BANKA SLOVENIJE

BANK OF SLOVENIA

REPORT

ON SUPERVISION OF BANKING OPERATIONS IN THE YEAR 2002 AND THE FIRST HALF OF 2003

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BANKA SLOVENIJE
BANK OF SLOVENIA

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Pursuant to Article 26 of the Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, Nos. 58/02 and 85/02 (Corrigendum)) we hereby lay before the National Assembly of the Republic of Slovenia our report on the supervision of the operations of banks and savings banks (including savings and loan undertakings) in 2002 and the first half of 2003.

The purpose of this report is to provide an account of the prudential supervision of banks and savings banks and of developments in the Slovenian banking sector in 2002 and the first half of 2003.

In the interests of safeguarding the general stability of the banking system and promoting transparency in the operations of banks and savings banks, this report is published and addressed simultaneously to a wider public. The disclosure of data and information concerning banking supervision must comply with the Banking Act, Article 59 of which sets out in detail the scope of information that is relevant to the discharging of the tasks and responsibilities of the Bank of Slovenia and specifies the bodies to which the Bank of Slovenia may pass on information.

MISSION STATEMENT

By fostering effective banking supervision, the Banking Supervision Department promotes safety and soundness of banking operations.

OBJECTIVE

The primary responsibility of the Banking Supervision Department is to ensure depositor protection and thereby maintain the stability of the financial system and boost confidence in the financial sector as a whole. Effective banking supervision the Banking Supervision Department subscribes to shall be the underlying objective and its fulfilment lies with all organisational units and people who exercise powers conferred upon the Banking Supervision Department.

PHILOSOPHY

We are committed to promoting the safety and soundness of our credit institutions. The principles we advocate within the framework of market economy assume that banks are managed by professionals chosen by the owners who lay down the guidelines to be adhered to. The Banking Supervision Department must not make decisions instead of the owners and must not interfere with the responsibilities conferred upon management teams of credit institutions. Banking supervisors must be satisfied that effective policies and practices are in place and that management takes necessary remedial actions in response to weaknesses identified by internal and external auditors. Regular open communication between the Banking Supervision Department on the one hand and credit institutions on the other help keep up the standards of safe and sound banking, while appropriate corrective actions taken by the Bank of Slovenia are yet another tool of effective supervision.

ROLE OF MANAGEMENT AND INTERNAL AUDITORS

Management teams that are at the helm of credit institutions have responsibility not only to owners but also to regulators, who strive to encourage sound practices throughout the financial system by being relentless in enhancing supervision of credit institutions and other related undertakings. As regards ensuring responsibility of bank management for safety of banking operations, it is their duty to introduce clearly defined rules as to management of all kinds of risks banks are exposed to. Banks cope with industry-related risks by setting up a system of internal controls. Banking supervisors require from bank management to set out in writing rules to be followed and mechanisms deployed for the purpose of risk management. As for benchmarking business results, bank management must have in place long-term business strategy, which shall be implemented by means of business policies tailored for each area of banking operations. A step further is the need to have in place a well-developed internal audit department, which is in charge of monitoring and assessing the adequacy and appropriateness of aforementioned functions, and who shall promptly notify bank management on findings and put forward recommendations. It is essential that bank management recognise the role and importance, as well as the scope of responsibilities conferred upon the internal audit department, and to duly consider its findings and recommendations. To keep this communication channel navigable is in the best interest of both sides.

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REPORT

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MACROECONOMIC ENVIRONMENT

World economic growth in 2002 and the first half of 2003 was weak. With the exception of a number of countries in Eastern Europe, Slovenia's main economic partners also recorded low levels of growth. Inflation in the first half of 2002 was still relatively moderate but rose in the second half of the year on the effects of the oil price rise and lower interest rates. Following a normalisation of oil prices in the second quarter of 2003 inflation, too, fell back to the level of the first half of 2002. The uncertain situation in Iraq, the political crisis in Venezuela and occasional restrictions on production saw the price of oil rising during 2002 and the first quarter of 2003. In February it was over USD 32 a barrel. After two years of depreciation the euro began to appreciate against the dollar at the start of 2002, and in June 2003 the rate was USD 1.17 to the euro. The world's major stock markets fell from their high levels at the start of 2002, partly as a result of financial irregularities being uncovered in a number of large US companies. The falls were halted in the second quarter of 2003.

In Slovenia the slow economic growth in 2001 carried through into 2002. Real GDP rose by 3.2% in 2002 and by 2.3% in the first quarter of 2003. The growth in industrial output was also relatively modest. Real wage growth was 2% in 2002 and remained at a similar level in the first half of 2003. Employment levels stopped rising in the middle of 2002 and the fall in unemployment came to a halt.

Consumer prices grew by 7.2% in 2002. The causes of this relatively strong rise were high world oil prices, fiscal policy and administered price policy. Inflation has been falling since the end of last year and in June this year stood at 6.0%. Producer price growth was significantly lower than the growth in consumer prices (3.7% at the end of 2002 and 2.7% in June 2003).

The two main reasons for the large surplus in the current account of the balance of payments (1.8% of GDP) in 2002 were the strong exports to the countries of the former Yugoslavia and the improved terms of trade. The current account balance deteriorated in the first half of 2003 (USD 73 million in the first five months of the year) primarily as a result of a slowing of exports and a worsening of the terms of trade. Financial inflows and outflows both rose in 2002 compared to previous years – net financial inflows amounted to 5.2% of GDP in 2002. Inflows were dominated by direct investments, and outflows by household foreign currency and commercial credit. There were no major financial inflows in the first half of 2003. Foreign exchange reserves rose quite rapidly in 2002 as a result of balance of payments inflows, but external debt rose more slowly because a big proportion of inflows were not of a debt nature. The depreciation of the dollar against the euro has also made a substantial contribution to the increase in both the foreign exchange reserves and the external debt in the last year and a half.

At the end of 2001 the government began implementing a policy of two-year budget planning by adopting a budget for 2002 and 2003. Lower-than-forecast economic growth meant that the 2003 budget was revised in June 2003.

Monetary policy implementation in 2002 was aggravated by supply-side shocks and large financial inflows through direct investments in the second half the year. With the aim of neutralising the effects of the large financial inflows on money supply and the exchange rate the Bank of Slovenia raised the interest rates on its instruments and intervened on the foreign exchange markets throughout the year. This was reflected in strong issuance of base money through the Bank of Slovenia buying foreign exchange and through sterilisation with tolar-denominated central bank bills. The success of the sterilisation was also aided to a large degree by the so-called liquidity ladder, which prevents banks from having an excessive mismatch in maturity between their investments and liabilities. In the first half of 2003 the lessening of inflationary pressures and financial inflows from abroad allowed the Bank of Slovenia to gradually lower the interest rates on its monetary policy instruments. It continued to seek better economic policy coordination and continued the process of bringing its monetary policy instruments into line with European Central Bank standards.

Strong financial inflows in the second half of 2002 were reflected in fairly strong growth in broad monetary aggregates. Domestic bank lending in 2002 was similar to 2001, with the government share increasing and the business sector share decreasing. Favourable interest rates and the low and predictable depreciation of the tolar meant that foreign currency lending dominated. On the deposit side, the strongest growth was in long-term deposits in tolars. M1 growth was slow due to the extensive sterilisation policy. In the first half of this year lending to the business sector has gradually picked up while lending to the government has slowed. The growth in monetary aggregates is continuing to slow.

As a result of the reduction in the inflation rate both lending and deposit rates have been falling since the start of 2002. In July 2002 the indexation of short-term lending and deposit rates was abolished, which helped to improve their stability.

Strong financial inflows in the second half of 2002 were reflected in an excess supply of foreign exchange on the foreign exchange markets. Exchange rate movements were influenced by Bank of Slovenia intervention. The depreciation of the tolar against the euro fell in 2002, and in December 2002 it was 4.0% compared to December 2001. As financial inflows slowed in the first half of 2003 the Bank of Slovenia ceased intervening on the foreign exchange markets. The year-on-year depreciation of the tolar against the euro in June 2003 was 3.3%.

I. THE DEVELOPMENT OF BANKING SUPERVISION

1. THE SUPERVISION OF FINANCIAL INSTITUTIONS IN SLOVENIA

Supervision of financial institutions in Slovenia is shared by three bodies.

Responsibility for the supervision of the various segments of Slovenia's financial system is shared by several institutions. **The Bank of Slovenia** supervises banks (including the Slovenian Export Corporation Banking Section) and savings banks (including savings and loan undertakings). Savings and loan undertakings were established on the basis of the Savings and Loan Undertakings Act of 1990 and may continue to operate under its provisions, as explicitly provided for in the Banking Act. At the same time, however, they must bring their operations into conformity with the Banking Act. The timetable and content of the compliance process are laid down in a special regulation of the Bank of Slovenia, which is responsible for supervising the process. Savings and loan undertakings must comply fully with the Banking Act within five years of its entry into force, i.e. by 20 February 2004.

The Securities Market Agency is an autonomous and independent body supervising the business of stock-broking companies, investment funds (authorised investment companies, investment companies and mutual funds), mutual pension funds, investment fund management companies and mutual pension fund operators. The Securities Market Agency also supervises the operation of the Ljubljana Stock Exchange and the Central Securities Clearing Corporation. It also employs its supervisory procedures to monitor compliance with the Securities Market Act, the Investment Funds and Management Companies Act, the Takeovers Act and the Non-materialised Securities Act, and regulations issued on the basis thereof. The Pensions and Disability Insurance Act gave the Securities Market Agency new powers to supervise mutual pension funds. Aspects of the Agency's legal remit are also defined in the First Pension Fund of the Republic of Slovenia and Transformation of Authorised Investment Companies Act and the Foreign Exchange Act.

Following an amendment to the Companies Act, the Securities Market Agency undertakes administrative affairs for the expert conciliation council for merger ratio examination in procedures for the judicial examination of the ratio of exchange in a merger of companies.

The tasks and responsibilities discharged in 2002 fall into four main areas, namely:

- The issue of authorisations for the operation of financial organisations according to the Market Securities Act, the Investment Funds and Management Companies Act and the Pensions and Disability Insurance Act, for a public offer of securities, for an offer of purchase, to stock-brokers and members of the management board of management companies, stock-broking companies, the Ljubljana Stock Exchange and the Central Securities Clearing Corporation
- The supervision of market securities or supervision of financial organisations under the Securities Market Act, the Investment Funds and Management Companies Act and the Pensions and Disability Insurance Act and the supervision of procedures in relation to takeovers under the Takeovers Act
- The drafting of Securities Market Agency regulations which form the legal basis for the organisation, oversight and development of the securities market in Slovenia
- The maintenance of registers and other information relating to the securities market.

The Insurance Supervision Agency began operating on 1 June 2000[1] as an autonomous and independent body charged with supervising insurance companies[2], the Nuclear Insurance and Reinsurance Pool, the Slovenian Insurance Association –

[1] Prior to 1 June 2000 the insurance sector was supervised by the Insurance Supervision Office within the Ministry of Finance.

[2] The phrase "insurance company" can refer either to a company engaged in direct insurance or to one engaged in reinsurance.

Indemnity Fund, the Slovenian Export Corporation - Insurance Section, the Pension Fund Management - Voluntary Pension Insurance[3], insurance agencies and brokerage companies, insurance agents and brokers and certain others.

The most important items of legislation bearing on the insurance industry are the Insurance Act, the Compulsory Transport-Related Insurance Act, which among other areas regulates compulsory motor liability insurance, i.e. insurance of motor vehicle owners against liability for damages to third parties, the Health Care and Health Insurance Act, which permits insurance companies to provide supplementary health insurance, and the Pensions and Disability Insurance Act, which regulates the area of voluntary pensions.

On the basis of the Money Laundering Prevention Act all three financial supervisory bodies work jointly to draw up a list of indicators for identifying dubious transactions within the institutions they supervise, and also check compliance with the Money Laundering Prevention Act as part of their remit as supervisory bodies.

Data on the size of each financial sector are provided in the following paragraphs.

Aggregate total assets of credit institutions at the end of 2002 were equivalent to almost 80% of GDP.

As at 31 December 2002 20 banks with total assets of SIT 4,556.6 billion, 2 savings banks with total assets of SIT 15 billion and 25 savings and loan undertakings with total assets of SIT 51.6 billion were operating in Slovenia. The ratio of the aggregate total assets of these institutions to gross domestic product (GDP) at the end of 2002 was almost 80%. Supervision of these institutions was carried out by a staff of 52 employees (54 as at 30 June 2003) in the Banking Supervision Department of the Bank of Slovenia.

At the end of 2002 the Securities Market Agency supervised 28 stock-broking companies[4], 19 management companies managing 29 authorised investment companies, 4 investment companies and 18 mutual funds and 5 mutual pension funds managed by 5 managers. Supervision of these institutions was carried out by a staff of 33 as at the end of 2002.

As at 31 December 2002, according to audited figures, stock-broking companies had SIT 356.7 billion in own assets, SIT 34.5 billion in assets under management and SIT 1,215.6 billion in assets in brokerage, or total investments of SIT 1,606.8 billion, 50% up on 2001. Total assets of authorised investment companies as at 31 December 2002 were SIT 328 billion, 40.1% down on a year previously, due in part to the impact of the process of transforming authorised investment companies in accordance with the Investment Funds and Management Companies Act and the First Pension Fund of the Republic of Slovenia and Transformation of Authorised Investment Companies Act. Total assets of investment companies as at 31 December 2002 were SIT 138.3 billion. Total assets of mutual funds on the same day stood at SIT 55.4 billion, making a total of SIT 521.7 billion in assets managed by management companies. The first mutual pension funds were set up in 2001. At the end of 2002 five funds were in operation with a total of SIT 5.8 billion in net assets.

At the end of 2002 the Slovenian insurance sector comprised 13 insurance companies (11 insurance companies and two reinsurance companies), 349 insurance agencies and intermediation, the Nuclear Insurance and Reinsurance Pool, the Slovenian Insurance Association – Indemnity Fund, the Slovenian Export Corporation - Insurance Section and the Pension Fund Management – Voluntary Pension Insurance. The Insurance Supervision Agency had 22 employees.

According to audited and unaudited figures the total assets of insurance companies (excluding the Slovenian Export Corporation and the Nuclear Pool) as at 31 December 2002 stood at SIT 441.0 billion, while total assets of reinsurance companies stood at SIT 60.6 billion, making a combined total of SIT 501.6 billion. Gross effective premiums in 2002 came to SIT 256.5 billion, comprising SIT 140.8 billion or 54.9% in property insurance, SIT 65.6 billion or 25.6% in voluntary health insurance and SIT 50.1 billion or 19.5% in life insurance. Gross claims of insurance and reinsurance companies for 2002 totalled SIT 163.7 million.

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[3] Kapitalska družba pokojninskega in invalidskega zavarovanja (KAD)
[4] Including 10 banks holding an authorisation to deal in securities.

Table 1: Number of financial institutions

Type of financial institution	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002
Banks	28	24	25	25	21	20
Savings banks	6	6	6	3	3	2
Savings and loan undertakings	70	70	68	64	45	25
Investment firms[1)]	43	42	42	36	31	28
Management companies	26	23	22	21	18	19
Authorised investment companies	60	46	46	43	37	29
Investment companies						4
Mutual funds	15	15	17	19	18	18
Mutual pension funds					7	5
Insurance companies	13	13	13	11	11	11
Reinsurance companies	2	3	3	3	2	2

* Including 11 banks authorised to carry out transactions involving securities trading.
Source: Bank of Slovenia

Table 2: Exposure of banks and savings banks to financial institutions

	31 Dec 2001		31 Dec 2002	
	Amount (SIT millions)	Share and agregate exposure (%)	Amount (SIT millions)	Share and agregate exposure (%)
Stock-broking companies	7,630	0.2	9,020	0.2
Management companies	11,055	0.2	18,824	0.3
Authorised investment companies	12,365	0.3	17,608	0.3
Mutual funds	12	0.0	112	0.0
Insurance companies	7,005	0.1	7,729	0.1
Slovene Export Corporation	5,533	0.1	9,347	0.2
Pension Fund Management	7,928	0.2	2,337	0.0
Total	**51,528**	**1.1**	**64,977**	**1.2**

Source: Bank of Slovenia

2. INDEPENDENT ASSESSMENTS OF THE FINANCIAL SECTOR IN SLOVENIA

The IMF and World Bank carried out an assessment of financial supervisory authorities in Slovenia in November 2000.

In November 2000 the International Monetary Fund (IMF) conducted a Financial Sector Assessment Program (FSAP) in Slovenia jointly with the World Bank. In the course of two weeks an IMF mission prepared an assessment of the financial sector in Slovenia and the observance by financial supervisors of the Core Principles for Effective Banking Supervision (referred to henceforth simply as the Core Principles), the goals and principles of the International Organisation of Securities Commissions (IOSCO) in the area of securities, the principles of the International Association of Insurance Supervisors (IAIS) for the insurance industry and the Core Principles for Systemically Important Payment Systems published by the Basel Committee on Payment and Settlement Systems.

The assessment of the banking sector and the observance by the Bank of Slovenia, in its role as banking supervisor, of the Core Principles approved by the Basel Committee on Banking Supervision in September 1997 was conducted on the basis of a self-assessment carried out by the Bank of Slovenia in August 1999 (and hence after the entry into force of the Banking Act in February 1999). This was the Bank of Slovenia's second self-assessment of its observance of the Core Principles (the first was undertaken in June 1998 while the old Banks and Savings Banks Act was still in force). The third self-assessment by the Bank of Slovenia of its adherence to the Core Principles was prepared in September 2003.

The IMF's report, entitled Financial System Stability Assessment (FSSA), was published on the IMF website in April 2001. A brief summary of the report was included in the final report for Slovenia on consultations under 2001 Article IV Consultation.

The IMF mission found that the banking system in Slovenia had developed into a safe, sound and adequately capitalised system that appeared resilient to a series of external shocks and did not pose to major macroeconomic risks. It judged the problems of the Slovenian banking system to consist in its largely protected environment, in which limited competition inhibited consolidation and the two largest banks in Slovenia were dominant. Despite a strong supervisory framework, there was room for improvement in the areas of lending to connected persons, market risks and consolidated supervision.

An FSAP Update in Slovenia will begin in November 2003.

The Banking Supervision Department immediately set about drawing up an Action Plan based on the IMF mission's findings. The Action Plan for Improving Alignment with the Core Principles was approved by the Governing Board of the Bank of Slovenia in January 2001. Since autumn 2001 the Bank of Slovenia has reported to the IMF twice yearly on the implementation of the Action Plan. In November 2003 an FSAP Update will be conducted, led by the World Bank jointly with the IMF. The Bank of Slovenia expects the World Bank and IMF mission to find that it has implemented all the recommendations made in the April 2001 report. On the other hand, certain types of knowledge and experience can inevitably only be gained in the course of several years of practical implementation, additional education and training.

In July 2001 the Banking Act was supplemented and amended on the basis of the IMF's recommendations. An Act Amending the Companies Act had been passed one month before. In June 2003 the Banking Act was revised for a second time, with the changes reflecting in full the recommendations of the IMF mission concerning the qualifying holdings. As well as enacting the recommendations of the IMF mission, the amendments to the Banking Act also brought closer harmonisation with EU directives. The changes and amendments to the Banking Act in July 2001 and June 2003 also necessitated changes and amendments to certain Bank of Slovenia regulations.

In September 2001, a team of seven experts from European supervisory authorities covering all areas of the financial sector visited Slovenia in order to evaluate the supervision of financial services in Slovenia in respect of its fitness and ability to assume the tasks and responsibilities applicable to financial supervisors in the European single market. The assessment was commissioned by the European Commission, DG Internal Market, while an assessment for the field of banking was prepared by two experts from two European banking supervisory authorities. The Peer Review mission used the IMF's Financial System Stability Assessment as a basis for its work.

Based on the draft report of the Peer Review mission, the Governing Board of the Bank of Slovenia approved a new Action Plan for for Improving Alignment with the Core Principles in January 2002. The final report of the Peer Review of Effective Financial Services Supervision was prepared in April 2002, but is confidential.

A Follow up Peer Review was carried out in Slovenia in April 2003.

The Peer Review mission's assessment on the whole reflected favourably on the Banking Supervision Department. The members of the mission acknowledged the Bank of Slovenia's efforts to correct shortcomings in prudential regulation and considered that the actions taken (amendments to the Banking Act and secondary regulations) were in the right direction. In April 2003 a Follow-up Peer Review was carried out by a team consisting of one expert each in the areas of banking, capital markets and insurance, together with a representative of the European Commission. A report was presented to the Bank of Slovenia in June 2003, which finds that the Bank has implemented all the recommendations of the Peer Review mission in the area of banking.

3. PRIVATISATION OF BANKS

Following the successful completion of the rehabilitation of Nova Ljubljanska Banka d.d., Ljubljana, (NLB) and Nova Kreditna Banka Maribor d.d. (NKBM) in July 1997, instituted by decisions of the Bank of Slovenia in January 1993 and March 1993 respectively, the privatisation of both banks began in 2000 on the basis of a decision issued by the Government of the Republic of Slovenia in July 1999.

The privatisation of NLB and NKBM, which together have more than 46% of the market by total assets, is proceeding in stages. In April 2000 the 10% shareholding of the Republic of Slovenia was transferred to the Pension Fund Management and the Slovenian Compensation Corporation in exchange for shares in other enterprises owned by these Funds.

In May 2001 the Government of the Republic of Slovenia approved a privatisation programme for NLB and NKBM which established two core goals, namely:

- strengthening the efficiency and competitiveness of banks and the banking system, and
- maximising the public proceeds of the sale for the purpose of reducing the national debt.

The privatisation programme for **NLB** approved in May 2001 envisaged the sale of 48% of the bank's share capital, 34% to strategic investors and 14% to informed portfolio investors. In December 2001 the Government passed an amendment to the section of the privatisation programme concerning the sale of 14% of share capital to informed portfolio investors with a combination of 15% additional NLB capital, both following the sale of a 34% holding to a strategic investor.

The largest bank in Slovenia is in minority state ownership following privatisation in September 2002.

Following the sale of a 5% shareholding in NLB to the European Bank for Reconstruction and Development (EBRD) and a 34% shareholding to the Belgian bank KBC, the second phase of NLB's privatisation continued with a public solicitation of offers for 9% of shares to institutional investors (legal persons and mutual funds). The committee received eight offers by the deadline with a combined willingness to purchase 23,050 shares in NLB or 0.3% of the total. Of the 9% of shares in NLB that were the object of sale in this phase, roughly 8.7% of shares thus went unsold. Although the Government had the option of selling this remainder to the EBRD, the Ministry of Finance carried out an assessment on the basis of which it proposed that it not be sold. The privatisation of NLB was thereby brought to a halt. The target ownership structure (1/3 state, 1/3 strategic investors and 1/3 portfolio investors) was nevertheless achieved despite the failure to sell the remaining shares, as the Pension Fund Management (5% shareholding) and Slovenian Compensation Corporation (5% shareholding) can be considered institutional investors.

Sale of 66% of NKBM was halted in April 2002.

The Government's privatisation programme for **NKBM** approved in May 2001 envisaged the sale of a 65% shareholding to a foreign strategic partner. After carefully assessing three offers and holding talks with the bidders, the committee set up to direct and oversee the NKBM sale process came to the conclusion that none of the bids met all of the objectives established for the privatisation. In April 2002 the Government endorsed the committee's decision to suspend the sale of the 65% stake. The NKBM Management Board drew up a programme for the implementation of the bank's development strategy, a central element of which is a linkage with Poštna Banka Slovenije d.d. (PBS), in which the Slovenian state owns 55% directly and the rest indirectly through the Slovenian Post Office. Linkage between NKBM and PBS was provided for in the 2003 Budget Implementation Act, although a detailed plan has yet to be drawn up. The Ministry of Finance is simultaneously studying the possibility of creating a broad financial pillar based around NKBM.

4. GRANTING AUTHORISATIONS

Banks in Slovenia can perform banking services, other financial services and ancillary banking services.

The banks operating in Slovenia may provide banking services, other financial services listed in the first paragraph of Article 6 of the Banking Act, and ancillary banking services referred to in the second item of the second paragraph of Article 96 of the Banking Act.

The savings banks authorised in Slovenia may carry on banking and other financial services with the exception of managing pension and investment funds. They may conduct transactions in tolars only, save in the case of exchange operations.

The following financial services are regarded as banking services:

- Accepting deposits and granting credits for its own account and
- Services, which in line with law, may be provided only by banks.

Under the Banking Act, other financial services refer to the financial services listed below:

1. Factoring
2. Financial leasing
3. Issuing of guarantees and other commitments
4. Lending operations including consumer credits, mortgages and financing of commercial transactions
5. Trading in foreign means of payment including foreign exchange transactions
6. Trading in financial derivative instruments
7. Compilation, analysis and dissemination of information on credit standing of legal entities
8. Mediation in sales of insurance policies in accordance with the law governing the insurance sector

8a. Issuing of electronic money

9. Issuing and administering of payments instruments (e.g. payment and credit cards, travellers' cheques, bank bills of exchange)
10. Safe custody services
11. Mediation in the conclusion of loan and credit transactions
12. Services in connection with securities in accordance with the law governing the securities market
13. Management of pension and investment funds in accordance with the law governing pension and investment funds and
14. Performance of payment transactions
15. Performance of custodian services.

A bank may also provide ancillary banking services connected with real-estate management and management or administration of a data processing system, and it may carry other activity deemed to be ancillary activity in relation with core business of one or more banks.

A bank may be incorporated only as a joint-stock company authorised to provide banking services and other financial services, and it shall have the authorisation issued by the Bank of Slovenia.

The provisions of the Banking Act set out requirements a bank must meet in order to be authorised to provide banking services as well as other financial services. The Bank of Slovenia is responsible for laying down personnel, organisational and technical requirements for carrying on banking and other financial services.

The minimum amount of initial capital for establishing a bank is 1.1 SIT billions (4.7 EUR millions at the exchange rate ruling at 30 June 2003) regardless of the scope of banking services, and for a savings bank it is 220 SIT millions (941,157 EUR).

Until Slovenia joins the EU, foreign banks cannot offer banking services in Slovenia directly from abroad.

Until full-fledged membership of the Republic of Slovenia of the European Union, a foreign bank may provide banking services and other financial services within the territory the Republic of Slovenia only through a branch. A foreign bank may set up a branch within the territory the Republic of Slovenia if it meets regulatory requirements to be authorised by the Bank of Slovenia. Thus the Bank of Slovenia may require from the foreign bank, which has applied to establish a branch within the territory the Republic of Slovenia to deposit endowment capital, to pledge other eligible financial assets, or to provide other collateral as a security that liabilities that may arise from business transactions concluded within the territory the Republic of Slovenia will be duly settled.

Since a branch is a business-organisational unit of a foreign bank and hence does not have attributes of a legal person, the provisions set out in the Banking Act in relation to risk management and control, protection of confidential information and data, books of account and annual report and accounts, internal and independent audit, as well as the provisions related to bank management (branch managers) shall meaningfully apply to a foreign bank branch.

In addition to authorisations to carry on banking services and authorisations to engage in other financial services, credit institutions shall apply to the Bank of Slovenia for authorisation in the following cases:

- Acquisition of a qualifying holding
- Merges and acquisitions
- Establishment of a cross-border branch
- Establishment of a foreign bank branch within the territory of the Republic of Slovenia
- Establishment of a foreign bank representative office and
- Discharging duties and responsibilities of member of the bank's management board.

The decision to grant or reject an authorisation is made by the members of the Governing Board of the Bank of Slovenia on the basis of a proposal prepared by the Banking Supervision Department. The Governing Board also decides on eligibility of nominees for members of banks' management boards on the basis of a proposal prepared by the Committee of the Governing Board of the Bank of Slovenia responsible for the preparation of opinions regarding fitness and properness of a person to sit on a bank's management board.

Table 3: Number of authorisations granted and refused to banks and savings banks in 2001, 2002 and the first half of 2003

	Type of authorisation	2001		2002		First half of 2003	
		Granted	Refused	Granted	Refused	Granted	Refused
1	Authorisation to provide banking services	0	0	0	0	0	0
2	Authorisation to provide other financial services	10	1	4	2	4 + 1*	0
3	Authorisation to a foreigb bank to establish a branch	0	0	0	0	0	0
4	Authorisation for a merger of banks ar savings banks	4	0	1	0	0	0
5	Authorisation to a foreign bank to establish a representative office	2	0	0	0	0	0
6	Authorisation to acquire a qualifying shareholding	6	1	3	2	3	0
7	Authorisation to serve as a member of a management board	7	0	20	0	1	0
	Total	**29**	**2**	**28**	**4**	**8 +1***	**0**

* temporary authorisation
Source: Bank of Slovenia

5. CONSOLIDATED SUPERVISION

Consolidated supervision is becoming an increasingly important banking supervision tool, representing a response to changes in the banking and financial systems brought about by integration and globalisation pressures, and by technological revolution.

In recent years a number of banking groups have been created in Slovenia. They are mostly simple groups of up to five (subsidiary or affiliated) members, complex groups being created only in the case of the largest banks. Complex groups include many members, among them insurance companies. Supervisors reacted to the emergence of banking groups and the associated new risks by changing the methods of supervision, accommodating regulatory frameworks and strengthening cooperation with other supervisory institutions at home and abroad.

The Bank of Slovenia is authorised to carry out supervision on a solo and consolidated basis.

The legal basis for consolidated supervision was created with the adoption of the Banking Act in January 1999. A banking group is composed of banks, financial holding companies and other financial organisations (including insurance companies), as well as companies engaged in auxiliary banking services.

The Banking Act authorises the Bank of Slovenia to carry out supervision of banks in a group and, at the same time, gives the Bank of Slovenia, in its capacity as the competent supervisory body, the authority to prescribe in greater detail the method and scope of consolidation. On the basis of the aforesaid legal powers, a Regulation on the Supervision of Banks and Savings Banks on a Consolidated Basis was passed, taking effect at the beginning of 2000.

The Banking Act and the Regulation on the Supervision of Banks and Savings Banks on a Consolidated Basis define precisely the parent bank's competences and obligations concerning the preparation of consolidated reports, notification of the Bank of Slovenia, risk management at group level, and the organisation of adequate internal control mechanisms. Similarly, subsidiaries in the group and possible holding companies at the top of the group are placed under an obligation to supply the parent bank or the Bank of Slovenia with the necessary data and information for consolidation.

The Regulation on the Supervision of Banks and Savings Banks on a Consolidated Basis provides for certain exceptions or instances, incorporated in accordance with a European Directive, where certain persons need not be included in the preparation of consolidated reports. The exclusion of individual persons is not automatic but is subject to the prior approval of the Bank of Slovenia. The exclusions so far have all been approved solely on account of the small size or negligible importance of persons in a group.

The parent bank must report the composition of the banking group every quarter.

The parent bank must submit a quarterly report on the composition of the banking group, containing an indication of individual persons and basic information about them, and a description of connections between such persons.

In addition to providing consolidated statements of account, banks are bound to comply with the particular prudential rules at group level, and each bank (and another regulated financial institution) in the group must, by itself, on a solo basis, comply with all the rules and prescribed requirements of operation.

In preparing consolidated statements of account that include persons from different countries, it is necessary to take into account the regulations of the parent bank's country, especially if they are stricter than the regulations in those countries in which other persons have their head office. For consolidated supervision purposes, the subsidiaries' statements of account that are prepared according to principles other than those applying to the parent bank must be adequately adjusted in order that the parent bank can include them in the consolidated statements of account of the banking group.

The Regulation on the Supervision of Banks and Savings Banks on a Consolidated Basis also defines the requirements concerning compliance with risk management requirements at the level of a banking group as a whole. The banks must calculate capital requirements and meet those requirements on a consolidated basis, ensure at least the prescribed capital adequacy, and observe limitations on the exposure of the entire group to individual persons or groups of connected persons and limitations on investments in non-financial organisations; otherwise, supervisory measures will follow.

The basis for the calculation of the capital of a banking group is the group's consolidated statements of account. For easier reference, deduction from the sum total of the original and additional capital is carried out by subtracting first the investments in the subsidiaries that are not completely consolidated (permitted exceptions and subsidiary insurance companies) and investments in other subsidiaries in the banking group, and only after that the investments in the capital of financial institutions, in accordance with the rules of calculation on a solo basis.

