

**BANKA
SLOVENIJE**
BANK OF SLOVENIA
EUROSYSTEM



**MONTHLY REPORT
ON BANK PERFORMANCE**



AUGUST 2020

COMMENTARY IN BRIEF

The worsening economic situation caused by the Covid-19 epidemic is gradually being reflected in bank performance. Growth in loans to both households and corporates is declining. Household and corporate deposits at banks have risen considerably this year. Non-performing exposures fell throughout the first half of the year. The decline in interest income and non-interest income, and rising net impairment and provisioning costs are leading to a sharp drop in the banks' profitability. Following this year's contraction, the economy is expected to stabilise over the next two years.

The banking system's total assets amounted to EUR 43.2 billion at the end of June, a year-on-year increase of 7.7% relative to the first half of last year. The increase in household deposits continued in June, while the banks' liabilities vis-à-vis the Eurosystem were also up. This year's increase in sight deposits has led to an increase in the most liquid forms of bank claims; the banks' funds on accounts at the central bank were up by EUR 1.6 billion during the first half of the year, with EUR 638 million of that increase occurring in June. The stock of loans to the non-banking sector was down slightly in June, and by EUR 225 million during the first half of this year. Investments in securities were up in June, which was the result of an increase in investments in government securities. The proportion of the banks' investments accounted for by securities is declining, and approached one-fifth of total assets during the first half of the year.

Growth in loans to the non-banking sector has slowed considerably during the economic shock caused by the epidemic, to 1.8% in year-on-year terms in June, a decrease of four percentage points relative to the end of last year. The main factor in June's decline in total loans was a decline in loans to corporates and households. Year-on-year growth in corporate loans slowed to 0.6% during the first half of the year. Also contributing to this year's June decline in growth was a more significant increase in loans last June. Following above average growth in March, corporate loans were down in June for the third consecutive month.

Growth in loans to households has fallen rapidly this year, particularly since the outbreak of the epidemic, to stand at 1.8% in June. Growth in consumer loans in particular has slowed sharply and was negative in May for the first time in four years; it stood at -1.7% in June. Also contributing to the overall decline is negative growth in other forms of lending, particularly overdraft facilities (i.e. negative balances on current accounts). Year-on-year growth in housing loans also slowed slightly during the first half of this year, from 5.8% in December to 4.3% in year-on-year terms. This year's net increase in housing loans was slightly less than half of the increase recorded during the same period last year.

The banks' non-performing exposures (NPEs) fell to below EUR 1 billion at the beginning of 2020, and fell further during the first half of the year. At EUR 40 million, this year's sharpest decline occurred in June, while the NPE ratio fell by 0.1 percentage points to stand at 2.0%. The largest decline in NPEs during the first half of the year occurred in the corporate portfolio, in the amount of EUR 46 million, taking the NPE ratio down 0.4 percentage points to 4.1%. The consequences of the contraction in activity were not yet reflected in NPE ratios in individual economic sectors at the end of the first half of the year, as those ratios were unchanged or down further relative to May in all sectors. After rising over the first five months of 2020, the stock of consumer loans and the associated NPE ratio were down slightly in June. At 2.7% in June, the NPE ratio was down by 0.2 percentage points relative to May and up by the same amount relative to the end of 2019. Both the stock of housing loans and the associated NPE ratio were down relative to the end of 2019 and May 2020. At 1.7% in June, the NPE ratio was down by 0.2 percentage points relative to December 2019 and May 2020.

Deposits by the non-banking sector have risen sharply this year, with year-on-year growth rising to 9.9% by the end of June. Household and corporate deposits contributed EUR 1.25 billion and EUR 560 million respectively to the overall increase in deposits during the first half of this year. The high growth in household deposits, of 10.2% in June, as well as high growth in recent months, particularly since April, was driven by several factors: lower household consumption, cash payments by the government to mitigate the effects of the epidemic, and the payment of annual leave allowance. Growth in corporate deposits has been rising since March and reached 13.6% in year-on-year terms in June. Corporate deposits at banks amounted to EUR 7.3 billion, with sight deposits accounting for three-quarters of that amount. Sight deposits in particular are increasing and accounted for 76.5% of all deposits by the non-banking sector at the end of the first half of the year.

