,766	2,422	4.9	49,831	2,556	5.1
	Breakdown, %			Breakdown, %			Breakdown, %		
A	70.5	7.1	0.4	70.6	5.7	0.4	64.9	4.5	0.4
B	24.7	30.7	4.6	21.3	20.0	4.6	26.5	20.8	4.0
C	2.6	16.2	23.3	4.3	22.3	25.1	4.7	22.9	25.1
D	1.5	24.8	62.9	2.9	35.5	59.8	3.1	35.6	59.7
E	0.8	21.3	100.0	0.8	16.5	100.0	0.8	16.2	100.0

Source: Bank of Slovenia

The large domestic banks recorded the most significant deterioration in the assessed quality of the credit portfolio in 2009 and 2010.

The structure of the credit portfolio has deteriorated fastest over the last two years at the large domestic banks. These banks downgraded 3.2% of their portfolio from lower-risk claims (rated A and B) to higher-risk claims in 2010. Including 2009, 5.8% of the portfolio has been downgraded. The proportion of classified claims accounted for by non-performing claims rose to 4.1% in 2010. The downgrading of the portfolio to higher-risk claims intensified in the final quarter of 2010 and continued in the early months of 2011. The coverage of classified claims by impairments at the large domestic banks was up 1.3 percentage points to 5.3%, and rose to 5.6% by the end of February 2011. Contributing to the rapid deterioration in the quality of the portfolio at the large domestic banks was the higher-risk structure of clients, with a relatively high exposure to holding companies, large construction companies and specific major debtors compared with the other bank groups. Risk assessments of these customers were understated during the period of high lending growth, meaning that impairments created in the past were insufficient.

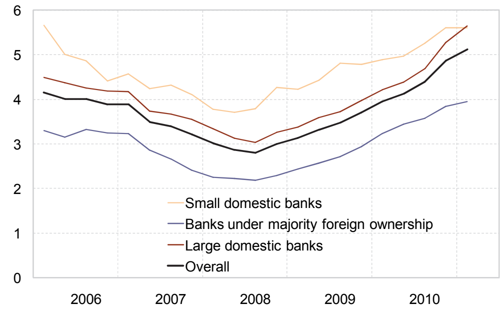
The quality of the small domestic banks' portfolio recorded the smallest relative change in 2010.

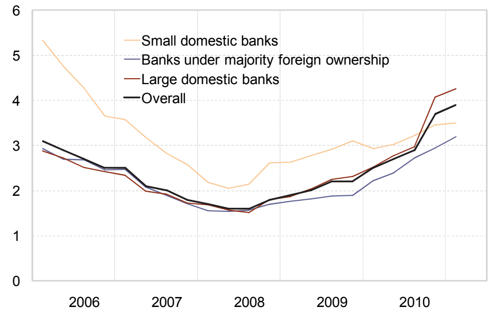
The deterioration in the quality of the portfolio was less notable at the small domestic banks in 2010 than in the other bank groups. This is partly the result of the higher level of conservatism at these banks, which disclosed the highest level of impairments and provision among the three banks groups during the favourable economic climate, and partly owing to the structure of the portfolio, which is less burdened by large insolvent corporates. The proportion of non-performing claims at the small domestic banks rose by 0.4 percentage points in 2010 to stand at 3.5%. The coverage of classified claims by impairments has risen slower than at the other bank groups, and remained at December's level of 5.6% in the early months of 2011. Future changes to the quality of the portfolio of the small domestic banks is largely dependent on the solvency of small corporates, which account for a relatively higher proportion of the portfolio in this bank group. In addition to the small banks' greater prudence in assessing the quality of clients, the structure of their portfolio also contributes to the higher level of impairments. Compared with the other bank groups, a relatively larger portion of their portfolio is accounted for by SMEs, which have been hit harder by the economic crisis than other groups of clients.

The deterioration in the quality of the credit portfolio accelerated at the banks under majority foreign ownership in 2010.

The deterioration of the credit portfolio of the banks under majority foreign ownership was notably faster than in 2009. Despite an increase in the proportion of non-performing claims by 1 percentage point, that proportion remains more favourable than in the other two groups, at 2.8%. Owing to the more favourable structure of its credit portfolio, with lower exposure to the highest-risk clients, impairments are lowest in relative terms at the banks under majority foreign ownership, at 3.8%.

Figure 5.33: Coverage of classified claims by impairments (left) and proportion of non-performing claims by bank group (right) in percentages





Source: Bank of Slovenia

The deterioration in the quality of the credit portfolio accounted for by non-financial corporations was above-average.

A significant deterioration in the quality of the portfolio accounted for by non-financial corporations had the greatest impact on the quality of the banking system's overall credit portfolio. The proportion of non-performing claims against non-financial corporations reached 4.7% at the end of 2010, compared with 2.7% at the end of 2009. The coverage of claims by impairments reached 6.6% in this group of clients. The sectors of financial intermediation, construction, professional, scientific and technical activities, and information and communication activities stand out in terms of the amount of impairments created and their year-on-year growth, which reached between 3.5 and 4 percentage points in individual sectors. These four sectors represent nearly 31% of the banking system's portfolio accounted for by non-financial corporations.

Table 5.19: Coverage of classified claims by impairments and non-performing claims of non-financial corporations by sector

	Impairments of classified claims, EUR million		Coverage of classified claims by impairments, %		Classified claims rated D and E		
					value, EUR million	as % of total classified claims	
	2009	2010	2009	2010		2009	2010
Agriculture, forestry, fishing, mining, quarrying	22	22	6.8	6.5	15	5.1	4.5
Manufacturing	343	371	5.3	5.8	265	3.4	4.1
Electricity, gas, water; remediation activities	10	14	1.0	1.4	5	0.1	0.5
Construction	155	297	4.9	8.6	241	2.3	7.0
Wholesale and retail trade	219	315	4.6	6.8	210	3.3	4.5
Transportation and storage	40	72	1.7	3.1	25	0.6	1.0
Accommodation and food service activities	28	31	4.1	4.5	20	3.0	2.9
Information and communication activities	27	51	4.0	7.7	14	1.3	2.1
Financial and insurance activities	130	169	7.6	11.2	158	2.7	10.5
Real estate activities	47	68	4.0	5.8	44	1.6	3.8
Professional, scientific and technical activities	123	205	5.8	9.8	151	3.9	7.2
Public services	13	15	3.1	3.3	7	0.8	1.5
Overall	1,158	1,629	4.7	6.6	1,156	2.7	4.7

Source: Bank of Slovenia

The banks approved loans totalling EUR 840.5 million on the basis of the guarantee scheme for corporate lending from July 2009 until the end of 2010, when the scheme was wound up. The large domestic banks approved nearly three quarters of the aforementioned loans, both in terms of number and value. Accordingly, the guarantee scheme for corporate lending had the greatest relative impact on the credit portfolio of this bank group.

The credit ratings of the borrowers stated in the table are those of corporates at the time they were included in the guarantee scheme. In terms of their impact on the deterioration of the portfolio, the most important borrowers are those rated C. In the scope of the corporate guarantee scheme, three quarters of C rated loans are concentrated at the large domestic banks.

Table 5.20: Corporate credit ratings, and the number and value of loans approved by banks on the basis of the guarantee scheme; balance as at 31 December 2010

Bank group	Rating	No. of loans	Proportion at group, %	Proportion of all banks, %	Loan value, EUR million	Proportion at group, %	Proportion of all banks, %
Large domestic banks	A	117.0	27.0	20.1	210.7	34.6	25.1
	B	233.0	53.7	40.1	286.0	46.9	34.0
	C	84.0	19.4	14.5	113.1	18.5	13.5
	Total	434.0	100.0	74.7	609.8	100.0	72.5
Small domestic banks	A	17.0	43.6	2.9	11.5	36.2	1.4
	B	11.0	28.2	1.9	9.6	30.1	1.1
	C	11.0	28.2	1.9	10.7	33.6	1.3
	Total	39.0	100.0	6.7	31.8	100.0	3.8
Banks under majority foreign ownership	A	29.0	26.9	5.0	132.6	66.7	15.8
	B	60.0	55.6	10.3	40.0	20.1	4.8
	C	19.0	17.6	3.3	26.4	13.3	3.1
	Total	108.0	100.0	18.6	199.0	100.0	23.7
Banking system	A	163.0	28.1		354.8	42.2	
	B	304.0	52.3		335.6	39.9	
	C	114.0	19.6		150.2	17.9	
	Total	581.0	100.0	100.0	840.5	100.0	100.0

Source: SID banka d.d.

The banks assessed households as less-risky clients with a trend of improvement.

The deterioration in the banking system's overall portfolio was least affected by changes in the portfolio of household loans. The proportion of claims against households by impairments was actually down by 0.2 percentage points at the end of 2010, at 3.4%. Since new clients typically mean an improvement in the quality of the credit portfolio, rapid growth in loans in 2010 also contributed to maintaining the low level of risk associated with households. The proportion of classified claims accounted for by A rated claims was up 5.4 percentage points in 2010 to stand at 94.1%.

At 3%, the banks under majority foreign ownership recorded the lowest coverage of claims against households by impairments in 2010. The decline in coverage at these banks was also above average in 2010, at 0.6 percentage points. The small domestic banks also revised their risk assessment of households downwards, from a high level of coverage by impairments of 6.1% to 5.3%.

Table 5.21: Breakdown of classified claims against households and coverage of claims by impairments and provisions

	31 December 2009			31 December 2010			28 February 2011		
	Classified claims	Impairments	Coverage of claims by impairments, %	Classified claims	Impairments	Coverage of claims by impairments, %	Classified claims	Impairments	Coverage of claims by impairments, %
Total, EUR million	8,411	300	3.6	9,187	312	3.4	9,170	315	3.4
	Breakdown, %			Breakdown, %			Breakdown, %		
A	88.6	17.8	0.7	94.1	16.0	0.6	93.8	16.0	0.6
B	7.6	5.0	2.3	1.7	2.5	5.0	2.0	2.7	4.7
C	1.0	8.1	28.7	1.3	12.1	30.5	1.3	12.0	30.9
D	1.1	22.2	70.0	1.5	28.3	64.3	1.4	27.2	65.3
E	1.7	47.0	100.0	1.4	41.1	100.0	1.4	42.1	100.0

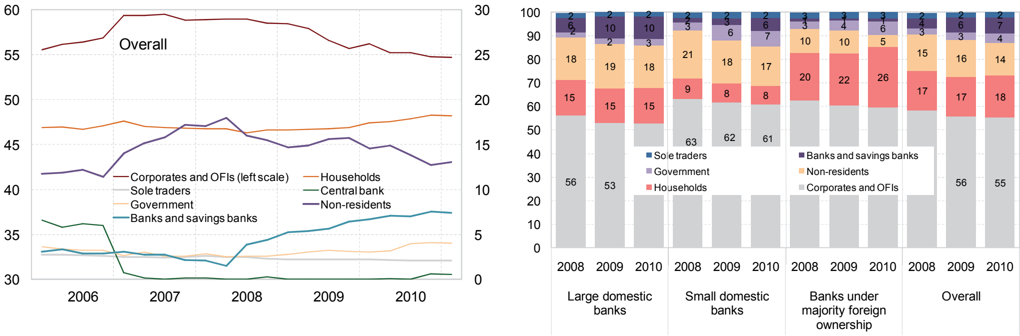
Source: Bank of Slovenia

5.7.3 Portfolio diversification

The bank have altered the structure of their portfolio with the aim of mitigating risks.

By varying their financing of individual client segments, the banks have altered the structure of their credit portfolios and reduced their exposure to higher-risk client segments. In the last two years there has been a notable decrease in the banks' exposure to non-residents and to non-financial corporations, which are considered higher-risk debtors. High growth in housing loans has increased the banking system's exposure to households, a lower-risk client segment. By approving loans to households for the purchase of housing, the banks are attempting to improve the liquidity of clients from the construction sector and thus improve their own risk structure. Similarly, by increasing their exposure to the government and central bank, a portion of their portfolio is being shifted to safer investments in terms of risk. At the same time, the banks have maintained the portion of their investments in the most liquid assets in order to ensure smooth current operations and the settlement of maturing liabilities.

Figure 5.34: Breakdown of classified claims by sector and total (left), and by bank group (right) in percentages



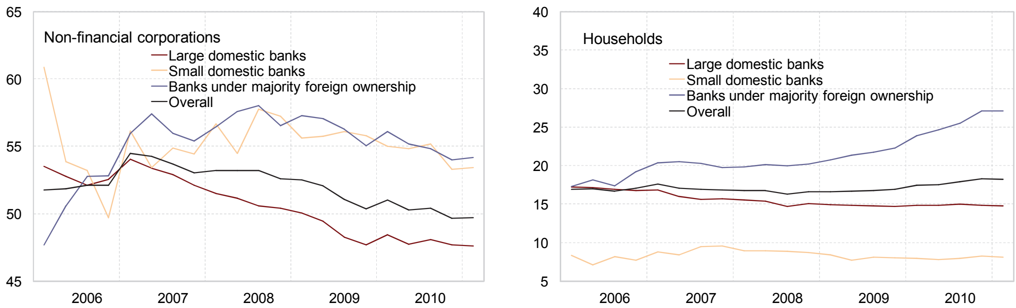
Source: Bank of Slovenia

The proportion of the portfolio of the banks under majority foreign ownership accounted for by households was up sharply at the expense of exposure to non-residents.

The most significant changes in the structure of clients occurred at the banks under majority foreign ownership. The proportion of their claims against households was up 4 percentage points in 2010 to 26%. Structural changes were achieved primarily by reducing the proportion of claims against non-residents, which were halved in 2010. Mainly claims against foreign financial organisations, otherwise considered less-risky investments, were reduced and a portion of these assets redirected to housing loans to households. A change in the portfolio of the banks under majority foreign ownership was also seen in 2009. These banks, however, have since reduced their proportion of investments accounted for by non-financial corporations by 3 percentage points.

Changes in the structure of the portfolio of the banks under majority domestic ownership were less severe than at the banks under majority foreign ownership, and less severe than the changes seen in 2009. Changes included a reduction in claims against foreign financial institutions and an increase in claims against the government and the Slovenian banking system. The proportion of classified claims accounted for by non-financial corporations has declined by 3 percentage points over the last two years at the large domestic banks, and by 2 percentage points at the small domestic banks.

Figure 5.35: Proportion of the banking system's classified claims accounted for by non-financial corporations (left) and households (right) by bank group in percentages



Source: Bank of Slovenia

The proportion of classified claims accounted for by the sectors of manufacturing, and wholesale and retail trade is declining.

The largest portion of the banking system's portfolio of non-financial corporations is accounted for by corporates from the sectors of manufacturing, and wholesale and retail trade. The banks did not respond to the early signs of economic recovery in the aforementioned sectors in 2010, the proportion of approved bank loans accounted for by these sectors having declined further. The restructuring of the banking system's portfolio of non-financial corporations in 2010 led to an increase in the proportion accounted for by the most indebted sectors, in particular the construction sector, and by the less-risky public services sector.

Prior to 2010 the small domestic banks were most exposed in relative terms to corporates from the construction sector. However that exposure has diminished to a level comparable with the large domestic banks, at 7.7% of total classified claims. The other two bank groups increased their exposure to the construction sector. Despite the aforementioned increase, the exposure of the banks under majority foreign ownership to the construction sector, at 5.9%, is lower than that of the domestic banks. All the bank groups recorded an increase in 2010 in the coverage of claims against the construction sector by impairments.

Table 5.22: Banks' classified claims against non-financial corporations by sector at year-end, structure and year-on-year growth, in EUR million and percentages

	Loans to non-financial corporations[1]				Classified claims against non-financial corporations					
	total, EUR million	increase, EUR million	breakdown, %		total, EUR million	breakdown, %	change in breakdown, percentage points		year-on-year growth, %	
	2010	2010	2009	2010	2010	2010	2009	2010	2009	2010
Agriculture, forestry, fishing, mining, quarrying	299	10	1.4	1.4	344	1.4	0.1	0.1	10.2	4.4
Manufacturing	5,626	22	26.7	26.6	6,461	25.8	0.2	-0.2	2.0	-0.9
Electricity, gas, water; remediation activities	663	44	2.9	3.1	989	3.9	0.7	0.0	25.1	1.2
Construction	2,491	226	10.8	11.8	3,439	13.7	0.7	1.1	7.0	8.8
Wholesale and retail trade	3,985	-4	19.0	18.8	4,748	18.9	-1.1	-0.3	-4.3	-1.5
Transportation and storage	2,191	86	10.0	10.4	2,379	9.5	0.8	0.2	10.9	2.1
Accommodation and food service activities	659	31	3.0	3.1	717	2.9	0.4	0.1	15.6	2.4
Information and communication activities	488	-11	2.4	2.3	665	2.7	0.0	-0.1	0.1	-2.8
Financial and insurance activities	1,438	-196	7.8	6.8	1,522	6.1	-2.1	-0.8	-22.8	-11.8
Real estate activities	1,118	-13	5.4	5.3	1,216	4.8	0.1	-0.1	2.4	-1.4
Professional, scientific and technical activities	1,785	-64	8.8	8.4	2,125	8.5	0.0	-0.1	1.4	-1.5
Public services	426	28	1.9	2.0	477	1.9	0.2	0.2	12.2	9.5
Total	21,169	160	100.0	100.0	25,083	100.0			1.1	0.0

Note: [1] Loans are in gross amounts, excluding impairments.
Source: Bank of Slovenia

All bank groups noted an increase in risks associated with corporates from the sector of wholesale and retail trade, and responded by reducing their exposure to these companies and by recording an above-average increase in the coverage of claims against this sector by impairments. Similarly, all bank groups have shifted away from the manufacturing sector, without increasing their impairments significantly.

The banks noted increased risks associated with corporates from the sectors of information and communication activities, and professional, scientific and technical activities for which the increase in coverage by impairments was above-average. The banks, however, have not withdrawn from these sectors. The aforementioned sectors are among those with the highest coverage of claims by impairments.

Table 5.23: Breakdown and average risk (coverage of claims by impairments) of rated claims at the end of 2010 by bank group in percentages

	Breakdown, %				Coverage of classified claims by impairments, %			
	Banking sector	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Banking sector	Large domestic banks	Small domestic banks	Banks under majority foreign ownership
Agriculture, forestry, fishing, mining, quarrying	0.7	0.7	1.0	0.8	6.5	7.8	6.6	3.8
Manufacturing	13.4	13.4	12.5	13.5	5.9	6.6	7.0	4.0
Electricity, gas, water; remediation activities	2.0	1.8	1.5	2.6	1.5	1.2	3.0	1.6
Construction	7.2	7.8	7.7	5.9	8.8	9.9	7.9	6.0
Wholesale and retail trade	9.7	8.2	12.3	12.2	6.9	7.4	8.8	5.5
Transportation and storage	5.0	4.9	1.2	6.3	3.3	3.3	7.6	3.2
Accommodation and food service activities	1.6	1.5	1.0	2.0	5.1	5.7	7.0	3.9
Information and communication activities	1.4	1.4	0.8	1.3	7.8	9.3	5.7	4.5
Financial and insurance activities	17.0	19.9	17.4	10.4	3.4	3.4	4.3	3.3
Real estate activities	2.4	2.0	3.0	3.2	5.9	6.8	5.5	4.9
Professional, scientific and technical activities	4.4	3.7	7.7	5.1	9.6	10.1	11.0	8.2
Public services	4.0	3.4	7.5	4.4	1.1	1.3	0.6	0.9
Households	18.1	14.9	8.3	27.6	3.4	3.7	5.3	3.0
Sole traders	0.2	0.1	1.1	0.1	9.2	16.0	3.9	11.5
Foreign non-financial institutions	8.3	10.6	11.5	2.2	6.2	7.0	3.5	2.0
Foreign financial institutions	4.6	5.5	5.4	2.5	0.6	0.4	0.8	1.8
Other	0.02	0.03	0.0	0.00	8.8	6.1	-	80.8
Overall	100.0	100.0	100.0	100.0	4.9	5.3	5.6	3.8

Note: Sole traders with a registration number are included in individual sectors, as are banks and savings banks (in financial intermediation) and the government. Only sole traders operating without a registration number are included in the item "sole traders".
Source: Bank of Slovenia

In addition to households, the banks under majority foreign ownership have the lowest coverage of classified claims by impairments in nearly every sector. Fewer impairments could be a reflection of the more favourable structure of the credit portfolio in terms of the risks associated with individual client segments. Other possible reasons are better coverage with quality collateral and the more prompt and effective collection of claims.

5.7.4 Arrears in loan repayment

Arrears in the settlement of liabilities to banks were up in 2010, the increase accelerating in early 2011.

The increase in clients' arrears in the settlement of liabilities to banks, as the most important factor in the downgrading of clients, continued in 2010 and accelerated in early 2011. The proportion of the banking system's classified claims accounted for by all claims in arrears was up 3.3 percentage points in 2010 to stand at 13.6%, and rose further in the first two months of 2011 to reach 16.3%. One quarter of all non-financial corporations, non-monetary financial institutions and sole traders settle their liabilities in arrears. Even more alarming is the increase in arrears of more than 90 days, which accounted for fully 8.4% of classified claims in February 2011, a rise of three percentage points between the end of 2009 and February 2011.

Table 5.24: Breakdown of classified claims by client segment in terms of number of days in arrears in the settlement of liabilities to banks in EUR million and percentages

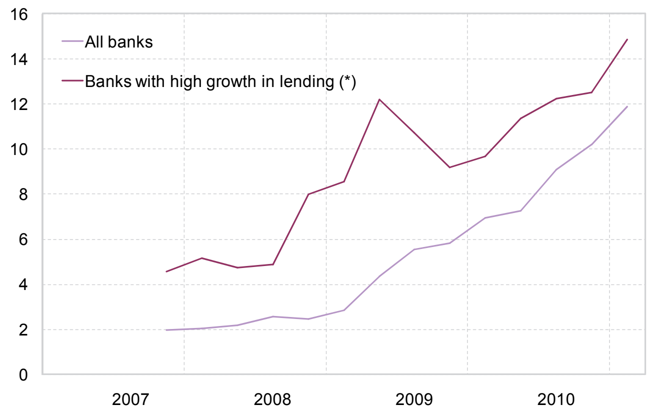
	Classified claims			Proportion of claims in arrears for group of clients						
					all arrears			arrears of more than 90 days		
	Dec. 09	Dec. 10	Feb. 11		Dec. 09	Dec. 10	Feb. 11	Dec. 09	Dec. 10	Feb. 11
Total, EUR million	49,757	50,291	50,378		5,108	6,857	8,217	2,690	3,711	4,257
							(%)			
Corporates	50.4	49.9	50.0	100.0	12.6	21.1	25.2	6.6	12.3	13.9
OFIs	5.2	4.8	4.7	100.0	6.6	19.0	22.6	2.2	6.8	10.4
Households[1]	19.0	20.3	20.2	100.0	11.8	9.8	-	3.8	4.0	-
sole traders	1.9	2.0	2.0	100.0	20.7	20.9	24.7	11.9	12.6	13.0
other households[1]	17.1	18.3	18.2	100.0	10.7	8.6	-	2.8	3.1	-
Non-residents	15.7	12.7	13.1	100.0	18.9	12.6	15.8	10.9	5.3	5.8
Government	3.1	4.1	4.0	100.0	2.3	1.3	1.4	0.1	0.1	0.1
Banks and savings banks	6.5	7.5	7.4	100.0	1.4	1.4	0.5	0.4	0.2	0.2
Central bank	0.0	0.6	0.6	100.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.1	0.1	0.1	100.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	10.3	13.6	16.3	5.4	7.4	8.4

Notes: [1] The figures for 2008 and 2009 for households are estimated on the basis of figures from the spring 2010 bank survey. The assessment is also taken into account in the aggregate of households.

Sources: Bank of Slovenia, bank survey

Arrears of more than 90 days have risen fastest at non-financial corporations, where they nearly doubled in 2010 to reach 12.3% of classified claims. Sole traders have a comparably high proportion of longer arrears. The liquidity problems faced by sole traders and small businesses are expected to deepen, particularly at those companies whose activity is nearly or entirely linked to a single major customer.

Figure 5.36: Proportion of arrears of more than 90 days at banks that recorded higher growth in lending in the years prior to the financial turmoil in percentages



Note: (*) Banks with high growth in lending include those banks whose stock of loans to corporates, households and non-residents at least tripled between 2004 and the end of 2007.

Source: Bank of Slovenia

Arrears are higher at the banks where growth in lending was higher prior to the outbreak of the financial turmoil. Growth in lending was particularly high in sectors that are now facing the biggest problems in operations and numerous bankruptcy and composition proceedings. The difficulties faced by the banks in the settlement of clients' liabilities is the direct result of insufficiently prudent decision making during the period of rapid economic growth. The need for impairments, which had a severe adverse effect on the banks' operating results in 2010, also represent a serious burden at a time when the banks' operations are stagnating.

Longer arrears of non-monetary financial institutions were up sharply in 2010.

Problems relating to the settlement of liabilities by non-monetary financial institutions escalated considerably last year. Arrears of more than 90 days tripled in 2010 in this client segment, and rose further in the first two months of 2011 to reach 10.4%. Financial holding companies are prevalent among clients in arrears in this segment. Together with holding companies from the sector of non-financial corporations, they represent one of the main factors in the deterioration of the banking system's credit portfolio.

The arrears of households have risen slightly, but are recorded primarily in shorter maturity intervals.

Households' arrears of more than 90 days were up slightly, but still represent a less-risky client segment, accounting for 3.1% of classified claims. Loans to households are mostly well secured and easier to collect than claims from corporates. Fewer arrears by households and their relatively low level of debt are important factors in the banks' increased focus on lending to this sector, which has a favourable impact on the level of risk associated with the banking system's overall portfolio.

Table 5.25: Breakdown of classified claims and the proportion of liabilities to banks settled more than 90 days in arrears by bank group and sector at the end of 2010 in percentages

	Breakdown of claims against non-financial corporations, %				Proportion of claims against sector more than 90 days in arrears			
	Banking sector	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Banking sector	Large domestic banks	Small domestic banks	Banks under majority foreign ownership
Agriculture, forestry, fishing, mining, quarrying	1.4	1.3	1.8	1.3	4.9	5.6	10.4	1.7
Manufacturing	25.8	27.3	22.9	23.7	9.3	10.4	12.0	6.5
Electricity, gas, water; remediation activities	3.9	3.7	2.9	4.7	1.5	1.7	3.6	0.8
Construction	13.7	15.7	14.1	10.0	19.3	20.9	20.5	14.3
Wholesale and retail trade	18.9	16.6	22.7	22.2	13.2	15.0	14.3	10.5
Transportation and storage	9.5	9.8	2.0	10.9	6.0	7.3	35.3	2.6
Accommodation and food service activities	2.9	2.9	1.6	3.1	6.8	6.2	23.3	5.5
Information and communication activities	2.7	3.0	1.5	2.3	23.1	28.5	19.0	10.7
Financial and insurance activities	6.1	6.4	9.3	4.6	17.3	24.5	0.1	7.5
Real estate activities	4.8	4.1	5.4	6.1	10.1	10.5	11.5	9.2
Professional, scientific and technical activities	8.5	7.3	14.2	9.1	18.8	19.4	17.6	18.3
Public services	1.9	1.8	1.7	2.1	2.8	2.2	5.7	3.1
Overall	100.0	100.0	100.0	100.0	12.3	14.0	13.8	8.7

Source: Bank of Slovenia

Alongside the construction sector, the sectors of financial intermediation and information and communication activities represent a significant burden on the portfolio of the large domestic banks.

The amount of longer arrears in the repayment of loans, as one measure of the quality of the portfolio, varies by bank group. Some 14% of claims against non-financial corporations were more than 90 days in arrears at the small domestic banks at the end of 2010, compared with 8.7% at the banks under majority foreign ownership. Arrears are above-average in all sectors at the large domestic banks, except for the two sectors with the lowest weight. The portfolio of the large domestic banks is considerably worse than at the other bank groups in the sector of financial intermediation (primarily non-financial holding companies), where one quarter of all claims are at least 90 days in arrears. Non-performing claims against corporates from the sector of information and communication activities are also concentrated at the large domestic banks, where 28.5% of claims against this client segment are more than 90 days in arrears. Despite a considerable upward deviation, these two sectors represent less of a burden on the quality of the portfolio than the construction sector, which accounts for 15.7% of claims against non-financial corporations, and with its high level of arrears increases the pressure on the quality of the large domestic banks' credit portfolio.

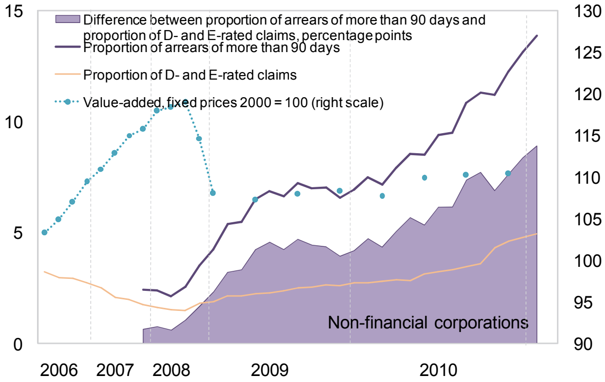
The largest burden on the small domestic banks derives from arrears from the sectors of wholesale and retail trade, and professional, scientific and technical activities.

In terms of the structure of its portfolio of non-financial corporations, the small domestic banks are more exposed to corporates from the sectors of wholesale and retail trade, and professional, scientific and technical activities. The level of arrears is high in these sectors, and lengthened further in the final months of 2010. Given that these are sectors with high proportions of small companies that bear an above-average share of the burden associated with the liquidity problems of large corporates, the probability of a further deterioration in this part of the portfolio is high. Compared with the other bank groups, the small domestic banks are relatively less burdened by claims against corporates from the sectors of transportation and storage, and accommodation and food service activities, although this portion of their portfolio is notably worse than the other groups.

A sharp increase in the difference between longer arrears and associated impairments has been seen in certain sectors.

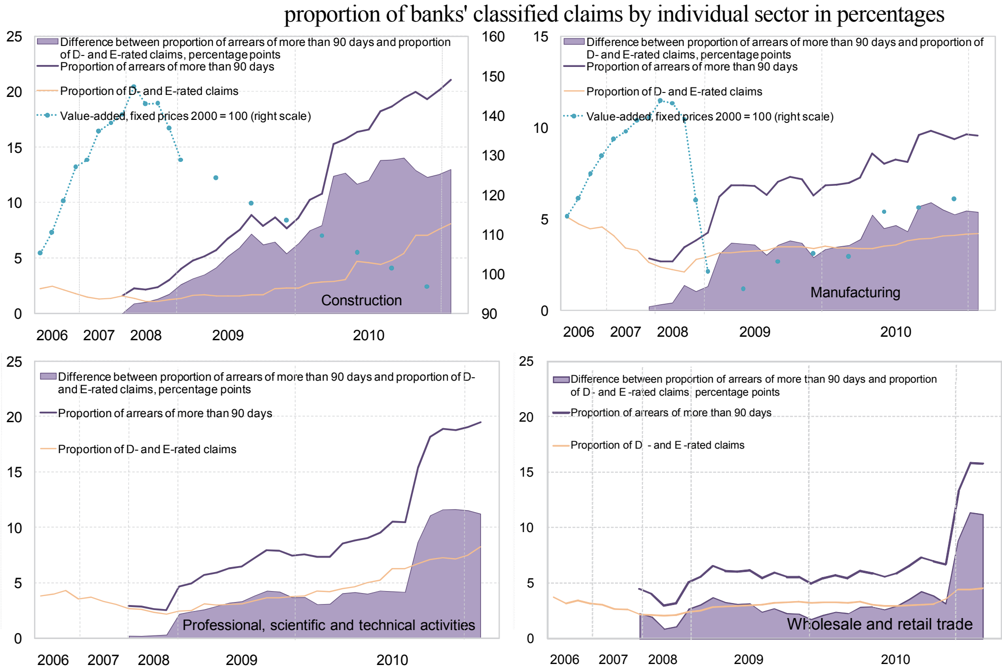
Comparisons of the proportion of arrears of more than 90 days and impairments for individual sectors indicate that banks will likely increase their impairments in the future, at least in those sectors where these variations are highest and total arrears have risen notably in the most recent period.

Figure 5.37: Comparison of arrears of more than 90 days with non-performing claims as a proportion of banks' classified claims against non-financial corporations in percentages



Source: Bank of Slovenia

Figure 5.38: Comparison of arrears of more than 90 days with non-performing claims as a proportion of banks' classified claims by individual sector in percentages



Source: Bank of Slovenia

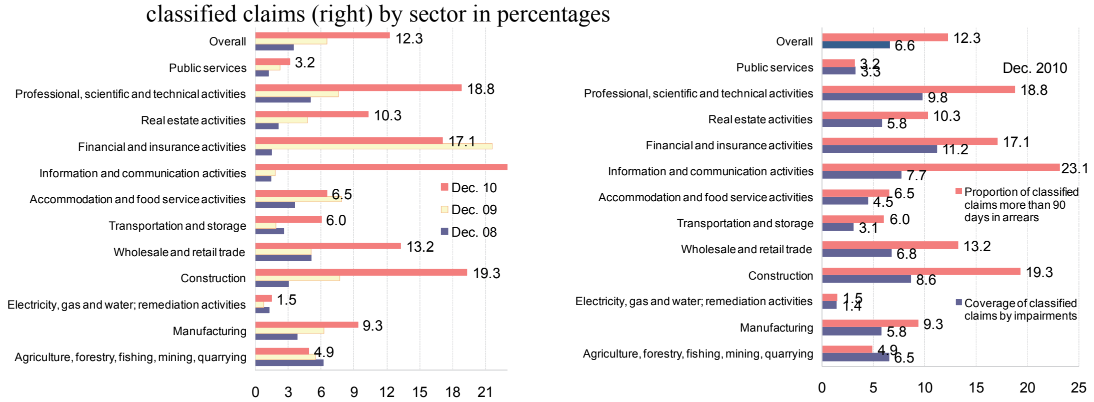
Arrears of more than 90 days in the sector of professional, scientific and technical activities rose sharply in the final quarter of 2010, while the downgrading of the portfolio did not follow the same dynamic. During the months of rapid growth in arrears, the gap between longer arrears and non-performing claims widened significantly, to 11%, where it has since stagnated. A similar trend has been seen in the portfolio of corporates from the sector of wholesale and retail trade.

The downgrading of the portfolio will follow growth in arrears, if the sectors that have been in difficulty for some time are any indication. The portfolio of these sectors can be expected to deteriorate in the coming months.