For capital adequacy calculation purposes, capital requirements for credit risks are calculated from consolidated statements of account. This means that on-balance assets and off-balance sheet items of all persons included in the group under the full consolidation method are weighed when calculating capital requirements. The risks arising in the insurance companies' part of the group are therefore not taken into account. Similarly, the capital of the insurance companies' part of the group is not taken into account in calculating the capital of the group, as the capital of the group is diminished by the investments in insurance companies (deduction method) to avoid double use of capital.

Capital requirements for FX risk and market risk at group level are calculated as the sum total of the capital requirements of individual companies in the group. For this purpose, the Bank of Slovenia in its regulation on capital adequacy determined the procedure for instances where members need not calculate capital requirements on a solo basis, or where the methodology of calculation differs from the methodology prescribed in Slovenia.

The exposure of the group to third persons and the investments of the group in the capital of non-financial organisations, of which the parent bank in the group notifies the Bank of Slovenia on a semi-annual basis, are also calculated at the level of the group and on the basis of consolidated statements of account.

Cooperation with domestic and cross-border supervisory authorities is crucial to the success of consolidated supervision.

Some members of our banking groups are based in other countries, and some domestic banks form part of international banking groups and are included in the consolidated supervision carried out by the competent supervisor from the country of the parent or largest bank. In such cases, the obligations of our banks are more or less limited to supplying parent companies in their groups with all the necessary information for consolidation. Where supervision of international banking groups is concerned, cooperation between the supervisory bodies responsible for the supervision of different financial institutions in different countries is of particular importance. A prerequisite for cooperation is the exchange of information between these bodies, which is possible only on condition that all those involved observe the principle of the protection of professional secrecy. The Banking Act removed all major obstacles to the exchange of information between the Bank of Slovenia and foreign supervisory bodies, which has enabled us in recent years to sign Memoranda of Understanding (MoUs) with many supervisory authorities.

Cooperation with domestic supervisors responsible for the supervision of insurance companies and participants in securities markets is as important as cooperation with foreign supervisory authorities. The details are presented in a special section with the title Co-operation with domestic supervisory authorities.

Like all current and future EU member states, Slovenia faces hard work in translating EU Directive 2002/87/EC on supplementary supervision of conglomerate banks, insurance companies and investment companies into national legislation and enhancing knowledge and gaining experience for the rigorous conduct of consolidated supervision in both non-conglomerates and conglomerates.

6. REPORTING TO THE BANK OF SLOVENIA

As regards prudential supervision, the banks are obliged to report to the central bank on a daily, monthly, quarterly, semi-annual and annual basis.

Reporting on a solo basis addresses the following issues:

Daily	· Expected tolar liquidity flows.
Monthly	· Balances on book accounts
	· Deposits from 30 largest depositors and depositors whose aggregate amount of deposits exceeds 200 million tolars and
	· Liquidity ratio of tolar maturity ladder.
Quarterly	· Capital and capital adequacy
	· Classification of on-balance sheet assets and off-balance sheet items
	· Large exposure and exposure to connected parties
	· Equity investments in non-financial institutions and investments in tangible fixed assets and
	· Lending and deposit interest rates.
Semi-annually	· Equity investments and
	· Guaranteed deposits.
Annually	· Auditor's report.

Reporting on a consolidated basis:

Quarterly	· Composition of a banking group
Semi-annually	· Financial statements
	· Capital
	· Large exposure and
	· Investments in equity of non-financial institutions and tangible fixed assets.

7. ON-SITE EXAMINATIONS OF BANKS AND SAVINGS BANKS

Regular on-site inspections are part of the ongoing supervision of banks.

Ongoing supervision of banks and savings banks is provided for through regular submission of reports for off-site surveillance and through on-site examinations. Supervision is based on the "four-eyes" principle, whereby off-site analysts and on-site inspectors are jointly responsible for supervising each bank.

Analysts continuously monitor the operating results of banks and savings banks on the basis of returns of data and information, monitor compliance with prudential regulations for safe and sound banking, are involved in preparing documentation for the issue or variation of authorisations for different types of activity, evaluate proposed new systemic solutions, advise on the implementation of standards of safe and sound banking, are involved in preparations for inspections in banks and savings banks and in discussions with the management of banks, savings banks and other institutions, compile various written documents for bodies of the Bank of Slovenia, and so on. On discovering a departure from the normal activity of a bank or savings bank, analysts immediately notify the inspectors and management of the Banking Supervision Department, who may accordingly decide to launch a direct examination of the institution concerned.

On discovering an irregularity in the conduct of a bank or savings bank, both analysts and inspectors take appropriate action and monitor the remedial steps taken.

Every bank or savings bank is examined at least once a year (and undergoes a full-scope examination every two years).

The Banking Supervision Department's strategic plan for the period 2000-2003 envisages between seven and nine full-scope examinations of banking institutions and around 30 targeted examinations (including IT) each year. A bank or savings bank may be examined more than once in a given year. The scope of the examination is determined on the basis of prior information and analysis of the institution's activities, initiated by the management of the Bank of Slovenia or by external bodies. Risk assessments in the area of IT constitute a special area of examination. The examinations permit an in-depth investigation of areas of heightened risk or areas in which the Bank of Slovenia lacks adequate information or verification.

In view of the fact that the most significant source of risk in banks and savings banks is credit risk, the emphasis in an examination is on the appropriate classification of on and off-balance sheet items. Special attention is given to consolidated supervision – the examination of a bank and its connected persons. Bank of Slovenia inspectors check the financial statements of connected persons, the bank's policy (current and future) towards them, the quality of their assets, their governance and relationship towards the bank and the riskiness of their activities. On this basis the inspectors assess *inter alia* whether the provisions and value adjustments for the bank's exposure to the connected persons are adequate.

In on-site examinations of banks and savings banks during 2002 and the first half of 2003, inspectors from the Banking Supervision Department, in addition to the standard areas of examination, paid special attention to supervising capital and capital adequacy, the management of market risk and other forms of risk, compliance with the Consumer Loans Act, compliance with the Money Laundering Prevention Act, the execution of payments by legal persons, and other issues. In the first half of 2003 Bank of Slovenia inspectors also monitored banks' readiness for the transfer of personal current accounts to transactions accounts.

12 full-scope and 24 targeted examinations were performed in 2002, and 9 full-scope and 5 targeted examinations in the first half of 2003.

In addition to 12 full-scope examinations (six banks, one savings bank and five savings and loan undertakings), a further 24 targeted examinations of banking institutions and other companies were undertaken in 2002 in relation to specific areas of activity, excluding examinations of IT systems. IT examinations were undertaken either as part of full-scope examinations or as special examinations.

In the first half of 2003 nine full-scope examinations (five banks, one savings bank and three savings and loan undertakings) and five targeted examinations of banking institutions and other companies (including two cases of suspected carrying-on of banking activities without authorisation from the Bank of Slovenia) were carried out.

The most frequently identified irregularities in banks and savings banks were the following:

- Inadequate control of credit risk (classification of counterparties and required provisioning)
- Incorrect calculation of capital and capital adequacy
- Inadequate control of foreign exchange or market risk
- Operations inconsistent with internal regulations
- Ineffective internal audit department
- Inadequate internal controls
- Failure to maintain integral data on outstanding claims and liabilities towards single customer (an individual or a corporate entity)
- Inappropriate maintenance of accounts
- Deficiencies in IT support for banking transactions (absence of a comprehensive risk analysis with a corresponding risk management process, lack of a well-defined and implemented comprehensive security policy, lack of contingency plans for uninterrupted operation of business functions, inadequate virus protection)
- Organisational shortcomings with regard to security and control of business operations
- Operational risks etc.

The main deficiencies or risks identified in banks and savings banks in the area of IT are described more fully in the chapter Risks in the Automated Information Systems Environment.

The most frequently identified irregularities in savings and loan undertakings were the following:

- Failure to observe capital requirements and principles of safe and sound banking

- Inappropriate classification of counterparties and provisioning
- Excessive exposure to particular counterparties and founders
- Inappropriate maintenance of accounts
- Inadequate IT support for business operations with regard to security etc.

The Bank of Slovenia issued several orders for corrective measures and recommendations for operational improvements.

The Bank of Slovenia used its legal powers to issue 16 orders for the correction of operating irregularities in 2002 and six orders and a series of recommendations for operating improvements in the first half of 2003. Seven orders relating to IT were issued in the course of 2002 and five were issued in the first half of 2003.

In 2002 the Banking Supervision Department instituted bankruptcy proceedings against three savings and loan undertakings and issued two orders for the commencement of forced liquidation of one savings and loan undertaking and one company undertaking banking services in contravention of the Banking Act. One order for the suspension of authorisation with the possibility of commencement of liquidation proceedings was also issued, while in one case a referral was made to the misdemeanours judge for the institution of proceedings for unauthorised carrying-on of banking services and a prosecution launched against a savings and loan undertaking and its director. In the first half of 2003 a further prosecution was launched against a savings and loan undertaking for fraud and wilfully causing bankruptcy and an order was issued to a savings and loan undertaking requiring, among other things, that it enter financial rehabilitation.

Bank of Slovenia inspectors paid close attention to Slovenia's smallest bank.

As well as scrutinising savings and loan undertakings, in the last quarter of 2002 and the first half of 2003 Bank of Slovenia inspectors paid close attention to the smallest Slovenian bank, Slovenska investicijska banka, d.d. In the course of a regular examination in November and December 2002, Bank of Slovenia inspectors uncovered a number of irregularities which led the Bank of Slovenia on 14 January 2003 to issue two orders setting deadlines for their correction. Among other things, the Bank of Slovenia required the bank's supervisory and management boards to call a shareholders' meeting and propose an addition to capital in view of the fact that the bank had not met the minimum capital adequacy requirement of 8% (Article 69 of the Banking Act) as at 30 September 2002 because of insufficient value adjustments and provisioning. At a meeting on 27 February 2003 the bank's shareholders failed to vote for an addition to capital.

In February 2003 the Bank of Slovenia issued two supplementary orders appointing two of its own authorised representatives to the bank who were in constant on-site attendance at the bank from 20 February to 19 May 2003, overseeing its operations and supervising them on a daily basis.

In parallel with the attendance of Bank of Slovenia representatives at Slovenska Investicijska Banka, the sale of a majority (78.8%) shareholding in the bank, owned by Javno Podjetje Energetika, was in progress. Energetika named a committee for the sale of the bank and appointed the auditing firm KPMG Ljubljana as financial adviser. A valuation of the bank was performed by the auditing firm Ernst & Young Ljubljana.

In April the banks who had tendered non-binding bids for the 78.8% shareholding of Javno Podjetje Energetika in Slovenska Investicijska Banka, namely NLB, NKBM, Abanka and Unicredito, had an opportunity to conduct due diligence on the bank. Only one bank submitted a bid by the deadline for binding bids of 9 May 2003. Javno Podjetje Energetika sold its shareholding in Slovenska Investicijska Banka to NLB, which was granted an authorisation to acquire a qualifying shareholding by the Bank of Slovenia.

In the first half of 2003 Bank of Slovenia inspectors also uncovered irregularities at one savings bank pertaining to the prevention of money laundering, which is described in greater detail in the next chapter.

Bank of Slovenia inspectors are carrying out an increasing number of inspections of companies suspected of unauthorised banking activities.

The Bank of Slovenia's supervisory powers extend to other entities in the case of suspected carrying-on of banking services without authorisation from the Bank of Slovenia. In 2002, on the basis of referrals from relevant government institutions (principally the Ministry of the Economy and the Market Inspectorate of the Republic of Slovenia) or at the instigation of members of the Governing Board of the Bank of Slovenia, Bank of Slovenia inspectors undertook five direct examinations of companies suspected of engaging in unauthorised business activities. In two cases an order was issued for the immediate cessation of banking activities, and in one of the cases a decision and request for the commencement of liquidation proceedings and a referral to the misdemeanours judge were also issued. In the first half of 2003 two companies suspected of engaging in unauthorised activities were investigated, but no wrongdoing was detected.

In line with the Core Principles for Effective Banking Supervision, the Banking Supervision Department of the Bank of Slovenia maintains regular contact with the management of banks and savings banks through channels including regular annual meetings held at the completion of full-scope examinations or specially. These meetings are devoted primarily to assessing the operating results and financial position of the bank or savings bank in question and learning about its strategy for future development. The exchange of views and information between supervisors and the management of banking institutions is also a prerequisite for timely and appropriate action in the event of operating difficulties.

The Bank of Slovenia works jointly with other supervisory authorities at home and abroad.

Besides working with the Market Inspectorate of the Republic of Slovenia and the Office for Money Laundering Prevention, the Banking Supervision Department collaborates with the two financial market supervisory authorities – the Securities Market Agency and the Insurance Supervision Agency. During 2002, in addition to the exchange of data and documentation, joint examinations were conducted of specific areas of operation in two banks.

During 2002, on the basis of MoUs with authorities in other countries, three examinations were undertaken of the dealings of banking subsidiaries and a financial corporation of Nova Ljubljanska Banka on foreign territory (in Switzerland, Macedonia and Bosnia and Herzegovina) in collaboration with local supervisors or independently. In the case of irregularities uncovered in the course of the examination of banks in Macedonia and Bosnia and in other countries, further action is the responsibility of local supervisory authorities, while the Bank of Slovenia is responsible for taking appropriate action against the Slovenian parent bank. For the first time a subsidiary bank was investigated by Austrian supervisors in collaboration with inspectors from the Bank of Slovenia. More detailed information on the MoUs signed are given in the chapter Cross-border Cooperation.

8. PREVENTION OF MONEY LAUNDERING

Bank of Slovenia inspectors also inspect implementation of the Money Laundering Prevention Act.

The Money Laundering Prevention Act, which became law in October 2001, conferred the following powers and duties on the Bank of Slovenia:

- Where money laundering is suspected in respect of a transaction or a person or entity, the Bank of Slovenia must submit a justified written referral to the Office of the Republic of Slovenia for Money Laundering Prevention[7]
- The Bank of Slovenia must decide the appropriate supervisory measures and notify the Office of the Republic of Slovenia for Money Laundering Prevention in writing (attaching documentation in evidence of the offences) of discovered offences under Articles 45, 46 or 47 of the Money Laundering Prevention Act
- The Bank of Slovenia must work jointly with other supervisory authorities to draw up a list of indicators for identifying dubious transactions within the institutions they oversee (banks and savings banks, including savings and loan undertakings), as already mentioned in the chapter The Supervision of Financial Institutions in Slovenia.

In the anti-money laundering area, the Bank of Slovenia undertakes two kinds of examination:

- Examinations as part of the scope of regular bank examinations undertaken according to an annual plan, and
- Specific examinations of anti-money laundering issues alone.

[7] The Office of the Republic of Slovenia for Money Laundering Prevention operates within the Ministry of Finance.

The regular examinations involve a review of the entire procedure for implementing the Money Laundering Prevention Act in banks, which covers:

- Identifying customers and recording transactions
- Submitting information to the Office of the Republic of Slovenia for Money Laundering Prevention
- Undertaking internal anti-money laundering controls
- The action of compliance officers and their deputies
- Data storage and record-keeping
- Professional training of employees
- Reviewing internal working guidelines and the list of indicators of dubious transactions
- Software support for the effective implementation of anti-money laundering policy etc.

In the first half of 2003 in the course of its regular examinations the Bank of Slovenia identified irregularities at one savings bank with respect to the prevention of money laundering, specifically:

- Inappropriate organisational structure
- Ignorance of legal prescriptions on anti-money laundering issues
- Failure to report transactions to the Office of the Republic of Slovenia for Money Laundering Prevention, and
- Inappropriate internal regulations.

The savings bank was issued an order to put right these faults and the Office of the Republic of Slovenia for Money Laundering Prevention was notified in writing of the faults uncovered.

Adaptation of banks' IT systems for anti-money laundering measures

In supervising anti-money laundering measures at banks we encounter the problem that banks for the most part comply only formally with the legal requirements for reporting to the Office of the Republic of Slovenia for Money Laundering Prevention, which does not provide an appropriate level of risk control in this area. While the Money Laundering Prevention Act does not define in detail the term "related transactions", this does not release banks from the obligation to take steps to mitigate risks in this area.

The Bank of Slovenia is encouraging banks to improve the integration of their information system.

Banks for the most part have not adapted their IT systems for adequate prevention of money laundering. The main problem encountered by banks in this area is the inability to recognise related transactions, that is transactions performed by one customer through several accounts or by several customers through one account. The Bank of Slovenia is encouraging the improvement and closer integration of the information system. The system, which includes the use of IT but at the same time depends on the qualitative judgement of those with a responsibility for implementing anti-money laundering measures, is significantly more effective. The supervisory measures prescribed to banks by the Bank of Slovenia in the area of money laundering prevention are also geared towards raising the awareness of banks of the importance of recognising and taking an integral approach to the reduction of risks in this area.

9. COOPERATION WITH SUPERVISORY AUTHORITIES

9.1. Co-operation with domestic supervisory authorities

To ensure effective supervision of financial institutions, all supervisory authorities have to work hand in hand aiming to achieve synergy needed if supervision of the individual segments of the financial system in Slovenia is to live up to expectation. In response to the model where several institutions are responsible for supervision of the financial sector, the Regulation on Mutual Co-operation was issued in 1999 on the basis of the Banking Act addressing the liaisoning of supervisory authorities.

Effective supervision requires coordinated action by all supervisory authorities.

Before formalising the relationship between Slovenia's supervisory authorities in July 1999, the financial supervisors collaborated along the lines laid down in protocols concluded between the Bank of Slovenia and other supervisory authorities.

The Regulation on Mutual Co-operation between Slovenian supervisory authorities addresses a number of practicalities such as the nature and scope of collaboration between the Bank of Slovenia, Securities Market Agency and Insurance Supervision Agency (prior to 1 June 2000: Insurance Supervision Authority of the Republic of Slovenia). The key issues dealt with in the Regulation on Mutual Co-operation refer to collaboration related to the following:

The scope and procedure of co-operation between domestic supervisory authorities is set out in a regulation.

- Strategic issues in relation to development, annual planning of joint actions endorsed by the Steering Committee and monitoring of the implementation of the signed MoUs
- Exchange of data required in the course of conducting supervision of financial institutions
- Sharing information required for the purpose of granting authorisations
- Exchange of data referring to facts and events concerning connected persons when such persons fall within the supervisory jurisdiction of another supervisory authority
- Dissemination of data necessary for decision-making in relation to other individual issues
- Organisation of joint examinations
- Notification of irregularities detected by one supervisory authority while carrying out a supervisory review in case such findings appear to be important for the work of other supervisory authorities and
- Other joint activities, which contribute to the harmonised conducting of supervision, increase efficiency of supervisory authorities and strengthen the effectiveness of the financial market function.

The Steering Committee was appointed on the basis of the said Regulation on Mutual Co-operation. It is chaired by the Minister of Finance and among its prominent members there is the Governor of the Bank of Slovenia, President of the Council of Experts of the Securities Market Agency and since September 2000 also President of the Council of Experts of the Insurance Supervision Agency.

Since the Regulation on Mutual Co-operation has opened the door to formalising the relations between supervisory authorities, the MoU was signed between the Bank of Slovenia and the Securities Market Agency and on the co-operation between the Bank of Slovenia and the Ministry of Finance – Insurance Supervision Authority of the Republic of Slovenia in November 1999. Since the Insurance Supervision Authority was transformed into the Insurance Supervision Agency in June 2000, a new MoU was concluded between the Bank of Slovenia and the Insurance Supervision Agency followed in February 2001 by the MoU concluded between the Securities Market Agency and the Insurance Supervision Agency.

The regulation provide for signed MoUs between supervisory authorities.

The MoUs provide the grounds for the harmonisation of previously signed protocols with the Regulation on Mutual Co-operation and articulate the details of the nature and the method of collaboration between the signatories of the MoUs, as well as the channels for the dissemination of information. In order to implement these agreements reached by supervisory authorities and facilitate the execution of tasks adopted by the Steering Committee, there is a Committee for Mutual Co-operation that meets at least once every three months. The Committee for Mutual Co-operation comprises the Deputy

Governor of the Bank of Slovenia, i.e. the director of the Banking Supervision Department of the Bank of Slovenia, the director the Securities Market Agency, and the director of the Insurance Supervision Agency.

Cooperation among domestic supervisory authorities consists mainly of information-sharing.

In most cases Slovenia's supervisory authorities conducted on-site examinations independently. The co-operation among national supervisory authorities has been going on successfully along the lines laid down in the of the MoUs through regular exchange of information and dissemination of particular information requested by another supervisory authority. As a prerequisite for information sharing as stipulated in the Banking Act, supervisors must protect confidential information and keep professional secrets. Furthermore, supervisory authorities are obliged to notify other supervisory authority of any identified irregularities, which fall within the areas overseen by that supervisory authority. In some cases the supervisory institutions also conduct joint examinations.

The members of the Steering Committee of the supervisory authorities responsible for supervising financial institutions first met in January 2000 to discuss the body's future activities and the scope of work of the Committee for Mutual Co-operation. It was agreed that the Committee for Mutual Co-operation would monitor the issues in relation to the implementation of financial regulations and will warn the Steering Committee of the supervisory authorities against any problems which may arise primarily with regard to the grey areas where the regulatory framework does not cover all activities of financial intermediaries. In such cases, it is up to the Committee for Mutual Co-operation to propose modifications or amendments to the respective pieces of regulations.

The Committee for Mutual Co-operation has met eight times so far since its constitutional meeting in February 2000. During the first year, the joint meetings were convened by the Bank of Slovenia; during the second year (from April 2001 to March 2002) those meetings were convened by the Securities Market Agency, and at present the Insurance Supervision Agency chairs the Committee for Mutual Co-operation.

The main issues dealt with by the Committee for Mutual Co-operation in 2002 and the first half of 2003 were:

1. Reporting of authorisations issued to financial institutions
2. Measures announced against companies under the supervision of the Bank of Slovenia, the Securities Market Agency or the Insurance Supervision Agency
3. A proposal for a reorganisation of the system for the issuing of penalties by financial supervisory authorities
4. The need for supervision of holding companies and financial conglomerates and advice of the creation of new holding companies
5. Transformation of authorised investment companies into investment companies
6. Discussion of the possibilities for a joint financial supervisory authority in connection with the Financial Market Development Strategy drawn up by the Ministry of Finance
7. A proposal for a joint report by all three financial supervisory authorities
8. Reporting of proposed amendments to financial sector legislation and new financial sector regulations
9. The drawing-up of a common position on cooperation of financial supervisory authorities with the courts, the Tax Management Board and other supervisory bodies in respect of information sharing
10. Reporting on foreign cooperation, including the Follow-up Peer Review and FSAP Update, about MoU signed with foreign supervisory authorities and about participation in various committees (the Bank of Slovenia has been invited to sit on certain committees as an observer)
11. Joint on-site examinations and the reporting of examinations carried out by individual supervisory authorities (including examinations carried out by inspectors from the Bank of Slovenia abroad and an examination by a foreign banking supervisory authority of a subsidiary bank in Slovenia)
12. Annotations to laws affecting the autonomy of the Securities Market Agency and the Insurance Supervision Agency
13. Proposals of a working group set up to study the details of and differences among all products offered by mutual pension funds, pension funds and pensions companies and to assess the first examinations of pension companies and funds

14. Supervision of savings and loan undertakings
15. The use of insider trading
16. The exchange of views and experience regarding supervision of entities engaged in the unauthorised provision of financial services etc.

9.2. Cross-border cooperation

In its role as a supervisory authority the Bank of Slovenia is a member of the Group of Banking Supervisors of Central and Eastern Europe. Staff from the Banking Supervision Department therefore regularly attend meetings, seminars, workshops and conferences of member countries. In September 1999 the Bank of Slovenia organised the Conference of the Group of Banking Supervisors of Central and Eastern Europe for the first time, while in June 2002 it held a five-day workshop on the subject of electronic banking, money laundering prevention and corporate governance.

The Bank of Slovenia is a member of the Group of Banking Supervisors of Central and Eastern Europe.

The Banking Act abolished all major impediments to information-sharing between the Bank of Slovenia and foreign supervisory bodies, and its provisions in practice amount to permission to establish the principle of home country oversight, which will come into effect in its entirety with the Slovenia's full accession to the EU. Even before the entry into force of the Banking Act, the Bank of Slovenia was able to exercise supervision of branches and subsidiary banks abroad by inspecting reports and other forms of documentation. The following MoUs had been concluded:

The Bank of Slovenia signed 7 MoUs with foreign supervisory authorities at end June 2003.

- in January 2000 with the State of New York Banking Department (since the subsidiary of Slovenia's largest bank LBS is no longer owned by it, the agreement is now superfluous),
- in January 2001 with the Austrian Federal Ministry of Finance (Bundesministerium für Finanzen), which merged with other financial sector supervisory authorities to form the Austrian Financial Market Authority (Finanzmarktaufsicht) as of 1 April 2002,
- in April 2001 with the Federal Banking Supervisory Office in Germany (Bundesaufsichtsamt für das Kreditwesen), which merged with other financial sector supervisory authorities to form the German Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) as of 1 May 2002,
- in June 2001 with the National Bank of the Republic of Macedonia,
- in November 2001 with the Banking Agency of the Federation of Bosnia and Herzegovina and Republika Srpska, and the Central Bank of Bosnia and Herzegovina,
- in November 2001 with Banco d'Italia (the Bank of Italy),
- in October 2002 with Commission Bancaire in France (the French Banking Commission).

MoUs with the supervisory authorities of Belgium, Montenegro and Serbia are expected to be signed shortly.

The agreements signed with the supervisory authorities of member states or foreign countries make possible cooperation with regard to the supervision of bank branches and subsidiaries abroad. The supervisory bodies must preserve the confidentiality of all information acquired through information-sharing with parties to the agreement and use it solely for the purposes for which they were supplied.

Because Slovenia is an associate member of the EU, representatives of the Bank of Slovenia attended sessions of the Subcommittee on Internal Market of the European Commission and the Subcommittee on Economic and Monetary Issues, Capital Movements and Statistics. The Banking Supervision Department was also included in talks with the IMF and World Bank mission in the FSAP programme (on which more detailed information is given in the chapter Independent Assessments of the Financial Sector in Slovenia) and in the consultations under Article IV of the Articles of Agreement of the IMF.

In September 2001 a team of experts from European supervisory authorities assessed all three supervisory authorities in Slovenia – the Bank of Slovenia, the Securities Market

Agency and the Insurance Supervision Agency – with regard to their fitness and ability to assume the tasks and responsibilities applicable in the European single market. In April 2003 it checked the progress made by the supervisory authorities since the first mission. Details are given in the chapter Independent Assessments of the Financial Sector in Slovenia.

Bank of Slovenia delegates were invited as observers to the European Commission Banking Advisory Committee and the ECB Banking Supervision Committee.

In 2003 associate EU members were invited as observers to the Banking Advisory Committee at EU level and to the following working groups of the committee, which operates as part of the European Commission:

- the Technical Subgroup of the Banking Advisory Committee,
- the Mixed Technical Group,
- the Technical Group on the Interpretation and Application of the Banking Directives, and
- the Subcommittee on Accounting and Auditing.

A representative of the Bank of Slovenia was also invited as an observer to the Banking Supervision Committee and two working groups, which operate within the European Central Bank.

The Banking Supervision Department was also involved in a series of fact-finding visits by representatives of rating organisations and foreign business banks and other foreigners.

10. COOPERATION WITH AUDITORS

Auditors' opinions were positive for all banks and savings banks.

Audits of banks in Slovenia as at 31 December 2002 for the preceding financial year were performed by the following auditing firms: PriceWaterhouseCoopers (six banks), Ernst & Young (five banks), KPMG (seven banks), Deloitte & Touche (two banks), ITEO-Abeceda (one savings banks) and Constantia UHY (one savings banks).

The opinion of the financial statements was in all cases positive, which is to say that in the opinion of the auditors the financial statements of banks and savings banks in Slovenia present a true and fair picture of the financial position, operating results and cashflows in the preceding year. The auditors' responsibility is to express an opinion of the balance sheet, income statement and statement of changes in financial position, which are the responsibility of the governing board of each bank or savings bank.

Meetings with auditors were organised as necessary in the case of major deficiencies or difficulties with particular banks or savings banks or to address unresolved expert issues.

The Banking Supervision Department is involved in the development of the auditing profession (international as well as domestic) through the Slovenian Institute for Auditing and the Committee on Internal Auditing within the Bank Association of Slovenia. It also takes an active part in resolving accounting issues through the Committee on Accounting within the Bank Association of Slovenia.

All firms of auditors auditing banks and savings banks in Slovenia have signed a MoUs with the Bank of Slovenia. The MoU governs cooperation between supervisors and auditors with the aim of increasing the effectiveness of supervision at the same time as reducing the burden on institutions being supervised from the duplication of monitoring procedures. It also covers information-sharing, establishing the principle of reciprocity and confidentiality for all shared information. Supervision of auditing firms is the responsibility of the Slovenian Institute of Auditing.

II. OPERATING PERFORMANCE OF BANKS AND SAVINGS BANKS IN 2002 AND THE FIRST HALF OF 2003[8]

1. COMPOSITION OF THE BANKING SECTOR

Slovenia's banking sector is dominated by banks. At the end of 2002 these formed 98.6% of the market by unconsolidated total assets, with savings banks and savings and loan undertakings making up the rest. Savings banks formed 0.3% of the market and savings and loan undertakings 1.1%. By the end of June 2003 the market share of banks had increased further to 98.8% at the expense of savings and loan undertakings, whose aggregate share fell by 0.2 percentage points to 0.9% of the market.

One bank merger took place in the last 18 months.

In 2002 there were 21 banks operating in Slovenia (including the branch office of a foreign bank), although on the last day of the year Banka Vipa of Nova Gorica merged with Abanka of Ljubljana. The merger left 20 banks operating in Slovenia as at 31 December 2002, including five subsidiaries and one branch office of a foreign bank. This was the only change of incorporation among banks in 2002 and caused the merged entity Abanka Vipa to leapfrog SKB Banka of Ljubljana into third place among Slovenian banks by total assets. SKB Banka had been the third largest bank in terms of total assets for the previous four-and-a-half years.

One change of incorporation occurred among savings banks in 2002. In the middle of the year LLT Hranilnica in Posojilnica of Murska Sobota wound up in accordance with the Companies Act.

The number of savings and loan undertakings is declining due to the requirement to comply with the Banking Act.

In addition to the 20 banks and two savings banks, there were also 25 savings and loan undertakings operating at the end of the year. The number of savings and loan undertakings has declined heavily since the Regulation on the Compliance of Savings and Loan Undertakings with the Banking Act entered into force in 2000. Since then a large number savings and loan undertakings have amalgamated with the Association of Savings and Loan Undertakings. There have also been some takeovers of savings and loan undertakings by banks, three voluntary liquidations and three bankruptcies. The reason for the decline in the number of savings and loan undertakings has been the requirement of compliance with the Banking Act.

As at 30 June 2003 the number of banks and savings banks (excluding savings and loan undertakings) was unchanged from 31 December 2002, while the number of savings and loan undertakings had fallen to 14.

Less than one-third of banks in Slovenia are under majority foreign ownership.

In addition to consolidation, the banking sector also underwent changes to its ownership structure in 2002. Slovenia's banks are characterised by being mostly privately owned, while its savings banks are wholly so. The majority of private owners of banks, and all owners of savings banks, are residents. With the privatisation of Nova Ljubljanska Banka of Ljubljana, the share of state ownership in that bank and in the overall banking system decreased. The sale of 39% of the government share in Nova Ljubljanska Banka in summer 2002 turned the government from the majority owner into a minority one. The country's next-largest banks, Nova Kreditna Banka Maribor and Poštna Banka Slovenije, remain in majority state ownership. Meanwhile, the share of foreign equity capital more than doubled in 2002 to stand at 32.5% as at 31 December, and rose slightly further to 33.1% by the end of June 2003. This strong rise was caused mainly by an increase in foreign equity in Banka Koper, the acquisition of Krekova Banka by an Austrian bank and the purchase of 39% of Nova Ljubljanska Banka by a Belgian bank and the European

8 Figures for 30 June 2003 or the first half of 2003 are unaudited. These figures do not include the branch office of Nova Ljubljanska Banka in Italy.

Bank for Reconstruction and Development. At the end of 2002, of the 20 banks in operation, six were in majority foreign ownership (including one branch of a foreign bank), six more were wholly domestically owned, and the remaining eight were in majority domestic ownership. Of the last group, half had less than 1% foreign equity.

