

**BANKA
SLOVENIJE**
EVROSISTEM



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Slovenska 35

1505 Ljubljana

Tel: +386 (1) 4719000

e-mail: pr@bsi.si

<http://www.bsi.si>

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A WORD FROM THE GOVERNOR

Developments last year were shaped above all by the reversal in the economic cycle, although the economy itself remained relatively strong. The Slovenian banking system also followed this path, with a renewed improvement in the majority of performance indicators. However, the economic slowdown had already indicated that the period of improving performance is coming to an end for banks. The reversal in the economic cycle picked up great pace in the early part of this year with the outbreak of the pandemic, to which the Eurosystem responded with immediate, wide-ranging measures, thereby reiterating our commitment to the inflation target and the maintenance of financial stability in the euro area. The circumstances in which Banka Slovenije is successfully fulfilling its mandate this year are thus quite exceptional.

The economic cycle underwent a reversal in 2019: as GDP growth slowed, while inflation remained below 2%. Economic growth slowed in 2019 in the euro area overall, and also in Slovenia. The key factors related to the deterioration in the international environment. International trade continued to slow, as trade disputes worsened, and growth also slowed in emerging countries. Despite slowing, economic growth in Slovenia remained among the highest rates in the euro area, at 2.4%. Inflation meanwhile was subdued: it was below 2% for the majority of the year in Slovenia and in the euro area overall.

Euro area monetary policy responded promptly to the changing situation and the increased uncertainty. Within the Eurosystem, with the aim of maintaining stable inflation at its medium-term target of close to but less than 2%, we extended certain existing measures and took new measures to provide even greater monetary policy stimulus. In March we announced a third series of targeted longer-term refinancing operations, and strengthened our forward guidance with regard to key interest rates, while September saw the adoption of a comprehensive package of new measures in the wake of a further slowdown in the economy. These included a cut in the interest rate on the deposit facility, and the resumption of net asset purchases. The measures helped to maintain high surplus liquidity in the banking system, including in Slovenia, and favourable bank lending terms, while driving down long-term yields.

While the economy remained strong, Slovenian banks saw an improvement in the majority of their performance indicators for the third consecutive year in 2019. The NPE ratio in the corporate lending segment declined by a further 3.9 percentage points last year to 4.5%, which gave Slovenia the greatest improvement in credit portfolio quality among all EU Member States. The banks saw an increase in their capital adequacy, while maintaining the liquidity of the banking system at the high level of previous years. Pre-tax profit was a record high for independent Slovenia, albeit partly as a result of a net release of impairments and provisions.



However, the economic slowdown had already indicated that the period of improving performance is coming to an end for banks. Despite the banks' efforts to modify their business models, and their reasonable success in adapting to the new business conditions dictated by the change in approach to corporate financing, the long period of low interest rates, intensive digitalisation, competition from non-standard financial providers of individual banking services and the rising scope of regulatory requirements, there were several adverse financial phenomena that pointed to a deterioration in systemic risks in the banking sector. The banking system's net interest margin had fallen below 1.8% by the end of 2019. The five-year period of net releases of impairments and provisions, which have been a major factor in the banks' high profitability, is also coming to an end. Both suggest that income risk has already begun to increase, despite the high pre-tax profits being generated by the banks.

Credit growth in individual economic sectors and growth in specific types of loans within sectors also remained most unusual last year, leading Banka Slovenije to impose a macroprudential instrument.

Alongside a very gradual increase in growth in corporate loans, the banks were increasingly redirecting their lending activity towards the household sector. Despite Banka Slovenije recommendations, they notably continued to pursue the rapid expansion of consumer loans, where the highest interest margins are earned. Had the macroprudential measure in the area of household lending not been strengthened, the further easing of credit standards in the segment of consumer loans would have deepened this imbalance even further. By contrast, growth in corporate loans has been systematically outpaced by growth in household loans in recent years, and this has also been reflected in the structure of the credit portfolio. The proportion of the balance sheet total accounted for by household loans at the end of last year was 4.5 percentage points higher than the proportion accounted for by corporate loans.

The outbreak of the pandemic and the accompanying crisis in early 2020 brought a sharp downturn in these economic and financial developments. As a result of the outbreak of the epidemic, and the lockdown measures that followed, 2020 will see a sharp decline in economic activity, while the situation in the financial system will deteriorate and the downward pressure on inflation will worsen. Our scenarios suggest that the decline in activity is highly likely to exceed that seen during the previous financial crisis. The situation in the financial system will deteriorate further as a result. A deterioration in business conditions is faced not only by Slovenian banks, who are more resilient to adverse shocks on this occasion than during the previous global financial crisis, but also by banks in other EU Member States and around the world.

To curb the economic and financial shock caused by the pandemic, the Eurosystem responded with wide-ranging measures, thus reiterating its commitment to the inflation target and the maintenance of financial stability in the euro area. The measures were extraordinarily wide in scope: the envelope of asset purchases for new government securities and private-sector securities will reach EUR 1,100 billion by the end of 2020, which will hold down borrowing costs on the financial markets.

