



MONTHLY REPORT ON BANK PERFORMANCE



JULY 2020

BRIEF COMMENTARY ON DEVELOPMENTS IN THE BANKING SECTOR

The banking system is doing business in the harsh environment caused by the Covid-19 epidemic and the lockdown measures, which is being reflected in bank performance. Growth in household loans has halved, while growth in corporate loans is also gradually slowing. Corporate and household deposits are still increasing, primarily on account of reduced spending, and partly as a result of government payments to alleviate the impact of the epidemic. Thanks to the government emergency measures, NPEs are not yet increasing, but the ongoing recession is likely to see them rise in the future. The decline in interest income and non-interest income, and the renewed creation of impairments and provisions are reducing bank profitability, and the effect is expected to be even larger in the coming quarters. Following this year's contraction, the economy is expected to stabilise over the next two years.

The banking system's balance sheet total increased to EUR 42.9 billion in May, up 7.2% on the same month last year. Amid the continuing increase in household and corporate deposits, on the investment side the banks recorded an increase of EUR 477 million in balances at the central bank in May, equivalent to half of the total increase over the first five months of the year. Loans to the non-banking sector and investments in securities declined in May.

The epidemic and the economic shock brought a slowdown in year-on-year growth in loans to the non-banking sector, which stood at 4.1% in May. The main decline in May was in the stock of corporate loans, while the stock of household loans remained almost unchanged. Year-on-year growth in corporate loans slowed, but remained solid at 5.1%, almost double the rate of growth in household loans. The approval of liquidity loans to firms under the aegis of the emergency law had not taken off in practice by the end of May.

Year-on-year growth in household loans reached 2.6% in May. The declaration of the epidemic constrained household consumption, which slowed growth in consumer loans; the year-on-year rate turned negative in May for the first time since March 2016, at -0.4%. Year-on-year growth in housing loans also slowed over the first five months of the year, but remains solid for now at 4.7%, only slightly below its average rate of last year. The official end of the epidemic allowed the real estate market to reactivate, thus providing an opportunity for further growth in housing loans, which will nevertheless depend on developments in the economy and on the labour market.

The banks' non-performing exposures (NPEs) have remained below the one billion euro mark in 2020, and the NPE ratio in May was unchanged from April at 2.1%. The reduction in NPEs was slower than in the previous year. The largest reduction again came in the non-financial corporations portfolio, in the amount of EUR 30 million, taking the NPE ratio down 0.3 percentage points to 4.2%. The NPE ratio declined to 3.3% in the large enterprises portfolio and to 5.4% in the SMEs portfolio. Thanks to the favourable impact of the emergency measures, the NPE ratios in individual economic sectors are also not yet reflecting the contraction in activity, even though business conditions have deteriorated for the majority of firms and sectors. The stock of NPEs and the NPE ratio in the consumer loans portfolio began rising in 2020. The latter had reached 2.9% by May, up 0.4 percentage points on the end of 2019. That NPEs began rising before the outbreak of the epidemic suggests a lower quality of the consumer loans portfolio already at the origination of the loans.

Deposits by the non-banking sector are still increasing, the year-on-year rate reaching 8.5% in May, driven by household deposits and corporate deposits alike. Year-on-year growth in household deposits increased to 9.4%, driven primarily by reduced household spending on goods and services, and also in part by government payments to alleviate the impact of the epidemic. The main increase has been in sight deposits, which in May accounted for almost 81% of total household deposits and 76% of total deposits by the non-banking sector, while fixed-term deposits have declined. Year-on-year growth in corporate deposits has increased this year, particularly since March, reaching 12.3% in May, although the monthly increases since March have remained highly volatile.

The banks generated a pre-tax profit of EUR 152 million over the first five months of this year, down a half on the same period last year. Growth in net interest income was negative for the second month in a row (-1.9%) in May, due to both a decrease in interest income and an increase in interest expenses. Among interest income, interest income from securities decreased the most (-17.2%), while interest income from loans exceeded last year's by 1.6%. The net interest margin has also declined as a result: at the end of May, it stood at 1.74% for the last 12-month period. Non-interest income is down a little over a fifth on last year. The economic downturn means that the banks are creating net impairments and provisions; impairment and provisioning costs amounted to EUR 45 million over the first five months of the year, but this still accounts for a small proportion of the disposal of gross income across the system. ROE over the first five months of the year stood at 7.5% at system level, down a half on the same period last year.

