SLOVENIA

REVIEW OF THE FINANCIAL SYSTEM

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FOREWORD

This review of Slovenia by the Committee on Financial Markets (CMF) was prepared as part of the process of Slovenia's accession to OECD membership.

The OECD Council decided to open accession discussions with Slovenia on 16 May 2007 and an Accession Roadmap, setting out the terms, conditions and process for accession, was adopted on 30 November 2007. In the Roadmap, the Council requested a number of OECD Committees to provide it with a formal opinion. In light of the formal opinions received from OECD Committees and other relevant information, the OECD Council decided to invite Slovenia to become a Member of the Organisation on 10 May 2010. After completion of its internal procedures, Slovenia became an OECD Member on 21 July 2010.

The CMF was requested to review Slovenia's financial system, including its market and regulatory structure, to assess whether it is market-oriented and sufficiently open, efficient and sound, based on high standards of transparency, confidence and integrity, for Slovenia to be able to accept the requirements of membership in the area of financial markets. The present report was finalised on the basis of information available in September 2009. It is released on the responsibility of the Secretary General of the OECD.

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LIST OF ABBREVIATIONS

BoS	Bank of Slovenia
BTS	Stock Exchange electronic platform
CESR	The Committee of European Securities Regulators
CSD	Central Securities Depositary
DETS	Designated Electronic Trading System
DVP	Delivery Versus Payment (OTC DVP)
ECB	European Central Bank
ESCB	European System of Central Banks
IFRS	International Financial Reporting Standards
IMAD	Institute for Macroeconomic Analysis and Development
ISA	Insurance Supervision Agency
KDD	Central Securities Clearing corporation
LJSE	Ljubljana Stock Exchange
MoU	Memorandum of Understanding
SEF	The Slovene Enterprise Fund
SMA	Securities Market Agency
SME	Small and medium-sized companies
ZBan-1	Banking Act
ZBS-1	Bank of Slovenia Act
ZFK	Financial Conglomerates Act
ZISDU-1	Investment Funds and Management Companies Act
ZJF	Public Finance Act
ZKDPZJU	Collective Supplementary Pension Insurance for Public Servants Act
ZNVP	Book Entry Securities Act
ZPIZ-1	Pension and Invalidity Insurance Act
ZPlaP	Payment Transaction Act
Zpre-1	Takeovers Act
ZTFI	Market in Financial Instruments Act
ZZavar	Insurance Act

I. INTRODUCTION AND OVERVIEW

A. Macroeconomic Context

Following Slovenia's accession to the European Union in 2004, between 2006 and 2008, economic growth was sustained by solid productivity growth and rapid expansion of domestic demand. Domestic spending was spurred by credit expansion to the household sector in the form of consumer and mortgage loans, as borrowers took advantage of the historically low interest rate environment brought about by Slovenia's introduction of the euro at the beginning of 2007.

Capital inflows in the form of credits and loans channelled through domestic financial institutions financed a significant widening of the current account deficit to 4.2 percent of GDP in 2007 from 0.8 percent in 2003. About half of the widening of the current account in mid-2007 could be explained by a rise in domestic commercial banks' net interest payment on loans taken out abroad. Various indicators pointed to an overheating of the Slovenian economy.

Prospects for the Slovenian economy deteriorated in the second half of 2008, on account mostly of shifts in the external environment, with major trading partners entering recession in mid-2008 and external loans becoming less readily available. The flow of net foreign lending to domestic banks turned negative in mid-2008 as a result of the spreading financial crisis and related tightening in international inter-bank markets. As a result, the expansion of domestic bank loans to domestic non-bank sectors has recorded a significant slowdown.

Economic activity slowed more considerably at the end of 2008. GDP declined 0.8 percent in the fourth quarter of 2008, and by 8.9 percent in the first half of 2009. Slovenia's Institute for Macroeconomic Analysis and Development (IMAD) forecasts a 4 percent decline for the whole of 2009. The most affected secors have been manufacturing and construction, with the recession in the manufacturing sector having started in the third quarter of 2008.The OECD spring 2009 forecast was for a 5.8 percent decline in GDP for 2009, the European Commission's forecast a decline of 3.4 percent (both institutions expect 0.7 percent growth in 2010).

Since then, the economy shows some signs of improvement. According to recent figures, Slovenia came out of the recession in the 2nd quarter of 2009. The business climate indicator was at its lowest point in April 2009, but the trend shows an improvement with the beginning of the 2nd half of 2009.

Cyclical sectors like the automobile sector (especially for parts) or household appliance companies are hit hardest. Domestic factors also play their role in the slowdown with the construction sector strongly affected by the cooling down of house prices and the end of big infrastructure projects. Unemployment increased 3 points since its low of 4 percent in September 2008 to about 7 percent . Household indebtedness remains, however, comparatively low.

Besides adopting a number of measures targeting the financial sector, the government took advantage of Slovenia's favourable fiscal position built up before the crisis to provide a fiscal stimulus of about 2 percent of GDP in 2009. With an expected strong impact of automatic fiscal stabilisers, the OECD Economics Department expects the general government deficit to reach about 6 percent of GDP in 2009.

B. Recent Trends in Financial Markets

The financial sector in Slovenia has not been spared the effects of the global financial crisis. The market capitalisation of shares on the Ljubljana Stock Exchange declined 57 percent in 2008, and Slovenian banks, while not extensively involved in structured instruments, are facing refinancing difficulties after years of rapid loan growth and the strong expansion of business in Southeast Europe. Slovenia's largest (and majority state-owned) banking groups are still reporting profits, but at drastically lower levels. On the insurance side, the health of the dominant (state-owned) insurance company in Slovenia had been affected by unexpectedly high storm-related damage claims even before the decline in equity markets.

The state has responded to the crisis with a support package for the banking system consisting of increased deposit insurance, as well as a guarantee program for bank debt issuance. While the guarantee program has yet to be tested, the government was recently able to issue a EUR 1 billion bond on the international market, albeit at relatively high spreads. Furthermore, in order to help melt the credit freeze, the state-owned development bank was recapitalised and has started to grant loans to small- and medium- sized enterprises and banks. Further measures are under consideration by the authorities, in case the global situation continues to worsen.

On the regulatory side, Slovenia has been busy implementing the steady stream of EU Directives, most recently the Markets in Financial Instruments Directive (MiFID). This process is likely to continue, with the European Commission having announced a new round of legislative proposals in response to the financial crisis. In addition, a major shakeup of the Slovenian system of financial supervision has been proposed, as the government has discussed the establishment of a unified supervisor, possibly under the roof of the Bank of Slovenia. In the context of the financial crisis, this reform has, however, been postponed until 2010.

C. Summary

Since its independence in 1991, Slovenia has sought to develop its capital markets by establishing the legal, regulatory and institutional structures that underpin these markets. This process commenced in 1992 with a mass-privatisation programme that established private ownership of capital and was reinforced with the passage of the first framework Companies Law in 1993. As part of the effort, Slovenia has rapidly pursued political and economic integration with Europe, joining the EU in May 2004, and the European Monetary Union in January 2007.

Notwithstanding Slovenia's efforts to bring its securities market legal infrastructure in line with EU directives, capital markets in Slovenia are not well developed by OECD standards. Slovenia's capital markets are extremely limited in both depth and liquidity, and perhaps as a consequence, have a narrow, largely domestically focussed investor base.[1] For example, total market capitalisation of the LJSE remains small in absolute terms, standing at €8.5 billion (as at 31 December 2008), which represented 25.2 per cent of GDP and a sharp drop from the 57.1 percent share recorded the previous year, when market capitalisation was just under €20 billion. There were over 200 issuers listed on the Ljubljana Stock Exchange at the time of the mass privatisations, but this number has steadily

[1] The ownership structure of companies shows a low share of foreign portfolio investors, on the order of just 5-7 percent.

diminished over time. Owing in part to some buyouts but also to the delisting of many smaller companies, there are now only about 90 or so issuers in the listed equity markets (7 companies comprise the prime segment, 18 are in the standard segment, and 61 are in the entry segment).

Slovenian companies mostly prefer bank loans as a source of funds, because it is relatively cheap, so the bond market is largely undeveloped. While a handful of companies draw upon fixed-income instruments, many of the largest companies are funded directly by loans from foreign banks, via domestic subsidiaries, foreign branches, or directly from abroad.

Although the Slovenian financial sector remains quite small in absolute terms, a number of reforms that have been put in place and others thought to be in train are expected to pave the way for continued growth and development of the sector, mostly through greater integration into the international market. Despite the small size of the financial sector, the regulatory framework of Slovenia compares favourably with most emerging European countries. Previous assessments have suggested that the Slovenian financial system displays considerable institutional strength and seems to be systemically sound (as evidenced *inter alia* by the highest investment rating in emerging Europe). However, criticism has been directed at the oligopolistic structure of the banking system, potential problems regarding connected lending, and weaknesses in insurance supervision.

II. SLOVENIA'S FINANCIAL SYSTEM IN A LONG-TERM PERSPECTIVE

Slovenia's financial system has come a long way from the largely centralised banking system that existed during Yugoslav times. The most important events for Slovenia's financial system in the recent past have been the country's accession to the European Union, and thus the adoption of the EU acquis in the field of financial services, and, at the beginning of 2007, the introduction of the euro in Slovenia. While Slovenia's financial system is getting increasingly integrated into the EU's financial system, the structure of Slovenia's financial system still shows traces of the transformation process. The predecessors of today's main players were, during Yugoslav times, specialised institutions that covered certain market segments, more or less on an exclusive basis. After independence, the large players were carved up, and smaller ones started expanding into other segments of the market, providing a certain level of competition. International players also entered the market, mainly through acquisitions of smaller local institutions.

Compared to the financial system of the euro area, the Slovene financial system remains relatively underdeveloped. As the Slovenian capital market has only existed for about 15 years, and the economy more generally is still less developed than in most euro area countries, it is not surprising that to some degree the Slovenian financial system is still in a catching up process. In Slovenia, the financial system's financial assets (central bank excluded) represented, at the end of 2007, 177 % of GDP.

The banking sector dominates Slovenia's financial system, accounting for about 77 percent of financial assets at the end of 2008. Insurers and pension funds have been gaining in importance, and accounted for 10 % of financial assets in Slovenia at the end of 2007. Other financial intermediaries, primarily investment funds and leasing companies, accounted for approximately 13 % of financial assets at the end of 2008.

Slovenia's insurance market comprises 16 insurance undertakings, 2 of which are reinsurance undertakings. Nine insurance companies, (i.e. 91 percent of the entire insurance market according to official estimates), remain under domestic ownership. The main investments of the insurance sector are in bank equity and debt securities (17.83 %). One can observe increasing cooperation of insurance companies with banks in sales of insurance services, particularly in the field of life assurance. The value of such "connected" business increased by 81 percent in the year 2007 compared to the previous year. Insurance companies are not permitted to directly engage in non-financial (i.e. commercial) business.

Considering the comparatively small size of the Slovenian economy, it is widely recognised that the future of Slovenia's financial system lies in further international integration. This is already happening, as reflected in the recent takeover of the Ljubljana Stock Exchange by the Vienna Stock Exchange, and is likely to continue once the world financial crisis subsides. Slovenian financial institutions will continue to look toward market potential in Southeast Europe, their situation permitting, even if the experience with the current downturn in the region may make them somewhat more cautious.

