Banks at a turning point: the recovery is strengthening

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- In Slovenia total assets (TA) have decreased every year since 2010, with 2015 the only exception (+8% yoy). They fell by 0.39% yoy in 2016. The TA/GDP ratio decreased from the peak reached in 2009 (148%) to 101% in 2016 (a drop of almost 50pp), remaining, however, one of the highest in the Emerging Europe.
- Total loans accounted for around 50% of TA as of February 2017, followed by foreign claims to banks and clients (19%) and by securities (15%), particularly debt securities. They decreased from EUR 6B to EUR 5B from 2015 to 2016.
- Loans to the private sector continued to decline in 2016 but at a slower pace (-5.2% yoy in 2015, -2.7% yoy in 2016, but -2% yoy in January 2017). The outstanding amount has continued to decline largely due to restructuring and cleaning up of balance sheet operations. The decline was due also to the default of Factor banka and Probanka at the beginning of the year, accounting for 1.5pp. Nevertheless, loans showed a slight increase as of February (+0.8% yoy), after many years of negative changes.
- Loans to corporates and SMEs continue to be strongly depressed in Slovenia (-8% in 2016 but improving to -2.8 yoy as of February 2017) by many factors, including regulatory change, deleveraging and the desire of banks to de-risk. Household loans, which account for around 50% of total loans to the private sector, have gradually increased in the last few years. They grew by 3.4% yoy in 2016, and by 4.8% yoy as of February 2017.
- The NPL ratio declined strongly in 2016, from 10.8% in 2015 to 5.3% in February 2017, supported by further asset transfers to the Bank Assets Management Company (BAMC) and improving economic trends (GDP +2.7% in 3Q16). As of March 2016, NPL transfers to BAMC amounted to EUR 5,475m. The largest factor in the reduction in the stock and proportion of classified claims was the wind-downs of Factor banka and Probanka, which were absorbed into the BAMC in February 2016. Banks have regularly increased their coverage of NPLs since the outbreak of the financial crisis, by impairments and provisions, to more than 66%.
- Retail loan growth intensified in 2016 (+3.4% from +1.1% in 2015), driven by mortgages. Mortgages are expected to accelerate moderately in 2017-18 due to improvement in the real estate market. Property prices continued to rise in 2016.
- The composition of total liabilities has changed significantly over the last few years, as it has in many other countries in the area. The financial support from abroad has been gradually substituted by internal sources, deposits from the non-financial sector in particular. While funding from the domestic private sector accounted for less than 50% of total liabilities in 2010, in 2016 its share increased to almost 70% of total liabilities. Retail deposits grew by 6.9% yoy as of February 2017 (from +6% in 2016, improving from +3.4% in 2015). They should continue to grow at 6-7% in 2016-18, supported by rising household income and employment, although low interest rates could encourage a shift to alternative investments. In Slovenia, bank accounts are widely used, with more than 97% of adults having accounts.
- Banks show adequate capital adequacy ratios. System-wide, Slovenian banks' total CAR increased slightly to 19.15% of risk-weighted assets as of December 2016 (from 18.77% in 2015). Profitability improved strongly in 2016 as measured by a return on assets of 1.1% (from 0.47% in 2015) and return on equity close to 9% in 2016 (this increased to 8.8% in 2016, from 4.16% in 2015). The privatisation of the two remaining large state banks is important to ensure higher efficiency. The privatisation of NLB is expected to be completed this year and at the same time the privatisation of Abanka is also expected to start.

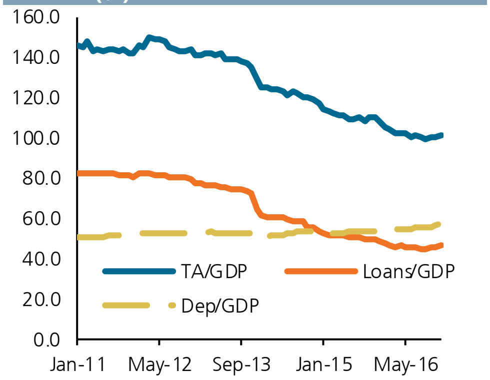
See the final page for important information

Banking activities at a turning point

In the last few years, banking assets have followed a decreasing path in Slovenia. Total assets have decreased every year since 2010, with 2015 the only exception (+8% yoy). They fell by 0.39% yoy in 2016.

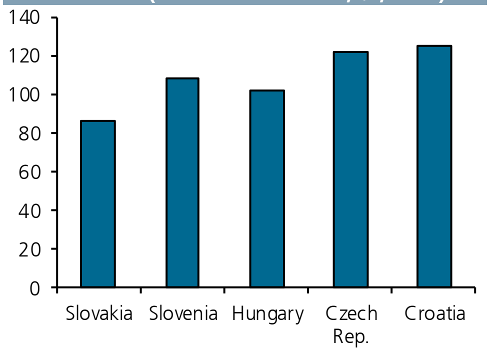
The TA/GDP ratio decreased from the peak reached in 2009 (148%) to 101% in 2016 (almost 50pp), remaining, however, one of the highest in emerging Europe.

TA/GDP (%)



Source: Intesa Sanpaolo processing based on CB figures

TA/GDP ratio (CEE main countries, %, 2015)



Source: Intesa Sanpaolo processing based on CB figures

Total loans to the private sector, which account for around 50% of TA in the last few years, decreased from 57% in 2010 to 45.8% in 2016, following the same path. The loans/GDP ratio strongly declined from 83% to 46% in the same period (around 40pp), more intensively than in other countries of emerging Europe (Hungary -25pp, Croatia -12pp, Romania -11pp).

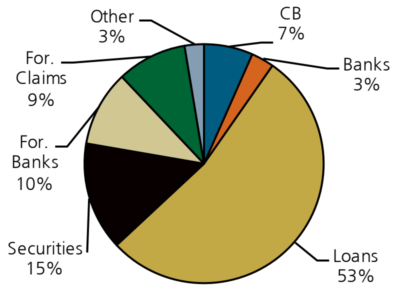
In contrast, the deposits/GDP ratio gradually increased from 52% in 2010 to 57% in 2016, supported by households' resilient confidence. At the same time, the deposits from the private sector/TA ratio increased from 35% to 57%, the highest increase among CEE/SEE countries (+18pp in Romania, +11pp in Serbia, +10pp in Croatia, supported by prudential reasons).