The total capital ratio increased to 20.5% on an individual basis in the first quarter of 2020, while the common equity Tier 1 capital ratio declined to 18.5%. The increase in the total capital ratio was driven primarily by an increase in regulatory capital via the issuance of subordinated debt securities, which are included in Tier 2 capital. The ratio of assets in the most liquid forms to total assets is continuing to strengthen, and reached 15.8% in May, while the ratio of secondary liquidity to total assets held at 18%. Meanwhile the liquidity coverage ratio (LCR) increased to 326%, and remains well above the regulatory requirement of 100%.

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1. MAIN FEATURES OF BANKS' PERFORMANCE AND FINANCIAL STATEMENTS¹

Table 1.1: Banking system's assets and liabilities, as at 31 May 2020

EUR million unless stated, growth rates in %	Stock	Breakdown	Stock	Breakdown	Stock	Breakdown	Increase		Growth in May 20, %	
	31.12.2018	(%)	31.12.2019	(%)	31.05.2020	(%)	in May 20	in 2020	monthly	year-on-year
Assets	47,948	100.0	41,213	100.0	42,879	100.0	333.4	1,665.8	0.8	7.2
Cash in hand, balances at central bank and sight deposits at banks*	1,250	2.6	5,783	14.0	6,786	15.8	477.3	1,002.4	7.6	35.0
Loans to banks at amortised cost (including central bank)	4,101	8.6	1,592	3.9	1,818	4.2	58.5	225.8	3.3	19.9
domestic banks	2,673	5.6	758	1.8	717	1.7	18.6	-41.4	2.7	-2.6
foreign banks	1,428	3.0	834	2.0	1,101	2.6	39.9	267.2	3.8	41.2
short-term loans to banks	2,056	4.3	563	1.4	691	1.6	41.2	128.5	6.3	27.1
long-term loans to banks	2,046	4.3	1,029	2.5	1,127	2.6	17.3	97.3	1.6	15.9
Loans to non-banking sector*	33,718	70.3	23,520	57.1	23,689	55.2	-169.7	169.6	-0.7	4.1
of which non-financial corporations	20,260	42.3	8,877	21.5	9,086	21.2	-171.2	208.3	-1.8	5.1
households	7,558	15.8	10,703	26.0	10,598	24.7	4.7	-105.4	0.0	2.6
government	506	1.1	1,634	4.0	1,607	3.7	-2.0	-26.6	-0.1	-6.9
other financial institutions	2,829	5.9	1,239	3.0	1,239	2.9	-4.7	-0.1	-0.4	17.1
non-residents	2,515	5.2	1,036	2.5	1,130	2.6	3.3	94.0	0.3	17.3
Other financial assets classed as loans and receivables (at amortised cost)	0	0.0	148	0.4	190	0.4	21.8	42.0	13.0	-19.3
Securities / financial assets**	7,323	15.3	8,838	21.4	8,616	20.1	-33.1	-222.1	-0.4	-5.7
a) Financial assets held for trading	1,177	2.5	63	0.2	76	0.2	-14.6	12.8	-16.1	-37.3
of which debt securities held for trading	571	1.2	8	0.0	10	0.0	-10.5	2.5	-50.9	-82.4
... government debt securities held for trading	56	0.1	8	0.0	10	0.0	-10.5	2.5	-50.9	-82.4
b) Financial assets measured at fair value through P&L not held for trading	0	0.0	52	0.1	58	0.1	0.5	6.2	0.9	-2.8