III. FINANCIAL INFRASTRUCTURE

A. Central Bank and Monetary Policy Framework

Slovenia became a member of the euro area on 1 January 2007, and its central bank, the Bank of Slovenia, became part of the Eurosystem. Information on the monetary policy framework of the European Central Bank can be found at www.ecb.europa.eu.

B. Payments System

There is one large value payment system in Slovenia, the TARGET2-Slovenia system. The system is a national component of the TARGET2 system, which is owned and operated by the Eurosystem. The TARGET2 system is the RTGS system for payments in Euro and is technically centralised - there is one single technical platform, operated by the central banks of France, Germany, and Italy. Each connected central bank is legally managing its own TARGET2 component and keeping the accounts of the direct participants.

Most Slovene banks (21 out of 23), the BoS and the KDD (the national CSD) are direct participants in the TARGET2 system; two Slovene banks participate in TARGET2 indirectly. The BoS offers collateralised intraday credit to all direct participants. Slovene banks mostly process their domestic and cross-broader large value and urgent payments through TARGET2. Claims and liabilities arising from the participation of Slovene banks in retail payment systems, or securities trading, are settled in TARGET2.

With regards to participation in pan-European retail payment systems, the BoS is a direct participant in the STEP2 XCT and STEP2 SCT systems (operated by EBA Clearing), and provides an indirect participation service to Slovene banks. There are mechanisms in place in the BoS to ensure that all Slovene banks are reachable through STEP2 XCT and that all Slovene banks adhering to the SCT (SEPA credit transfer) scheme are reachable through STEP2 SCT. In March 2009 a new multilateral net clearing payment system, known as SEPA Internal Credit Payments system (hereinafter: SEPA IKP), was established, replacing the previous Giro Clearing system. The new system is managed by the national clearing house – Bankart. Bankart is 100% owned by Slovene banks.

The legal basis for payments in Slovenia is the Payment Transaction Act (hereinafter referred to as ZPlaP) and the ZBS-1. ZPlaP represents the most important legal source in the field of payment transactions, in which the rights and obligations of providers and users of payment services are defined. ZPlaP thus entirely regulates the field of payment transactions: it contains provisions which define contractual relationships between the providers of payment services and their costumers as regards the performance of payment services, as well as rules with reference to interbank settlement through payment systems.

ZPlaP stipulates that an operator of a payment system must obtain authorisation from the BoS before providing the service of managing an individual payments system. Moreover, the ZPlaP stipulates the role of the BoS in the field of payment systems. While the primary responsibility for the stability of an individual system rests with its operator, the BoS needs to be assured that payment systems are safe and efficient. To this end, in line with the ZBS-1 and the ZPlaP, one key task of the BoS is the oversight of payment systems.[2]

[2] More details on the payment and securities settlement systems in Slovenia can be found in the Slovenia Section of the European Central Bank's "Blue Book", available at http://www.ecb.europa.eu/pub/pdf/other/ecbbluebookea200708en.pdf.

IV. STRUCTURE AND OPERATION OF THE FINANCIAL SYSTEM: BANKING SYSTEM

Although foreign banks have made inroads into the Slovenian banking sector over recent years, the system remains dominated by state-owned banks. The government controls, either directly through the Ministry of Finance, or through parastatal agencies, about 50 percent of banking sector assets in Slovenia.[3] Roughly 15 percent of banking sector assets are held by foreign banks, and the rest by domestic private investors. Cross-shareholdings between banks and other companies are a common feature of the Slovene financial system.

As of 31 December 2008, 18 banks were operating in Slovenia. Eight of these were subsidiaries of foreign institutions. In addition, there were three savings banks and three branches of foreign banks (Austrian and French). There was a decrease in the number of credit institutions subject to Bank of Slovenia supervision during 2008, due to the merger of three banks (NLB Koroška banka, NLB Banka Zasavje. and NLB Banka Domžale) into Nova Ljubljanska banka (NLB).In December 2008, KD group, one of Slovenia's largest asset managers, received a bank license for its newly-established KD Banka, and the bank started its operations in March 2009.

In addition to the eight subsidiaries and three foreign branches that were under majority foreign ownership as at 31 December 2008, there were 3 banks under full domestic ownership, and 8 banks under majority domestic ownership. Of these eight banks, four had less than three percent foreign equity. For the whole system, the proportion of equity held by non-residents stood at 38.1 percent at the end of 2008. The proportion held by non-residents holding more than 50 percent stood at 27.5%). The two largest banks, Nova Ljubljanska Banka (NLB) and Nova Kreditna Banka Maribor (NKBM) are under majority state ownership.

The banking sector in Slovenia is marked by a high degree of concentration. NLB alone accounted for about one third of the Slovene financial market at the end of 2008. Together with Banka Celje, which is a member of the NLB group, its market share was about to 35 percent. In the area of long-term deposits, NLB's market share reached 44 percent at the end of 2008. Due to the high concentration of the market, the authorities have not permitted NLB to consolidate Banka Celje. The (direct) government shareholding in NLB stood at 33.1 percent at the end of 2008. Another 15 percent or so are held by the Government indirectly through state-owned investment vehicles, for a total government share of just over 50 percent. The other large shareholder in NLB is KBC Bank NV with around 30 percent. KBC has in the past made attempts to sell its stake, but no transaction has come through. It does not participate in strategic management of the bank and is now widely viewed as treating the holding as a portfolio, rather than, a strategic investment.

Slovenia's second largest bank, Nova Kreditna Bank Maribor (NKBM) also remains majority-owned (directly and indirectly) by the government, although a 48 percent stake was floated on the stock exchange in 2007. Further privatisation had been planned, but privatisations have been

[3] The two parastatal funds are Pension Fund Management (KAD) and Slovenian Restitution Fund (SOD). The two funds have dispersed holdings across a large number of listed and unlisted companies that have enabled Slovene governments to influence the boards and management of privatised firms and, ultimately, to play an active role in determining ownership changes.

suspended in the current environment, and the government intends to retain a controlling interest of 25 percent plus one share in all strategic investments, including, apparently, the large banks and the largest insurer.

The third largest bank, Abanka Vipa, is generally considered private, although it forms part of the Triglav insurance group, which in turn is also majority state-owned. Abanka's market share is around 8 percent overall, with a somewhat lower share (about 7 percent according to their own estimates) in retail. Abanka is particularly active in capital markets, with a large market share in custody and administrative services. Abanka also owns the most active broker on the LJSE.

Table 1 Slovenia -- Ownership Structure of the Five Largest Banks (end-2008)

Bank	Market Share	Shareholders	Ownership Share
Nova Ljubljanska Banka (NLB)	30%	Republic of Slovenia (directly and indirectly)	50.02 %
NLB Group (incl. Banka Celje)	40%	KBC Bank (Belgium)	30.6 %
		Poteza Naložbe (privately owned)	6.0 %
		Zavarovalnica Triglav	3.3%
		Other private shareholders	10.1 %
Nova Kreditna Banka Maribor (NKBM)	9.6 %	Republic of Slovenia (directly and indirectly)	53.3 %
		Pom-Invest d.o.o.	2.1 %
		KD Galileo	1.9 %
		Other shareholders	42.7 %
Abanka Vipa	8.0 %	Zavarovalnica Triglav (majority government)	25.6 %
		Sava d.d. (18.7% KAD, 11.10% SOD)	23.8 %
		Zvon Ena Holding (privately owned)	17,2 %
		Delniški vzajemni sklad Triglav Steber I	7.3 %
		HIT d.d. (majority government-owned)	6.1 %
		Daimond d.d. (majority government-owned)	3.6 %
		SOD (Government of Slovenia)	2.2 %
		Vipa Holding d.d. (cross-shareholding)	2.1 %
		Vipa d.d. Nova Gorica (cross-shareholding)	2.0 %
		Raiffeisen Zentralbank Oesterreich AG	1.5 %
		Other small shareholders	8.6 %
SKB Banka	5.5 %	Société Générale (France)	97.6 %
		Genefinance (France)	2.1 %
		Other small shareholders	0.3 %
Unicredit Bank	6.1 %	Bank Austria Creditanstalt AG (Austria)	99.9 %
		Other small shareholders	0.1 %
Total	59.4 %		

Note: Market share is based on total assets for each bank.
Source: OECD, based upon Bank of Slovenia figures.

Over recent years, foreign banks have made inroads into the Slovenian banking sector, via partial or full takeovers of domestic institutions. In 2001, France's Societe Generale took over Slovenia's largest private bank, SKB Banka. In October 2001, Italian banking group San Paolo IMI purchased 15 percent of Bank of Koper, the fifth largest bank at the time. And as noted, the government sold 34% of, Nova Ljubljanska Banka (NLB), to the Belgian KBC Group. At present, the largest foreign banks in Slovenia are Unicredit (after absorbing the operations of Bank Austria Creditanstalt) and Société Générale (through its SKB Banka subsidiary). Both have market shares of around 6 percent, and conduct corporate banking as well as retail banking.

A. Financial groups and conglomerates

a) Financial groups controlled by commercial banks

Three groups in this category are of a complex nature. One of them has more than 50 entities; the other two groups consist of 13 or 14 entities. The parent banks of all 3 complex groups are mostly state owned. Whereas these groups are primarily composed of banking entities, they also include insurance undertakings. The other financial groups controlled by banks (with head offices in Slovenia) are simple small groups of up to three members, typically parent banks with financial institutions or ancillary banking services undertakings as subsidiaries or affiliates. Two groups have five and nine members, respectively.

The two largest groups are considered systematically significant on a national basis, measured by total assets, the third one is of minor importance. Only one group, the NLB (Nova Ljubljanska Banka) Group has considerable international activities. NLB is the most important financial group in Slovenia and has activities in 17 countries (Austria, Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, Germany, UK, Italy, Kosovo, FYROM, Montenegro, Russia, Slovakia, Slovenia, Serbia, Switzerland, and Ukraine).

The second largest group (NKBM) and the third largest (SID) are headed by banks and both are groups which provide banking/investment and insurance services. The BoS, SMA and ISA have together verified the status of the groups. As both sectors are not considered significant for the groups as a whole, the groups are not officially regarded as financial conglomerates and, thus, are not subject to supplementary supervision.

b) Financial groups controlled by other regulated financial institutions, including regulated financial holding companies and insurance companies

Two financial groups with head offices in Slovenia are controlled by insurance companies. Both are small groups of up to eight to eleven members, with some subsidiaries in third countries. According to the Financial Conglomerates Act (ZFK), adopted in Slovenia in 2006, and to EC Directive 2002/87 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate, one financial conglomerate was defined as such in Slovenia, i.e. The Triglav Group in December 2006.

The Triglav Group consists of twelve insurance companies (mainly in former Yugoslavia, and in the Czech Republic), one pension company, one bank (Abanka Vipa), three management companies, and of eight non-regulated entities. Triglav also has a direct branch in Slovakia. The insurance company at the top of the group is majority government-owned, and has been in need of recapitalisation since at least the middle of 2008, after it was hit by a wave of claims resulting from storm damage and participated in the capital increases of NLB and Abanka. It can be assumed that the company will also feel the recent sharp decline in financial markets in its investment portfolio.