As far as the economy is concerned, after the negative GDP performance of 2012 and 2013 (-2.7% and -1.1%, respectively), in recent years the economy has followed a positive trend. In 2017, GDP growth is expected to be a bit stronger (+2.7%), supported by the EU recovery and domestic demand, although unemployment remains high (around 8%, but improving)[1].

Supported by sustained efforts to restore financial stability by central authorities, Slovenian banks are expected to continue to benefit from the economic recovery and the stronger domestic confidence.

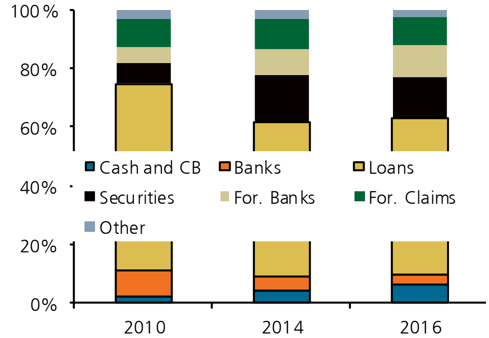
[1] IMF, Slovenia: Staff Concluding Statement of the 2017 Article IV Mission, March 28, 2017.

Total assets (composition, %, February 2017)



Source: Intesa Sanpaolo processing based on CB figures

Assets: main items (%)



Source: Intesa Sanpaolo processing based on CB figures

Total loans represented around 50% of TA as of February 2017, followed by foreign claims to banks and clients (19%) and by securities (15%), particularly debt securities. They decreased strongly from EUR 6B to EUR 5B from 2015 to 2016.

Bank lending is still declining because of both demand and supply factors

Loans to the (non-financial) private sector accounted for half of the total lending portfolio (52% as of February 2017). Loans to other banks and to the government are playing a significant role, with a share equal to around 20% for each of them.

Loans to the private sector continued to decline in 2016 but at a slower pace (-5.2% yoy in 2015, -2.7% yoy in 2016, but -2% yoy in January). The outstanding amount has continued to decline, largely due to restructuring and cleaning up of balance sheet operations. The decline was due also to the default of Factor banka and Probanka at the beginning of 2016, accounting for 1.5pp. Nevertheless, loans showed a slight increase as of February (+0.8% yoy), after many years of negative changes.

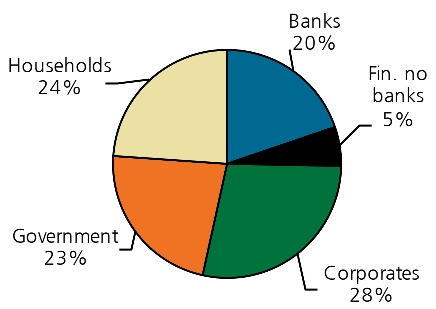
As highlighted by the central bank[2], bank lending activity declined as a result of factors on both the supply side and the demand side. The supply-side factors included the maintenance of credit standards at high levels, the commitments that the banks that received state aid made to the European Commission, whose withdrawal would have a positive impact on lending, and regulatory changes at the global level, which are placing a temporary burden on banks.

The limiting factors on the demand side are also significant, in particular the changing structure of the economy and the increasing use of internal resources and non-bank resources in corporate financing[3]. The decline in demand for corporate loans seen over the last several years is continuing. Given the surplus of saving over investment at firms, according to the CB, the deleveraging of the economy is likely to continue.

[2] See Bank of Slovenia, Financial Stability Review, December 2016. Furthermore, in the wake of further changes in the structure of the economy and the rising importance of other resources in corporate financing the possibility of a significant increase in lending is diminishing.

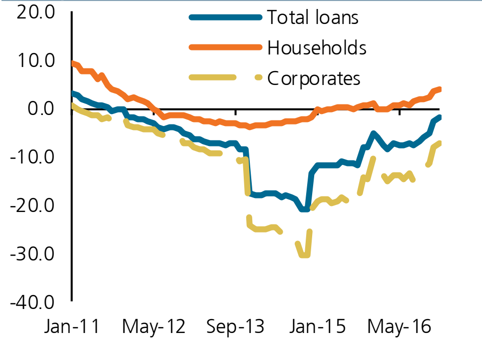
[3] As far as the stock exchange is concerned, the market capitalisation of the Ljubljana Stock Exchange remains modest at EUR 5B (around 12.6% of GDP in 2016). The number of listed companies was 38 as of December 2016, declining from 46 at the end of 2015.

Total loans (by sector, February 2017)



Source: Intesa Sanpaolo processing based on CB figures

Lending (by institutional sector, yoy, %, changes)

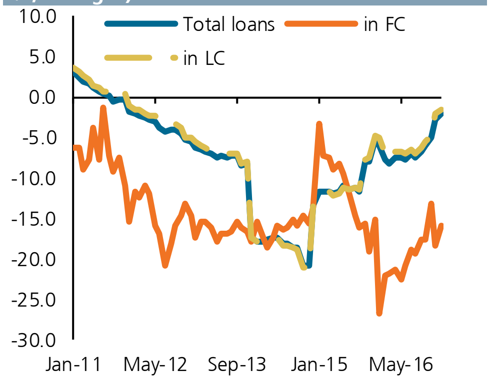


Source: Intesa Sanpaolo processing based on CB figures

However, real GDP growth, along with low interest rates, is supporting the lending recovery. After an increase of 2.5% in 2016, real GDP is expected to strengthen to +2.7% in the current year. Banking interest rates in Slovenia are very low and still gradually declining.

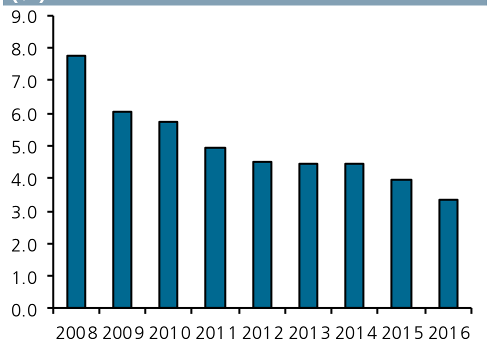
Loans denominated in foreign currency showed a negative trend in the last few years (-18% in 2016 and -17% yoy as of February 2017), but their share of total loans to the private sector has always been very modest (decreasing from 8% in 2008 to 3% in 2016).