The banks have intensified their downgrading of claims in the construction sector since the second half of 2010, although the problems faced by construction companies in the settlement of their liabilities to banks began to escalate back in early 2008. The gap between claims in arrears and non-performing claims in the construction sector has more or less stabilised over the last six months, and reflects that portion of problematic claims that the banks assess as well-covered by collateral. The widening of this gap is not only dependent on a further deterioration of the situation in the construction sector, but also on movements in prices on the real estate market, which could devalue collateral received and require additional impairments of the banking system's portfolio.

A rise in non-performing claims is most likely in the sectors of wholesale and retail trade, professional, scientific and technical activities, and construction.

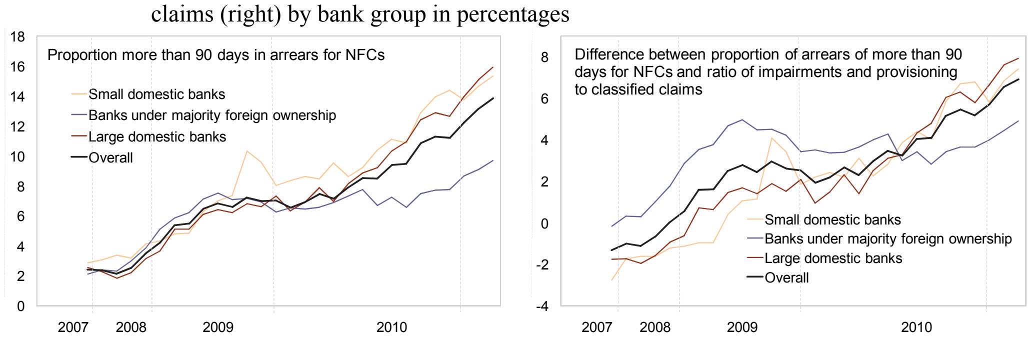
Figure 5.39: Arrears of more than 90 days as a proportion of banks' classified claims against non-financial corporations (left) and comparison of arrears of more than 90 days with impairments and provisions as a proportion of classified claims (right) by sector in percentages



Source: Bank of Slovenia

In 2010 there was a notable widening of the gap between longer arrears and coverage of the portfolio by impairments and provisions in the sectors of professional, scientific and technical activities, and information and communication activities. There was a sharp increase last year in the proportion of corporates with arrears of more than 90 days. As a result, the downgrading of claims against these sectors and an increase in impairments can be expected in the future.

Figure 5.40: Non-financial corporations' arrears of more than 90 days as a proportion of banks' classified claims (left) and comparison of arrears of more than 90 days with impairments and provisions as a proportion of classified claims (right) by bank group in percentages



Source: Bank of Slovenia

Growth in impairments and provisions at the banks under majority foreign ownership is more in line with the rise in longer arrears than at the other bank groups. The gap between these two indicators is therefore somewhat more stable over time. Likely contributing to this fact is a less significant rise in risks associated with the portfolio owing to a shift in the client structure to less-risky clients.

The small domestic banks are more exposed to SMEs, which disclose higher arrears than large corporates.

The concentration of SMEs in the banking system's portfolio also affects the structure of risks associated with the portfolio of individual bank groups. The economic position of SMEs is deteriorating more rapidly than at large corporates, as confirmed by the difference in arrears between these two groups. The proportion of classified claims accounted for by arrears of more than 90 days had risen to 14.5% at SMEs by the end of 2010, which is 2.2 percentage points higher than at the large corporates. The difference in this indicator between the aforementioned groups rose from 0.5 percentage points to 2.2 percentage points between December 2009 and December 2010. The proportion of the

The banks created higher impairments for SMEs, the increase in which was above-average compared with large corporates.

portfolio accounted for by SMEs is higher at the small domestic banks than at the other bank groups, resulting in higher credit risk. SMEs account for nearly 55% of the small domestic banks' classified claims against non-financial corporations, while the figure is 37% and 44% for the other bank groups.

The banks assign SMEs a higher risk assessment than large corporates. Coverage of the portfolio of SMEs by impairments is 1 percentage points higher than the coverage of the overall portfolio of non-financial corporations, while the deterioration of the portfolio deepened compared with 2009. All bank groups assign SMEs an above-average risk assessment. Alongside the small banks, which are more prudent in the creation of impairments, the large domestic banks also created higher impairments for both SMEs and large corporates.

Table 5.26: Proportion of banks' classified claims accounted for by SMEs and coverage of claims by impairments at the end of 2010 in percentages

	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Overall
Proportion of classified claims accounted for by SMEs, %	37.2	54.8	44.0	40.8
Coverage of classified claims by impairments				
against all non-financial corporations, %	7.3	7.9	4.7	6.5
- change since 2009, percentage points	1.9	1.8	1.7	1.9
against SMEs, %	8.6	8.3	5.3	7.5
- change since 2009, percentage points	2.2	2.1	2.0	2.2

Source: Bank of Slovenia

Box 5.1: Assessed deterioration in the quality of the credit portfolio.

The credit rating structure of the credit portfolio deteriorated significantly in 2010. There were several reasons for this.

(1) Macroeconomic situation: The economic situation deteriorated significantly in 2009, resulting in adverse corporate operating conditions. Many corporates are over-indebted and are facing liquidity problems, which affects their creditworthiness. The slow pace of economic recovery in 2010 further affected those corporates for which a rapid transition to a period of growth was crucial.

(2) Stagnation in lending growth in 2009 and 2010: Average credit risk associated with new loans is assessed as lower than the average risk associated with existing loans. Higher credit growth therefore improves the quality of the credit portfolio. Low growth in loans is also forecast for 2011. The reasons lie in the slow economic recovery on the demand side for loans, and in tightened credit standards owing to the rising level of non-performing claims on the supply side.

(3) Higher credit growth prior to the turmoil: Studies [12]indicate that the majority of credit risk is generated in a period of high economic growth, when banks apply looser loan approval standards. In the case of Spain,[1] it was shown that banks significantly loosen loan collateral standards during periods of economic growth. The majority of credit risk is generated when a reversal occurs in the business cycle. The importance of pro-cyclicality was also emphasised in an analysis of the Italian banking system, where it was determined that the impact of the business cycle on credit risk is considerably more evident during a recession and that banks with poorer-quality claims are hit significantly harder.

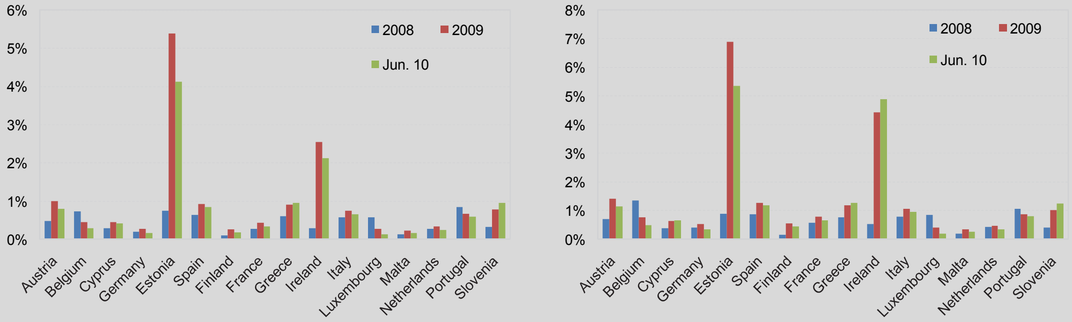
Presented first below is a comparison of the movement in impairment costs as a proportion of total assets and as a proportion of total loans. This is followed by an assessment of the movement in non-performing claims and impairment costs in 2011 and 2012. Two models based on panel data and a vector model based on aggregate data are used to assess the proportion of non-performing claims. Impairment costs are assessed using a linear model that includes macro variables. Finally, the potential deterioration in the quality of the credit portfolio in the event of the external shock of a rise in interest rates is illustrated.

International comparison of movement in impairment costs

Impairment costs as a proportion of total assets varies significantly between euro area countries. That proportion was typically less than 0.5% on average in 2008, reached its peak at 1% in 2009 and fell to 0.8% in 2010. Estonia, Ireland, Austria, Spain and Greece recorded the highest impairment costs as a proportion of total assets in 2009. Slovenia ranked sixth, immediately behind Greece and in front of Italy. With the exception of Slovenia and Greece, the highest impairments costs as a proportion of total assets were recorded by all countries in 2009, or even in 2008 in some cases. In June 2010 Slovenia ranked fourth according to this indicator, between Greece and Spain. Excluding Austria and Slovenia, in 2009 impairment costs as a proportion of total assets were higher than the median of 0.55% in the countries embroiled in a debt crisis (Portugal, Ireland, Greece and Spain). The proportion of impairments in Slovenia was lower than in Austria in 2008 and 2009, while the situation had reversed by June 2010. A similar situation can be seen in the comparison with Italy: Slovenia had a lower proportion of impairments in 2008, the same proportion in 2009 and a lower proportion in June 2010. In comparing proportions with Italy and Austria, the differences by individual year fluctuate between 0 and 0.3 percentage points, meaning that the Slovenian banking system is quite similar to the Austrian and Italian systems is terms of impairment costs as a proportion of total assets.

In comparing impairment costs as a proportion of the value of all loans in 2009, the order of countries is very similar to impairment costs as a proportion of total assets, with the same countries occupying the first five places. Slovenia ranked one place lower, in seventh, according to this indicator. In June 2010 Slovenia ranked higher than Austria and Italy, meaning that impairment costs as a proportion of the value of all loans was higher. In 2008 the value of this indicator in Slovenia was lower than the average of 0.64% and lower than the median of 0.63%. In 2009 and 2010 the value of this indicator was only lower than the average, which is to be expected given the high value of this indicator for Estonia and Ireland.

Figure 5.41: Movement in impairment costs in euro area countries as a proportion of total assets on a consolidated basis and as a proportion of the value of all loans on a consolidated basis



Note: The indicators for EU Member States are calculated on a consolidated basis, while those for Slovenia are unconsolidated.
Source: ECB (CBD database), Bank of Slovenia, own calculations

Gross non-performing claims as a proportion of total loans and debt instruments is lower in Slovenia than in the EU overall in all years included in the analysis. This indicator reached its peak in 2009 for EU Member States in all bank groups, but rose in Slovenia until the middle of 2010 at the large domestic banks and the banks under majority foreign ownership, and for the banking system overall.

Impairments as a proportion of gross non-performing claims is higher in Slovenia than in the EU overall in all years, meaning that the coverage of non-performing claims by impairments is higher on average than EU Member States. There is a trend of declining coverage of non-performing claims by impairments in Slovenia and other EU Member States. Between 2008 and June 2010 that proportion fell by an average of 10.2 percentage points in EU Member States, and by merely 5.3 percentage points in Slovenia.

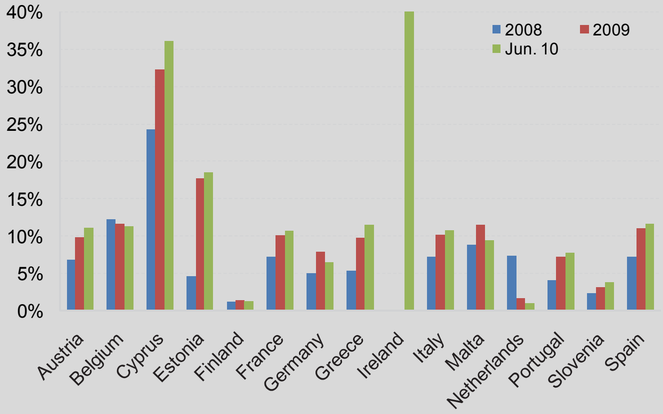
Table 5.27: Movement in indicators of the quality of the credit portfolio in EU Member States and Slovenia by individual bank group

		Ratio of non-performing loans to total loans and debt securities, %			
		Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Overall
EU 27	2008	2.0	2.7	1.8	2.2
	2009	4.4	4.0	2.8	4.2
	Jun 2010	3.2	5.0	2.9	3.6
SLO	2008	1.8	2.7	1.8	1.9
	2009	2.3	3.0	2.0	2.3
	Jun 2010	2.8	2.9	2.4	2.7
		Ratio of impairments to non-performing loans, %			
EU 27	2008	54.9	51.6	49.3	53.5
	2009	52.3	47.5	63.9	50.5
	Jun 2010	48.3	36.7	44.2	43.3
SLO	2008	75.4	80.3	86.4	79.3
	2009	73.5	72.7	83.1	75.9
	Jun 2010	71.5	73.5	80.3	73.9

Note: The indicators for EU Member States are calculated on a consolidated basis, while those for Slovenia are unconsolidated.
Source: ECB (CBD database), Bank of Slovenia, own calculations

Gross non-performing claims as a proportion of nominal GDP is lower in Slovenia than the euro area average in all years included in the analysis. In June 2010 Ireland, Cyprus and Estonia had the highest gross non-performing claims as a proportion of nominal GDP. Slovenia ranked 13th according to this indicator, ahead of Finland and the Netherlands. Gross non-performing claims as a proportion of nominal GDP are continuing to rise in the majority of euro area countries.

Figure 5.42: Movement in gross non-performing claims as a proportion of nominal GDP by euro area country in percentages

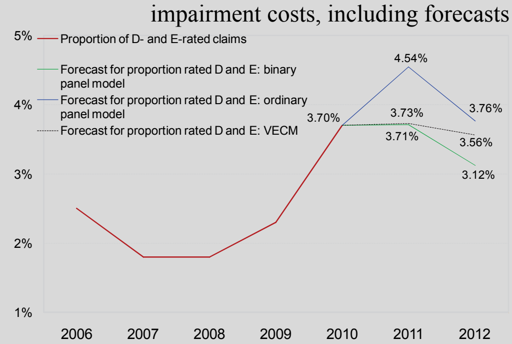


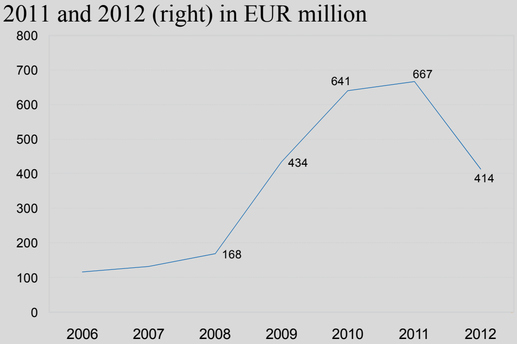
Note: The indicators for EU Member States are calculated on a consolidated basis, while those for Slovenia are unconsolidated. There are no data for Luxembourg. The data for Ireland are only for June 2010.
Source: ECB (CBD database), Bank of Slovenia, own calculations

Assessed movement in non-performing claims and impairments in 2011 and 2012

Movements in non-performing claims in 2011 and 2012 were assessed using three models. Two are based on panel data[3] and include both microeconomic variables characteristic of an individual company (e.g. sales revenue, liquidity, indebtedness, interest coverage, cash flow and the number of days a transaction account was frozen) and macroeconomic variables, such as GDP growth, changes in interest rates and growth in lending to non-banking sectors. The third assessment of the proportion of non-performing claims was made using a vector model [4]that includes real GDP, the real long-term lending rate, the real value of loans to non-banking sectors and the lagged proportion of D- and E-rated claims. Movement in impairment costs is assessed [5]depending on real GDP growth, export growth, growth in gross investment and growth in loans to non-banking sectors.

Figure 5.43: Proportion of D- and E-rated claims, including forecasts for 2011 and 2012 (left) in percentages, and impairment costs, including forecasts for 2011 and 2012 (right) in EUR million





Source: Bank of Slovenia, own calculations

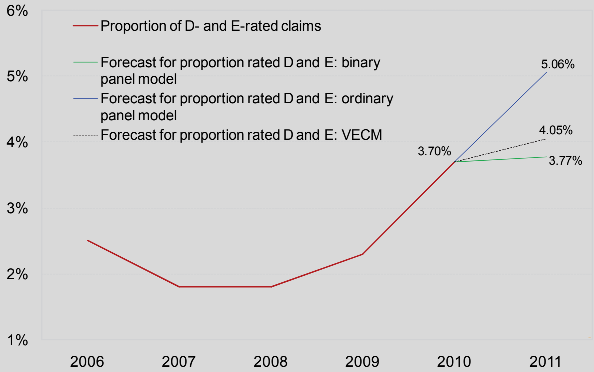
It follows from all assessments that the quality of the credit portfolio will continue to deteriorate in 2011, while a reversal in the this trend is expected in 2012 on the same basis. The most optimistic assessment is provided using the binary panel model, on the basis of which the average proportion of D- and E-rated claims is expected to stand at 3.71% in 2011 and fall to 3.12% in 2012. The least favourable movement in non-performing claims is provided by the ordinal panel model, on the basis of which the average proportion of D- and E-rated claims is expected to stand at 4.54% in 2011 and fall to 3.76% in 2012. The multiple linear regression model, based on a logit transformation, also indicates that impairment costs will rise further in 2011, but at a slower pace than seen in the previous two years. In 2012 impairment costs can be expected to fall to the level recorded in 2009.

The reason for a further increase in the proportion of non-performing claims and net impairment costs in 2011 lies primarily in the weak forecast of GDP growth and growth in loans to non-banking sectors, and the expected gradual rise in interest rates. Although a further rise in interest rates can be expected in 2012 on the basis of movement in interest rates on EURIBOR futures contracts, the effect of higher forecast economic growth and in particular higher forecast lending growth is stronger, which will result in a decline in the proportion of non-performing claims and impairment costs in 2012.

Impact of an external shock on the proportion of non-performing claims in 2011.

The most likely external shock in 2011 is a rise in market interest rates. The impact of a rise in interest rates by 1 percentage point is assessed using three models to assess the proportion of D- and E-rated claims.

Figure 5.44: Proportion of D- and E-rated claims, including forecasts for 2011 in the event of a rise in interest rates in percentages



Source: Bank of Slovenia, own calculations

The response to a rise in interest rates by 1 percentage point is most notable in the ordinal panel model, where the proportion of non-performing claims rose by 0.52 percentage points with respect to the baseline scenario to 5.06%. The increase is somewhat less significant in the other two models, at 0.32 percentage points and 0.06 percentage points with respect to the baseline scenario.

Overall assessment

The proportion of non-performing claims was up sharply in 2010. On the basis of the previously described model-based assessments, a further increase in the proportion of D- and E-rated claims and impairment costs can be expected in 2011. The main reason for this is the slow economic recovery. On the basis of banks' assessments regarding credit standards, we can also conclude that the banks are expecting a slow economic recovery. On the basis of forecasts, a reversal is expected in 2012, when the proportion of non-performing claims and impairment costs are expected to decline owing to strengthening economic and lending growth.

[1]G. Jimenez and J. Saurina (2006). Credit Cycles, Credit Risk, and Prudential Regulation. International Journal of Central Banking.
[2]D. Foss, L. Norden and M. Weber. (2010). Loan Growth and Riskiness of Banks. Journal of Banking & Finance.
[3]The models differ in terms of the definition of dependent variables. The dependent variable of one model is binary, where all clients rated A, B and C are assigned a value of zero, and D- and E-rated clients are assigned a variable of 1. The dependent variable in the second model is a client's credit rating. Therefore, an ordinal approach is used. In both cases, assessments are made using a probit model on data from 1995 to 2009. The output of both models is the proportion of D- and E-rated clients. The percentage change in the proportion of D- and E-rated clients is then applied to the change in the proportion of non-performing claims. The projections for 2011 and 2012 use the value of corporate variables from 2009 and forecasts of macro variables.
[4]A vector error correction model (VECM) is used. The output for the needs of the analysis is the proportion of non-performing claims.
[5]A multiple linear regression model is used, in which the dependent variable (impairment costs as a proportion of the average stock of loans to non-banking sectors) is adapted using a logit transformation.

5.7.5 Loan collateral

Breakdown of collateral for newly approved loans

The proportion of unsecured loans is declining, while the number of loans with real estate collateral is on the rise.

The tightening of loan approval standards was reflected in a decline in the proportion of unsecured loans. According to survey data, the proportion of newly approved unsecured corporate loans fell from 32.4% in 2009 to 21.1% in 2010. In 2007 and 2008 nearly half of all newly approved corporate loans were still unsecured. One factor was the high proportion of short-term loans, which are periodically and regularly renewed, while tougher collateral requirements at the banks was another contributing factor.

Table 5.28: Breakdown of corporate loans by type of collateral in percentages

(%)	Stock of loans		New loans	
	Dec. 2009	Dec. 2010	2009	2010
Type of collateral				
Secured loans	79.4	82.0	67.6	78.9
real estate collateral	36.5	40.8	24.0	26.5
at insurer	0.7	0.7	0.4	0.3
securities and mutual funds units as collateral	9.2	7.7	9.2	9.5
other forms of collateral	33.0	32.9	34.0	42.7
Unsecured loans	20.6	18.0	32.4	21.1

Source: Bank survey

The proportion of loans with real estate collateral has risen in the overall breakdown of loans, primarily as the result of a declining proportion of loans secured by shares and participating interests. The proportion of loans secured with real estate was up 4 percentage points, driven most notably by continued growth in loans to constructions companies.

The banks were more prudent in past years with respect to housing loans, approving only a small portion of such loans without collateral. Unsecured housing loans accounted for 6.4% of all newly approved housing loans in 2010. The proportion of loans secured with real estate and with insurers was up at the expense of other forms of collateral (e.g. sureties, deposits and other forms).

Table 5.29: Breakdown of collateral on housing loans in percentages

(%)	Stock of loans		New loans	
	Dec. 2009	Dec. 2010	2009	2010
Type of collateral				
Secured loans	96.9	92.2	92.2	93.6
real estate collateral	65.6	69.7	61.5	68.1
at insurer	14.8	11.6	10.4	12.4
securities and mutual funds units as collateral	0.1	0.1	0.1	0.2
other forms of collateral	16.3	10.8	19.4	13.0
Unsecured loans	3.1	7.8	7.8	6.4

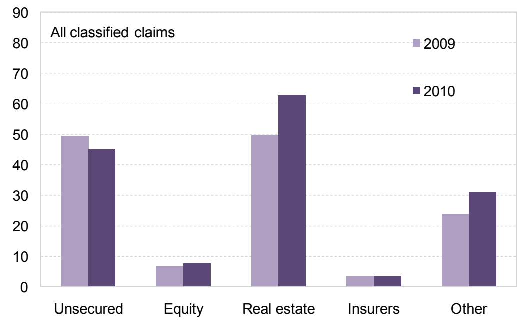
Source: Bank survey

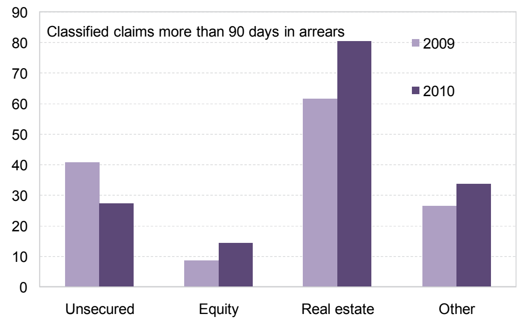
Coverage of the credit portfolio by collateral

The proportion of unsecured claims fell to 45.4% in 2010.

The coverage of the banking system's credit portfolio by collateral improved in 2010. The unsecured portion of the portfolio was down 4 percentage points on the end of 2009 to stand at 45.4%. The highest proportion of unsecured claims is against the government and the banking sector, which are considered the least risky clients. Excluding these two sectors, 39.3% of the banks' claims are unsecured.

Figure 5.45: Coverage of all bank claims (left) and coverage of classified claims more that 90 days in arrears (right) by collateral in percentages





Source: Bank of Slovenia

At the end of 2010 the total value of collateral received was 4.9% higher than the total value of classified claims, including unsecured claims. The coverage of classified claims by real estate, in particular, was up by 13 percentage points on the end of 2009 to stand at 62.9%. The risks associated with this form of collateral have risen sharply in recent years owing to the possible fall in real estate prices. This could trigger the redemption of collateral and result in a decline in the value of collateral received. An additional risk to which the banks are exposed with respect to real estate collateral derives from the established banking practice of entering several mortgages on the same real estate. The banks without priority in terms of the redemption of collateral are less likely to benefit from such a redemption, and also face the extension of already long court proceedings. According to survey data, the banks have priority in the redemption of collateral in the event of collection for 72% of loans that are predominantly secured with real estate. The value of pledged real estate for which a bank is first in line for redemption represents 78% of all real estate received as collateral. That proportion is 82% at the banks under majority domestic ownership compared with 72% at the banks under majority foreign ownership. The high coverage of claims with real estate collateral represents a risk factor for the banks. The redemption of collateral is difficult during a period of low real estate market liquidity, while the associated proceedings are protracted.

The number of claims secured by real estate collateral was up, particularly in the household sector.

The use of real estate collateral has risen in particular in the household sector, primarily as the result of better-secured new housing loans, and less so owing to the revaluation of the existing portfolio. Nearly all (98.3%) classified claims against households are covered by residential and commercial real estate. Together with other forms of collateral the coverage of classified claims against households was up 35 percentage points on the previous year at 140.7%.

Table 5.30: Collateral of classified claims by client segment at the end of 2010 in percentages

	Classified claims, EUR million	Comparison of collateral[2] with classified claims, %							
			Secured						
		Unsecured[1]	Shares, equity and mutual funds units as collateral	Commercial real estate as collateral[3]	Housing as collateral[3]	At insurer	Other		Total value of collateral[3]
Corporates	25,131.8	35.3	11.2	70.3	6.3	0.0	39.5		127.3
OFIs	2,364.9	52.2	24.3	9.3	0.4	0.0	31.5		65.5
Households (sole traders)	10,214.8	31.6	0.9	15.5	82.8	17.2	24.4		140.9
Non-residents	6,398.5	62.4	5.8	29.0	2.8	0.3	24.5		62.4
Government	2,037.0	72.4		1.9	0.3		26.4		28.5
Banks and savings banks	3,796.3	95.6		0.1	0.0		5.9		6.0
Overall	50,290.9	45.3	7.6	42.5	20.4	3.6	30.8		104.9

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

The coverage of claims by collateral is low at non-monetary financial institutions.

Classified claims against corporates are also largely secured with real estate, this form of collateral covering 76.6% of claims in terms of value. Households and non-financial corporations are the only client segments in which the value of collateral received exceeds the value of classified claims. In contrast, the amount of collateral on claims against non-monetary financial institutions is low given the rising level of risk, which is reflected in rapidly growing arrears of more than 90 days, and covers just 65.5% of the value claims against this sector. The proportion of unsecured claims against non-financial corporations is high at 52.2% and, given the rapid growth in arrears, it is highly likely that problems will escalate in this sector in the coming months. A high proportion of claims against non-residents is unsecured. This is owing to the relatively low level of risk associated with these claims, which relate to foreign financial institutions, and also owing to their short maturities.

Table 5.31: Collateral of classified claims more than 90 days in arrears by client segment at the end of 2010 in percentages

	Classified claims, EUR million	Comparison of collateral[2] with classified claims, %							
			Secured						
		Unsecured[1]	Shares, equity and mutual funds units as collateral	Commercial real estate as collateral[3]	Housing as collateral[3]	At insurer	Other		Total value of collateral[3]
Corporates	3,071.5	26.9	13.6	71.2	9.4	0.0	37.6		131.7
OFIs	163.6	39.6	58.5	9.8	0.9		11.7		81.4
Households (sole traders)[4]	129.7	30.4	0.0	82.3	38.5	0.5	31.3		152.6
Non-residents	337.6	22.8	7.0	94.3	6.6		10.8		118.6
Government	2.3	100.0							
Banks and savings banks	6.1	100.0							
Overall	3,710.7	27.4	14.4	70.8	9.8	0.0	33.7		128.7

Notes: [1, 2 and 3] The same notes from the previous table apply. [4] Only sole traders are included. No figures regarding arrears are available for households.
Source: Bank of Slovenia

The coverage of claims more than 90 days in arrears by collateral improved compared with the previous year with the exception of non-monetary financial institutions.

Some 27.4% of claims more than 90 days in arrears were unsecured at the end of 2010, down sharply on the previous year when 41% of these claims were unsecured. The coverage of the entire portfolio of longer arrears by collateral rose to 128.7%, compared to 96.9% at the end of 2009.

The breakdown of collateral on classified claims more than 90 days in arrears deteriorated notably at non-monetary financial institutions. The proportion of unsecured claims with longer arrears rose from just 8% at the end of 2009 to nearly 40% a year later. High growth in unsecured claims in the context of a tripling of claims more than 90 days in arrears indicates that the banks were not prepared for such a deterioration in this part of the portfolio and did not request additional collateral in a timely manner before non-monetary financial institutions faced a lack of eligible loan collateral. Coverage by collateral improved in other client segments in 2010, while the proportion of unsecured claims declined.

Table 5.32: Collateral of classified claims more than 90 days in arrears by bank group at the end of 2010 in percentages

	Classified claims, EUR million	Comparison of collaterall[2] with classified claims, %						
		Unsecured[1]	Shares, equity and mutual funds units as collateral	Commercial real estate as collateral[3]	Housing as collateral[3]	At insurer	Other	Total value of collateral[3]
Savings banks	1.0	39.1	0.2	113.8	8.1	1.5		123.6
Small domestic banks	333.3	28.3	5.7	96.5	21.8	0.1	25.7	149.8
Banks under majority foreign ownership	806.7	32.4	15.6	50.7	19.5	0.0	37.3	123.1
Large domestic banks	2,569.7	25.7	15.2	73.8	5.2	0.0	33.6	127.8
Overall	3,710.7	27.4	14.5	70.6	9.8	0.0	33.7	128.7

Notes: [1, 2 and 3] The same notes from the previous table apply.
Source: Bank of Slovenia

The large domestic banks had the lowest proportion of unsecured claims with longer arrears, at 25.7%. The small domestic banks recorded an above-average increase in their otherwise high coverage of claims by real estate, and also improved their overall coverage by collateral. There are no major differences between the other two bank groups in terms of the structure of collateral and the coverage of classified claims by collateral.

Loans for which collateral was redeemed in 2010 accounted for 13.3% of non-performing claims, while the repayment success rate was low.

The banks still did not redeem a significant amount of collateral in 2010. According to survey data, loans for which collateral redemption proceedings were completed in 2010 accounted for 13.3% of the banks' non-performing claims. The majority or 85% of collateral redeemed was on corporate loans. The success rate of repayment of corporate loans from collateral was 34%. In most cases, shares and participating interests were redeemed. The success rate was higher for household loans, at around 60%.

Construction

The banking system's exposure to the construction sector was up last year, but only at the large domestic banks. The other two bank groups reduced their claims against this sector in nominal terms. Last year classified claims against corporates from the construction sector accounted for 7.5% of total classified assets at both the large and small domestic banks, and for 5.5% at the banks under majority foreign ownership.

Table 5.33: Impairments and provisions of claims against the construction sector, December 2010

(% unless stated)	Classified claims against corporates					Classified claims more than 90 days in arrears			
			Coverage by impairments						
	Claims, EUR million	Proportion of total claims of group	Dec. 09	Dec. 10	Proportion unsecured	Proportion of total claims against corporates in sector	Coverage by impairments	Proportion unsecured	Real estate collateral / classified claims
	Construction								
Large domestic banks	2,345.7	7.5	5.2	9.8	36.0	20.9	35.1	25.8	97.1
Small domestic banks	291.4	7.5	5.7	7.8	23.5	20.5	22.6	11.1	128.8
ownership	788.9	5.5	3.8	5.7	37.8	14.3	28.0	14.2	112.2
Overall	3,429.5	6.9	4.9	8.6	35.3	19.3	32.7	22.6	102.6
	Real estate activities								
Large domestic banks	616.9	2.0	4.9	6.9	10.7	10.5	30.4	13.5	104.2
Small domestic banks	111.9	2.9	4.3	5.4	34.2	11.5	17.0	8.4	102.1
ownership	434.8	3.1	2.7	4.4	22.8	9.2	33.8	15.4	126.0
Overall	1,164.7	2.3	4.0	5.8	17.5	10.1	30.2	13.6	111.7
	Non-financial corporations in sectors of construction and real estate activities								
Large domestic banks	2,962.6	9.5	5.2	9.2	30.7	18.7	34.5	24.4	97.9
Small domestic banks	403.3	10.4	5.3	7.1	26.5	18.0	21.6	10.7	124.0
ownership	1,223.7	8.6	3.4	5.2	32.4	12.4	29.6	14.5	116.1
Overall	4,594.2	9.2	4.7	7.9	30.8	17.0	32.3	21.2	104.0

Source: Bank of Slovenia

Arrears of more than 90 days by corporates from the construction sector were up sharply at all bank groups, least notably at the banks under majority foreign ownership. The banks increased their average collateral on claims with longer arrears. The proportion of unsecured claims was only up at the large domestic banks. The higher level of unsecured claims in this bank group resulted in higher impairments, which totalled 35.1% at these banks compared with 22.6% at the small domestic banks and 28% at the banks under majority foreign ownership.

The increase in risks associated with the construction sector was more notable at the large domestic banks than at the other banks.

At the end of 2010 the total value of collateral exceeded claims against the construction sector more than 90 days in arrears by 40%. Pledged real estate, a great deal of which has yet to be completed, accounts for the largest portion of collateral. The value of pledged real estate was approximately equal to the associated portion of claims at the end of 2010. Due to problems in the construction sector, such a large proportion of collateral in the form of real estate represents a considerable risk for the banking sector, with a potential significant impact on the real estate market.

Non-performing claims against the construction sector are primarily secured by own real estate, some of which has yet to be completed.

Holding companies

Exposure to holding companies was down at the banks under majority foreign ownership in 2010, but up slightly at the other bank groups. The majority of non-performing claims are concentrated at the large domestic banks, where more than three quarters of claims against holding companies are more than 90 days in arrears. Holding companies represented less of a risk at the end of 2010 than in 2009 at the other bank groups. Exposure to holding companies is higher at the small domestic banks in relative terms, but none of these banks' claims against holding companies are in arrears.

The majority of high-risk claims against holding companies are concentrated at the large domestic banks.

There was a sharp decline last year in the proportion of unsecured claims against holding companies more than 90 days in arrears at the large domestic banks, from 77% to 25.5%. The coverage of this portion of portfolio by collateral is nevertheless insufficient. The coverage of claims with longer arrears by collateral is just 95% at the large domestic banks, with coverage by shares and participating interests totalling 59.5%. The majority are shares held by these holding companies, the unplanned sale of which could result in a sharp devaluation.

Collateral on non-performing claims against holding companies is insufficient.