Furthermore, as Triglav guarantees a large share of bank loans to households it has also taken on significant credit risk, a situation that has been criticised by the ISA and by the IMF. [4]

c) Financial groups controlled by non-regulated companies, but including banks or insurance institutions as subsidiaries

One group (KD Group d.d.) has a non-regulated company at the top, which holds stakes in insurance undertakings and in some financial institutions, ancillary and other companies. In the banking sector, KD has a large minority stake in Deželna banka (State Bank), and also recently converted its brokerage company to a bank. For the purpose of determining whether the group is to be defined as a financial conglomerate, the supervisory authorities in charge of the regulated entities have made an assessment of the cross-sectoral nature of the financial activities of the group. As the activities of the group are mainly financial, and the cross-sector ratio exceeds the trigger ratio in the Financial Conglomerate Law, it is expected that the group will soon be officially identified as a financial conglomerate, to which supplementary supervision will then apply.

B. Concentration of the banking system

According to the ECB's Banking Structures report, the five largest credit institutions in Slovenia accounted for close to 60 percent of banking system assets at the end of 2007, and the Herfindahl index stood at 1282, among the most concentrated in Europe. The largest bank, Nova Ljubljanska Banka (NLB), together with its Banka Celje subsidiary, has a market share of about 40 percent. All the other banks have market shares of 10 percent or lower. Studies show that the Slovenian banking sector, during the period 1995-2007, was among the least contested among euro area countries and the new EU member states.[5]

Due to its dominant presence, NLB acts, under normal circumstances, as the market leader in the setting of retail interest rates, and others tend to follow suit with about a one-month lag. The main competitors to NLB have been the foreign banks, particularly in the retail sector. Whereas these institutions were more aggressive when they first entered the market, they are said to have subsequently "adjusted to local conditions". Some of them have, however, again become more aggressive over the last few months by offering comparatively high deposit rates of 5.6 percent and higher, with others following suit. This prompted the authorities to weigh in, urging banks to keep a lid on deposit rates, including, apparently, by threatening an increase in liquidity requirements, and rates have since come down.

The level of competition among the domestic banks remains constrained for several reasons, many of them a heritage of the former centralised structure of the banking system. Not only is NLB's market share four times that of the second largest bank, NKBM, but competition between the two is further limited through regional specialisation, with NKBM focused primarily on the Maribor region. One may also note that both institutions remain majority government-owned. Competition is therefore mainly provided by the foreign banks, which operate in Slovenia either through subsidiaries or, mainly from neighbouring regions, also through direct branches or on a cross-border basis.

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[4] In the context of its 2004 FSAP update, the IMF found that "*credit risk has been concentrated with Triglav. By some measures Triglav is now the default consumer credit provider for Slovenia (another insurer writes some of this business but allegedly has financial difficulties and is for sale). In particular Triglav appears to be—almost uniquely in the world—assuming 100 percent of the credit risk associated with most consumer loans (including overdrafts) issued by banks.*"

[5] Bems, Rudolf, and Piritta Sorsa, Efficiency of the Slovenian Banking Sector, IMF and OECD, October 2008.

C. Soundness of the banking system

In the BoS's 2008 Financial Stability Review (FSR), the BoS identified two primary risk factors for financial stability. The first was high lending growth over the last few years, which had been financed by bank borrowing from the rest of the world, and the second was tighter lending conditions in international financial markets. These risk factors have indeed materialised over the last year, and to a larger degree than had been feared at the beginning of 2008. The impact can, however, only be comprehensively assessed when financial institutions publish their full-year accounts for 2008, which are expected to be released in early April, but may be available sooner on a non-consolidated basis.

Specifically, the BoS had noted, in the 2008 FSR, a "sustained growth in loans denominated in Swiss francs", with such loans accounting for close to one-third of housing loans to households in 2007. The risk of CHF appreciation affects local borrowers most directly, but can also be transmitted to Slovenia indirectly through foreign banks, many of which have engaged in large-style CHF lending in the wider region, including in non-euro area countries. The BoS also expected that the slowdown in lending growth would entail rising non-performing loan (NPR) ratios. According to latest BoS figures, lending growth indeed slowed to 13.3 percent in 2008, after rampant growth of up to 50 percent in 2007. Risks on the corporate lending side are seen primarily in the car industry, but also in consumer durables and in construction. While the BoS, in its 2008 Financial Stability Review, expressed some concern that some construction companies are highly leveraged, the situation may be mitigated for those larger construction companies that continue to benefit from state-funded infrastructure projects.

There also appear to be some concerns about the health of certain insurers, and of a number of holding companies, which had received so-called "tycoon loans" in order to finance takeovers and management buy-outs. Concretely, the 19 creditor banks of holding company Istrabenz have formed a consortium to reschedule debt and permit an orderly liquidation of assets. The exposures of some banks to Istrabenz are said to be significant, although the authorities consider that the assets are sufficient to satisfy all creditors. According to the authorities, Istrabenz obtained 60 percent of its loans from foreign banks. Other holdings are also said to face problems. The largest bank states that tycoon loans represent only a very small share of its loan portfolio.

The BoS furthermore observed that the large investments of Slovene institutions in the Balkan region, while increasing diversification, may also expose them to additional risks, as emerging markets are hit hard by the economic slowdown and risk appetite among international investors has waned. According to BoS figures, the Slovene banking system had outstanding loans to foreign non-banking sectors of EUR 2.9 billion at the end of 2008. Over one-third of this amount (EUR 976 million) consisted of loans to Croatia, and a little more than a quarter (EUR 686 million) was to Serbia. The largest banking group, NLB, was particularly active in Southeast Europe, doubling its credit portfolio for international business financing to EUR 833 million during the course of 2007.

The impact of the global financial crisis on Slovenia had initially been smaller than on other countries in the region, reflecting a number of mitigating factors. Firstly, Slovene financial institutions are still relatively unsophisticated and have not invested heavily in complex financial instruments. Secondly, even though one can argue about the dangers of rapid real estate price appreciation, the share of mortgage credit in GDP is still comparatively low (5 percent of GDP). And thirdly, the adoption of the euro has to a large degree eliminated foreign exchange risk.[6] With continuing difficult financing conditions in international markets, however, Slovenia has found the dependence on foreign borrowing, built up over the last few years of rapid growth, to pose a greater challenge than expected.

[6] The Swiss franc had e.g. strengthened by only about 6 percent against the euro between January 2007 and January 2009, much less than against many other currencies.

According to the BIS International Banking Statistics, the claims of reporting banks on Slovenia increased by one-third during the course of 2007. NLB alone reported a 51 percent increase in its corporate credit portfolio in 2007.

According to unaudited figures, the banking system's provisions increased by almost 50 percent in 2008, and pre-tax profit was down by over one-third (see Table 2). Whereas eleven banks recorded lower operating results than in 2007, none of the banks reported a loss for 2008. Definite numbers for 2008 are not yet available, but the authorities estimate the average capital ratio of the banking sector to be around 10 percent, with an average bad debt ratio of 5 percent (and rising). The NLB group reported, on a preliminary basis, pre-tax profit of EUR 38.2 million in 2008, down from 183 million in 2007, reflecting a sharp decline in net non-interest income, and a doubling of provisions to EUR 211.5 million. The Nova KBM Group concluded 2008 with a profit of EUR 38.6 million from continuing operations, down by more than 50 percent compared to 2007, primarily due to revaluation of the securities portfolio, and impairments on a number of bonds (including Lehman Brothers).

In the current environment, the main concern appears to be structural liquidity. The Slovenian banks do not have much of a network in the euro area, and, with the drying up of the syndicated loan market, face difficulties raising 3-6 month funds, except from the ECB. As can be seen from Table 2, the banking system's financial liabilities to the Eurosystem have increased dramatically. The authorities estimate that between 50 and 60 percent banking system liquidity is currently provided by the European Central Bank.

Table 2 Slovenia - Balance sheet of the Banking Sector (2007/2008

Balance sheet	*2007*	*2008*	*2008/07*
Assets	*stock, EUR millions*		*growth, %*
Cash	604	1,243	105.9
Lending	32,374	37,447	15.7
to banks	4,072	4,114	1.0
to non-banking sectors	28,302	33,334	17.8
of which:			
...corporates (non-financial corporations)	17,039	20,055	17.7
...households	6,429	7,384	14.9
...general government	465	506	8.9
...other financial institutions	2,114	2,831	33.9
Financial assets / securities	7,720	7,187	-6.9
Other	1,645	1,665	1.2
Liabilities			
Financial liabilities to Eurosystem	157	1,198	665.2
Liabilities to banks	15,929	18,063	12.7
of which, to foreign banks	14,410	16,001	11.0
Liabilities to non-banking sectors (deposits)	19,381	20,596	6.3
of which, to households	12,105	13,210	9.1
Debt securities	963	1,260	30.8
Subordinated liabilities	1,470	1,596	8.6
Capital	3,556	4,002	12.5
Other	887	825	-7.0
TOTAL ASSETS	**42,343**	**47,542**	**12.3**

Source: Bank monthly accounts figures. 2008 figures unaudited.

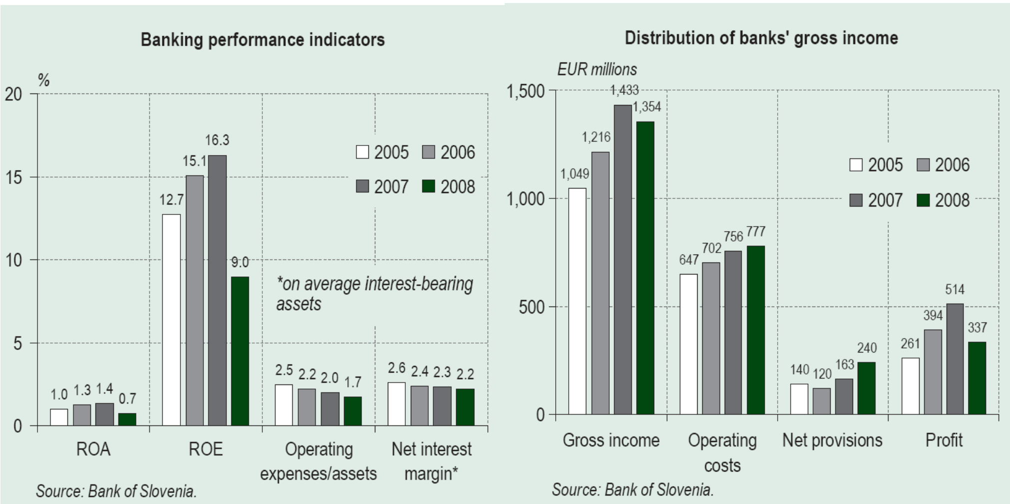
Source: Bank of Slovenia

Table 3 Slovenia -- Income Statement of the Banking Sector (2006-2008)

Income statement	2006	2007	2008	2008/07
		EUR millions		growth, %
Interest income	1,421.2	1,954.0	2,599.0	33.0
Interest expense	731.3	1,137.7	1,663.3	46.2
Net interest income	689.8	816.4	935.7	14.6
Non-interest income	525.8	616.7	418.7	-32.1
Gross income	1,215.6	1,433.0	1,354.4	-5.5
Operating costs	702.1	755.9	777.2	2.8
Net provisions	119.8	163.0	240.5	47.6
Profit before tax	393.7	514.2	336.6	-34.5
Taxes	90.9	102.5	...	...
Profit after tax	302,8	411,7	...	...