Loans to the private sector (by currency, yoy, %, changes)



Source: Intesa Sanpaolo processing based on CB figures

Loans in FC/total loans to the private sector (%)



Source: Intesa Sanpaolo processing based on CB figures

Corporate loans continue to be fragile

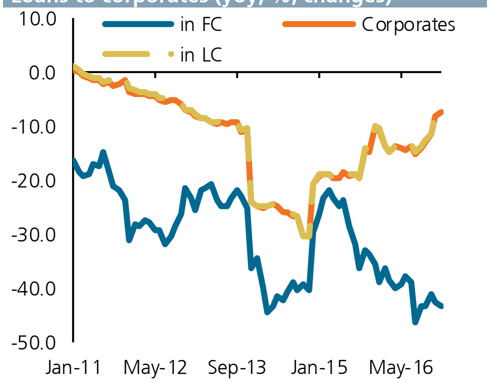
Loans to corporates and SMEs continue to be strongly depressed in Slovenia (-8% in 2016 and -2.8% yoy as of February 2017) by many factors, including regulatory change, deleveraging and the desire of banks to de-risk.

Until 2008, corporate loans increased intensely (+18.3% in 2008), but in the years afterwards they slowed down and decreased dramatically (from +1% in 2009 to -24% in 2013, followed by -21% in 2014 and -10% the following year)[4].

[4] Based on survey data covering 6,547 firms in 10 Central and Eastern European countries, the OeNB examined the impact of the banking sector environment, as well as the institutional and regulatory environment, on credit-constrained firms. It found that small and foreign-owned firms are less likely to demand credit compared with audited and innovative firms. On the other hand, small, medium, publicly listed, sole proprietorship and foreign-owned firms had a higher probability of being credit constrained in 2008–2009 than in 2012–2014. The banking sector's environment analysis reveals that firms operating in more concentrated banking markets were less likely to be credit constrained. However, higher capital requirements, increased levels of loan loss

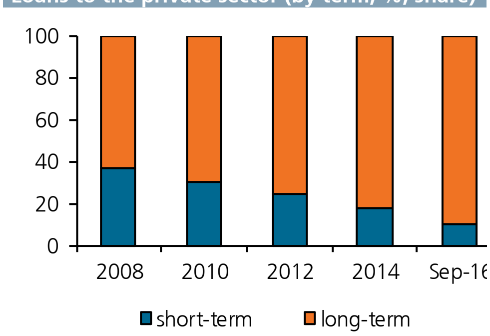
The effect on the total portfolio has been relevant considering corporate loans covered around 50% of total loans to the private sector as of February 2017, gradually decreasing from the peak of 80% reached in October 2008.

Loans to corporates (yoy, %, changes)



Source: Intesa Sanpaolo processing based on CB figures

Loans to the private sector (by term, %, share)



Source: Intesa Sanpaolo processing based on CB figures

As far as the maturity is concerned, the average maturity of corporate loans is lengthening as mainly long-term loans have been approved. In the wake of the sustained contraction in short-term loans, and given that firms have relatively large holdings of sight assets at banks, there has been a sharp increase in the proportion of corporate loans that are long-term loans, with the percentage standing at 86% in September 2016[5].

Thanks to investment spending recovery, as highlighted by the CB, corporate loans are expected to stabilise in 2017 and rise in 2018. Corporate borrowing will be encouraged by low interest rates.

Loans in foreign currency have continued to decrease strongly in the corporate sector in the last few years (-45% yoy as of February 2017), while their share of total loans to corporate decreased to just 0.4%.

Households loans are mainly mortgages

Household loans, which account for around 50% of total loans to the private sector, have gradually increased in the last few years. They grew by 3.4% yoy in 2016, increasing slightly by 1.1% yoy in 2015, and by 4.8% yoy as of February.

Loans to the household sector have been supported by an improving labour market (growing employment, rising wages) and low interest rates. Slovenian unemployment remains significant but improving (over 10% as of December 2016).

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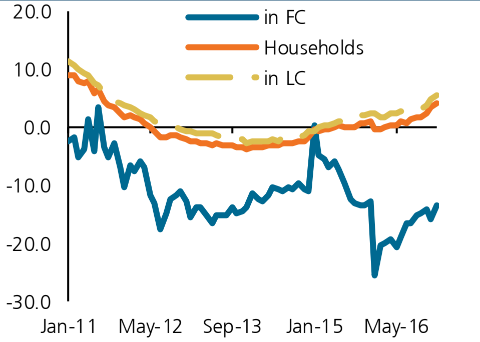
reserves and a higher presence of foreign banks had a negative impact on the availability of bank credit. The evaluation of the institutional and regulatory environment in which firms operate shows that credit information sharing was negatively correlated with access to credit. Furthermore, it shows that banking sector contestability can mitigate this negative effect. Finally, it found that in a better credit information sharing environment, foreign banks were more likely to provide credit. See Apostolos Thomadakis, *Determinants of Credit Constrained Firms: Evidence from Central and Eastern Europe Region*, OeNB Working Paper 207, 2016.

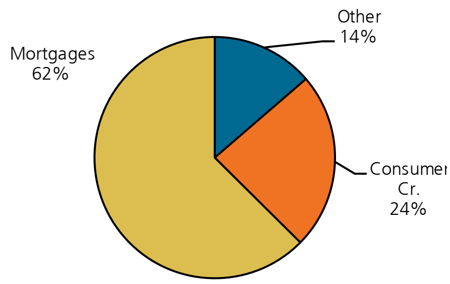
[5] See Bank of Slovenia, Financial Stability Review, December 2016.

Loans to households (yoy, %, changes)



Source: Intesa Sanpaolo processing based on CB figures

Loans to households (by purpose, February 2017)



Source: Intesa Sanpaolo processing based on CB figures

Several factors have played a role in the recovery of household lending, among them low interest rates and improving consumer confidence.

In the household sector, the share of foreign currency loans increased to 19% of total loans during the crisis (mainly CHF-denominated loans) but from 2009 this has constantly declined, standing at 6.3% in 2016 (falling further to 6.1% of total loans to the household sector as of February 2017)[6].

Household loans denominated in foreign currency decreased by 16% in 2016 and by 15% yoy as of February, showing negative changes since August 2009.