Table 5.34: Impairments and provisions of claims against holding companies, December 2010

(% unless stated)	Classified claims against holding companies					Classified claims more than 90 days in arrears			
			impairments						
	Total, EUR million	Proportion of total claims of group	Dec. 09	Dec. 10	Proportion unsecured	Proportion of total claims against holding companies	Coverage by impairments	Proportion unsecured	Shares and equity collateral / classified claims
	Holding companies								
Large domestic banks	1,327.5	4.4	8.0	13.6	22.9	26.4	33.3	25.5	59.5
Small domestic banks	223.9	6.2	6.7	6.7	26.9	0.1	100.0	0.0	0.0
Banks under majority foreign ownership	377.5	2.4	5.3	8.4	41.6	9.7	30.1	21.4	90.6
Overall	1,931.8	3.9	7.1	11.8	27.0	20.0	33.1	25.1	62.4

Source: Bank of Slovenia

5.8 Interest-rate risk

Interest-rate risk as measured by the difference between the average repricing periods for asset and liability interest rates was unchanged in 2010 at 2.8 months, indicating that the banks are exposed to rising interest rates. However, the restructuring of liabilities and the rescheduling of assets means that exposure to rising interest rates was up primarily in the maturity buckets of 1 to three months and 1 to 2 years.

The banks are exposed to rising interest rates.

An analysis by bank group reveals that exposure to a rise in interest rates, as measured by the difference between the average repricing periods for asset and liability interest rates, decreased at the small domestic banks, where it nevertheless remains highest in relative terms among all banks groups. Sensitivity to a change in interest rates was up at the banks under majority foreign ownership and the large domestic banks.

Given the movements in interest rates on futures contracts, market interest rates are expected to continue rising, increasing the likelihood of negative effects on the banks' operations owing to interest-rate risk.

5.8.1 Average period of change in interest rates

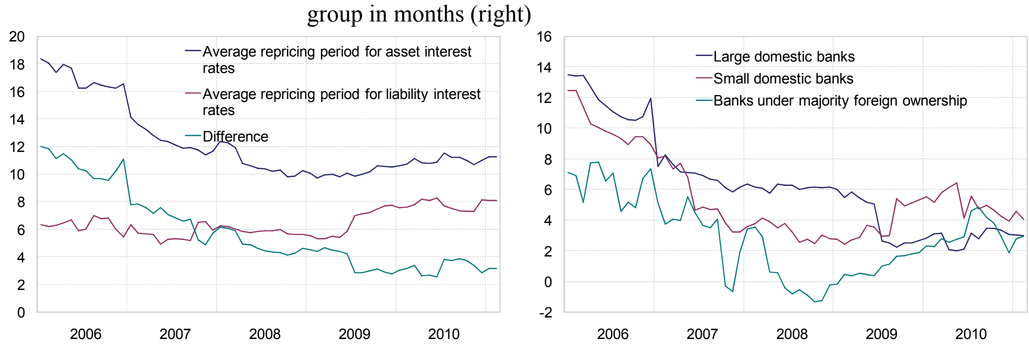
The average repricing period for liability interest rates is not expected to change significantly in 2011.

Interest-rate risk as measured by the difference between the average repricing periods for asset and liability interest rates was down slightly at the end of 2010. The average repricing period for liability interest rates shortened in mid-2010, but lengthened again at the end of the year and in early 2011. The main factors in the shortening of the repricing period for asset liability rates were the shortening of maturities on funds raised at banks in the rest of the world and fewer issues of new securities during the period in question. The replacement of shorter-term sources of funding with longer-term loans resulted in the lengthening of the repricing period for liability interest rates at the end of 2010 and in early 2011. The aforementioned repricing period is not expected to change significantly in 2011, as access to both short-term and long-term sources has improved owing to the stabilisation [29]of the financial markets.

The difference between the average repricing periods for asset and liability interest rates was unchanged in 2010.

The average repricing period for assets and liability interest rates lengthened by 0.5 months in 2010. In February 2011 the average repricing period for asset interest rates was 3.2 months longer than the average repricing period for liability interest rates, up 0.4 months on the difference at the end of 2010 and 2009. The gap was relatively narrow in 2010 compared with the previous year, indicating that it has settled in a range of 2.5 to 4 months. The average repricing period of asset interest rates could lengthen slightly in 2011 owing to changes in the maturity breakdown of loans. Given that the average repricing period for liability interest rates is not expected to change significantly in 2011, exposure to interest-rate risk could increase in 2011.

Figure 5.46: Average repricing period for interest rates in months (left) and the difference between average repricing periods for interest rates by bank group in months (right)



Source: Bank of Slovenia

Interest-rate risk increased most notably at the banks under majority foreign ownership between the end of 2009 and the end of February 2011.

A comparison between the bank groups indicates significant differences in the dynamic of interest-rate risk measured by the difference between the average repricing period for asset and liability interest rates. This indicator is lowest at the banks under majority foreign ownership, where it stood at 3 months at the end of February 2011, an increase of 1.1 months on the end of 2009. The value of the indicator is also 3 months at the large domestic banks, an increase of 0.3 months on the end of 2009. The indicator was down by 1.3 months at the small domestic banks over the same period, to stand at 4 months at the end of February 2011. The value of the indicator at the banks under majority foreign ownership and small domestic banks was similar to the pre-crisis value seen in early 2008, while it was two times lower at the large domestic banks, which is positive in terms of interest-rate risk.

5.8.2 Interest-rate gap

In terms of the cumulative negative interest-rate gap, the banks' exposure to a rise in interest rates rose significantly to EUR 2.8 billion in the interval of up to 1 year. This means that the value of assets with a residual maturity of up to one year declined more rapidly than the value of liabilities.

The negative interest-rate gap of up to 1 year widened at the banks under majority foreign ownership.

The negative interest-rate gap of up to 1 year widened at the banks under majority foreign ownership, primarily as the result of declining claims from loans. The reason lies in the longer maturities on approved loans and partly in the rescheduling of short-term loans to long-term loans. The banks under majority foreign ownership disclosed a negative interest-rate gap of EUR 2.8 billion and the large domestic banks a negative gap of EUR 48 million in February 2011, while the small domestic banks disclosed a positive gap of EUR 250 million.

[29] The values of the LIBOR-OIS spread and the TED spread, as a measure of the banking system's stability, fluctuated at pre-crisis levels in early 2010. Source: Bloomberg

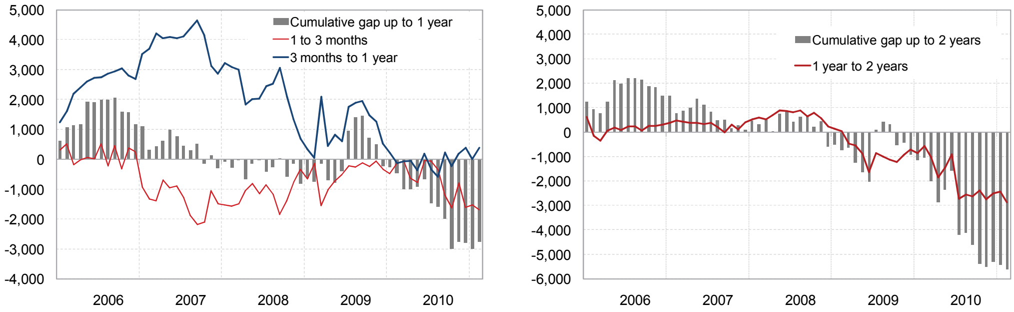
The widening of the negative gap of up to 1 year is the result of the widening of the negative interest-rate gap of 1 to 3 months. Assets for which the interest rate is repriced every one to three months were down EUR 1.4 billion in the second half of 2010, while liabilities that are tied to interest rates that are repriced every one to three months were down by just EUR 200 million. In February 2011, the gap fluctuated at the level seen in the second half of 2008. The interest-rate gap of 3 months to 1 year fluctuated at around zero in 2010, and turned positive at the end of the year. A rise in interest rates would have a negative impact on the banking system's interest margin in the bucket of 1 to 3 months, and a positive impact in the bucket of 3 months to 1 year.[30]

Banks are exposed to a rise in interest rates, particularly in the bucket of 1 to 3 months.

Thus, similar to the negative interest-rate gap of up to 1 year, the negative gap of 1 to 2 years also widened in 2010. The reason lies in the increase in liabilities at the large domestic banks owing to the issue of a 3-year bond by NLB in the amount of EUR 1.5 billion in July 2009. There was a notable decrease in the stock of loans raised in 2010 and a simultaneous increase in deposits, which outstripped the decline in loans by EUR 300 million.

The interest-rate gap of 1 to 2 years also widened in 2010.

Figure 5.47: Gap between interest-sensitive assets and liabilities by individual bucket in EUR million



Source: Bank of Slovenia

Given the gap in the bucket of up to 2 years, the Slovenian banking system is highly exposed to a rise in interest rates. At its meeting on 3 March 2011, the Executive Board of the ECB pointed out that it will be necessary to begin raising interest rates due to inflationary pressures. This in fact came to pass at its next meeting of 7 April, when the key interest rate was raised by 0.25 percentage points. The interest rates in interest rate futures [31]tied to the 3-month EURIBOR reflect market expectations that the key interest rate will be raised by 0.5 percentage points this year, as the interest rate in interest rate futures with a maturity of September 2011 stood at 1.81% in April, while the rate in futures with a maturity of September 2012 stood at 2.61%.

Interest rates are expected to rise given the interest rates in interest rate futures.

5.8.3 Basis risk

In February 2011 interest-sensitive assets exceeded interest-sensitive liabilities by EUR 900 million, or 1.8% of the banking system's total assets, the gap having narrowed by 4.3 percentage points with respect to the end of 2009. Interest-sensitive assets were down 7.2% on the end of 2009, while interest-sensitive liabilities were down 2.9%. At the end of February 2011, interest-sensitive assets and liabilities accounted for 91.9% and 90% of total assets respectively.

Interest-sensitive assets and liabilities were down 7.2% and 2.9% respectively on the end of 2009.

Interest-rate gaps by currency

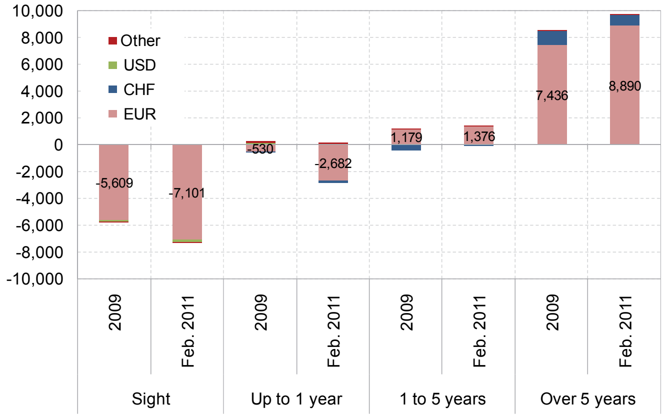
The banks are primarily exposed to a rise in interest rates in the domestic currency and in Swiss francs. They are also slightly exposed to the US dollar in shorter maturity intervals.

There were no major changes in the currency breakdown of interest-sensitive items in 2010. The appreciation of the Swiss franc resulted in a decline in the proportion of interest-sensitive items accounted for by that currency, while the proportion accounted for by the domestic currency rose. The proportion of the net position accounted for by the domestic currency rose by 1.9 percentage points between the end of 2009 and February 2011, while the proportion accounted for by Swiss francs was down 0.2 percentage points.

The proportion accounted for by Swiss francs was down primarily in favour of the domestic currency.

[30] A rise in interest rates would have a positive impact on the net current value of interest-sensitive items within the banking system in the bucket of 1 to 3 months, and a negative impact in the bucket of 3 months to 1 year.
[31] Figures from futures contracts of 1 April 2011. Source: ECB

Figure 5.48: Currency breakdown of net interest-rate positions by individual bucket of residual maturity in EUR million



Source: Bank of Slovenia

Gaps by type of reference interest rate

The proportions of interest-rate sensitive assets and liabilities tied to the reference interest rate were up.

An additional source of interest-rate risk is mismatching in the structure of interest-sensitive assets and liabilities in relation to the type of reference interest rate. At the end of February 2011, the proportion of interest-sensitive items tied to reference interest rates was up 9.7 percentage points on the end of 2009 at nearly 63% on the asset side, and up 1.2 percentage points to more than 34% on the liability side. The gap between the proportion of interest-sensitive assets and liabilities tied to reference interest rates thus rose by 8.5 percentage points to stand at 28.3 percentage points, reflecting the banks' increased sensitivity to a rise in interest rates.

Table 5.35: Structure of interest-sensitive assets and liabilities by reference interest rate

	Interest-sensitive assets				Interest-sensitive liabilities			
	Dec. 08	Dec. 09	Dec. 10	Feb. 11	Dec. 08	Dec. 09	Dec. 10	Feb. 11
Stock, EUR million	45,440	49,368	46,522	46,409	42,426	46,168	45,239	45,482
Percentage tied to reference rate	65.4	53.0	62.5	62.7	39.2	33.2	34.9	34.4
	Proportion of tied items accounted for by individual reference rates, %							
EURIBOR								
1 month	17.4	8.2	6.0	6.1	18.6	10.7	6.0	4.6
3 month	24.0	29.3	29.0	29.1	28.2	31.3	35.2	37.9
6 month	47.0	51.7	54.7	54.7	41.4	46.9	49.8	49.7
1 year	1.9	2.1	1.8	1.6	1.6	0.4	1.1	0.4
Swiss franc LIBOR								
1 month	0.7	0.5	0.4	0.3	0.4	0.3	0.1	0.0
3 month	2.2	1.8	1.5	1.4	3.0	3.3	3.9	3.6
6 month	3.2	3.1	2.8	2.6	3.2	2.4	1.5	1.4
1 year	1.6	1.6	1.5	1.4	1.6	1.2	0.9	0.9
Central bank interest rate	0.1	0.2	1.3	1.9	0.0	2.6	0.0	0.0
Other	1.9	1.5	1.0	0.9	2.1	1.1	1.6	1.5

Source: Bank of Slovenia

Around 90% of interest-rate sensitive assets and liabilities are tied to the EURIBOR reference interest rate.

The most frequently used reference interest rate on both the asset and liabilities sides is the 6-month EURIBOR. The proportion of asset items tied to the 6-month EURIBOR rose by 3 percentage points from the end of 2009 until the end of February 2011, while the proportion tied to the 1-month EURIBOR was down by 2.1 percentage points.

The proportion of items tied to the second most important reference interest rate, the Swiss franc LIBOR, is declining owing to repayments and a halt in the approval of new loans tied to the Swiss franc. The proportion of interest-sensitive items assets and liabilities tied to the Swiss franc is around 6%.

Long positions in key interest rates have lengthened since the end of 2009.

The banks lengthened their long position in the majority of key reference interest rates, the exception being the 3-month EURIBOR. The most significant lengthening measured in percentage points was recorded in the 1-month and 6-month EURIBOR. The banks thus remained exposed to falling interest rates, but only with respect to items tied to reference interest rates.

Table 5.36: Interest-rate gap in interest-sensitive items by type of reference interest rate in percentages

(%)	Overall net position				Net position by bucket, Feb. 2011			
	Dec. 08	Dec. 09	Dec. 10	Feb. 11	Sight	Up to 1 year	1 to 5 years	More than 5 years
EURIBOR								
1 month	4.6	1.0	1.7	2.3	0.0	0.2	0.6	1.5
3 month	5.4	5.8	6.1	5.4	0.1	1.4	-0.4	4.4
6 month	15.6	12.8	17.3	17.6	-0.8	3.2	6.9	8.5
1 year	0.7	1.0	0.7	0.9	0.0	0.0	0.2	0.8
LIBOR								
1 month	0.3	0.2	0.2	0.2	0.0	0.1	0.0	0.1
3 month	0.3	-0.1	-0.4	-0.3	0.0	0.1	0.0	-0.4
6 month	0.9	0.9	1.3	1.2	0.0	-0.1	-0.1	1.4
1 year	0.5	0.5	0.6	0.6	0.0	0.0	-0.1	0.7

Source: Bank of Slovenia

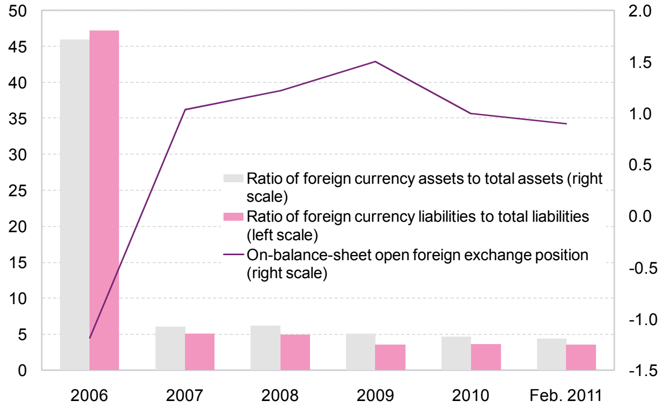
5.9 Currency risk

Currency risk rose in 2010, but remains low.

The Slovenian banking system's currency risk rose in 2010, but remains low. The banks' net open foreign exchange position stood at EUR 64.9 million or 1.4% of regulatory capital. At EUR 60.2 million, the large banks were most exposed to currency risk. The banks remained exposed in 2010 to the appreciation of major global currencies against the euro, and to the depreciation of certain other currencies (i.e. from the Balkans) against the euro.

The proportion of the banking system's total assets accounted for by foreign currency items has not changed significantly since the adoption of the euro. In February 2011 the proportions of total assets accounted for by foreign currency assets and liabilities were 4.4% and 3.5% respectively. The on-balance-sheet foreign exchange position remained long, at 0.9% of total assets.

Figure 5.49: Ratio of foreign currency assets and liabilities to total assets, and on-balance-sheet open foreign exchange position in percentages



Source: Bank of Slovenia

5.9.1 Currency breakdown and open foreign exchange position

The proportion of banks total assets accounted for by on- and off-balance-sheet foreign currency items was up 7.5% on the asset side and 6.9% on the liability side in 2010. This increase was largely the result of the appreciation of the Swiss franc and US dollar in 2010. The former appreciated by 18.7% and the latter by 7.8%. Together these two currencies accounted for 88.9% of the banks' foreign currency assets and 91% of foreign currency liabilities in December 2010.

Table 5.37: Currency breakdown of on- and off-balance-sheet assets and liabilities

	2008		2009		2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Total foreign currency excluding euros, EUR milli	3,942	3,932	3,383	3,342	3,637	3,572
year-on-year growth, %	-78.4	-78.5	-14.2	-15.0	7.5	6.9
Breakdown of currencies other than euros			(%)			
global currencies	94.7	95.9	90.4	92.4	92.3	94.5
Swiss franc	61.0	61.6	61.3	62.4	60.6	62.0
pound sterling	1.9	1.9	1.8	1.9	1.4	1.4
US dollar	30.3	31.0	25.5	26.3	28.3	29.0
Canadian dollar	0.4	0.4	0.7	0.7	0.5	0.5
Japanese yen	0.7	0.7	0.7	0.7	1.0	1.1
Australian dollar	0.4	0.4	0.4	0.4	0.5	0.5
EEA currencies	2.2	2.2	3.9	3.8	2.7	2.2
Other currencies	2.2	1.9	4.2	3.8	3.5	3.3
CIU	1.0	0.0	1.4	0.0	1.5	0.0

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

The net open foreign exchange position stood at EUR 64.9 million in December 2010 or 1.4% of regulatory capital.

The net open foreign exchange position widened to EUR 64.9 million in 2010 or 1.4% of regulatory capital. The net open foreign exchange positions in major global currencies closed and remain short. The banks are thus exposed to the risk of appreciation of these currencies. The majority of net long foreign exchange positions in December 2010 were in investment fund units, while the most significant lengthening was seen in the currencies of the European Economic Area. The banks are therefore exposed to the depreciation of these currencies against the euro. Recent negative developments for the banks were seen primarily in currencies from the Balkans, which are included in the group of other currencies. Most worthy of note is the Serbian dinar, which has depreciated despite intervention and the tightening of monetary policy by the Serbian central bank. This currency is expected to depreciate further against the euro.

Table 5.38: Open foreign exchange positions by currency in EUR million

	Net position			Greater of sum of long and short positions		
	2008	2009	2010	2008	2009	2010
Global currencies	-39.5	-28.9	-20.1	49.5	37.1	32.8
US dollar	-22.9	-14.7	-8.4	26.8	19.1	14.1
Swiss franc	-19.2	-12.3	-9.9	19.6	14.6	13.8
Other (GBP, CAD, AUD, JPY)	2.6	-1.8	-1.8	5.7	3.4	4.9
EEA currencies	1.1	4.9	20.5	4.4	5.0	20.7
Other currencies	9.9	17.2	11.9	10.1	25.2	11.9
CIU	38.0	48.2	52.6	38.0	48.2	52.6
Total	9.5	41.4	64.9	62.6	86.6	97.9
As % of regulatory capital	0.2	0.9	1.4	1.5	1.9	2.2

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

Despite the lengthening of the net open foreign exchange position, currency risk remains relatively low for Slovenian banks. With a net open foreign exchange position of EUR 60.2 million, the large domestic banks are most exposed to currency risk, followed by the small domestic banks at EUR 3.9 million and the banks under majority foreign ownership at EUR 0.8 million. The open foreign exchange position according to the Bank of Slovenia's definition deriving from capital requirements stood at EUR 97.9 million or 2.2% of regulatory capital in December 2010.

Table 5.39: Open foreign exchange positions by bank group, September 2010 in EUR million

	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Overall
Global currencies	-20.5	0.3	0.1	-20.1
US dollar	-7.1	-0.8	-0.5	-8.4
Swiss franc	-10.7	0.3	0.5	-9.9
Other (GBP, CAD, AUD, JPY)	-2.6	0.8	0.0	-1.8
EEA currencies	20.1	0.3	0.1	20.5
Other currencies	8.2	3.0	0.7	11.9
CIU	52.3	0.3	0.0	52.6
Total	60.2	3.9	0.8	64.9
As % of regulatory capital	2.1	1.0	0.1	1.4

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

5.9.2 Borrowing in Swiss francs

Growth in Swiss franc loans to non-banking sectors was negative.

Swiss franc borrowing was affected in 2010 by the appreciation of the Swiss franc, which resulted in a significant increase in the debt servicing burden. Households, which accounted for more than 70% of all loans in Swiss francs or with a Swiss franc clause in February 2011, were hit hardest. Due to the increased risk, the banks only exceptionally approved such loans (and only to corporates). This is reflected in negative growth in Swiss franc loans to non-banking sectors. The value of Swiss franc housing loans was up 4.7% in year-on-year terms in February 2011, primarily owing to the appreciation of the Swiss franc.

Table 5.40: Stock and year-on-year growth of loans in Swiss francs or with a Swiss franc currency clause

	Non-banking sectors	Non-financial corporations	OFIs	Government	Households: All loans	Households: Housing loans
	Stock of loans, EUR million					
2009	1,891.4	464.8	173.3	6.4	1,246.9	1,034.9
2010	1,868.1	429.5	134.4	6.0	1,298.2	1,128.3
Feb. 2011	1,747.6	370.1	131.1	5.8	1,240.6	1,081.5
	Growth, %					
2009	-21.3	-37.5	-23.5	-13.5	-12.6	-8.1
2010	-1.2	-7.6	-22.5	-6.4	4.1	9.0
Feb. 2011	-7.0	-19.5	-24.9	-10.5	0.2	4.7

Source: Bank of Slovenia

The proportion of Swiss franc loans is gradually declining.

In December 2010 the proportion of the total stock of loans to non-banking sectors tied to the Swiss franc or with a Swiss franc clause was 4.6%. Despite the fact that the banks only exceptionally approve Swiss franc loans, that proportion is only gradually declining owing to the high appreciation of the Swiss franc. The proportion of all housing loans in Swiss francs or with a currency clause tied to the Swiss franc remains more important in relative terms, at 22%.

Table 5.41: Loans tied to the Swiss franc exchange rate by bank group

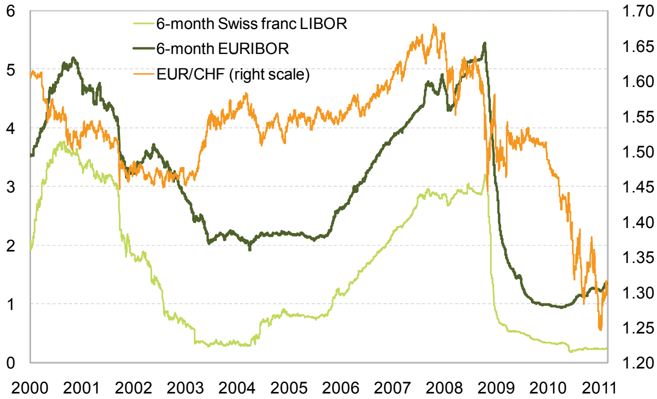
	Year-on-year growth, %		Proportion of all loans to non-banking sectors tied to Swiss franc, %		Proportion of loans at particular bank group, %	
	2009	2010	2009	2010	2009	2010
Large domestic banks	-19.5	-2.6	31.7	31.5	2.6	2.4
Small domestic banks	-7.1	0.4	1.1	1.1	0.7	0.6
Banks under majority foreign ownership	-21.4	-1.5	67.2	67.4	9.8	9.9
Overall	-21.3	-1.2	100.0	100.0	4.9	4.6

Source: Bank of Slovenia

The Swiss franc appreciated by 18.7% against the euro in 2010.

The Swiss franc appreciated by 18.7% against the euro in 2010, primarily as the result of the rapidly growing Swiss economy, Switzerland's rising current account surplus and the public finance problems faced by certain euro area countries. The Swiss central bank continues to implement an expansionary monetary policy. The Swiss franc LIBOR is therefore fluctuating around the target interest rate of 0.25%. In contrast, the EURIBOR is rising due to the gradual tightening of ECB monetary policy. Due to the divergence of the monetary policies of the Swiss central bank and the ECB, the euro/Swiss franc exchange rate turned in favour of the euro in early 2011, which has eased the debt servicing burden associated with loans tied to the Swiss franc of with a Swiss franc currency clause.

Figure 5.50: LIBOR reference interest rate for Swiss francs and the EURIBOR, and changes in the euro / Swiss franc exchange rate



Source: Bank of Slovenia

5.10 Bank solvency

The banking system's capital adequacy and Tier 1 capital adequacy were down last year. Both indicators are below the European average and among the lowest in the EU at all bank groups. Regulatory capital was down primarily owing to the banks' poor operating results, while growth in capital requirements was low in the context of a stagnation in lending to non-banking sectors. The banking system's capacity to absorb risks consequently diminished. The quality of the large banks' capital deteriorated, as reflected in a decrease in original own funds. The ability to increase subordinated debt is sufficient at the majority of banks.

Changes in the structure of capital requirements for credit risk reflect the shift in lending activities from corporates to households. By doing so the banks have demonstrated their decreased appetite to take up credit risk, while also optimising the use of their capital, which is lower in the retail banking segment as the associated risk is also lower. The increase in the proportion of capital requirements for regulatory high-risk items reflects the deterioration in the quality of the credit portfolio and the resulting rise in credit risk.

Solvency indicators deteriorated at the large domestic banks, while the average values of these indicators remain lowest at the small domestic banks. Here it should be noted that the differences between banks in terms of capital adequacy have widened with respect to the pre-crisis period. Only the large domestic banks have recorded a decline in capital adequacy and Tier 1 capital adequacy, as they are the only banks to record a deterioration in both the quality and stock of regulatory capital, primarily owing to the poor operating results of the largest bank in this group. The large domestic banks' ability to increase subordinated debt has also diminished. This bank group contributed some 80% to the increase in capital requirements for regulatory high-risk items, which reflects the deterioration of the credit portfolio. Despite an increase in 2010, the small domestic banks had the lowest average capital adequacy and deviate most from the European average. With respect to the breakdown of capital requirements for credit risks, these banks disclose an above-average proportion of capital requirements for items secured by real estate collateral. In 2010 these same banks recorded the highest increase in the proportion of capital requirements for regulatory high-risk items. This proportion is likewise highest at this group of banks.

Despite poor operating results and a low return on equity, banks' management boards must raise fresh, higher-quality capital. The stagnation in lending growth, the deteriorating quality of the credit portfolio, growth in funding costs and the resulting deterioration in the banks' operating results have a negative impact on growth in original own funds. Retained earnings will not necessarily be a sufficient source for increasing capital for some time to come. Capital increases, which must be carried out by existing or new owners, have a significant impact on the rating of banks and thus on access to and the costs of funding on the international markets. In the context of unchanged capital requirements, the capital of the entire banking system would have to be increased by EUR 1,235 million or 28.8% to bring the capital adequacy of

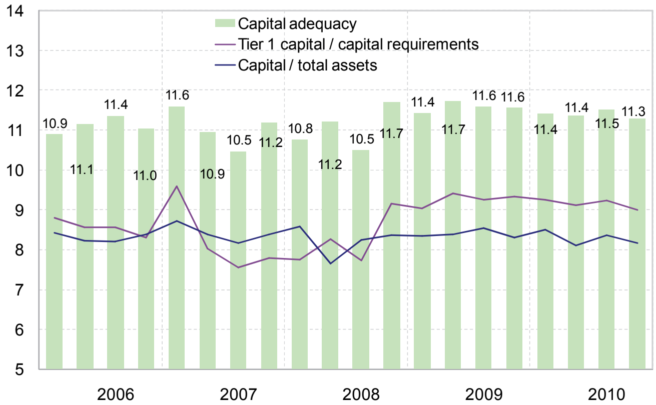
Slovenian banks in line with the average value of this indicator for comparable EU banks.[32] The additional need for higher-quality capital is also set out in the new Basel III regulatory framework, which will be introduced gradually until the end of 2018.

5.10.1 Capital adequacy

Capital adequacy and Tier 1 capital adequacy were both down 0.3 percentage points in 2010 to stand at 11.3% and 9% respectively.

The banking system's capital adequacy stood at 11.3% at the end of 2010, down 0.3 percentage points on the end of the previous year. Tier 1 capital adequacy fell by the same amount to stand at 9.0%. The negative effects of the financial turmoil have been reflected in the deterioration of the banking system's capital adequacy owing to the stagnation in lending growth, the deteriorating quality of the credit portfolio and the associated deterioration in operating results. The movement in capital adequacy indicators tracked the movement in the ratio of capital to total assets, which was down 0.1 percentage points at 8.2% and thus increased financial leverage.

Figure 5.51: Basic indicators of the banking system's capital adequacy in percentages



Source: Bank of Slovenia

Capital adequacy was down only at the large domestic banks.

The deterioration in the banking system's capital adequacy is primarily the result of a decline in the large domestic banks' regulatory capital. The capital adequacy of the latter was down 0.5 percentage points at 11.3%. Regulatory capital was down 3.6%, mainly due to the poor operating results of the largest bank, while capital requirements were up 0.8%.

In contrast to the large domestic banks, the capital adequacy of the other bank groups improved. Capital adequacy was up 0.2 percentage points at the banks under majority foreign ownership in 2010 to stand at 11.4%, primarily on account of a 1.1% decrease in capital requirements. This bank group reduced its corporate lending notably, and thus its capital requirements for credit risk. The capital adequacy of the small domestic banks improved by 0.1 percentage points, but remains below the banking system average at 11.2%.

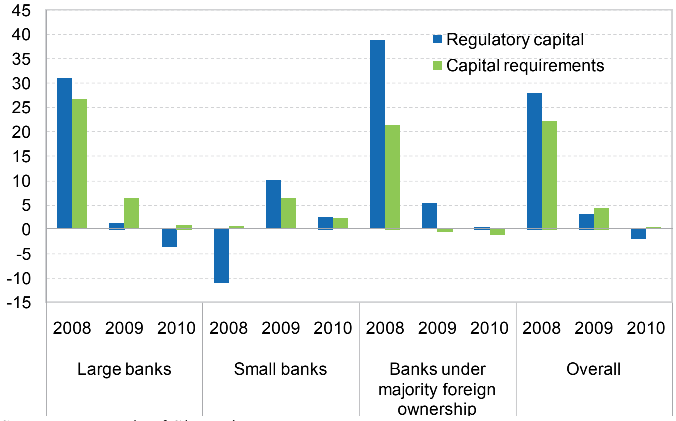
Table 5.42: Capital adequacy by bank group on a consolidated basis in percentages

	2006	2007	2008	2009	2010
Large domestic banks	11.0	11.9	12.3	11.8	11.3
Small domestic banks	10.9	12.1	10.8	11.1	11.2
Banks under majority foreign ownership	11.1	9.3	10.6	11.2	11.4
Slovenian banking sector	11.0	11.2	11.7	11.6	11.3

Source: Bank of Slovenia

[32] This is the sum of the required capital of individual banks at the consolidated level that do not meet the average capital adequacy of comparable European banks.

Figure 5.52: Year-on-year growth in capital requirements and regulatory capital by bank group in percentages

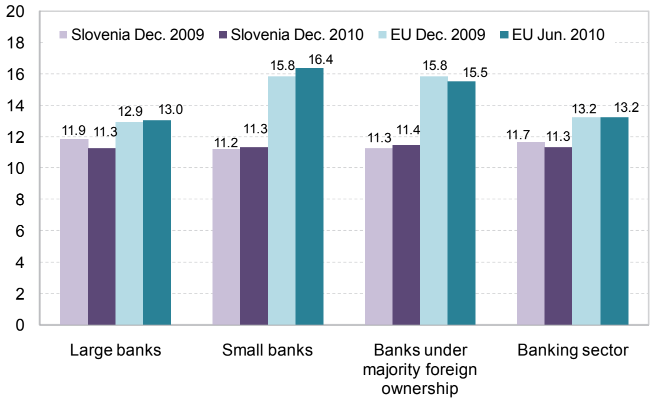


Source: Bank of Slovenia

The capital adequacy of the Slovenian banking system is among the lowest in the EU.

The Slovenian banking system ranks among those EU banking systems with the lowest capital adequacy. Only three EU banking systems had a lower capital adequacy indicator in June 2010. The overall capital adequacy of all Slovenian banks groups remains below the EU average. At 5.1 percentage points, the small domestic banks deviate most. In the context of unchanged capital requirements, these banks would need to increase their capital by EUR 200 million or 45%[33] to achieve the average capital adequacy of comparable EU banks. The banks under majority foreign ownership would require additional capital of EUR 447 million, an increase of 36%, while the large domestic banks [34]would need to increase their capital by 22.7% or EUR 588 million to achieve the average capital adequacy of comparable EU banks. A difference can also be seen in the movement of capital requirements in the latter two groups, as capital adequacy was down at the large domestic banks with respect to the EU average, but up at the banks under majority foreign ownership.