Source: Bank of Slovenia.

Figure 1Slovenia -- Banking sector performance and distribution of income (2005-2008)



Foreign borrowing is still possible, but at significantly higher risk premiums, and shortening maturities. In response, the BoS has urged banks to improve the coverage of loans by non-banking sector deposits, and to maintain or increase capital adequacy by raising additional share capital. Larger players are thus primarily trying to preserve liquidity, or at a maximum renewing existing loans. Financing of investment has practically come to a standstill. Some of the foreign banks are said to have restricted credit in response to losses at the group level, and have in some cases used Slovenian ECB-eligible collateral to obtain funds for transfer to their head office. It is expected that the crisis measures announced by the Slovene government (see below) will help the banking system to cope with the difficult financial environment.

V. STRUCTURE AND OPERATION OF THE FINANCIAL SYSTEM: CAPITAL MARKETS

A. Capital Market Intermediaries

There are 23 members in the exchange, 12 banks and 11 brokers. All are local entities. Two of the banks are subsidiaries of foreign banks. Unicredit and Abanka account for the most volume activity. Going forward, the number of brokers is expected to decline, as most are small and dependent on commissions for income and activity has dropped off considerably. There is no regulatory requirement to go through the exchange and many big trades are now done OTC. Block trades are also now routinely traded off-exchange. The minimum size of block trades on the exchange is EUR 130 000. The exchange's BTS trading system accounts for 25 percent of share turnover, blocks for 18 percent and the rest are OTC trades. On average, 6 percent of trades per day are executed off-exchange, and the rest through the exchange.

B. Fixed-Income Market

Government debt

Slovenia has set its maximum borrowing quota for the year 2009 at EUR 2.8 billion. The higher 2009 borrowing quota compared to previous years is the result of the amendment of Article 81 of the Law on Public Finance in November 2008, which allows prefunding of part of borrowing needs of the subsequent two fiscal years. Based on 2009 budget, the size of planned gross debt issuance is EUR 868.5 million. The difference to EUR 2.8 billion is the sum of repayment of principals maturing in 2010 and 2011, i.e. the pre-funding maximum amount, which provides additional flexibility to issue government bonds in minimal benchmark sizes of 1 billion EUR within optimal market conditions.

During the year 2009 Slovenia is planning to issue short-term debt (T-bills) up to an amount of EUR 750 million, and long-term debt of up to EUR 2 billion. The 3, 6 and 12-month T-bills are planned to be issued in six auctions (two maturities per auction). In order to provide for more flexibility in the current volatile market conditions, the issue amounts are no longer fixed. The issue sizes in the financing program are indicative only. Treasury bill auctions are executed in a single phase by competitive bidding, using the Dutch allocation algorithm.

Slovenia's first 2009 T-bill auction of 6-month and 12-month T-bills on 13 January was executed successfully, indicating that the country's financing ability in the short-term sector seems largely un-affected by the crisis. Slovenia issued 6-month T-bills for an amount of EUR 91.6 million (issue price 98.989, yield 2.02; 50 basis points over benchmark), and 12-month T-bills for an amount of EUR 400.2 million (issue price 98.213, yield 1.8; 35 basis points over benchmark). All these treasury bills are eligible for ECB refinancing. To a certain extent, the financial crisis is reflected in higher volumes to be offered in the short-term program in 2009 (EUR 750 million end of 2009 compared to 90 million end of 2008), and the introduction of the additional maturity buckets for T- bills.

The plan for long-term debt is to issue up to two new benchmark bonds via syndication, in sizes of EUR 1 billion each. The first such bond was placed in February 2009, at relatively high cost compared to previous issues (250 basis points over Bunds), reflecting difficult and volatile market conditions at the time of launch. Spreads have since come down considerably. Past long-term debt issues have had tenors of 11 years. The latest bond was issued with a three-year maturity, according to the authorities primarily in order to establish a benchmark for shorter maturities. The 3-year maturity would also match the maturity of the financial system support measures, in case on-lending of funds to the financial sector were to become necessary. The bond was well received; according to the authorities it was twice oversubscribed within three hours.

After the adoption of the euro at the beginning of 2007, Slovenia has issued three bonds: The first issue in March 2007 was placed almost completely abroad (95 percent), whereas for the second one, in February 2008, the ratio was 85/15 (international/local). In the latest issue, 18 percent went to local investors and almost half the issue amount was bought by banks. It is worth noting that before the introduction of the euro about 80 percent of the issues were placed with local investors.

The group of primary dealers has also been internationalised. In the beginning of 2007 the Republic of Slovenia formed two groups of primary dealers, one group of primary dealers for government bonds and another group for treasury bills. The group of primary dealers for government bonds currently consists of 9 institutions, 3 local and 6 international. Primary dealers on MTS Slovenia are designated for two years, with the second period about to start in 2009. Slovenia is considering adding one or two more international institutions to its primary dealers group.

A primary dealer for government bonds is required to fulfil the following criteria:

1. to be a financial institution licensed and authorised to conduct business in the nature contemplated herein under the laws of the jurisdiction in which it is incorporated;
2. to have high level of management and depth and experience, dealing capability as well as marketing strength and strategy, including proven geographic and institutional distribution capacity;
3. to be Designated Electronic Trading System (DETS) Participant or have the capacity to become one and to have a past record of active secondary trading of the Government securities and in particular Government bonds;
4. to act as Primary Dealer for at least three other EMU countries (applicable to non-resident institutions);
5. to prove a record of support of the Government securities market and promotion of the Government securities by adequate analysis, research and publications;
6. in the opinion of the Ministry of Finance maintain sufficient resources in terms of human resources, financial situation and such organisation of its syndicate desk, trading and sales forces to support efficient primary and secondary market of Government bonds; and
7. in the opinion of the Ministry of Finance, maintain highest standards in financial business practice, consistent with the Ministry of Finance’s objective to achieve orderly, efficient and liquid Government bond market.

The group of primary dealers for Treasury Bills is formed by 6 domestic institutions (five banks and one brokerage company). The primary dealership was offered also to international institutions, primary dealers for government bonds, but has not been accepted, as the very small sizes and low number of T-bill issues turned out not to be an attractive instrument for international investors. In addition T-bills, because of their issue size of 30-50 million EUR, do not meet the MTS Slovenia listing criteria.

Corporate bonds

As of 31 December 2008, the Ljubljana Stock Exchange was listing 50 bank-issued bonds, 15 corporate bonds, 1 insurance company bond and 24 government/public bonds. Corporate bonds represented on 31 December 2008 roughly 5 percent (EUR 373.2 million) of the total market capitalisation of bonds and in 2008 amounted to less than 1percent (EUR 1.1 million) of turnover in bonds.

As of 27 February 2009, the Ljubljana Stock Exchange was listing 49 bank-issued bonds, 14 corporate bonds, 1 insurance company bond and 25 government/public bonds. Corporate bonds represented, on 27 February 2009, roughly 5 percent (EUR 392.1 million) of the total market capitalisation of bonds and in February amounted to 5 percent (EUR 1.2 million) of turnover in bonds.

Rating agencies

In Slovenia credit rating agencies are not yet subject to special regulations, but this may change in the future if and when the planned EU Directive in this field is adopted.

C. Euity Market

The Ljubljana Stock Exchange (LJSE)

In Slovenia there is currently one organised securities market, namely Ljubljanska borza, d. d., Ljubljana (Ljubljana Stock Exchange – www.ljse.si). The LJSE is a subsidiary (after the takeover in 2008) of the Vienna Stock Exchange (VSE). Due to legal uncertainty in connection with a new takeover law coming into effect during the takeover process, a court ruling has for the moment capped the VSE’s voting rights at 50 percent (although the VSE held over 80 percent of the shares as of mid-February 2009).[7] At issue is whether the VSE will have to offer the same price to those shareholders that did not accept the initial offer. It is expected that this legal issue will be resolved during the course of 2009. A new management board member was appointed in February 2009.

Regarding equities, the exchange operates three market segments: A prime market (7 stocks), a standard market (18 stocks), and an entry market (61 stocks). Krka accounts for over 41 percent of turnover, and the five largest stocks account for 75 percent of stock exchange turnover. The entry market contains very low liquidity stocks. In addition to stocks, the exchange also has listings for bonds, collective investment schemes, and structured products, with only T-bills actually being traded.

[7] The case involves an alleged breach of the mandatory bid provisions. The SMA has argued that the Act applies and stripped the Vienna Stock Exchange of its voting power. The VSE sought a court order restoring its voting rights and, in January, was partially successful, being granted a right to exercise 50 per cent of the voting rights in the company.

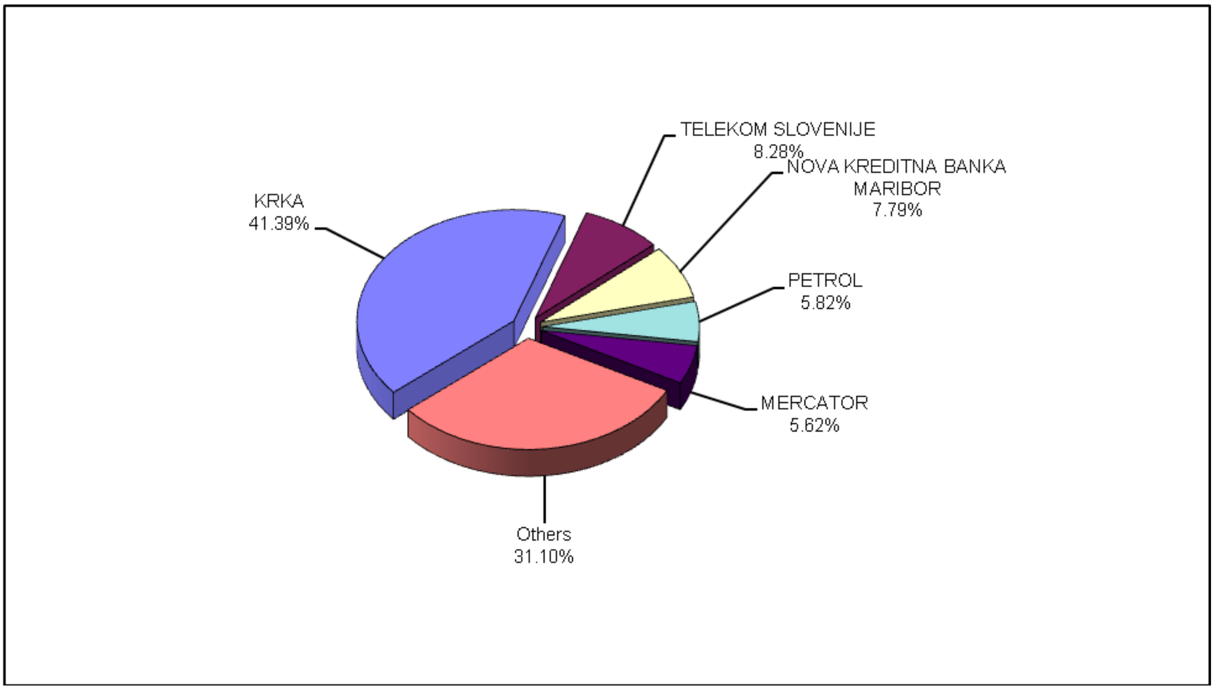
Table 4. Table 5 LJSE: Number of issuers, traded securities, and members (2006-2008)