Asset quality improves steadily, but a significant portion of NPLs in the public banks' portfolio has yet to be managed

The NPL ratio declined strongly in 2016, falling from 10.8% in 2015 to 5.3% in February 2017, supported by further asset transfers to the BAMC and improving economic trends (GDP +2.7% in 3Q16).

As of March 2016[7], NPL transfers to BAMC amounted to EUR 5,475m. The largest factor in the reduction in the stock and proportion of classified claims was the wind-downs of Factor banka and Probanka, which were absorbed into the BAMC in February 2016.

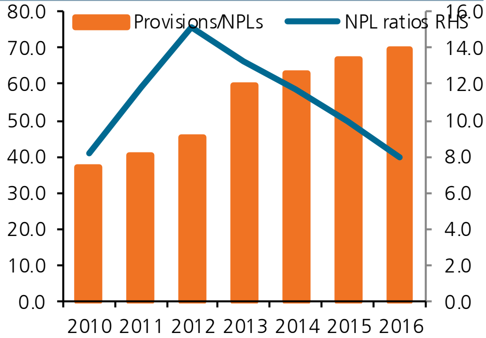
As highlighted by the IMF[8], the BAMC has distinct advantages in NPL restructuring, including the capacity to overcome collective action problems, access to a wide range of debt restructuring instruments (including debt-equity swaps) and broad latitude over restructuring of the corporates it takes over. Accordingly, the BAMC should continue to vigorously restructure and sell the claims in its portfolio. The BAMC's credibility depends on its independence.

[6] As far as foreign currency loans are concerned, a new paper from the OeNB Euro Survey looks at whether households are aware of government efforts to help borrowers. It shows that awareness of current government measures is positively and significantly correlated with expectations of future government action for debt relief. We find that expectations of debt relief have no effect on loan demand in general but positively and significantly increase demand for foreign currency loans. See Elisabeth Beckmann, *How does foreign currency debt relief affect households' loan demand? Evidence from the OeNB Euro Survey in CESEE,* in Oesterreichische Nationalbank, Focus on European Economic Integration Q1/17.

[7] See Bank of Slovenia, *Financial Stability Review*, June 2016.

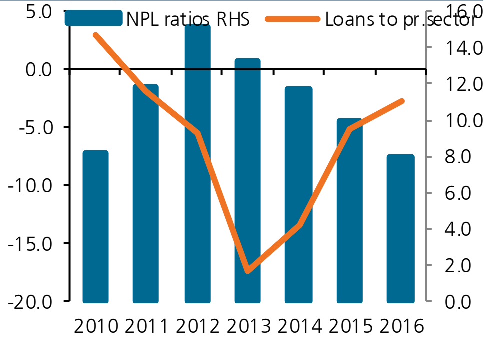
[8] See IMF, Slovenia: Staff Concluding Statement of the 2017 Article IV Mission, March 28, 2017.

NPL ratios and provisions/NPLs (%)



Source: Intesa Sanpaolo elaborations on CB data

NPL ratios (%) and loans to the private sector (% yoy chg)

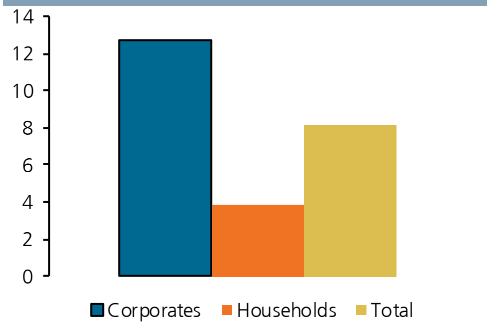


Source: Intesa Sanpaolo elaborations on CB data

Banks have increased regularly their coverage of NPLs since the outbreak of the financial crisis, by impairments and provisions, to more than 66%.

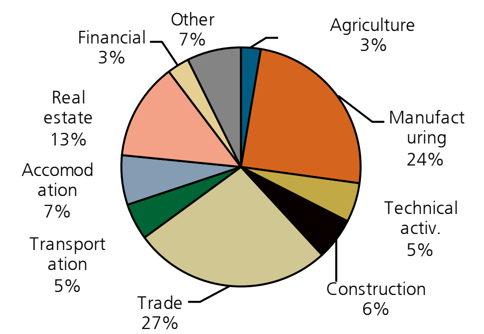
Portfolio quality is improving in the more indebted segments, in particular in non-financial corporations, which still account for the majority of NPLs. Claims against non-financial corporations more than 90 days in arrears amounted to EUR 1.6m in March or 12.7% of total loans. Households are the least problematic sector in the credit portfolio: NPLs accounted for 3.8% of classified claims in this sector in March 2016.

NPL ratios (by institutional sector, %)



Source: Intesa Sanpaolo elaborations on CB data

NPLs in corporates (by economic sector, March 2016)



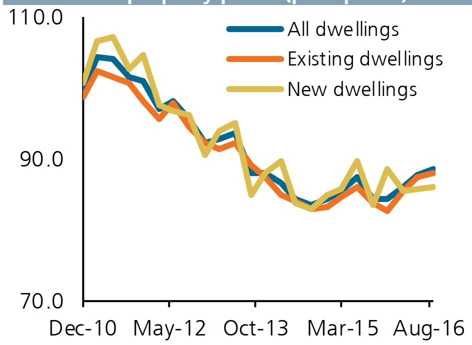
Source: Intesa Sanpaolo elaborations on CB data

NPLs at the three biggest banks amounted to EUR 2,987M as of June 2016 and NPL ratios were in a range from 16% to 38%[9]. NPLs remain an open question — to reduce the NPL ratio to 6% (a more manageable level) in the three public banks' portfolios, the amount of NPLs outstanding would have to be cut to EUR 744M. Therefore, the excess amount of NPLs (EUR 2,243M, equal to 18% of gross loans as of June 2016) would be equal to 12% of actual total loans in the banking system. This means that NPLs are still relevant and further transfers are necessary. The resolution of NPLs is expected to be achieved via further write-offs, forbearance and further transfers[10].

[9] See Moody's, *Moody's upgrades three Slovenian banks' ratings*, October 2016.

[10] Furthermore, according to the European Banking Authority's broader definition (which also includes some restructured loans), the system-wide non-performing exposures ratio was significantly higher than the ratio stated (11.5% vs 5.8% of total loans as of December 2016).

Residential property prices (pure prices)



Note: Index, 2010=100 (units). Sources: National sources, BIS Residential Property Price database http://www.bis.org/statistics/pp.htm.