The banks' profitability is falling rapidly this year, which is due to considerably less favourable trends than last year, on both the revenue and expense sides of the income statement. The banks generated a pre-tax profit of EUR 132 million over the first half of the year, a decrease of two-thirds relative to the first half of last year. Net interest income has fallen by 3.6% this year as the result of a decline in interest income from securities, and the stagnation of interest income from loans, while the banks' interest expenses have risen by 4.6%. The net interest margin is continuing to decline, and stood at 1.71% in June for the preceding twelve months. Non-interest income has fallen by more than one-quarter relative to last year. The deteriorating economic situation has resulted in an increase in impairment and provisioning costs, which amounted to EUR 98 million during the first half of the year, representing 16.5% of the profit generated by the banks. The number of banks that have disclosed net impairment and provisioning costs has risen this year. All banks except one recorded the aforementioned costs, while only seven banks and savings banks recorded those costs during the first half of last year. The banks' operating costs have risen to a similar extent as total assets this year. Return-on-equity (ROE) has fallen sharply this year. The ROE of the entire banking system amounted to 5.4% during the first half of this year, compared with 17.5% during the first half of last year and 12.2% overall in 2019.

The banking system's total capital ratio fell to 18.0% on a consolidated basis in the first quarter of 2020, while the common equity Tier 1 capital ratio declined to 16.3%. The current decline in the aforementioned capital ratios is primarily the result of a one-off effect, while the final position will be seen in the coming months. The proportion of total assets accounted for by the most liquid forms of investments rose in June to 17%, while the proportion of total assets accounted for by secondary liquidity has been 18% since February. The liquidity coverage ratio (LCR) fell to 309% in June, but is still three times higher than the regulatory requirement.