Figure 5.53: Capital adequacy by bank group on a consolidated basis in comparison with the EU average in percentages



Source: Bank of Slovenia, EU Banking Sector Stability, ECB, September 2010; Consolidated Banking Data – Semi Annual Indicators 2010, ECB February 2011

The lowest Tier 1 capital adequacy is still achieved by the small domestic banks.

The banking system's Tier 1 capital adequacy was down 0.3 percentage points in 2010 to stand at 9%, but only at the large domestic banks where it was down 0.6 percentage points to stand at 8.8%. The original own funds [35]of the large domestic banks were down 5.7% primarily due to the poor operating results of the largest bank. Despite an increase in 2010, the small domestic banks have the lowest average Tier 1 capital adequacy.

Tier 1 capital adequacy remains below the EU average, most notably at the small domestic banks.

The Tier 1 capital adequacy of the Slovenian banking system fell, while the EU average was up. At the end of June 2010 the Slovenian banking system's Tier 1 capital adequacy was second lowest among EU Member States. With regard to bank groups, the movement in Tier 1 capital adequacy, compared with the EU average, is similar to the movement in capital adequacy. All bank groups lag behind the average of comparable EU banks, most

[33] This is the sum of the required capital of individual banks at the consolidated level that do not meet the average capital adequacy of comparable European banks.

[34] The capital adequacy of the large domestic banks is compared with the capital adequacy of comparable EU banks in terms of total assets.

[35] Original own funds less deduction items are taken into account.

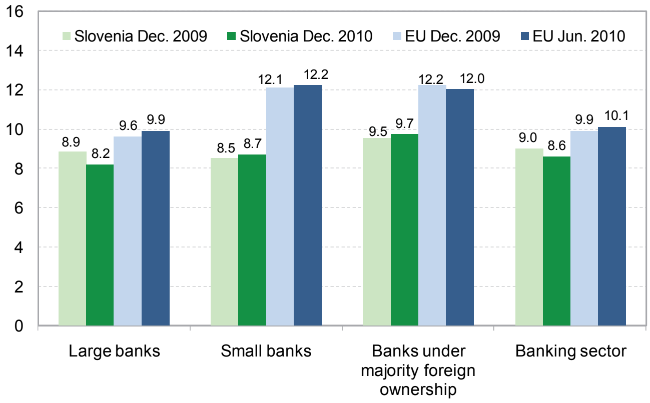
notably the small domestic banks. The small domestic banks would have to raise their Tier 1 capital adequacy by 3.5 percentage points achieve the level of comparable EU banks. In the context of unchanged capital requirements, this would require an increase in original own funds of EUR 139 million or 41%.[36] The large domestic banks, whose Tier 1 capital adequacy was down in contrast to the average of comparable EU banks, would require an increase in original own funds of EUR 702 million or 53%. The banks under majority foreign ownership would require an increase in original own funds of 32% or EUR 257 million.

Table 5.43: Tier 1 capital adequacy by bank group on an individual basis in comparison with the EU average in percentages

	2006	2007	2008	2009	2010
Large domestic banks	7.4	7.3	9.3	9.4	8.8
Small domestic banks	8.6	9.6	8.5	8.5	8.6
Banks under majority foreign ownership	10.2	8.1	9.1	9.5	9.7
Slovenian banking sector	8.3	7.8	9.2	9.3	9.0

Source: Bank of Slovenia

Figure 5.54: Tier 1 capital adequacy by bank group on a consolidated basis in comparison with the EU average in percentages

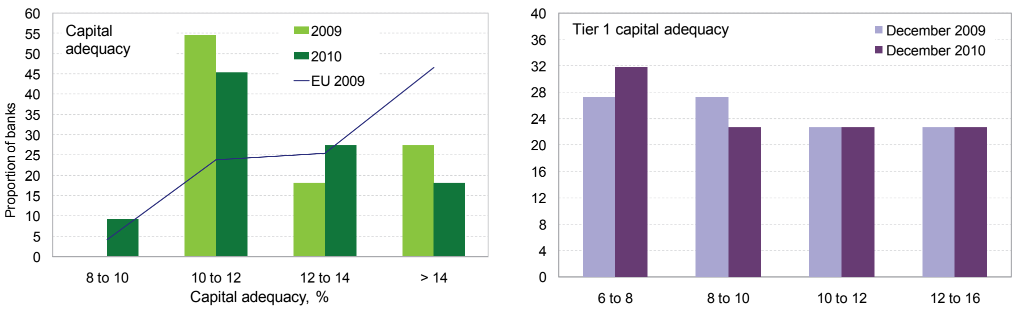


Source: Bank of Slovenia; EU Banking Sector Stability, ECB September 2010; Consolidated Banking Data – Semi Annual Indicators 2010, ECB February 2011

The distribution of capital adequacy turned negative last year. The proportion of banks with a capital adequacy exceeding 14% was down, while the proportion of banks with a capital adequacy of less than 10% was up. The distribution of capital adequacy deteriorated most notably at the large domestic banks and slightly less at the small domestic banks, while it was unchanged at the banks under majority foreign ownership. These facts confirm the widening gaps in the level of capital adequacy between individual banks. Slovenian banks lagged behind the EU in terms of the distribution of capital adequacy. The proportion of banks with a capital adequacy exceeding 14% is significantly higher in Europe overall and sharply lower in the intervals below 12%. The distribution of Tier 1 capital adequacy also deteriorated, with a negative shift noted in intervals below 10%.

The distribution of capital adequacy deteriorated most at the large domestic banks.

Figure 5.55: Distribution of banks' capital adequacy (left) and Tier 1 capital adequacy (right) in percentages



Source: Bank of Slovenia, EU Banking Sector Stability Report, ECB September 2010

[36] This is the sum of the required original own funds of individual banks at the consolidated level that do not meet the Tier 1 average capital adequacy of comparable European banks.

5.10.2 Structure of capital

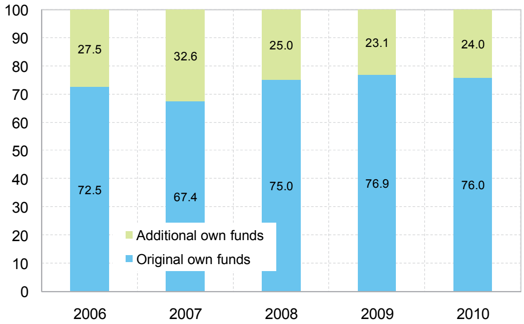
Original own funds were down on account of the banks' poor operating results.

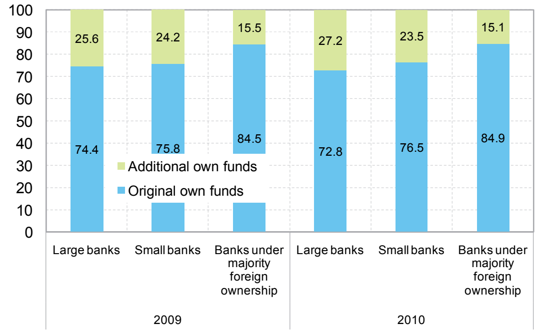
The banking system's regulatory capital stood at EUR 4,525 million at the end of 2010, down 2% on the previous year, while original own funds were down EUR 113 million to stand at EUR 4,003 million, as a result of a decrease in reserves and retained earnings, and losses in the current year.

The quality of capital only deteriorated at the large domestic banks.

The quality of the banking system's capital deteriorated, as the proportion of capital prior to deductions accounted for by original own funds was down 0.9 percentage points to stand at 76%. Only the large domestic banks recorded a deterioration in the quality of capital. The other two groups increased the proportion of original own funds, and thus improved the structure of their capital.

Figure 5.56: Structure of capital prior to deductions for the banking system as a whole (left), and by bank group (right) in percentages





Source: Bank of Slovenia

The proportion of original own funds accounted for by items tied to reserves and profit was down 1.8 percentage points in 2010. The decline in reserves by 4.9% to EUR 1,831 million and the increase in losses from current operations by EUR 34 million to EUR 40 million is the result of the negative operating results of six banks.

The need to increase the amount of higher-quality forms of capital is significant.

These banks must obtain higher-quality forms of capital to maintain or increase their capital adequacy. Modest lending to non-banking sectors, the deteriorating quality of the credit portfolio and growth in funding costs resulted in the banks' deteriorating operating results, and also have a negative impact on growth in original own funds. Moreover, a change in banking regulations [37]introduced stricter conditions for the inclusion of new hybrid instruments in original own funds. This triggered the need for new higher-quality capital that the banks will be forced to raise if they wish to replace maturing hybrid instruments. The banks disclosed hybrid instruments of EUR 349 million at the end of the year, or 8.7% of original own funds. The Governing Board of the Bank of Slovenia also adopted an amendment to the existing ICAAP guidelines in 2010. The amendment was issued on the basis of anticipated changes to European banking legislation aimed at improving the quality of the structure of capital. With this amendment, the Bank of Slovenia expects the banks to provide for at least 80% of original own funds to cover the recognised assessment of risk-based capital requirements.

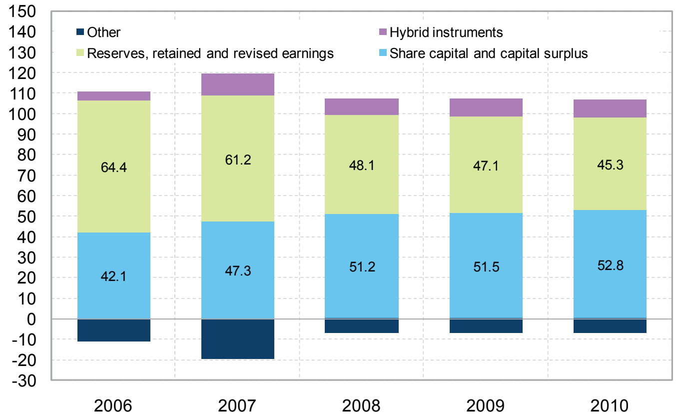
Poor operating results and a low return on equity make it difficult to raise fresh capital.

Despite deteriorating operating results and a low return on equity, banks' management boards must ensure capital increases are carried out to improve capital adequacy. The latter has a significant impact on the ratings of banks and thus on access to and the costs of funding on the international markets.

Based on survey data, 10 banks are planning capital increases in 2011 in the total amount of EUR 450 million, while six banks are planning increases in 2012 in the total amount of EUR 32 million. The main reasons for the increase in capital given by the majority of banks is anticipated growth in the scope of operations. It is evident from survey responses that only eight banks envisage capital adequacy and Tier 1 capital adequacy ratios in 2011 that are higher than those achieved at the end of 2010. The majority of these banks had a capital adequacy ratio in 2010 that was lower than the banking system average.

[37] The new Regulation on the calculation of the capital of banks and savings banks entered into force on 31 December 2010.

Figure 5.57: Components of original own funds in percentages

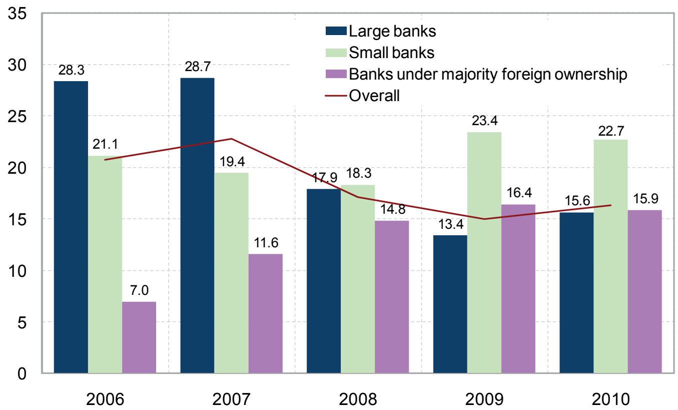


Note: Innovative instruments were reclassified as hybrid instruments as at 31 December 2010 in line with a the change to banking regulations.
Source: Bank of Slovenia

Primarily the large domestic banks contributed to the increase in subordinated debt.

Tier 1 additional own funds before deduction items were up EUR 26 million in 2010 to EUR 1.26 billion, as a result of a 6% increase in subordinated debt. In the context of a decrease in original own funds, the ratio of subordinated debt to original own funds was up 1.3 percentage points to stand at 16.3%. The potential for increasing subordinated debt was down EUR 94 million to stand at EUR 1.35 billion. Only the large domestic banks, which increased their subordinated debt and decreased original own funds, recorded a decrease in the potential to increase subordinated debt. By doing so, the ratio of subordinated debt to original own funds was up 2.3 percentage points at these banks.

Figure 5.58: Ratio of subordinated debt to original own funds by bank group in percentages

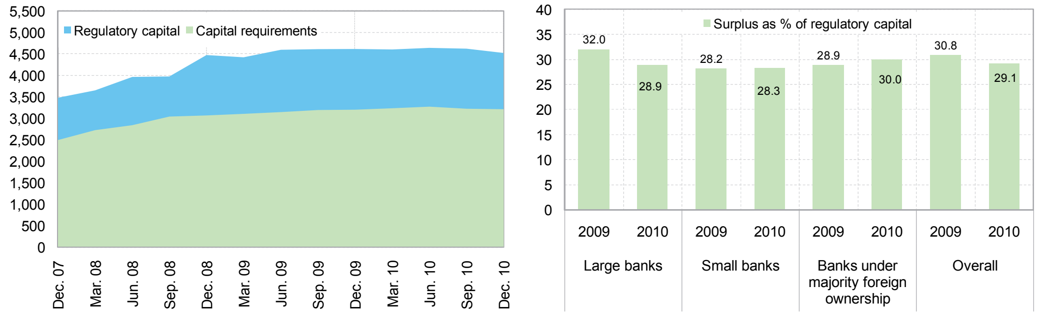


Source: Bank of Slovenia

The large domestic banks' capacity to absorb risks diminished.

The banking system's surplus of regulatory capital over capital requirements was down 1.7 percentage points to stand at 29.1%. The banking system's regulatory capital was down 2% to stand at EUR 4,525 million owing to the poor operating results of the largest bank. Growth in capital requirements was just 0.4%, as the result of a stagnation in lending to non-banking sectors. The banking system's capacity to absorb risks thus diminished. A detailed review by bank group indicates that this is only true for the large domestic banks. While the aforementioned banks recorded a decrease in the surplus of regulatory capital over capital requirements of 3.1 percentage points to 28.9%, the other bank groups recorded a slight increase in that surplus, to 28.3% at the small domestic banks and to 30% at the banks under majority foreign ownership.

Figure 5.59: Regulatory capital and capital requirements in EUR million (left) and surplus of capital over capital requirements as percentage of regulatory capital (right)



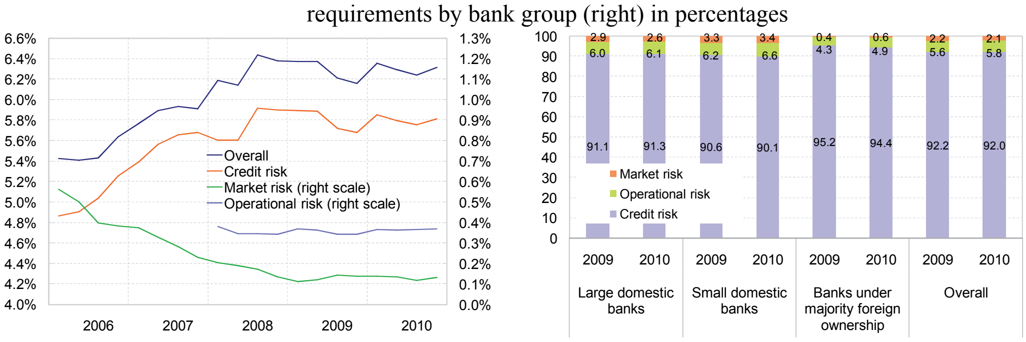
Source: Bank of Slovenia

5.10.3 Capital requirements

Stagnation in lending growth resulted in low growth in capital requirements.

Capital requirements stood at EUR 3,206 million at the end of 2010, an increase of 0.4% on the end of 2009. The low growth was the result of a stagnation in lending to non-banking sectors. This was reflected in a declining portion of total capital requirements accounted for by capital requirements for credit risk. The proportions of capital requirements for operational and market risks remain below 8%.

Figure 5.60: Ratio of capital requirements to total assets (left) and structure of capital requirements by bank group (right) in percentages



Source: Bank of Slovenia

The banks have reduced their exposure to corporates while increasing their exposure to retail banking.

Capital requirements for credit risk were up 0.2% to stand at EUR 2,951 million. The change in the structure of capital requirements for credit risk is reflected in diminishing exposure to corporates and rising exposure to retail banking at all bank groups. The banks' capital requirements for corporate exposure recorded the sharpest drop of EUR 96 million or 5.7%, resulting in a corresponding drop in the proportion of total capital requirements accounted for by the former of 3.4 percentage points. The large domestic banks contributed nearly one half to this decline. Capital requirements for retail banking exposure were up 5.1% or EUR 30 million. The banks under majority foreign ownership, who account for an above-average proportion of retail banking exposure, contributed 57% to this increase. By shifting the focus of their lending activities from corporates to households, the banks have demonstrated their diminished appetite to take up credit risk, while also optimising the use of their capital, which is lower in retail banking owing to the lower weights of the associated capital requirements.

Capital requirements for regulatory high-risk items were up only at the domestic banks.

Changes in the structure of capital requirements for credit risk are also reflected in the deteriorating quality of the credit portfolio. The proportion of capital requirements accounted for by regulatory high-risk items, which were up EUR 56 million or 35%, recorded the sharpest increase of 1.9 percentage points. This is not, however, true for all bank groups. Capital requirements for regulatory high-risk items were up 44% at the large domestic banks, accounting for 80% of the overall increase, and up 46% at the small domestic banks, while they declined at the banks under majority foreign ownership.

The small domestic banks are most vulnerable to credit risk in relative terms.

The small domestic banks remain the most exposed on average in relative terms with respect to the structure of capital requirements. These banks disclose an above-average proportion of capital requirements for items secured by real estate collateral. The latter require a significantly lower weight in calculating capital requirements. These banks are thus more vulnerable. In 2010 the small domestic banks also recorded the sharpest increase in the proportion of capital requirements for credit risk accounted for by regulatory high-risk items, of 4.1 percentage points to 13.6%, making it the highest among the three bank groups.

Table 5.44: Capital requirements for credit risk for the banking system and bank groups in EUR million

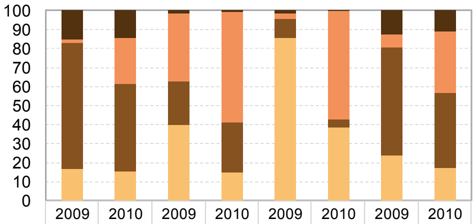
	2009				2010				Change			
	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Overall	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Overall	Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Overall
Capital requirements for credit risk, EUR million	1,837.3	275.4	831.6	2,944.2	1,855.7	280.2	815.4	2,951.4	18.4	4.9	-16.1	7.2
	Breakdown in capital requirements for credit risk, %								Change, percentage points			
General government, international organisations	0.4	1.0	1.2	0.7	0.8	1.7	1.7	1.1	0.3	0.7	0.5	0.4
Institutions	11.2	5.6	3.3	8.4	11.3	6.2	2.4	8.4	0.2	0.5	-0.9	0.0
Corporates	58.5	54.6	55.3	57.2	55.5	49.4	51.6	53.8	-3.0	-5.2	-3.7	-3.4
Retail banking	17.0	13.1	29.8	20.2	17.4	13.7	32.5	21.2	0.4	0.6	2.7	1.0
Exposures secured by real estate	0.0	8.1	0.6	0.9	0.0	7.7	1.1	1.0	0.0	-0.4	0.5	0.1
Past-due items	3.4	3.1	3.2	3.3	3.5	2.4	3.7	3.4	0.1	-0.7	0.5	0.1
Regulatory high-risk categories	5.5	9.5	3.9	5.5	7.9	13.6	3.9	7.3	2.4	4.1	0.0	1.9
Other	4.0	5.0	2.7	3.7	3.6	5.3	3.1	3.7	-0.3	0.3	0.4	-0.1

Source: Bank of Slovenia

Only the large domestic banks recorded a decrease in capital requirements for market risks, owing to a reduction in investments in securities.

The banks responded in part to the decline in funding by reducing the stock of securities. Capital requirements for market risks were thus down 5.6% to stand at EUR 67.8 million. The sharpest decline (of 34.8%) was recorded by capital requirements for equity instruments, resulting in a 17.7 percentage points decline in the proportion of total capital requirements for market risk accounted for by these instruments. The large domestic banks accounted for nearly the entire change, and were thus the only banks to record a decline in capital requirements for market risks. The banks' capital requirements for settlement risk more than tripled to stand at EUR 21.9 million, all bank groups having contributed to the increase.

Figure 5.61: Breakdown of capital requirements for market risks by bank group in percentages



	Large banks 2009	Large banks 2010	Small banks 2009	Small banks 2010	Banks under majority foreign ownership 2009	Banks under majority foreign ownership 2010	Overall 2009	Overall 2010
Other	15.1	14.4	1.4	0.8	1.8	0.1	12.5	11.1
Settlement risk	2.3	24.5	36.2	58.3	2.6	57.3	7.0	32.4
Equity financial instruments	66.0	45.7	22.9	26.2	10.0	4.1	57.0	39.3
Debt financial instruments	16.7	15.4	39.6	14.7	85.7	38.6	23.5	17.2

Source: Bank of Slovenia

Capital requirements for operational risk were up 5.3% in 2010 to stand at EUR 187 million. They were up at all bank groups, the banks under majority foreign ownership contributing nearly one half of the increase.

6 NON-BANK FINANCIAL INSTITUTIONS

6.1 Insurers

The performance of the insurance sector was limited by the uncertain situation on the capital market, low economic growth, a decline in consumer purchasing power and, to a lesser extent, weather conditions. There was no growth in gross written premium, despite new innovative products. Given the deterioration in the economic position and high growth in unemployment, insurers were not inclined towards long-term life insurance policies. By contrast, there was an increase in early payouts. In the life insurance segment, demand for traditional insurance policies increased again, while the main factors in the general insurance segment were the weak economic growth and the higher price elasticity for policyholders. Given the weak returns on the capital markets, insurers devoted greater attention to efficient management. The importance placed on return on insurance products ahead of growth in market share will increase with the introduction of the Solvency II Directive. The requirements of the directive focus on fundamental insurance activities, and will compel insurers to undertake active risk management, and to raise capital requirements for certain types of insurance, and certain insurance products are expected to rise in price.

6.1.1 Features of insurers' business and comparison with the EU

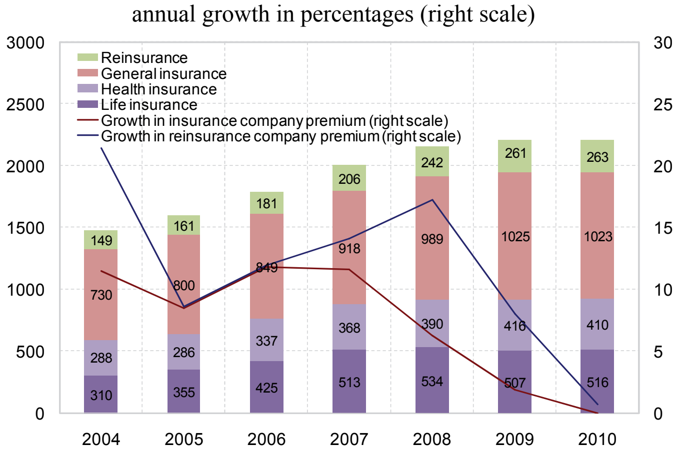
The process of declining concentration in the insurance sector is slow.

There were 15 insurance companies and two reinsurance companies operating in Slovenia last year. The largest insurance company accounted for 37% of written premium, down 1 percentage point for the second consecutive year. Concentration in the insurance sector remains high, the three largest insurance companies accounting for 64% of the market, although this figure is declining very slowly. The largest life insurance company covers 40% of the life insurance market, while the largest general insurance company covers 36% of the general insurance market. The market share of the largest reinsurance company declined by 2 percentage points to 54%.

Growth in written premium stalled in 2010 as a result of the weakness of the economy and the household sector.

Gross written premium in 2010 was at the level of the previous year. The magnitude of the economic and financial crisis was reflected with a time lag. Slovenian policyholders rationalised their behaviour and increased their responsiveness to price. Given their past poor performance, insurers improved the return on insurance products, and claims payments are therefore expected to be lower in the future. Gross written premium was down 0.2% for general insurance and 1.5% for health insurance, but was up 1.8% for life insurance.

Figure 6.1: Gross written premium by type of insurance in EUR million (left scale), and annual growth in percentages (right scale)



Source: ISA

Higher demand for traditional life insurance did not stop growth in the proportion accounted for by investment-based life insurance.

The proportions of gross written premium accounted for by general insurance and by health insurance declined to 52.5% and 21% respectively, as a result of an increase of 0.5 percentage points in the proportion accounted for by life insurance to 26.5%. Despite lower demand, there was an increase of 0.7 percentage points in the proportion accounted for by unit-linked insurance. This accounted for 12.6% of total written premium, almost half of life insurance premium. When concluding long-term policies, insurers are aiming to transfer more risk to policyholders. Given the increased demand for traditional insurance, they have therefore made adjustments to include the possibility of future conversion into investment-based insurance.

Table 6.1: Total gross written premium and gross written life insurance premium of insurance companies expressed in various categories for Slovenia in 2010 and for selected countries in 2009

	Slovenia	Euro area	EU27	Portugal	Austria	Germany	UK
Total premium, EUR billion	1.9	770.7	1,062.4	14.6	16.4	170.9	221.7
per person, EUR	952	2,193	1,989	1,367	1,966	2,064	3,238
as % GDP	5.4	8.0	8.4	8.9	6.0	7.0	12.9
Life insurance premium, EUR billion	0.5	450.8	650.1	10.4	7.4	80.1	156.1
per person, EUR	252	1,265	1,233	973	886	975	2,464
as % of total premium	26.5	58.5	61.2	71.5	45.0	46.9	70.4
as % GDP	1.4	4.6	5.2	6.3	2.7	3.3	10.0

Sources: ISA, Swiss Re, Bank of Slovenia calculations

Insurance penetration declined slightly last year to 5.4% of GDP, equivalent to EUR 952 per person. The average decline in insurance penetration in the euro area was larger in 2009, the indicator of the level of development therefore improving by 5.4 percentage points to 43.4%. The running improvement in the depth of life insurance was still slow, the figure reaching EUR 252 per person. This was 19.9% of the euro area average in 2010. Further closing of the gap in the level of development of insurance depends entirely on economic performance and household welfare.

Life insurance and contractual integration of insurers with banks

The total assets of life insurance accounted for 56% of the total assets of insurers at the end of 2010. The proportion of total written life insurance premium accounted for by life insurance in which policyholders assume the investment risk increased again to 47.6%. The trend of decline in the proportion of insurers' total life insurance assets accounted for by these investments is continuing. It reached its highest level of 27.4% at the end of last year, and was higher than the euro area average, which stood at 23.3% in 2009. Slovenian insurers thus transfer more investment risk to policyholders than insurers in the euro area overall.

There was increased redemption of unit-linked life insurance via the payout of the surrender value.

The number of policyholders is increasing faster than written premium, primarily as a result of moratoriums. Households have become more cautious in allocating their income. Life insurance and pension insurance account for 9% of their financial assets. Given the decline in disposable funds, last year was even more unfavourable for the conclusion of long-term insurance policies. Despite their awareness, 88% more policyholders opted to redeem their unit-linked life insurance via the payout of the surrender value than in the previous year. In the life insurance segment overall, early terminations (with or without redemption) were the same as in 2009, and up 16% on 2008.

Table 6.2: Insurers' written premium in EUR million and number of policyholders for life insurance and pension insurance

	2007	2008	2009	2010	2007	2008	2009	2010
Life insurance total					Growth, %			
premium, EUR million	513	534	507	516	20.6	4.1	-5.1	1.8
number of policyholders	1,140,435	1,196,312	1,206,786	1,289,533	15.6	4.9	0.9	6.9
Unit-linked life insurance					Proportion of life insurance, %			
premium, EUR million	238	252	233	246	46.3	47.1	45.9	47.6
number of policyholders	309,009	361,639	432,509	478,079	27.1	30.2	35.8	37.1
Voluntary supplementary pension insurance								
premium, EUR million	44	57	49	49	8.6	10.7	9.8	9.6
number of policyholders	113,246	123,281	81,295	82,530	9.9	10.3	6.7	6.4

Source: ISA

The links between insurers and banks in marketing their products remain low compared with the euro area overall.

The banks' integration with the insurers in marketing insurance products increased. The volume of transactions in terms of written premium was up just over a quarter for life insurance at EUR 38.6 million. In Europe life insurance is primarily marketed via banks. In Slovenia banks accounted for 8% of total volume, while insurance agents still accounted for over half.

Insurers' financial statements

Insurers' total assets were up 6.8% in 2010, reaching EUR 5.4 billion.

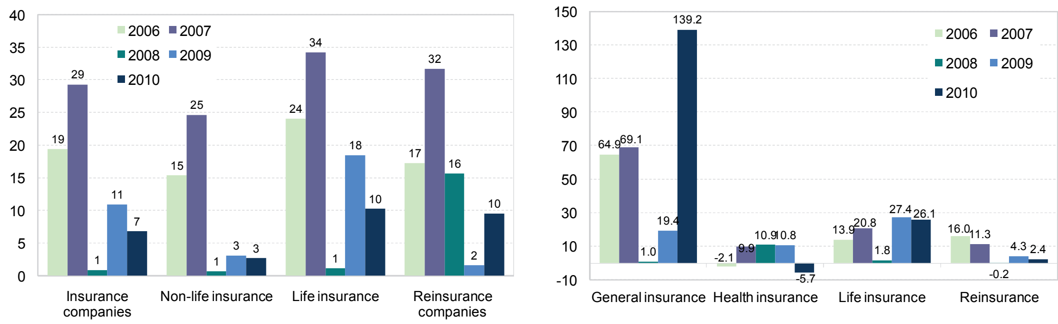
The increase of 6.8% in the insurers' total assets in 2010 to EUR 5.4 billion was the result of an improved claims ratio in life insurance and developments in international capital markets. The total assets of non-life insurance were up 2.7%, while those of life insurance were up 10.2%. The total assets of the reinsurance companies were up 9.5% over the first three quarters of 2010 at EUR 624 million.

Given the uncertainty and risk-aversion of the markets, prices of government bonds and non-financial corporations' investment-grade debt securities rose. Slovenian insurers hold a high proportion of such investments, as a result of which the revaluation of these investments brought an increase in total assets. The improvement was partly the result of investing in developed countries, where values on the share markets rose.

Low interest rates are raising the present value of future liabilities to policyholders and simultaneously reducing income from investments.

Investors' withdrawal to safe havens further reduced the return on risk-free securities. The maintenance of interest rates at historically low levels had a major impact on life insurance and pension companies that disclose non-current liabilities to policyholders. The discounting of future liabilities at a lower interest rate meant that their present value on balance sheets is higher. The financial position of insurers thus declined. Low returns also reduced finance income from investments. Given the expectation of higher inflationary pressures and a rise in interest rates, this effect will diminish, and at the same time it will be easier to achieve the minimum guaranteed return built into certain insurance products.

Figure 6.2: Growth in total assets in percentages (left) and result from ordinary activities in EUR million (right) of insurance companies and reinsurance companies



Note: The figures for reinsurance companies in 2010 relate to the end of the third quarter.
Source: ISA

ROE increased to 9.3%.

Despite lower demand and the creation of impairments of strategic and other investments, insurers recorded a slight improvement in performance last year. They recorded a net profit of EUR 78 million last year. Those operating at a loss held a market share of 0.02% of general insurance, 4.2% of life insurance and 99.97% of health insurance in terms of gross insurance premium. Having been extremely low in the initial period of the crisis, in 2010 ROE increased to the average level for large insurers in the euro area at 9.3%. The market value of shares in the Slovenian insurance sector did not track the improvement in performance, while across the euro area insurers saw the recovery of the majority of their market capitalisation from the period before the crisis.

Insurers were recapitalized in the amount of 5.8% of share capital.

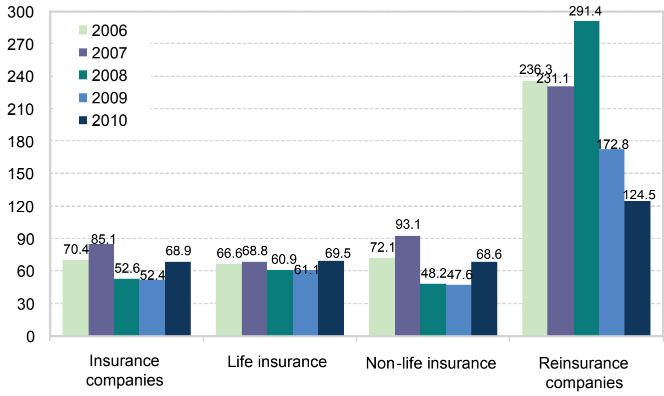
Insurers again required additional capital last year, particularly in the general insurance segment. The total value of capital increases made at six insurers last year was EUR 14.4 million, equivalent to an 5.8% increase in paid-up share capital. A capital increase at one further insurer in the general insurance segment is planned in the first half of 2011, in the amount of EUR 12.8 million.

The capital increases at the insurers were aimed more at rehabilitating past investments and operations and ensuring adequate coverage by the assets covering technical provisions and assets covering mathematical provisions than at further growth in core lines of business. They increased the surplus in available capital over the capital requirement by just over a third, which had a beneficial impact on the management of unforeseen events and the retention of credit rating, and increased the solidity of the insurance sector.

The process now begun of introducing the Solvency II Directive is altering capital management. Capital requirements will be commensurate with the quality of risk management, and according to quantitative studies of the effects by the EIOPA will generally be higher. This will require additional investment in the insurance sector. The importance of reinsurance will also increase in the maintenance of capital adequacy. The secondary legislation setting out the implementation of the principles of the aforementioned directive has not yet been elaborated in full. Solvency II is expected to enter into force in 2013 on a three-pillar basis. The first pillar consists of the aforementioned quantitative capital requirements, the second pillar relates to the principles of internal control, risk management and external supervision, while the third relates to market discipline. An important innovation will be the overall treatment of risk and capital by means of the standardisation of the calculation of risks, and the allocation of capital across business segments.

The Solvency II Directive is changing the measurement and management of risk together with the optimisation of capital.