NPLs (%)

	Gross loans 6/2016	NPLs ratio	NPLs EUR bn 6/2016	NPLs= 6% Eur bn	Actual NPLs - NPLs 6%
			A	B	A-B
NLB	7909	22.1	1749	*472*	*1277*
NBMaribor	2366	37.9	896	*143*	*753*
Abanka**	2155	15.9	342	*128*	*214*
3 banks	12430	24.0	2987	*744*	*2243*
Excess of NPLs/gross loans (%)					*18%*
Banking system	18200*	6.5*			*12%*

Note: *as of November, **as of Dec 2015. Source: Intesa Sanpaolo elaborations on Moody's and CB data

A growing economy can strongly support the NPL recovery. Loans declined in 2016 by 2.7% but the pace of the contraction has eased and a return to positive growth is expected in 2017-18 (+0.8% yoy as of February 2017 already). Corporate loans (-8% yoy in 2016 and -2.8 as of February) have been the main driver of the decline, due to ongoing deleveraging, write-offs and NPL sales. However, thanks to investment spending recovery as highlighted by the CB, corporate loans are expected to stabilise in 2017 and rise in 2018, contributing to further diminish the NPL ratio.

As highlighted by the IMF[11], strong implementation of the authorities' strategy to restructure SME NPLs remains a priority. With the NPL ratio rapidly declining since late 2013, Slovenia has managed to address a significant legacy problem of the crisis that still plagues other European countries. However, as elsewhere, SME NPLs – 13.4% of total SME loans as of end-2016 – are proving stubborn. While adequately provisioned, unresolved NPLs continue to impair financial intermediation to indebted, but otherwise healthy enterprises.

Retail loan growth intensified in 2016 (+3.4%), driven by mortgages. Mortgages are expected to accelerate moderately in 2017-18 due to improvement in the real estate market. Property prices continued to grow in 2016. The BIS index (equal to 100 in 2010) increased from 84.25 (December 2015) to 88.47 as of September 2016. The real estate market is continuing to undergo a stable recovery, which began in 2015, without any signs of overheating according to the CB[12]. Indicators of the sustainability of housing lending at banks are stable, and do not suggest any increased risk to the banking system.

In order to avoid credit risks in the real estate market, the CB introduced two macroprudential instruments in the form of recommendations for housing loans in September 2016: a maximum limit on LTV and debt service to income (DSTI). The two instruments would become binding in the event of increased risks as a result of a failure to observe the recommendations, while an increase in risks despite the observation of the recommendations would be followed by a tightening of the instruments' parameters. The average LTV for housing loans remained around 60% in 2016.

[11] See IMF, Slovenia: Staff Concluding Statement of the 2017 Article IV Mission, March 28, 2017. The IMF welcomed the implementation of the guidelines for SME resolution prepared by the Bank of Slovenia, the World Bank and the Bank Association. The process includes evaluating bank NPL resolution strategies, including annual NPL reduction targets for 2017–19, and assisting banks to develop a toolkit for the restructuring.

[12] See Bank of Slovenia, *Financial Stability Review*, December 2016.

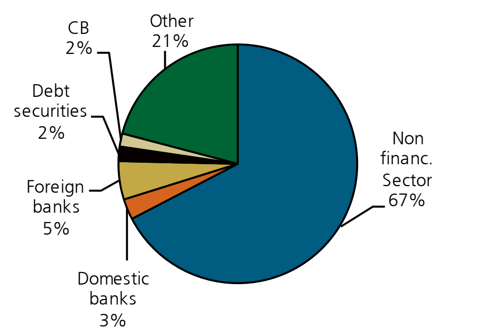
The supply of loans with a still low and fixed interest rate and continued improvement in the labour market are encouraging household borrowing. Household loans have already exceeded corporate loans on bank balance sheets in terms of net value (both around EUR 9B). After declining for several years, consumer loans also recorded positive growth in 2016, the rate having already matched growth in housing loans.

From foreign to domestic funding

The composition of total liabilities has changed strongly in the last few years, as is the case in many other CEE/SEE countries. The financial support from abroad has been gradually substituted by internal sources, deposits from the non-financial sector in particular. While funding from the domestic private sector accounted for less than 50% of total liabilities in 2010, in 2016 its share of total liabilities increased to almost 70%.

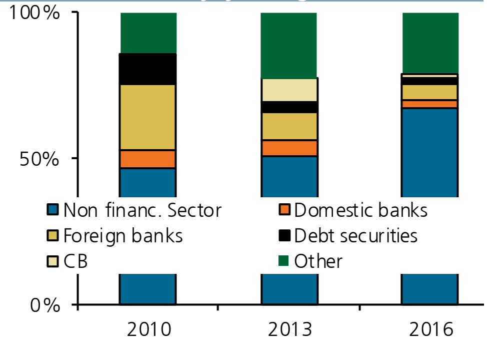
Most of deposits came from households (more than 75% of total deposits from the private sector as of December 2016), supporting a stable funding.

Total liabilities (%, September 2016)



Source: Intesa Sanpaolo elaborations on CB data

Main liabilities (%, yoy, changes)



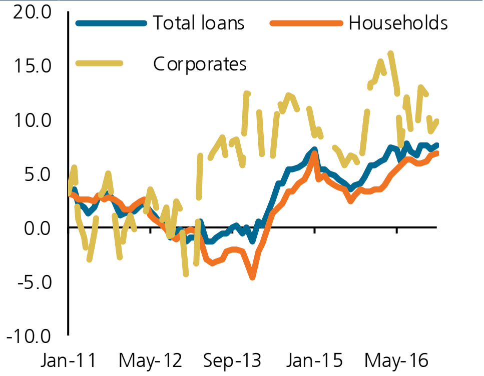
Source: Intesa Sanpaolo elaborations on CB data

Retail deposits grew by 6.9% yoy as of February 2017 (from 6% in 2016, improving from 3.4% in 2015). They should continue to grow at 6-7% in 2017-18, supported by rising household income and employment, although low interest rates could encourage a shift to alternative investments.

Corporate deposits growth has been rapid (13.45% y/y in 2015 and +8.9% yoy in 2016, confirmed in February), but they are expected to slow in the next few years because of an expected recovery in investments.