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1. MAIN FEATURES OF BANKS' PERFORMANCE AND FINANCIAL STATEMENTS¹

Table 1.1: Banking system's assets and liabilities, as at 30 June 2020

EUR million unless stated, growth rates in %	Stock	Breakdown	Stock	Breakdown	Stock	Breakdown	Increase		Growth in June 20, %	
	31.12.2008	(%)	31.12.2019	(%)	30.06.2020	(%)	in June 20	in 2020	monthly	year-on-year
Assets	47,948	100.0	41,213	100.0	43,238	100.0	359.4	2,025.2	0.8	7.7
Cash in hand, balances at central bank and sight deposits at banks*	1,250	2.6	5,783	14.0	7,424	17.2	638.1	1,640.4	9.4	54.3
Loans to banks at amortised cost (including central bank)	4,101	8.6	1,592	3.9	1,633	3.8	-184.4	41.4	-10.1	-4.6
domestic banks	2,673	5.6	758	1.8	662	1.5	-54.7	-96.2	-7.6	-17.8
foreign banks	1,428	3.0	834	2.0	971	2.2	-129.7	137.6	-11.8	7.2
short-term loans to banks	2,056	4.3	563	1.4	519	1.2	-172.3	-43.8	-24.9	-22.5
long-term loans to banks	2,046	4.3	1,029	2.5	1,114	2.6	-12.1	85.2	-1.1	7.0
Loans to non-banking sector*	33,718	70.3	23,520	57.1	23,464	54.3	-225.2	-55.5	-1.0	1.8
of which non-financial corporations	20,260	42.3	8,877	21.5	8,954	20.7	-131.4	76.9	-1.4	0.6
households	7,558	15.8	10,703	26.0	10,541	24.4	-56.8	-162.2	-0.5	1.8
government	506	1.1	1,634	4.0	1,584	3.7	-23.9	-50.5	-1.5	-6.6
other financial institutions	2,829	5.9	1,239	3.0	1,238	2.9	-0.9	-1.1	-0.1	15.3
non-residents	2,515	5.2	1,036	2.5	1,118	2.6	-12.0	82.0	-1.1	12.6
Other financial assets classed as loans and receivables (at amortised cost)	0	0.0	148	0.4	158	0.4	-31.8	10.2	-16.7	-26.6
Securities / financial assets**	7,323	15.3	8,838	21.4	8,776	20.3	160.3	-61.8	1.9	-2.8
a) Financial assets held for trading	1,177	2.5	63	0.2	67	0.2	-8.8	4.0	-11.6	-62.3
of which debt securities held for trading	571	1.2	8	0.0	3	0.0	-7.3	-4.8	-72.6	-97.4
... government debt securities held for trading	56	0.1	8	0.0	3	0.0	-7.3	-4.8	-72.6	-97.2
b) Financial assets measured at fair value through P&L not held for trading	0	0.0	52	0.1	67	0.2	9.2	15.4	15.9	5.4
of which debt securities measured at fair value through P&L not held for trading	0	0.0	0	0.0	0	0.0	0.0	0.0	0.0	0.0
c) Financial assets designated for measurement at fair value through P&L	179	0.4	6	0.0	6	0.0	0.0	0.0	0.4	0.5
of which debt securities designated for measurement at fair value through P&L	163	0.3	6	0.0	6	0.0	0.0	0.0	0.4	0.5
... government debt securities designated for measurement at fair value through P&L	0	0.0	0	0.0	0	0.0	0.0	0.0	0.0	0.0
d) Financial assets measured at fair value through other comprehensive income	4,552	9.5	5,012	12.2	4,986	11.5	115.9	-25.6	2.4	-1.5
of which debt securities measured at fair value through other comprehensive income	4,318	9.0	4,807	11.7	4,782	11.1	114.6	-25.6	2.5	-1.4
... government debt securities measured at fair value through other comprehensive income	2,875	6.0	3,385	8.2	3,374	7.8	128.3	-10.7	4.0	1.6
e) Debt securities at amortised cost	1,415	3.0	3,706	9.0	3,650	8.4	44.0	-55.6	1.2	-2.0
of which government debt securities at amortised cost	1,182	2.5	2,862	6.9	2,834	6.6	25.1	-27.9	0.9	-4.0
Investments in subsidiaries, joint ventures and associates	627	1.3	509	1.2	956	2.2	0.0	447.3	0.0	85.2
Other assets	928	1.9	823	2.0	826	1.9	2.4	3.3	0.3	1.3
Equity and liabilities	47,948	100.0	41,213	100.0	43,238	100.0	359.4	2,025.2	0.8	7.7
Financial liabilities measured at amortised cost (deposits)	41,895	87.4	35,803	86.9	37,769	87.4	359.2	1,966.0	1.0	8.4
a) Financial liabilities to central bank (Eurosystem)	1,229	2.6	983	2.4	1,357	3.1	194.5	374.1	16.7	30.4
b) Liabilities to banks	18,168	37.9	2,821	6.8	2,617	6.1	-126.6	-203.9	-4.6	-18.1
of which to domestic banks	2,065	4.3	856	2.1	813	1.9	-47.9	-43.2	-5.6	-8.4
of which to foreign banks	16,098	33.6	1,965	4.8	1,804	4.2	-78.7	-160.8	-4.2	-21.9
c) Liabilities to non-banking sector (deposits by NBS)	20,883	43.6	31,069	75.4	32,662	75.5	354.3	1,593.0	1.1	9.9
of which to non-financial corporations	3,728	7.8	6,758	16.4	7,317	16.9	-22.0	559.8	-0.3	13.6
households	13,407	28.0	20,365	49.4	21,610	50.0	488.5	1,245.7	2.3	10.2
government	1,879	3.9	1,037	2.5	893	2.1	-110.4	-143.3	-11.0	-16.8
other financial institutions	1,065	2.2	1,243	3.0	1,242	2.9	3.7	-1.2	0.3	-8.4
non-residents	475	1.0	1,228	3.0	1,152	2.7	-11.5	-75.9	-1.0	35.3
d) Debt securities	1,276	2.7	600	1.5	725	1.7	1.1	124.9	0.2	84.4
e) Other financial liabilities measured at amortised cost***	1,568	3.3	329	0.8	407	0.9	-64.0	77.9	-13.6	-19.0
Provisions	176	0.4	187	0.5	188	0.4	5.2	0.2	2.9	-0.9
Shareholder equity	4,010	8.4	4,963	12.0	5,013	11.6	-6.9	49.9	-0.1	3.9
Other liabilities	1,867	3.9	260	0.6	269	0.6	1.8	9.0	0.7	-9.0
BALANCE SHEET TOTAL	47,948	100.0	41,213	100.0	43,238	100.0	359.4	2,025.2	0.8	7.7