of which debt securities measured at fair value through P&L not held for trading	0	0.0	0	0.0	0	0.0	0.0	0.0	0.0	0.0
c) Financial assets designated for measurement at fair value through P&L	179	0.4	6	0.0	6	0.0	0.0	0.0	0.3	0.3
of which debt securities designated for measurement at fair value through P&L	163	0.3	6	0.0	6	0.0	0.0	0.0	0.3	0.3
... government debt securities designated for measurement at fair value through P&L	0	0.0	0	0.0	0	0.0	0.0	0.0	0.0	0.0
d) Financial assets measured at fair value through other comprehensive income	4,552	9.5	5,012	12.2	4,870	11.4	24.6	-141.5	0.5	-7.7
of which debt securities measured at fair value through other comprehensive income	4,318	9.0	4,807	11.7	4,667	10.9	24.0	-140.2	0.5	-7.9
... government debt securities measured at fair value through other comprehensive income	2,875	6.0	3,385	8.2	3,246	7.6	35.1	-139.0	1.1	-7.5
e) Debt securities at amortised cost	1,415	3.0	3,706	9.0	3,606	8.4	-43.7	-99.6	-1.2	-1.7
of which government debt securities at amortised cost	1,182	2.5	2,862	6.9	2,809	6.6	-65.1	-53.0	-2.3	-3.1
Investments in subsidiaries, joint ventures and associates	627	1.3	509	1.2	956	2.2	3.0	447.3	0.3	85.6
Other assets	928	1.9	823	2.0	824	1.9	-24.4	0.9	-2.9	2.4
Equity and liabilities	47,948	100.0	41,213	100.0	42,879	100.0	333.4	1,665.8	0.8	7.2
Financial liabilities measured at amortised cost (deposits)	41,895	87.4	35,803	86.9	37,410	87.2	274.3	1,606.8	0.7	8.1
a) Financial liabilities to central bank (Eurosystem)	1,229	2.6	983	2.4	1,163	2.7	-0.4	179.7	0.0	11.7
b) Liabilities to banks	18,168	37.9	2,821	6.8	2,744	6.4	-113.9	-77.3	-4.0	-13.7
of which to domestic banks	2,065	4.3	856	2.1	861	2.0	12.8	4.8	1.5	8.9
of which to foreign banks	16,098	33.6	1,965	4.8	1,883	4.4	-126.7	-82.1	-6.3	-21.2
c) Liabilities to non-banking sector (deposits by NBS)	20,883	43.6	31,069	75.4	32,308	75.3	343.8	1,238.7	1.1	8.5
of which to non-financial corporations	3,728	7.8	6,758	16.4	7,339	17.1	293.6	581.7	4.2	12.3
households	13,407	28.0	20,365	49.4	21,122	49.3	112.7	757.1	0.5	9.4
government	1,879	3.9	1,037	2.5	1,004	2.3	-29.4	-32.9	-2.8	-17.6
other financial institutions	1,065	2.2	1,243	3.0	1,238	2.9	-22.6	-4.9	-1.8	-15.9
non-residents	475	1.0	1,228	3.0	1,163	2.7	-14.5	-64.4	-1.2	35.6
d) Debt securities	1,276	2.7	600	1.5	724	1.7	-0.5	123.8	-0.1	273.4
e) Other financial liabilities measured at amortised cost***	1,568	3.3	329	0.8	471	1.1	45.2	141.9	10.6	13.3
Provisions	176	0.4	187	0.5	182	0.4	1.5	-5.0	0.8	-4.6
Shareholder equity	4,010	8.4	4,963	12.0	5,020	11.7	73.0	56.8	1.5	1.7
Other liabilities	1,867	3.9	260	0.6	267	0.6	-15.5	7.2	-5.5	2.1
BALANCE SHEET TOTAL	47,948	100.0	41,213	100.0	42,879	100.0	333.4	1,665.8	0.8	7.2