LJSE: Number of issuers, trades securities, and members (2006-2008)

	31 Dec 2006	31 Dec 2007	30 Nov 2008	31 Dec 2008
NUMBER OF ISSUERS	**129**	**112**	**107**	**107**
Equity market - prime market	8	8	7	7
Equity market - standard market	20	17	18	18
Equity market - entry market	72	62	60	59
Bond market	23	20	22	23
Fund market	2	2	3	3
Closed-edn fund market	7	7	4	4
Short-term securities	0	1	1	1
	31 Dec 2006	**31 Dec 2007**	**30 Nov 2008**	**31 Dec 2008**
NUMBER OF SECURITIES	**194**	**188**	**189**	**187**
Equity market - prime market	8	8	7	7
Equity market - standard market	20	17	18	18
Equity market - entry market	74	64	62	61
Bond market	93	89	87	90
Fund market	3	3	7	7
Closed-edn fund market	7	7	4	4
Short-term securities	10	3	3	3
	31 Dec 2006	**31 Dec 2007**	**30 Nov 2008**	**31 Dec 2008**
NUMBER OF MEMBERS	**24**	**24**	**23**	**23**

Source: Ljubljana Stock Exchange

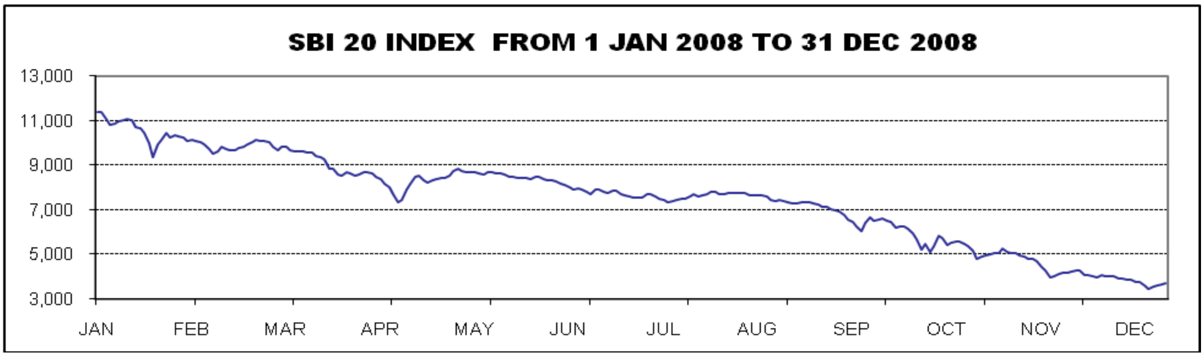
Figure 2 LJSE: Distribution of trading volume (2008)



Source: Ljubljana Stock Exchange

Trading volume has been very low recently, with only about EUR 1 million of equities turnover per day. Besides the recent crisis, factors that have been cited as reasons for low turnover are the low share of foreign portfolio investors of only 7 percent of stock market capitalisation, lack of sophisticated products and services, and high direct and indirect state ownership in Slovenian companies. Big trades are almost always done OTC.

Figure 3 Slovenia -- Stock market developments in 2008



Source: Ljubljana Stock Exchange

The main stock exchange index in Slovenia is the SBI20. The composition of the index is described in Table 5 below. The SBI20 declined by almost 68 percent in 2008, and overall equity market capitalisation fell below EUR 8.5 billion at the end of 2008.

Table 6 LJSE -- Composition of SBI Index (31 December 2008)

Issuer	Sector	Participation rate
Krka	pharmaceuticals	15.00%
Petrol	oil and gas	13.48%
Telekom Slovenije	telecommunication	9.87%
Sava	industrial conglomerates	9.77%
Mercator	trade	8.06%
Nova KBM	bank	6.71%
Gorenje	household appliances	6.61%
Zavarovalnica Triglav	insurance	6.25%
Luka Koper	transport	5.38%
Pivovarna Lasko	food and beverages	4.94%
Pozavarovalnica Sava	insurance	4.30%
Helios	chemical products	3.01%
Intereuropa	transport	2.47%
Istrabenz	industrial conglomerates	2.16%
Aerodrom Ljubljana	transport	2.01%

Source: Ljubljana Stock Exchange

In terms of regulation, the LJSE Rules are the key LJSE act, which regulates the areas of securities, securities issuers, member firms (23) and securities trading. The LJSE Rules stipulate in particular the stock exchange market structure; conditions for listing, temporary suspensions of trading and de-listings from the stock exchange market; obligations of securities issuers; conditions for the admission of member firms and for termination of membership; rights and obligations of member firms; monitoring of issuers and member firms; and the exchange's measures related to issuers and member firms and rules on stock exchange trading. The instructions and guidelines, adopted on the basis of the LJSE rules, define principles and procedures laid down by the LJSE rules in more detail. These are: Instructions for Regulated Market Issuers, Trading Instructions, Instructions for Admission and Monitoring of Member Firms and BTS Traders, Instructions for Indices, Liquidity Criteria, Price List and other Statistical Data.

Clearing and settlement of trades executed at the LJSE

Slovenia has a single, centralised clearing/settlement company and securities register, the Central Securities Clearing Corporation (KDD). KDD was established in 1995 and is a privately owned institution, with its shareholders being the major market participants, namely banks, stock-broking firms, fund management companies, and issuers. Whereas under the Slovenian legislation any qualified institutions can clear LJSE trades, in practice all LJSE trades are still cleared by the Slovenian clearing company KDD. This may change, however, in connection with the takeover of the LJSE by the Vienna Stock Exchange, and the increasing international integration of the Slovenian financial market. The shares for all Slovenian companies have been dematerialised since 1999 and are held in KDD’s central register. KDD records the legal owner of the shares and this is largely relied upon as the basis on which company law enforcement and compliance is assessed.

LJSE trades are automatically transferred to KDD in real time. For trades transacted at the LJSE, the securities and cash from trades executed on a specific trading day (T+0) become irrevocably committed to settlement on that same day at 16.30. The finality of transactions is achieved when the securities and purchase amount are transferred to the accounts of buyer and seller, on T+2 at 13:00. For clearing and settlement of trades executed on the regulated market, the KDD system operates the so-called »BIS DVP Model 2« settlement mechanism (netting on the cash side, gross securities transfers).

Whereas for KDD the clearing of equity trades on the LJSE represents only a small part of its business, KDD is seeking a new role, as in the beginning of its operations it was designed for a closed economy, and its services, while functioning well, are considered expensive. In the fixed-income area, KDD has already established links to other clearing and settlement institutions such as Euroclear and Clearstream. One issue to be noted in this context is that local banks are not allowed to own their own omnibus securities accounts, except for government bonds. Foreign banks typically act as sub-custodians for their mothers

Equity Ownership and Corporate Governance

Equity ownership in Slovenia is widespread, primarily as a result of mass privatisation after independence. Whereas favourable stock market developments over the past few years had encouraged further equity investment, primarily through mutual funds, this trend was reversed in 2008 as the stock market slumped. Also, as a result of the privatisation process, share ownership in Slovenia is public, as all shares need to be registered in a public share register maintained by the KDD Securities Depository. Corporate governance is a major concern in Slovenia, due to the web of cross-holdings among companies, including in the financial sector, and the strong involvement of the state in the ownership of the financial and the corporate sectors. Corporate governance and state-owned enterprise issues in Slovenia, including in the financial sector, are covered more comprehensively in the report of the OECD Steering Group on Corporate Governance.[8]

Venture Capital

The venture capital market in Slovenia is considered to be underdeveloped. In the past five years, there were only 23 venture capital investments – i.e. on average 4-5 investments per year. In order to develop its venture capital market, the Slovene Enterprise Fund (SEF) is in the process of establishing a public Venture Capital Company (First Venture Capital Company, LTD). The Venture Capital Company will be managed by First Capital, LTD, a Fund subsidiary company established in 2007. The latter will be responsible for the functioning and use of the European Structural resources for SME equity financing through this public Venture Capital Company. First Venture Capital Company will operate within principles of public-private partnership, co-operate with external experts in the assessment procedures, and obtain supervision over the use of financial means for SMEs equity financing.

Exchange-Traded Derivatives

Currently, there are no organised derivatives and structured products markets in Slovenia. One of the reasons appears to be the unfavourable tax treatment of derivatives, which according to market participants attract 40 percent capital gains tax during the first year. A number of derivatives, mostly warrants and certificates on five of the largest Slovenian stocks, are, however, traded on the Stuttgart Stock Exchange in Germany. The BoS reports selling pressure on the LJSE when the issuers of these products liquidate their hedging positions, as for example in connection with knock-out levels on structured instruments being breached.

Recent reform measures

The major recent changes in regulatory policy were the consequence of the implementation of EU directives. An important novelty at the LJSE is the possibility of remote access to the Exchange trading system for member firms. Remote membership is intended for brokerage firms who would like to trade on the LJSE electronic order book BTS through remote access, enabled by the LJSE through the Internet. They can thus provide their clients outside of Slovenia the opportunity to trade on the LJSE and enable them to directly enter the Slovene capital market. To this end, the LJSE amended its Rules in 2007, which now allow for remote access to the Exchange trading system. Remote trading has not yet taken off, though. Besides current market conditions, the KDD clearing arrangements do not yet appear ideally suited to online trading, as (1) currently the KDD retains the power to suspend remote members clearing bank activities (in the case of a remote member default on delivering cash or securities toward KDD), (2) the system of fiduciary accounts is not developed in Slovenia, and (3) the KDD cannot act as a central counterparty.

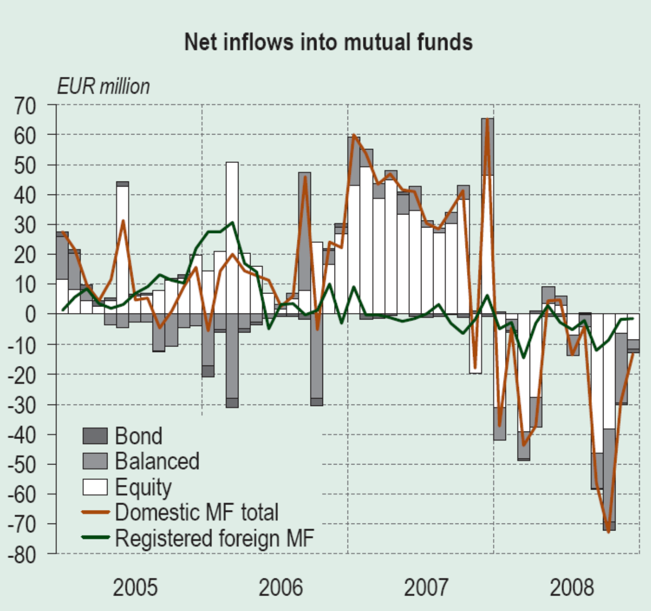
Collective investment schemes

Saving with collective investment schemes started in Slovenia with the establishment of the privatisation investment funds. Today, four of the legal successors of these funds remain in existence (these are all now investment companies, i.e. closed-end investment funds according to the Investment Funds and Management Companies Act), and they must either convert themselves into mutual funds or adopt a decision, with ¾ majority in the general meeting, to remain an investment company, until 2011. The past few years were very encouraging for the Slovenian fund industry. Growth rates were

[8] DAF/CA/CG/ACS(2009)1 (forthcoming).

high and the number of investors increased steadily. At the end of 2007, the net asset value of Slovenian-domiciled Undertakings for Collective Investment in Securities (UCITS) amounted to EUR 2.908 million, representing a 51 % increase compared to 2006. This increase in net asset value was a result of favourable market trends in 2007 and the establishment of new funds with a diversified investment policy, which attracted new investors.