Figure 6.3: Surplus of available capital over minimum capital requirement at insurance companies and reinsurance companies in percentages



Note: The figures for reinsurance companies in 2010 relate to the end of the third quarter.
Source: ISA

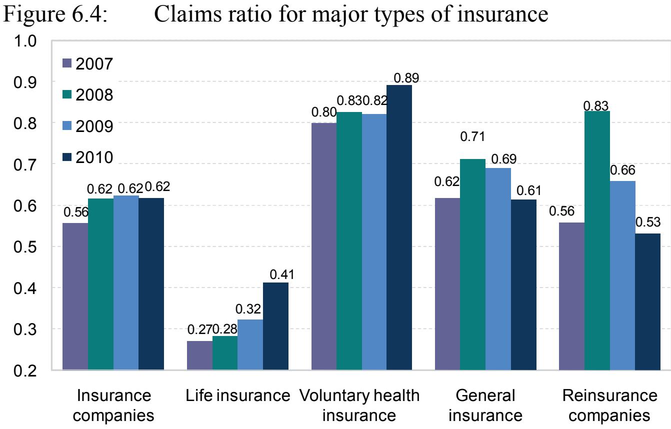
6.1.2 Stability of the insurance sector

Underwriting risk

The claims ratio at insurers as measured by the ratio of gross claims paid to gross written premium remained at 0.62 in 2010. This was the result of a decline in the claims ratio in general insurance, which improved as a result of adequate reinsurance and a larger decline in claims paid than in gross insurance premium. The claims ratio for life insurance deteriorated for the second consecutive year, primarily in the segment of investment and pension insurance, where there was a pronounced rise in claims for survival and early termination of insurance. The proportion of insurers' risk retained in general insurance remained at 80%.

The claims ratio improved for general insurance and deteriorated for life insurance.

Figure 6.4: Claims ratio for major types of insurance



Source: ISA

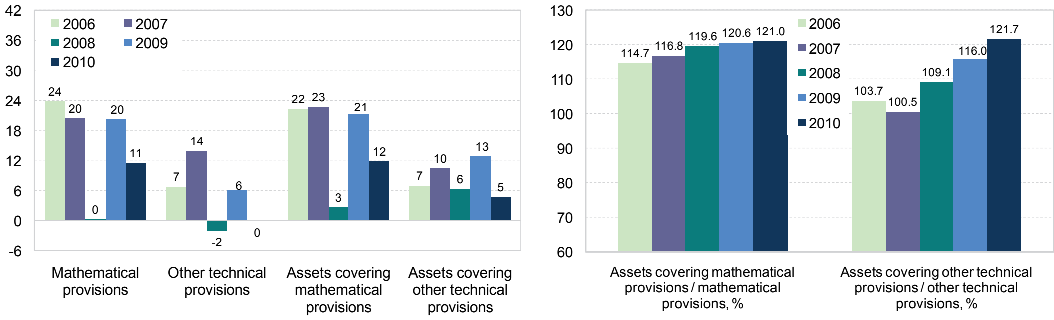
As a result of the economic slowdown and in the absence of high returns on the capital markets, insurers are monitoring the concentration of insurance risks particularly closely. In light of the actuarial calculations, precisely monitoring developments by sector, location and type of insurance transaction and avoiding correlations will be the key to generating returns in the future.

Investment risk

Coverage of technical provisions by assets covering technical provisions increased to 121%.

Assets covering technical provisions increased by 9.1% in 2010 to EUR 4,489 million, or 12.4% of GDP. Growth in life insurance investments last year was higher than growth in non-life insurance investments for the second consecutive year, as a result of the structure of financial instruments. The ratio of assets covering mathematical provisions to assets covering technical provisions rose again, to 1.7. Coverage of net insurance technical provisions by assets covering technical provisions increased by 2.4 percentage points to 121.2%. The main factor in this was an improvement of 5.6 percentage points in the coverage of other technical provisions by assets covering technical provisions to 121.7%. The coverage of mathematical provisions by assets covering mathematical provisions for life insurance and health insurance also increased slightly, to 121%. According to the guidelines known at the moment, the calculation of provisions, which is currently based on an accounting approach, will in the future be based on cash flows, which will lead to greater variability in technical provisions and assets covering technical provisions.

Figure 6.5: Growth in net insurance technical provisions and assets for life insurance and non-life insurance (left), and coverage of net insurance technical provisions by assets covering technical provisions (right) in percentages



Sources: ISA, Bank of Slovenia calculations

Investments in debt securities increased as expected.

Slovenian insurers hold more conservative investments on their balance sheets than euro area insurers overall. The proportion accounted for by the safest forms of investment in deposits, government debt securities and other debt securities stood at 62% in Slovenia at the end of 2010. The overall figure for the euro area was below 30% before the crisis, and stood at 54% at the end of 2009. In light of the objective of managing investments in keeping with the nature of the liability, the proportion accounted for by debt securities will be maintained or strengthened in the euro area overall in the future. Slovenian insurers hold EUR 228 million of investments in bonds and EUR 151 million of investments in shares of Slovenian banks.

The proportion of life insurance investments accounted for by deposits increased slightly as a result of an increase in the number of early withdrawals from long-term policies. The increase of 2.9 percentage points in the proportion accounted for by mutual fund units to 26.4% was partly the result of value changes. The proportion accounted for by debt securities declined by 3.6 percentage points to 60.2%. There was no significant change in the structure of non-life insurance investments.

Figure 6.6: Structure of insurers' assets covering mathematical provisions (left) and assets covering technical provisions other than mathematical provisions (right) in percentages

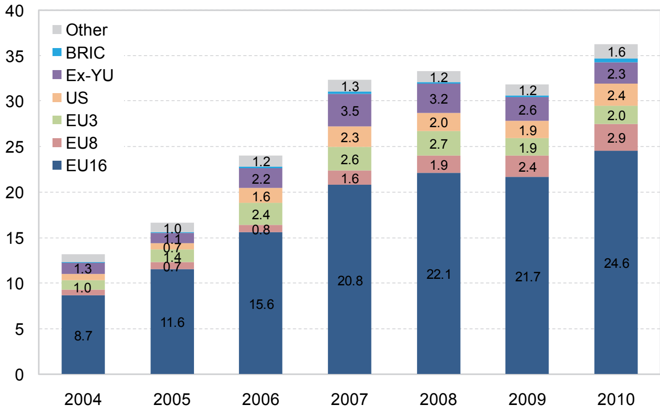
Source: ISA

Investments in foreign securities increased.

The proportion of assets covering mathematical provisions accounted for by foreign securities increased by 2.8 percentage points to 43.4%. The proportion of assets covering technical provisions accounted for by foreign securities increased by 6.1 percentage points to 21%.

The entire insurance sector's investments in the rest of the world increased by 22.8% in 2010 to EUR 2,508 million. The proportion of investments in the rest of the world increased by 4.4 percentage points to 36.3%, the highest figure in recent years. Net purchases of foreign debt securities amounted to EUR 323 million, primarily those from the euro area and EU8. The net purchases of EUR 116 million in foreign shares were partly the result of capital increases at affiliates in the rest of the world. Insurers generated EUR 22 million of capital losses on equities in the former Yugoslav republics, while there was a positive value change of EUR 36 million in investments in the euro area and the US.

Figure 6.7: Proportion of life insurance investments accounted for by foreign investments in percentages



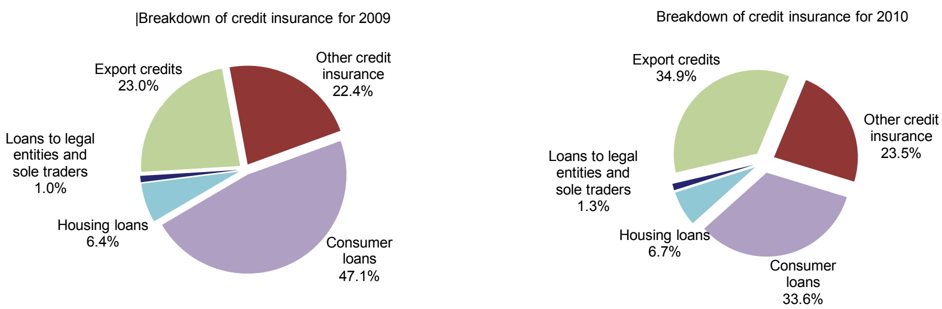
Source: Bank of Slovenia

6.1.3 Influence of insurers on the stability of the banking sector via credit insurance

Export credits and housing loans brought an increase in written premium from credit insurance.

The decline in investment activity reduced demand for credit insurance, which is dependent on the banks' lending activity. Written premium was nevertheless up, primarily as a result of insurance for export claims and housing loans. The proportion of the insurers' total written premium accounted for by credit insurance increased slightly to 2.4%, and the proportion of written non-life insurance premium increased to 3.2%. The ratio of the sum insured from credit insurance at Slovenian insurers to loans to non-banking sectors increased to 19.1%, equivalent to EUR 6,572 million, as a result of the tightening of the banks' credit standards. The ratio of the sum insured from credit insurance for housing and consumer loans to household loans declined by 1.3 percentage points to 7.2%, equivalent to EUR 623.8 million, although there was an increase of just under 10% in such loans. The sum insured for consumer loans declined by 14.1% last year, while the largest increase was in the sum insured for export credits, at 23.4%. This was followed by the sum insured for housing loans, which was up 22.8%.

Figure 6.8: Breakdown of written premium from credit insurance in percentages

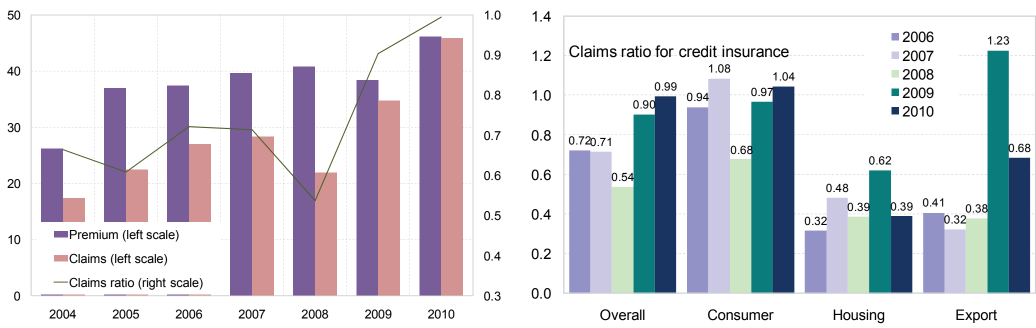


Source: ISA

The claims ratio for credit insurance deteriorated.

In accordance with the increase in impairments at banks, the claims ratio deteriorated for the second consecutive year, reaching 0.99 in 2010, the highest figure of recent years. The reasons were the increased inability to repay liabilities, bankruptcies and payment indiscipline. Because the equalisation reserves for credit insurance are provided from net profit for the financial year, and are recognised via equity, an increase in the claims ratio is reflected in a decline in insurers' equity.

Figure 6.9: Written premium and claims paid in EUR million, and claims ratios for credit insurance



Source: ISA

6.2 Voluntary supplementary pension insurance

Written premium for voluntary pension insurance was at the level of 2009 at EUR 154 million.

The number of policyholders covered by voluntary supplementary pension insurance increased by 5.2% last year to 508 thousand. Written premium remained almost unchanged at EUR 154 million, while assets were up 17% at EUR 1,794 million as a result of the value changes in capital investments. Payouts had an adverse impact on premium. Compared with 2009 there was an increase of 20% in the number of policyholders opting for early redemption of insurance, while some providers had to provide their first regular payouts after a 10-year saving period. Pension companies last year held EUR 77.8 million in bonds and EUR 5.3 million in shares of Slovenian banks.

Table 6.3: Voluntary supplementary pension insurance providers: number of policyholders, written premium and assets

	2006	2007	2008	2009	2010
Number of policyholders	459,764	486,816	512,343	482,988	508,195
Breakdown, %					
mutual pension funds	48.0	47.4	46.6	51.1	49.8
insurers	9.2	23.3	24.1	16.8	16.2
pension companies	42.8	29.3	29.3	32.1	33.9
Written premium, EUR million	202	217	240	152	154
Breakdown, %					
mutual pension funds	44.6	43.7	42.6	18.0	17.5
insurers	7.9	20.2	23.7	32.4	32.1
pension companies	47.5	36.0	33.7	49.6	50.4
Assets, EUR million	783	956	1,212	1,528	1,794
Breakdown, %					
mutual pension funds	43.0	45.9	39.9	42.4	42.5
insurers	10.9	12.3	22.1	21.5	21.3
pension companies	46.1	41.8	38.0	36.1	36.2

Sources: ISA, SMA

The pressure is increasing on the compulsory pension and disability insurance fund. The number of policyholders at the Pension and Disability Insurance Institute increased by 5.2%, partly as a result of changes in pension legislation. There was an adverse decline of 3% in the workforce in employment as a result of high unemployment. This brought a deterioration in the ratio of the workforce in employment to the number of pensioners to 1.6. Growth in the average pension stood at 1.1% last year, less than the growth in the net average wage, which stood at 3.9%. There was an increase of 0.3 years to 59.8 in the average age of new pension claimants.

To ensure the long-term sustainability of the pension system a new Pension and Disability Insurance Act was adopted.

To ensure the long-term financial sustainability of the pension system, a new Pension and Disability Insurance Act was adopted in December 2010 to adapt to the changed demographic, economic and fiscal circumstances. The main changes in legislation relate to a gradual raising of the retirement age to 65 for men and women with a pensionable working life of 43 and 41 years, the introduction of incentives to work after meeting the minimum conditions for old age retirement, a rise in the accrual rate to 80% of the pension basis, the basing of the calculation of the basis on a period of the 34 most beneficial consecutive years of insurance, and pension increases based more on wage growth than growth in the cost of living.

The average annual return achieved by insurers and pension companies from voluntary supplementary pension insurance investments was 4.5% in 2009, while growth in the average unit price of mutual pension funds was 3.4%. The legally stipulated minimum guaranteed return averaged 1.4% in 2010, a relatively low figure for long-term saving. Given the restrictive investment policy, the high administration fees and the unequal treatment of savers, it is necessary to modernise the system to allow it to provide greater security in the third age.

Under the new law voluntary supplementary pension insurance will allow for different investment policies to be chosen with regard to the time until retirement.

Alongside the minimum guaranteed return, the new ZPIZ-2 introduces an investment policy life cycle in supplementary pension insurance that is tailored to the saver's age group. The umbrella fund will have sub-funds with different investment policies. Initial saving will in essence be based on a fund achieving a minimum guaranteed return, but depending on age as defined in the prospectus the policyholder will have the option of switching to other sub-funds with a different investment policy.

The law does not define the methodology for calculating the minimum guaranteed return. This is the responsibility of the Ministry of Finance, which has not yet announced the changes. The fund operator is obliged to create provisions, i.e. a liability for the shortfall in the guaranteed return on assets, of up to 20% of capital. Fees are now limited: entry fees may not exceed 3%, withdrawal fees 1% and annual management fees 1%. Fees are relatively high given the long-term nature of the insurance and the past returns, and with regard to the fees charged by bond mutual funds. The law also introduces compulsory saving for all employees where the employer creates a pension plan within the framework of a collective agreement and pays in premiums in the employee's favour on this basis. This represents an increase in saving in labour-intensive activities in particular, where saving has to date been lower.

Table 6.4: Structure of pension funds' assets in Slovenia at the end of 2010 and in selected European countries at the end of 2009 in percentages

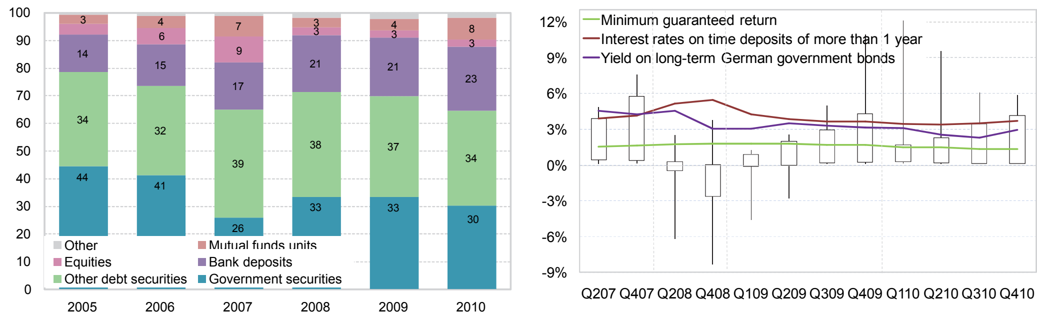
	Slovenia	Portugal	Austria	Germany	Netherlands
Structure of investments, %					
currency and deposits	23.2	5.8	9.8	3.3	3.6
debt securities	64.6	56.2	54.9	40.8	46.5
shares	2.7	22.2	26.8	6.1	32.2
mutual funds units	7.8				
other	1.8	15.7	8.5	49.9	17.6

Note: OECD figures include investments in investment funds. Their investments are disclosed by type of security.
Sources: ISA, SMA, OECD Pension Markets in Focus, October 2010, Issue 7

The large variation in the returns on supplementary pension insurance derives from the differences in investment structure. Last year providers continued to use surplus returns over the guaranteed return to provide funds for the failure to achieve returns during the financial turmoil.[38] Investment policy was adjusted slightly to the developments on the capital markets. The average return on pension funds in the OECD was 6.6% in 2009. Returns of more than 10% were generated in Hungary, the Netherlands, Poland, Norway and Turkey. According to the available figures, Portugal, Austria, Spain, Italy and Germany all achieved higher returns than Slovenia.

[38] Under the ZPIZ-1, in the event of a failure to achieve the minimum guaranteed return the operator was obliged to provide the shortfall in the actual return from its provisions, thus charging it against equity.

Figure 6.10: Structure of voluntary supplementary pension insurance providers' investments (left) and dispersion of returns of voluntary supplementary pension insurance providers (right) in percentages



Sources: ISA, SMA, Bank of Slovenia, ECB

6.3 Investment funds

The investment funds' assets under management increased by 2.7% in 2010. The weighted average unit price rose by 6.5%.

The investment funds' assets under management increased by 2.7% in 2010 to stand at EUR 2.3 billion at the end of the year. The international capital markets underwent a phase of stabilisation and growth in 2009 and 2010. There was consequently an increase in return on investment. Investment funds' flow of investments into domestic securities was down EUR 254.5 million last year, while the flow into foreign securities increased by EUR 138 million. The weighted average unit price rose by 6.5%. As a result of the investment company conversion process the proportion of investment fund assets accounted for by mutual funds continued to increase, reaching 90% in December 2010.

Table 6.5: Overview of investment funds

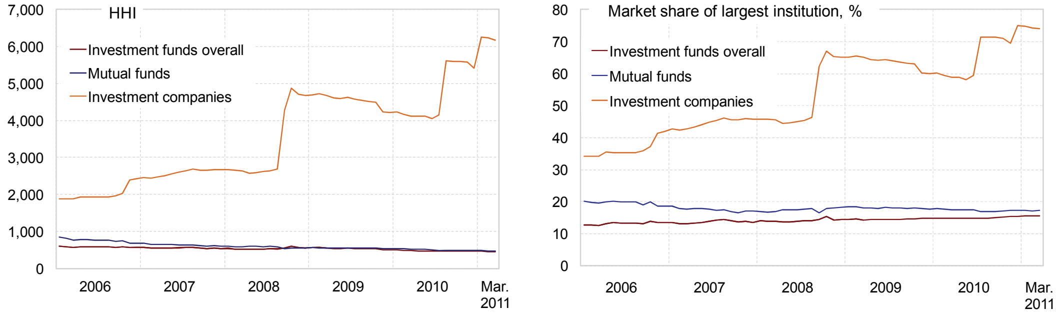
	2005	2006	2007	2008	2009	2010	Mar. 2011
	Assets, EUR million						
Investment funds	2,220	2,845	4,138	1,912	2,234	2,294	2,267
Mutual funds	1,385	1,929	2,924	1,513	1,856	2,054	2,036
of which foreign MFs	137	307	367	130	192	217	216
annual net inflows into MFs	138	163	470	-304	18	25	13
Investment companies	835	916	1,213	398	377	241	231
	Breakdown, %						
Mutual funds	62.4	67.8	70.7	79.2	83.1	89.5	89.8
Investment companies	37.6	32.2	29.3	20.8	16.9	10.5	10.2
	Growth, %						
Investment funds	6.4	28.1	45.4	-53.8	16.8	2.7	-3.3
Mutual funds	57.9	39.3	51.6	-48.2	22.7	10.6	3.3
Investment companies	-30.9	9.7	32.4	-67.2	-5.3	-36.2	-38.0
AUP	7.2	18.8	28.0	-42.8	24.0	6.5	0.3

Sources: SMA, LJSE, own calculations

The market concentration of the 139 investment funds remains low.

Given the low proportion accounted for by investment companies, the market concentration of the domestic mutual funds is approaching that of investment funds, and indicates a high degree of competition between funds. The market shares of mutual funds remained at almost the same level as the previous year. There was a change in the market shares of investment companies, as a result of conversion into mutual funds. Investment funds were again highly granulated in 2010, with only two funds recording a market share of more than 7%. Each of the remaining 137 funds had a market share of less than 5%.

Figure 6.11: Market concentration in the investment fund market



Note: The Herfindahl-Hirschman index (HHI) is the sum of the squares of the market shares of all companies, and is the generally established measurement of market concentration. The market shares are determined on the basis of assets under management.
Source: SMA

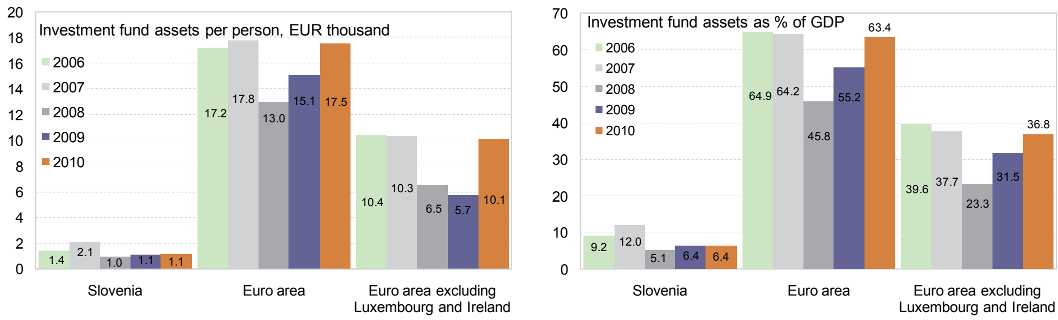
Four new domestic mutual funds were established. Two investment companies were converted into mutual funds.

Four new domestic mutual funds were established in 2010, while Zvon Ena ID and ID Krona Senior were converted into mutual funds. By March 2011 another two mutual funds had been established, taking the total number of domestic mutual funds to 137. KD ID also converted into a mutual fund in April 2011, leaving just one remaining investment company, NFD 1. Nine foreign mutual funds began to be marketed in 2010, the total number standing at 265 in March 2011. The number of umbrella funds increased from 11 to 12 in 2010. This segment of the financial system was the first to be forced into the rationalisation of operating costs and market consolidation by the financial turmoil, and was also forced most deeply. A new group, Alta, began operating in the financial services market in March 2010, combining the investment and fund management services of Medvedšek Pušnik, Publikum and Poteza, with a total of 22 existing mutual funds operating under its aegis.

The investment funds' assets per person in Slovenia increased slightly in 2010.

The domestic mutual funds' assets per person had increased to EUR 1,120 by the end of 2010, up 2% on a year earlier. For investment funds in the euro area overall,[39] 2010 was significantly more positive than for Slovenian funds. The ratio of assets to GDP in Slovenia remained at the same level as 2009, at 6.4%. The proportion of household investments accounted for by investment funds stood at just 6.1% in March 2011, down 3.1 percentage points on 2007.

Figure 6.12: Comparison between Slovenia and the euro area in investment fund assets per person in EUR thousand (left) and assets as a percentage of GDP (right)



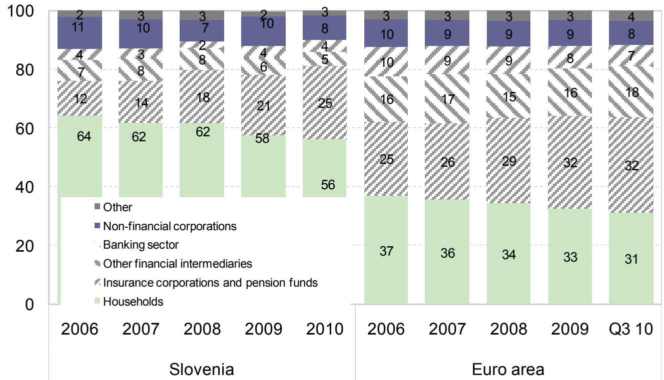
Sources: ECB, SMA, Eurostat, EFAMA, SORS

The proportion of investment fund shares held by households is still above-average in Slovenia.

The breakdown of ownership of investment fund units and shares in Slovenia still differs markedly from the overall breakdown in the euro area. The proportion held by households is still above-average, and stood at 56.2% at the end of September, despite net withdrawals from mutual funds in the amount of EUR 28.9 million in 2010. The overall proportion held by households in the euro area is almost a half lower. The high figure in Slovenia is a consequence of the lower depth of financial intermediation. The proportion of investment funds held by the insurance sector is increasing significantly, partly as a result of the greater demand for unit-linked life insurance before the outbreak of the financial turmoil.

[39] This figure does not include Luxembourg or Ireland, which have many registered funds marketed outside the euro area.

Figure 6.13: Percentage breakdown of ownership of investment fund units/shares



Note: The units/shares of all investment funds (investment companies and mutual funds), both domestic and foreign, are taken into account.
Sources: Bank of Slovenia, ECB

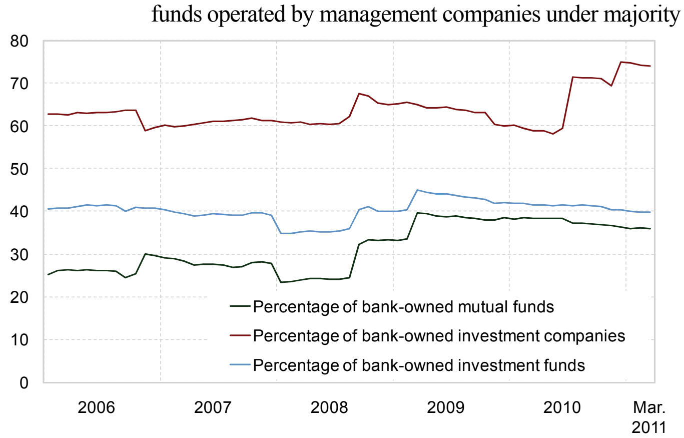
Interaction between investment funds and the banking sector

In Slovenia the banks play a smaller role in marketing investment funds than in the euro area overall. Banks had a significant holding in just six of the 16 fund management companies as at the end of March 2011. The banks were rather late in exploiting their business networks to market investment funds, and showed little interest in doing so thanks to their own good performance. In 2009 and 2010 the banks showed significantly more endeavour in attracting deposits, because of the problems in obtaining funding in the rest of the world, than in marketing investment funds. Operating investment funds is rather a marginal activity for Slovenian banks. During the crisis the banks were also more attentive to their links with the capital market.

Investment fund management companies with significant equity holdings by banks managed 40.5% of the domestic investment funds' assets at the end of 2010.

Investment fund management companies with significant equity holdings by banks managed 40.5% of the domestic investment funds' assets at the end of 2010, almost unchanged from 2009. Another factor alongside the establishment of new mutual funds in the lower proportion accounted for by bank mutual funds was the conversion of the two investment companies, which were primarily under non-bank ownership, into mutual funds. Very high net withdrawals from mutual funds in 2008 were followed by small net inflows in 2009. These increased to EUR 24.5 million last year. Mutual funds under majority bank ownership recorded net withdrawals of EUR 7.5 million in 2010, while non-bank mutual funds recorded net inflows of EUR 32 million. One reason for the difference in net flows could be the reduced amount of marketing undertaken by the bank-owned management companies as a result of the banks' difficulties with bad investments, and the strengthened marketing undertaken by non-bank management companies as a result of their positive returns over the last year and a half. Eight new mutual funds entered the market in 2010 and early 2011. Only two of them were operated by management companies under majority bank ownership.

Figure 6.14: Percentage of assets of investment funds, investment companies and mutual funds operated by management companies under majority bank ownership



Note: Deviation in March 2009 caused by change in reporting.
Source: SMA

The volume of trading in mutual fund coupons amounted to EUR 158.5 million last year. The commission earned on this amounted to just under EUR 3 million, or 1.85% of the total volume of trading. The volume of mutual fund coupons sold via banks amounted to EUR 61.7 million, 39% of the total. This was almost the same level as in 2009.

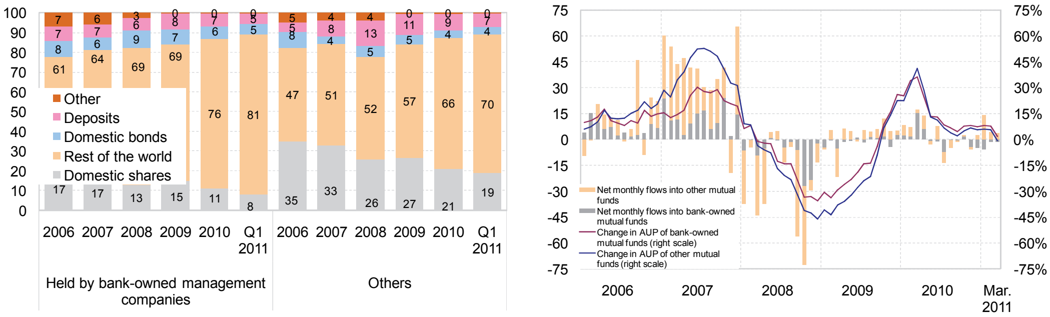
The mutual funds operated by management companies under majority bank ownership increased their proportion of investments held in the rest of the world to 76% in 2010, reducing their proportion held in domestic shares by 4 percentage points. The non-bank management companies also increased their proportion of investments held in the rest of the world and reduced their proportion held in domestic shares. It is a feature of bank-owned management companies that they have a lower proportion of assets invested in domestic shares and a higher proportion in securities of foreign issuers. The increase in investments in securities of foreign issuers can be attributed to the delay in entering the market, and partly to their better business links in the rest of the world and their greater familiarity with foreign markets.

Bank-owned and non-bank management companies increased their investments in securities of foreign issuers.

The average unit prices of funds operated by bank-owned and non-bank management companies increased by 36% and 41% respectively over the second half of 2009 and the first quarter of 2010. By March 2010 the average unit price at the bank-owned management companies was recording higher annual growth than during the most successful period of expansion in 2007, while annual growth in that of the non-bank management companies was still below the record highs. There was a temporary reversal in March 2010: annual growth in the average unit price at funds operated by non-bank management companies outpaced that at bank-owned management companies by 5 percentage points. Between May 2010 and March 2011 annual growth in both average unit prices stabilised at an average of 8%.

Annual growth in the average unit price of funds operated by bank-owned management companies in March 2010 was higher than in the most successful period of growth in 2007.

Figure 6.15: Comparison of mutual funds operated by management companies under majority bank ownership and others: investment structure in percentages (left), and annual growth in average unit price in percentages and net monthly inflows in EUR million (right)



Sources: SMA, own calculations

The management companies' direct debt at the domestic banks amounted to EUR 61.7 million at the end of 2010, down 44% on the end of 2009. The management companies no longer need the quantity of liquid assets that they held during the period of net withdrawals, and their indebtedness at the banks is therefore declining. The banks' total exposure to management companies amounted to EUR 269.1 million at the end of 2010, down 3.3% on 2009, and down 14.3% on 2008.

The management companies' direct debt at the domestic banks declined.

6.3.1 Mutual funds

Mutual funds again became attractive to investors in 2010 thanks to their return on investment, the international capital markets having displayed a trend of increase since March 2009. The mutual funds' assets under management increased by 10.6% in 2010 to just over EUR 2 billion.

Table 6.6: Changes in the mutual funds' assets under management as a result of net inflows and other factors in EUR million

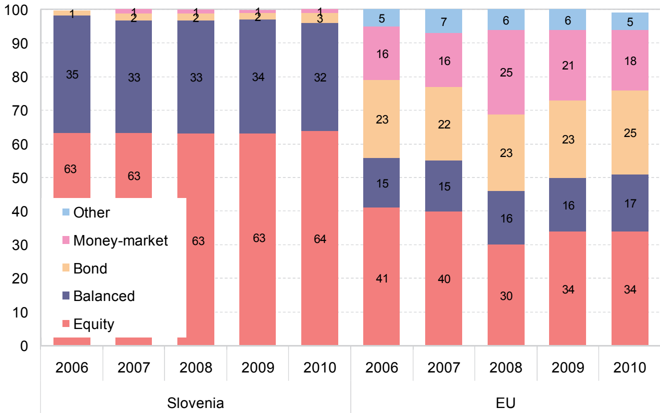
	Bond	Balanced	Equity	Money-market	Total
			2008		
Net inflows	-5	-105	-200	6	-304
Capital gains	-3	-407	-698	0	-1,107
Assets, year end	32	507	957	18	1,513
			2009		
Net inflows	5	-20	36	-4	18
Capital gains	2	142	181	0	325
Assets, year end	39	628	1,173	14	1,856
			2010		
Net inflows	27	-43	43	-2	25
Capital gains	3	73	97	0	173
Assets, year end	69	659	1,313	12	2,054

Source: SMA, own calculations

Equity funds and balanced funds are prevalent in Slovenia, while the overall breakdown of funds is more balanced across the EU.

While Slovenian investors responded to the crisis primarily by reducing inflows and increasing withdrawals from funds, they made no change to their appetite for risk. This was reflected in the investment in the individual forms of fund, which has remained the same for the last five years. Equity funds still dominate in Slovenia, with a market share of 64%, followed by balanced funds with 32%. The other forms of fund have a negligible market share. In the EU the overall breakdown of funds is more balanced: no form of fund is particularly prominent. Investors across the EU responded to the changing situation in the economy in a different way from Slovenian investors. They have been increasing their assets held in money-market funds and reducing their investments in higher-risk equity funds since 2008. This is an illustration of the lack of financial experience on the part of Slovenian investors. Less-informed investors require more time to react and to consider the situation on the market and the return on individual mutual funds in their own investment structure. Slovenian investors maintained the same ratios between individual types of fund between 2008 and 2010, despite the crisis.