New longer-term refinancing operations also made it cheaper for banks to access additional liquidity, in turn making it easier for them to finance firms and households. At the national level, under the aegis of the SSM, the EBA and the BIS, we were quick to respond effectively by adjusting the supervisory prudential requirements for banks, and through other measures to alleviate the impact of the pandemic. Banka Slovenije also responded by adopting certain temporary adjustments to prudential requirements and supervisory measures that fall under national jurisdiction. In contrast to the previous global financial crisis, the timing of the response from euro area monetary policy, from fiscal policy in individual countries and from the European Commission was coordinated, which alongside the solid fiscal efforts is giving a good chance of preventing a slide into a longer-lasting contraction in economic activity, with an adverse impact on inflation.

Finally, I would also like to mention certain highlights in Banka Slovenije's performance. Banka Slovenije's balance sheet total increased by EUR 2.4 billion in 2019, largely as a result of the monetary policy stimulus. On the liability side, there were increases in current account balances of banks, banknotes in circulation and liabilities to the Eurosystem from adjustments in euro banknotes, and a decline in euro deposits by the government sector and other clients. On the asset side, there were increases in net securities purchases for monetary policy purposes, and other euro investments, while the stock of longer-term refinancing operations declined as loans were repaid early. The aforementioned changes brought an increase in claims against the ECB from Banka Slovenije's TARGET2 position. The surplus of income over expenses amounted to EUR 180.7 million in 2019, up on the previous year, primarily as a result of a net release in provisions for risks. Net interest income and other income were higher than in 2018. On the basis of the realised surplus, Banka Slovenije will contribute a total of EUR 45.2 million to the state budget.

In my judgment, Banka Slovenije's actions in 2019 saw it successfully fulfil its mandate as set out by law. As part of the European System of Central Banks, we participated in shaping monetary policy to ensure price stability, while this monetary policy also acted to encourage economic activity in Slovenia. We responded quickly and decisively to the latest information about changes in the macroeconomic environment. We also attended to financial stability in Slovenia, either independently, or in conjunction with the competent authorities at the European level, and responded promptly to current trends in the banking system by taking appropriate action. We will work to consistently fulfil our mandate in the future.

Boštjan Vasle,
Governor of Banka Slovenije

ABOUT BANKA SLOVENIJE

Banka Slovenije is the central bank of the Republic of Slovenia. It was established by the Bank of Slovenia Act adopted on 25 June 1991. It has legal personality under public law, and freely and independently disposes of its own assets. Banka Slovenije is under exclusive state ownership, with autonomy in finances and governance. Banka Slovenije's financial statements are audited by an independent international auditor. Banka Slovenije's primary objective is price stability.

BANKA SLOVENIJE'S KEY A



MONETARY POLICY

Banka Slovenije pursues the Eurosystem's fundamental objective of maintaining price stability.



FINANCIAL STABILITY

Banka Slovenije co-designs, implements and oversees a system of prudential rules for safe and sound operations by banks and savings banks.

1.7%

average headline inflation in 2019, as measured by the HICP

€4
billion

excess liquidity of the banking system at the end of 2019

€975
million

stock of the TLTRO-II at the end of 2019

3.2
tonnes

gold in Banka Slovenije's reserves; gold and gold receivables amounted to €138 million at the end of 2019

€597
million

pre-tax profit generated in 2019 by the banking system, whose balance sheet total stood at €41.2 billion at the end of December 2019

2.2%

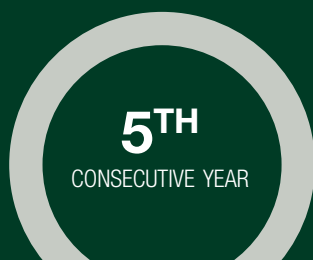
NPE ratio in the banking system at the end of 2019 (down from 4% at the end of 2018)

5.8%

year-on-year growth in loans to the non-banking sector

17.8%

total capital ratio of the banking system on a consolidated basis, which remained above the euro area average



of Banka Slovenije
earning a
Best Employer award



€63.4 million surplus of
income over expenses
in 2018



executed by
Banka Slovenije in 2019
for its 197 clients

AREAS OF WORK AND TASKS



PAYMENTS AND INFRASTRUCTURE

Banka Slovenije is responsible for ensuring that payment systems and securities settlement systems function undisrupted.



BANKNOTES AND COINS

Banka Slovenije ensures that the Slovenian market is supplied with authentic and fit currency.