Table 4: Ownership structure of the banking sector by equity capital[9]

	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Non-residents	12.0%	16.0%	32.5%	33.1%
Government (narrow definition)	36.8%	37.0%	20.3%	20.4%
Other domestic entities	51.2%	47.0%	47.2%	46.6%

Source: Bank of Slovenia

Table 4a: Ownership structure of the banking sector by total assets

	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Non-residents	11.7%	16.4%	34.6%	34.8%
Government (narrow definition)	41.4%	41.6%	24.9%	24.6%
Other domestic entities	46.9%	42.0%	40.4%	40.6%

Source: Bank of Slovenia

The ratio of total assets of banks and savings banks (including savings and loan undertakings) to GDP is growing annually.

Table 5: Average total assets/GDP

	2000	2001	2002
Average total assets of banks and savings banks* (SIT millions)	2,925,937	3,505,317	4,217,835
GDP at current prices (SIT millions)	4,222,404	4,740,995	5,284,501
Average total assets / GDP (%)	69.3	73.9	79.8

* including savings and loan undertakings
Source: Bank of Slovenia

Table 6: Number of business units and employees in banks and total assets of banks per employee

	31 Dec 2000	31 Dec 2001	31 Dec 2002
Number of business units	576	643	638
Number of employees	10,929	11,258	11,543
Total assets of banks (SIT millions)	3,125,289	3,876,768	4,556,637
Total assets/Number of employees (SIT millions)	286.0	344.4	394.8

Source: Bank of Slovenia

7 Equity capital is the sum of subscribed capital and foundation capital of savings banks, additional paid-in capital, reserves of banks, inflation-indexed capital valuation adjustments, profit or loss carried forward from previous years, and current year profit or loss, minus subscribed but not paid-in capital and redeemed own shares.

2. OPERATIONS OF BANKS AND SAVINGS BANKS

2.1. Operations of banks

2.1.1. Operations of banks in 2002

Balance sheet

The new Slovenian Accounting Standards entailed structural and substantive changes to banks' financial statements.

The change in the Slovenian Accounting Standards entailed various alterations in the structure and content of banks' balance sheets. Suspended income is no longer recorded within liabilities under accruals and deferred income, but enters the assets side of the balance sheet as part of value adjustments for impairment of bad and doubtful investments and claims. Investments in securities, equity, own shares and bills of exchange are valued as laid down in the Slovenian Accounting Standards and expressed at fair value. The effects of asset enhancement are recognised as a specific capital value adjustments, while impairment expenses are shown as financial value adjustments and reduce income. The new accounting standards do away with inflation-indexed revaluation, and the inflation-indexed capital revaluation adjustment for the year 2001 has therefore been transferred to the general capital value adjustment as part of the transition to the new standards.

The restatement of the figures for 2001 to accord with the new accounting standards caused a 2.2% reduction in total assets, mainly because of the altered accounting treatment of suspended income.

Total assets of the banking system in Slovenia grew in 2002, albeit more modestly than in 2001, which was exceptional because of the introduction of the euro currency. At the end of the year, total assets stood at SIT 4556.6 billion (including the branch of Nova Ljubljanska Banka in Italy), representing 17.5 % nominal growth (9.6% real)[1] . Nominal total asset growth of individual banks varied between –13.4% and 60.0%. Two banks ended the year with lower total assets than at the end of 2001.

The market share of Slovenia's largest bank at the end of 2002, measured in terms of unconsolidated total assets, was 35.5 %, or 39.3% including its three subsidiaries, roughly the same as a year previously. The market share of the three largest banks shrank compared with the end of 2001 due to the reduced market share of SKB Banka of Ljubljana, which even the rise in market share of Abanka Vipa due to its takeover of Banka Vipa of Nova Gorica could not counteract. On the other hand, the market share of the seven largest banks grew due to an expanded market share of the fifth, sixth and seventh largest banks.

Table 7: Total assets and market share of largest banks

Bank	Total assets (SIT millions)		Nominal growth (%)		Market share (%)	
	31 Dec 2001	**31 Dec 2002**	**2001/2000**	**2002/2001**	**31 Dec 2001**	**31 Dec 2002**
NLB	1,376,656	1,619,165	50.2	17.6	35.5	35.5
NKBM	447,175	517,538	26.1	15.7	11.5	11.4
Abanka Vipa	253,996	389,273	35.8	53.3	6.6	8.5
SKB banka	365,616	360,095	19.2	-1.5	9.4	7.9
Banka Koper	233,960	282,116	23.5	20.6	6.0	6.2
Banka Celje	224,270	275,658	22.2	22.9	5.8	6.0
Gorenjska banka	189,445	227,130	29.6	19.9	4.9	5.0
Largest 7 banks	**3,091,118**	**3,670,976**	**35.3**	**18.8**	**79.7**	**80.6**
All banks	3,876,768	4,556,637	24.0	17.5	100.0	100.0

Source: Bank of Slovenia

[8] Real growth of balance sheet items is calculated on the basis of annual inflation for 2002 of 7.2%.

Household deposits again grew strongly in 2002.

Amounts owed to non-bank customers grew by 14.0% in 2002 (6.3% in real terms), a much lower rate of growth than in 2001. Real growth was more in line with the period from 1998 to 2000, in which there were no increased foreign exchange inflows due to the introduction of the euro currency. Strong growth of deposits from enterprises continued in 2002, although more so in the foreign exchange segment than the tolar segment, reflecting inflows from abroad. Household deposits grew more moderately last year after growing strongly in 2000 and 2001, reflecting the impact of alternative forms of saving, especially mutual investment funds.

Amounts owed to banks grew by 29.1% in 2002. There was a continuation in the upward trend in the proportion of amounts owed to foreign banks, which stood at 79.8% of all amounts owed to banks, compared with 72.5% in 2001. Amounts owed to the Bank of Slovenia also grew in 2002, increasing more than fifteen-fold from a mere SIT 75 million at the end of 2001, while amounts owed to domestic banks fell by 6%. In 2002 banks focused on issuing long-term securities, unlike 2001 when the emphasis was on short-term securities.

Banks' total capital grew by 11.2% in nominal terms in 2002, or by 3.7% in real terms. Under the new Slovenian Accounting Standards, total capital includes a new item, termed specific capital value adjustment, which reflects the effect of revaluation on the fair value of assets and liabilities. The specific capital value adjustment plays a transitional role as an adjustment to the value of the categories on the balance sheet to reflect the change in their fair value. Inclusion of this item, which in fact represents as yet unrealised income, caused a 5.6% nominal increase in total capital. Ignoring the specific capital value adjustment, total capital grew by 5.3% in nominal terms (and declined by 1.8% in real terms). No general capital revaluation was performed in 2002 as provided for in the new accounting standards, since the appreciation of the euro exchange rate against the tolar in 2001 was below the 5.5% threshold.

Growth in household borrowing in 2002 was well down on 2001.

Loans to non-bank customers rose by 14% in 2002 (6.3% in real terms), a lower annual rate of growth in real terms than in any year from 1999 to 2001. Loans to enterprises, having grown strongly in 2001, grew by only 9.9% in 2002. The expansion in credit to the enterprise sector of recent years came to an end. The decline in household credit began after the introduction of value added tax in 1999. Growth of credit in 2002 was greater than in 2001, although at 0.7% in real terms it represents no more than the maintenance of the value of the portfolio.

Table 8: Principle banks' balance sheet items

	Amount (SIT millions)		Share of total (%)		Nominal growth (%)		Real growth (%)
	31 Dec 2001	**31 Dec 2002**	**31 Dec 2001**	**31 Dec 2002**	**2001/ 2000**	**2002/ 2001**	**2002/ 2001**
Cash and balances at central bank	206,225	143,311	5.3	3.1	109.1	-30.5	-35.2
Loans and advances to banks	396,245	381,208	10.2	8.4	8.7	-3.8	-10.3
Lons and advances to non-bank customers	1,913,914	2,182,147	49.4	47.9	17.0	14.0	6.4
- loans and advances to enterprises	1,167,066	1,282,846	30.1	28.2	24.4	9.9	2.5
- loans and advances to households	521,135	562,845	13.4	12.4	7.7	8.0	0.7
- loans and advances to general government	159,075	215,992	4.1	4.7	5.4	35.8	26.7
- other loans and advances	66,638	120,464	1.7	2.6	7.1	80.8	68.6
Securities	1,109,316	1,547,139	28.6	34.0	39.9	39.5	30.1
Other assets	251,067	302,832	6.5	6.6	7.4	20.6	12.5
Total assets	**3,876,768**	**4,556,637**	**100.0**	**100.0**	**24.1**	**17.5**	**9.6**
Amounts owed to banks	452,765	584,723	11.7	12.8	13.6	29.1	20.5
Amounts owed to non-bank customers	2,761,651	3,149,394	71.2	69.1	28.0	14.0	6.4
- amounts owed to enterprises	517,744	604,952	13.4	13.3	17.2	16.8	9.0
- amounts owed to households	1,756,177	1,978,294	45.3	43.4	35.8	12.6	5.1
- amounts owed to general government	151,533	207,533	3.9	4.6	-11.5	37.0	27.8
- other	336,197	358,615	8.7	7.9	34.0	6.7	-0.5
Debts securities	110,996	176,483	2.9	3.9	59.9	59.0	48.3
Other liabilities	209,329	265,693	5.4	5.8	14.4	26.9	18.4
Shareholders' equity	342,028	380,345	8.8	8.3	8.0	11.2	3.7
Total liabilities	**3,876,768**	**4,556,637**	**100.0**	**100.0**	**24.1**	**17.5**	**9.6**

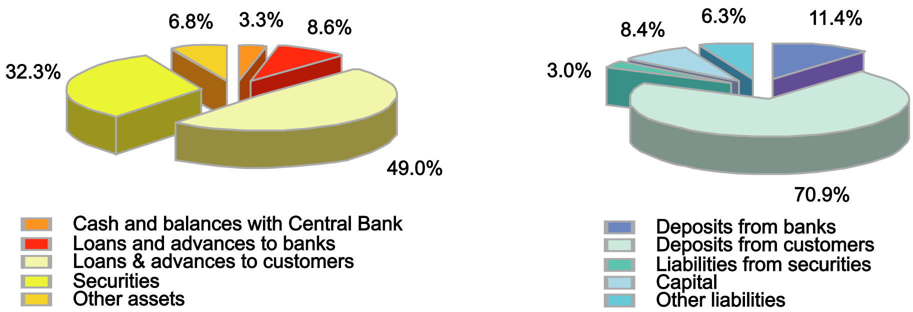
Source: Bank of Slovenia

The volume of banks' loans to government was greatly increased in 2002 as a result of the restructuring of the government debt from foreign to domestic sources, and partly also to payments of the 4th and 15th issues of Republic of Slovenia bonds. Loans to non-residents, in which the downward trend of 2000 and 2001 was reversed by strong growth of 192.9%, resulted from the encouragement of exports, especially to the former Yugoslavia, the Czech Republic in the United States, and loans to subsidiaries of resident enterprises.

Investments in securities increased further.

Banks invested spare resources in securities. The pattern of growth from 2001 continued in 2002. Due to the absorption of excess liquidity by the Bank of Slovenia, the biggest increase (of 57.5%) was in investments in Bank of Slovenia bills, especially tolar bills. Investments in government securities grew by 19.7% while investments in other securities (shares, bonds, foreign-issued securities, foreign government securities etc.) grew by 18.8%. The strongest growth was in shares and domestic securities.

Figure 1: Average structure of banks'assets and liabilities as at 31 December 2002



Source: Bank of Slovenia

Within the average composition of liabilities during 2002, amounts owed to non-bank customers grew by one percentage point as a share of the total compared with 2001, due mainly to an increase of two percentage points in household deposits coupled with a reduction of one percentage point in government deposits and 0.3 percentage points in deposits by enterprises. Total capital decreased as a proportion of the total by 1.1 percentage points compared with 2001.

Bank of Slovenia bills accounted for the largest proportion of securities.

Major shifts occurred in the average makeup of assets in 2002. Investments in securities increased as a proportion of total assets by 4.9 percentage points as loans to banks fell by 2.2 percentage points and loans to non-bank customers fell by 2.4 percentage points. In the face of reduced demand from the non-banking sector, banks put their spare resources into securities, and securities also registered the effect of the sterilisation of monetary inflows arising from the acquisition of Lek by a foreign corporation. At the end of 2002, Bank of Slovenia securities represented the largest proportion, while the proportions of government and other securities were smaller than in 2001.

Table 9: Maturity of deposits from/loans to non-bank customers

	31 Dec 2001	31 Mar 2002	30 Jun 2002	30 Sep 2002	31 Dec 2002
Demand deposits of non-banking sector	34.3	32.4	33.2	32.7	32.1
Short-term deposits of non-banking sector	58.0	59.6	58.3	58.2	58.4
Long-term deposits of non-banking sector	7.7	8.1	8.4	9.1	9.5
Total deposits of non-banking sector	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Short-term loans to non-banking sector	57.1	56.9	55.3	55.3	54.1
Long-term loans to non-banking sector	42.8	43.0	44.6	44.6	45.9
Claims arising from guarantees	0.1	0.1	0.1	0.1	0.1
Total loans to non-banking sector	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Bank of Slovenia

Within the maturity breakdown of deposits of non-bank customers, the proportion of long-term deposits is increasing, due mainly to strong growth of deposits of enterprises, households and other financial institutions. Demand deposits for each individual segment grew, but not as strongly as time deposits. The growth of short-term deposits was driven mainly by an increase in deposits with a maturity of between 91 days and one year, while deposits of 90 days or less decreased relative last year.

Strong growth in long-term lending improved the ratio of short-term to long-term loans.

The maturity breakdown of loans to non-bank customers has shifted in favour of long-term credit in recent years. In 2002 this shift was especially marked. In 1995 the ratio of short to long-term loans at year-end was 59:41, compared with 57:43 in 2001 and 54:46 in 2002. Short-term loans grew by 8% and long-term loans by 22.1%. Foreign currency loans to non-bank customers grew by 48.3%, the highest rate of growth in the last four years, while tolar-denominated loans grew by only 6.14%. The strong growth in foreign currency loans was attributable to the slower, steady depreciation of the tolar against the euro.

Table 10: Currency breakdown of principal balance sheet items (%)

	31 Dec 2001		31 Dec 2002	
	domestic currency	foreign currency	domestic currency	foreign currency
Cash and balances at central bank	3.5	1.8	2.9	0.3
Loans and advances to banks	1.7	8.5	1.7	6.7
Lons and advances to non-bank customers	40.2	9.2	36.3	11.6
Securities	14.6	14.1	20.1	13.8
Other assets	5.7	0.8	6.2	0.5
Total assets	**65.6**	**34.4**	**67.0**	**33.0**
Amounts owed to banks	3.4	8.3	3.4	9.4
Amounts owed to non-bank customers	45.6	25.7	45.9	23.2
Debt securities	2.4	0.5	3.8	0.1
Other liabilities	4.5	0.9	4.7	1.2
Shareholders' equity	8.8	0.0	8.4	0.0
Total liabilities	**64.7**	**35.3**	**66.1**	**33.9**

Source: Bank of Slovenia

Changes in the currency composition of the balance sheet resulted from depreciation running more slowly than inflation indexation.

Changes in the currency breakdown of both assets and liabilities were brought about by the fact that the tolar depreciated more slowly than the tolar indexation clause rose, which gave non-banking customers especially incentives to borrow in foreign currency and save in the domestic currency. A further reason for the growth in the share of securities denominated in the domestic currency was the absorption of excess liquidity by the Bank of Slovenia.

The year-on-year changes in the currency breakdown were also reflected in the average currency breakdown. Average foreign currency liabilities as a proportion of total liabilities continued on a downward trend, ending the year at 34.4% (as against 34.7% in 2001). The average proportion of foreign currency assets within total assets was 33.7% (compared with 33.8% in 2001). At the end of 2002 banks thus had 2.1% more in foreign currency liabilities than in assets.

Income statement

In reporting their income statements for 2002, banks restated their 2001 figures in accordance with the new Slovenian Accounting Standards. Accordingly, the various categories of income and expense for 2001 (such as net interest income and foreign exchange gains and losses) have been supplemented by appropriate items for revaluation gains and losses, which under the old accounting standards were shown under net inflation-indexed revaluation income. The residual difference from net revaluation income in 2001 is shown as a net amount under extraordinary expense arising from capital revaluation adjustment. This enhances the comprehensibility and comparability of the various types of income and expense in the income statement for 2002.

The new accounting standards do not require specific provisioning for equity investments or investments in securities. Such investments are instead valued in accordance with the new standards. Expense arising from the revaluation of such investments due to impairment is shown as financial revaluation expense under losses arising from financial transactions.

The statement conventions and criteria for the suspension of income have also been altered. The income statement must recognise accrued income from claims on counterparties classified in categories A or B, provided the claim has not been classified within category B on the basis of real estate collateral. Thus, only income accounted on non-performing claims on counterparties classified in categories C, D and E is suspended.

Pre-tax profits in 2002 were up by more than SIT 30 billion on 2001.

Banks performed better in 2002 than in past years, ending the financial year with pre-tax profits of SIT 46.0 billion. Only three banks posted a loss. The results were up by SIT 30.6 billion on 2001 before taking into account SIT 19.5 billion in losses by a major bank. The improved performance of banks in 2002 was partly due to changes brought in by the Slovenian Accounting Standards, which no longer require compulsory inflation-indexed revaluation of capital. Under the new rules, general capital revaluation is undertaken only if appreciation of the euro against the tolar in the preceding financial year exceeds 5.5%. In 2001 this appreciation was only 4.7%.

The banks' month-on-month results during 2002 were variable. Four banks traded temporarily at a loss (mainly because of higher additional provisions), while one minor bank recorded poor results all year due to lower net income from fees and commissions and financial transactions, and registered a more sizeable loss at the end of the year due to additional provisions made in December 2002.

Banks earned SIT 143.0 billion in net interest income during 2002. This represented real growth compared with 2001 of 15.1%[11] or SIT 27.0 billion, thanks to faster growth of interest income than of interest expense (interest and similar income, which includes interest on Bank of Slovenia and government securities, grew by 7.3% in real terms while interest expense grew by 2.4%). Net fees and commissions grew even faster, by 20.9% in real terms to SIT 54 billion. The strongest growth was in commissions on payments to government, intermediation and brokerage, while commissions on administrative services were also high. Net income from financial transactions was down on 2001 by 5.2% in real terms, mainly due to the newly included item foreign exchange gains and losses, which recorded a net loss, although on the side of gains from financial transactions, income from the sale of shares increased. Other net income[12] was negative in 2001 (SIT 5.1 billion) due to SIT 20.9 billion in extraordinary expense arising from capital revaluation adjustments, to which residual inflation-indexed revaluation losses were booked, while in 2002 other net income was up by SIT 10.9 billion to SIT 5.8 billion thanks to the absence of extraordinary restatements of residual gains and losses from inflation-indexed revaluation.

Gross profit of banks in 2002 came to SIT 224.4 billion, of which somewhat more than half (59.7%) was absorbed by operating costs and around one-fifth by net provisions (19.8%), leaving 20.5% in pre-tax profits.

Operating expenses rose in real terms due mainly to labour costs.

Operating costs grew by 10.3% in real terms in 2002, a substantial jump that was due mainly to staff costs, which grew by 15.7% over the period. The ratio of staff costs to average assets grew fractionally, from 1.55% in 2001 to 1.6% in 2002, as did the staff costs as a proportion of total expense, from 10.0% to 11.2%. Services costs also rose sharply. Despite the significant rise in operating costs, net profits in 2002 were up 39.7% in real terms on the previous year. In 2002 the banks made SIT 44.5 billion in net provisions, a very similar total to 2001.

[11] Real growth of items in the income statement is calculated on the basis of average annual inflation for 2002 of 7.5%.

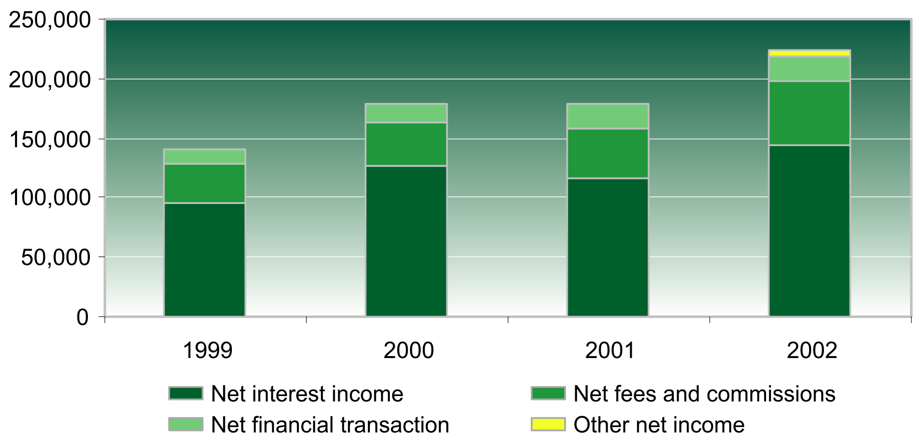
[12] Other net income covers other operating income, extraordinary income, other operating expenses and extraordinary expenses.

Table 11: Principal items of adjusted income statement

	Amount (SIT millions)		Proportion of gross profit (%)		Nominal growth (%)	
	2001	**2002**	**2001**	**2002**	**2001/2000**	**2002/2001**
Net interest income	115,930	143,407	-2,282.3	2,469.0	-8.1	23.7
Net fees and commissions	41,523	53,962	-817.5	929.1	9.7	30.0
Net gains from financial transactions	20,805	21,205	-409.6	365.1	44.1	1.9
Other net income	-5,080	5,808	100.0	100.0	-38.0	-214.3
Gross profit	**173,179**	**224,382**	**-3,409.3**	**3,863.2**	**1.7**	**29.6**
Operating costs	112,949	133,914	-2,223.6	2,305.6	12.5	18.6
- of which staff costs	53,181	66,169	-1,047.0	1,139.2	9.2	24.4
Net profit	**60,230**	**90,467**	**-1,185.7**	**1,557.6**	**-13.7**	**50.2**
Net provisions and net write-offs	-44,783	-44,450	881.6	-765.3	20.3	-0.7
Profit before tax	**15,447**	**46,017**	**-304.1**	**792.3**	**-52.6**	**197.9**
Profit after tax	**1,926**	**29,501**	**1.1**	**13.1**	**-90.3**	**1,432.1**

Source: Bank of Slovenia

Figure 2: Banks' gross income in 1999, 2000, 2001 and 2002



Source: Bank of Slovenia

Table 12: Selected banks' profitability ratios

	1999	**2000**	**2001**	**2002**
Gross profits / average assets	5.4	5.9	5.0	5.4
Average return on assets	0.8	1.1	0.5	1.1
Average return on equity	7.8	11.4	4.8	13.3
Interest margin	4.1	4.7	3.6	3.7
Operating costs / average assets	3.6	3.5	3.3	3.2

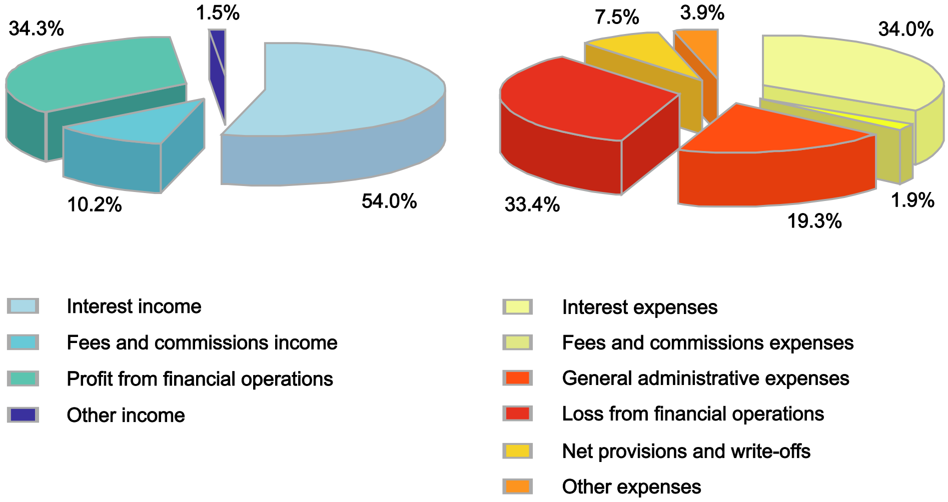
Source: Bank of Slovenia

Average returns on assets and equity improved considerably in 2002.

Profitability ratios were more favourable in 2002 than in 2001 thanks to higher profits. The most significant improvement was in return on equity, which rose partly because of increased profits and partly also because of slower equity growth as a result of the absence in 2002 of general capital revaluation.

Banks' interest margin, expressed as the ratio of net interest income to average gross interest-bearing assets, was similar to 2001. The only difference was slightly faster growth of net interest income (23.7%) than of average gross interest-bearing assets (21.3%), causing a small rise in the interest margin in 2002. In 2001 net interest income was actually lower than in 2000, while gross interest-bearing assets grew by 20%.

Figure 3: Breakdown of banks' income and expense



Source: Bank of Slovenia

Effect of changes in the new Slovenian Accounting Standards on the income statement and capital adequacy

Banks did not maintain the real value of their capital.

Changes to the Slovenian Accounting Standards had a significant impact on the income statement of the banking system, its level of capital and hence also on the capital adequacy of the banking system. Of key importance was the scrapping of compulsory inflation-indexed revaluation of capital (except in cases where the appreciation of the euro against the tolar exceeds 5.5%), and the altered valuation of fixed assets and capital investments. We estimate these changes to have increased the profits of the banking system by SIT 12.0 billion. At the same time banks did not increase the capital base by SIT 25.1 billion, which is the estimated impact of inflation-indexed revaluation of capital that banks would have shown as a capital valuation adjustment under the old accounting rules. We estimate that the capital adequacy of the banking system has fallen by 0.64 percentage points due to the abolition of inflation-indexed revaluation, assuming that all profits would have been devoted to increasing capital. Taking the actual rate of dividend payouts and awards it is estimated that capital adequacy would have fallen by 0.38 percentage points. Because of tax liabilities and payouts from capital, banks retained only SIT 17.5 billion of capital in the form of reserves and undistributed profits, which means that banks did not preserve the real value of their capital.

2.1.2. Operations of banks in the first half of 2003

Balance sheet

Total assets of all banks in Slovenia stood at SIT 4,832.6 billion as at 30 June 2003, representing growth of 6.1% (2.5% in real terms)[13]. Nominal total asset growth varied between -21.7% and 23.8%. Two banks had lower total assets at mid-2003 than at the end of 2002.

The market shares of the five largest banks fell between 31 December 2002 and 30 June 2003.

The **market share** of the largest bank in Slovenia in terms of consolidated total assets was 35% as at 30 June 2003, or 38.9% including three subsidiaries, and had fallen since the end of 2002. The aggregate market share of the three largest banks and of the five largest banks had also fallen, which points to a loss of market share of certain major banks.

Table 8a: Principle banks' balance sheet items

	Amount (SIT millions)		Share of total (%)		Growth (%)	
					Nominal	Real
	31 Dec 2002	**30 Jun 2003**	**31 Dec 2002**	**30 Jun 2003**	**Dec 2002**	**Jun 2003**
Cash and balances at central bank	143,311	152,353	3.1	3.2	6.3	2.7
Loans and advances to banks	381,208	355,496	8.4	7.4	-6.7	-9.9
Lons and advances to non-bank customers	2,182,147	2,328,410	47.9	48.2	6.7	3.1
- loans and advances to enterprises	*1,282,846*	*1,467,884*	*28.2*	*30.4*	14.4	10.6
- loans and advances to households	*562,845*	*587,387*	*12.4*	*12.2*	4.4	0.8
- loans and advances to general government	*215,992*	*146,229*	*4.7*	*3.0*	-32.3	-34.6
- other loans and advances	*120,464*	*126,909*	*2.6*	*2.6*	5.4	1.8
Securities	1,547,139	1,651,872	34.0	34.2	6.8	3.2
Other assets	302,832	344,512	6.6	7.1	13.8	9.9
Total assets	**4,556,637**	**4,832,644**	**100.0**	**100.0**	**6.1**	**2.5**
Amounts owed to banks	584,723	674,292	12.8	14.0	15.3	11.4
Amounts owed to non-bank customers	3,149,394	3,224,430	69.1	66.7	2.4	-1.1
- amounts owed to enterprises	*604,952*	*608,126*	*13.3*	*12.6*	0.5	-2.9
- amounts owed to households	*1,978,294*	*2,070,592*	*43.4*	*42.8*	4.7	1.1
- amounts owed to general government	*207,533*	*168,845*	*4.6*	*3.5*	-18.6	-21.4
- other	*358,615*	*376,867*	*7.9*	*7.8*	5.1	1.5
Debts securities	176,483	211,060	3.9	4.4	19.6	15.5
Other liabilities	265,693	342,950	5.8	7.1	29.1	24.7
Shareholders' equity	380,345	379,911	8.3	7.9	-0.1	-3.5
Total liabilities	**4,556,637**	**4,832,644**	**100.0**	**100.0**	**6.1**	**2.5**

Source: Bank of Slovenia

Amounts owed to non-bank customers in the first half of 2003 did not increase significantly, growing by 2.4% in nominal terms and falling by 1.1% in real terms, mainly due to a fall in government deposits (-18.6%) and low growth in corporate sector deposits (0.5%). Growth in household deposits continued to be slow. In banks as at 30 June 2003 liabilities towards households were pushed up by the conversion of private individuals' accounts into personal accounts.

Amounts owed to banks grew by 15.3% in the first half of 2003. There was a continuations of the marked trend towards an increase in the share of debts to foreign banks and a simultaneous decrease in debts to domestic banks, which pushed amounts owed to foreign banks to 84.7% of debts to banks at the end of June 2003.

Banks again issued large volumes of securities in the first half of 2003.

An important source of growth in banks' assets in the first six months of 2003 was the issuing of securities (19.6% growth). As in 2002 banks opted mainly for issues of long-term securities, although there was a change in the composition of issued securities by maturity in favour of short-term maturities because of an increase in the quantity of long-term liabilities on issued certificates of deposit falling due in the current year.

[13] Real growth in balance sheet items is calculated on the basis of growth in consumer prices of 3.5% in the first six months of 2003.

Loans and advances to non-bank customers grew by 6.7% in the first half of 2003. Growth in lending to the corporate sector, having been low in 2002 (9.9%), was a more positive 14.4% in the first half of this year, although this was partly due to a change in sector classification in the first quarter, when banks reassigned the Slovenian Highways Corporation from the general government sector to non-financial corporations, which led to a decrease in the lending to general government. Growth in lending to households was roughly the same as in the previous year at 4.4%.

Banks invested a large portion of their assets in **securities**, which have grown by 6.8% this year. The biggest growth has been in Bank of Slovenia tolar-denominated bills. Investments in government securities have increased by 5.1%, while investments in other securities (shares, bonds, securities of foreign issuers and governments etc.) have grown by 2.6%, mainly in bank bonds.

Within the **average composition of liabilities** the proportion of amounts owed to non-bank customers fell by 2.5 percentage points in the first half of 2003 compared with 2002, reflecting falls of 0.9 percentage points in household deposits, 0.7 percentage points in corporate sector deposits, 0.5 percentage points in deposits of other financial organisations and 0.3 percentage points in general government deposits. At the same time the proportion of amounts owed to the banking sector grew by 1.5 percentage points and liabilities arising from issued securities by 1.3 percentage points

Within the **average composition of assets** in the first half of 2003 the proportion of investments in securities grew by 2.3 percentage points against a fall in loans and advances to banks of 0.9 percentage points and a fall in loans and advances to non-bank customers of 0.9 percentage points (due to falls of 1.3 percentage points in the proportion of loans and advances to general government, 0.7 percentage points in the proportion of loans and advances to households and 0.3 percentage points in the proportion of loans and advances to other financial organisations).