Figure 6.16: Breakdown of funds by type, in terms of assets, in Slovenia and the EU overall in percentages

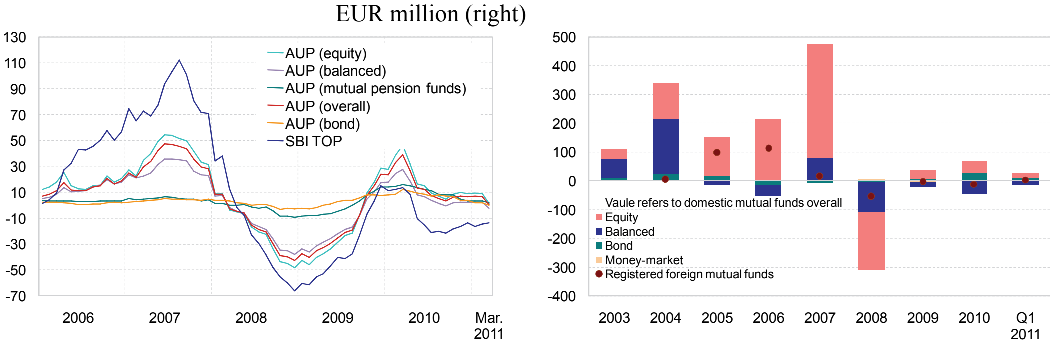


Sources: SMA, EFAMA

Net inflows into the mutual funds amounted to EUR 24.5 million in 2010.

The mutual funds increased their assets under management by 10.6% in 2010, as a result of a rise of 6.5% in the average unit price and net inflows of EUR 24.5 million. The year-on-year change in the average unit price was negative between March 2008 and September 2009, but remained positive between October 2009 and March 2010, at up to +39%. This was followed by a fall caused by the debt crisis in the euro area periphery countries, the year-on-year change standing at just +6.8% at the end of January 2011.

Figure 6.17: Year-on-year change in the average unit price of the mutual funds and the SBI TOP in percentages (left) and annual inflows into the mutual funds in EUR million (right)



Sources: SMA, LJSE, Bank of Slovenia

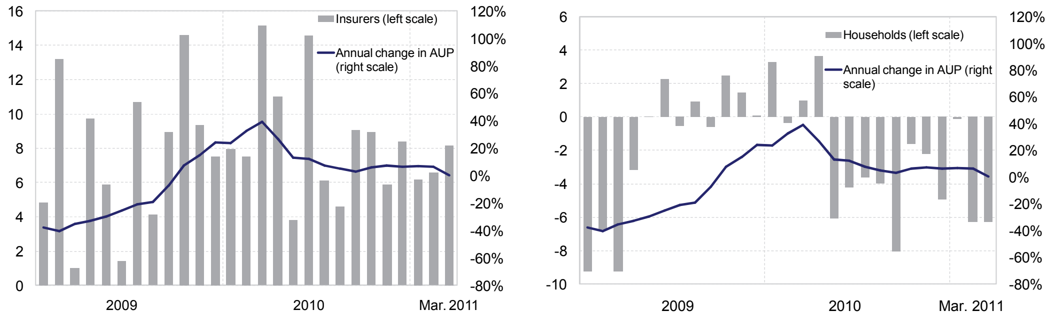
Net withdrawals from balanced funds and money-market funds amounted to EUR 44.4 million in 2010.

As in 2009, when only balanced funds and money-market funds recorded net withdrawals, the net withdrawals of EUR 44.4 million in 2010 were again recorded by balanced funds and money-market funds. The largest inflows were into bond funds, while mixed funds recorded the largest withdrawals. The largest net withdrawals were from mutual funds with an investment policy focusing on the markets of the former Yugoslav republics and the euro area.

The management companies with larger assets under management attracted larger inflows in 2010.

The management companies that had the largest assets under management in 2010 also recorded the largest net inflows into mutual funds. As the largest management company, with EUR 477 million under management at the end of the year, Triglav DZU attracted net inflows of EUR 33.2 million in 2010, EUR 6 million more than in 2009. Second was NLB Skladi with inflows of EUR 10.7 million, while KD Skladi was third with inflows of EUR 10.6 million. The smaller management companies mostly recorded net withdrawals in 2010. The main reasons for the larger management companies' greater success in attracting inflows into mutual funds were their denser and more effective marketing networks and the rise in management standards as a result of changes in legislation.

Figure 6.18: Monthly net investments by the insurance sector (left) and monthly net investments by households (right) in EUR million, and year-on-year change in average unit price in percentages

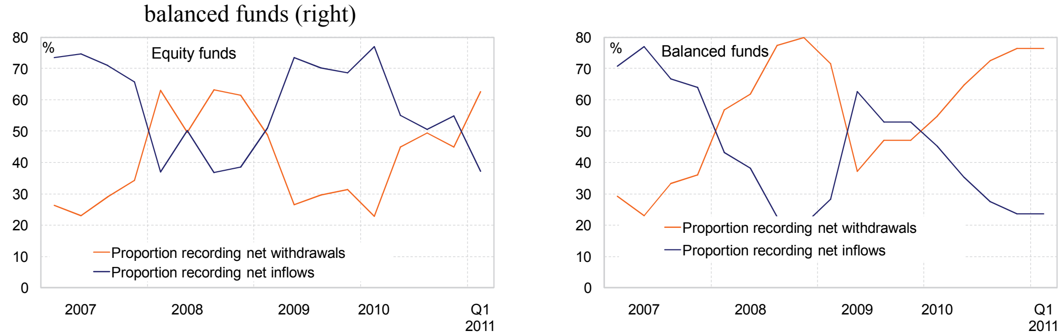


Sources: SMA, own calculations

Insurers were the only sector to record consistent inflows into mutual funds. The corporate and household sectors primarily made withdrawals.

Insurers recorded relatively stable inflows into mutual funds throughout 2010, as a result of their contractual obligations from investment insurance. Corporates mainly reduced their assets held in mutual funds, as the economic situation continued to deteriorate and the sector therefore disinvested intensively from mutual funds. The disinvestment was even more intensive in the second half of 2010, when the number of corporates with liquidity problems increased. This trend is likely to continue in 2011. Households recorded net inflows into mutual funds until May 2010, when the Greek debt crisis significantly reduced confidence in the capital market, which led to substantial net withdrawals from mutual funds.

Figure 6.19: Percentage of mutual funds recording net inflows and percentage of mutual funds recording net withdrawals, for equity funds (left) and balanced funds (right)

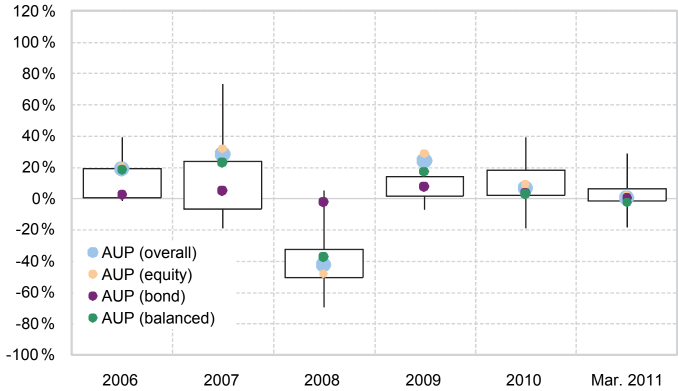


Source: SMA

The varying returns affected the responses by investors in making payments into the funds.

The variation in the types of mutual fund allows investors to better accommodate their preferences, although it also makes decisions harder to make, as it requires them to be aware of the attributes of different markets, particularly if they are investing in funds with regional or sectoral specialisation. While almost all of the funds recorded a loss in 2008, performance improved in 2010, with almost all recording a positive year-on-year change in the average unit price. The best returns were recorded by equity funds, with a year-on-year change of +8.7%, and bond funds, with a year-on-year change of +3.8%.

Figure 6.20: Classification of mutual funds in terms of annual return at year end in percentages

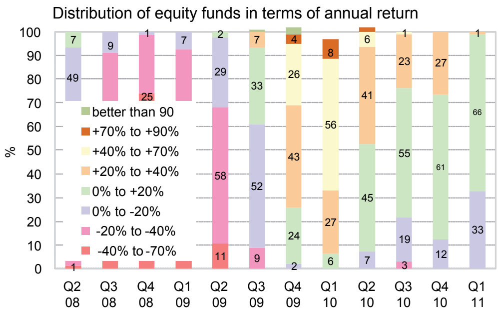


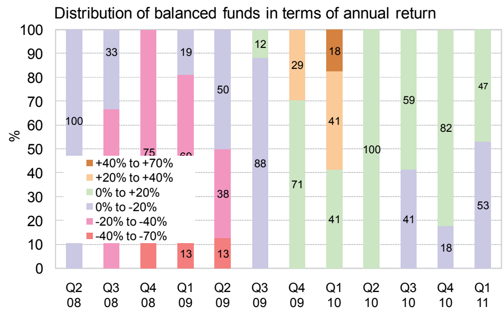
Note: As the funds have been ranked according to annual return at the end of the year in question, only those funds in existence for at least one year are included. The figure shows the variation in annual returns between funds, and the relative standing of particular types of mutual fund compared with mutual funds overall. The rectangles represent the 50% of mutual funds whose annual returns are higher than the bottom quartile of the funds, and lower than the top quartile.

Sources: SMA, own calculations

The largest changes between years were in the returns on equity funds and balanced funds, as they have the highest-risk investment policy. Three balanced funds and 12 equity funds recorded an annual loss in December 2010. Of these, six were equity funds with an investment policy focusing on the Balkans.

Figure 6.21: Relative percentage distribution of domestic equity funds (left) and domestic balanced funds (right) in terms of year-on-year change in average unit price





Source: SMA

The proportion of funds recording a loss increased in the second half of 2010.

In early 2010 almost all funds were recording positive returns. The proportion of funds recording a loss of 20% increased in the second half of 2010 and the first quarter of 2011. There was nevertheless a notable increase in the proportion of equity funds exceeding an annual return of 20% and the proportion of balanced funds exceeding an annual return of 40%. Almost all funds were recording an annual return of between –20% and +40% in 2010 and early 2011, as a result of the continuing positive trend on the market for equity funds and balanced funds.

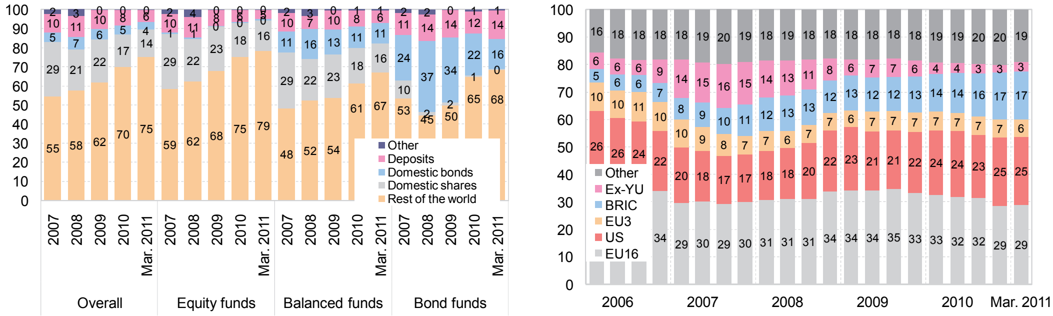
Confidence in investments in the US and the BRIC countries is increasing.

The regional focus remains rather dependent on global developments. As a result of a large fall in prices, low liquidity and economic instability on the markets of the former Yugoslav republics, the proportion of investments accounted for by shares in issuers from these markets has gradually declined, and ended 2010 at just 2.9%. Confidence in investments in the US and the BRIC[40] countries is gradually reappearing, as the economic recovery in these countries is outpacing that in developed countries. As a result of rapid growth in commodity prices, strong inflationary pressures have arisen in the BRIC countries in the last year (inflation averaged 7% in these countries in April 2011), which is forcing them to raise interest rates. As a result the short-term returns on these markets were lower than those on developed markets in the final quarter of 2010 and the first quarter of 2011 in particular, although in March 2011 the situation began to reverse in favour of the emerging markets. The proportion accounted for by euro area shares declined as a result of the worsening of the debt position of Greece, Ireland and Portugal

[40] BRIC: Brazil, Russia, India, China.

in 2010. This decline could continue, primarily on account of an increase in the proportion accounted for by the US. From the point of view of risk, exposure to the BRIC markets increased by 4 percentage points and exposure to the US by 3 percentage points, while exposure to the euro area declined by 4 percentage points and exposure to the former Yugoslav republics by 3 percentage points.

Figure 6.22: Percentage breakdown of mutual fund investments (left) and regional percentage breakdown of investments in foreign shares by the entire other financial intermediaries sector (right)



Note: BRIC: Brazil, Russia, India, China.
EU3: UK, Denmark, Sweden
EU16: euro area
Ex-YU: former Yugoslav republics
Source: SMA

Investments in the rest of the world increased by 13% in 2010, and amounted to EUR 16.3 million. Investments in domestic shares declined by 22.2%, as a result of value changes, in addition to actual sales. Investments in domestic bonds declined by 18%. Given the poor liquidity and slow restructuring of the corporate sector, the trend of decline in the proportion of Slovenian securities will continue in 2011.

Table 6.7: Liquid assets as a percentage of mutual funds' total assets at the end of the month

(%)	Bond	Balanced	Equity	Money-market	Total
Mar. 09	38.5	11.3	8.3	99.6	11.4
Jun. 09	39.6	18.3	9.0	99.8	14.0
Sep. 09	37.1	16.6	8.1	99.4	12.4
Dec. 09	36.2	15.3	7.4	99.3	11.4
Mar. 10	30.5	14.0	7.0	99.4	10.6
Jun. 10	27.6	12.8	6.4	99.1	9.9
Sep. 10	29.1	13.8	6.9	99.1	10.7
Dec. 10	27.3	11.8	5.6	99.0	8.9
Mar. 11	25.8	10.9	4.6	99.6	8.1

Note: Liquid assets include cash, deposits, money-market instruments and government bonds.
Sources: SMA, own calculations

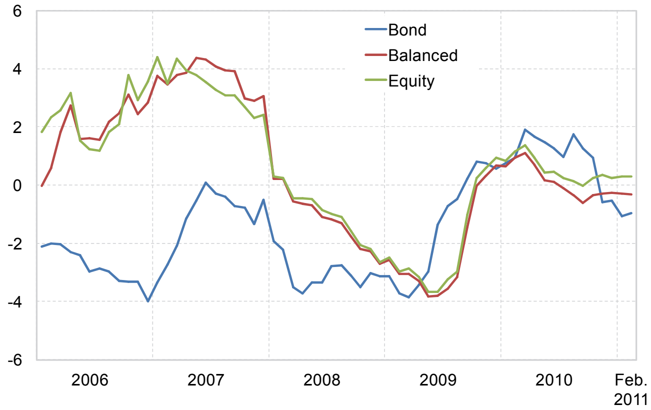
The decline in the proportion accounted for by liquid assets was the result of lower demand from investors for withdrawals from funds.

The proportion of the mutual funds' investments accounted for by liquid assets averaged 10% last year, down 2.3 percentage points on 2009. This was the result of lower demand from investors for withdrawals from funds. Net withdrawals increased in the third quarter of 2010, for which reason the operators increased the proportion of liquid assets from 9.9% to 10.7%. The operators of equity funds were optimistic in outlook, as their proportion of liquid assets stood at just 5.6% at the end of 2010. The operators of balanced funds also reduced their proportion of liquid assets as a result of the positive situation on the capital markets in 2010.

Performance of mutual funds

Measurements of the risk-adjusted return give an illustration of the efficiency of investment, which is defined as the individual fund's ratio of return to risk. The most commonly used measurement of efficiency, which measures return per unit risk, is the Sharpe index.

Figure 6.23: Efficiency on the mutual fund market



Note: The Sharpe index measures the ratio of a fund's return over the risk-free return on investment to the standard deviation in the fund's return. The higher the index, the greater is the efficiency of the management of the mutual fund. The yield on 10-year German government bonds is taken as the risk-free rate of return.

Sources: SMA, Bloomberg, own calculations

The low Sharpe index in the second half of 2009 and in 2010 is an indication of the slow pace with which balanced funds and equity funds entered the market, missing the majority of growth during this period.

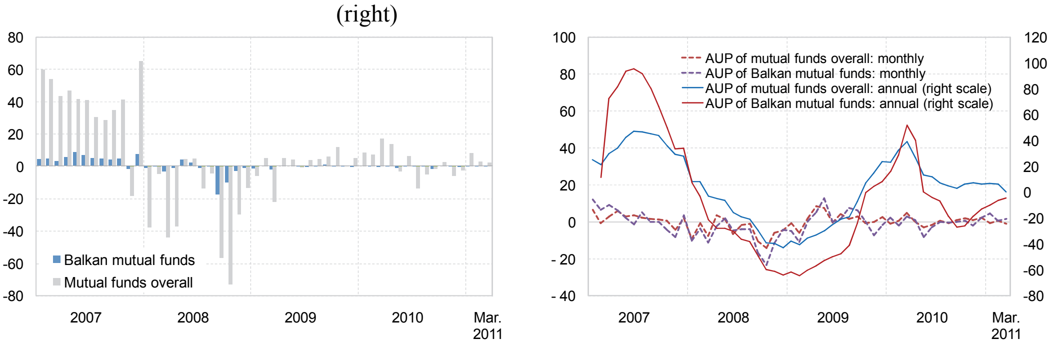
The efficiencies of balanced and equity funds have remained relatively coordinated since 2006. This means that with regard to the risk stated in the prospectus balanced funds offer a better ratio of return to risk than equity funds. However, balanced funds invest the majority of their assets in shares. The Sharpe index for bond funds indicates that assets would be better invested in 10-year German government bonds, as it was only positive at the end of 2009 and for most of 2010. High management fees are the main reason for this ratio, which is reducing the attractiveness of these funds. Balanced funds and equity funds also recorded lower returns than 10-year German government bonds in 2008 and in the first half of 2009. This was anticipated during a period of negative outlook on the capital markets, as the investment structure of these mutual funds is set out by the prospectus, and has to be consistently applied. The low Sharpe index in the second half of 2009 and in 2010 is an indication of the slow pace with which balanced funds and equity funds entered the market, missing the majority of growth during this period.

Mutual funds with an investment policy focusing on the Balkans

The assets in and net inflows into the markets of the former Yugoslav republics were almost negligible.

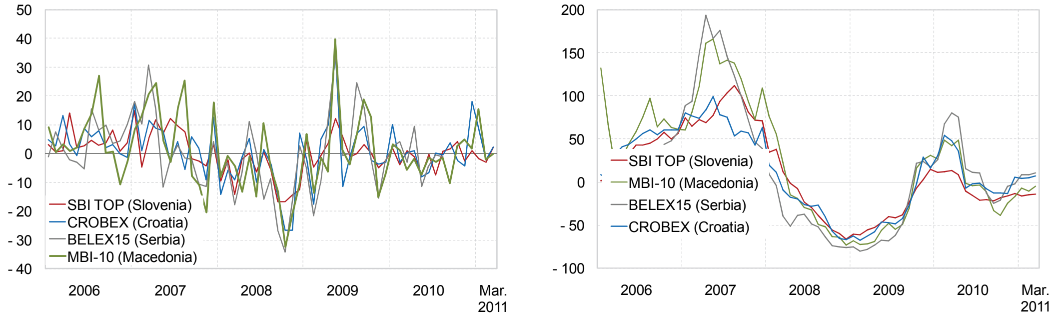
Funds with an investment policy focusing primarily on the markets of former Yugoslav republics accounted for 2.9% of all the mutual funds' assets under management at the end of 2010. Net inflows into the Balkan mutual funds amounted to just EUR 0.22 million last year, less than 1% of total net inflows. Investors reduced their inflows into the markets of the former Yugoslav republics, where there is still no sign of recovery, and market illiquidity is high. The average unit price of the Balkan mutual funds deviated greatly from that of the other mutual funds, recording a sharply negative year-on-year change for the whole second half of the year. Only in March and April 2010 did the change in the average unit price of the Balkan funds outpace that of the other funds, for the first time in two years. The reason for the Balkan markets outpacing the others was takeover speculation and renewed expectations of privatisation in Bosnia and Herzegovina and in Serbia. Because this did not happen, the mutual funds with an investment policy focusing on the Balkans again began to record negative annual returns in the second half of 2010.

Figure 6.24: Comparison of funds whose investment policy focuses on the Balkans with all domestic mutual funds in terms of net flows in EUR million (left) and annual and monthly changes in average unit price in percentages (right)



Sources: SMA, own calculations

Figure 6.25: Monthly (left) and annual (right) changes in selected stock market indices in the former Yugoslav republics in percentages



Sources: SMA, own calculations

6.3.2 Investment companies

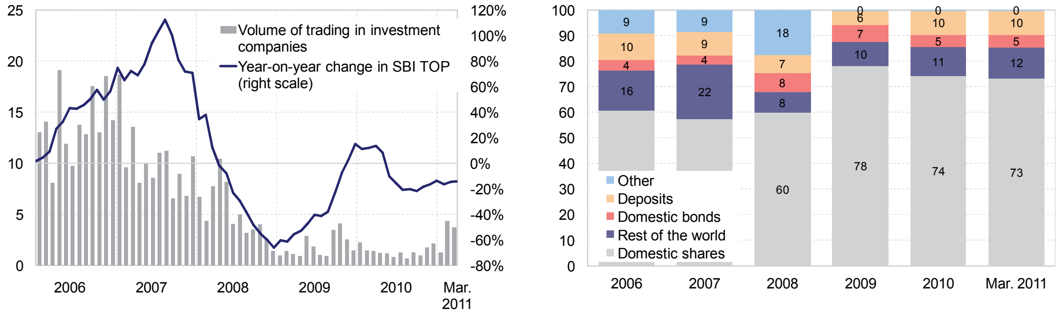
Just one more investment company has to convert into a mutual fund.

The proportion of the investment funds' total assets under management accounted for by investment companies stood at 10.5% at the end of 2010, equivalent to EUR 241 million. Their assets under management declined by 36% last year. Two investment companies mutualised, converting into an equity fund and a balanced fund. The legal deadline for the conversion of the remaining investment companies is June 2011. KD ID converted into an equity fund in April 2011, while the final date for the conversion of NFD 1 is not yet known, as the shareholders will make the relevant decision at the general meeting in May 2011. Senior, a mutual fund created by the conversion of the Krona senior investment company, recorded net withdrawals of EUR 16.6 million in 2010, the largest figure among all the funds. Krekov global, a mutual fund created by the conversion of Zvon ena, did not stand out for its net withdrawals, having recorded just EUR 0.84 million of net withdrawals between its conversion in November 2010 and March 2011. A similar pace of withdrawals could be recorded by KD ID and NFD ena, which given the regional breakdown of their investments and the amount of assets under management would result in strong selling pressure on the domestic capital market.

The discount rate on investment companies stood at 60% at the end of 2010.

The market capitalisation of investment companies amounted to EUR 159 million at the end of 2010, equivalent to 66% of their assets. Their market values will be equalised with the book value during conversion. It should be noted that during a conversion the management company can charge a withdrawal commission of up to 20% of the average unit price and also withdrawal fees of up to 3% of the average unit price in the first year, or a withdrawal commission of up to 10% of the average unit price and withdrawal fees of up to 3% of the average unit price in the second year. There is no more withdrawal commission once two years have passed since conversion. The purpose of the commission is to prevent the rapid withdrawal of assets from the fund, and thus to prevent illiquidity.

Figure 6.26: Monthly volume of trading in investment companies in EUR million, and year-on-year change in the SBI TOP in percentages (left), and breakdown of investment companies' investments in percentages (right)



Note: The figures before 2009 differ because of looser reporting methodology. Investments under the item "Other transferable securities and money-market instruments" have been more precisely defined since 2009, and allocated across other categories (domestic shares, bonds, deposits, rest of the world, other).

Sources: SMA, LJSE

The proportion of the investment companies' investments held in domestic shares was again above-average in 2010.

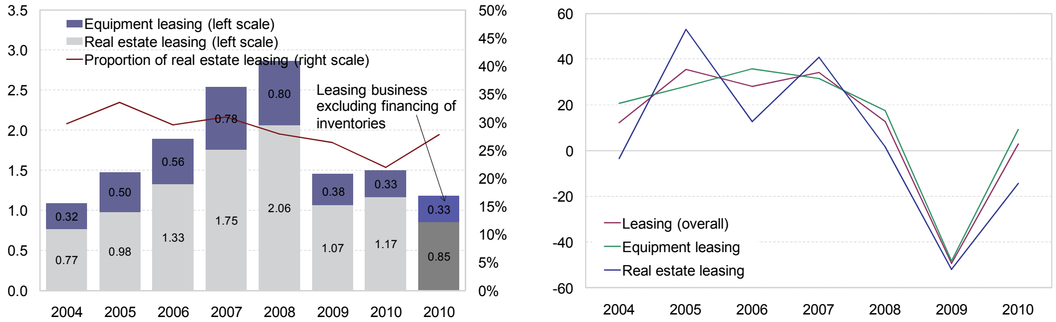
The investment policies of investment companies are strongly inclined towards investments in domestic securities, which entails greater dependence on the domestic capital market. The proportion of investments held in domestic shares stood at 74% at the end of 2010, a very high figure compared with the mutual funds, where the overall figure was 17%. The high proportion held in domestic securities is primarily the result of the investment companies' role in privatisation, the lack of liquidity in Slovenia's capital market and the slow reaction of operators to the altered market situation in the period from the second half of 2008. Here there should also be consideration given to the operator's regional targeting after conversion into a mutual fund, which can focus on the Slovenian capital market.

6.4 Leasing companies

The leasing companies' volume of business increased by 3% in 2010. Real estate leasing increased by 9.3%, while equipment leasing was down 14.4%.

Demand for leasing products in 2010 was low, as in the previous year, as a result of a decline in orders, a contraction in investment and low growth in private consumption. Leasing companies operated at a loss, for reason of the portfolio of bad client investments and a contraction in activity in 2009. Claims for unsettled past-due liabilities and impairments created for bad investments are still burdening their balance sheets. The forecasts for growth in investment and consumption over the next two years are low, for which reason rapid growth in leasing business is unlikely over the short term.The leasing companies' volume of business[41] increased by 3% in 2010 to EUR 1,495 million, the stock of principal and financing of inventories ending the year down 2.6% at EUR 3,958 million. The growth in the volume of business was partly the result of the financing of inventories, which the leasing companies offer to provide for suppliers. The volume of new leasing business amounted to EUR 1,181 million last year, while the stock of leasing business stood at EUR 3,941 million at the end of the year. Of the members of the BAS's leasing committee, who had a market share of 87% in terms of total assets at the end of 2009, the market share of the five largest leasing companies in terms of volume of business amounted to just under three-quarters.

Figure 6.27: New leasing business in EUR billion and the proportion accounted for by real estate leasing in percentages (left), and annual growth in leasing business in percentages (right)

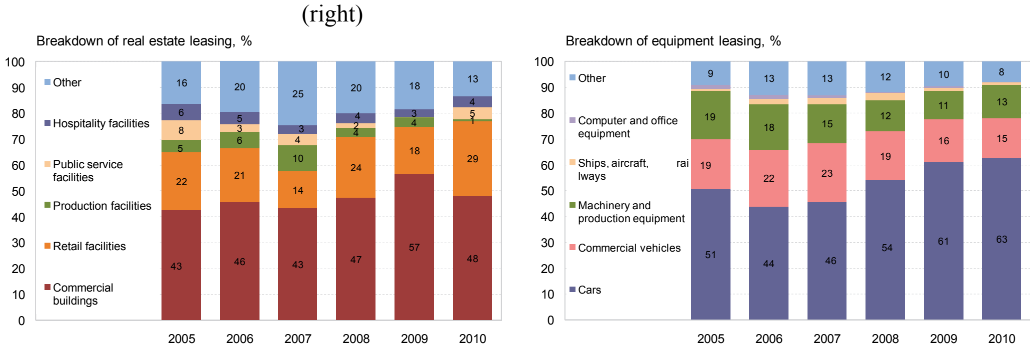


Note: The data released for 2010 allows for the financing of inventories to be distinguished from leasing transactions for the first time. For reason of comparability over time, the figures shown are for total volume at original cost; the left figure contains the data for the volume of leasing business other than the financing of inventories.
Sources: SLA, BAS

The proportion accounted for by equipment leasing increased by 10 percentage points to 76.6%. This was comparable to the European average of 78.1%.

The breakdown of leasing business by net financed value shifted in 2010 in favour of equipment, which accounted for 76.6% of the total, up 10 percentage points on the previous year. The increase was partly the result of the high financing of inventories for retailers. The decline in the proportion accounted for by real estate leasing to 23.4% is primarily the result of lower corporate demand, households having accounted for just 2% of this financing in the last two years. The figure for households ranged between 6% and 8% in the years before the crisis.

Figure 6.28: Percentage breakdown of real estate leasing (left) and equipment leasing (right)



Note: For reason of comparability of data, the breakdown has been made for the original cost of the items under lease; the 2010 figures exclude the financing of inventories.
Sources: SLA, BAS

[41] The volume of business encompasses leasing transactions and the financing of inventories for retailers.

The standards for having real estate leasing approved have declined: the financing of structures averaged around 93% of the value. The average maturity of the transactions lengthened.

The volume of real estate leasing business at original cost declined by 14.4% in 2010. Inventories of unsold housing in the last two years, bankruptcies and low corporate activity that disrupted planned cash flows were the key factors for the second consecutive year in the lower demand for finance leasing. However, the net financed value of real estate transactions increased by 2.7% in 2010 as a result of a decline in the lessee's average own participation to around 7%. The maturity of real estate leasing agreements is lengthening. With regard to actual financing, 62% of all contracts in 2010 were for longer than 10 years, up 14 percentage points on 2009. The lowering of the standards for approving real estate leasing is an indication of the urgency of reducing investors' inventories, so that they will be able to repay their liabilities to the leasing company.

While finance leasing of real estate declined by 8%, operating leasing of real estate contracted more sharply, by just under 30%. In the breakdown by lessees, only the public service sector recorded an increase in real estate leasing, in both finance and operating leases, while the largest declines were recorded in manufacturing and construction, primarily in finance leasing. In the years before the crisis the real estate market was also encouraged by project financing of construction. As long as the supply of residential and commercial units outstrips demand, no such supply can be expected in the future, as investors first have to ensure the return of the money invested by leasing or selling the units constructed.

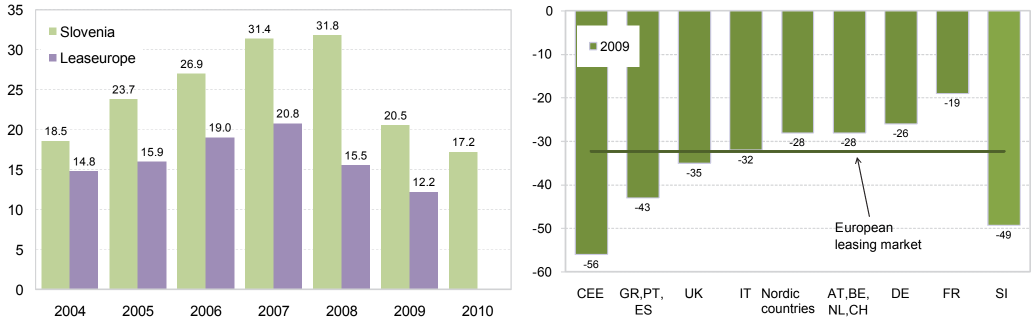
Although the leasing sector has not visibly financed construction in the last two years, after the stabilisation of the construction sector it will again be an important source of financing for projects or own investments in real estate.

The proportion of equipment leasing (excluding the financing of inventories) accounted for by households stood at 35%, compared with 1.5% for real estate.

The volume of leasing business in equipment leasing, including the financing of inventories, increased by 9.3% in terms of original cost and by 10.9% in terms of net financed cost in 2010. The terms of approval in equipment leasing remained at a similar level to the previous year; the required own participation averaged 15%. Operating leasing increased by just under 40%, because of the private service sector. The increase of 5.4% in finance leasing was primarily the result of higher activity by households and manufacturing. Part of the increase could also be the financing of inventories for retailers, which last year accounted for 21% of the volume of business in equipment.

The supply of repossessed items, which are a burden on leasing companies' balance sheets, increased as a result of defaults in contractual obligations. Growth in leasing business could thus be higher when clients improve their solvency and redirect to profitable projects with stable cash flows.

Figure 6.29: Ratio of leasing business to gross fixed capital formation (left) and growth in new leasing business in selected European countries in 2009 (right) in percentages



Note: In the ratio of leasing business to gross fixed capital formation, the figure for Slovenia in 2010 is leasing business excluding the financing of inventories. Were the financing of inventories to be included as in the previous years, the ratios for 2009 and 2010 would be the same.

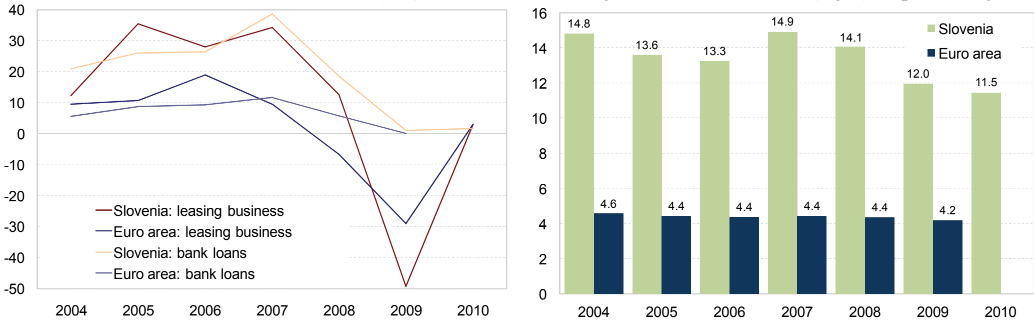
Sources: SLA, BAS, SORS, Leaseurope

According to Leaseurope figures, new leasing business in 2009 was down 32.3% on 2008. Both real estate leasing and equipment leasing recorded declines. The largest decline of 56% was recorded by the countries of central and eastern Europe, followed by the Mediterranean countries and the UK with declines of more than 30%. After two years of decline in leasing business, the European leasing market expanded again in 2010 by 4.9% according to provisional figures. The expansion was seen in all segments. The most prominent was real estate leasing, which recorded growth of 12.3%. In line with the recoveries of the various economies, the divergence between countries reflects the faster recovery in western Europe and Scandinavia, while growth in central and eastern Europe is significant because of Poland.

Leasing remains a significant source of financing for corporate investment.