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

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

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

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

Source: Bank of Slovenia

Table 1.2: Income statement for 2018, 2019 and 2020

	2018	Breakdown	2019	Breakdown	2019	Breakdown	2020	Breakdown	Annual growth, %
(EUR million unless stated)		(%)		(%)	Jan.-Jun	(%)	Jan.-Jun	v %	Jan.- June 20/ Jan.- June 19
Interest income	775.3		790.0		389.9		380.2		-2.5
Interest expenses	103.6		107.3		52.9		55.3		4.6
Net interest	671.7	58.2	682.7	54.4	337.0	47.8	324.9	54.6	-3.6
Non-interest income	481.6	41.8	573.4	45.6	367.9	52.2	269.9	45.4	-26.6
of which net fees and commission	315.4	27.3	333.8	26.6	168.1	23.9	160.0	26.9	-4.9
of which net gains/losses on financial assets and liabilities held for trading	13.0	1.1	12.1	1.0	6.4	0.9	7.0	1.2	9.0
Gross income	1,153.3	100.0	1,256.1	100.0	704.9	100.0	594.9	100.0	-15.6
Operating costs	-669.5	-58.0	-709.3	-56.5	-338.3	-48.0	-364.7	-61.3	7.8
Net income	483.8	42.0	546.8	43.5	366.7	52.0	230.1	38.7	-37.2
Net impairments and provisions	47.1	4.1	45.7	3.6	35.5	5.0	-98.4	-16.5	-376.9
Pre-tax profit	530.9	46.0	592.5	47.2	402.2	57.1	131.7	22.1	-67.2
Taxes	-35.7		-62.0		-46.3		-8.9		-80.7
Net profit	495.2		530.5		355.9		122.8		-65.5

Source: Bank of Slovenia

Table 1.3: Selected performance indicators

							2019	2020	May-19	May-20
in %	2014	2015	2016	2017	2018	2019	Jan.-May.	Jan.-May.	(last 12 mon.)	(last 12 mon.)
Profitability										
Financial intermediation margin*	3.10	3.05	3.05	2.88	3.01	3.13	3.39	2.77	3.07	2.89
ROA	-0.27	0.42	0.99	1.19	1.39	1.48	1.87	0.88	1.50	1.07
ROE	-2.69	3.63	7.96	9.58	11.07	12.16	15.81	7.53	12.08	8.95
Interest margin on interest-bearing assets	2.18	2.06	1.91	1.83	1.84	1.79	1.80	1.66	1.85	1.74
Net non-interest income / operating costs	58.05	60.05	68.53	62.67	71.93	80.84	97.01	73.56	75.38	71.70
Operating costs										
Labour costs / average assets	0.92	0.97	1.01	1.02	1.02	1.00	0.98	0.92	1.01	0.97
Other costs / average assets	0.81	0.84	0.80	0.78	0.73	0.77	0.71	0.69	0.73	0.76
Asset quality										
Impairments of financial assets at amortised cost / gross assets	8.98	7.84	5.38	4.09	2.64	1.53	2.28	1.59	/	/

* Gross income / average assets

Source: Bank of Slovenia

2. QUALITY OF THE BANKING SYSTEM'S CREDIT PORTFOLIO

Table 2.1:¹ Non-performing exposures by client segment

	Exposures						Non-performing exposures (NPEs)					
	amount, EUR million			breakdown n, %			amount, EUR million			ratio, %		
	Dec.19	Apr.20	May.20	Dec.19	Apr.20	May.20	Dec.19	Apr.20	May.20	Dec.19	Apr.20	May.20
NFCs	14,272	14,460	14,438	31.3	31.3	30.8	636	615	606	4.5	4.3	4.2
OFIs	1,372	1,396	1,393	3.0	3.0	3.0	11	11	11	0.8	0.8	0.8
Households	11,794	11,817	11,810	25.9	25.6	25.2	247	253	258	2.1	2.1	2.2
sole traders	691	685	687	1.5	1.5	1.5	28	28	27	4.0	4.1	4.0
individuals	11,104	11,132	11,124	24.4	24.1	23.7	219	225	230	2.0	2.0	2.1
Non-residents	7,587	7,633	7,634	16.6	16.5	16.3	99	95	93	1.3	1.2	1.2
Government	5,176	5,312	5,435	11.4	11.5	11.6	12	13	12	0.2	0.2	0.2
Banks and savings banks	897	872	890	2.0	1.9	1.9	0	0	0	0.0	0.0	0.0
Central bank	4,440	4,721	5,295	9.7	10.2	11.3	0	0	0	0.0	0.0	0.0
Total	45,592	46,211	46,896	100.0	100.0	100.0	1,006	987	980	2.2	2.1	2.1