Table 9a: Maturity of deposits from/loans to non-bank customers

	31 Dec 2001	31 Mar 2002	30 Jun 2002	30 Sep 2002	31 Dec 2002	30 Jun 2003
Demand deposits of non-banking sector	34.3	32.4	33.2	32.7	32.1	33.7
Short-term deposits of non-banking sector	58.0	59.6	58.3	58.2	58.4	56.1
Long-term deposits of non-banking sector	7.7	8.1	8.4	9.1	9.5	10.3
Total deposits of non-banking sector	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Short-term loans to non-banking sector	57.1	56.9	55.3	55.3	54.1	53.8
Long-term loans to non-banking sector	42.8	43.0	44.6	44.6	45.9	46.1
Claims arising from guarantees	0.1	0.1	0.1	0.1	0.1	0.1
Total loans to non-banking sector	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Bank of Slovenia

Within the maturity breakdown of deposits of non-bank customers, the proportion of long-term deposits continues to increase, due mainly to strong growth of deposits of households and other financial institutions. Demand deposits for each individual segment grew, but not as strongly as time deposits. The growth of demand deposits was driven mainly by an increase in deposits of households. A reduction in short-term deposits was caused mainly by a shrinkage of deposits with a maturity of less than 91 days.

The maturity breakdown of loans and advances to non-bank customers again shifted in favour of long-term credit in the first half of the year. At the end of June 2003 the ratio of short to long-term loans was 53.9:46.1. Short-term loans grew by 6.2% and long-term loans by 7.3%.

Income statement

Banks made SIT 25.5 billion in pre-tax profits in the first six months of 2003.

Aggregate pre-tax profits of banks in the first half of 2003 were SIT 25.5 billion. With the exception of three minor banks which recorded losses, all other banks posted a positive result. Profits were down by 14.2% or SIT 4.2 billion on the same period last year.

Gross income in the first half of the year was SIT 106.3 billion, up SIT 2.4 billion, but down by 3.5% in real terms on the corresponding period of 2002. Banks' net interest income formed 67.6% or SIT 71.9 billion of gross income, up 3.1% nominally on the same period last year (but down 2.7% in real terms). It fell to 53.4% as a proportion of total revenues, while the interest margin fell from 3.8% to 3.4%. Net fees and commissions, which rose proportionally to 24.7% of gross income, were up mainly on account of payment and administrative services. Even faster growth occurred in other net income, which was depressed in the same period last year due to an extraordinary tax expense by one bank, although its share of gross income remains minimal (3.7%). There was a significant worsening in banks' performance on net financial transactions, which were down almost half on the equivalent period of 2002. The drop in this income was due mainly to lower revenues from derivatives trading.

The ratio of growth in gross income to operating expenses (mainly staff costs) in the first six months of the year was very unfavourable, with expenses growing significantly faster (7.0%) than gross income (2.3%). Consequently, a larger share of this year's gross income is being absorbed by operating expenses, although it should be noted that the ratio of operating expenses to average assets decreased from last year from 3.2% to 3.0%. This more favourable indicator reflects higher growth in average assets than in operating expenses. Compared with the first two quarters of 2002, banks in 2003 made SIT 2.3 billion greater net provisions, which accounted for 12.9% of gross income. The return on average assets and equity in the first half of the year was lower than a year previously. In addition to the three loss-making banks, a further eight recorded a below-average return on assets (less than 1.1%).

Table 11a: Principal items of adjusted income statement

(SIT millions, %)

	Jan-Jun 2002		**Jan-Jun 2003**		**Growth**	
	Amount	% in gross income	Amount	% in gross income	Nominal	Real
Net interest income	69,687	3206.2	71,860	1838.9	3.1	-2.7
Net fees and commissions	23,856	1097.6	26,245	671.6	10.0	3.8
Net gains from financial transactions	8,192	376.9	4,306	110.2	-47.4	-50.4
Other net income	2,173	100.0	3,908	100.0	79.8	69.6
Gross profit	**103,908**	**4780.7**	**106,318**	**2720.7**	**2.3**	**-3.5**
Operating costs	62,688	2884.2	67,046	1715.7	7.0	0.9
- of which staff costs	30,737	1414.2	34,597	885.4	12.6	6.2
Net profit	**41,220**	**1896.5**	**39,272**	**1005.0**	**-4.7**	**-10.1**
Net provisions and net write-offs	-11,485	-528.4	-13,765	-352.2	19.8	13.1
Profit before tax	**29,735**	**1368.1**	**25,508**	**652.8**	**-14.2**	**-19.1**

Source: Bank of Slovenia

Table 12a: Selected banks' profitability ratios

in %

	1999	**2000**	**2001**	**2002**	**Jan - Jun 2003**
Gross profits / average assets	5.4	5.9	5.0	5.4	4.7
Average return on assets	0.8	1.1	0.5	1.1	1.1
Average return on equity	7.8	11.4	4.8	13.3	14.0
Interest margin	4.1	4.7	3.6	3.7	3.4
Operating costs / average assets	3.6	3.5	3.3	3.2	3.0

Source: Bank of Slovenia

2.2. Operations of savings banks

2.2.1. Operations of savings banks in 2002

Balance sheet

By the end of 2002 only two savings banks remained in operation, with a 0.3% combined market share.

Three savings banks were operating in Slovenia as at mid-2002, but only two remained by the end of the year. Total assets of these two savings banks as at 31 December 2002 stood at SIT 15 billion, representing a mere 0.3% share of the entire banking system. Total assets of savings banks grew by only 0.8% in 2002, although this figure is misleading because of the merger of the savings bank LLT Hranilnica in Posojilnica of Murska Sobota with the bank Nova Kreditna Banka Maribor, which reduced the total assets of the savings bank sector. The total assets of the two remaining savings banks grew by 24.9% (16.5% in real terms), 7.8 percentage points more than the banks.

Within the composition of liabilities as at 31 December 2002, the largest proportion, 85.4% or SIT 12.8 billion, were amounts owed to non-bank customers, mainly to households (SIT 5.5 billion) and non-profit institutions serving households (SIT 4.2 billion). Amounts owed to banks accounted for only 2% (at the end of 2001 amounts owed to banks were 10.7% and amounts owed to non-bank customers 73.9%, the change being due to LLT Hranilnica in Posojilnica of Murska Sobota ceasing to exist as a savings bank). Trade union deposits account for a large part of liabilities towards non-profit institutions serving households. In terms of maturity, most customer assets were short-term deposits (76.8%, of which 9.4% were demand deposits and 67.5% time deposits). These rose by 1.5 percentage points as a proportion of the total compared with 2001.

The savings banks employed the funds mainly to create loans and advances to non-bank customers (76% or SIT 11.4 billion), although their share fell sharply from 2001 (by 10.1 percentage points). Remaining assets were invested in securities (SIT 1.8 billion), raising the latter as a proportion of the total from 2% at the end of 2001 to 12.1% at the end of 2002. Bank of Slovenia securities predominated, with which the savings banks boosted their secondary liquidity (from 1.5% to 10.7% of total assets). Their was no change in the composition of assets in 2002 compared with 2001, with long-term investments accounting for the greater part (57.3%).

Table 13: Comparison of the composition of assets and liabilities at banks and savings banks as at 31 December 2002

ASSETS	Banks	Savings banks	LIABILITIES	Banks	Savings banks
Cash and balances at central bank	3.1	3.4	Amounts owed to banks	12.8	2.0
Loans and advances to banks	8.4	3.8	Amounts owed to non-bank customers	69.1	85.4
Loans and advances to non-bank customers	47.9	76.0	*- amounts owed to enterprises*	*13.3*	*12.8*
- loans and advances to enterprises	*28.2*	*2.8*	*- amounts owed to households*	*43.4*	*36.5*
- loans and advances to households	*12.4*	*72.7*	*- amounts owed to general government*	*4.6*	*5.6*
- loans and advances to general government	*4.7*	*0.0*	*- amounts owed to NPISH*	*0.8*	*28.3*
- loans and advances to NPISH	*0.1*	*0.5*	*- other*	*7.1*	*2.2*
- other loans and advances	*2.6*	*0.0*	Debt securities	3.9	0.0
Securities	34.0	12.1	Other liabilities	5.8	5.2
Other assets	6.6	4.8	Shareholders' equity	8.4	7.4
Maturity of deposits from/loans to non-bank customers (%)					
Short-term loans to non-banking sector	54.1	42.7	Demand deposits of non-banking sector	32.1	9.4
Long-term loans to non-banking sector	45.9	57.3	Short-term deposits of non-banking sector	58.4	67.5
			Long-term deposits of non-banking sector	9.5	23.1

Source: Bank of Slovenia

Income statement

The two savings banks ended 2002 with profits of SIT 148 million, down SIT 8 million on 2001 (aggregate profits of the two remaining savings banks in 2001 were SIT 156 million, while those of all three then existing were SIT 221 million). Gross income of the savings banks in 2002 rose by SIT 80 million or 2.8% in real terms, mainly thanks to an increase of SIT 60 million in net interest income. The rest of the increase was due to an additional SIT 34 million in net financial transactions, while net fees and commissions decreased by SIT 39 million. Operating expenses in 2002 grew in real terms by 15.2% or SIT 126 million, faster than gross income. The two savings banks made SIT 41 million in provisions, SIT 38 million less than in 2001. Comparing 2002, when there were two savings banks in operation, with 2001, when there were three, gross income was down SIT 67 million, operating expenses were up SIT 58 million (2.1% in real terms), and net provisions were down SIT 53 million.

The savings banks' profitability ratios are lower than those of the banks.

The savings banks' profitability ratios in 2002 were lower than those of the banks. The return on average assets was 0.9% (compared with 1.11% for the banks) and the return on equity 12.0% (compared with 13.3%). The interest margin of the savings banks in 2002 was 3.1%, also lower than that of the banks. Cost efficiency indicators were also less favourable in the savings banks than the banks, with staff costs equal to 1.9% of average assets (as against 1.6% for the banks) and 14.8% of total expenses (as against 11.2%).

2.2.2. Operations of savings banks in the first half of 2003

Balance sheet

Total assets of the savings banks grew by significantly more than those of banks.

Total assets of Slovenia's two savings banks as at 30 June 2003 stood at SIT 17.2 billion, or 0.3% of total banking sector assets. They rose by 14.7% in the first half of the year.

Within the composition of liabilities as at 30 June 2003, the largest proportion consisted of amounts owed to non-bank customers, at 84.3% or SIT 14.5 billion, mainly in the form of amounts owed to households (SIT 6.4 billion) and non-profit institutions serving households (SIT 4.4 billion). Amounts owed to banks made up only 1.8%. Trade union deposits accounted for a large volume of non-profit institutions serving households. With regard to maturity, the majority of customers' assets held by the savings banks consisted of short-term deposits (79.8%, of which 9.3% were demand deposits and 70.5% time deposits), which grew by three percentage points of the total compared with 2002.

Savings banks employed customers' assets mainly to create loans and advances to non-bank customers (77.6% or SIT 13.4 billion). The rest were invested in securities (11.1% or SIT 1.9 billion), predominantly Bank of Slovenia securities, with which the savings banks are increasing their secondary liquidity (9.9% of total assets). Compared with the previous year the maturity breakdown of investments swung 0.9 percentage points in favour of short-term investments, although long-term investments represent the majority with 56.4%.

Income statement

In the first half of 2003 both savings banks made profits, which totalled SIT 67 million. Their performance was down as much as 52% or SIT 71 million on the same period of last year (profits for the first half of 2002 were SIT 137 million for the two savings banks currently remaining and SIT 215 million for all three then in existence). While net interest income was up 15.4% or SIT 34 million, the other constituents of gross income were down. Net fees and commissions fell by SIT 26 million due to lower commission income on credit transactions, while a decline in income from share dealing was partly responsible for a fall of SIT 17 million in net financial transactions. However, the biggest cause of depressed profits in the first half of the year was an increase in operating expenses, which rose by 25.6% or SIT 72 million over the period concerned and absorbed as much as 80.0% of the savings banks' gross income. Almost three-quarters of the increase was due to higher staff costs, while the rest resulted from an increase in services, advertising and commercial property rental expenses. In contrast to the situation a year earlier, savings banks performed more favourably with regard to net provisions (SIT 24 million), which accounted for 5.4% of gross income.

The savings banks' profitability ratios are deteriorating and are less strong than those of the banks.

Operating indicators for the savings banks in the first half of the year were worse than for the first half of 2002, and worse than those of the banks. As a fraction of average assets operating costs at the savings banks were as much as 50% higher than at the banks, at 4.4%, having risen by 0.5 percentage points year-on-year. The savings banks' interest margin was actually lower than that of the banks at 3.3%, down by 1.1 percentage points since the first half of the previous year. The return on assets of the savings banks was down to 0.8%, the lowest level of recent years.

Vir: Banka Slovenije

3. TOLAR LENDING AND DEPOSIT RATES FOR NON-BANK CUSTOMERS

Income from non-banking sector loans and deposits is affected by the structure of banks' balance sheets. As a result of increased investment in securities in 2002, loans and advances to non-bank customers represented a declining proportion of banks' total assets, falling from 49.4% at the end of 2001 to 47.9% at the end of 2002, then rising again slightly in the first of 2003 to 48.2%. In the first half of 2003 foreign currency loans again grew faster than tolar-denominated loans and advances to non-bank customers, causing the proportion of tolar-denominated loans in total assets to fall from 40.2% at the end of 2001 to 36.3% at the end of 2002 and further to 35.7% at mid-year in 2003.

The proportion of deposits subject to inflation-indexing is falling.

Because of the slowdown in tolar-denominated lending to non-banks, income from this source, having remained level in 2002, is declining in 2003. It was down by 9.7% in the first half of 2003 compared with the first half of 2002. The composition of tolar-denominated lending to non-bank customers was marked by a reduction in the proportion of loans subject to inflation indexing and an increase in the proportion of short-term loans at a nominal rate of interest[14], on which effective interest rates are somewhat higher. In the second quarter of 2003 as much as 30.5% of tolar-denominated lending to the non-banking sector was remunerated at a nominal rate of interest, 57.3% at a rate linked to the tolar indexation clause and 12.2% at a rate linked to the foreign currency clause.

Deposits of non-bank customers fell in real terms in the first half of 2003, continuing their downward trend as a proportion of total liabilities. The proportion of non-banking sector deposits contracted from 71.2% to 69.1% of liabilities in 2002, and again to 66.7% in the first half of the current year. Non-banking sector deposits of foreign currency fell in nominal terms below their level at the end of 2002, while tolar deposits grew at a slow pace, causing the proportion of non-banking sector tolar deposits to fall from 45.9% of liabilities at the end of 2002 to 44.9% at the end of the first half of 2003. Expenses on non-banking sector tolar deposits fell in the first half of 2003, after growing in 2001 and 2002. They were 10.8% lower than in the corresponding period last year. In the first half of 2003 65.9% of non-banking sector tolar deposits were earning a purely nominal rate of interest, 30.9% were linked to inflation via the tolar indexation clause and 3.2% were linked to the foreign currency clause.

Table 14: Tolar-denominated lending and deposit rates for non-bank customers[15]

(%) (annual)	I/01	II/01	III/01	IV/01	I/02	II/02	III/02	IV/02	I/03	II/03
1. LENDING INTEREST RATES	**14.6**	**14.6**	**14.3**	**12.7**	**13.3**	**13.1**	**12.4**	**12.2**	**11.8**	**10.8**
a) short term loans	13.9	14.0	13.8	12.2	12.7	12.6	11.9	11.8	11.6	11.1
b) long term loans	15.1	15.0	14.6	13.1	13.7	13.4	12.7	12.4	11.9	10.6
2. DEPOSIT INTEREST RATES	**8.4**	**8.7**	**8.9**	**7.8**	**8.3**	**7.9**	**7.4**	**7.1**	**6.7**	**6.0**
a) demand deposits	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.0	1.0
b) short term deposits (maturity to 30 days)	4.9	5.2	5.4	5.3	4.8	4.5	4.7	4.8	4.8	4.8
c) short term deposits (maturity over 30 days)	11.2	11.7	11.9	10.2	10.7	10.2	9.3	8.8	8.3	7.5
d) long term deposits	13.4	13.6	13.6	11.8	12.5	12.0	11.5	11.3	10.5	9.0
INTEREST MARGIN (1 - 2)	**6.2**	**5.9**	**5.4**	**4.9**	**5.0**	**5.2**	**5.0**	**5.1**	**5.1**	**4.8**

Source: Bank of Slovenia

The downward trend in average effective[16] interest rates on loans and deposits continued in 2002 and the first half of 2003. Effective rates for non-bank customer loans and deposits were below the level of past years throughout 2002 and in the first half of 2003.

[14] As of July 2002 the indexation clause is no longer applied to monetary liabilities and claims denominated in the domestic currency with a maturity of one year or less, i.e. they are not revalued according to inflation.

[15] Total nominal interest rates, including the indexation and foreign currency clauses

[16] Effective interest rates are calculated on the basis of financial reports as the ratio of interest income/expense to the average level of loans to/deposits of non-bank customers by quarter.

The downward trend in interest rates continues.

Closer analysis of effective interest rates within different value-indexed categories reveals that effective rates for long-term credit, deposits of more than 30 days and long-term deposits linked to the tolar indexation clause[17] were higher in 2002 and the first half of 2003 than those of similar maturity linked to the foreign currency clause or else not linked to any value index. An exception to the pattern were effective nominal interest rates on short-term loans, which rose in the first half of 2002 and which, despite falling since then, have exceeded interest rates on short-term credit since the second half of 2002.

The interest rate spread, expressed as the difference between the lending and deposit interest rate, remained around 5 percentage points in 2002 and the first quarter of 2003 as lending and deposit rates fell virtually in parallel. As at mid-2003 the interest rate spread had narrowed to 4.8 percentage points because of the stronger fall in effective interest rates for long-term loans.

4. ASSET QUALITY

Investments in securities and capital are now carried at fair value.

The new Slovenian Accounting Standards also indirectly affected the concept underlying the classification of balance sheet items, provisioning and the exclusion of income, which meant that changes were also made to the Regulation on the Financial Reports and Accounts of Banks and Savings Banks, the Regulation on the Classification of On-Balance Sheet and Off-Balance Sheet Assets of Banks and Savings Banks and the Regulation on Specific Provisioning of Banks and Savings Banks, which came into force on 1 May 2002. The principal change is that under Slovenian Accounting Standards investments in securities and investments in capital are valued at fair value and are thus not classified, while all other claims are classified into groups A, B, C, D and E, the potential losses from them are determined and provisions are made for credit risk. For purposes of comparison we have converted the data on classified claims retrospectively but because of limitations in the conversion the data are only approximate, which substantially reduces the possibility of drawing any firm conclusions as to a changing in the creditworthiness structure of classified claims in 2002 compared to the previous year.

Preventing excessive concentration of credit exposure to individual persons, groups of connected persons, to other undertakings in a group and to persons in a special relationship with a bank is a key element of credit risk management. The number of large exposures of all banks fell in 2002, as did the sum of large exposures, which at the end of 2002 represented 194.9% of the capital (the limit is 800% of the capital).

As at 31 December 2002 the banks' total exposure was SIT 5,414.3 billion (SIT 4,514.6 billion in on-balance sheet claims and SIT 899.7 billion in off-balance sheet claims). Compared with the end of 2001 the average exposure to an individual customer fell by

Table 15: Classification of on-balance sheet and off-balance sheet assets of banks, adjustments and provisions

	31 Dec 2001				31 Dec 2002			
	Aggregate exposure		Value adj., provisions		Aggregate exposure		Value adj., provisions	
	(SIT millions)	(%)	(SIT millions)	(%)	(SIT millions)	(%)	(SIT millions)	(%)
A	2,755,349	82.6	28,991	13.7	2,943,971	80.3	32,114	14.1
B	348,333	10.4	38,014	18.0	467,919	12.8	51,579	22.6
C	91,012	2.7	24,181	11.4	113,470	3.1	30,146	13.2
D	62,188	1.9	37,005	17.5	63,434	1.7	35,429	15.5
E	78,947	2.4	83,485	39.4	79,483	2.2	79,165	34.7
Total	**3,335,829**	**100.0**	**211,676**	**100.0**	**3,668,276**	**100.0**	**228,432**	**100.0**

Source: Bank of Slovenia

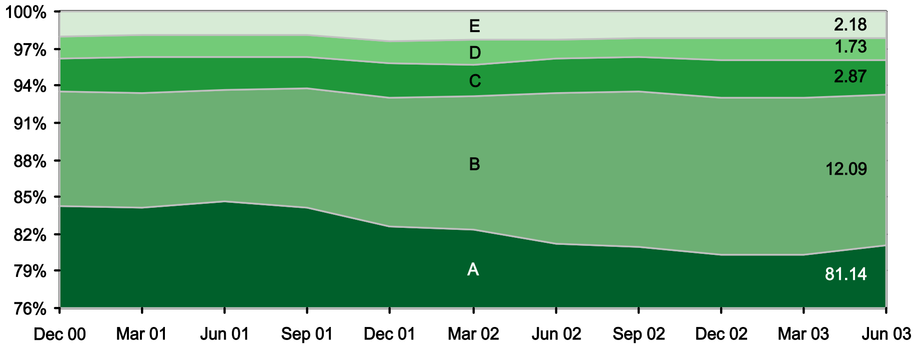
[17] Movements in the effective interest rate for the non-bank sector are still influenced by the tolar indexation clause because of the large proportion of loans (57.3%) and the smaller but still substantial proportion of deposits (30.9%) that are inflation-indexed. The three-month rate on the tolar indexation clause fell in 2002, from 7.93% in the first quarter to 7.84% in the second, 7.33% in the third and 7.33% in the fourth, and fell more strongly in 2003, to 7.08% in the first quarter and 5.73% in the second.

12.2% to SIT 120.5 million. While the banks' total exposure in 2002 rose by 17.6% the volume of classified claims of all banks rose by 10% during the year. Demand for credit from the corporate sector and from households remains low, which is forcing the banks to invest in relatively safer but less profitable government securities and Bank of Slovenia bills, which are not classified. The creditworthiness structure of the banks' classified claims has also changed, with a 2.3 percentage point reduction[18] in the share of group A balanced primarily by an increase in the share of group B.

Movements in non-performing assets (claims classified in groups C, D and E) were more favourable in 2002 than in 2001, as their share remained unchanged at 7%. The structural change was also reflected in a change in the average risk level of claims in the system[19] which deteriorated marginally from 5.8% at the end of 2001 to 5.9% at the end of 2002.

The proportion of non-performing assets was 7% at end-2002.

Figure 4: Credit portfolio structure of all banks



Source: Bank of Slovenia

Table 16: Exposure by sector and average sectoral creditworthiness

in %

	31 Dec 2000		31 Dec 2001		31 Dec 2002	
	Share	Average risk	Share	Average risk	Share	Average risk
A. Industry	19.9	7.5	19.6	7.8	18.5	7.4
B. Services	55.0	4.2	55.4	5.0	58.9	5.6
C. Households	14.0	4.6	14.9	4.5	13.7	4.5
D. Nonresidents	11.1	6.1	10.1	7.3	9.0	6.1
Total	**100.0**	**5.3**	**100.0**	**5.8**	**100.0**	**5.9**

Source: Bank of Slovenia

The structure of the banks' exposure by sector shows a predominance of exposure towards service activities, in which the trend is still one of growth. At the same time these are activities which have a relatively low level of risk, although it is increasing by comparison with previous periods. Most strongly represented within these activities is financial mediation, which includes exposure to the Bank of Slovenia. This is followed by exposure to the state from government securities, and exposure to trade. Exposure to the manufacturing sector is slowly falling. At the end of 2002 it was 18.5%, while the average risk in this sector shows a rising trend and stands at 7.4%. Compared with previous years exposure to households has fallen somewhat and stands at 13.7%.

18 Although in our assessment the change in the creditworthiness structure is not that substantial because securities and capital investments are not included in classified claims.

19 The average risk level of a claim means the amount of the potential loss per 100 units of the claim. It is calculated on the basis of the volume of claims classified in groups A to E and weighted using the percentage provisions required for each group (A 1%, B 10%, C 25%, D 50% and E 100%).

Exposures to non-residents fell from 10% to 9% of total exposures.

In 2002 there was a reduction in foreign exposure (from 10.1% to 9%). In terms of the structure of exposure to individual groups of countries as much as 76.4% comes from investments in foreign persons from EU countries, while investments in foreign persons from EU and EFTA countries account for 81.7% of the total foreign exposure. The major part of these investments is made up of investments in banks, which are generally first-class and low risk.

In the first half of 2003 the banks' total exposure rose by 7.6% to SIT 5,826.8 billion (SIT 4,815.8 billion in on-balance sheet claims and SIT 1,011.1 billion in off-balance sheet claims). The average exposure to an individual customer has increased slightly since the end of 2002 and stands at SIT 121.7 million. The volume of classified claims of all banks rose by 7.8% in the first half of 2003. Demand for credit from the corporate sector and from households this year is exceeding the growth in investments in securities. The creditworthiness structure of the classified claims of banks has changed somewhat with an increase of 0.8 percentage points in the share of group A balanced primarily by a fall in the share of group B. Movements in non-performing assets remain favourable, as their share has not changed significantly and stands at 6.8%. The structural change was also reflected in a change in the average risk level of claims in the system, which improved slightly to 5.8% at the end of the first half of 2003.

Table 17: Exposure to individual groups of countries

(SIT millions, %)

	31 Dec 2000		31 Dec 2001		31 Dec 2002	
	Amount	Share	Amount	Share	Amount	Share
EU	319,238	75.8	338,903	73.1	369,721	76.4
EFTA	22,897	5.4	26,387	5.7	25,586	5.3
Former Yugoslav republics	19,393	4.6	24,509	5.3	37,748	7.8
CEFTA	1,239	0.3	5,379	1.2	9,549	2.0
Others	58,304	13.8	68,302	14.7	41,407	8.6
Total	**421,071**	**100.0**	**463,480**	**100.0**	**484,011**	**100.0**
Share of nonresidents	11.1%		10.1%		9.0%	

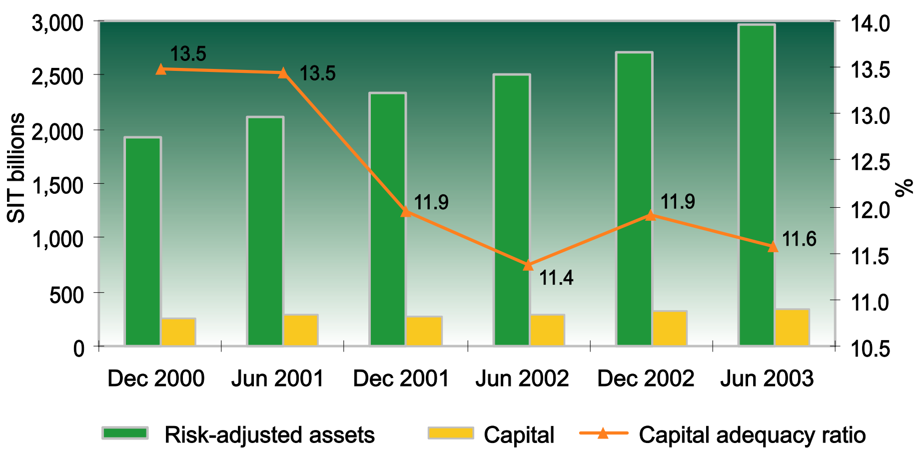
Source: Bank of Slovenia

5. CAPITAL ADEQUACY

At the end of 2002 capital requirements for market risk came into effect.

A number of changes to the regulation governing the reporting on capital adequacy were introduced in 2002. The Regulation on the Capital Adequacy of Banks and Savings Banks was revised to achieve greater harmonisation with European directives and to bring it into line with the new Slovenian Accounting Standards. Changes to the method used for calculating the overall net position in a foreign currency (gross aggregate method of calculation, separate inclusion of positions with a foreign currency clause, exclusion

Figure 5: Risk-adjusted assets, capital and capital adequacy ratio of the banks



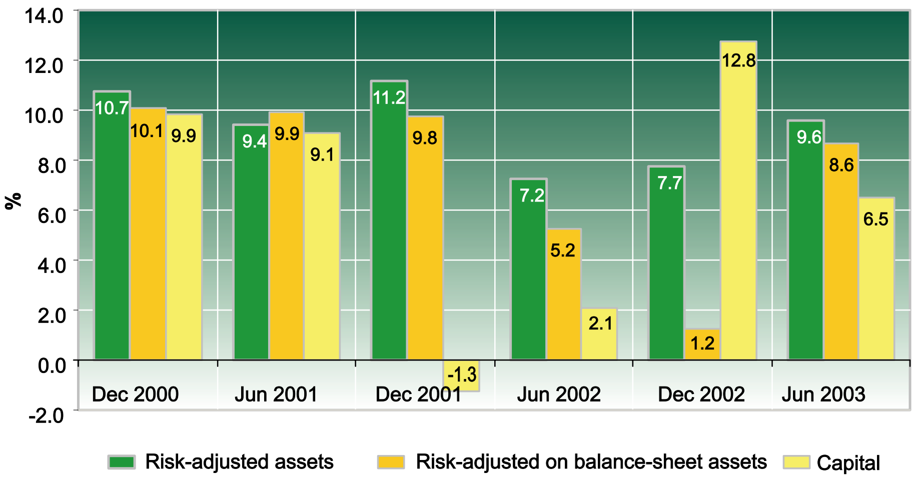
Source: Bank of Slovenia

of swaps with the Bank of Slovenia) and new capital requirements for market risk were also introduced. The banks submitted their first reports to the Bank of Slovenia on the volume of business transacted and on the capital requirement calculations for market risk as at 31 December 2002 (trial reports were initially submitted as at 30 September 2002). The capital requirements for market risk represent 7.4% of total capital requirements, which means that their impact on capital adequacy is 0.85 percentage points.

The falling trend in the banks' capital adequacy, which has continued since 1996, came to a halt in 2002. The capital adequacy ratio as at 31 December 2002 of 11.9% was almost the same as the ratio as at 31 December 2001. The banks' capital as at 31 December 2002 calculated in accordance with the Regulation on the Capital Adequacy of Banks and Savings Banks was SIT 321.9 billion, while the risk-weighted assets were SIT 2,704.5 billion. In the first half of 2003 the capital adequacy ratio fell slightly to 11.6%, with an increase recorded in both capital (SIT 342.7 billion) and risk-weighted assets (SIT 2,964.0 billion).

In 2002 the banks' capital rose by SIT 42.3 billion. The biggest growth was in additional capital in the subordinated debt segment. The increase in additional capital meant that the core capital fell as a proportion of total capital from 94.8% at the end of 2001 to 83.6% at the end of 2002. This ratio remained unchanged in the first half of 2003.

Figure 6: Year-on-year change in banks' weighted assets and capital



Source: Bank of Slovenia

6. RISKS IN THE AUTOMATED INFORMATION SYSTEMS ENVIRONMENT

Risks associated with acquiring and using information technology

In 2002 and the first half of 2003 the Banking Supervision Department assessed banks' degree of adaptation for managing operational and project risks arising from the acquisition, maintenance, hiring and use of information technology.

Bank of Slovenia inspectors assess banks' degree of adaptation for managing operational risks.

Some of the major areas are mentioned below:

- ensuring security and reliability of information systems,
- ensuring a high degree of systems availability,
- ensuring uninterrupted business activity,
- updating information systems,
- outsourcing implementation to external providers (total or targeted outsourcing),

- sourcing software from external providers (quality and timescale),
- change management and quality assurance,
- establishing procedures for checks on business processes and conducting reviews of banks' internal audits,
- rapidly developing information technology and keeping abreast of information knowledge.

Risk exposure in Slovenia

The Bank of Slovenia checked for possible deviations from current banking legislation (Article 38 of the Banking Act) and related primary and secondary legislation, European Commission recommendations and generally accepted best practice by carrying out direct examinations of banks in the area of information technology.

The situation in the area of ensuring the security and reliability of information systems has improved in the majority of banks, although it was found that banks do not yet satisfy the recommendations of the prescribed PSIST BS7799 (ISO17799/BS7799) standard. The main difficulties continue to be in defining responsibility and care for the information security of the system, too much of which is left to IT staff who are inevitably unfamiliar with current and future requirements of the business system. The capability of banks to draw up plans and allocate resources for continued operation in emergency remains another problem area.

The introduction of new market channels is also forcing banks to implement more systematic and effective solutions in the area of information systems availability (hardware, software and skills). Business process automation is on the rise. Greater data fluidity is being impeded by solutions developed in the past for quite different requirements and objectives. Banks have yet to exploit all the possibilities already presented by the security infrastructure in order to ensure a more adequate degree of authorisation, authentication, integrity and non-rejection of transmitted messages.

The introduction of new customer channels has increased the transparency of the state of banks' information systems.