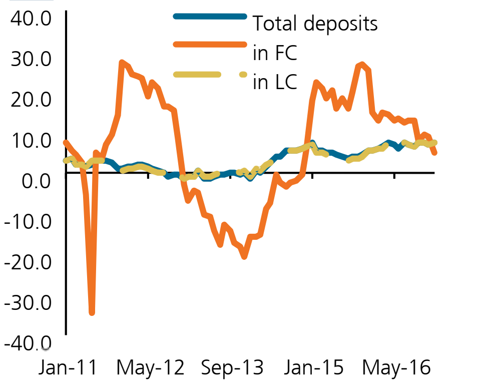
Deposits denominated in foreign currency have followed a very volatile trend in the last few years, from +25% yoy in 2015 to +8.8% in 2016 and to only +0.7% yoy as of February 2017. Therefore, their share of total deposits to the private sector has remained very modest (2.4% in February). Almost all deposits denominated in foreign currency (75% as of February 2017) come from the household sector.

Deposits (by institutional sector, yoy, %, changes)



Source: Intesa Sanpaolo elaborations on CB data

Deposits (by currency, yoy, %, changes)



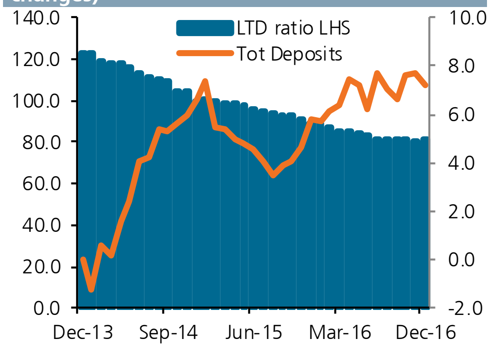
Source: Intesa Sanpaolo elaborations on CB data

Deposits are expected by the Intesa Sanpaolo Research Department to increase at lower percentages than lending in the coming years (around 4%-5%), because of stronger competition from alternative products such as investment funds. Therefore, the loan-to-deposit ratio is expected to increase slightly from the current 80%, one of the lowest among CEE/SEE countries, although remaining at a comfortable level.

With such a substantial deposit funding base, reliance on market funding is limited. Market funding sources (debt securities and interbank loans) accounted for only about 10% of total liabilities as of year-end 2016.

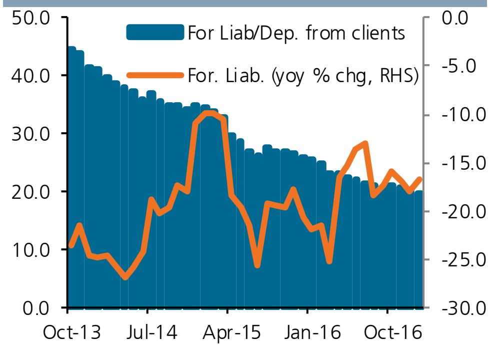
Furthermore, following the restructuring of the country's three largest banks, most of the European Central Bank funding that was accessed following the 2013 crisis has been repaid.

LTD ratio and total deposits (% and yoy % changes)



Source: Intesa Sanpaolo elaborations on CB data

Foreign liabilities (%, and % chg)



Source: Intesa Sanpaolo elaborations on CB data

Bank accounts consistently taken up

As far as savings and the payment system are concerned, it is very important to analyse the diffusion of bank accounts[13] and their utilisation to understand the level of financial inclusion[14] and potential opportunities for growth.

In Slovenia, bank accounts are widely used by adults (by more than 97% adults), more than in the countries defined by the World Bank as high income (HI), with 94% of adults, and in many other CEE/SEE countries with ISP subsidiaries. In Croatia, among HI, and Serbia and Hungary, among upper-middle income (UMI) countries, this diffusion is very high as well.

Bank accounts (%, 2015, Czech Republic and countries with ISP subsidiaries)

	High income countries						Upper middle income countries						
	SLA	SLE	HR	CzRep	RU	High Income	HU	AL	BH	RO	SRB	Upper Middle Income	Europe & Centr. Asia
All adults (% age 15+)	77.2	97.2	86.0	82.2	67.4	94.0	72.3	38.0	52.7	60.8	83.1	70.5	51.4
Women (% age 15+)	80.0	97.0	87.7	79.4	70.2	93.8	72.5	33.6	47.1	56.9	83.0	67.3	47.4
Young adults (% ages 15-24)	37.6	91.5	57.8	64.9	54.4	84.1	50.7	30.0	34.4	55.0	77.8	58.1	35.6
Used an account to receive wages*	43.4	46.1	43.2	45.4	37.9	44.3	35.9	10.8	18.6	24.2	31.5	18.1	22.5
Used an account to receive government transfers *	22.6	16.8	11.4	19.4	14.1	17.2	11.1	3.5	2.1	5.2	5.9	9.6	7.3
Used an account to pay utility bill*	41.2	48.4	9.8	53.8	12.2	61.1	31.9	2.6	3.0	6.9	6.2	12.3	12.5
Has debit card	70.5	91.3	71.1	64.0	44.3	79.7	59.9	21.8	34.4	45.8	57.8	45.9	36.9
Used a debit card to make payments	63.5	65.8	50.4	52.2	35.0	65.3	47.1	4.0	18.7	24.4	38	19.9	22.9
Used a credit card to make payments	13.6	29.9	32.8	20.0	16.6	46.7	8.9	4.0	6.2	9.8	12.0	14.4	14.9
Used the internet to pay bills or make purchases	36.7	35.9	19.9	45.7	17.5	54.1	22.2	3.3	3.3	11.5	9.7	15.3	11.9
Sent remittances	9.9	NA	13.0	14.3	12.9	NA	9.4	19.5	8.0	11.1	13.2	15.4	12.9
via a fin. institution **	NA	NA	63.8	40.2	48.5	NA	NA	16.5	NA	32.3	24.2	37.2	31.5
via a mobile phone **	NA	NA	2.6	4.2	8.0	NA	NA	1.1	NA	0.0	8.5	8.8	2.5
via a money transfer operator**	NA	NA	4.7	3.0	28.0	NA	NA	10.9	NA	27.0	19.8	19.7	11.8
Received remittances	13.6	NA	15.8	15.9	12.0	NA	12.0	27.1	8.6	13.8	12.0	17.8	15.5
via a fin. institution **	22.5	NA	54.6	25.6	36.2	NA	17.1	13.9	NA	35.9	17.2	29.8	22.1
via a mobile phone **	0.0	NA	4.7	1.2	6.9	NA	0.0	1.4	NA	0.0	2.3	5.6	1.0
via a money transfer operator**	6.8	NA	2.8	1.9	19.1	NA	11.9	12.1	NA	42.2	21.2	17.9	15.6
Mobile account (% age 15+)	NA	NA	NA	NA	NA	NA	NA	NA	NA	0.5	NA	0.7	0.3