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

** Financial assets / securities on the asset side comprise total financial assets from AII, including loans held for trading, while equities and debt securities other than loans are captured from other categories of financial asset (AIII, AIV and AV).

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

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

Source: Bank of Slovenia

Table 1.2: Income statement for 2018, 2019 and 2020

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

Source: Bank of Slovenia

Table 1.3: Selected performance indicators

in %	2014	2015	2016	2017	2018	2019	2019	2020	Jun-19	Jun-20
	2014	2015	2016	2017	2018	2019	Jan.-Jun.	Jan.-Jun.	(last 12 mon.)	(last 12 mon.)
Profitability										
Financial intermediation margin*	3.10	3.05	3.05	2.88	3.01	3.13	3.63	2.86	3.24	2.77
ROA	-0.27	0.42	0.99	1.19	1.39	1.48	2.06	0.63	1.56	0.78
ROE	-2.69	3.63	7.96	9.58	11.07	12.16	17.49	5.39	12.65	6.52
Interest margin on interest-bearing assets	2.18	2.06	1.91	1.83	1.84	1.79	1.82	1.65	1.84	1.71
Net non-interest income / operating costs	58.05	60.05	68.53	62.67	71.93	80.84	108.77	74.01	85.33	64.61
Operating costs										
Labour costs / average assets	0.92	0.97	1.01	1.02	1.02	1.00	0.99	0.92	1.01	0.96
Other costs / average assets	0.81	0.84	0.80	0.78	0.73	0.77	0.73	0.81	0.74	0.81
Asset quality										
Impairments of financial assets at amortised cost / gross assets	8.98	7.84	5.38	4.09	2.64	1.53	1.95	1.63	/	/

* Gross income / average assets

Source: Bank of Slovenia

2. QUALITY OF THE BANKING SYSTEM'S CREDIT PORTFOLIO

Table 2.1:¹ Non-performing exposures by client segment

	Exposures						Non-performing exposures (NPEs)					
	amount, EUR million			breakdown n, %			amount, EUR million			ratio, %		
	Dec.19	May.20	Jun.20	Dec.19	May.2	Jun.20	Dec.19	May.20	Jun.20	Dec.19	May.20	Jun.20
NFCs	14,272	14,438	14,476	31.3	30.8	30.4	636	606	590	4.5	4.2	4.1
OFIs	1,372	1,393	1,411	3.0	3.0	3.0	11	11	11	0.8	0.8	0.8
Households	11,794	11,810	11,814	25.9	25.2	24.8	247	258	237	2.1	2.2	2.0
sole traders	691	687	686	1.5	1.5	1.4	28	27	27	4.0	4.0	3.9
individuals	11,104	11,124	11,129	24.4	23.7	23.4	219	230	211	2.0	2.1	1.9
Non-residents	7,587	7,634	7,497	16.6	16.3	15.8	99	93	90	1.3	1.2	1.2
Government	5,176	5,435	6,018	11.4	11.6	12.6	12	12	12	0.2	0.2	0.2
Banks and savings banks	897	890	839	2.0	1.9	1.8	0	0	0	0.0	0.0	0.0
Central bank	4,440	5,295	5,533	9.7	11.3	11.6	0	0	0	0.0	0.0	0.0
Total	45,592	46,896	47,591	100.0	100.0	100.0	1,006	980	940	2.2	2.1	2.0