Banks are finding that the state of the banking information system is being made more transparent by the adoption of newer routes to market (such as the Internet, leased lines and mobile commerce). Customers perceive any instability in the information system more quickly than before.

Most banks have opted to completely overhaul their existing business processes by reengineering their information systems. Unfortunately, current results suggest that most of these programmes, which are intended to result in improved efficiency for the banks in a number of areas (functionality, simplicity, speed, security and reliability), have suffered from inadequate project management. We consider that greater commitment and support from the management of banks is required by the complex changes involved in reengineering information systems.

Banks have overestimated their own capabilities to manage reengineering projects. Preliminary analyses have not been undertaken with sufficient reliability. Terms of reference have not defined needs and set out the extent or complexity of the reengineering in sufficient detail. In their analyses banks have also failed to consider adequately (or at all) the implications of internal factors (such as human resources and knowledge) and external factors relating to the business environment (customers' requirements, suppliers, legislation etc.).

In the period under review, banks were forced into reengineering their information systems (with greater urgency than otherwise) primarily by statutory requirements relating to the reorganisation and transfer of consumer bank accounts and by the ongoing need to develop competitive services.

Banks will need to pay more attention to verifying security and reliability.

In procuring solutions for business information support, banks also make use of external software providers. We find that, in doing so, banks do not adequately assert their requirements for quality and timely delivery. Banks should better systematise the process of quantitative/qualitative adoption of solutions for internal or external development and not only ascertain functionality but also check the level of integration with existing solutions. In adopting solutions, banks need to pay greater attention to verifying security and reliability.

Most banks' information support systems are being adapted too slowly into a system capable of ensuring high-quality data generation for the needs of business decision-making and for reporting to external supervisory authorities (data integrity). It is concerning that banks in their excessive desire to achieve optimal business process automation too often disregard the proper design and monitoring of internal business system control points.

Unsystematic analysis and documentation of particular business processes is a further reason for the inadequate definition of internal checks.

The development of information technology requires developers of banking software to introduce further capabilities and adaptations. The systematic development of software has stagnated because of operating cost reductions at banks (cutbacks on training and employment) coupled with an increased volume of problems reported to IT support and new everyday requirements.

Having undertaken checks at banks the Bank of Slovenia issued a series of recommendations for managing the risks described above. Effective risk management requires banks to make a detailed analysis of their needs and ascertain their exposure to operational risks related to banking information technology. Based on a threat assessment banks will be better able to design reliable and feasible solutions for their business needs, as well as create appropriate plans for uninterrupted functioning in critical situations. Banks should also periodically test such plans in order to ensure that their exposure to the kind of operational risks described is genuinely reduced.

Our finding is that failure to manage these risks properly has not so far led to major abuses of the system or protracted non-availability of banking services. It is certain, however, that such an outcome contributes nothing to the increased efficiency of the information system, which can bolster banks' competitive capability.

Risk identification, analysis and monitoring

The basic functions of supervision (collecting, analysing and monitoring data and conducting regular/special direct examinations at banks) were extended by additional sample examinations of issues considered by the Bank of Slovenia to be of relevance from the point of view of increased risk (transformation of consumer accounts and payments, reporting to the Bank of Slovenia, the state of projects for information systems reengineering, the card transactions system, e-business etc.).

The sample examinations of a selection of banks did not reveal major risks that might jeopardise the ability to provide banking services.

Assessment of the future situation and plans for the future

Internet crime will remain a special focus of attention.

As hitherto, a large amount of time will be devoted to information security in the area of Internet crime. We predict that the risk attached to the overall reengineering of the banking information system will be suitably reduced following completion of the overhaul in the consumer banking area (assuming a favourable reaction from customers and the successful setting-up of interbank links).

New challenges will be the implementation of additional anti-money laundering verification mechanisms, integration of decision software and the design of more systematic models for operational risk monitoring.

The Banking Supervision Department will pay closer attention to examinations of the organisation and documentation of structures and working processes supporting the acquisition, maintenance, hiring and use of information technology.

Banks' internal audits must pay closer attention to verifying the suitability of internal controls while taking account of new aspects of the data processing environment and new customer channels.

We will continue to perform detailed surveillance of security policy monitoring and implementation and banking information system strategy with an emphasis on verifying compliance with the recommended PSIST BS7799 standard.

III. LEGISLATIVE DEVELOPMENTS, REFORM OF THE PAYMENT SYSTEM AND THE ORGANISATION OF BANKING SUPERVISION

1. OVERVIEW OF CHANGES IN LAWS AND REGULATIONS GOVERNING BANKING SUPERVISION

In the first half of 2002 the Bank of Slovenia issued a number of new regulations.

New Bank of Slovenia regulations on banking supervision and savings banks were issued in the first half 2002 on the basis of changes to the Companies Act in 2001 and the new Slovenian Accounting Standards (2001), which have been in use since 1 January 2002. These developments also prompted changes to the Regulation on the Financial Reports and Accounts of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, Nos. 24/02, 52/02 and 105/02), the Regulation on the Classification of On-Balance Sheet and Off-Balance Sheet Assets of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, Nos. 24/02 and 85/02), the Regulation on Specific Provisioning of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, No. 24/02) and the Regulation on the Minimum Scope and Content of Audits and Auditors' Reports (Official Gazette of the Republic of Slovenia, No. 24/02). The guidelines setting out detailed requirements for the form, content and method of reporting by banks and savings banks were also revised to reflect the statutory changes.

In October 2002 the Bank of Slovenia issued a Regulation on Electronic Money Issuance Companies, the legal context for which was established in the Payment Transactions Act. Electronic money may only be issued by banks and special institutions called electronic money issuance companies, which are also classed as credit institutions in EU law. After Slovenia enters the EU the principle of reciprocal recognition of authorisation will apply to electronic money issuance companies, although only for the issuing of e-money and not for other ancillary activities which they are also authorised to undertake. The regulation lays down more detailed conditions for carrying out electronic money issuance and rules for risk management that are very similar to the requirements on banks. The Payment Transactions Act and the Regulation on Electronic Money Issuance Companies are harmonised with EU Directives 2000/28/EC and 2000/46/EC.

The new Slovenian Accounting Standards have abolished inflation-indexed revaluation.

The new Slovenian Accounting Standards incorporate certain principles that are considerably different from those that have been used in the past. Above all they emphasise true and fair disclosure of assets and liabilities towards their sources and the commercial and financial performance of the company (bank), which supports and recommends the use of modern valuation methods. A fundamental change in the Slovenian Accounting Standards is the abolition of inflation-indexed revaluation.

Modifications to financial statements

The layout of balance sheet and income statement have broadly remained unchanged, since these two statements were aligned in1999 with the layout of the balance sheet and profit and loss statement laid down in 8th EU Directive when the first Decree on Books of Account and Annual Reports was promulgated. Nevertheless, the need to make some changes to the structure and substance has been recognised and acted upon.

Balance sheet

Suspended income is no longer shown as a liability in the balance sheet.

Suspended income previously carried on the liabilities side of the balance sheet have to shown now on the accounts for value adjustments of bad and doubtful assets or claims due to impairment on the assets side of the balance sheet. Consequently, the figure for banks' total assets is lower.

Investments in securities are carried according to different criteria for valuation and the purpose for which investments have been made, as investments in securities held for trading purposes or investments held to maturity, or a new additional item - investments in securities available for sale.

Whereas for loans and advances the amount of provisions made still depends on the classification in categories in accordance with the regulations of the Bank of Slovenia the investments in securities, investments in capital, investments in own shares and discounted bills of exchange are to be valued in accordance with the definitions laid down in Slovenian Accounting Standards. In other words, no provisions have to be made for these items since they are to be carried at fair or repayment value.

Among the elements of capital, capital revaluation adjustment has been replaced by general capital revaluation adjustment. There is a new item special capital revaluation adjustment for posting revaluation adjustment of receivables and payables to show their fair value in accordance with the definitions set out in Slovenian Accounting Standards.

Income statement

New Slovenian Accounting Standards do not prescribe revaluation adjustment for the purpose of preserving the value of loans, receivables and payables. Under the new standards, revaluation income/expense from interest shall be posted on the accounts for interest income/expense. Foreign exchange differences are added to income/expense from financial operations. Revaluation income from investments in capital is summed up with income from investments in capital.

The layout of income statement has been modified only in the section where write-offs and specific provisions are carried, since these items are posted under the item losses arising from granted loans and claims reduced by repaid amounts. Under one item, the net amount of provisions for general banking risks is carried.

Specific provisions for investments in capital and securities are not to be made under the new Slovenian Accounting Standards, since these investments are valued in accordance with new Slovenian Accounting Standards. Expense from revaluation of this kind of investments due to their impaired value shall be carried as revaluation financial expense, which is to be included under the item expense from financial operations.

Only income accounted on non-performing assets is suspended.

In order to enable a high degree of comparability with new Slovenian Accounting Standards, both the methodology and the criteria for the suspension of income. The income statement shall post accrued and still not received income from claims classified in the A and B group, provided that the claim has not been classified in the group B on the basis of collateral provided by pledging real property. Consequently, only income accrued on non-performing claims classified in the C, D and E category is suspended.

The layout of income statement differs from the layout laid down in Slovenian Accounting Standard 31 Accounting solutions in banks and namely in items, which refer to the posting of tax on profit. Standard 31 prescribes the layout of income statement that has been reconciled with the layout of the income statement prescribed under the Companies Act and under the EU directives. The latter requires separate carrying of tax on profit earned from regular (ordinary) operations and tax on profit earned from extraordinary operations. Since under the effective Slovenian legislation corporate tax is levied on profit earned on both kinds of operations, it would be reasonable to keep in place the layout drawn up on the basis of effective legislation.

Cash flow statement and statement of changes in equity capital

The statement of cash flow is new in Slovenia. It has replaced the statement of movements in financial positions and the statement of monetary flow. Cash flow statement is a base financial statement, where true and fair presentation of changes in balances of monetary funds and their equivalent is made. The banks in Slovenia prepare the cash flow statement by applying the indirect method because a large portion of monetary funds is carried as money equivalents, although reporting accuracy of a direct method would be higher.

The statement of application of profit and coverage of loss has been replaced by a new statement of changes in equity capital, which ensures a detailed overview of individual components of capital.

Table 18: Overview of changes in laws and regulations governing banking supervision in 2002 and the first half of 2003

March 2002	Regulation on Books of Account and Annual Reports of Banks and Savings Banks
	Regulation on the Classification of On-Balance Sheet Assets and Off-Balance Sheet Items of Banks and Savings Banks
	Regulation on Large Exposure of Banks and Savings Banks
	Regulation on Establishing Specific Provisions of Banks and Savings Banks
	Regulation on the Minimum Scope and Content of Audit and Auditor's Report
	Regulation on Capital Adequacy of Banks and Savings Banks
April 2002	Instructions for Implementation of the Regulation on Books of Account and Annual Reports of Banks and Savings Banks (methodology for the preparation of financial statements)
	Instructions for the Implementation of the Regulation on the Classification of On- Balance Sheet Assets and Off-Balance Sheet Items and the Regulation on Establishing Specific Provisions of Banks and Savings Banks
	Regulation on Modification of the Decree on Deposit-Guarantee Scheme
	Instructions for Completing the Report on Guaranteed Deposits
	Instructions for Calculation of Some Common Interest Rates on Deposits from Non-Bank Sector and Loans to Non-Bank Sector
	Instructions for Reporting on Largest Depositors
June 2002	Regulation on Modification of the Regulation on Books of Account and Annual Reports of Banks and Savings Banks
	Modifications of the Instructions for Implementation of the Regulation on Books of Account and Annual Reports of Banks and Savings Banks (methodology for the preparation of financial statements)
	Instructions for Implementation of the Regulation on Books of Account and Annual Reports of Banks and Savings Banks – methodology for the calculation of ratios
October 2002	Regulation on Modification and Amendment to the Regulation on Determining and Prudential Reporting of Value of Holdings of Banks and Savings Banks in Non-financial Institutions and Investments in Tangible Fixed Assets
	Regulation on Modification and Amentments to the Regulation on the Classification of On-Balance Sheet Assets and Off-Balance Sheet Items of Banks and Savings Banks
	Regulation on Modification of the Regulation on the Detailed Method for the Calculation of Liabilities, Claims and Holdings for the Purpose of Determining Net Indebtedness
	Regulation on Modifications and Amendments to the Regulation on Capital Adequacy of Banks and Savings Banks
	Regulation on Electronic Money Institutions
November 2002	Regulation on Special Liquidity Loans Granted with Participation of Banks
December 2002	Regulation on Modification of the Regulation on Books of Account and Annual Reports of Banks and Savings Banks
January 2003	Regulation on Modification of the Regulation on the Narrowest Liquidity Range which the Bank shall have to Ensure
February 2003	Regulation on Modification of the Regulation on the Narrowest Liquidity Range which the Bank shall have to Ensure

March 2003	Regulation on Modification and Amendment to the Regulation on Capital Adequacy of Banks and Savings Banks Regulation on Modification of the Regulation on Large Exposure of Banks and Savings Banks
April 2003	Regulation on Modification of the Regulation on Special Liquidity Loans Granted with Participation of Banks Regulation on Reporting of Effective Interest Rates
May 2003	Instructions for Implementation of the Regulation on Reporting of Effective Interest Rates
June 2003	Regulation on Modification and Amendment to the Regulation on Deposit-Guarantee Scheme Regulation on Modification of the Regulation on the Narrowest Liquidity Range which the Bank shall have to Ensure Regulation on Modification of the Regulation on Large Exposure of Banks and Savings Banks

Source: Bank of Slovenia

An Act Amending the Banking Act came into effect in June 2003.

In June 2003 an Act Amending the Banking Act was passed, which came into force on 24 June 2003.

Changes in the law were necessitated by several factors, primarily improved harmonisation with European law. Some revisions were prompted by experience of the practical application of the Banking Act from 1999 onwards, while others were needed for internal legislative consistency, in particular because of changes to the Companies Act and General Offences Act.

The following changes were required for harmonisation with European law:

In order to acquire a qualifying holding or to increase such a holding (to 20%, 33% or 50%), authorisation from the Bank of Slovenia must now be obtained in advance, in accordance with Article 16 of Directive 2000/12 EC (the Banking Directive). Reductions of holdings below these thresholds must also be notified in advance to the Bank of Slovenia. The sanctions for non-compliance (Article 21) have also been augmented by an obligation to relinquish the holding for which prior authorisation from the Bank of Slovenia was not obtained.

An important innovation with regard to the decision whether to grant an authorisation to acquire a qualifying shareholding (Article 20) is that the authorisation is deemed to be granted in cases where the Bank of Slovenia fails to decide whether to grant the requested authorisation within the legally specified time limit. This reflects the requirement in the Banking Directive that non-response by the authorities be deemed to constitute the issue of a positive decision.

Further, Article 48 of the Banking Act, which takes effect as of the first day of Slovenia's full membership of the European Union, is amended so that the same conditions pertaining to the establishment, operation and supervision of banks of member states also apply to certain of their subsidiaries. This has to do with the requirement in the Banking Directive (Article 19) that member states must allow financial organisations in which the bank has a share of more than 90% to carry out services directly or establish a branch, provided other requirements are also fulfilled. Since in some countries banks are not permitted to carry on all financial services listed in the Annex to the Banking Directive themselves, and therefore pursue them through subsidiaries, it is necessary that in other countries they are subject to the same conditions as banks of member states.

Harmonisation with Article 30 of the Banking Directive (exchange of information and professional secrecy) has been improved through an addition to Article 59 permitting the Bank of Slovenia to pass on confidential data about banks to an auditing firm and where necessary to other central banks or competent authorities which administer deposit guarantee schemes. The principle of preserving the confidentiality of data also applies to data received by foreign (non-EU) supervisory authorities.

Proposed amendments to Articles 67 and 71 concern the use of internal models to measure capital adequacy for market risk and are in accordance with the CAD II Directive (98/31/EC).

The following changes and additions were adopted in relation to deposit guarantees:

The maximum deposit guarantee was raised to SIT 5.1 million.

- The maximum amount of a deposit guarantee is increased from SIT 4.2 million to SIT 5.1 million, approximately EUR 21,800. This change was prompted by the fact that the deposit guarantee amount that became effective with the entry into force of the new deposit guarantee scheme in 2001 was below the minimum required by the European Directive on Deposit Guarantee Schemes (94/19/EC), which requires that the maximum amount of cover per depositor be no less than EUR 20,000.
- There are two important amendments relating to deposit guarantees at branches of banks of member states, which will come into effect with Slovenia's entry into the EU. Recognition of a guarantee or scheme of the home country for branches of banks of member states is explicitly provided for and the possibility is created for branches to join the Slovenian deposit guarantee scheme in order to supplement their guarantee (topping-up). In addition, use of a guarantee for advertising purposes is restricted, in accordance with the third paragraph of Article 9 of the Directive on Deposit Guarantee Schemes.

Other changes are as follows:

The largest permitted exposure to persons in a special relationship with a bank is now set at 20% of capital (having been 10% previously), while the sum of all such exposures may not exceed 200% of capital (previously 100%). Banks must adjust any exposures exceeding these limits at the time of entry into force of the change to the required level by 1 August 2004, and may not generate new excessive exposures in the meantime.

Persons in a special relationship with a bank comprise natural persons who are members of management and supervisory boards, legal persons connected to them and their close relatives, and shareholders of the bank - natural persons with a 5% shareholding in the bank (and their close relatives) or legal persons with a 10% shareholding (previously 5%) and members of the management and supervisory boards thereof.

The European Banking Directive lays down only one restriction with regard to the maximum permitted exposure to an individual borrower, namely 25% of capital, and also contains no definition of a person in a special relationship with a bank. However, it gives member states a discretionary right to make stricter provisions in national legislation, which Slovenia has made use of. Since the Banking Act was passed, a major change has occurred in the ownership composition of banks, consisting in a sharp rise in the share of foreign ownership. As a result the original strict constraints on banks' exposure to persons in a special relationship with them have placed majority Slovenian-owned banks in an unequal position with banks under majority foreign ownership, all the more since the foreign owners in question are banks. It should be noted that none of the nearby countries, Italy, Austria and Germany, have such restrictions.

Besides the level of permitted exposure, a further problem is posed by the definition of an individual borrower, since all connected persons representing a single risk must be taken into account. The number of connected persons is growing by the year because of Slovenia's small size and other processes of economic integration.

As a supervisory authority, the Bank of Slovenia has an interest in banks having at once financially strong owners and a high-quality portfolio, meaning that they extend credit to good customers, such as their shareholders generally are. The two alternatives, namely bad owners and good customers in whom to invest or good owners and bad borrowers, are significantly worse than a situation of good owners and good borrowers, as well as being "unfair" to banks owned by Slovenian shareholders.

On the basis of the Basel Recommendations on Cooperation Between Banking Supervisors and External Auditors, an amendment to the law was proposed allowing the Bank of Slovenia to require an auditor to pass on certain data needed by it for the purpose of carrying out its supervision. Such data may only be used for the purpose for which they were obtained.

Under the new Article 88, banks must give the Bank of Slovenia prior written notice of an intention to acquire (or increase) a qualifying holding in a foreign financial organisation except where the value of the investment will not exceed 10% of the bank's capital.

2. PREPARATIONS FOR BASEL II IN SLOVENIA

The Bank of Slovenia provides information about Basel II on its website.

Preparations for the introduction of the new Capital Accord, or Basel II, in Slovenia continued in 2002. The process of making banks familiar with the content of Basel II was pursued through various forms of educational seminars and a special Basel II website **(http://213.250.51.72/html/basel2/)** was created within the overall Bank of Slovenia website. The website is devoted to keeping up to date with the most important activities relating to the new Capital Accord internationally and at home. It gives banks and other parties concerned the opportunity to see the work that is being carried out in this area and also provides a useful aid to preparing for the new banking environment that is set to come about after the introduction of the new Capital Accord. In addition to summaries of the most important contents of Basel II, a range of documents, articles and papers on the subject of the new Capital Accord are published on the website, and visitors to the site can also find links to major publications on the subject issued by the Basel Committee, as well as links to relevant foreign websites.

A Committee on Basel II was formed by the Bank Association of Slovenia whose first task will be to carry out a Slovenian Quantitative Impact Study.

As a result of our activities over the past two years as well as the increased awareness among banks of the importance of Basel II, a committee on Basel II was set up at the Bank Association of Slovenia in February this year. The Bank of Slovenia has been actively represented on the committee, which also includes representatives of 14 banks, the Slovenian Export Corporation and the Bank Association of Slovenia, since its inception. One of the first tasks the committee set itself was the preparation of Slovenian Quantitative Impact Studies (SiQIS), the purpose of which is to ascertain the impact of the changes set out in the Basel II proposal on the calculation of the capital adequacy ratio of banks in Slovenia, based on the use of simplified approaches to determining capital requirements (the standardised approach to credit risk and the simple or standardised approach to operational risk). The work of the committee is conducted by two working groups, a ratings group and an operational risk group.

The aim of the working group on ratings, in accordance with the main task of the committee, is to draw up approximations to credit ratings, comparable with those of the recognised ratings agencies, as an input to the SiQIS tables. To this end the banks have defined a set of indicators that they believe are most representative of the creditworthiness of Slovenian firms. Based on the calculated values of these indicators and their relative importance, the banks have classified their customers into nine ratings categories, similar in methodology and meaning to those of the recognised ratings agencies. This reflects the fact that the essence of the new standardised approach to the calculation of capital requirements for credit risk is the use of external ratings by recognised ratings agencies as a basis for deciding the weights in the weighted sum of claims of each bank towards its debtors.

The working group on operational risk, with the similar purpose of evaluating the impact of the new capital requirements for operational risk on the capital adequacy of banks in Slovenia, has begun to map out the business activities of banks in terms of a list of standard business areas drawn up by the Basel Committee. Under the standardised approach, banks will use estimated gross income as an indicator of operational risk in the various business areas as a basis for calculating capital requirements for operational risk. which together with the capital requirements for credit risk are a key determinant of banks' capital adequacy under the new rules.

The Bank of Slovenia's main tasks in the preparation of the SiQIS will be to prepare the tables for data input, draw up guidelines and explanatory notes for filling in the tables, provide advice and assistance to banks, analyse and aggregate the results and report them to the banks, primarily the senior executives whose responsibility it will be to take strategic decisions with regard to Basel II. The SiQIS will certainly provide both banks and supervisors with a valuable indication of what needs to be done between now and 2007 in order to get ready for the new Capital Accord in the Slovenian banking sector in the most effective possible way.

The preparation of an EU directive on capital requirements is being followed.

In addition to keeping abreast of the work of the Basel Committee, it is also important for Slovenia as an imminent entrant to the EU to follow the process taking place in parallel at European Union level. The European Commission is drawing up a European Directive on regulatory capital requirements which will adapt the content of the new Basel Capital

Accord to the objectives and specific context of the European single market for banking services and will be binding on all banks of EU member states. Like the other candidate countries for EU accession (who have now become acceding countries), Slovenia has acquired observer status in EU working bodies by signing the accession agreement. Bank of Slovenia representatives have attended a meeting of the Banking Advisory Committee Technical Subgroup, which is working on preparing the directive in question as a basis for future capital regulation within the EU.

2.1. Operational risk and Basel II

In the second half of 2002 the Bank of Slovenia Banking Supervision Department began in earnest to develop a strategy for implementing the requirements of the new Capital Accord in the operational risk area. The first part of the preparations involved detailed study of the various Basel documents concerning operational risk.

Study and translation of Basel documents relating to operational risk

In recognition of the importance of spreading knowledge about the new aspects of operational risk issues brought in by the new Basel standards as widely as possible within the Bank of Slovenia, an approach was decided on that would make this task as easy as possible for Bank staff.

The following Basel documents relating to operational risk were excerpted and translated:

- Operational Risk, consultative document, January 2001,
- Working Document on the Regulatory Treatment of Operational Risk, September 2001,
- Sound Practices for the Management and Supervision of Operational Risk, February 2003, and
- The New Basel Capital Accord, third consultative paper (section on operational risk).

Both the originals and the excerpts are published on the Bank of Slovenia website (http://213.250.51.72/html/basel2/05_publikacije/publikacije.htm) in order to make them conveniently accessible to all those dealing with these issues within banking institutions.

Operational risk group of the committee on Basel II at the Bank Association of Slovenia

The Committee on Basel II has a special working group on operational risk.

To address the need for a systematic and organised interbank discussion of operational risk, the committee on Basel II at the Bank Association of Slovenia established a special group on operational risk, comprising representatives of 14 banks along with two representatives from the Bank Association of Slovenia and one from the Bank of Slovenia. We used the initial meetings as a forum for intensively familiarising bank delegates with the content of the Basel documents and took part in the drawing-up of a strategy and objectives for the work of the group with regard to the preparation of the Slovenian Quantitative Impact Studies (SiQIS) on the calculation of capital for operational risk under the simple and standardised approaches. This was done out of a recognition that the only way to stimulate the process of preparing for a systematic discussion of operational risk at banks is to make the appropriate information available to bank management. In taking the strategic decision regarding which approach to calculating capital requirements for operational risk to use, banks' management boards will clearly benefit from concrete calculations of the required level of capital for operational risk that are being undertaken within the operational risk working group.

Preparations for carrying out the studies are closely linked to the development of know-how, particularly in the area of mapping the business activities of banks in terms of the specified business areas. In carrying out the mapping, a number of substantive issues must be addressed which are of relevance to the wider preparations for the new Capital Accord.

Survey of operational risk at banks

Operational risk issues within banks will be systematically monitored by means of a regular questionnaire.

In early May 2003 the Bank of Slovenia sent banks an extensive questionnaire on their situation with regard to operational risk issues. The survey was conceived with a dual purpose, being designed to serve equally as an indication to banks of the direction in which the development of operational risk management in banking is headed. This will act as an important source of information to the management board of each bank, which is required to sign a document attesting that it is aware of the responses provided to the questionnaire. It is first and foremost the management board that must adopt a strategy and assume responsibility for the development of operational risk issues within the bank. At the same time the questionnaire is intended as a means for the Bank of Slovenia to find out how banks are actually going about their treatment and management of operational risk. This will provide the Bank with a valuable basis for dialogue with members of banks' management boards aimed at ensuring that operational risk is given suitable priority and consideration within their institutions. The survey will be repeated at regular intervals until the implementation of the new Capital Accord in order to facilitate systematic monitoring of the development of operational risk issues within banks.

Operational risk management within banks

Results of the first survey on the operational risk situation within banks are not yet available, although the Bank of Slovenia has already had a number of informal conversations with representatives of banks on the issues covered. Systematic organisation of banks in the operational risk area in Slovenia is in its early stage, although marked progress has occurred since the setting-up of the committee on Basel II at the Banking Association of Slovenia. There is a tendency for foreign-owned banks not to be content with using merely the simple approach to operational risk but to intend instead to implement the more sophisticated approaches, namely the standardised approach or one of the advanced approaches. This fact places an onus on the Bank of Slovenia to make appropriate preparations for reviewing and approving these approaches. However, the current feeling in most banks is in favour of using the simple approach, which entails less organisational stress, knowhow requirements and costs of implementation.

A basic finding is that banks are not yet approaching operational risk according to the emerging Basel principles. This means that special teams have not yet been set up to deal systematically with monitoring, controlling and reducing risk, although conventional defensive measures and working procedures are still being employed to protect against certain types of operational risk.

Banks are not yet managing operational risk according to the proposed Basel principles.

So that banks should make a timely start to their preparations for the new requirements of Basel II, in 2003 we have created a strategy for training professional teams and improving awareness among management boards of banks through individual and group lectures on operational risk. Some of the lectures have already been carried out, and the remainder of the programme will be carried out in the autumn.

Preparations by the Bank of Slovenia for operational risk issues under Basel II

In view of the specific and wide-ranging nature of operational risk issues, the Bank of Slovenia itself has begun to prepare itself for the changes in this area. For the needs of internal education and keeping up to date with work in the operational risk area, special web pages have been added to the internal regulatory website on which all related working documents are published. In addition, an introductory lecture on development aspects of operational risk under Basel II was given as part of the internal education of the entire department.

The Bank of Slovenia is currently preparing to engage an external consultant on Basel II (a public tender process is currently underway), which will allow it to draw on external expertise to facilitate preparations by supervisors for the implementation of the various approaches to operational risk within banks.

3. SAVINGS AND LOAN UNDERTAKINGS

Savings and loan undertakings were established under a special law.

Under Article 79 of the Banks and Savings Banks Act (Official Gazette of the Republic of Slovenia, Nos. 1/91, 38/92 and 46/93), the only article still in force after the introduction of the Banking Act, a savings and loan undertaking is a savings bank established in a manner and under conditions laid down in a separate act. Until now savings and loan undertakings in Slovenia have been established under a special Savings and Loan Undertakings Act, originally passed in 1969 and replaced by the current act in 1990. Because they are able to carry on banking business directly on the basis of the Savings and Loan Undertakings Act, the clause in the 1991 Banks and Savings Banks Act stating that institutions may only carry on banking business with a prior operating authorisation from the Bank of Slovenia does not apply to savings and loan undertakings. Under the Savings and Loan Undertakings Act, a savings and loan undertaking can be established by an individual cooperative association, either alone or with other cooperative associations, legal persons or natural persons.

The Savings and Loan Undertakings Act also governs guarantees for the deposits of savers in savings and loan undertakings, which differ from deposit guarantees in banks and savings banks. The Bank of Slovenia has on several occasions warned savers through the media that deposits at savings and loan undertakings are backed not by a joint guarantee of banks and savings banks, but by the assets of the savings and loan undertaking, or in other words that its owners are jointly and severally liable to the extent of their assets. Deposits at some savings and loan undertakings are also guaranteed by banks for limited periods and up to limited amounts set out in statements of guarantee (which can be seen in the relevant notices on the premises of savings and loan undertakings). In August 1997 the Bank of Slovenia required savings and loan undertakings themselves to publish a notice of their deposit guarantee (a guarantee of the savings and loan undertakings and owners themselves and if applicable a bank up to specified amounts).

The Bank of Slovenia acquired responsibility for supervising savings and loan undertakings in 1999.

It was only with the entry into force of the Banking Act in February 1999 that the Bank of Slovenia assumed responsibility for supervising savings and loan undertakings. The Bank of Slovenia had forcefully advocated the view that savings and loan undertakings should be compelled to begin to respect minimal standards of prudent and sound banking in the shortest possible time, and during the drafting of the Act it therefore proposed a transition period of only one year within which savings and loan undertakings should begin to operate under the same conditions as savings banks. However, during passage of the Banking Act the National Assembly extended the transition period to five years, until 20 February 2004. The purpose of the five-year transition period set by the National Assembly in the Banking Act was to make it possible for savings and loan undertakings to adapt gradually to the stringent regulatory requirements for banking principles that have applied to banks and savings banks for a number of years.

Savings and loan undertakings must gradually comply with the Banking Act.

Only since the Banking Act came into force has the Bank of Slovenia been given the remit for supervising the operations of savings and loan undertakings and for applying regulatory measures during the transition period if it uncovers deficiencies or irregularities in their operations. Prior to February 1999, savings and loan undertakings were not under the supervision of the Bank of Slovenia, except in respect of compulsory reserve maintenance and the submission of statistical data. In December 1999 the Bank of Slovenia passed a Regulation on the Compliance of Savings and Loan Undertakings with the Banking Act obliging savings and loan undertakings to achieve gradual compliance with the legal provisions in force for credit institutions, so that they are fully compliant by the end of the five-year transition period in 2004. Savings and loan undertakings intending to comply with the Banking Act had until 31 December 2001 to increase their “capital” to at least one half of the required minimum and must increase it to at least the legally prescribed minimum level of core capital (SIT 220 million) by 31 December 2003. By that time savings and loan undertakings must also achieve the prescribed level of capital adequacy and comply with the upper limit for exposure to an individual entity or group of connected persons and the upper limit for the total of all large exposures. The Regulation also lays down the compulsory assessment of the creditworthiness of claims, provisioning for credit and other risks and the method of reporting to the Bank of Slovenia.