Figure 4 Slovenia -- Mutual Fund Inflows (2005 - 2008)



Source: Vzajemci.com, Securities Market Agency, Bank of Slovenia.

This trend was reversed in 2008, when, according to the BoS, the assets of domestic mutual funds fell more than 48 percent. A little more than 20 percent of this drop reflected net withdrawals, mainly flowing into bank deposits. The year-on-year decline in the average unit price of domestic mutual funds amounted to almost 43 percent. The average unit price of mutual funds investing in the Balkans (about 6 percent of funds) was down 64 percent year-on-year at end-2008. The biggest players in the investment fund market are Triglav group and KD group. While it appears that guaranteed investment funds are not popular in Slovenia, and market losses are thus directly transmitted to unit-holders, several insurers (including Triglav and NLB) have sold unit-linked insurance products with guarantee structures. In the current market environment, it can be assumed that the guarantees have reached substantial market value.

Most investment funds in Slovenia are UCITS funds, i.e. certified by one of the EU Member States as complying with the EU's Directive on Undertakings for Collective Investment in Transferable Securities (UCITS). Four closed-end funds are currently traded on the LJSE. No other non-UCITS funds exist in Slovenia at this moment, although they are defined in the law and thus are permitted in Slovenia. These non-UCITS funds are closed-end funds, and, while required to have their assets in liquid financial investments, they can hold a larger percentage of non-transferable securities than UCITS. The SMA has, however, been considering permitting non-UCITs funds such as real estate funds to be offered. As is common in other EU countries, UCITS funds are also marketed into Slovenia from abroad, in some cases in order to avoid Slovenian rules on "recognised markets" eligible for mutual fund investments. As an example, funds wanting to invest in Russia are set up in Slovakia (where Russia is a "recognised market"), and marketed into Slovenia (where Russia is not a "recognised market").

Table 7 Net Asset Value (NAV) of UCITS and Non-UCITS funds (2007-2008)

Type of Fund	NAV 2007 (EUR)	NAV 2008 (EUR)	Change
UCITS Equity funds	1.908.129.114	876.501.409	-54%
UCITS Balanced funds	899.324.245	554.553.178	-38%
UCITS Bond funds	38.318.603	31.847.989	-17%
UCITS Money funds	17.112.823	10.262.351	-67%
UCITS Funds of funds	39.417.213	19.901.235	-50%
NON-UCITS Closed-end	1.228.086.458	366.974.297	
Total	**4.133.551.593**	**1.872.368.539**	**-55%**

Source: Slovenian Investment Fund Association

The next few years will bring new challenges for the Slovenian fund industry. Since new legislation introduced the possibility of establishing umbrella funds, seven management companies had established such funds by January 2009, the majority incorporating all their existing mutual funds as sub-funds of the newly established umbrella funds. The intention is to permit such umbrella funds to serve as pension savings vehicles by reducing switchover cost. Recent developments in global capital markets will represent a great challenge also for the Slovenian fund industry, mainly for fund managers who will have to find a way to secure a sustained level of demand for investment funds.

VI. FINANCIAL SUPERVISION AND REGULATION

A. Supervision of Markets and Intermediaries

At the moment, there are still three financial supervisors in Slovenia – one for banking (Bank of Slovenia), one for insurance (Insurance Supervision Agency), and one for the securities sector (Securities Market Agency). The government is still considering the establishment of a unified supervisor, possibly under the roof of the Bank of Slovenia. One option under discussion has been to designate the BoS as the prudential supervisor for the whole financial sector, and to establish a separate agency that would deal with market operations and conduct issues.

Banking Supervision

Banking supervision is conducted by the central bank, the Bank of Slovenia. The BoS was established by the Bank of Slovenia Act (ZBS-1), which was adopted on 25 June 1991. It is a legal entity under public law that independently manages its own assets. The BoS and members of its decision-making bodies are independent. Since the introduction of the euro as Slovenia's currency on 1 January 2007, the BoS forms an integral part of the Eurosystem and is thus subject to the provisions of the ESCB and ECB statutes when implementing its work. In line with the Treaty establishing the European Community and the Statute of the ESCB and ECB, the BoS implements the following tasks: implementing monetary policy, conducting foreign exchange operations in accordance with Article 111 of the Treaty establishing the European Community, holding and managing the official foreign reserves of the Member States, and promoting the smooth operation of payment systems.

The organisation and operations of the BoS are regulated by internal acts adopted by the Governor of the BoS. Internal acts of the BoS determine the functions of employees with special authorisations, their rights and obligations, the procedure for their appointment and the term of their office. The Governing Board decides on the appointment of those employees on basis of the proposal of the Governor. Notwithstanding other laws, the BoS reports on its work exclusively to the National Assembly of the Republic of Slovenia. The BoS notifies the National Assembly of the annual accounts and financial plan. The annual financial statements are an integral part of the annual report and are published.

The Ministry of Finance has certain contractual relations with the BoS, either stemming from statutory obligations – see for example Article 27 of the ZBS-1 – or from other engagements, such as the agreement concerning the tasks on expert and technical levels related to issue of coins. Furthermore, the BoS and Ministry of Finance shall exchange data and information relevant for the functioning of monetary and financial systems. The representative of the committee of the National Assembly of the Republic of Slovenia in charge of finance and monetary policy, and the minister in charge of finance, may participate in meetings of the Governing Board of the BoS, but does not have right to vote.

The BoS and members of its decision making bodies must be independent and, in performing the tasks pursuant to ZBS-1 shall not be bound by any decisions, positions or instructions issued by the State or any other authorities, nor shall they seek any instructions or guidelines from them. The primary objective of BoS is to maintain price stability. Without prejudice to this objective, the BoS supports general economic policy in accordance with the objectives set in the Treaty establishing the European Community. In pursuing those objectives, the BoS shall strive for financial stability, while taking into account the principles of an open market economy and free competition.

Within the scope of its powers, the BoS is authorised to examine the implementation of the ZBS-1 and other laws and regulations, and of measures taken on the basis thereof by supervising banks and savings banks and other persons. The BoS may take certain measures for the implementation of monetary policy, such as restrictions on the credit activity of banks or savings banks, harmonisation of the maturity structure of assets and investments, and other measures. The BoS is also the authority responsible for investigating violations, deciding on violations committed under ZBan-1, and for imposing fines pursuant to ZBan-1.

Judicial review of the BoS's individual legal acts issued on the basis of powers deriving from the law shall be ensured in a procedure determined in the banking law. However, there are no explicit statutory provisions that will protect the BoS or its employees in respect of possible claims regarding the conduct of its activities.

There was only one supervisory intervention in recent years when BoS required shareholders of one bank to raise additional capital. However, the shareholders decided not to provide additional capital and that bank went into liquidation at the end of 2003. The only bankruptcy procedure in the banking system in Slovenia took place in the year 1996. More details on banking supervision are provided further below in the chapters B. (Financial Stability Oversight and Macro-Prudential Surveillance) and C. (International Surveillance Assessment of Slovenian Financial Supervision), including the framework of assessments of Slovenia's compliance with the Basel Core Principles for Effective Banking Supervision.

Capital Markets Oversight

The Securities Market Agency (SMA) is the competent authority for the supervision of investment firms, management companies and investment funds, brokers/dealers, mutual pension funds as well as for the public offers of securities and takeovers' procedures in Slovenia. The SMA has its own rules of procedure in which its internal organisation and operation are stipulated (Article 470 of ZTFI). The bodies of the SMA are the Council and the Director. The Council consists of five members, one of which is appointed President of the Council. The Director of the SMA is also the President of the Council. The members of the Council and the Director of the SMA are appointed and dismissed by the Government of the Republic of Slovenia, upon a proposal of the minister responsible for finance. The members of the council and the director of the SMA can be appointed for a period of five years and may be re-appointed.

Article 478 of the ZTFI defines the conditions for members of the Council. A person may be appointed as a member of the Council if he/she meets the following criteria:

- is a citizen of the Republic of Slovenia,
- holds a university degree and
- has not been convicted based on a final judgement of a criminal offence prosecuted ex officio and sentenced to a non-conditional imprisonment exceeding six months.

As at January 5, 2009, the SMA had 46 employees: two with a doctorate, nine with a master's degree in economics, fourteen graduates of law, eleven graduates of economics, one graduate of physics, two with vocational degrees in administrative organisation, one with a vocational degree in management, three with vocational degrees in economics, one with a degree in communications, one economics technician and one grammar school graduate.

According to Article 469 of the ZTFI the SMA is a legal entity of public law. It is independent in implementing its tasks and responsibilities. The SMA and the members of its bodies are independent and, in performing the tasks of the SMA pursuant to this or any other act, not bound by any decisions, points of view or instructions issued by the statutory authorities or any other bodies. The founder of the SMA is the Republic of Slovenia.

The SMA reports annually to the National Assembly (Article 472 of the ZTFI) on the situation on the market in financial instruments (information about public offers of financial instruments, trading on stock markets with figures for the volume and breakdown of trading in financial instruments, the admission of financial instruments to trading on stock markets, trading in financial instruments outside stock markets, etc.), and on its own work.

The funds for the SMA's work are secured mainly from charges for supervision and from fees for ruling on specific matters. The level of the charges and fees is set by a tariff issued by the SMA, subject to approval by the government. The SMA's annual accounts and financial plans, appointment and dismissal of the members of the Council and the director of the SMA are also subject to Government approval. The Court of Audit monitors the SMA's use of funds to verify that funds are used lawfully and for their assigned purpose and that they are used in a cost-effective and efficient manner.

As mentioned above, the SMA is independent in implementing its tasks and responsibilities. The SMA issues authorisations and approvals, conducts supervision and exercises its other powers and responsibilities set out by the ZTFI, ZISDU-1, ZPre-1 and ZNVP. In addition to the aforementioned laws, the legal framework for the SMA's work is set out by the First Pension Fund of the Republic of Slovenia and Transformation of Authorised Investment Companies Act (ZPSPID), the Act on Legal Successors of Authorised Investment Companies, the ZPIZ-1, and the Collective Supplementary Pension Insurance for Public Servants Act (hereinafter referred to as ZKDPZJU).

Pursuant to the Prevention of Money Laundering and Terrorist Financing Act, the SMA is involved in compiling a list of indicators for identifying parties and transactions in relation to which there are grounds for suspecting money laundering or the financing of terrorism (at the entities that it supervises), and also checks the implementation of this law within the framework of its powers as a supervisory body. Pursuant to the ZFK, which entails an extension to existing supervision in all three parts of the financial sector, the SMA prescribes or helps to draft the relevant secondary legislation in conjunction with the BoS and the ISA.