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

	Classified claims						Claims more than 90 days in arrears					
	amount, EUR million			breakdown n, %			amount, EUR million			ratio, %		
	Dec.19	May.20	Jun.20	Dec.19	May.20	Jun.20	Dec.19	May.20	Jun.20	Dec.19	May.20	Jun.20
NFCs	14,041	14,214	14,258	34.6	33.8	33.5	201	205	237	1.4	1.4	1.7
OFIs	1,369	1,392	1,411	3.4	3.3	3.3	5	5	4	0.3	0.3	0.3
Households	11,794	11,810	11,814	29.1	28.1	27.7	214	224	203	1.8	1.9	1.7
sole traders	691	687	686	1.7	1.6	1.6	20	20	19	2.9	2.9	2.8
individuals	11,103	11,123	11,128	27.4	26.5	26.1	194	204	184	1.8	1.8	1.7
Non-residents	4,846	5,120	4,906	11.9	12.2	11.5	41	48	56	0.8	0.9	1.1
Government	3,175	3,359	3,382	7.8	8.0	7.9	6	6	6	0.2	0.2	0.2
Banks and savings banks	916	850	799	2.3	2.0	1.9	0	0	0	0.0	0.0	0.0
Central bank	4,440	5,295	6,053	10.9	12.6	14.2	0	0	0	0.0	0.0	0.0
Total	40,581	42,041	42,624	100.0	100.0	100.0	466	487	506	1.1	1.2	1.2

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

	Exposures			Non-performing exposures (NPEs)			NPE ratio		
	(EUR million)			(EUR million)			(%)		
	Dec.19	May.20	Jun.20	Dec.19	May.20	Jun.20	Dec.19	May.20	Jun.20
Agriculture, forestry, fishing, mining	132	136	137	3	3	3	2.0	2.0	1.9
Manufacturing	4,040	4,042	4,071	114	94	92	2.8	2.3	2.3
Electricity, gas, water, remediation	1,296	1,427	1,433	8	8	8	0.6	0.6	0.5
Construction	1,159	1,175	1,195	84	80	75	7.3	6.8	6.3
Wholesale and retail trade	2,557	2,590	2,583	229	223	216	9.0	8.6	8.4
Transportation and storage	1,750	1,696	1,667	20	21	22	1.2	1.3	1.3
Accommodation and food service	466	499	522	40	43	43	8.6	8.5	8.2
Information and communication	656	644	635	6	5	5	0.9	0.8	0.8
Financial and insurance activities	61	64	63	0	0	0	0.7	0.0	0.0
Real estate activities	592	613	607	46	49	49	7.8	8.0	8.0
Professional, scientific and technical	1,307	1,309	1,319	65	61	58	5.0	4.6	4.4
Public services	258	243	243	20	19	19	7.8	7.8	7.8
Total	14,272	14,438	14,476	636	606	590	4.5	4.2	4.1

Source: Bank of Slovenia

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

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

	Classified claims			Classified claims more than 90 days in arrears			Proportion of classified claims more than 90 days in arrears		
	(EUR million)			(EUR million)			(%)		
	Dec.19	May.20	Jun.20	Dec.19	May.20	Jun.20	Dec.19	May.20	Jun.20
Agriculture, forestry, fishing, mining	132	136	137	1	1	1	0.6	0.7	0.7
Manufacturing	4,029	4,034	4,064	42	39	69	1.0	1.0	1.7
Electricity, gas, water, remediation	1,289	1,420	1,426	4	4	3	0.3	0.3	0.2
Construction	1,157	1,174	1,193	58	50	45	5.0	4.3	3.8
Wholesale and retail trade	2,435	2,469	2,467	36	36	41	1.5	1.4	1.7
Transportation and storage	1,719	1,665	1,636	5	6	8	0.3	0.4	0.5
Accommodation and food service	455	488	518	18	21	21	4.0	4.3	4.0
Information and communication	634	623	614	1	1	1	0.1	0.1	0.2
Financial and insurance activities	61	64	63	0	0	0	0.0	0.0	0.0
Real estate activities	588	609	604	5	9	8	0.9	1.4	1.4
Professional, scientific and technical	1,284	1,289	1,293	31	39	38	2.4	3.0	3.0
Public services	258	243	242	1	1	1	0.3	0.4	0.4
Total	14,041	14,214	14,258	201	205	237	1.4	1.4	1.7

Source: Bank of Slovenia