The first requirement laid down by the Bank of Slovenia at the end of 1999 was that savings and loan undertakings must decide within one year on their future form of operation. Up until 29 January 2001 no savings and loan undertakings elected to enter liquidation, although (as mentioned above in the chapter The Composition of the Banking Sector) most opted for amalgamation with the Association of Savings and Loan Undertakings or to transfer their assets and liabilities to one of the banks. The remaining savings and loan undertakings must comply with the Banking Act in a manner and within a timeframe laid down by the Regulation on the Compliance of Savings and Loan Undertakings with the Banking Act. This applies equally to savings and loan undertakings who may later decide to amalgamate with another institution. They must continue to comply until such time as the amalgamated entity is entered in the court register.

Notwithstanding the legally prescribed obligation on the Bank of Slovenia to take measures against savings and loan undertakings who fail to meet the requirements, some such undertakings have believed that the Bank of Slovenia can only take measures under the Banking Act after the expiry of the transition period in February 2004. In August 2001 one savings and loan undertaking took its case against the Bank of Slovenia to the Supreme Court, which at the end of May 2002 upheld the Bank of Slovenia's decision, and thus confirmed the legality of the measures taken by the Bank against a savings and loan undertaking that had failed to satisfy the prescribed creditworthiness requirements and the interim targets for compliance in the course of the five-year transition period.

The Bank of Slovenia remained firm in carrying out its legal duties in the face of such protests, and is determined to continue to do so in future.

In November 2001 the first bankruptcy proceedings against a savings and loan undertaking, HKS Trbovje p.o., were launched on the grounds of bankruptcy of the founding cooperative, which was at the same time the undertaking's main debtor. In 2002 the Bank of Slovenia established the existence of grounds for the commencement of bankruptcy proceedings in respect of another savings and loan undertaking, but the competent court did not institute bankruptcy proceedings because of a constitutional dispute. Bankruptcy proceedings were instituted against the savings and loan undertaking HKS Slovenska Hranilnica in Posojilnica Kranj p.o. in June 2002 and against HKS Sicura in December 2002. These two cases are described below.

3.1. Bankruptcy procedure in HKS Slovenska hranilnica in posojilnica Kranj, p.o., Kranj

HKS SHP failed to meet capital requirements.

HKS Slovenska hranilnica in posojilnica Kranj, p. o., Kranj (hereinafter: HKS SHP) acquired the attributes of a legal person by entry into the court register on 18 January 1991 and namely on the basis of the Law on Savings and Loan Undertakings (Official Gazette of the Republic of Slovenia Nos. 14/90, 30/90). The abbreviated company name was entered into the court register as »Slovenska hranilnica in posojilnica Kranj, p.o.«. The said savings and loan undertaking was registered prior to the promulgation of the Law on Banks and Savings Banks in June 1991 prohibiting the use of the name "bank or savings bank and any derivatives from these words if the legal person has not been registered in accordance with the said law. The Companies Act also defines the use of the name of Slovenia and its derivatives in the names of corporate entities only subject to approval by the Government of the Republic of Slovenia adopted in July 1993. Therefore, the Bank of Slovenia had no legal grounds to ask the entity in question to change its registered name (firm).

The Law on Savings and Loan Undertakings did not prescribe the amount of foundation capital. HKS SHP was founded with a minimum foundation capital of 8,000 tolars as stipulated under the Companies Act adopted in 1988. The sole condition prescribed under the Law on Savings and Loan Undertakings was to have among the founders an agricultural or crafts co-operative - the condition met by HKS SHP.

The first Slovenian Law on Banks and Savings Banks from June 1991 did not enact any new requirements with regard either to status or operations of savings and loan undertakings. Henceforth, the Bank of Slovenia became responsible for supervision of banks and savings banks but not savings and loan undertakings (savings and loan undertakings had to maintain minimum liquidity reserve and submit statistical data).

In accordance with the Law on Banks and Savings Banks from June 1991, only companies authorised by the Bank of Slovenia beforehand could provide banking services. This requirement did not apply to savings and loan undertakings since they could take up the provision of banking services directly on the basis of the Law on Savings and Loan Undertakings. It was not before the promulgation of the Banking Act in February 1999 and particularly its modifications and amendments enacted in August 2001, that savings and loan undertakings were required to abide by almost the same conditions when engaging in banking and other financial services already in place for banks and savings banks. The Bank of Slovenia has adopted a stance that savings and loan undertakings must start to operate along the lines of minimum standards of safe and sound operations; hence it proposed only one year to achieve compliance and force the savings and loan undertakings to meet all regulatory requirements (by February 2000). However, in the process of the promulgation of the Banking Act, the National Assembly extended the transitional period to 5 years - until 20 February 2004.

With deposits with savings and loan undertakings being a cause of supervisory concerns, the Bank of Slovenia insisted on a mandate to take steps against a savings and loan undertaking if it does not meet during the transitional period the key prudential requirements laid down in a special regulation (tested also through the aforementioned court trial). At the end of the transitional period (early in 2004), there will be no differences between the prudential regulatory framework for savings and loan undertakings and the framework applicable to banks and savings banks for some years already.

HKS SHP is one of the savings and loan undertakings deemed by the Bank of Slovenia to be hardly capable of meeting capital requirements. The founders of HKS SHP also became aware of this possibility and decided in January 2001 to abandon its independent status of a credit institution and team up with other financial institution. Management and founders of HKS SHP who are jointly and severally responsible for liabilities HKS SHP with all their property tried in vain to find a bank willing to take over the ailing savings and loan undertaking failed.

The Bank of Slovenia conducted an on-site examination of operations of HKS SHP and identified the grounds to file for bankruptcy under Article 162, Para 2 of the Banking Act. Consequently, the statutory duty for the Bank of Slovenia to file a motion for the winding up of HKS SHP with the competent court of law was triggered.

Bankruptcy of a savings and loan undertaking starts by making an entry into the court register. The District Court at Kranj registered the commencement of bankruptcy on 21 June 2002.

As regards the repayment of deposits of the depositors, the Banking Act introduced a new guarantee scheme to ensure that savings can be repaid to depositors in the event that a credit institution authorised to provide banking services goes bust. All banks and savings banks must be authorised by the Bank of Slovenia for banking services, as opposed to savings and loan undertakings that will be obliged to apply for such an authorisation after the transitional period has expired in February 2004. Deposits in banks and savings banks guaranteed jointly and severally up to the amount of 4.2 million tolars (equivalent of 18,969 euros at the middle exchange rate of the Bank of Slovenia as at 31 December 2001) placed with a bank or a savings bank (a deposit is the sum of all deposits in local and foreign currency less liabilities of the depositor in question to a bank or a savings bank). The payment of deposits in the event of bankruptcy of a bank or a savings bank is organised by the Bank of Slovenia.

The funds placed by depositors with savings and loan undertakings are not covered by the aforementioned deposit guarantee scheme since no savings and loan undertaking has met the conditions prescribed for authorisation of the Bank of Slovenia to provide banking services. Nevertheless, under the Banking Act these credit institutions still have time until February 2004 to become compliant. In accordance with the Law on Savings and Loan Undertakings, a savings and loan undertaking guarantees for its liabilities by its assets. If assets do not suffice, the founders are jointly and severally liable with all their property. Most savings and loan undertakings have safeguarded deposits of its depositors along the lines of their operating policies also by arranging a bank guarantee. HKS SHP did not have such a guarantee.

The Bank of Slovenia has given the media information about the deposit guarantee schemes in effect on several occasions.

The Bank of Slovenia has notified the media of the guarantee scheme in place on more than one occasion. This campaign was particularly intense at the promulgation of the Banking Act, and the last time was in 2001 when a liquidation procedure was instituted in one financial institution that was taking deposits without being authorised by the Bank of Slovenia for taking up and the pursuit of banking business. Aware of inherent risks, the Bank of Slovenia asked all savings and loan undertakings back in August 1997 to display conspicuously in their premises a notice explaining how they guarantee for gathered funds.

Therefore, deposits placed by depositors of HKS SHP will be repaid from the bankruptcy proceeds. The competent court has appointed a receiver who will do his best in accordance with his mandate to increase the bankruptcy proceeds and thus provide more funds for repayment of deposits of depositors who entrusted their savings to HKS SHP.

In accordance with the ruling of the District Court at Kranj as of 21 June 2002, the depositors, i.e. creditors shall register their claims to the panel of receivers no later than within two months after the announcement to institute the bankruptcy procedure was published in the Official Gazette of the Republic of Slovenia (by 28 August 2002). The first hearing has been set for 18 October 2002 for claims probation. Debtors of HKS SHP must duly settle their liabilities upon maturity; hence bankruptcy proceeds will increase and hence the possibility for depositors to get back as much of their deposited funds as possible.

3.2. Institution of bankruptcy proceedings against HKS Sicura

On 12 September 2002, following a series of preliminary supervisory activities (Bank of Slovenia measures), HKS Sicura applied for ordinary liquidation, and on 30 October 2002 forced liquidation proceedings were instituted against it by a decision of the Bank of Slovenia on the grounds of obstruction of supervision under the Banking Act.

The liquidator, assisted by a permanent court expert in finance, assessed the value of the assets of HKS Sicura (in forced liquidation) and established that they were insufficient to meet all the claims of creditors. The expert opinion was that the nominal value of the liabilities exceeded the value of the assets of HKS Sicura (in forced liquidation) as assessed by the court expert, and the asset shortfall was primarily the result of a poor investment policy. In particular, the latter concerned investments in the companies Perne Juliana d.d. and Juliana Trgovina d.o.o.

On the basis of these findings and a resolution of the Governing Board of the Bank of Slovenia, on 16 December 2002 the Bank of Slovenia issued a decision finding grounds present for the commencement of bankruptcy proceedings in respect of HKS Sicura (in forced liquidation). The district court of Ljubljana issued a decision for the commencement of bankruptcy proceedings against HKS Sicura (in forced liquidation) on 17 December 2002.

4. THE DEPOSIT GUARANTEE SCHEME IN SLOVENIA

As of 1 January 2001, a guarantee system for bank and savings bank deposits that is in accordance with European Directive 94/19/EC has been in place in Slovenia. As mentioned in the previous chapter, this includes all banks and savings banks holding authorisation from the Bank of Slovenia and branches of foreign banks (henceforth referred to simply as banks). Savings and loan undertakings will join the system having achieved compliance and gained an authorisation from the Bank of Slovenia.

Banks and savings banks report to the Bank of Slovenia half-yearly on the amount of guaranteed deposits and on the fulfilment of the obligation to maintain investments in securities in order to ensure the availability of liquid funds with which to meet payouts on deposit guarantees.

Fewer than 6% of depositors (individuals and small corporations) have less than full guarantee cover.

As at 31 December 2002, total deposits of natural and legal persons at banks and savings banks (excluding interbank and general government deposits) stood at SIT 2,865.9 billion, of which 45.3% or SIT 1,299.5 billion were guaranteed deposits. The number of holders of guaranteed deposits (i.e. individuals and small corporate entities) at banks and savings banks was 2,066,504, and the average value of guaranteed deposits was SIT 629,000. Of these deposit holders, only 5.6% or 116,747 did not have full guarantee cover. The non-guaranteed part or deposits in excess of the guaranteed amount were worth SIT 909.4 billion. The purpose of the deposit guarantee scheme, that a majority (by number) of small depositors should have full guarantee cover of their deposits in the event of bankruptcy of the bank, was therefore met.

It should be mentioned that SIT 499.2 billion of deposits were removed from the guarantee system (those of medium-sized and large corporations, connected persons of banks and certain other possible exclusions permitted under the EU Directive). In addition, by comparison with the previous figures, the proportion of deposits of individuals under contracts made prior to the Banking Act coming into force on 20 December 1999, which are guaranteed by the government for the duration of such contracts, is declining heavily. They now account for only SIT 2.9 billion, a negligible fraction of total deposits of individuals.

Figures for guaranteed deposits are the basis for calculating the level of compulsory investments by banks and savings banks in securities (set at 2.5% of guaranteed deposits under the Regulation on the Deposit Guarantee Scheme), and the maximum annual charge on banks of 3.2% of guaranteed deposits.

5. REFORM OF THE PAYMENT SYSTEM AND CASH TRANSACTIONS

5.1. Payment system

Completion of payment system reform

The Agency for Payments ceased to perform payment transactions on 30 June 2002.

The reform of payments systems was concluded on 30 June 2002, when the Agency for Payments ceased undertaking payment transactions for legal persons.

The reform process began in 1994, when the foundations of the project were put in place and the project was taken on by the Bank of Slovenia. After the foundations of the project had been set out in a document entitled Needs for Change in the Slovenian Payment System (September 1994), strategic decisions were adopted at the start of 1995 with regard to the institution of a reformed payments system. In 1996 an operational plan for the transition to the new payments system was drawn up.

Practical implementation of the reform began with the transfer of the compulsory reserve accounts of banks, savings banks and savings and loan undertakings to the Bank of Slovenia in March 1997. This was followed in 1998 by the opening of settlement accounts for banks at the Bank of Slovenia and the establishment of a Real Time Gross Settlement System (April 1998) and a Giro Clearing System (October 1998).

The transfer of accounts of legal persons to the banks was completed on 30 June 2002.

The accounts of legal persons were gradually transferred from the Agency for Payments to the banks, while the accounts of budget users and municipalities, accounts for the paying-in of public revenues and accounts of members of the Central Securities Clearing Corporation were transferred to the Bank of Slovenia. The process of transferring the accounts of legal persons commenced on 11 September 2000 and was concluded on 30 June 2002, as laid down in the Payment Transactions Act.

At the end of June 2002 the Agency for Payments was also officially required to close the giro accounts of legal persons who, during the migration process, had not by themselves transferred their accounts to banks or were prevented from doing so by their accounts being blocked. There were 7,788 such cases. Funds to the value of SIT 2.28 billion from these closed giro accounts were transferred by the Agency for Payments to a collection account at the Bank of Slovenia, which credited them to temporary accounts at the banks at which the legal persons concerned were registered customers. The banks began the transfer of these funds from the temporary accounts to transactions accounts of the legal persons concerned at the grounded request of the latter on 1 July 2002. Under the Payment Transactions Act, any remaining funds from this process will be transferred to the national budget in 30 June 2004.

Accounts of budget users are managed by the Office for Public Payments.

In keeping with the objective of the project for the establishment of a single treasury system the Bank of Slovenia opened a government single treasury account and 192 municipal treasury accounts. Accounts of budget users, the Health Insurance Institute and the Institute of Pensions and Disability Insurance were opened as sub-accounts of the single treasury account, managed by the Office for Public Payments. As of 1 July 2002 budget users manage the funds in their sub-accounts through the Office for Public Payments, to which they also submit payment instructions.

At the end of June 2002 the Bank of Slovenia also opened accounts for members of the Central Securities Clearing Corporation who are at the same time members of the payment and transfer system. In accordance with Article 151 of the Securities Market Act, which states that funds of customers of stock-broking companies must be managed in a separate cash account, and with the Payment Transactions Act and Regulation on the Keeping of Accounts with the Bank of Slovenia, members of the Central Securities Clearing Corporation opened transactions accounts for customer funds and clearing accounts at the Bank of Slovenia in June 2002. Stock-broking companies transferred their own funds from accounts at the Agency for Payments to transactions accounts at commercial banks, while banks authorised to carry on stock-broking business already had settlement accounts opened at the Bank of Slovenia. Since 20 June 2002 settlement of the cash leg of securities transactions is thus accomplished via clearing accounts at the Bank of Slovenia in central bank money.

Secondary legislation supplementing the Payment Transactions Act

The Payment Transactions Act took effect in April 2002.

The Payment Transactions Act (Official Gazette of the Republic of Slovenia, No. 30/02), which came into effect on 20 April 2002 and comprehensively regulates the conduct of payment transactions in Slovenia, laid down a time limit for the issue of secondary legislation of six months from the passage of the Act, except in specified cases. By the end of March 2003 the Bank of Slovenia had issued all secondary legislation for which it was responsible under the Payment Transactions Act.

Under the Payment Transactions Act, the Bank of Slovenia is responsible for granting authorisations for the conduct of payment services. In connection with this role the Bank of Slovenia issued a Regulation on the Criteria and Conditions to be Met by an Authorised Provider of Payment Services for the Receipt of Authorisation to Conduct Payment Services (Official Gazette of the Republic of Slovenia, No. 57/02) which came into force on 30 June 2002.

The Bank of Slovenia is also responsible for issuing authorisations for the creation of a payment system and authorisations for providing the service of managing a payment system. The Act lays down only basic criteria and conditions for the granting of these authorisations. More detailed requirements are set out in the Regulation on Settlements Between Providers of Payment Services (Official Gazette of the Republic of Slovenia, No. 07/03), which came into effect at the end of January 2003.

In addition to the above two regulations, the Bank of Slovenia issued further regulations based on the Act, relating to the establishment and maintenance of a transactions account register, the management and operation of the RTGS system, the management and operation of the Giro Clearing system, electronic money issuance companies, the management of accounts at the Bank of Slovenia and the conduct of payment transactions through transactions accounts of natural persons.

Oversight of payment systems

On the basis of the new Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, No. 58/02) and the Payment Transactions Act, the Bank of Slovenia also formally took charge of payment systems oversight. The Bank of Slovenia Act gives the Bank general authority for oversight of the legality and correctness of the country's payment systems, while the Payment Transactions Act sets out its specific powers.

The Bank of Slovenia oversees the legality and correct operation of the country's payment systems.

The Bank of Slovenia oversees the operation of payments systems with the aim of ensuring their effectiveness and safety, particularly through preventing the possibility of financial problems on the part of one participant in the system spreading to others or to the system as a whole (systemic risk or the domino effect). The Bank performs its role in accordance with internationally accepted principles for the oversight of payment systems (Core Principles for Systemically Important Payments Systems).

The payment systems oversight function must be distinguished from that of banking supervision. Banking supervision involves responsibility for regulating individual credit institutions, including their involvement in payment systems, while oversight of payment systems concentrates on the payment system itself, constituting a complex of technical standards and methods for transmitting payment messages between participants, and a complex of rules and operating procedures for the functioning of the system.

In performing its oversight function the Bank of Slovenia is concerned with the adequacy of the legal basis of payment systems, the effectiveness of operational and financial risk management in such systems, the transparency of the operating rules and management of systems, and the safety and effectiveness of the technical design of systems and their operating procedures.

Integrated system for low-value payments

The plan to establish an integrated system for low-value payments, which was drawn up in concrete detail in late 2000, envisaged as key objectives for the future development of payment systems in Slovenia an integral communications infrastructure, integral standards and use of payment instruments at the level of the banking system as a whole, the development of new kinds of payment services and payment instruments, more rapid and lower-cost execution of payment transactions, greater transparency and more effective risk management. The strategic directions for the project emphasised the vital importance of ensuring interbank cooperation in order for the set aims to be realised. To this end a MoU with regard to the processing of low-value payments was signed in May 2002 by the banks, the savings banks and the Bank Association of Slovenia, setting out the areas and manner of their cooperation. The MoU formalises the necessary and advantageous cooperation across all areas in which the banks have a common interest and where competition would be less effective and more costly.

A memorandum of understanding on the execution of low-value payments was concluded.

The MoU was submitted for scrutiny to the Office of the Republic of Slovenia for the Protection of Competition, which confirmed that cooperation among the banks and savings banks in integrating systems of low-value payments would not directly affect their market position and impede, prevent or distort competition. This ruling confirmed the validity of the MoU and enabled the setting-up of a Payment Services Committee with authority for strategic decision-making in the area of payment systems. The composition of the Committee (eight representatives of banks and savings banks and a representative of the Bank of Slovenia, who also acts as chair) promotes active cooperation among all banks, while the role of the Bank of Slovenia consists mainly in steering initiatives and seeking agreement for decisions that will foster the realisation of the Committee's set aims.

The first regular meeting of the Committee was held at the end of October 2002 and was primarily devoted to the constitution of the Committee. At the next regular meeting in February 2003, however, major issues of substance were on the agenda. Most of the discussion was devoted to the plan for a clearing house and the setting-up of a special project group with responsibility for implementing the plan at an operational level.

A concept for a clearing house was drawn up.

On this basis the Bank of Slovenia drew up a concept for the clearing house in May, and in June a workshop on the issue of the clearing house was held with the participation of banks and the Bank of Slovenia. The workshop was given over to the exchange of views on the concept and its feasibility given the current situation in this area in Slovenia.

Activity in the area of standardisation and e-business

During 2002 the Bank of Slovenia kept abreast of ongoing activity within the Slovenian e-business project "e-slog", being led by the Slovenian Chamber of Commerce. The first phase of the project, involving the preparation of documentation for a standardised billing form under the EANCOM and XML standards, was completed in June. In connection with the work on standardised billing, the entire process of technological interoperability and security of transactions was verified.

In September 2002, as part of the "e-slog" project, a working group for payment standards was set up, whose members are drawn from the Bank of Slovenia, the Bank Association of Slovenia, selected firms and the Ministry of Finance. The core aim of the working group is the standardisation of payment transactions between legal persons, banks and state institutions. The standardisation effort involves a description of business processes and documents and, in collaboration with other "e-slog" project working groups, the preparation of technical solutions and the integration of single digital authentication for providing identification and electronic signature of business documents. The standardised documents will encompass the full range of communications between business entities in this area (payment instructions, cancellation of payment instructions and all appropriate notifications in either direction during the fulfilment of payment services). The standardised documents will be prepared in EANCOM and XML form.

5.2. Cash operations

The provision of cash takes place through the Bank of Slovenia banknote depots and coin store.

The provision of tolar currency notes and coins to the government in 2002 and the first half of 2003 ran smoothly and in line with the project for the reform of payment systems and the arrangements for migrating payment transactions to the banking sector. The supply of currency was accomplished through the Bank of Slovenia's banknote depots and coin store and through organisational units of the Agency for Payments until mid-2002, and solely through the banknote depots and coin store from 24 June 2002 onward.

On 24 June 2002 the Agency for Payments of the Republic of Slovenia ceased cash operations. As of that day the depositary banks ceased to supply the Agency for Payments with cash, and the provision of cash to budget users was transferred to the Bank of Slovenia and commercial banks. On 30 June 2002, when the gradual migration of accounts of legal persons from the Agency for Payments to the banks was completed, the Agency for Payments also ceased to perform non-cash payments for legal persons. The transfer of accounts and the migration of the conduct of cash transactions for legal persons and budget users from the Agency for Payments to the commercial banks were successfully accomplished. During this period the provision of cash to budget users at the Bank of Slovenia main treasury also ran smoothly.

The Bank of Slovenia inspects the operations of depositary banks.

In 2002 and the first half of 2003 eight banknote depots were in operation at five commercial banks acting as depositaries, whose role it is to deal with surpluses or shortages of cash arising from banks' operations. The Bank of Slovenia sets the depositary banks a treasury maximum each quarter and monitors their activity on a daily basis. Under the terms of the contract between the Bank of Slovenia and each individual depositary, the Bank of Slovenia carries out regular comprehensive inspections of the depositaries' operations. During the period under review all depositaries observed the approved maximum and no irregularities were uncovered in the course of such operations.

In February 2003, on the basis of the new Payment Transactions Act, the Regulation on the Criteria and Conditions to be Met by a Provider of Payment Services for the Receipt of Authorisation to Conduct Payment Services, and the new Bank of Slovenia Act, the Bank of Slovenia began a review of cash operations at banks with the aim of ensuring their effectiveness and security (particularly with respect to operational risk management). So far the Bank of Slovenia has reviewed three banks and has uncovered no serious irregularities.

6. ORGANISATION AND TASKS OF THE BANKING SUPERVISION DEPARTMENT

Banking supervision in Slovenia is carried out within the Bank of Slovenia. The Banking Supervision Department started operating at the beginning of July 1992. It is divided into three sections:

- Licensing
- Off-site Analysis
- On-site Inspection.

The Department had a staff of 17 at its creation, which had risen to 52 as at 31 December 2002 (and 54 as at 30 June 2003). Of the total staff of 52 at the end of 2002, eight held departmental management posts, 20 were in Off-site Analysis (22 as at 30 June 2003), 21 were in On-site Inspection and three were employed in Licensing.

The Banking Supervision Department has been in operation for 11 years and employs a staff of 54.

The Off-site Analysis section has six analysts who monitor individual banks and savings banks, two accounting specialists, six members of staff (eight as at 30 June 2003) responsible for drafting secondary regulations and monitoring EU banking-related directives, Basel Committee recommendations etc., two legal specialists, three support staff and a section head.

The On-site Inspection section has a staff of 20 inspectors and one clerical officer. Of the 20 inspectors, three are information technology specialists.

Following the introduction of the Banking Act in 1999 the Banking Supervision Department assumed new tasks (consolidated supervision, supervision of legal and natural persons suspected of carrying on banking activities without authorisation from the Bank of Slovenia, supervision of savings and loan undertakings etc.). The Consumer Loans Act, Money Laundering Prevention Act and Payment Transactions Act have also conferred new responsibilities on the Department.

In addition to a careful recruitment policy for Banking Supervision staff, almost 80% of whom are educated to university level, considerable attention is given to training. Practical experience is interspersed with short training and educational events such as seminars, workshops and study visits and/or supplemented by theoretical studies, mainly at graduate level.

Core tasks carried out by individual units of the Department:

Granting authorisations (Licensing)

- Preparation of secondary legislation that governs licensing requirements and/or rules,
- Advising on the implementation of secondary legislation that governs licensing requirements and/or rules,
- Processing applications and the preparation of reports on authorisations granted,
- Drafting decisions and explaining grounds for the decisions taken,
- Monitoring of the enforcement of the decisions issued.

Off-site supervision of banking operations

- Drawing up the legal framework for the carrying out supervision and surveillance of banks and savings banks,
- Monitoring international recommendations in the field of supervision,
- Counselling in the implementation of financial legislation,
- Preparation of instructions with regard to implementation of accounting standards and accounting counselling,
- Controlling operations carried out by banks and savings banks on the basis of prudential reports and statutory returns,
- Corrective actions launched with the aim of resolving non-compliance identified in operating activities of banks and savings banks, and monitoring of

implementation of such corrective actions,
- Analysis of results of operations of banks and savings banks,
- Co-operation with domestic and international institutions,
- Participation in the preparation for on-site examinations in banks and savings banks,
- Legal counselling,
- Electronic data processing and other related services.

On-site supervision of banking operations

- Preparatory activities leading to on-site examination on the basis of prudential reports of banks and savings banks and other statutory returns,
- On-site examinations of business operations of banks and savings banks, elaboration of reports and proposals for corrective measures,
- Implementation of corrective measures designed to mitigate deficiencies that have been detected in operations of banks and savings banks,
- Monitoring of the enforcement of corrective measures taken against banks and savings banks,
- Advising within on-site supervising function on the way to improve banking operations of banks and savings banks,
- Monitoring banks and savings banks,
- Preparation of measures aimed at preventing deterioration in the financial position of banks and savings banks,
- Co-operation in assessing conditions for instituting special administration in banks and savings banks,
- Co-operation in assessing conditions for liquidation of banks and savings banks,
- Co-operation in assessing conditions for bankruptcy of banks and savings banks,
- Governing and managing banks and savings banks in special cases,
- Co-operation with local and foreign supervisory authorities,
- Co-operation with foreign chartered accountants/certified auditors, etc.

The Report was prepared by: Banking Supervision Department
Analysis & Research Department
Payment Systems and Banknote Department (Reform of Payment Systems and Cash Operations)

Samo Nučič
Deputy Governor

Mojca Majič
Director
Banking Supervision Department

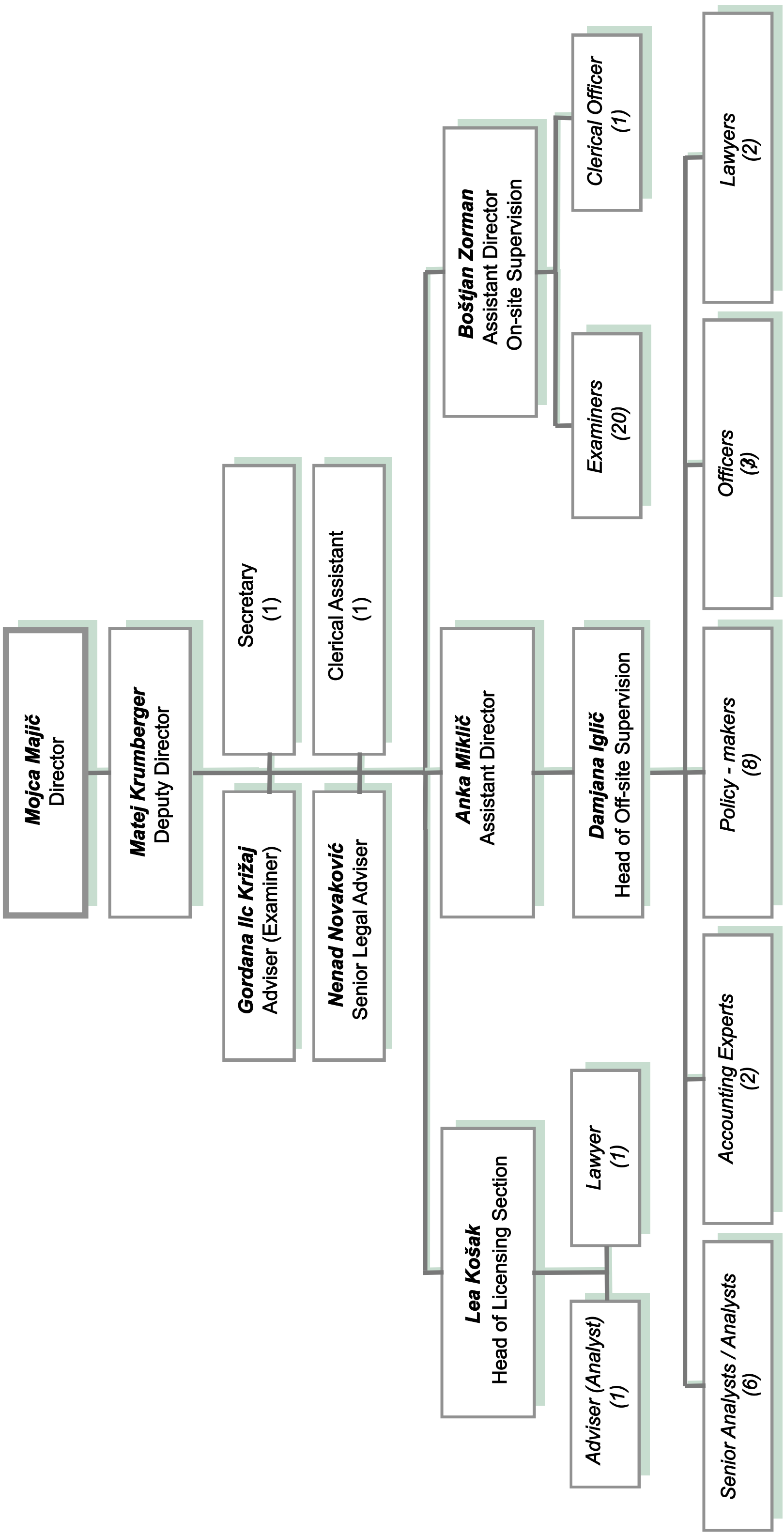
APPENDICES

VI. APPENDICES

Figures for 30 June 2003 or the first half of 2003 are unaudited. These figures do not include the branch of Nova Ljubljanska Banka in Italy.

For comparability, because of the introduction of the new Slovenian Accounting Standards with effect from 1 January 2002, figures for past years have been restated according to the new standards.

ORGANISATIONAL STRUCTURE OF THE BANKING SUPERVISION DEPARTMENT AS AT 30 JUNE 2003



APPENDIX 2

TOTAL NUMBER OF BANKS AND SAVINGS BANKS AND OWNERSHIP STRUCTURE

1. Number of operating banks and savings banks

	31 Dec 1992	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Banks[1)]	30	32	33	31	29	28	24	25	25	21	20	20
Savings banks	15	13	11	8	7	6	6	6	3	3	2	2

2. Number of banks with majority foreign share[2)]

	31 Dec 1992	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Banks[1)]	2	5	6	6	4	4	3	5	6	5	6	6

3. Number of banks with majority state share

	31 Dec 1992	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Banks	1	3	3	3	3	3	3	3	3	3	2	2

1) Foreign branch established in 1999 included.
2) Foreign-owned stake over 50%; all savings banks are owned by domestic shareholders.
3) State ownership over 50%. Poštna banka Slovenije d.d. (Slovenian Post Office Bank) is included in the figures.