The SMA's powers and responsibilities mainly comprise the following basic areas:

- issuing authorisations and approvals: for the operations of financial institutions pursuant to the ZTFI, the ZISDU-1, the ZPIZ-1 and the ZKDPZJU, for public offers of securities, for takeover bids, for acting as an investment broker, and for holding office as a member of the management board of a management company, an investment firm, a stock exchange or a central clearing house;
- supervising the market in financial instruments and financial institutions pursuant to the ZTFI, the ZISDU-1, the ZPIZ-1 and the ZKDPZJU, and supervising the reporting of listed companies and procedures in relation to takeovers pursuant to the ZPre-1;

- drawing up secondary legislation;
- administering registers and other information relating to the market in financial instruments, and
- ruling on misdemeanours.

On 1 January 2005, when the new Minor Offences Act entered into force, the SMA began to exercise its powers as a misdemeanours body, and thus it now rules on misdemeanours in fast-track proceedings for breaches of laws and secondary legislation that fall under its jurisdiction or within its area of work. This had been recommended by international surveillance assessments. If fast-track proceedings are not allowed, the SMA files charges with the competent court.

The SMA is not able to provide data on major supervisory interventions in recent years since so far no actions have been considered as active interventions in the market. The SMA has so far not needed to intervene in the market as a result of insolvency or crisis. No insolvencies of intermediaries have been registered in recent years. The SMA supervises the following entities and individuals:

- investment firms (brokerage companies and banks providing investment services in securities);
- management companies and investment funds;
- open-end pension funds;
- brokers;
- public companies whose securities are admitted to trading on regulated market;
- takeover procedures.

Financial Conglomerates Oversight

The oversight of financial conglomerates in Slovenia is still in its initial stages Whereas the Triglav group has been officially designated a financial conglomerate, with the Insurance Supervisory Agency (ISA) as the lead supervisor, supervision of the different parts of the conglomerate is still largely carried out by separate supervisors. In a situation similar to that at the SMA, the ISA appears to be burdened by a significant, although declining, number of court cases, as financial institutions concerned by its rulings take their case to the Supreme Court as a matter of routine. The authorities are planning to further improve legal protection for supervisors as part of the upcoming revision of the SMA Act.

B. Financial Stability Oversight and Macro-Prudential Surveillance

According to the ZBS-1, the BoS is responsible for the general liquidity of the banking system. The BoS is also responsible for the supervision of banks, savings banks and other persons. In designing, supervising and enforcing the system of regulations, the BoS takes into account the relevant standards and recommendations drawn up by competent domestic and international institutions. The BoS also publishes, on an annual basis, a Financial Stability Review and the results of macro stress tests.

The BoS tried to reign in runaway credit growth in 2007 through the application of two measures: The first was a so-called “prudential filter”, where the release of provisions in the context of the move to IFRS would have to be deducted from Tier 1 capital. This measure was abolished in November 2008 in order to achieve a countercyclical effect. The BoS would also have liked to introduce countercyclical provisioning along the lines of the Spanish approach, but was told by auditors that they would have had to qualify their audit statements. The second measure was an additional capital requirement (50 percent surcharge) for credit risk associated with LBOs and other exposures considered higher-risk. In addition, the industry reports having received circulars and letters from the BoS, warning them about excessive credit growth, although it is unclear to which degree the banks heeded the BoS's warnings.

The BoS regularly runs stress tests for banks, in the current environment about every 6 months. The BoS Financial Stability Division conducts top-down macro stress tests, whereas the Banking Supervisory Division asks banks to stress-test various scenarios using their own systems (bottom-up stress testing). The two stress-test exercises are not apparently connected in any way. The banks indicate that they currently have to report their liquidity positions to the BoS at high frequency. The BoS is also said to have required some banks to increase their provisions, and appealed to shareholders to give up dividends.

C. Financial system support measures

Amendments to the Banking Act

Through an amendment to the Banking Act, effective 20 November 2008, Slovenia issued an unlimited State guarantee for repayment of bank deposits in banks and savings banks having their head office in Slovenia. This unlimited guarantee comes in addition to the existing deposit guarantee, which was limited to EUR 22 000 per depositor, and will be valid until 31 December 2010. Banks with their head offices in Slovenia are required to guarantee repayment of the guaranteed deposits by the bank for which bankruptcy proceedings have been initiated up to the net deposit amount of EUR 22 000. The government now guarantees the residual amount above EUR 22 000, and also until 31 December 2010 the amount up to EUR 22 000 in the case that banks with their head offices in the Republic of Slovenia are not able to provide adequate funds for paying out the deposit guarantee.

For the purpose of deposit guarantee, a deposit is defined as the total of all accounts receivable of a natural or legal person from the bank on the basis of: a contract on managing a transaction account, a savings deposit, a money deposit and a certificate of deposit or bills provided that they are issued as registered securities. The net deposit of an individual person is the balance of this person's deposit less liabilities of this person to the bank. Bearer deposits and deposits of the following persons are not considered as guaranteed deposits:

- deposits by other banks and financial undertakings which placed deposits on their behalf and for their own account,
- deposits arising out of transactions for which the holder of the deposit has been convicted by final judgment for the criminal offence of money laundering,
- deposits by states, central banks and local communities,
- deposits by members of the management board and of the supervisory board and their immediate family;
- deposits by the bank's shareholders which hold at least a 5% share of the bank's capital or voting rights,
- deposits by legal persons which are subsidiaries of the bank,
- deposits by members of the management board and of the supervisory board or any other management or supervisory body of legal persons from points 5. and 6. of this paragraph and their immediate family,

- deposits which, due to their characteristics, are taken into consideration in the calculation of the banks' own funds,
- deposits by legal persons that are large or medium-sized enterprises according to company law.

Amendments to the Law on Public Finance (ZJF):

The Slovenian parliament also adopted, on 11 November 2008, amendments to the Law on Public Finance, which allow for the following measures: (1) guarantees by the Republic of Slovenia for refinancing operations by credit institutions incorporated in Slovenia, not exceeding EUR 12 billion, with the guarantee given by the Ministry of Finance or by another institution authorised by the Government, (2) provision of credit to credit institutions, insurance, reinsurance and pension companies incorporated in Slovenia, and (3) capital investments by the Republic of Slovenia in credit institutions incorporated in Slovenia. The latter measures will remain in force until 31 December 2009. In addition, the government is considering providing guarantees for bank lending to the real economy, for up to 50 percent of loan amounts, and up to a maximum of EUR 1 billion.

A government regulation implementing the guarantee facility foreseen under (1) above, which sets out the criteria for banks applying for State guarantees, was adopted in December 2008. This guarantee facility was cleared as a permissible state aid measure by the European Commission, also in December 2008 in its Decision (N531/2008). The following description of the guaranteed facility is taken from this Decision:

The scheme is open to all credit institutions incorporated in the Republic of Slovenia that are solvent (including the Slovenian subsidiaries of foreign financial institutions). Specifically, it targets institutions which meet the minimum capital requirements under the Banking Act and which, because of the effects of the global financial crisis, are unable to conduct borrowing transactions on the financial or interbank market without a state guarantee. As, in the current context, especially smaller banks may experience a lack of access to new funds, the scheme is open to credit institutions of all sizes.

Slovenia will thus make available a state guarantee for new short and medium-term debt issuance (including renewal of existing liabilities). Institutions have the option of entering into an agreement with the state, which in turn would guarantee the institutions' issuance of debt instruments in exchange for a fee. The Ministry of Finance will set an annual fee for the guarantees, based on the duration of the guarantees and the rating of the credit institution.

Instruments that can be covered by the guarantee are all liabilities with exception of structured financial instruments, subordinated liabilities and liabilities to parent companies or other related entities, which have a maturity longer than 90 days but less than five years. The scheme excludes all liabilities that qualify as either Tier 1 or Tier 2 capital and is not subject to any currency restrictions. The applying institutions have to submit information regarding the size of maturing liabilities and explanations on what actions have been taken by the institution itself to obtain market financing. In addition, the institutions have to explain the hypothetical consequences of not receiving the State guarantee. Instruments guaranteed under the scheme may be issued within 6 months. In total, the State will initially guarantee up to EUR 4 billion of such debt instruments in 2009, with a further EUR 8 billion possible in 2010.

For the liabilities covered by the State guarantee, Slovenia devised a fee structure which is based on the "Recommendations on government guarantees on bank debt" of the European Central Bank (hereafter "ECB-Recommendations") of 20 October 2008. The fee will have to be paid in advance on a quarterly basis. The fee payable for the guarantee will in most cases comprise two elements. The first element will be a measure of institution-specific risk and the second one a fixed add-on of usually 50 basis points.

The guarantee fees are subject to publication in the Official Gazette of Slovenia. Slovenia will also impose certain conditions on institutions availing of the state guarantee, aimed at eliminating or minimising any spill over effects which may distort competition. In particular, the participating credit institutions will commit to the following constraints in writing:

- Restrictions on mass marketing of the guarantee, except when required by law or other regulations, for example rules relating to offering documents;
- A commitment not to undertake a significant expansion of activities which would not have taken place in normal market conditions, including a curb on acquisitions, and
- Restrictions with respect to the earnings of company managers, including company share options, on the payment of dividends and other shareholders' rights during the guarantee period.

The Slovenian authorities submit that in the event there are indications that a beneficiary may not be able to perform its liabilities, the government will intervene with restrictions to enable timely performance of guaranteed obligations. In case of a default on the guarantee, the government may convert the claims from paid guarantee into equity of the beneficiary.

The country's largest bank, NLB, was the first one to apply for a guarantee under this scheme, and has accessed the financial market in the amount of EUR 1.5 billion under this scheme.. Abanka, the third largest bank, also issued government-guaranteed paper in an amount of EUR 500 million at the beginning of September 2009. The government had prepared the ground with benchmark issues.

Further interventions

Slovenia has also started to activate SID bank, the government-owned development bank, for the purpose of borrowing funds in the capital markets that can be on-lent to small and medium-sized enterprises (SMEs). SID issued government-guaranteed 3-year bonds in late December 2008 and early January 2009 (EUR 245.4 million and EUR 249.6 million respectively). After selling the bonds, SID bank placed the majority of funds with the banks. Bonds are "ECB eligible" and banks can use them as collateral for borrowing at the Eurosystem.

Banks are obliged to extend loans to corporates in amounts of deposits they received increased by 30% by the end of March 2009. This comes in addition to two credit lines extended by the SID bank to other banks at the end of 2008 for support of SMEs and large corporates (EUR 100 million each). The government intends to increase the capital of the SID bank by EUR 160 million to EUR 300 million in order to increase its ability for raising funds and strengthen its role in corporate sector financing. SID bank is negotiating with the European Investment Bank (EIB) for a EUR 300 million loan. The decision on the loan is expected to be taken in the second quarter of 2009.

Finally, the government is considering further steps, if necessary, to address the lack of financing. Besides further project funding from multilateral development banks, the authorities are not excluding interest rate subsidies of some form, but no decisions have yet been taken on the necessity of such measures.