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

	Classified claims						Claims more than 90 days in arrears					
	amount, EUR million			breakdown n, %			amount, EUR million			ratio, %		
	Dec.19	Apr.20	May.20	Dec.19	Apr.20	May.20	Dec.19	Apr.20	May.20	Dec.19	Apr.20	May.20
NFCs	14,041	14,236	14,214	34.6	34.4	33.8	201	190	205	1.4	1.3	1.4
OFIs	1,369	1,395	1,392	3.4	3.4	3.3	5	5	5	0.3	0.3	0.3
Households	11,794	11,817	11,810	29.1	28.6	28.1	214	218	224	1.8	1.8	1.9
sole traders	691	685	687	1.7	1.7	1.6	20	19	20	2.9	2.8	2.9
individuals	11,103	11,132	11,123	27.4	26.9	26.5	194	199	204	1.8	1.8	1.8
Non-residents	4,846	5,126	5,120	11.9	12.4	12.2	41	44	48	0.8	0.9	0.9
Government	3,175	3,247	3,359	7.8	7.8	8.0	6	6	6	0.2	0.2	0.2
Banks and savings banks	916	831	850	2.3	2.0	2.0	0	0	0	0.0	0.0	0.0
Central bank	4,440	4,721	5,295	10.9	11.4	12.6	0	0	0	0.0	0.0	0.0
Total	40,581	41,371	42,041	100.0	100.0	100.0	466	462	487	1.1	1.1	1.2

Table 2.3:¹ Non-performing exposures to non-financial corporations by sector

	Exposures			Non-performing exposures (NPEs)			NPE ratio		
	(EUR million)			(EUR million)			(%)		
	Dec.19	Apr.20	May.20	Dec.19	Apr.20	May.20	Dec.19	Apr.20	May.20
Agriculture, forestry, fishing, mining	132	136	136	3	3	3	2.0	2.0	2.0
Manufacturing	4,039	4,052	4,041	114	95	94	2.8	2.3	2.3
Electricity, gas, water, remediation	1,296	1,411	1,428	8	8	8	0.6	0.6	0.6
Construction	1,159	1,157	1,175	84	81	80	7.3	7.0	6.8
Wholesale and retail trade	2,559	2,617	2,591	229	223	223	9.0	8.5	8.6
Transportation and storage	1,749	1,699	1,696	20	21	21	1.2	1.3	1.3
Accommodation and food service	459	486	492	40	43	43	8.7	8.7	8.7
Information and communication	656	642	644	6	5	5	0.9	0.8	0.8
Financial and insurance activities	61	64	64	0	0	0	0.7	0.7	0.0
Real estate activities	592	611	613	46	49	49	7.8	8.1	8.0
Professional, scientific and technical	1,313	1,341	1,316	65	67	61	4.9	5.0	4.6
Public services	258	243	243	20	19	19	7.8	7.9	7.8
Total	14,272	14,460	14,438	636	615	606	4.5	4.3	4.2

Source: Bank of Slovenia

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

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

	Classified claims			Classified claims more than 90 days in arrears			Proportion of classified claims more than 90 days in arrears		
	(EUR million)			(EUR million)			(%)		
	Dec.19	Apr.20	May.20	Dec.19	Apr.20	May.20	Dec.19	Apr.20	May.20
Agriculture, forestry, fishing, mining	132	136	136	1	1	1	0.6	0.8	0.7
Manufacturing	4,028	4,045	4,034	42	38	39	1.0	0.9	1.0
Electricity, gas, water, remediation	1,289	1,404	1,420	4	4	4	0.3	0.3	0.3
Construction	1,157	1,155	1,174	58	51	50	5.0	4.4	4.3
Wholesale and retail trade	2,435	2,495	2,469	36	34	36	1.5	1.4	1.4
Transportation and storage	1,719	1,669	1,665	5	6	6	0.3	0.4	0.4
Accommodation and food service	455	482	488	18	21	21	4.0	4.3	4.3
Information and communication	634	621	623	1	1	1	0.1	0.1	0.1
Financial and insurance activities	61	64	64	0	0	0	0.0	0.0	0.0
Real estate activities	588	607	609	5	5	9	0.9	0.8	1.4
Professional, scientific and technical	1,284	1,315	1,289	31	28	39	2.4	2.2	3.0
Public services	258	243	243	1	1	1	0.3	0.4	0.4
Total	14,041	14,236	14,214	201	190	205	1.4	1.3	1.4

Source: Bank of Slovenia