Note: (*) the use refers to the previous year; (**) % of the total sent. SLA=Slovakia, SLE=Slovenia, HR=Croatia, CzRep=Czech Republic, RU=Russia, HU=Hungary, AL=Albania, BH=Bosnia and Herzegovina, RO=Romania, SRB=Serbia. NA= not available. The distribution of income used by the World Bank is as follows (referring to 2013): Low income countries: gross national income (GNI) per capita USD 1,045 or less in 2013; Middle income countries: GNI more than USD 1,045 but less than USD 12,746; Lower-middle income and upper-middle income countries are separated by a GNI per capita of USD 4,125; High-income countries: GNI per capita of USD 12,746 or more. Source: World Bank 2015

In general, the use of debit cards to make payments is higher than the use of credit cards (which show further room for growth). Furthermore, the internet is used only modestly to pay bills, with the only exception being Hungary.

In greater detail, among HI countries, in Slovenia, as far as debit cards are concerned, the World Bank data highlights a very wide take-up (91% of adults had a debit card in 2014 vs 79.7% of adults in HI countries). The usage rate is high in the country as well as in HI countries (65.8% vs 65.3%). In contrast, with reference to credit cards, data shows a lower use of credit cards to make payments in 2015 in Slovenia than in other HI countries (30% of adult vs 47%, respectively), showing growth opportunities.

[13] See World Bank, *The little data book on financial inclusion*, April 2015.

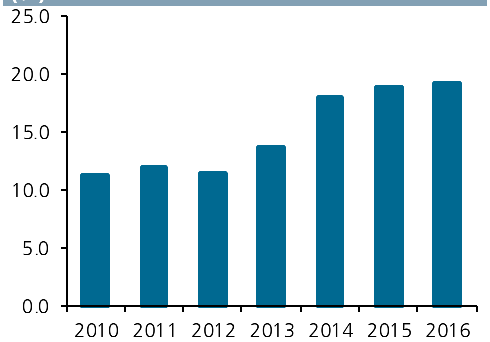
[14] Interest in financial inclusion - which refers to the possibility of accessing financial services, first of all by holding a bank current account with adequate fees and charges - is spreading rapidly around the world due to its effects on the degree of economic and social development.

Moreover, it is particularly worth noting the high level of internet among households: Slovenia shows a significant diffusion (36% vs 54% in the HI countries), in line with Slovakia but lower than in the Czech Republic.

Capitalisation is improving

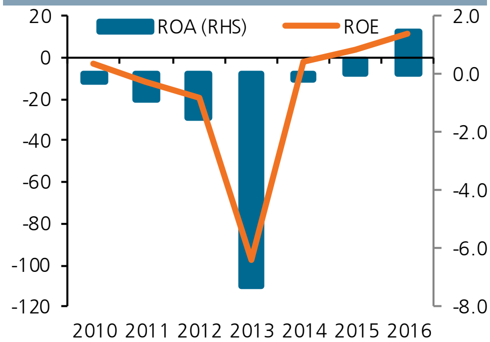
Slovenian banks show adequate capital adequacy ratios. System-wide, Slovenian banks' total CAR increased slightly to 19.15% of risk-weighted assets as of December 2016 (from 18.77% in 2015). As highlighted by the IMF[15], financial stability and Slovenia's external position have improved considerably, and banks' capital position is strong now. The increase has been realised particularly in the biggest public banks by the government support. Bank recapitalisations and the two recessions since 2008 nearly quadrupled public debt by 2015.

Bank regulatory capital to risk-weighted assets (%)



Source: Intesa Sanpaolo elaborations on CB data

Profitability (%)



Source: Intesa Sanpaolo elaborations on CB data

Banks have increased their profitability in recent years as well. Nevertheless, the net interest margin has been under pressure because of low interest rates — close to zero in deposits — and modest demand for loans. Furthermore, banks are facing increasing competition from the non-bank financial sector. Household money has increasingly been pushed into alternative forms of savings.

Profitability improved strongly in 2016, as measured by a return on assets of 1.1% (from 0.47% in 2015) and return on equity of close to 9% in 2016 (increasing to 8.8% in 2016 from 4.16% in 2015).

Over the coming years, the decline in risk provisioning is expected to support profits, but, as in all other countries in the area, a stronger search for further fees and commissions is required. At the same time, further bank consolidation is necessary, it has been strongly suggested by the international authorities and the rating agencies.

The privatisation of the two remaining large state banks is important to ensure higher efficiency. The privatisation of NLB is expected to be completed this year[16] and at the same time the privatisation of Abanka is also expected to start.

[15] IMF, Slovenia: Staff Concluding Statement of the 2017 Article IV Mission, March 28, 2017.

[16] The IMF expressed concerns about the plan to privatise the NLB with the restriction that no private investor can have higher ownership than the state's 25%. Dropping the restriction would allow strategic investors to take a controlling stake and further improve the bank's performance.