D. International Surveillance Assessment of Slovenian Financial Supervision

As part of the IMF-World Bank Financial Sector Assessment Programme (FSAP), a joint IMF-World Bank mission first visited Slovenia (Ljubljana) in November 2000. It presented a full assessment of the financial system and therewith assisted the authorities in identifying potential vulnerabilities in the Slovene financial system that could have macroeconomic consequences and in identifying directions for reform to reduce these risks. In order to conduct an FSAP Update that would reassess the condition of the Slovene financial sector and its resilience to current and prospective macroeconomic and financial shocks in view of the improvements made and changes adopted, a FSAP follow-up mission took place in November 2003. Slovenia has expressed its willingness for another FSAP Update; in agreement with the IMF it is planned for 2009 (IMF's fiscal year 2010).

In response to the results of the Basel Core Principles Assessment, done in the context of the 2003 FSAP update, the BoS drafted an action plan comprising a number of follow-up measures. According to the BoS, with one exception all the proposed measures have been implemented, primarily through the introduction of a new Risk Assessment System (RAS) methodology.

The proposed measure that was not implemented is the recommendation to provide legal protection for supervisors. The lack of legal protection of supervisors remains an issue, as their actions are frequently contested in court. Although under Article 497 of the ZTFI the president and the members of the senate of the Agency as well as the experts of the Agency who perform individual tasks in the process of deciding in individual matters for which the Agency is competent under this or any other act shall not be liable for any damages suffered by the client and other persons in the course of such process, unless the damages have been caused wilfully or through gross negligence, it appears that individual members of the supervisory agencies have in fact been sued. It can be assumed that this may not only affect the willingness to take supervisory action, but also binds the limited resources of the agencies. It is possible that this may become an issue to be reconsidered in connection with new legislation that would be needed to establish a unified prudential supervisor.

A second recommendation on which some open questions remain relates to the role of the supervisory board in credit decisions. Regarding the approval by the board of supervision of large exposures, the FSAP had recommended to address the modus operandi, the composition, and the quality of the supervisory boards of the Slovenian banks. Whereas the BoS still does not have a veto over the appointment of supervisory board members, and cannot have such a member replaced without the agreement of the majority of the shareholders, new rules that came into effect at the beginning of 2009, are intended to insure the expertise of supervisory board members through a politically independent Council for Accreditation of Staff (CAS) in charge of vetting potential members of the supervisory boards of government-held companies.

Based on the visit by a World Bank team to Slovenia that took place in May 2006 at the request of the Slovenian Government, two Pilot Diagnostic Reviews, one of governance of the Insurance Sector and the other of governance of the Investment Fund Sector, were prepared by the World Bank staff. Following the visit of a World Bank team in November 2006 and at the request of the BoS, a Pilot Diagnostic Review of Slovenian bank governance was also prepared. The reviews were finalised in 2007, but there was no agreement between the World Bank and Ministry of Finance on their public disclosure.

The Pilot Diagnostic Review of Governance of the Investment Fund Sector has been prepared with three objectives: (1) to refine the set of good practices for reviewing the governance of collective investment funds; (2) to conduct a review of the Slovenian governance framework for collective investment funds based upon the good practices and (3) to provide recommendations on ways to improve the corporate governance of the investment fund sector in Slovenia.

The Pilot Diagnostic Review of Governance of the Insurance Sector had three objectives: (1) to improve the description of good practices related to governance of insurance sector; (2) to conduct a diagnostic review of Slovenian insurance governance against these benchmarks and (3) to provide recommendations on ways of further improving the corporate governance of the Slovenian insurance sector.

The Pilot Diagnostic Review of Governance of the Banking Sector had the following objectives: (1) to conduct a review of the Slovenian bank governance framework; (2) to make recommendations on provisions that would help to strengthen the governance structure of banks in Slovenia and (3) to refine the good practices developed for the pilot banking governance review program.

VII. INTERNATIONAL FINANCIAL INTEGRATION AND MARKET ACCESS

Slovenia's financial system is increasingly integrated with global financial markets. Its largest corporations have long been able to tap foreign funding resources, and the introduction of the euro has been a key driver of further financial integration for Slovenia.

A. Recent Developments in Cross Border Investment

Foreign investment in Slovenia's financial sector is substantial, even if not on the same level as in several Central and East European countries. The main reason is that the largest financial institutions remain majority government-owned, either directly or indirectly. The most recent transaction has been the takeover of the Ljubljana Stock Exchange (LJSE) by the Vienna Bourse, which was completed in November 2008. Slovenian institutional investors, by contrast, have continued to build up their investments abroad, mainly in Southeast Europe. Information on cross-border investments is also covered in the various other chapters of this report, particularly Chapter IV on the structure of the banking system.

B. Internationalisation and Capital Market Regulation

Exchange of information

The Slovene authorities consider that there are no particular obstacles to the exchange of information between domestic and foreign supervisory authorities and to co-operation in the performance of consolidated supervision of banks' cross-border establishment. The ZBan-1 contains provisions on the exchange of information and co-operation between supervisory authorities. The existence of a formal "memorandum of understanding" (MoU) is not a pre-requisite for such co-operation and exchange of information, however, the BoS concluded MoUs with all supervisory authorities that supervise banks under Slovene (minor or major) ownership.

To date, MoUs have been signed with the Austrian Federal Ministry of Finance, which merged with other financial sector supervisory authorities to form the Austrian Financial Market Authority as of 1 April 2002, with the Federal Banking Supervisory Office in Germany (BaFin), with the National Bank of the Republic of Macedonia, with the Banking Agency of the Federation of Bosnia and Herzegovina and the Republika Srpska, and the Central Bank of Bosnia and Herzegovina, with the Bank of Italy, with the French Banking Commission, with Belgium's Banking and Finance Commission, with the Central Bank of Montenegro, with the Bulgarian National Bank, with the National Bank of Serbia, with the Banking and Payments Authority of Kosovo (Central Bank of Republic of Kosovo) and De Nederlandsche Bank. These MoUs are prepared in accordance with the Basel document Essential Elements of Collaboration between Banking Supervisors from December 2000, other Basel documents (Concordats on the Supervision of Cross Border Banking and on the Core Principles for Effective Banking Supervision) and with the Directive 2006/48/EC. They are not published.

Similarly, the SMA considers that in its sphere of operations, there are no obstacles to the exchange of information between domestic and foreign supervisory authorities. Particularly, the SMA refers to the multilateral MoU of the Committee of European Securities Regulators (CESR) that enables daily exchange of supervisory and other relevant information between the SMA and the securities market regulators and supervisors of the other EU Member States. The SMA has encountered obstacles in obtaining information from third countries (non EU members) only in a few cases of so-called “non-cooperative jurisdictions”.

Slovenia is also in the process of becoming a signatory to IOSCO’s multilateral MoU, and is undergoing an informal evaluation procedure with IOSCO.

Market Access for Foreign Institutions and Investors

The OECD Investment Committee discussed Slovenia’s accession to the OECD on 23 March 2009 and on 5 October 2009. The background note on the accession examination of Slovenia under the OECD investment instruments is available on OLIS under the reference DAF/INV/ACS(2009)1/REV1.

Compared to OECD Members, there appear to be no major or unusual market access restrictions for foreign institutions and investors in Slovenia’s financial system. The still limited market share of foreign-owned players in the financial system is more likely to reflect the small size of the Slovenian market, combined with the overwhelming presence of the state-owned financial institutions, particularly NLB and Triglav. The most active foreign financial institutions operating in Slovenia come from neighbouring countries such as Austria and Italy. According to the Slovenian authorities, there have been no requests yet for the establishment of a branch of a non-EEA bank.

Slovenia’s position with regard to the banking and other financial services provisions of the Codes of Liberalisation of Current Invisible Operations is reflected in proposed reservations under items E/2, E/4 and E/5.

VIII. COMPLIANCE WITH THE OECD LEGAL INSTRUMENTS ON FINANCIAL MARKETS[9]

C(2009)62 and C(2009)62/CORR1: Recommendation of the Council on Good Practices on Financial Education and Awareness Relating to Credit

Slovenia accepts this Recommendation.

Slovenia does not (yet) have a state programme on financial education.

C(2005)55/REV1: Recommendation of the Council on Principles and Good Practices for Financial Education and Awareness

Slovenia accepts this Recommendation.

Slovenia does not (yet) have a state programme on financial education.

C(75)198: Recommendation of the Council concerning the Minimum Disclosure and Procedure Rules to be Complied with before Securities may be Offered to the Public

Slovenia accepts this Recommendation.

C(74)157: Recommendation of the Council concerning Regulations for the Public Offer and for Stock Exchange Listing or Quotation of Foreign Securities

Slovenia accepts this Recommendation.

C(74)156: Recommendation of the Council concerning Disclosure Requirements and Procedures to be Applicable to all Publicly Offered Securities

Slovenia accepts this Recommendation.

C(74)61: Recommendation of the Council concerning the Review of any Restrictions which Member Countries Impose on Portfolio Investment in Unlisted or Unquoted Securities

Slovenia accepts this Recommendation.

C(71)234: Recommendation of the Council concerning Standard Rules for the Operations of Institutions for Collective Investment in Securities

Slovenia accepts this Recommendation.

C(71)176: Recommendation of the Council on International Security Issues

Slovenia accepts this Recommendation.

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[9] Slovenia's complete submission on all the legal instruments except C(2009)62can be found in Slovenia's Initial Memorandum, the relevant excerpt of which is made available to the Committee in document DAF/CMF/ACS(2009)8. Slovenia's submission on C(2009)62, which was adopted after the submission of the Initial Memorandum, is set out below.

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ANNEX I

LIST OF BANKS AUTHORISED IN SLOVENIA AS OF 15 MARCH 2009[10]

ABANKA VIPA d.d.

BANKA CELJE d.d. (subsidiary of NLB)

BANKA KOPER d.d. (subsidiary of Intesa SanPaolo)

BANKA SPARKASSE d.d. (subsidiary of Erste Bank, Austria)

BANKA VOLKSBANK d.d. (subsidiary of Volksbank, Austria)

BAWAG BANKA d.d. (subsidiary of Bawag P.S.K., Austria, in turn owned by Cerberus Capital Management)

DEŽELNA BANKA SLOVENIJE d.d.

FACTOR BANKA d.d.

GORENJSKA BANKA d.d., KRANJ

HYPO ALPE-ADRIA-BANK d.d. (subsidiary of Bayerische Landesbank, Germany)

KD Banka d.d.

NOVA KREDITNA BANKA MARIBOR d.d.

NOVA LJUBLJANSKA BANKA d.d.

POŠTNA BANKA SLOVENIJE, d.d. - bančna

skupina Nove Kreditne banke Maribor d.d.

PROBANKA d.d.

RAIFFEISEN BANKA d.d. (subsidiary of Raiffeisen Bank, Austria)

SKB BANKA d.d. LJUBLJANA (subsidiary of Société Générale, France)

SLOVENSKA INVESTICIJSKA BANKA, d.d. - v likvidaciji (Slovene Investment Bank, joint-stock co. - in liquidation procedure)

SID - SLOVENSKA IZVOZNA IN RAZVOJNA BANKA, d.d., LJUBLJANA

UNICREDIT BANKA SLOVENIJA D.D. (subsidiary of Unicredit, Italy)

BKS Banka (branch)

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[10] Source: Bank of Slovenia.