APPENDIX 3

TOTAL ASSETS AND OFF-BALANCE SHEET ITEMS OF BANKS AND SAVINGS BANKS

4. Total assets

(SIT billions)

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Banks	935.5	1,168.1	1,475.3	1,699.9	1,988.0	2,302.7	2,629.2	3,125.3	3,876.8	4,556.6	4,832.6
Savings banks	2.1	2.7	4.4	5.0	7.1	9.3	10.8	12.1	14.9	15.0	17.2

4.a. Growth rate of total assets

(%)

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Banks	49.0	24.9	26.3	15.2	17.0	15.8	14.2	18.9	24.0	17.5	6.1
Savings banks	-18.5	29.6	61.5	13.9	42.5	30.8	15.9	11.5	23.5	0.8	14.7

5. Risk-weighted off-balance sheet items [1)]

(SIT billions)

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Banks	288.7	292.5	347.0	338.9	382.6	503.7	568.5	701.7	820.2	899.7	1,011.1
Savings banks	0.059	0.004	0.027	0.122	0.036	0.093	0.088	0.038	0.062	0.152	0.220

5.a. Growth rate of risk-weighted off-balance sheet items

(%)

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Banks		1.3	18.6	-2.3	12.9	31.7	12.9	23.4	16.9	9.7	12.4
Savings banks		-93.2	575.0	351.9	-70.5	158.3	-5.5	-56.2	60.0	147.0	44.6

1) Off-balance sheet items include guarantees, letters of credit, endorsed and accepted bills of exchange, irrevocable commitments and other.

LENDING OF BANKS AND SAVINGS BANKS TO CUSTOMERS AND DEPOSITS FROM CUSTOMERS

6. Lending to non-bank sector

(SIT billions)

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Banks	347.3	417.1	607.8	725.3	861.7	1,108.0	1,387.5	1,635.2	1,913.9	2,182.1	2,328.4
Savings banks	1.4	1.9	3.2	4.0	5.2	7.1	8.8	10.8	12.8	11.4	13.4

6.a. Growth rate of lending to non-bank sector

(%)

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Banks	53.5	20.1	45.7	19.3	18.8	28.6	25.2	17.9	17.0	14.0	6.7
Savings banks	-9.4	35.7	68.4	25.0	30.0	36.5	23.8	22.4	19.2	-11.1	17.1

7. Deposits from non-bank sector

(SIT billions)

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Banks	492.0	712.6	916.6	1,169.4	1,412.2	1,667.7	1,859.0	2,157.5	2,761.7	3,149.4	3,224.4
Savings banks	1.6	1.7	2.8	3.2	4.6	6.0	7.7	9.5	11.0	12.8	14.5

7.a. Growth rate of deposits from non-bank sector

(%)

	31 Dec 1993	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Banks	64.1	44.8	28.6	27.6	20.8	18.1	11.5	16.1	28.0	14.0	2.4
Savings banks	-26.4	6.3	64.7	14.3	43.8	30.4	28.5	23.6	15.4	16.5	13.2

TOTAL ASSETS AND MARKET SHARE OF SLOVENIAN BANKS

(SIT millions) (%)

	Banks	Total Assets						Market Share					
		31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
1	Nova Ljubljanska banka d.d. Ljubljana	647,128	750,652	916,451	1,376,656	1,619,165	1,693,170	28.1	28.6	29.3	35.5	35.5	35.0
2	Nova Kreditna banka d.d. Maribor	276,233	310,206	354,707	447,175	517,538	537,785	12.0	11.8	11.3	11.5	11.4	11.1
3	Abanka Vipa d.d. Ljubljana	122,501	148,376	186,985	253,996	389,273	405,161	5.3	5.6	6.0	6.6	8.5	8.4
4	SKB d.d. Ljubljana	273,505	295,916	306,678	365,616	360,095	360,072	11.9	11.3	9.8	9.4	7.9	7.5
5	Banka Celje d.d. Celje	133,733	154,463	183,544	224,270	275,658	317,275	5.8	5.9	5.9	5.8	6.0	6.6
6	Banka Koper d.d. Koper	123,132	154,146	189,452	233,960	282,116	288,756	5.3	5.9	6.1	6.0	6.2	6.0
7	Gorenjska banka d.d. Kranj	101,550	121,180	146,190	189,445	227,130	246,424	4.4	4.6	4.7	4.9	5.0	5.1
8	Bank Austria Creditanstalt d.d. Ljubljana	83,194	83,455	95,164	128,332	175,999	205,348	3.6	3.2	3.0	3.3	3.9	4.2
9	Raiffeisen Krekova banka d.d. Maribor	50,293	57,041	65,225	75,842	92,578	107,389	2.2	2.2	2.1	2.0	2.0	2.2
10	Poštna banka Slovenije d.d. Maribor	37,060	47,369	58,409	73,782	87,965	97,699	1.6	1.8	1.9	1.9	1.9	2.0
11	Probanka d.d. Maribor	34,010	40,789	47,806	63,284	79,167	88,024	1.5	1.6	1.5	1.6	1.7	1.8
12	Banka Domžale d.d. Domžale, Bs NLB	32,617	37,438	44,875	60,716	70,773	78,722	1.4	1.4	1.4	1.6	1.6	1.6
13	Hypo Alpe-Adria-Bank d.d. Ljubljana		10,391	23,473	37,722	59,990	74,264	0.0	0.4	0.8	1.0	1.3	1.5
14	Koroška banka d.d. Sl. Gradec, Bs NLB	33,009	37,479	45,817	54,903	61,778	65,479	1.4	1.4	1.5	1.4	1.4	1.4
15	SZKB d.d. Ljubljana	36,319	40,747	48,105	56,382	61,751	59,533		1.5	1.5	1.5	1.4	1.2
16	Volksbank-Ljudska banka d.d. Ljubljana	18,843	23,335	30,653	38,097	46,477	53,351	0.8	0.9	1.0	1.0	1.0	1.1
17	Factor banka d.d. Ljubljana	14,606	17,142	24,879	32,682	43,881	47,111	0.6	0.7	0.8	0.8	1.0	1.0
18	Banka Zasavje d.d. Trbovlje, Bs NLB	26,105	25,900	30,174	36,771	39,764	42,444	1.1	1.0	1.0	0.9	0.9	0.9
19	Kaerntner Sparkasse, podružnica v Sloveniji		1,254	10,063	21,033	33,660	39,675		0.0	0.3	0.5	0.7	0.8
20	S I B d.d. Ljubljana	20,243	23,444	28,591	36,826	31,878	24,962	0.9	0.9	0.9	0.9	0.7	0.5
21	Banka VIPA d.d. Nova Gorica	49,062	53,702	60,103	69,277			2.1	2.0	1.9	1.8		
22	Dolenjska banka d.d. Novo mesto	76,658	86,632	99,734				3.3	3.3	3.2			
23	Pomurska banka d.d. M. Sobota, Bs NLB	55,174	61,339	73,376				2.4	2.3	2.3			
24	Banka Velenje d.d. Velenje, Bs NLB	32,295	37,278	41,609				1.4	1.4	1.3			
25	Banka Societe Generale d.d. Ljubljana	11,205	9,567	13,225				0.5	0.4	0.4			
26	Banka Creditanstalt d.d. Ljubljana												
27	M banka d.d. Ljubljana, Bs Banke Koper	14,206						0.6					
28	UBK banka d.d. Ljubljana, Bs SKB												
29	Hmezad banka d.d. Žalec, Bs Banke Celje												
30	Hipotekarna banka d.d. Brežice												
	Total - all operating banks	**2,302,682**	**2,629,240**	**3,125,289**	**3,876,768**	**4,556,637**	**4,832,644**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

APPENDIX 5A

TOTAL ASSETS AND MARKET SHARE OF SAVINGS BANKS AND SAVINGS AND LOAN UNDERTAKINGS

(SIT millions, %)

Item. No.	Savings banks	31 Dec 2002		30 Jun 2003	
		Total Assets	Market Share	Total Assets	Market Share
1	Delavska hranilnica d.d.	8,861	59.1	10,001	58.1
2	Hranilnica LON d.d Kranj	6,145	40.9	7,215	41.9
	TOTAL ASSETS	**15,006**	**100.00**	**17,216**	**100.0**
	Savings and loan undertakings				
1	Zveza HKS Slovenije Ljubljana	30,784	60.0	31,359	72.5
2	HKS Vipava	3,806	7.4	3,724	8.6
3	HKS Tolmin	1,538	3.0	1,495	3.5
4	HKS Panonka Murska Sobota	1,769	3.4	1,347	3.1
5	HKS Soča Nova Gorica	1,012	2.0	1,212	2.8
6	HKS Trebnje	1,118	2.2	1,047	2.4
7	HKS Domžale	1,091	2.1	1,043	2.4
8	ZHKS Ljutomer-Križevci	634	1.2	540	1.2
9	HKS Koper	546	1.1	487	1.1
10	ZHKS Velike Lašče	310	0.6	315	0.7
11	Zadružna HKS Slovenska Bistrica	399	0.8	303	0.7
12	HKS Lendava	313	0.6	229	0.5
13	HKS Ljutomerčan	97	0.2	101	0.2
14	Zadružna HKS Lovrenc	81	0.2	78	0.2
15	HKS Kapela Radenci	39	0.1		
16	HKS Šoštanj	1,905	3.7		
17	HKS Ptuj	1,508	2.9		
18	Zadružna HKS Lenart	1,058	2.1		
19	Zadružna HKS Ljubljana	1,044	2.0		
20	HKS Gornja Radgona	1,027	2.0		
21	HKS Cerklje	427	0.8		
22	HKS Laško	334	0.7		
23	Zadružna HKS Črnomelj	223	0.4		
24	HKS Dole	141	0.3		
25	HKS Ivančna Gorica	125	0.2		
	TOTAL ASSETS	**51,328**	**100.0**	**43,280**	**100.0**

BALANCE SHEET OF SLOVENIAN BANKS

(SIT millions)

Item. No.	Balance Sheet Designation		DESCRIPTION	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
1.	A.	I.	Cash in hand and balances with Central bank	39,602	58,786	58,475	73,888	84,696	88,761	98,631	206,225	143,311	152,353
2.	A.	II.	Treasury bills and other securities eligible for discount with CB	0	0	0	0	0	0	0	0	0	0
3.	A.	III.	Loans and advances to banks	248,059	253,566	309,936	214,874	227,331	252,615	364,388	396,245	381,208	355,496
4.	A.	IV.	Loans and advances to non-bank customers	417,104	607,780	725,347	861,744	1,107,956	1,387,452	1,635,234	1,913,914	2,182,147	2,328,410
5.	A.	V.	Debt sesurities not held for dealing purposes (investment securities)	316,257	387,411	449,161	628,059	615,876	584,586	638,610	835,581	1,315,586	1,416,644
6.	A.	VI.	Securities held for dealing purposes	20,686	27,293	29,436	61,563	98,690	124,036	154,570	273,735	231,553	235,228
7.	A.	VII.	Long-term equity investments in customers in the group	6,727	10,022	11,499	16,168	31,479	34,743	39,620	45,623	56,671	61,742
8.	A.	VIII.	Long-term equity investments in capital of other customers	16,400	16,082	15,996	15,650	16,173	25,096	26,974	23,144	12,055	12,001
9.	A.	IX.	Intangible long-term assets	974	1,350	2,311	3,625	5,011	8,912	11,022	18,228	26,928	28,125
10.	A.	X.	Tangible fixed assets	47,931	54,022	58,428	66,247	71,137	86,066	99,185	107,972	109,907	107,011
11.	A.	XI.	Own shares	5,235	3,486	3,231	2,421	2,026	2,195	1,961	916	1,204	1,437
12.	A.	XII.	Subscribed but not fully paid capital	1,262	0	0	0	0	0	0	0	0	0
13.	A.	XIII.	Other assets	42,286	45,685	26,747	30,136	27,978	20,039	35,032	30,988	60,714	86,143
14.	A.	XIV.	Prepayments and accrued income	5,587	9,854	9,287	13,611	14,329	14,739	20,062	24,197	35,354	48,053
			TOTAL ASSETS	**1,168,111**	**1,475,336**	**1,699,853**	**1,987,988**	**2,302,682**	**2,629,240**	**3,125,289**	**3,876,768**	**4,556,637**	**4,832,644**
15.	P.	I.	Amounts owed to banks	205,836	236,602	213,852	204,084	223,738	309,002	399,712	455,102	587,518	677,900
16.	P.	II.	Amounts owed to non-bank customers	712,624	916,608	1,169,449	1,412,196	1,667,695	1,859,009	2,157,509	2,761,651	3,149,394	3,224,430
17.	P.	III.	Debt evidenced by securities	20,782	45,066	37,082	52,418	57,649	44,755	69,405	110,996	176,483	211,060
18.	P.	IV.	Other debts	16,871	24,316	18,726	22,888	22,672	24,172	33,257	45,246	49,701	71,264
19.	P.	V.	Accruals and deferred income	39,914	43,297	27,952	33,099	33,045	34,418	46,653	51,787	55,969	91,962
20.	P.	VI.	Long-term provisions for liabilities and charges	30,043	32,802	35,255	35,556	41,601	48,271	56,234	62,211	75,368	78,194
21.	P.	VII.	Provisions for general banking risks	0	0	0	0	0	4,502	7,644	13,860	16,252	16,752
22.	P.	VIII.	Subordinated liabilities	0	0	0	0	0	25,831	39,264	36,224	68,403	84,779
23.	P.	IX.	Subscribed capital	48,963	56,695	56,789	60,385	54,925	58,765	74,315	74,961	75,013	78,340
24.	P.	X.	Share premium account	7,256	11,241	9,939	10,951	11,373	13,317	9,157	39,598	40,621	44,258
25.	P.	XI.	Reserves	79,224	86,850	98,612	113,205	138,858	152,525	158,612	160,928	194,315	197,841
26.	P.	XII.	Capital revaluation adjustments	6,129	11,212	16,926	22,369	26,204	31,736	39,152	42,559	63,510	63,957
27.	P.	XIII.	Net operating result brought forward (net profit brought forward or net loss brought forward)	110	-324	1,542	5,437	8,861	12,866	14,424	21,828	-17,147	-8,919 824
28.	P.	XIV.	Net operating result (net profit or net loss) for the financial year	358	10,971	13,729	15,398	16,061	10,073	19,951	-184	21,238	
			TOTAL LIABILITIES	**1,168,111**	**1,475,336**	**1,699,853**	**1,987,988**	**2,302,682**	**2,629,240**	**3,125,289**	**3,876,768**	**4,556,637**	**4,832,644**
29.	B.		OFF-BALANCE SHEET ITEMS (B.1. - B.4.)	402,730	509,522	489,511	684,326	829,838	1,039,117	1,416,016	3,011,822	3,038,442	4,240,759
			Total assets - average of the year [1]	1,038,698	1,200,063	1,601,345	1,830,789	2,127,908	2,470,110	2,863,904	3,432,868	4,146,396	4,621,118
			Number of banks	33	31	29	28	24	25	25	21	20	20

[1] Calculated as average balance at month-end.

APPENDIX 7

COMPOSITION OF THE BALANCE SHEET OF SLOVENIAN BANKS

(as % of total assets)

Item. No.	Balance Sheet Designation		DESCRIPTION	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
1.	A.	I.	Cash in hand and balances with Central bank	3.4	4.0	3.4	3.7	3.7	3.4	3.2	5.3	3.1	3.2
2.	A.	II.	Treasury bills and other securities eligible for discount with CB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.	A.	III.	Loans and advances to banks	21.2	17.2	18.2	10.8	9.9	9.6	11.7	10.2	8.4	7.4
4.	A.	IV.	Loans and advances to non-bank customers	35.7	41.2	42.7	43.3	48.1	52.8	52.3	49.4	47.9	48.2
5.	A.	V.	Debt sesurities not held for dealing purposes (investment securities)	27.1	26.3	26.4	31.6	26.7	22.2	20.4	21.6	28.9	29.3
6.	A.	VI.	Securities held for dealing purposes	1.8	1.8	1.7	3.1	4.3	4.7	4.9	7.1	5.1	4.9
7.	A.	VII.	Long-term equity investments in customers in the group	0.6	0.7	0.7	0.8	1.4	1.3	1.3	1.2	1.2	1.3
8.	A.	VIII.	Long-term equity investments in capital of other customers	1.4	1.1	0.9	0.8	0.7	1.0	0.9	0.6	0.3	0.2
9.	A.	IX.	Intangible long-term assets	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.5	0.6	0.6
10.	A.	X.	Tangible fixed assets	4.1	3.7	3.4	3.3	3.1	3.3	3.2	2.8	2.4	2.2
11.	A.	XI.	Own shares	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0
12.	A.	XII.	Subscribed but not fully paid capital	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13.	A.	XIII.	Other assets	3.6	3.1	1.6	1.5	1.2	0.8	1.1	0.8	1.3	1.8
14.	A.	XIV.	Prepayments and accrued income	0.5	0.7	0.5	0.7	0.6	0.6	0.6	0.6	0.8	1.0
			TOTAL ASSETS	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
15.	P.	I.	Amounts owed to banks	17.6	16.0	12.6	10.3	9.7	11.8	12.8	11.7	12.9	14.0
16.	P.	II.	Amounts owed to non-bank customers	61.0	62.1	68.8	71.0	72.4	70.7	69.0	71.2	69.1	66.7
17.	P.	III.	Debt evidenced by securities	1.8	3.1	2.2	2.6	2.5	1.7	2.2	2.9	3.9	4.4
18.	P.	IV.	Other debts	1.4	1.6	1.1	1.2	1.0	0.9	1.1	1.2	1.1	1.5
19.	P.	V.	Accruals and deferred income	3.4	2.9	1.6	1.7	1.4	1.3	1.5	1.3	1.2	1.9
20.	P.	VI.	Long-term provisions for liabilities and charges	2.6	2.2	2.1	1.8	1.8	1.8	1.8	1.6	1.7	1.6
21.	P.	VII.	Provisions for general banking risks	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.4	0.4	0.3
22.	P.	VIII.	Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	1.0	1.3	0.9	1.5	1.8
23.	P.	IX.	Subscribed capital	4.2	3.8	3.3	3.0	2.4	2.2	2.4	1.9	1.6	1.6
24.	P.	X.	Share premium account	0.6	0.8	0.6	0.6	0.5	0.5	0.3	1.0	0.9	0.9
25.	P.	XI.	Reserves	6.8	5.9	5.8	5.7	6.0	5.8	5.1	4.2	4.3	4.1
26.	P.	XII.	Capital revaluation adjustments	0.5	0.8	1.0	1.1	1.1	1.2	1.3	1.1	1.4	1.3
27.	P.	XIII.	Net operating result brought forward (net profit brought forward or net loss brought forward)	0.0	0.0	0.1	0.3	0.4	0.5	0.5	0.6	-0.4	-0.2
28.	P.	XIV.	Net operating result (net profit or net loss) for the financial year	0.0	0.7	0.8	0.8	0.7	0.4	0.6	0.0	0.5	0.0
			TOTAL LIABILITIES	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
29.	B.		OFF-BALANCE SHEET ITEMS (B.1. - B.4.)	34.5	34.5	28.8	34.4	36.0	39.5	45.3	77.7	66.7	87.8

PROFIT AND LOSS ACCOUNT OF BANKS

(SIT millions)

		1994	1995	1996	1997	1998	1999	2000	2001	2002	Jan - Jun 2003
1.	Interest income	110,293	156,210	182,954	195,611	206,370	203,639	283,504	298,200	344,145	168,813
2.	Interest expense	74,883	91,974	98,537	109,735	115,916	108,451	157,371	182,270	200,739	96,953
3.	Net interest income	35,411	64,236	84,416	85,876	90,454	95,188	126,134	115,930	143,407	71,860
4.	Net other income	8,667	8,764	7,708	15,562	20,136	25,755	29,898	38,666	61,400	24,127
	- net fees and commisions	11,695	19,736	23,627	26,923	30,206	33,726	37,858	41,523	53,962	26,245
	- net financial transactions	11,348	4,365	-1,618	6,528	8,054	12,059	14,442	20,805	21,205	4,306
	- other income [1)]	-14,375	-15,337	-14,302	-17,889	-18,124	-20,030	-22,402	-23,662	-13,767	-6,423
5.	Gross income (3+4)	44,078	73,000	92,124	101,438	110,590	120,944	156,032	154,597	204,806	95,988
6.	General administrative expenses	28,151	42,280	50,293	58,111	65,808	74,408	86,228	94,367	114,339	56,715
	- labour costs	17,736	26,678	31,592	35,077	38,030	43,372	48,717	53,181	66,169	34,597
7.	Net income (5-6)	15,927	30,720	41,831	43,327	44,782	46,536	69,804	60,230	90,467	39,272
8.	Net provisions and write-offs	-11,253	-16,962	-23,489	-22,240	-18,806	-26,401	-37,233	-44,783	-44,450	-13,765
9.	Profit before taxation (7-8)	4,673	13,759	18,342	21,087	25,976	20,134	32,571	15,447	46,017	25,508
10.	Taxation	243	1,487	2,550	5,747	9,915	10,085	12,620	13,521	16,516	
11.	Profit after taxation (9-10)	4,430	12,271	15,792	15,340	16,061	10,049	19,951	1,926	29,501	

1) Other income = other operating profit + extraordinary income - depreciation and amortization - other operating expense - extraordinary expense

APPENDIX 9

COMPOSITION OF THE PROFIT AND LOSS ACCOUNT OF BANKS

as % of average total assets

		1994	1995	1996	1997	1998	1999	2000	2001	2002	Jan - Jun 2003
1.	Interest income	10.6	13.0	11.4	10.7	9.7	8.2	9.9	8.7	8.3	3.7
2.	Interest expense	7.2	7.7	6.2	6.0	5.4	4.4	5.5	5.3	4.8	2.1
3.	Net interest income	3.4	5.4	5.3	4.7	4.3	3.9	4.4	3.4	3.5	1.6
4.	Net other income	0.8	0.7	0.5	0.9	0.9	1.0	1.0	1.1	1.5	0.5
	- net fees and commisions	1.1	1.6	1.5	1.5	1.4	1.4	1.3	1.2	1.3	0.6
	- net financial transactions	1.1	0.4	-0.1	0.4	0.4	0.5	0.5	0.6	0.5	0.1
	- other income	-1.4	-1.3	-0.9	-1.0	-0.9	-0.8	-0.8	-0.7	-0.3	-0.1
5.	Gross income (3+4)	4.2	6.1	5.8	5.5	5.2	4.9	5.4	4.5	4.9	2.1
6.	General administrative expenses	2.7	3.5	3.1	3.2	3.1	3.0	3.0	2.7	2.8	1.2
	- labour costs	1.7	2.2	2.0	1.9	1.8	1.8	1.7	1.5	1.6	0.7
7.	Net income (5-6)	1.5	2.6	2.6	2.4	2.1	1.9	2.4	1.8	2.2	0.8
8.	Net provisions and write-offs	-1.1	-1.4	-1.5	-1.2	-0.9	-1.1	-1.3	-1.3	-1.1	-0.3
9.	Profit before taxation (7-8)	0.4	1.1	1.1	1.2	1.2	0.8	1.1	0.4	1.1	0.6
10.	Taxation	0.0	0.1	0.2	0.3	0.5	0.4	0.4	0.4	0.4	
11.	Profit after taxation (9-10)	0.4	1.0	1.0	0.8	0.8	0.4	0.7	0.1	0.7	

APPENDIX 10

ITEMS FROM THE PROFIT AND LOSS ACCOUNT IN BANKS' INCOME

(%)

		1994	1995	1996	1997	1998	1999	2000	2001	2002	Jan - Jun 2003
	% of gross income										
1.	Net interest income	80.3	88.0	91.6	84.7	81.8	78.7	80.8	75.0	70.0	74.9
2.	Net non-interest income	19.7	12.0	8.4	15.3	18.2	21.3	19.2	25.0	30.0	25.1
	- net fees and commissions	26.5	27.0	25.6	26.5	27.3	27.9	24.3	26.9	26.3	27.3
	- net financial transactions	25.7	6.0	-1.8	6.4	7.3	10.0	9.3	13.5	10.4	4.5
	- other	-32.6	-21.0	-15.5	-17.6	-16.4	-16.6	-14.4	-15.3	-6.7	-6.7
3.	General administrative expenses	63.9	57.9	54.6	57.3	59.5	61.5	55.3	61.0	55.8	59.1
	- labour costs	40.2	36.5	34.3	34.6	34.4	35.9	31.2	34.4	32.3	36.0
4.	Net income[1)]	36.1	42.1	45.4	42.7	40.5	38.5	44.7	39.0	44.2	40.9
5.	Net provisions and write-offs	-25.5	-23.2	-25.5	-21.9	-17.0	-21.8	-23.9	-29.0	-21.7	-14.3
6.	Profit before taxation	10.6	18.8	19.9	20.8	23.5	16.6	20.9	10.0	22.5	26.6
7.	Taxation	0.6	2.0	2.8	5.7	9.0	8.3	8.1	8.7	8.1	
8.	Profit after taxation	10.1	16.8	17.1	15.1	14.5	8.3	12.8	1.2	14.4	
	% of net income										
1.	Net provisions and write-offs	-70.7	-55.2	-56.2	-51.3	-42.0	-56.7	-53.3	-74.4	-49.1	-35.0
2.	Profit before taxation	29.3	44.8	43.8	48.7	58.0	43.3	46.7	25.6	50.9	65.0
3.	Taxation	1.5	4.8	6.1	13.3	22.1	21.7	18.1	22.4	18.3	
4.	Profit after taxation	27.8	39.9	37.8	35.4	35.9	21.6	28.6	3.2	32.6	

1) Net income = Gross income - general administrative expenses

RATIOS IN THE SLOVENIAN BANKING INDUSTRY

(%)

			31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
I.	Capital adequacy	1. Regulatory capital / Risk-adjusted assets	20.5	21.5	19.7	19.0	16.0	14.0	13.5	11.9	11.9	11.6
		2. Core capital / Risk-adjusted assets	17.8	19.5	18.2	17.6	15.6	13.9	12.6	11.3	10.0	9.7
II.	Asset quality	1. Value adjustments / Bad and doubtful claims	46.6	48.6	55.6	55.2	52.1	50.3	45.3	44.6	38.0	37.1
		2. Bad and doubtful claims / Gross assets	11.3	9.8	9.3	9.0	10.4	11.0	12.4	12.8	13.3	13.4
III.	Profitability	1. Net interest margin[1)]	3.8	5.9	5.8	5.1	4.6	4.1	4.7	3.6	3.7	3.4
		2. Return on average assets	0.5	1.2	1.2	1.2	1.2	0.8	1.1	0.5	1.1	1.1
		3. Return on average equity	4.0	9.9	10.3	10.4	11.3	7.8	11.4	4.8	13.3	14.0
		4. Net provisions and write-offs / Net income	70.7	55.2	56.2	51.3	42.0	56.7	53.3	74.4	49.1	35.1
IV.	Liquidity	1. Average liquid assets / Average demand deposits	21.6	21.7	17.9	23.2	26.7	25.9	23.7	27.6	30.0	22.2
		2. Average demand deposits / Average total liabilities (equity excl.)	28.1	29.3	29.4	29.5	27.8	28.8	27.9	26.1	26.2	25.2
V.	Operating expenses	1. Labour costs / Average total assets	1.7	2.2	2.0	1.9	1.8	1.8	1.7	1.6	1.6	1.5
		2. Net non-interest income / Operating costs	40.5	33.4	27.3	37.7	41.1	44.7	43.9	50.7	60.5	51.4

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

NON-PERFORMING ON- AND OFF-BALANCE SHEET ITEMS IN BANKS

Non-performing on- and off-balance sheet items

All banks	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Non-performing assets and off-balance sheet items[1] (SIT millions)	110,860	92,708	112,501	119,678	142,453	152,745	185,772	232,147	256,387	267,961
Non-performing assets and off-balance sheet items / Total assets and off-balance sheet items	10.6%	7.1%	7.7%	7.6%	7.3%	6.5%	6.5%	7.0%	7.0%	6.8%

Bad on- and off-balance sheet items

All banks	31 Dec 1994	31 Dec 1995	31 Dec 1996	31 Dec 1997	31 Dec 1998	31 Dec 1999	31 Dec 2000	31 Dec 2001	31 Dec 2002	30 Jun 2003
Bad assets and off-balance sheet items [2] (SIT millions)	76,117	61,494	69,327	69,255	86,989	92,200	110,264	141,135	142,917	154,440
Bad assets and off-balance sheet items / Total assets and off-balance sheet items	7.3%	4.7%	4.7%	4.4%	4.4%	3.9%	3.8%	4.2%	3.9%	3.9%

1) Non-performing assets and off-balance sheet items are defined as all on- and off-balance sheet items classified in groups C (substandard), D (doubtful) and E (loss).
2) Bad assets and off-balance sheet items are defined as all on- and off-balance sheet items classified in groups D (doubtful) and E (loss).