The ratio of leasing business to gross fixed capital formation remained at the same level, when the leasing companies' total business in 2010 is taken into consideration. Taking the figure for leasing business excluding the financing of inventories for retailers, the ratio is lower at 17.2%, although still 5 percentage points higher than the European average in 2009. This means that leasing remains an important source of financing for corporate investment in Slovenia. European research has revealed that the large decline in the leasing penetration rate during the crisis was not solely the result of lower corporate investment. The main factors in the decline were first that banks had difficulty in funding their leasing subsidiaries because of their own refinancing problems, and second that leasing companies owned by vehicle distributors had higher funding costs. There was no significant change in the ratio of leasing business to bank loans in either Slovenia (11.5% in 2010) or the euro area overall (4.2% in 2009). Leasing remains significantly more important to the Slovenian economy.

Figure 6.30: Growth in new leasing business and stock of bank loans to non-banking sectors (left) and ratio of leasing loans to bank loans (right) in percentages



Note: The figure for growth in European leasing business for 2010 is provisional.
Sources: SLA, BAS, Bank of Slovenia, ECB

Performance of Slovenian leasing companies

Leasing companies generated a loss in 2009.

After several years of rapid growth, the leasing companies' total assets declined by 1% in 2009. As a result of the sharp deterioration in corporate liquidity and the consequent longer arrears in repayments of liabilities, repossessions are causing a loss of finance income and raising operating costs. Together with more expensive and limited funding, the latter were a factor in the operating loss in 2009, when ROE stood at –12.7%. Despite the claims being 100% secured by the very nature of leasing, there remains a risk that repossessed items will be sold on a relatively short time scale.

The past high funding of leasing companies via loans and credit lines at banks began to diminish at the end of 2009. The banks' exposure to the leasing sector amounted to just over 3% of bank loans to non-banking sectors. Financial and operating liabilities increased slightly in 2009, while losses brought a decline in equity. This led to a deterioration in the debt-to-equity ratio.

Table 6.8: Performance of leasing companies and sources of funding

						Growth, %				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Total assets, EUR million	3,162	4,052	5,330	6,146	6,094	18.4	28.1	31.6	15.3	-0.9
Capital, EUR million	212	287	317	324	252	19.5	35.5	10.6	2.0	-22.2
Total profit/loss, EUR million	48	55	61	30	-37	8.0	13.2	11.2	-50.6	-222.1
ROA, %	1.7	1.5	1.3	0.5	-0.6					
ROE, %	24.8	21.9	20.1	9.4	-12.7					
Financial and operating liabilities, EUR million	2,934	3,738	4,979	5,779	5,797	18.9	27.4	33.2	16.1	0.3
liabilities to banks and companies in group,%	83	94	94	96	96	20.7	44.5	34.4	17.9	0.3
liabilities to the rest of the world, %	78	74	72	73	72	17.6	21.2	28.5	17.9	-0.6
Liabilities to rest of the world / total assets, %	-72.4	-68.5	-66.9	-68.4	-68.6					

Note: The figures from financial statements include all companies included under K64.91 (Finance leasing) in the SKD 2008 classification of business activities.
Source: AJPES

7 FINANCIAL INFRASTRUCTURE

Payment systems, the clearing system and the settlement of financial instruments, as a vital part of the economic and financial infrastructure, ensure the transfer of money and securities, while their secure and efficient functioning ensure that financial claims and liabilities are settled reliably, promptly and cost-effectively. They thus contribute to the stability and efficiency of the economy and the financial system. Their importance, however, means that they can cause systemic shocks or become a channel of contagion.

7.1 Payment systems

Oversight of the functioning of the TARGET2 system in 2010 confirmed that the system functioned normally.

Given the size of its total transaction value, the TARGET2-Slovenija system is an important payment system for financial stability in Slovenia. As the national component of the centralised pan-European system for individual (gross) settlement of euro payments in real time (TARGET2), it is operated by the Bank of Slovenia. Because TARGET2 is technologically set up as a single shared platform of the Eurosystem, oversight of the system's functioning is centralised under aegis of the ECB. According to the findings from oversight in 2010, TARGET2 functioned normally, the level of associated risk was stable and minor deviations were appropriately managed. The development of a simulation tool for assessing risks in the TARGET2 system was completed in 2010. The tool is intended for ensuring the efficient functioning and oversight of the system on the basis of transaction data. The tool is also used by the Bank of Slovenia.

Given the large number of transactions processed daily, the SEPA internal credit transfer (SEPA ICT) payment system operated by Bankart d.o.o. is also important to financial stability. It is designed to process retail credit transfers (up to EUR 50,000) in line with the rules of the single euro payments area (SEPA). The system functions according to the principles of calculating an individual participant's net claims or net liabilities in the system vis-à-vis other participants. All participants other than the Bank of Slovenia are obliged to participate in the Settlement Guarantee Scheme, which was set up to manage financial risk in the event of a participant's inability to settle its liabilities. In 2010 the Bank of Slovenia focused its payment system oversight activities on changes within the system to ensure the compliance of its functioning and management with the relevant legal basis and international guidelines, and thus contributed to the system's secure and efficient functioning.

The value of transactions in the TARGET2-Slovenija and SEPA ICT payment systems were up.

The value of transactions in the TARGET2-Slovenija system was up, wile the number of transactions was down. The number and value of transactions in the SEPA ICT system were up. The total value of transactions in the TARGET2-Slovenia and SEPA ICT systems were 14.7 and 1.3 times Slovenia's GDP respectively in 2010.

Table 7.1: Value and number of transactions in the RTGS/TARGET/TARGET2[42] and Giro Clearing / SEPA ICT systems[43]

	Year					Year-on-year growth, %				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
RTGS / TARGET / TARGET2[1]										
value, EUR billion	317.6	364.7	410.4	507.6	530.1	21.4	14.8	12.5	23.7	4.4
number of transactions, million	1.57	0.73	0.66	0.67	0.65	11.6	-53.5	-9.6	1.2	-3.0
Giro Clearing / SEPA ICT										
value, EUR billion	22.9	45.7	49.1	44.9	45.4	9.3	99.3	7.5	-8.6	1.2
number of transactions, million	52.11	53.62	55.91	55.13	56.13	5.4	2.9	4.3	-1.4	1.8

Note: [1] Transactions between participants in the TARGET2-Slovenia system (domestic payments).
Source: Bank of Slovenia

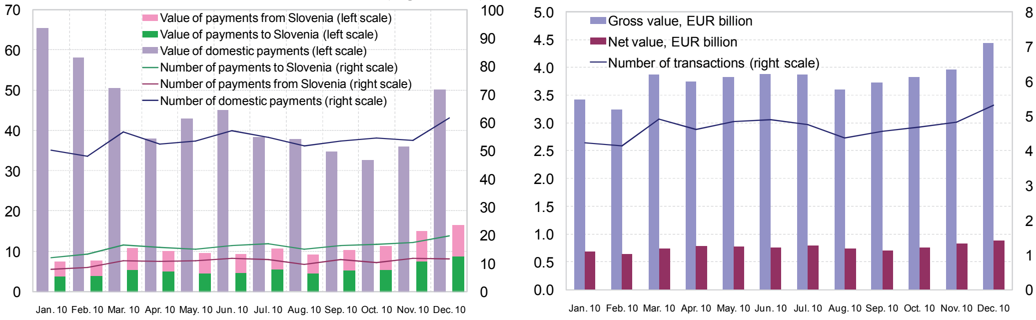
The TARGET2-Slovenija system achieved 100% availability last year.

In addition to the settlement of transactions between participants in the system, the TARGET2-Slovenija system also enables cross-border transactions with participants in the TARGET2 system outside Slovenia. The number and value of such transactions are relatively small. The possibility of the cross-border transfer of risk is therefore also low.

[42] With the introduction of the euro on 1 January 2007, the Bank of Slovenia's real-time gross settlement (RTGS) system for high-value tolar payments was replaced by the TARGET system. The changeover to the TARGET2 system, the successor to TARGET, was made in November 2007.
[43] The SEPA ICT system, which began operating on 4 March 2009, replaced the Bank of Slovenia's Giro Clearing system. The gradual migration of payments to the new payment system lasted until the end of July 2009.

An average of 53,936 transactions with a total value of EUR 44.18 billion were settled each month in the TARGET2-Slovenija system in 2010. At the same time, participants in the TARGET2-Slovenija system received a monthly average of 15,935 inward cross-border payments with a total value of EUR 5.39 billion, and sent a monthly average of 10,605 outward cross-border payments with a total value of EUR 5.29 billion. The highest monthly value of transfers between TARGET2-Slovenija participants (EUR 65.49 billion) since the establishment of the system in November 2007 was achieved at the beginning of 2010 owing to an increase in the value of commercial banks' marginal deposits. The renewed rise in the value of transactions at the end of the year was seasonal. The TARGET2-Slovenija system's 100% availability last year ensured its members the uninterrupted use of Eurosystem instruments. That the realisation of operational risks in the system would entail disruption to the Eurosystem and at the same time would sharply increase the banking system's exposure to liquidity risk is proof of the importance of adequate risk management in the TARGET2-Slovenija system.

Figure 7.1: TARGET2-Slovenija (left figure): domestic and cross-border payments in 2010; value in EUR billion (left axis) and number in thousand (right axis); SEPA ICT (right figure): value in EUR billion (left axis) and number in million (right axis)



Source: Bank of Slovenia

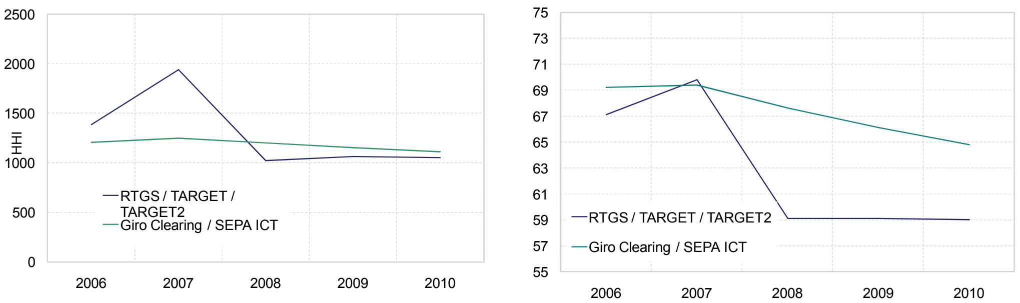
A monthly average of 4.68 million transactions with a total value of EUR 3.78 billion were processed in the SEPA ICT system last year, while the average net monthly value of the settled transactions was EUR 0.76 billion. The offsetting rate thereby reached 79.9% (for settling the gross value of payments liquidity in the amount of 20.1% of the gross value was required).

There was again no need to activate the Settlement Guarantee Scheme last year. In terms of managing operational risks, the SEPA ICT system achieved 100% availability.

Exposure to systemic risk was down slightly last year.

Concentration in the number of transactions by participant, as one of the indicators of systemic risk in the payment system, is illustrated by the Herfindahl-Hirschman index. Concentration and the proportion of the number of transactions accounted for by the five largest system participants in the TARGET2-Slovenija system were down slightly on 2009.

Figure 7.2: Concentration of the number of transactions in the RTGS/TARGET/TARGET2 and Giro Clearing/SEPA ICT systems (Herfindahl-Hirschman Index; left) and proportion of total number of transactions accounted for by the five largest participants (excluding the Bank of Slovenia; right)



Source: Bank of Slovenia

7.2 Securities clearing and settlement systems

The services of securities clearing and settlement in Slovenia are provided by the Central Security Clearing Corporation (CSCC), which operates settlement systems to settle transactions concluded at the Ljubljana Stock Exchange, and to settle transactions concluded outside the regulated market in accordance with the principles of settlement versus payment and settlement free of payment. The Bank of Slovenia uses the latter for collateral in Eurosystem credit operations, and to settle transactions outside the regulated market for collateral in interbank lending transactions. A keen interest of the Bank of Slovenia is the smooth functioning of and effective risk management in securities settlement systems, as possible weaknesses can be a source of financial and operational risks for the participants in these systems. Risks can be transferred to the TARGET2-Slovenija payment system in which the financial portion of securities transactions and the central bank's lending activities are settled. The Bank of Slovenia monitors developments in securities-related legislation and identifies necessary changes therein and changes in the functioning of the CSCC. It determines the impact of changes on the settlement of securities transactions and thus on the emergence and management of liquidity, credit and operational risks in securities settlement systems. To that end in 2010, changes and amendments to the Rules of Procedure of the CSCC and the Rules of the Ljubljana Stock Exchange, which introduced the new XETRA trading system, were studied. In both instances, the Bank of Slovenia determined that the CSCC's risk profile had not changed.

The importance of risk management in settlement systems grew owing to the use of eligible securities booked as collateral for Eurosystem operations.

The importance of risk management at the CSCC grew last year. The reason lies in the banking system's considerable interest in the use of eligible securities booked at the CSCC as collateral for credit operations at the Bank of Slovenia. On the basis of the statute of the ESCB, all credit operations of ESCB central banks must be fully secured by means of eligible collateral. This includes securities booked and settled at the CSCC. This requires the additional verification of the management of settlement and operational risk at the CSCC in terms of the requirements and needs of Eurosystem central banks and other ESCB central banks that use the Correspondent Central Banking Model (CCBM). This mechanism provides for the use of eligible cross-border financial assets as collateral for Eurosystem credit operations.

In 2010 Slovenian banks and savings banks pledged a monthly average of EUR 2,134 million in eligible domestic securities as collateral. This was practically the same as in 2009, when the use of such securities rose by 86.8% with respect to 2008. In the context of the continued extensive use of this form of collateral, another important characteristic in 2010 was its stable use, the value of such collateral having stood at EUR 2,200 million at the end of the year. Foreign banks' interest in using securities registered at the CSCC via the CCBM also rose in 2010. The average monthly value of Slovenian securities used as collateral for the credit operations of other Eurosystem central banks increased by 67.5% last year to EUR 129 million.

STATISTICAL APPENDIX

1. Inter-sector financial claims and liabilities

Table 1.1 Inter-sector financial claims and liabilities of the institutional sectors of the Slovenian economy at the end of 2010 as a percentage of GDP

(As % GDP)	Claims						
	Domestic sectors					Rest of the world	Total
Liabilities	Corporates	Financial sector	Government	Households	Total		liabilities
Corporates	68.4	74.4	20.9	29.9	193.5	46.2	239.7
currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	
securities other than shares	0.3	1.7	0.1	0.1	2.2	0.7	
loans	9.9	65.9	0.4	2.4	78.7	14.4	
equity	35.5	5.5	15.8	22.6	79.4	18.5	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	22.6	1.4	4.6	4.7	33.3	12.6	
Financial sector	17.8	36.4	16.4	69.5	140.1	68.1	208.2
currency and deposits	11.1	9.6	9.7	49.5	79.9	18.6	
securities other than shares	0.3	5.9	0.3	0.2	6.7	8.5	
loans	0.4	14.8	0.0	0.1	15.4	34.9	
equity	3.9	5.3	6.1	7.5	22.8	5.5	
insurance technical provisions	1.2	0.6	0.0	11.8	13.6	0.3	
other	0.7	0.2	0.4	0.4	1.7	0.3	
Government	5.1	15.9	9.6	1.8	32.4	24.5	56.9
currency and deposits	0.0	0.0	0.0	0.1	0.1	0.0	
securities other than shares	0.2	12.1	0.4	0.8	13.4	22.9	
loans	0.2	3.5	5.4	0.0	9.2	0.4	
equity	0.0	0.0	2.1	0.0	2.1	0.0	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	4.7	0.3	1.8	0.9	7.6	1.2	
Households	3.6	29.7	1.0	0.0	34.3	0.0	34.3
currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	
securities other than shares	0.0	0.0	0.0	0.0	0.0	0.0	
loans	1.1	28.9	0.3	0.0	30.2	0.0	
equity	0.0	0.0	0.0	0.0	0.0	0.0	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	2.6	0.9	0.7	0.0	4.1	0.0	
Total	94.9	156.4	47.9	101.1	400.3	138.8	539.1
currency and deposits	11.1	9.6	9.7	49.7	80.1	18.6	
securities other than shares	0.8	19.7	0.8	1.0	22.3	32.1	
loans	11.7	113.1	6.1	2.6	133.4	49.7	
equity	39.5	10.8	23.9	30.1	104.3	24.0	
insurance technical provisions	1.2	0.6	0.0	11.8	13.6	0.3	
other	30.6	2.7	7.4	6.0	46.7	14.1	
Rest of the world	29.7	55.8	2.0	13.3	100.7		100.7
currency and deposits	0.5	12.3	0.0	11.4	24.2		
securities other than shares	0.2	25.7	0.4	0.2	26.5		
loans	4.8	9.7	0.3	0.0	14.8		
equity	9.3	7.9	0.9	1.4	19.5		
insurance technical provisions	0.0	0.1	0.0	0.3	0.3		
other	14.9	0.2	0.3	0.0	15.5		
Total claims	124.6	212.2	49.8	114.4	501.0	138.8	639.8

Note: The table is based on financial accounts compiled by the Bank of Slovenia. The unconsolidated figures have been restructured into the form of a matrix with the aim of illustrating the underlying mutual financial ties between domestic institutional sectors and the rest of the world.

Source: Bank of Slovenia

Table 1.2 Inter-sector financial claims and liabilities of the institutional sectors of the Slovenian economy at the end of 2009 as a percentage of GDP

(As % GDP)	Claims						
	Domestic sectors					Rest of the world	Total
Liabilities	Corporates	Financial sector	Government	Households	Total		liabilities
Corporates	72.5	77.8	21.6	30.8	202.8	43.4	246.1
currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	
securities other than shares	0.3	1.5	0.1	0.1	2.0	0.8	
loans	10.6	68.1	0.4	2.5	81.6	13.5	
equity	37.6	6.7	16.9	23.6	84.8	17.2	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	24.1	1.5	4.2	4.7	34.5	11.9	
Financial sector	18.2	40.0	20.0	67.2	145.5	74.2	219.7
currency and deposits	10.9	14.8	12.3	48.6	86.5	24.0	
securities other than shares	0.4	5.1	0.3	0.2	5.9	6.3	
loans	0.7	13.9	0.0	0.2	14.7	37.6	
equity	4.3	5.4	6.5	7.1	23.2	5.8	
insurance technical provisions	1.3	0.7	0.0	10.8	12.7	0.3	
other	0.8	0.2	1.0	0.4	2.4	0.3	
Government	5.1	16.7	15.3	1.8	39.0	20.3	59.3
currency and deposits	0.0	0.0	0.0	0.1	0.1	0.0	
securities other than shares	0.2	13.9	0.4	0.9	15.4	18.6	
loans	0.2	2.4	8.7	0.0	11.4	0.4	
equity	0.0	0.0	4.3	0.0	4.3	0.0	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	4.7	0.4	1.8	0.9	7.8	1.2	
Households	3.7	28.3	0.9	0.0	32.9	0.0	32.9
currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	
securities other than shares	0.0	0.0	0.0	0.0	0.0	0.0	
loans	1.1	27.4	0.3	0.0	28.8	0.0	
equity	0.0	0.0	0.0	0.0	0.0	0.0	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	2.6	0.9	0.6	0.0	4.0	0.0	
Total	99.6	162.8	57.9	99.9	420.1	137.8	558.0
currency and deposits	10.9	14.8	12.3	48.7	86.6	24.0	
securities other than shares	0.9	20.5	0.8	1.1	23.3	25.8	
loans	12.6	111.8	9.5	2.6	136.5	51.5	
equity	41.8	12.1	27.7	30.7	112.3	23.0	
insurance technical provisions	1.3	0.7	0.0	10.8	12.7	0.3	
other	32.2	3.0	7.6	6.0	48.7	13.3	
Rest of the world	28.9	60.3	1.5	11.1	101.8		101.8
currency and deposits	0.5	16.7	0.0	9.4	26.6		
securities other than shares	0.2	25.9	0.4	0.1	26.6		
loans	4.4	10.2	0.0	0.0	14.5		
equity	9.8	6.8	0.8	1.3	18.7		
insurance technical provisions	0.0	0.1	0.0	0.3	0.4		
other	14.1	0.6	0.3	0.0	15.0		
Total claims	128.5	223.0	59.4	111.0	521.9	137.8	659.8

Note: The table is based on financial accounts compiled by the Bank of Slovenia. The unconsolidated figures have been restructured into the form of a matrix with the aim of illustrating the underlying mutual financial ties between domestic institutional sectors and the rest of the world.

Source: Bank of Slovenia

Table 1.3 Inter-sector financial claims and liabilities of the institutional sectors of the Slovenian economy at the end of 2008 as a percentage of GDP

(As % GDP)	Claims						
	Domestic sectors					Rest of the world	Total liabilities
Liabilities	Corporates	Financial sector	Government	Households	Total		
Corporates	69.7	72.7	21.0	27.7	191.1	41.9	233.0
currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	
securities other than shares	0.2	1.4	0.1	0.1	1.8	0.1	
loans	9.1	63.9	0.8	2.3	76.0	13.3	
equity	36.6	6.3	15.6	21.0	79.5	16.0	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	23.9	1.0	4.5	4.3	33.7	12.4	
Financial sector	17.5	30.7	12.0	58.9	119.0	74.9	193.9
currency and deposits	10.0	10.5	6.1	43.6	70.2	27.3	
securities other than shares	0.5	3.3	0.3	0.1	4.2	1.7	
loans	0.8	11.4	0.0	0.1	12.3	39.9	
equity	4.4	4.6	4.7	5.8	19.4	5.6	
insurance technical provisions	1.1	0.6	0.0	8.8	10.5	0.2	
other	0.8	0.3	0.9	0.4	2.4	0.3	
Government	5.5	11.2	11.1	1.8	29.5	11.0	40.5
currency and deposits	0.0	0.0	0.0	0.1	0.1	0.0	
securities other than shares	0.2	9.1	0.4	0.8	10.5	9.5	
loans	0.2	1.7	3.1	0.0	5.0	0.5	
equity	0.0	0.0	5.2	0.0	5.2	0.0	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	5.1	0.4	2.3	0.8	8.6	1.1	
Households	3.5	25.3	0.9	0.0	29.7	0.0	29.7
currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	
securities other than shares	0.0	0.0	0.0	0.0	0.0	0.0	
loans	0.9	24.5	0.4	0.0	25.8	0.0	
equity	0.0	0.0	0.0	0.0	0.0	0.0	
insurance technical provisions	0.0	0.0	0.0	0.0	0.0	0.0	
other	2.6	0.8	0.5	0.0	3.9	0.0	
Total	96.1	139.9	44.9	88.4	369.3	127.8	497.1
currency and deposits	10.0	10.5	6.1	43.7	70.3	27.3	
securities other than shares	0.9	13.8	0.8	1.1	16.6	11.2	
loans	10.9	101.6	4.3	2.4	119.2	53.7	
equity	40.9	10.9	25.5	26.8	104.1	21.7	
insurance technical provisions	1.1	0.6	0.0	8.8	10.5	0.2	
other	32.3	2.5	8.2	5.6	48.6	13.8	
Rest of the world	27.2	56.9	1.5	8.9	94.6		94.6
currency and deposits	0.4	16.3	0.0	7.7	24.5		
securities other than shares	0.1	24.8	0.5	0.1	25.5		
loans	3.7	9.4	0.0	0.0	13.0		
equity	8.8	5.7	0.6	0.8	16.0		
insurance technical provisions	0.0	0.1	0.0	0.3	0.4		
other	14.2	0.6	0.4	0.0	15.2		
Total claims	123.3	196.8	46.4	97.3	463.8	127.8	591.6

Note: The table is based on financial accounts compiled by the Bank of Slovenia. The unconsolidated figures have been restructured into the form of a matrix with the aim of illustrating the underlying mutual financial ties between domestic institutional sectors and the rest of the world.

Source: Bank of Slovenia

2. Banking sector

Table 2.1 Banking sector's balance sheet: amounts in EUR million and growth rates in percentages

	Value, EUR million					Growth, %				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
ASSETS	33,868	42,343	47,628	51,612	50,319	15.6	25.0	12.5	8.4	-2.5
1) Cash	1,057	604	1,243	1,454	1,121	76.3	-42.9	105.9	17.0	-22.9
2) Loans to banks	3,067	4,072	4,031	5,708	4,815	6.8	32.8	-1.0	41.6	-15.7
3) Loans to non-banking sectors	20,414	28,302	33,530	33,910	34,450	26.4	38.6	18.5	1.1	1.6
3.1 Currency breakdown										
domestic currency	9,095	26,669	31,506	32,274	32,969	3.9	193.2	18.1	2.4	2.2
foreign currency	11,320	1,633	2,024	1,636	1,481	53.1	-85.6	23.9	-19.2	-9.5
3.2 Maturity breakdown										
short-term	6,821	9,893	12,515	10,744	9,271	30.7	45.0	26.5	-14.1	-13.7
long-term	13,593	18,409	21,015	23,166	25,179	24.4	35.4	14.2	10.2	8.7
3.3 Sector breakdown										
non-financial corporations	12,364	17,039	20,245	20,165	19,766	24.8	37.8	18.8	-0.4	-2.0
households	5,060	6,429	7,386	7,886	8,646	24.1	27.1	14.9	6.8	9.6
government	574	465	506	735	1,162	-13.8	-18.9	8.9	45.1	58.2
OFIs	1,257	2,114	2,829	2,719	2,584	71.2	68.1	33.8	-3.9	-5.0
other	1,160	2,255	2,564	2,405	2,291	51.9	94.4	13.7	-6.2	-4.7
4) Financial assets/securities	7,897	7,720	7,280	8,876	8,274	-5.7	-2.2	-5.7	21.9	-6.8
4.1 Currency breakdown										
domestic currency	5,014	6,506	6,232	7,419	6,862	-7.2	29.7	-4.2	19.0	-7.5
foreign currency	2,006	56	21	10	29	-11.0	-97.2	-63.0	-49.7	178.8
4.2 Maturity breakdown										
short-term	2,101	1,192	1,107	1,869	731	-41.6	-43.3	-7.2	68.8	-60.9
long-term	4,919	5,369	5,146	5,560	6,161	21.1	9.1	-4.2	8.0	10.8
4.3 Sector breakdown										
government	2,718	4,283	4,079	5,094	4,465	0.5	57.5	-4.8	24.9	-12.4
Bank of Slovenia	1,789	0	0	0	0	….	….	….	….	….
other	3,389	3,437	3,201	3,782	3,809	56.1	1.4	-6.9	18.1	0.7
5) Capital investments	427	615	627	696	691	19.9	43.9	2.0	11.0	-0.8
6) Other	1,006	1,031	917	969	969	8.0	2.5	-11.1	5.6	0.0
LIABILITIES	33,868	42,343	47,628	51,612	50,319	15.6	25.0	12.5	8.4	-2.5
1) Liabilities to Eurosystem	0	157	1,226	2,100	581			683.4	71.3	-72.3
2) Liabilities to banks	10,797	15,929	18,146	15,933	15,213	28.6	47.5	13.9	-12.2	-4.5
foreign banks	10,112	14,410	16,091	13,024	11,721	28.1	42.5	11.7	-19.1	-10.0
3) Deposits by non-banking sectors	17,507	19,381	20,612	23,570	23,509	9.3	10.7	6.4	14.3	-0.3
3.1 Currency breakdown										
domestic currency	11,654	18,848	20,127	23,120	23,024	8.7	61.7	6.8	14.9	-0.4
foreign currency	5,853	532	485	450	485	10.4	-90.9	-8.9	-7.2	7.8
3.2 Maturity breakdown										
short-term	15,343	17,626	18,151	18,233	16,063	9.5	14.9	3.0	0.5	-11.9
long-term	2,165	1,754	2,461	5,337	7,446	8.2	-19.0	40.3	116.8	39.5
3.3 Sector breakdown										
non-financial corporations	3,342	3,674	3,712	3,825	4,035	6.8	9.9	1.0	3.1	5.5
households	11,077	12,105	13,210	13,801	14,292	7.2	9.3	9.1	4.5	3.6
government	1,114	1,510	1,857	3,990	3,030	28.5	35.6	22.9	114.9	-24.1
OFIs	1,446	1,145	1,058	1,124	1,282	19.4	-20.9	-7.5	6.3	14.0
other	528	946	775	828	871	10.1	79.2	-18.1	6.8	5.2
4) Securities	976	963	1,259	3,435	4,498	-1.6	-1.3	30.6	172.9	31.0
4.1 Currency breakdown										
domestic currency	969	962	1,259	3,435	4,498	-0.4	-0.7	30.8	172.9	31.0
foreign currency	7	1	0	0	0	-63.9	-85.1	-95.1	…	…
4.2 Maturity breakdown										
short-term	8	11	108	8	12	-63.0	49.4	845.6	-92.7	48.3
long-term	968	952	1,151	3,427	4,487	-0.3	-1.7	20.9	197.8	30.9
5) Provisions	184	208	176	174	175	2.2	12.6	-15.4	-0.8	0.4
6) Subordinated debt	993	1,470	1,597	1,550	1,585	40.0	48.1	8.6	-2.9	2.2
7) Capital	2,841	3,556	3,996	4,295	4,118	14.3	25.2	12.4	7.5	-4.1
8) Others	570	680	617	555	640	12.8	19.3	-9.3	-10.0	15.3

Note: Converted to euros at the conversion rate.
Source: Bank of Slovenia

Table 2.2 Banking sector's balance sheet: as proportion of total assets, and ratio to GDP in percentages

	As % of total assets					As % GDP				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
ASSETS	100.0	100.0	100.0	100.0	100.0	109.1	122.5	127.7	145.9	139.5
1) Cash	3.1	1.4	2.6	2.8	2.2	3.4	1.7	3.3	4.1	3.1
2) Loans to banks	9.1	9.6	8.5	11.1	9.6	9.9	11.8	10.8	16.1	13.4
3) Loans to non-banking sectors	60.3	66.8	70.4	65.7	68.5	65.8	81.9	89.9	95.8	95.5
3.1 Currency breakdown										
domestic currency	26.9	63.0	66.1	62.5	65.5	29.3	77.1	84.5	91.2	91.4
foreign currency	33.4	3.9	4.2	3.2	2.9	36.5	4.7	5.4	4.6	4.1
3.2 Maturity breakdown						0.0	0.0	0.0	0.0	0.0
short-term	20.1	23.4	26.3	20.8	18.4	22.0	28.6	33.5	30.4	25.7
long-term	40.1	43.5	44.1	44.9	50.0	43.8	53.3	56.3	65.5	69.8
3.3 Sector breakdown										
non-financial corporations	36.5	40.2	42.5	39.1	39.3	39.8	49.3	54.3	57.0	54.8
households	14.9	15.2	15.5	15.3	17.2	16.3	18.6	19.8	22.3	24.0
government	1.7	1.1	1.1	1.4	2.3	1.8	1.3	1.4	2.1	3.2
OFIs	3.7	5.0	5.9	5.3	5.1	4.1	6.1	7.6	7.7	7.2
other	3.4	5.3	5.4	4.7	4.6	3.7	6.5	6.9	6.8	6.4
4) Financial assets/securities	23.3	18.2	15.3	17.2	16.4	25.4	22.3	19.5	25.1	22.9
4.1 Currency breakdown										
domestic currency	14.8	15.4	13.1	14.4	13.6	16.1	18.8	16.7	21.0	19.0
foreign currency	5.9	0.1	0.0	0.0	0.1	6.5	0.2	0.1	0.0	0.1
4.2 Maturity breakdown						0.0	0.0	0.0	0.0	0.0
short-term	6.2	2.8	2.3	3.6	1.5	6.8	3.4	3.0	5.3	2.0
long-term	14.5	12.7	10.8	10.8	12.2	15.8	15.5	13.8	15.7	17.1
4.3 Sector breakdown										
government	8.0	10.1	8.6	9.9	8.9	8.8	12.4	10.9	14.4	12.4
Bank of Slovenia	5.3	0.0	0.0	0.0	0.0	5.8	0.0	0.0	0.0	0.0
other	10.0	8.1	6.7	7.3	7.6	10.9	9.9	8.6	10.7	10.6
5) Capital investments	1.3	1.5	1.3	1.3	1.4	1.4	1.8	1.7	2.0	1.9
6) Other	3.0	2.4	1.9	1.9	1.9	3.2	3.0	2.5	2.7	2.7
LIABILITIES	100	100	100	100	100	109.1	122.5	127.7	145.9	139.5
1) Liabilities to Eurosystem	0	0	3	4	1	0.0	0.5	3.3	5.9	1.6
2) Liabilities to banks	31.9	37.6	38.1	30.9	30.2	34.8	46.1	48.6	45.0	42.2
foreign banks	29.9	34.0	33.8	25.2	23.3	32.6	41.7	43.1	36.8	32.5
3) Deposits by non-banking sectors	51.7	45.8	43.3	45.7	46.7	56.4	56.1	55.3	66.6	65.2
3.1 Currency breakdown										
domestic currency	34.4	44.5	42.3	44.8	45.8	37.5	54.5	54.0	65.3	63.8
foreign currency	17.3	1.3	1.0	0.9	1.0	18.9	1.5	1.3	1.3	1.3
3.2 Maturity breakdown						0.0	0.0	0.0	0.0	0.0
short-term	45.3	41.6	38.1	35.3	31.9	49.4	51.0	48.7	51.5	44.5
long-term	6.4	4.1	5.2	10.3	14.8	7.0	5.1	6.6	15.1	20.6
3.3 Sector breakdown						0.0	0.0	0.0	0.0	0.0
non-financial corporations	9.9	8.7	7.8	7.4	8.0	10.8	10.6	10.0	10.8	11.2
households	32.7	28.6	27.7	26.7	28.4	35.7	35.0	35.4	39.0	39.6
government	3.3	3.6	3.9	7.7	6.0	3.6	4.4	5.0	11.3	8.4
OFIs						4.7	3.3	2.8	3.2	3.6
other	1.6	2.2	1.6	1.6	1.7	1.7	2.7	2.1	2.3	2.4
4) Securities	2.9	2.3	2.6	6.7	8.9	3.1	2.8	3.4	9.7	12.5
4.1 Currency breakdown										
domestic currency	2.9	2.3	2.6	6.7	8.9	3.1	2.8	3.4	9.7	12.5
foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.2 Maturity breakdown										
short-term	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.3	0.0	0.0
long-term	2.9	2.2	2.4	6.6	8.9	3.1	2.8	3.1	9.7	12.4
5) Provisions	0.5	0.5	0.4	0.3	0.3	0.6	0.6	0.5	0.5	0.5
6) Subordinated debt	2.9	3.5	3.4	3.0	3.1	3.2	4.3	4.3	4.4	4.4
7) Capital	8.4	8.4	8.4	8.3	8.2	9.2	10.3	10.7	12.1	11.4
8) Others	1.7	1.6	1.3	1.1	1.3	1.8	2.0	1.7	1.6	1.8