The banking system – main indicators

Assets	2008	2009	2010	2011	2012	2013	2014	2015	2016
TA (m loc.curr.)	49,010	53,404	53,016	52,423	50,787	46,315	43,575	41,615	40,178
TA (% yoy chg)	12.68	8.97	-0.73	-1.12	-3.12	-8.81	-5.92	8.18	-0.39
TA/GDP (%)	129.14	147.66	146.24	142.08	141.06	128.95	116.72	107.89	101.03
Total loans*/GDP (%)	74.90	80.81	83.06	80.08	77.52	64.18	53.45	49.06	46.30
Total deposits*/GDP (%)	45.83	50.06	51.85	51.60	52.23	52.37	53.72	54.99	57.18
Loans to the private sector									
Total loans (m loc. curr.)	28,426	29,225	30,110	29,545	27,910	23,052	19,954	18,924	18,413
Total loans (% yoy chg)	17.31	2.81	3.03	-1.88	-5.53	-17.41	-13.44	-5.16	-2.70
Total loans/total assets (%)	58.00	54.72	56.79	56.36	54.96	49.77	45.79	45.47	45.83
NPLs/total loans (%)	3.30	5.40	7.40	11.20	14.40	13.40	11.90	9.90	
Provisions/NPLs (%)									
Tot. loans in FC (m loc. curr.)	2,214	1,760	1,732	1,465	1,249	1,026	885	750	613
Tot. loans in FC (% yoy chg)	22.59	-20.51	-1.59	-15.42	-14.74	-17.85	-13.74	-15.25	-18.27
Tot. loans in FC/total loans to priv. sector (%)	7.79	6.02	5.75	4.96	4.48	4.45	4.44	3.96	3.33
Tot. loans to corporates (m loc. curr.)	20,599	20,812	20,828	20,092	18,644	14,135	11,192	10,068	9,259
Tot. loans to corporates (% yoy chg)	18.30	1.03	0.08	-3.53	-7.21	-24.18	-20.82	-10.04	-8.04
Tot. loans to corp./total loans to priv. sec. (%)	72.47	71.21	69.17	68.00	66.80	61.32	56.09	53.20	50.29
Tot. loans to corporates in FC (% yoy chg)	-0.65	-36.47	-11.52	-30.93	-23.23	-36.40	-29.66	-35.29	-42.42
Tot. loans to corp. in FC/total loans to corp. (%)	3.71	2.34	2.06	1.48	1.22	1.03	0.91	0.66	0.41
Tot. loans to households (m loc. curr.)	7,827	8,413	9,282	9,453	9,266	8,917	8,762	8,856	9,154
Tot. loans to households (% yoy chg)	14.80	7.49	10.33	1.84	-1.98	-3.77	-1.74	1.07	3.36
Tot. loans to househ./total loans to priv. sec. (%)	27.53	28.79	30.83	32.00	33.20	38.68	43.91	46.80	49.71
Tot. loans to households in FC (% yoy chg)	39.86	-12.08	2.20	-10.29	-12.59	-13.71	-11.12	-12.64	-15.94
Tot. loans to househ.in FC/total loans to househ.(%)	18.51	15.14	14.03	12.36	11.02	9.88	8.94	7.72	6.28
Deposits from the private sector and liquidity									
Tot. deposits (m loc. curr.)	17,392	18,105	18,798	19,040	18,803	18,808	20,056	21,211	22,739
Tot. deposits (% yoy chg)	7.35	4.10	3.83	1.29	-1.24	0.03	6.64	5.76	7.20
Tot. deposits/GDP (%)	45.83	50.06	51.85	51.60	52.23	52.37	53.72	54.99	57.18
Tot. deposits/total assets (%)	35.49	33.90	35.46	36.32	37.02	40.61	46.03	50.97	56.60
Tot. deposits in FC (m loc. curr.)	422	374	397	506	491	389	410	514	559
Tot. deposits in FC (% yoy chg)	-8.06	-11.37	6.15	27.46	-2.96	-20.77	5.40	25.37	8.75
Tot. dep. from priv.sec.in FC/tot dep. from priv. sec.(%)	2.43	2.07	2.11	2.66	2.61	2.07	2.04	2.42	2.46
Tot. corporate deposits (m loc. curr.)	3,701	3,793	3,958	3,943	3,753	4,221	4,700	5,332	5,804
Tot. corporate deposits (% yoy chg)	1.15	2.49	4.35	-0.38	-4.82	12.47	11.35	13.45	8.85
Tot. corp. dep./tot. deposits from priv. sec.(%)	21.28	20.95	21.06	20.71	19.96	22.44	23.43	25.14	25.52
Tot. corporate deposits in FC (% yoy chg)	-19.75	-6.15	-18.03	104.00	6.86	-25.69	7.41	52.87	9.02
Tot. corp. deposits in FC/tot. corp. dep. (%)	1.76	1.61	1.26	2.59	2.90	1.92	1.85	2.49	2.50
Tot. household deposits (m loc. curr.)	13,691	14,312	14,840	15,097	15,050	14,587	15,356	15,879	16,935
Tot. household deposits (% yoy chg)	9.16	4.54	3.69	1.73	-0.31	-3.08	5.27	3.41	6.65
Tot. househ. dep./tot. dep. from priv. sec.(%)	78.72	79.05	78.94	79.29	80.04	77.56	76.57	74.86	74.48
Tot. household deposits in FC (% yoy chg)	-5.56	-12.32	10.86	16.43	-5.45	-19.37	4.87	17.96	8.66
Tot. househ. dep.in FC/tot. househ.dep.(%)	2.61	2.19	2.34	2.68	2.54	2.11	2.10	2.40	2.44
Tot. foreign liabilities (m loc. curr.)	17,879	16,673	16,522	14,175	10,381	7,824	6,972	5,526	4,537
Tot. foreign liabilities (% yoy chg)	10.25	-6.75	-0.91	-14.21	-26.77	-24.63	-10.89	-20.74	-17.90
Tot. foreign liabilities/TA (%)	36.48	31.22	31.16	27.04	20.44	16.89	16.00	13.28	11.29
Tot. foreign liab./tot. dep. from priv. sec. (%)	102.80	92.09	87.89	74.45	55.21	41.60	34.76	26.05	19.95
LTD ratio (private sector, %)	163.44	161.42	160.18	155.17	148.43	122.56	99.49	89.22	80.98
Tot. loans in FC/tot. dep. from priv. sec. in FC (%)	524.64	470.59	436.27	289.53	254.38	263.75	215.85	145.91	109.66
Profitability and capitalisation									
Lending rate to corporates (%)	6.88	5.96	5.54	5.65	5.55	5.63	4.99	3.45	2.81
Deposits rate for households (%)	4.45	2.00	1.94	2.28	2.24	1.46	0.66	0.28	0.23
ROA (%)			-0.2	-0.9	-1.5	-7.3	-0.2	0.5	1.5
ROE (%)			-3.22	-11.78	-19.63	-97.62	-1.91	4.16	11.87
Capital/RWA (%)			11.32	11.85	11.40	13.67	18.04	18.77	19.03
Capital/TA (%)			8.20	...	...	...	...	...	...

Note: *Loans to and deposits from the private sector; NA=not available; FC= foreign currency. Source: ISP elaborations of IRN database, FMI

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