APPENDIX 13

STRUCTURE OF AGGREGATE (ON- AND OFF-BALANCE SHEET) EXPOSURE OF BANKS PER TYPE OF ACTIVITY

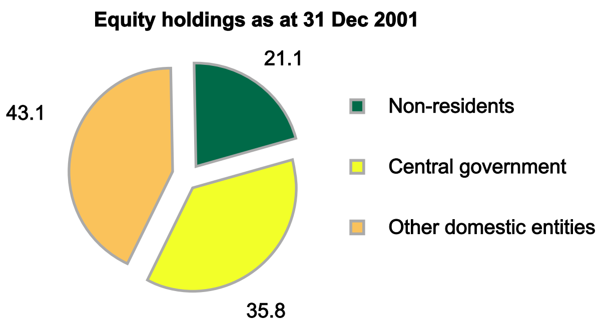
(SIT millions, %)

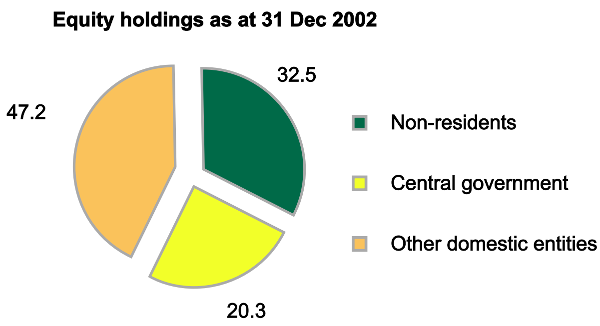
ACTIVITY	31 Dec 1995	Share	31 Dec 1996	Share	31 Dec 1997	Share	31 Dec 1998	Share	31 Dec 1999	Share	31 Dec 2000	Share	31 Dec 2001	Share	31 Dec 2002	Share	30 Jun 2003	Share
A. CORPORATE SECTOR	**1,289,088**	**72.8**	**1,436,658**	**71.3**	**1,753,786**	**75.3**	**2,117,982**	**76.3**	**2,381,241**	**75.1**	**2,849,536**	**74.9**	**3,454,095**	**75.0**	**4,187,148**	**77.3**	**4,526,447**	**77.7**
1. Agriculture, hunting and forestry	12,195	0.7	13,413	0.7	13,614	0.6	15,796	0.6	17,821	0.6	18,916	0.5	17,844	0.4	23,274	0.4	25,013	0.4
2. Fishing	187	0.0	220	0.0	280	0.0	303	0.0	300	0.0	325	0.0	289	0.0	260	0.0	250	0.0
3. Mining and quarrying	956	0.1	4,496	0.2	5,518	0.2	4,831	0.2	6,590	0.2	5,580	0.1	7,339	0.2	8,045	0.1	9,947	0.2
4. Manufactoring	259,851	14.7	278,894	13.8	302,348	13.0	377,898	13.6	426,675	13.5	514,408	13.5	625,879	13.6	695,294	12.8	767,813	13.2
4.1. Manufacture of food products; beverages and tobacco	23,893	1.3	24,341	1.2	31,023	1.3	48,596	1.8	57,656	1.8	71,236	1.9	80,679	1.8	91,939	1.7	107,716	1.8
4.2. Manufacture of textiles and textile products and manufacture of leather products	31,086	1.8	31,859	1.6	34,769	1.5	39,207	1.4	44,360	1.4	52,756	1.4	62,488	1.4	59,863	1.1	64,735	1.1
4.3. Manufacture of wood and wood products and manufacture of paper and paper products	33,378	1.9	35,694	1.8	37,457	1.6	41,553	1.5	47,539	1.5	47,082	1.2	55,421	1.2	65,382	1.2	72,579	1.2
4.4. Manufacture of chemical, chemical products and man made fibres	45,667	2.6	48,004	2.4	52,341	2.2	77,025	2.8	79,666	2.5	105,851	2.8	135,788	2.9	130,160	2.4	134,778	2.3
4.5. Manufacture of basis metals and fabricated metal products and manufacture of machinery and equipment	55,794	3.2	63,317	3.1	69,831	3.0	79,806	2.9	99,738	3.1	134,603	3.5	164,820	3.6	196,688	3.6	222,918	3.8
4.6. Manufacture of electrical and optical equipment	29,169	1.6	31,225	1.5	31,374	1.3	40,357	1.5	44,829	1.4	51,993	1.4	68,826	1.5	85,657	1.6	91,845	1.6
4.7. Manufacture of transport equipment	30,498	1.7	31,612	1.6	31,818	1.4	35,450	1.3	33,604	1.1	28,338	0.7	29,802	0.6	31,498	0.6	31,602	0.5
4.8. Manufacture of furniture, manufacturing not elsewhere classified and recycling	10,366	0.6	12,842	0.6	13,735	0.6	15,906	0.6	19,283	0.6	22,549	0.6	28,054	0.6	34,107	0.6	41,640	0.7
5. Electricity, gas and water supply	57,932	3.3	57,859	2.9	61,325	2.6	109,237	3.9	111,774	3.5	102,475	2.7	101,899	2.2	94,876	1.8	82,282	1.4
6. Construction	31,900	1.8	35,953	1.8	51,297	2.2	75,817	2.7	102,762	3.2	116,376	3.1	146,905	3.2	178,051	3.3	187,902	3.2
7. Wholesale and retail trade; repair of motor vehicles, personal and household goods	135,477	7.6	165,200	8.2	205,612	8.8	266,753	9.6	347,658	11.0	440,837	11.6	489,794	10.6	553,582	10.2	577,125	9.9
8. Hotels and restaurants	11,940	0.7	16,360	0.8	21,481	0.9	27,567	1.0	38,642	1.2	44,214	1.2	57,189	1.2	66,336	1.2	64,870	1.1
9. Transport, storage and communications	55,126	3.1	64,817	3.2	70,177	3.0	108,571	3.9	150,082	4.7	185,743	4.9	240,124	5.2	239,148	4.4	244,033	4.2
10. Public administration and defence; compulsory social security [1]	290,770	16.4	317,261	15.7	351,583	15.1	368,947	13.3	415,733	13.1	474,974	12.5	535,863	11.6	671,977	12.4	703,977	12.1
11. Health and social work	5,690	0.3	5,968	0.3	6,458	0.3	8,087	0.3	8,882	0.3	11,475	0.3	9,366	0.2	10,966	0.2	12,539	0.2
12. Education	535	0.0	884	0.0	1,186	0.1	1,278	0.0	2,468	0.1	2,685	0.1	2,350	0.1	2,921	0.1	2,482	0.0
13. Other community, social and personal service activities	4,913	0.3	7,187	0.4	8,784	0.4	13,238	0.5	19,185	0.6	21,845	0.6	30,043	0.7	35,009	0.6	41,276	0.7
14. Financial intermediation [2]	250,557	14.1	299,621	14.9	480,186	20.6	504,997	18.2	501,882	15.8	641,300	16.9	896,557	19.5	1,269,092	23.4	1,425,182	24.5
15. Real estate, leasing and business activities	87,675	5.0	98,135	4.9	109,081	4.7	146,913	5.3	168,075	5.3	196,775	5.2	231,784	5.0	289,378	5.3	342,127	5.9
16. Other items	83,384	4.7	70,391	3.5	64,857	2.8	87,749	3.2	62,711	2.0	71,609	1.9	60,871	1.3	48,941	0.9	39,629	0.7
B. PRIVATE INDIVIDUALS	**200,425**	**11.3**	**259,148**	**12.9**	**309,334**	**13.3**	**381,693**	**13.8**	**468,858**	**14.8**	**534,059**	**14.0**	**685,796**	**14.9**	**740,086**	**13.7**	**767,583**	**13.2**
C. NON-RESIDENTS	**281,591**	**15.9**	**319,057**	**15.8**	**266,124**	**11.4**	**275,728**	**9.9**	**318,680**	**10.1**	**421,071**	**11.1**	**463,480**	**10.1**	**487,034**	**9.0**	**532,807**	**9.1**
TOTAL (A+B+C)	**1,771,104**	**100.0**	**2,014,864**	**100.0**	**2,329,244**	**100.0**	**2,775,403**	**100.0**	**3,168,778**	**100.0**	**3,804,667**	**100.0**	**4,603,372**	**100.0**	**5,414,269**	**100.0**	**5,826,837**	**100.0**

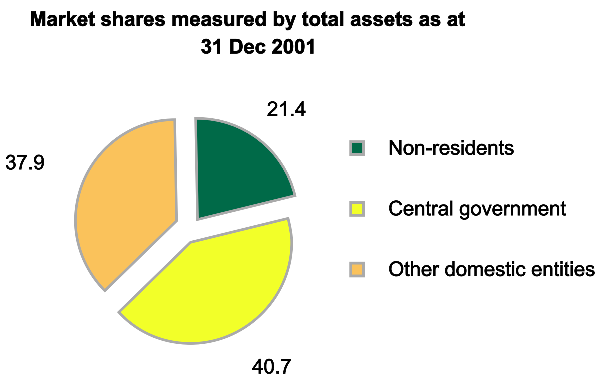
1) Public administration also comprises securities issued by the government.
2) Financial intermediation includes also claims on the Bank of Slovenia.

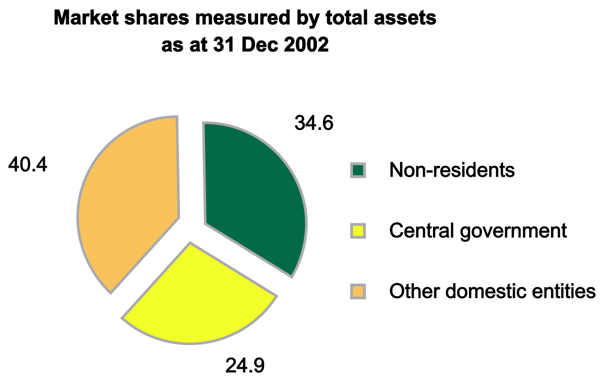
APPENDIX 14

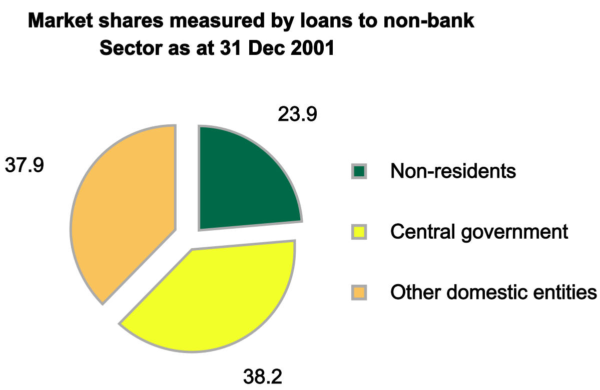
THE OWNERSHIP STRUCTURE OF SLOVENIAN BANKS

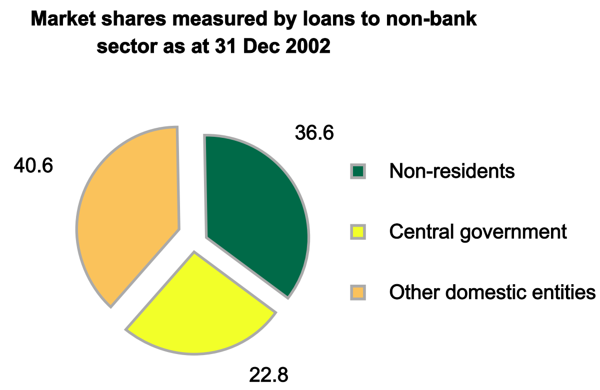


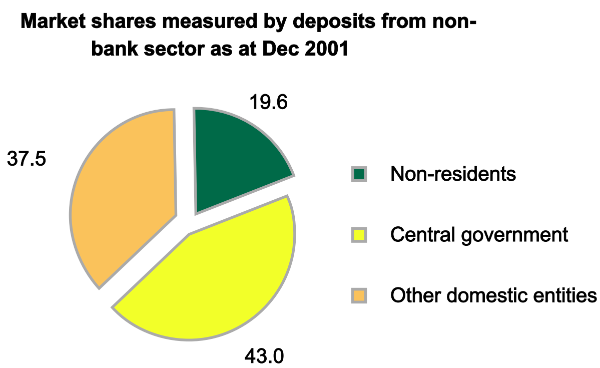


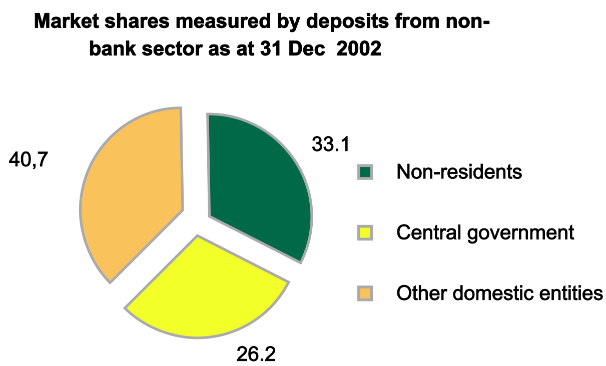












APPENDIX 15

BANKS AND SAVINGS BANKS IN SLOVENIA AS AT 30 JUNE 2003

The banks operating in Slovenia may provide banking services, other financial services listed in the first paragraph of Article 6 of the Banking Act, and ancillary banking services referred to in the second item of the second paragraph of Article 96 of the Banking Act.

The savings banks authorised in Slovenia may carry on banking and other financial services with the exception of managing pension and investment funds. They may conduct transactions in tolars only, save in the case of exchange operations.

The following financial services are regarded as banking services:

- Accepting deposits from individuals and legal entities and granting credits for its own account, and
- Services, which in line with law, may be provided only by banks.

I. Banks

ABANKA VIPA D.D.

1517 LJUBLJANA

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- collection, analysis and provision of information on the credit-worthiness of legal persons
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- services in connection with securities, in accordance with the law governing the securities market
- administering pension funds in accordance with the law governing pension funds
- performance of payment transactions.

BANK AUSTRIA CREDITANSTALT D.D., LJUBLJANA
Wolfova 1
1000 LJUBLJANA

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives

- mediation in sales of insurance policies, in accordance with the law governing the insurance sector
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- services in connection with securities, in accordance with the law governing the securities market
- performance of payment transactions.

BANKA CELJE D.D.
Vodnikova 2
3000 CELJE
Tel.: +386 3 543 10 00

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

BANKA KOPER D.D.

6502 KOPER

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- mediation in sales of insurance policies, in accordance with the law governing the insurance sector
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- services in connection with securities, in accordance with the law governing the securities market
- administering pension funds in accordance with the law governing pension funds
- performance of payment transactions.

FACTOR BANKA D.D.
Tivolska 48
1000 LJUBLJANA

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- collection, analysis and provision of information on the credit-worthiness of legal persons
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- services in connection with securities, in accordance with the law governing the securities market
- administering pension funds in accordance with the law governing pension funds
- performance of payment transactions.

GORENJSKA BANKA, D.D., KRANJ
Bleiweisova cesta 1
4000 KRANJ

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- services in connection with securities, in accordance with the law governing the securities market
- performance of payment transactions.

HYPO ALPE ADRIA BANK D.D.
Trg Osvobodilne fronte 12
1000 LJUBLJANA

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

KOROŠKA BANKA D.D., SLOVENJ GRADEC,
BANČNA SKUPINA NOVE LJUBLJANSKE BANKE
Glavni trg 30
2380 SLOVENJ GRADEC

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

APPENDIX 15

NOVA KREDITNA BANKA MARIBOR D.D.

2505 MARIBOR

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

NOVA LJUBLJANSKA BANKA D.D., LJUBLJANA

1520 LJUBLJANA

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- collection, analysis and provision of information on the credit-worthiness of legal persons
- mediation in sales of insurance policies, in accordance with the law governing the insurance sector
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- mediation in the conclusion of loan and credit transactions
- safe custody services
- services in connection with securities, in accordance with the law governing the securities market
- performance of payment transactions.

POŠTNA BANKA SLOVENIJE D.D.
Vita Kraigherja 5
2000 MARIBOR

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- performance of payment transactions.

PROBANKA D.D.
Gosposka ulica 23
2000 MARIBOR

The bank has been authorised to provide the following other financial services:[2]

- factoring
- financial leasing
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- services in connection with securities, in accordance with the law governing the securities market
- administering pension funds in accordance with the law governing pension funds
- performance of payment transactions.

APPENDIX 15

RAIFFEISEN KREKOVA BANKA D.D.
Slomškov trg 18
2000 MARIBOR

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- services in connection with securities, in accordance with the law governing the securities market
- performance of payment transactions.

SKB BANKA D.D.

1513 LJUBLJANA

The bank has been authorised to provide the following other financial services:

- factoring
- financial leasing
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- collection, analysis and provision of information on the credit-worthiness of legal persons
- mediation in sales of insurance policies, in accordance with the law governing the insurance sector
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- mediation in the conclusion of loan and credit transactions
- services in connection with securities, in accordance with the law governing the securities market
- performance of payment transactions.

SLOVENSKA INVESTICIJSKA BANKA, D.D.,
Čopova 38
1000 LJUBLJANA

The bank has been authorised to provide the following other financial services:

- factoring
- financial leasing
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

SLOVENSKA ZADRUŽNA KMETIJSKA BANKA D.D. LJUBLJANA
Kolodvorska 9
1000 LJUBLJANA

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- collection, analysis and provision of information on the credit-worthiness of legal persons
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- services in connection with securities, in accordance with the law governing the securities market
- performance of payment transactions.

VOLKSBANK - LJUDSKA BANKA D.D.
Dunajska 128 A
1000 LJUBLJANA

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- trading in financial derivatives
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- performance of payment transactions.

BANKA DOMŽALE D.D., DOMŽALE,
BANČNA SKUPINA NOVE LJUBLJANSKE BANKE
Ljubljanska cesta 62
1230 DOMŽALE

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

BANKA ZASAVJE D.D., TRBOVLJE,
BANČNA SKUPINA NOVE LJUBLJANSKE BANKE
Trg revolucije 25c
1420 TRBOVLJE

The bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- performance of payment transactions.

Branch office:

KAERNTNER SPARKASSE AG, CELOVEC,
PODRUŽNICA V SLOVENIJI
Dunajska 63
1000 LJUBLJANA

The branch office has been authorised to provide the following other financial services:

- issuing of guarantees and other commitments
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- collection, analysis and provision of information on the credit-worthiness of legal persons
- mediation in the conclusion of loan and credit transactions
- performance of payment transactions.

II. Savings banks:

DELAVSKA HRANILNICA D.D. LJUBLJANA
Dalmatinova 4
1000 LJUBLJANA

The savings bank has been authorised to provide the following other financial services:

- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- performance of payment transactions.

HRANILNICA LON D.D., KRANJ
Bleiweisova 2
4000 KRANJ

The savings bank has been authorised to provide the following other financial services:

- factoring
- issuing of guarantees and other commitments
- lending, including consumer credits, mortgage credits, and financing of commercial transactions
- trading in foreign means of payment, including foreign exchange transactions
- collection, analysis and provision of information on the credit-worthiness of legal persons
- issuing and administering means of payment (e.g., debit and credit cards, travellers' cheques, bills of exchange)
- safe custody services
- mediation in the conclusion of loan and credit transactions
- performance of payment transactions.

APPENDIX 15A

REPRESENTATIVE OFFICES OF FOREIGN BANKS IN SLOVENIA AS AT 30 JUNE 2003

HEAD OFFICE	REPRESENTATIVE OFFICE
Die Kärntner Sparkasse AG, Klagenfurt Neuer Platz 14 A-9020 Klagenfurt Austria	Kärntner Sparkasse AG, Celovec Predstavništvo Ljubljana Dunajska 156 1000 Ljubljana
LHB Internationale Handelsbank AG Frankfurt am Main Grosse Gallusstrasse 16 D-60311 Frankfurt am Main Germany	LHB Internationale Handelsbank AG, Frankfurt am Main Predstavništvo Ljubljana Slovenska cesta 54 1000 Ljubljana
European Bank for Reconstruction and Development One Exchange Square London EC2A 2JN Great Britain	European Bank for Reconstruction and Development Trg republike 3 1000 Ljubljana
Bank für Kärnten und Steiermark AG St. Veiter Ring 43 A-9020 Klagenfurt Austria	BKS Predstavništvo v Republiki Sloveniji Komenskega ulica 12 1000 Ljubljana
Bank für Arbeit und Wirtschaft AG Seitzergasse 2-4 A-1010 Wien Austria	Bank für Arbeit und Wirtschaft AG Wien - Predstavništvo Trg republike 3 1000 Ljubljana
UniCredito Italiano S.p.A. Via Dante 1 IT-16121 Genova Italy	UniCredito Italiano S.p.A Predstavništvo Koper Zore Perello Godina 3 6000 Koper

APPENDIX 16

CHANGES IN LEGAL STATUS OF SLOVENIAN BANKS AND SAVINGS BANKS TO 30 JUNE 2003

I. BANKS

Name	Type of change	Date of change
MERGERS AND ACQUISITIONS		
Ljubljanska banka Komercialna banka Nova Gorica d.d., Nova Gorica	Taken over by Nova Kreditna banka Maribor d.d.	30 Dec 1994
E banka d.d. Maribor	Taken over by Nova Ljubljanska banka d.d., Ljubljana	12 Jan 1995
Ljubljanska banka Posavska banka d.d., Krško	Taken over by Nova Ljubljanska banka d.d., Ljubljana	01 Apr 1996
Banka Noricum d.d. Ljubljana	Taken over by Banka Celje d.d.	19 Dec 1996
Hmezad banka d.d. Žalec	Taken over by Banka Celje d.d.	30 Sep 1998
Banka Creditanstalt d.d. Ljubljana	Taken over by Bank Austria d.d.	02 Nov 1998
UBK banka d.d. Ljubljana (bančna skupina SKB)	Taken over by SKB banka d.d. Ljubljana	30 Dec 1998
M banka d.d. Ljubljana	Taken over by Banka Koper d.d.	01 Oct 1999
Banka Societe Generale Ljubljana, d.d.	Taken over by SKB banka d.d. Ljubljana	01 Oct 2001
Pomurska banka d.d., Murska Sobota (bančna skupina NLB)	Taken over by Nova Ljubljanska banka d.d., Ljubljana	01 Oct 2001
Banka Velenje d.d. (bančna skupina NLB)	Taken over by Nova Ljubljanska banka d.d., Ljubljana	01 Oct 2001
Dolenjska banka d.d. Novo Mesto	Taken over by Nova Ljubljanska banka d.d., Ljubljana	01 Oct 2001
Banka Vipa d.d., Nova Gorica	Taken over by Abanka d.d. Ljubljana	31 Dec 2002
BANKRUPTCIES AND LIQUIDATIONS		
Komercialna in hipotekarna banka d.d. Ljubljana	Bankruptcy proceedings commenced	29 Dec 1989
Komercialna banka Triglav d.d. Ljubljana	Liquidation proceedings commenced Bankruptcy proceedings commenced	05 Jul 1996 27 Dec 1996
Hipotekarna banka d.d. Brežice	Liquidation proceedings commenced Bankruptcy proceedings commenced	02 Dec 1998 19 Apr 2000

II. SAVINGS BANKS

Name	Type of change	Date of change
MERGERS AND ACQUISITIONS		
HiP Fiba d.d. Koper	Taken over by Abanka d.d. Ljubljana	30 Dec 1994
Hranilnica Magro d.d. Grosuplje	Taken over by Hranilnica Lon d.d., Kranj	21 Aug 1995
Hranilnica Hmezad Agrina d.o.o. Žalec	Taken over by Komercialna banka Triglav d.d. Ljubljana	03 Jul 1996
HIP Val d.o.o. Izola	Taken over by Komercialna banka Triglav d.d. Ljubljana	04 Jul 1996
Hranilnica Hipo d.d. Domžale	Taken over by Ljubljanska banka – Banka Domžale d.d, Domžale	14 Mar 1997
Mariborska hranilnica – posojilnica d.o.o. Maribor	Taken over by Delavska hranilnica d.d., Ljubljana	30 Jun 2000
Hranilnica in posojilnica KGP Kočevska d.d., Kočevje	Taken over by Slovenska zadružna kmetijska banka d.d. Ljubljana	29 Dec 2000
LLT Hranilnica in posojilnica d.d., Murska Sobota	Wound up	26 Nov 2002
BANKRUPTCIES AND LIQUIDATIONS		
Štajerska hranilnica in posojilnica d.d., Maribor	Completion of bankruptcy proceedings	12 Jun 2003
Kranjska hranilnica in posojilnica Ljubljana d.d., Ljubljana	Completion of bankruptcy proceedings	09 Mar 2001
Štajerska hranilnica d.d., Maribor	Bankruptcy proceedings commenced	27 Jul 1993
Alea d.d. hranilnica Ajdovščina	Wound up	29 Mar 1999
Mestna hranilnica d.o.o., Krško	Wound up	20 Nov 1995
Hranilnica in posojilnica Tilia d.o.o. Novo mesto	Wound up	11 Nov 1997
Poteza – Hranilnica d.o.o., Ljubljana	Completion of regular (voluntary) liquidation	10 Dec 2001

LEGISLATION REGARDING REGULATION OF BANKING SUPERVISION

1. **Bank of Slovenia Act**
   (Official Gazette of the Republic of Slovenia, Nos. 58/02 and 85/02 Corrigendum)
2. **Banking Act**
   (Official Gazette of the Republic of Slovenia, Nos. 7/99, 59/01 and 55/03)
3. **Law on Savings and Loan Undertakings**
   (Official Gazette of the Republic of Slovenia, Nos. 14/90, 30/90, 17/91, 55/92, 66/93, 7/99)
4. **Law on Banks and Savings Banks**
   (Official Gazette of the Republic of Slovenia, Nos. 1/91, 38/92, 46/93, 45/94, 7/99) –superseded by the 1999 Banking Act except for Article 79.
5. **Regulation on the Harmonisation of the Amounts of the Minimum Initial Capital of a Bank, Guaranteed Deposits and the Minimum Initial Capital of a Savings Bank**
   (Official Gazette of the Republic of Slovenia, No. 102/00)
6. **Regulation on Capital Adequacy of Banks and Savings Banks**
   (Official Gazette of the Republic of Slovenia, Nos. 24/02, 85/02 and 22/03)
7. **Regulation on Large Exposure of Banks and Savings Banks**
   (Official Gazette of the Republic of Slovenia, Nos. 24/02, 22/03 and 65/03)
8. **Regulation on the Classification of On-Balance Sheet Assets and Off-Balance Sheet Items of Banks and Savings Banks**
   (Official Gazette of the Republic of Slovenia, Nos. 24/02 and 85/02)
9. **Instructions for the Implementation of the Regulation on the Classification of On- Balance Sheet Assets and Off-Balance Sheet Items and the Regulation on Establishing Specific Provisions of Banks and Savings Banks**
   (issued on 3 April 2002)
10. **Instructions for Restructuring Claims of Banks and Savings Banks**
    (issued on 20 May 1999)
11. **Regulation on Establishing Specific Provisions of Banks and Savings Banks**
    (Official Gazette of the Republic of Slovenia, No. 24/02)
12. **Regulation on the Implementation of Article 127 of the Banking Act**
    (Official Gazette of the Republic of Slovenia, Nos. 32/99, 89/99 and 71/01)
13. **Regulation on Books of Account and Annual Reports of Banks and Savings Banks**
    (Official Gazette of the Republic of Slovenia, Nos. 24/02, 52/02 and 105/02)

14a. **Instructions for Implementation of the Regulation on Books of Account and Annual Reports of Banks and Savings Banks –** methodology for the preparation of financial statements
(issued on 3 April 2002, amended on 20 June 2002)

14b. **Instructions for Implementation of the Regulation on Books of Account and Annual Reports of Banks and Savings Banks –** methodology for the calculation of ratios
(issued on 20 June 2002)

15. **Instructions for Submitting Monthly Reports on Balances on Banks' Accounts**
    (issued on 3 April 2002)
16. **Regulation on the Minimum Scope and Content of Audit and Auditor's Report**
    (Official Gazette of the Republic of Slovenia, No. 24/02)
17. **Regulation on the Detailed Method for the Calculation of Liabilities, Claims and Holdings for the Purpose of Determining Net Indebtedness**
    (Official Gazette of the Republic of Slovenia, Nos. 42/99, 71/01 and 85/02)
18. **Regulation on Determining and Prudential Reporting of Value of Holdings of Banks and Savings Banks in Non-financial Institutions and Investments in Tangible Fixed Assets**
    (Official Gazette of the Republic of Slovenia, Nos. 42/99 and 85/02)

19. **Regulation on Deposit-Guarantee Scheme**
(Official Gazette of the Republic of Slovenia, Nos. 61/00, 35/02 and 65/03)
20. **Instructions for Completing the Report on Guaranteed Deposits**
(issued on 16 April 2002)
21. **Regulation on the Provision of Integral Data on Balances on Customer Accounts of Banks and Savings Banks**
(Official Gazette of the Republic of Slovenia, No. 85/98)
22. **Regulation on the Guarantee Scheme for the Claims of Investors in Investment Firms**
(Official Gazette of the Republic of Slovenia, Nos. 56/01)
23. **Regulation on the Narrowest Liquidity Range which the Bank shall have to Ensure**
(Official Gazette of the Republic of Slovenia, Nos. 82/01, 108/01, 28/02, 5/03, 15/03 and 65/03)
24. **Instructions for Implementation of the Regulation on the Narrowest Liquidity Range which the Bank shall have to Ensure**
(issued on 7 November 2001, amended on 9 January 2002)
25. **Regulation on Daily Planning of Tolar Liquidity and Monitoring of Depositors Concentration**
(Official Gazette of the Republic of Slovenia, No. 82/01)
26. **Instructions for Reporting on Largest Depositors**
(issued on 26 April 2002)
27. **Instructions for Completing the Report on Tolar Liquidity Flows in Banks**
(issued on 19 December 2001)
28. **Instructions for Calculation of Some Common Interest Rates on Deposits from Non-Bank Sector and Loans to Non-Bank Sector**
(issued on 26 April 2002)
29. **Regulation on Reporting of Effective Interest Rates**
(Official Gazette of the Republic of Slovenia, No. 40/03)
30. **Instructions for Implementation of the Regulation on Reporting of Effective Interest Rates**
(Official Gazette of the Republic of Slovenia, No. 45/03)
31. **Regulation on Special Liquidity Loans Granted with Participation of Banks**
(Official Gazette of the Republic of Slovenia, Nos. 98/02 and 40/03)
32. **Regulation on Tolar Maturity Ladder of Savings Banks**
(Official Gazette of the Republic of Slovenia, Nos. 62/01 and 92/01)
33. **Instructions for Drawing Up Returns on Tolar Maturity Ladder of Savings Banks**
(issued on 23 November 2001)
34. **Regulation on the Bringing of the Operation of Savings and Loan Undertakings into Line with the Provisions of the Banking Act**
(Official Gazette of the Republic of Slovenia, Nos. 109/99, 62/01, 71/01 and 92/01)
35. **Regulation on the Supervision of Banks and Savings Banks on a Consolidated Basis**
(Official Gazette of the Republic of Slovenia, No. 109/99)
36. **Regulation on Minimum Requirements for Obtaining Authorisation for the Provision of Banking and Other Financial Services and Documents to Be Attached to Application**
(Official Gazette of the Republic of Slovenia, Nos. 109/99, 52/00 and 78/01)
37. **Regulation on Minimum Scope of Documents to Be Submitted by a Foreign Bank with Application to Establish a Branch**
(Official Gazette of the Republic of Slovenia, Nos. 109/99, 52/00, 78/01)
38. **Regulation on the Detailed Contents of the Documentation to be Submitted with the Application for an Authorisation to Perform the Function of a Member of a Bank's Management Board or Liquidator in a Bank or a Savings Bank**
(Official Gazette of the Republic of Slovenia, No. 78/01)

39. **Regulation on the Notification of the Intended Disposal of Shares**
(Official Gazette of the Republic of Slovenia, No. 109/99)
40. **Regulation on the Conditions to be Met by Credit Intermediary**
(Official Gazette of the Republic of Slovenia, Nos. 110/99 and 11/01)
41. **Regulation on Electronic Money Institutions**
(Official Gazette of the Republic of Slovenia, No. 87/02)
42. **Recommendations for Trading Activities in Banks**
(issued in April 1997)
43. **Recommendations for Capital Management in Banks**
(issued in October 1998)
44. **Recommendations for Credit Risk Management in Banks**
(issued in October 1998)
45. **Recommendations for Liquidity Risk Management in Banks**
(issued in October 1998)
46. **Recommendations for Foreign Exchange Risk Management in Banks**
(issued in October 1998)
47. **Recommendations for Internal Control Systems in Banks**
(issued in October 1998)
48. **Operational Risk Management,** Basel Committee on Banking Supervision
(issued in September 1998)
49. **Enhancing Bank Transparency,** Basel Committee on Banking Supervision
(issued in September 1998)
50. **Best Practices for Credit Risk Disclosure,** Basel Committee on Banking Supervision
(issued in September 2000)
51. **Principles for the Management of Credit Risk,** Basel Committee on Banking Supervision
(issued in September 2000)
52. **Supervisory Guidance for Managing Settlement Risk in Foreign Exchange Transactions,** Basel Committee on Banking Supervision
(issued in September 2000)
53. **Regulation on Annual Supervisory Fee, Lump Sum Supervisory Charges and Authorisation Duties**
(Official Gazette of the Republic of Slovenia, Nos. 23/01 and 71/01)
54. **Code of Practice on the Co-operation between Supervisory Authorities**
(Official Gazette of the Republic of Slovenia, Nos. 55/99 and 87/00)
55. **Instructions for Setting Criteria Regarding Other Financial Services**
(Official Gazette of the Republic of Slovenia, No. 55/99)

APPENDIX 18

INTERNATIONAL RATINGS OF BANKS AND SOVEREIGN RATINGS OF SLOVENIA

Fitch Ratings

Rated banks	Short-term rating	Long-term rating	Individual rating	Support	Outlook
Nova Ljubljanska banka	F2	A-	C	1	Stable
Nova Kreditna banka Maribor	F3	BBB	C/D	2	
SKB				1	
Banka Koper	F3	BBB	C	4	Positive
Banka Celje	F3	BBB	C	3	Positive
Abanka Vipa	F3	BBB-	C/D	4	Positive
Gorenjska banka	F2	A-	B	3	Stable

Country	Long-term rating		Short-term rating in foreign currency
	in foreign currency	in domestic currency	
Slovenia	A+/Stable	AA	F1

Moody's

Rated banks	Bank deposits		Financial strength	Outlook
	short-term	long-term		
Nova Ljubljanska banka	P-1	A2	C	Stable
Nova Kreditna banka Maribor	P-1	A2	C-	Stable
SKB banka	P-1	A1	D+	

Country	Government Bonds		Country Ceiling
	in foreign currency	in domestic currency	
Slovenia	Aa3/Stable	Aa3	P1

Standard & Poor's

Rated banks	Short-term counterparty	Long-term counterparty rating		Outlook
		Foreign currency	Local currency	
Nova Ljubljanska banka	A-2	BBB	BBB	Stable
Nova Kreditna banka Maribor			BBpi	
Gorenjska banka			BBpi	

Country	Outstanding sovereign rating	
	in foreign currency	in domestic currency
Slovenia	A+/Positive/A-1+	AA/stable/A-1+

Capital Intelligence

Rated banks	Short-term rating	Long-term rating	Domestic strength rating	Support	Outlook
Nova Ljubljanska banka	A 2	A-	A-	2	Stable
Nova Kreditna banka Maribor	A 2	BBB	BBB	2	Positive
Banka Koper	A 3	BBB-	BBB-	4	Positive
Banka Celje	A 3	BBB	BBB	3	Stable
Abanka	A 3	BBB-	BBB-	3	Stable
Gorenjska banka	A 3	BBB-	BBB-	4	Stable

Country	Long-term rating	Short-term rating
Slovenia	A-	A2