Source: Bank of Slovenia

Table 2.3 Banking sector's income statement: amounts in EUR million and growth rates in percentages

	Value, EUR million					Growth, %				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
1. Net interest income	690	816	945	932	1,038	9.2	18.3	15.7	-1.3	11.3
1.1 Interest income	1,421	1,954	2,615	2,095	2,055	18.6	37.5	33.8	-19.9	-1.9
1.2 Interest expenses	731	1,138	1,671	1,163	1,017	29.0	55.6	46.8	-30.4	-12.6
2. Net non-interest income	526	617	416	493	437	26.0	17.3	-32.6	18.7	-11.5
2.1 Net fees and commissions	309	336	340	336	343	9.5	9.0	1.0	-1.2	2.3
2.2 Net financial transactions	97	136	-115	42	-49	37.2	39.7	…	…	…
2.3 Net other	120	145	191	116	142	85.7	20.5	31.8	-39.1	22.3
3. Gross income (1+2)	1,216	1,433	1,360	1,425	1,474	15.9	17.9	-5.1	4.8	3.4
4. Operating costs	702	756	776	765	766	8.5	7.7	2.7	-1.4	0.1
labour costs	367	402	412	415	413	7.3	9.4	2.6	0.8	-0.5
5. Net income (3-4)	513	677	584	660	709	28.0	31.9	-13.7	13.0	7.3
6. Net provisions	120	163	278	500	810	-14.5	36.0	70.5	79.8	62.1
7. Total costs (4+6)	822	919	1,054	1,265	1,576	4.4	11.8	14.7	20.0	24.6
8. Pre-tax profit (3-7)	394	514	306	161	-101	50.7	30.6	-40.4	-47.6	…
9. Taxes	91	102	59	39	-3	75.5	12.8	-42.8	-33.9	…
10 Net profit (8-9)	303	412	248	122	-98	44.6	36.0	-39.8	-50.8	…

Note: Converted to euros at the conversion rate.
Source: Bank of Slovenia

Table 2.4 Banking sector's income statement: as proportion of gross income and as proportion of total assets in percentages

	As % of gross income					As % of total assets				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
1. Net interest income	57	57	69	65	70	2.0	1.9	2.0	1.8	2.0
1.1 Interest income	117	136	192	147	139	4.2	4.6	5.5	4.1	4.0
1.2 Interest expenses	60	79	123	82	69	2.2	2.7	3.5	2.3	2.0
2. Net non-interest income	43.3	43.0	30.6	34.6	29.6	1.6	1.5	0.9	1.0	0.8
2.1 Net fees and commissions	25	23	25	24	23	0.9	0.8	0.7	0.7	0.7
2.2 Net financial transactions	8	9	-8	3	-3	0.3	0.3	-0.2	0.1	-0.1
2.3 Net other	10	10	14	8	10	0.4	0.3	0.4	0.2	0.3
3. Gross income (1+2)	100	100	100	100	100	3.6	3.4	2.9	2.8	2.9
4. Operating costs	58	53	57	54	52	2.1	1.8	1.6	1.5	1.5
labour costs	30	28	30	29	28	1.1	0.9	0.9	0.8	0.8
5. Net income (3-4)	42	47	43	46	48	1.5	1.6	1.2	1.3	1.4
6. Net provisions	10	11	20	35	55	0.4	0.4	0.6	1.0	1.6
7. Total costs (4+6)	68	64	77	89	107	2.4	2.2	2.2	2.5	3.1
8. Pre-tax profit (3-7)	32	36	23	11	-7	1.2	1.2	0.6	0.3	-0.2
9. Taxes	7	7	4	3	0	0.3	0.2	0.1	0.1	0.0
10 Net profit (8-9)	25	29	18	9	-7	0.9	1.0	0.5	0.2	-0.2

Source: Bank of Slovenia

Table 2.5 Selected performance indicators for the banking sector

	2006	2007	2008	2009	2010
1) Profitability and margins, %					
ROA	1.3	1.4	0.7	0.3	-0.2
ROE	15.1	16.3	8.1	3.9	-2.4
CIR	57.8	52.7	57.1	53.7	51.9
financial intermediation margin	3.9	3.8	3.0	2.9	2.9
interest margin (per total assets)	2.2	2.2	2.1	1.9	2.0
non-interest margin (per total assets)	1.7	1.6	0.9	1.0	0.9
net interest margin (per interest-bearing assets)	2.4	2.3	2.2	2.0	2.1
interest spread[1]	3.8	2.3	2.3	2.3	2.4
2) Structure of assets and liabilities, %					
2.1 Maturity breakdown of loans to non-banking sectors					
short-term loans / loans	33.4	35.0	37.0	31.7	23.9
long-term loans / loans	66.6	65.0	63.0	68.3	73.1
2.2 Maturity breakdown of deposits by non-banking sectors					
short-term deposits / deposits	87.6	90.9	88.1	77.3	68.3
long-term deposits / deposits	12.4	9.1	11.9	22.7	31.7
2.3 Regional breakdown of loans					
to residents	94.4	92.2	92.5	93.1	93.5
to non-residents	5.6	7.8	7.5	6.9	6.5
2.4 Foreign currency sub-balance					
foreign currency assets / total assets	45.9	6.0	6.1	5.0	4.6
foreign currency liabilities / total assets	46.8	5.0	4.9	3.5	3.6
difference	-0.8	1.1	1.2	1.5	1.0
foreign currency loans / loans	55.9	6.4	6.4	5.2	4.5
foreign currency deposits / deposits	53.3	5.9	6.0	4.5	4.7
foreign currency loans / loans (non-banking sectors)	55.4	5.8	6.0	4.8	4.3
foreign currency deposits / deposits (non-banking sectors)	33.4	2.7	2.4	1.9	2.1
2.5 Securities					
securities / loans to non-banking sectors	37.3	26.1	21.1	24.4	22.3
2.6 Sector breakdown					
corporate					
corporate loans / loans to non-banking sectors	66.7	67.7	68.6	67.5	64.9
foreign currency corporate loans / corporate loans	65.4	3.7	3.4	2.3	1.9
household					
household loans / loans to non-banking sectors	24.9	22.9	22.3	23.4	25.3
foreign currency household loans / household loans	23.2	10.2	12.9	10.6	9.9
government					
loans to government / loans to non-banking sectors	2.8	1.6	1.5	2.2	3.4
rest of the world					
liabilities to foreign banks / total assets	29.9	34.0	33.7	25.0	23.3
3) Asset quality					
impairments, EUR million	1,233.8	1,311.1	1,403.2	1,827.2	2,422.0
classified claims, EUR million	31,581.0	40,541.6	47,129.2	49,757.3	49,766.3
impairments / classified claims, %	3.9	3.2	3.0	3.7	4.9
non-performing claims / classified claims, %	2.5	1.8	1.8	2.2	3.7
impairments for non-performing claims / classified claims, %	84.3	86.4	79.3	75.9	68.6
non-performing claims / regulatory capital, %	31.0	20.8	19.1	24.1	40.8
non-performing claims minus impairments / capital, %	4.9	2.8	4.0	5.8	12.8
sum of large exposures / capital, %	221.2	217.4	168.7	159.2	…
4) Interest-rate risk					
gap between interest-bearing assets and liabilities, percentage points	3.7	5.0	4.8	6.2	2.5
interest-bearing assets / assets, %	91.3	95.1	94.2	96.0	92.5
interest-bearing liabilities / liabilities, %	87.6	90.1	89.4	89.8	90.0
5) Currency risk					
open foreign exchange position / regulatory capital, %	25.8	0.9	0.2	0.9	1.4
6) Liquidity					
average liquid assets / average short-term deposits by non-banking sectors, %	9.7	8.37	34.33	36.2	43.0
average liquid assets / average total assets, %	4.5	3.6	13.78	13.8	14.3
first-bucket liquidity ratio	1.13	1.21	1.24	1.3	1.4
second-bucket liquidity ratio	1.15	1.13	1.14	1.2	1.1
debt securities / total assets, %	20.8	16.02	13.47	15.0	14.3
7) Solvency and capital structure, %					
capital adequacy (solvency ratio)	11.1	11.2	11.7	11.6	11.3
Tier I capital adequacy	8.3	7.8	9.2	9.3	9.0
additional own funds / original own funds	38.0	48.5	33.3	30.0	31.6

Notes: [1] Difference between the average effective tolar interest rate on loans to and deposits by non-banking sectors in the final quarter of the year.

Source: Bank of Slovenia

Table 2.6 Selected ratios in balance sheet items defining bank liquidity in percentages

(%)		Large domestic banks	Small domestic banks	Banks under majority foreign ownership	Overall
Ratio of deposits by non-banking sectors to loans to non-banking sectors	2006	99.5	122.5	54.2	85.8
	2007	80.0	92.2	43.7	68.5
	2008	73.4	85.8	38.1	61.5
	2009	83.3	92.7	42.5	69.5
	2010	80.0	95.7	43.0	68.2
	Feb 11	82.4	97.9	44.6	70.3
Ratio of short-term deposits by non-banking sectors to short-term loans to non-banking sectors	2006	122.1	111.3	117.6	119.8
	2007	113.3	94.3	89.5	105.1
	2008	93.2	86.3	84.7	90.3
	2009	97.3	89.8	112.9	99.9
	2010	77.9	79.3	104.2	83.9
	Feb 11	81.9	77.1	108.9	87.3
Ratio of liabilities to foreign banks to loans to non-banking sectors	2006	40.4	13.2	72.9	49.5
	2007	47.0	9.7	66.0	50.9
	2008	42.6	10.3	63.9	48.0
	2009	28.3	5.5	61.6	38.4
	2010	24.1	2.8	57.2	34.0
	Feb 11	23.3	2.7	56.3	33.3
Ratio of loans to foreign banks to total assets	2006	22.9	7.2	50.6	29.9
	2007	29.0	6.2	52.3	34.0
	2008	27.7	6.8	52.3	33.8
	2009	16.8	3.5	48.9	25.2
	2010	15.0	1.7	47.8	23.3
	Feb 11	14.4	1.7	47.0	22.7
Ratio of debt securities to total assets	2006	24.8	20.3	13.5	21.2
	2007	19.9	17.0	7.2	16.0
	2008	17.2	14.8	5.8	13.5
	2009	18.0	18.9	7.2	14.9
	2010	16.4	19.1	8.1	14.3
	Feb 11	16.9	19.2	8.3	14.6
ECB liquidity ratio: ratio of cash and claims against banks to liabilities to banks	2006	45.5	116.0	25.1	38.2
	2007	37.3	48.8	16.9	29.4
	2008	39.2	55.8	14.8	29.1
	2009	71.5	61.3	18.7	45.0
	2010	67.0	69.8	8.9	39.0
	Feb 11	69.8	72.5	9.1	40.2

Source: Bank of Slovenia

3. Financial system

Table 3.1 Structure of the financial system

	Total assets, EUR million		Structure, %		as % GDP		No. of institutions	
	2009	2010	2009	2010	2009	2010	2009	2010
Monetary financial institutions[1]	52,009	50,761	76.6	75.4	147.0	140.8	25	25
banks	51,612	50,320	76.1	74.7	145.9	139.5	22	22
privately owned	41,130	39,507	60.6	58.7	116.2	109.6	-	-
domestic	20,265	19,953	29.9	29.6	57.3	55.3	-	-
foreign	20,865	19,554	30.7	29.0	59.0	54.2	-	-
government-owned	10,482	10,813	15.4	16.1	29.6	30.0	-	-
savings banks	397	441	0.6	0.7	1.1	1.2	3	3
NMFIs	15,857	16,567	23.4	24.6	44.8	45.9	-	-
insurers[2]	5,660	6,059	8.3	9.0	16.0	16.8	17	17
pension funds[3]	1,287	1,538	1.9	2.3	3.6	4.3	9	9
investment funds	2,234	2,294	3.3	3.4	6.3	6.4	132	135
leasing companies[4]	6,094	6,094	9.0	9.1	17.2	16.9	21	21
BHs, MCs, others[4]	582	582	0.9	0.9	1.6	1.6	-	-
Total	67,866	67,328	100.0	100.0	191.8	186.7	-	-

Notes: Figures for financial institutions that are not banks, insurers, pension companies or pension and investment funds are obtained from the AJPES database of annual accounts based on the SKD 2008 classification.
[1] Monetary financial institutions do not include the central bank. [2] The figures for the total assets of reinsurance companies are for the end of the third quarter of 2010. [3] The First Pension Fund is included among pension funds. [4] Total assets according to the figures for the end of 2009.

Sources: Bank of Slovenia, ISA, SMA, AJPES, BAS

Table 3.2 Market concentration of individual types of financial institution

		Banks		Insurers		Pension funds		Investment funds		Leasing companies	
		2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
HHI	all companies	1,250	1,149	2,302	2,225	2,119	2,115	492	458	1,680	1,590
	five largest	1,109	1,006	2,233	2,147	2,109	2,105	403	376	1,600	1,497
Share, %	five largest	60	59	75	74	94	94	40	38	75	74
	largest	30	27	44	43	32	32	15	15	33	32

Note: The Herfindahl-Hirschman Index (HHI) is calculated in terms of total assets, with the exception of leasing companies, for which it is calculated in terms of volume of business. The figures for pension funds do not include the First Pension Fund, which is a closed pension fund that does not envisage further inflows.

Sources: Bank of Slovenia, ISA, SMA, AJPES, BAS

Table 3.3 Financial indicators for individual types of financial institution

	2006	2007	2008	2009	2010
	Pre-tax profit, EUR million				
Banks	393.7	514.2	306.3	160.5	-96.4
Insurers[1]	67.8	117.5	-2.8	17.7	79.7
Leasing companies	54.6	60.7	30.0	-36.6	
Management companies	17.1	34.6	21.3	6.5	
	ROA, %				
Banks	1.22	1.36	0.67	0.32	-0.19
Insurers[1]	1.90	2.63	-0.06	0.33	1.36
Leasing companies	1.51	1.29	0.52	-0.60	
Management companies	11.64	15.98	9.83	4.33	
	ROE, %				
Banks	14.82	16.28	8.14	3.85	-2.25
Insurers[1]	10.89	12.90	-0.28	1.85	7.79
Leasing companies	21.92	20.11	9.36	-12.73	
Management companies	16.74	23.01	15.15	7.74	

Note: [1] Net profit for the accounting period (profit after tax) is taken into account for insurance companies and reinsurance companies. The figures for reinsurance companies are for the first three quarters of 2010.

Sources: Bank of Slovenia, ISA, AJPES

Table 3.4 Direct ownership structure of the Slovenian financial system (shares valued at market price or book value) in percentages

	Ownership structure (%)				
HOLDERS / ISSUERS	Banks	Other financial intermediaries	Insurance corporations and pension funds	Corporates	Total
			2005		
Non-financial corporations	24	30	14	31	29
Banks	8	8	7	3	4
Other financial intermediaries	2	9	1	11	10
Insurance corporations and pension funds	3	8	10	1	2
Government	23	8	54	23	23
Households	2	34	1	17	16
Non-residents	36	2	10	11	13
Others	2	2	0	3	2
Total	100	100	100	100	100
			2006		
Non-financial corporations	24	29	16	29	28
Banks	8	10	5	3	5
Other financial intermediaries	2	15	1	9	8
Insurance corporations and pension funds	3	6	9	2	3
Government	20	7	56	25	24
Households	2	30	4	18	16
Non-residents	39	1	8	11	15
Others	1	2	1	3	2
Total	100	100	100	100	100
			2007		
Non-financial corporations	17	33	22	32	30
Banks	7	8	6	2	3
Other financial intermediaries	5	16	1	10	9
Insurance corporations and pension funds	3	7	9	2	2
Government	26	1	47	24	23
Households	8	32	6	19	18
Non-residents	34	2	9	11	13
Others	1	2	1	1	1
Total	100	100	100	100	100
			2008		
Non-financial corporations	24	31	19	39	35
Banks	5	4	11	3	4
Other financial intermediaries	5	19	4	8	8
Insurance corporations and pension funds	5	4	15	1	3
Government	21	1	31	19	19
Households	3	25	5	15	13
Non-residents	38	13	15	13	17
Others	0	3	0	1	1
Total	100	100	100	100	100
			2010		
Non-financial corporations	21	27	19	38	33
Banks	6	6	10	4	5
Other financial intermediaries	5	20	4	7	7
Insurance corporations and pension funds	4	5	11	2	3
Government	25	1	36	20	21
Households	3	27	6	16	14
Non-residents	37	12	13	12	17
Others	0	1	1	1	1
Total	100	100	100	100	100

Sources: CSCC, Bank of Slovenia calculation

4. Insurers

Table 4.1 Total assets and operating results of insurance companies and reinsurance companies

	2006	2007	2008	2009	2010	2007	2008	2009	2010
	Value, EUR million unless stated					Growth, %			
	Insurance companies								
Total assets	3,519	4,550	4,590	5,091	5,435	29.3	0.9	10.9	6.8
non-life insurance	1,806	2,251	2,265	2,335	2,398	24.6	0.7	3.1	2.7
life insurance	1,713	2,299	2,325	2,755	3,037	34.2	1.1	18.5	10.2
Results									
result from general insurance[1]	64.9	69.1	1.0	19.4	139.2	6.5	-98.6	1860.8	615.9
result from health insurance[1]	-2.1	9.9	10.9	10.8	-5.7	573.4	9.9	-0.7	-152.8
result from life insurance[1]	13.9	20.8	1.8	27.4	26.1	49.5	-91.5	1446.5	-4.8
income from investments	74.6	118.7	104.0	99.1	98.6	59.1	-12.4	-4.7	-0.5
expenses from investments	13.1	21.2	86.9	69.9	96.2	62.0	309.3	-19.6	37.7
net profit[2]	51.5	95.1	2.9	23.1	77.9	84.7	-97.0	696.9	237.1
ROE, %	9.93	12.42	0.34	2.99	9.27				
ROA, %	1.59	2.36	0.06	0.48	1.48				
	Reinsurance companies[3]								
Total assets	368	485	561	570	624	31.7	15.7	1.6	9.5
Results									
result from general insurance	16.0	11.3	-0.2	4.3	2.4	-29.1	-101.5	2563.7	-43.6
income from investments	15.6	31.3	27.0	18.1	12.9	101.2	-13.9	-33.0	-28.6
expenses from investments	2.4	6.9	30.6	21.0	7.1	184.6	343.0	-31.5	-66.2
net profit	16.3	22.4	-5.7	-5.4	1.8	37.6	-125.6	5.0	133.5
ROE, %	15.67	15.48	-3.16	-2.99	1.00				
ROA, %	4.77	5.25	-1.10	-0.96	0.31				

Notes: [1] Result from ordinary activities.
[2] Net profit for the accounting period is calculated after taxes.
[3] The figures for reinsurance companies in 2010 relate to the end of the third quarter.
Sources: ISA, Bank of Slovenia calculations

Table 4.2 Capital adequacy of insurers and reinsurance companies

						Growth, %			
	2006	2007	2008	2009	2010	2007	2008	2009	2010
	Insurance companies (overall)								
Minimum capital requirement, EUR million	220.1	261.0	275.2	286.6	300.1	18.6	5.5	4.1	4.7
Surplus, EUR million	155.0	222.2	144.8	150.1	206.8	43.4	-34.8	3.6	37.8
Surplus / minimum capital requirement, %	70.4	85.1	52.6	52.4	68.9	20.9	-38.2	-0.5	31.6
	Life insurance								
Surplus / minimum capital requirement, %	66.6	68.8	60.9	61.1	69.5				
Original own funds / net technical provisions, %	8.0	10.4	10.3	8.6	8.2				
	Non-life insurance								
Surplus / minimum capital requirement, %	72.1	93.1	48.2	47.6	68.6				
Original own funds / net written premium, %	26.7	45.3	36.9	36.0	38.2				
	Reinsurance companies[1]								
Minimum capital requirement, EUR million	21.9	26.1	26.1	29.0	31.5	18.9	0.0	11.3	8.6
Surplus, EUR million	51.8	60.2	75.9	50.1	39.2	16.3	26.1	-34.0	-21.8
Surplus / minimum capital requirement, %	236.3	231.1	291.4	172.8	124.5	-2.2	26.1	-40.7	-28.0
Original own funds / net written premium, %	73.8	107.0	105.6	92.2	125.5	44.9	-1.3	-12.6	36.0

Notes: [1] The figures for reinsurance companies in 2010 relate to the end of the third quarter.
Sources: ISA, Bank of Slovenia calculations

Table 4.3 Claims ratios for the main types of insurance

	2006	2007	2008	2009	2010
	Insurance companies				
Overall	0.57	0.56	0.62	0.62	0.62
Life insurance	0.29	0.27	0.28	0.32	0.41
Voluntary health insurance	0.86	0.80	0.83	0.82	0.89
General insurance	0.60	0.62	0.71	0.69	0.61
motor vehicle liability insurance	0.54	0.55	0.55	0.57	0.56
motor vehicle insurance	0.76	0.77	0.87	0.89	0.77
accident insurance	0.44	0.39	0.39	0.38	0.37
other property insurance	0.64	0.76	1.04	0.86	0.62
fire and natural disaster insurance	0.45	0.60	1.14	0.69	0.55
credit insurance	0.72	0.71	0.54	0.90	0.96
other general insurance	0.77	0.64	0.61	0.62	0.54
	Reinsurance companies				
Overall	0.56	0.56	0.83	0.66	0.53

Source: ISA

Table 4.4 Coverage of net insurance technical provisions by assets covering technical provisions

	2006	2007	2008	2009	2010
Insurance technical provisions, EUR million	2,601	3,056	3,033	3,464	3,703
growth, %	16	18	-1	14	7
Assets covering technical provisions, EUR million	2,856	3,357	3,493	4,115	4,489
growth, %	15	18	4	18	9
Assets covering technical provisions / insurance technical provisions, %	109.8	109.8	115.2	118.8	121.2
Assets covering technical provisions / GDP, %	9.2	9.7	9.4	11.6	12.4
Mathematical provisions (EUR million)	1,452	1,748	1,752	2,105	2,346
growth, %	24	20	0	20	11
Assets covering mathematical provisions, EUR million	1,665	2,042	2,095	2,539	2,838
growth, %	22	23	3	21	12
Assets covering mathematical provisions / mathematical provisions, %	114.7	116.8	119.6	120.6	121.0
Assets covering mathematical provisions / GDP, %	5.4	5.9	5.6	7.2	7.9
Other technical provisions, EUR million	1,149	1,308	1,281	1,359	1,357
growth, %	7	14	-2	6	0
Assets covering technical provisions less assets covering mathematical provisions, EUR million	1,192	1,315	1,398	1,576	1,651
growth, %	7	10	6	13	5
Assets covering technical provisions less assets covering mathematical provisions / other technical provisions, %	103.7	100.5	109.1	116.0	121.7
Assets covering technical provisions less assets covering mathematical provisions / GDP, %	3.8	3.8	3.7	4.5	4.6

Sources: ISA, SORS, own calculations

Table 4.5 Selected indicators for compulsory and voluntary supplementary pension insurance

						Growth, %			
	2006	2007	2008	2009	2010	2007	2008	2009	2010
	Compulsory pension insurance								
Average no. of policyholders at the PDII (1)	857,922	879,090	904,084	894,886	881,992	2.5	2.8	-1.0	-1.4
Average no. of pensioners[1] (2)	536,887	543,473	551,258	560,428	573,238	1.2	1.4	1.7	2.3
Ratio (1)/(2)	1.60	1.62	1.64	1.60	1.54	1.2	1.4	-2.6	-3.6
Average pension, EUR[2] (3)	484	512	554	570	577	5.7	8.3	2.9	1.1
Net average wage, EUR (4)	773	835	900	930	967	7.9	7.8	3.4	3.9
Ratio (3)/(4)	0.63	0.61	0.62	0.61	0.60	-2.0	0.5	-0.5	-2.6
Average age of new pension recipients	58.9	59.2	59.2	59.5	59.8	0.5	0.0	0.6	0.4
men	60.3	60.7	60.8	60.9	60.9	0.6	0.1	0.3	0.0
women	57.2	57.4	57.5	58.0	58.3	0.4	0.2	0.9	0.6
	Voluntary supplementary pension insurance								
No. of voluntary supplementary pension insurance policyholders (5)	459,764	486,816	512,343	482,988	508,195	5.9	5.2	-5.7	5.2
Workforce in employment (6)	833,016	864,361	880,252	844,655	818,975	3.8	1.8	-4.0	-3.0
Ratio (5)/(6)	0.55	0.56	0.58	0.57	0.62	2.0	3.3	-1.8	8.5
Assets, EUR million	783	956	1,212	1,528	1,794	22.0	26.9	26.1	17.4
assets as % of GDP	2.5	2.8	3.3	4.3	5.0	9.6	17.6	32.9	15.2
assets as % of household financial assets	2.4	2.6	3.3	3.8	4.3	4.3	28.8	16.6	11.8
Written premium, EUR million	202	217	240	152	154	7.8	10.3	-36.4	0.8
premium as % of PDII tax revenues	7.5	7.5	7.4	4.6	4.6	-0.7	-1.6	-37.2	-0.5

Notes: [1] Includes recipients of any type of pension: old-age, disability, family, widow's, military, farmer's and state.
[2] Includes old-age, disability, family and widow's pensions, less tax prepayment.

Sources: SMA, ISA, Bank of Slovenia, SORS, PDII

5. Investment funds

Table 5.1 Overview of investment funds: assets and net inflows of mutual funds in EUR million and year-on-year returns in percentages

	Mutual funds				(Authorised) investment companies				Investment funds (overall)	
					Assets					
	Net inflows	Assets		AUP	PIDs		ICs		Assets	
	EUR million	EUR million	Growth	Growth	EUR million	Growth	EUR million	Growth	EUR million	Growth
2000	5	45	22%	4%	2,393	-4%	-	-	2,438	-
2001	7	61	37%	23%	2,287	-4%	-	-	2,348	-4%
2002	122	231	277%	54%	1,352	-41%	578	-	2,161	-8%
2003	107	389	68%	17%	550	-59%	894	55%	1,833	-15%
2004	339	877	126%	18%	-	-	1,209	35%	2,086	14%
2005	138	1,385	58%	7%	-	-	835	-31%	2,220	6%
2006	163	1,929	39%	19%	-	-	916	10%	2,845	28%
2007	470	2,924	52%	28%	-	-	1,213	32%	4,138	45%
2008	-304	1,513	-48%	-43%	-	-	398	-67%	1,912	-54%
2009	18	1,856	23%	24%	-	-	377	-5%	2,234	17%
2010	25	2,054	11%	6%	-	-	241	-36%	2,294	3%

Sources: AMC, SMA, LJSE, own calculations

Table 5.2 Assets of EU and Slovenian investment funds in EUR billion and in percentages

		Asset value (EUR billion)	Annual growth (%)	Breakdown by asset type, %				
				Equity	Bond	Balanced	Money-market	Other
EU	2006	5,974	15.1	41	23	15	16	5
	2007	6,203	4.2	40	22	15	16	7
	2008	4,593	-25.4	30	23	16	25	6
	2009	5,299	16.7	34	23	16	21	6
	2010	5,990	11.5	34	25	17	18	5
Slovenia	2006	1.9	39.3	63	1	35	0	0
	2007	2.9	51.3	63	2	33	1	0
	2008	1.5	-48.8	63	2	33	1	0
	2009	1.8	21.6	63	2	34	1	0
	2010	2.0	11.3	64	3	32	1	0

Source: Bank of Slovenia, EFAMA

Table 5.3 Mutual funds: number, assets and net inflows in EUR million and returns in percentages

						Growth, %				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Number										
overall	99	109	127	128	137	98.0	10.1	16.5	0.8	6.6
equity	72	80	96	98	104	176.9	11.1	20.0	2.1	5.8
bond	9	10	10	10	11	0.0	11.1	0.0	0.0	9.1
balanced	16	17	18	17	18	14.3	6.3	5.9	-5.6	5.6
money-market	2	2	2	2	3	-	0.0	0.0	0.0	33.3
other	-	-	1	1	1	-	-	-	0.0	0.0
Assets										
domestic mutual funds, EUR million	1,929	2,924	1,513	1,856	2,054	39.3	51.6	-48.2	22.7	9.6
equity, % of total	58	68	63	63	64	9.6	17.7	-6.8	0.0	1.2
bond, % of total	2	1	2	2	3	-45.3	-47.4	78.6	-0.4	29.7
balanced, % of total	40	31	33	34	32	-7.4	-23.0	9.4	1.0	-5.8
bank-owned, % of total	30	28	33	39	36	20.8	-6.5	20.1	15.2	-5.7
non-bank, % of total	70	72	67	61	64	-6.8	2.7	-7.8	-7.6	3.3
foreign mutual funds, EUR million	308	367	130	189	217	119.8	19.4	-64.7	45.8	12.8
Net annual inflows										
domestic mutual funds, EUR million	163	470	-304	18	25	18.5	187.3	-164.6	-106.0	25.6
equity, % of total	130	84	-200	66	37					
bond, % of total	-9	-1	-5	2	24					
balanced, % of total	-23	16	-105	35	37					
bank-owned, % of total	44	31	28	52	19					
non-bank, % of total	56	69	72	48	81					
foreign mutual funds, EUR million	127	2	-55	-4	-11					
Annual growth in AUP, %										
overall	19	28	-43	24	6					
equity	20	32	-48	28	9					
bond	2	5	-3	7	4					
balanced	18	23	-38	17	2					
bank-owned	15	19	-35	26	8					
non-bank	20	31	-46	23	6					

Note: The figures for foreign mutual funds only include those officially marketed in Slovenia.
Sources SMA, own calculations

Table 5.4 Breakdown of investment fund investments by type in percentages

(%)	2006	2007	2008	2009	2010
Mutual funds					
shares	30	29	21	22	17
bonds	8	5	7	6	5
bank deposits	8	10	11	10	8
foreign investments	51	55	58	62	70
other	3	2	3	0	0

Source: SMA

6. Leasing companies

Table 6.1 Comparison of the Slovenian leasing sector with European leasing companies in percentages

(%)	2004	2005	2006	2007	2008	2009	2010
Slovenian leasing companies							
growth in business	12.3	35.5	28.0	34.3	12.6	-49.3	3.0
leasing business / gross investment	18.5	23.7	26.9	31.4	31.8	20.5	21.7
breakdown of business							
real estate leasing	29.7	33.5	29.5	30.9	27.9	26.4	21.9
equipment leasing	70.3	66.4	70.5	69.1	72.1	73.6	78.1
equipment and real estate leasing by individuals	22.2	20.9	19.2	19.5	20.3	22.4	21.5
European leasing companies							
growth in business	8.0	11.6	16.9	11.2	-7.8	-32.3	4.9
leasing business / gross investment	14.8	15.9	19.0	20.8	16.0	12.0	-
breakdown of business							
real estate leasing	16.2	17.1	15.5	13.7	11.5	11.7	-
equipment leasing	83.8	82.9	84.5	86.3	88.5	88.3	-

Note: Gross investment includes gross fixed capital formation other than investments in residential buildings for reason of comparability with the Leaseurope figures. The figure for growth in European leasing business for 2010 is provisional.

Sources: Leaseurope, SORS, BAS, SLA

7. Capital market

Table 7.1 Overview of the regulated securities market in EUR million and in percentages

	Market capitalisation (EUR million)	Market capitalisation (as % GDP)	Volume (EUR million)	Volume (as % GDP)	Turnover velocity	Annual change in SBI TOP, %
2001	5,759	27.9	1,454	7.0	0.252	-
2002	9,073	39.2	2,007	8.7	0.221	-
2003	10,190	40.6	1,420	5.7	0.139	-
2004	12,726	47.0	1,655	6.1	0.130	29.3
2005	13,395	46.7	1,840	6.4	0.137	2.8
2006	18,838	60.8	1,805	5.8	0.096	56.6
2007	26,696	77.4	3,324	9.6	0.125	71.0
2008	15,488	41.7	1,286	3.5	0.083	-66.1
2009	19,668	56.2	904	2.5	0.046	15.0
2010	20,453	57.1	493	1.4	0.023	-13.5

Sources: LJSE, SORS

Table 7.2 Number of issuers and issued securities on the Ljubljana Stock Exchange and number of registered securities at the CSCC

	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
LJSE						Year-on-year change				
number of issuers	130	119	107	97	88	-18	-11	-12	-10	-10
number of issued securities	205	188	187	174	158	-22	-17	-1	-13	-10
shares	102	89	86	85	75	-10	-13	-3	0	-13
bonds	93	89	90	85	79	-2	-4	1	-5	-8
investment companies	7	7	4	4	4	-3	0	-3	0	0
number of members	24	24	23	25	25	-3	0	-1	2	0
CSCC						Proportion of LJSE issuers and securities at CSCC, %				
number of issuers	810	803	764	742	738	16	15	14	13	12
number of issued securities	1026	995	943	912	891	20	19	20	19	18
shares	889	877	821	795	792	11	10	10	11	9
bonds	115	112	111	107	94	81	79	81	79	84
investment companies	7	7	4	4	4	100	100	100	100	100

Sources: LJSE, CSCC

Investments by residents in the rest of the world

Table 7.3 Investments by residents in securities issued in the rest of the world in EUR million and in percentages

	2006	2007	2008	2009	2010
Growth in investments in rest of the world, %	81.5	77.7	-21.6	4.8	4.9
Total investments in rest of the world, EUR million	5,495	9,767	7,655	8,041	8,458
	Breakdown by sector, %				
Banks	41	47	55	47	47
Other financial intermediaries	21	19	12	15	16
Insurers	18	17	24	27	26
Households	12	10	4	6	6
Corporates	4	3	1	2	2
Other	4	4	4	3	4

Source: CSCC, Bank of Slovenia, own calculations

Investments by non-residents in Slovenia

Table 7.4 Investments by non-residents in securities issued in Slovenia in EUR million and in percentages

	2006	2007	2008	2009	2010
Growth in investments by non-residents, %	38.6	22	5	40	21
Total investments by non-residents, EUR million	4,129	5,054	5,295	8,855	11,219
	Breakdown by domestic sector, %				
Corporates	52	55	36	21	18
Banks	24	26	29	18	14
Other financial intermediaries	0	1	3	1	1
Insurers	2	2	2	2	1
Government	22	16	30	58	66

Sources: CSCC, Bank of Slovenia, own calculations