1,027,020
transactions

with a total value of €367.81 billion were settled in the TARGET2-Slovenija payment system in 2019

SEPA
credit transfers

Banka Slovenije enabled exchange with more than 4,000 payment service providers across the EU

€14.99
billion

of transactions in securities settled by Slovenian market participants in T2S cash accounts in 2019

24/7
year-round

firms and individuals across the EU are able to exchange euro payments via TIPS

€8.66
billion

net total of cash issued into circulation by the end of 2019 by Banka Slovenije since the introduction of the euro

1,236

counterfeit euro banknotes and 2,237 counterfeit euro coins withdrawn from circulation in 2019

€31.94
million

total value of tolar banknotes and payment notes still in circulation at the end of 2019

146.07
million

banknotes and coins processed by Banka Slovenije in 2019

1 ECONOMIC DEVELOPMENTS

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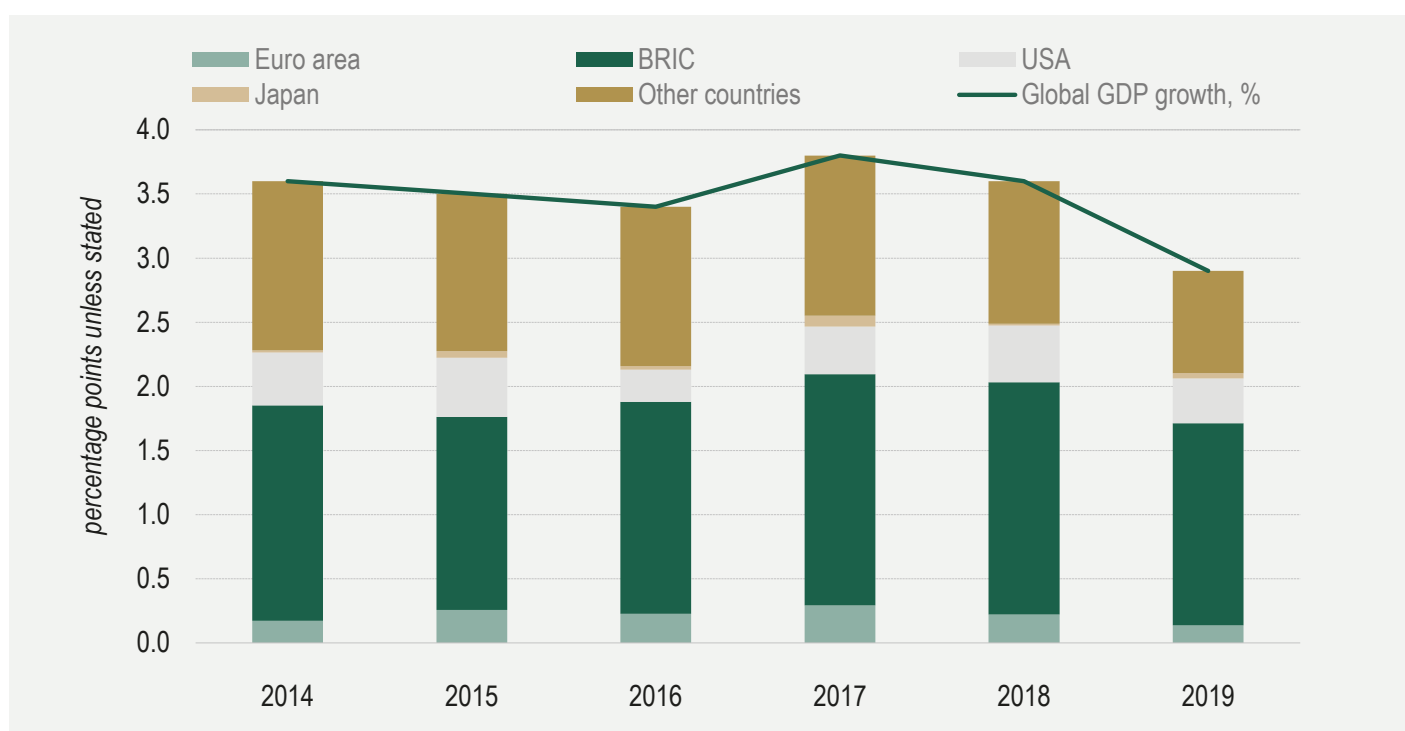
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1.1 INTERNATIONAL SITUATION

Last year's global economic growth was the lowest figure since 2009.

Global economic growth slowed sharply in 2019. According to IMF figures, economic growth was down 0.7 percentage points on 2018 at 2.9%, the lowest rate since the global financial and economic crisis in 2009. The reasons were a slowdown in global trade and industrial production, and a consequent slowdown in investment growth, which is mainly attributable to rising protectionism and the related high level of uncertainty. Economic growth slowed last year in the advanced economies and the developing countries alike. In the BRIC countries, the largest slowdown was in India, where economic growth was down 1.9 percentage points at 4.2%. Among the major advanced economies, only Japan saw economic growth increase, while growth in the euro area slowed sharply for the second consecutive year, and was down 0.7 percentage points on 2018 at 1.2%. The slowdown was primarily driven by low growth in exports as a result of weak foreign demand, while domestic demand remained relatively robust, private consumption in particular, supported by a buoyant labour market. Germany, Slovenia's most important trading partner, recorded economic growth of just 0.6%, as its industrial production declined sharply on account of falling demand from Asia and difficulties in the car industry.

Figure 1: Contributions to growth in global GDP by country



Sources: IMF, Banka Slovenije calculations

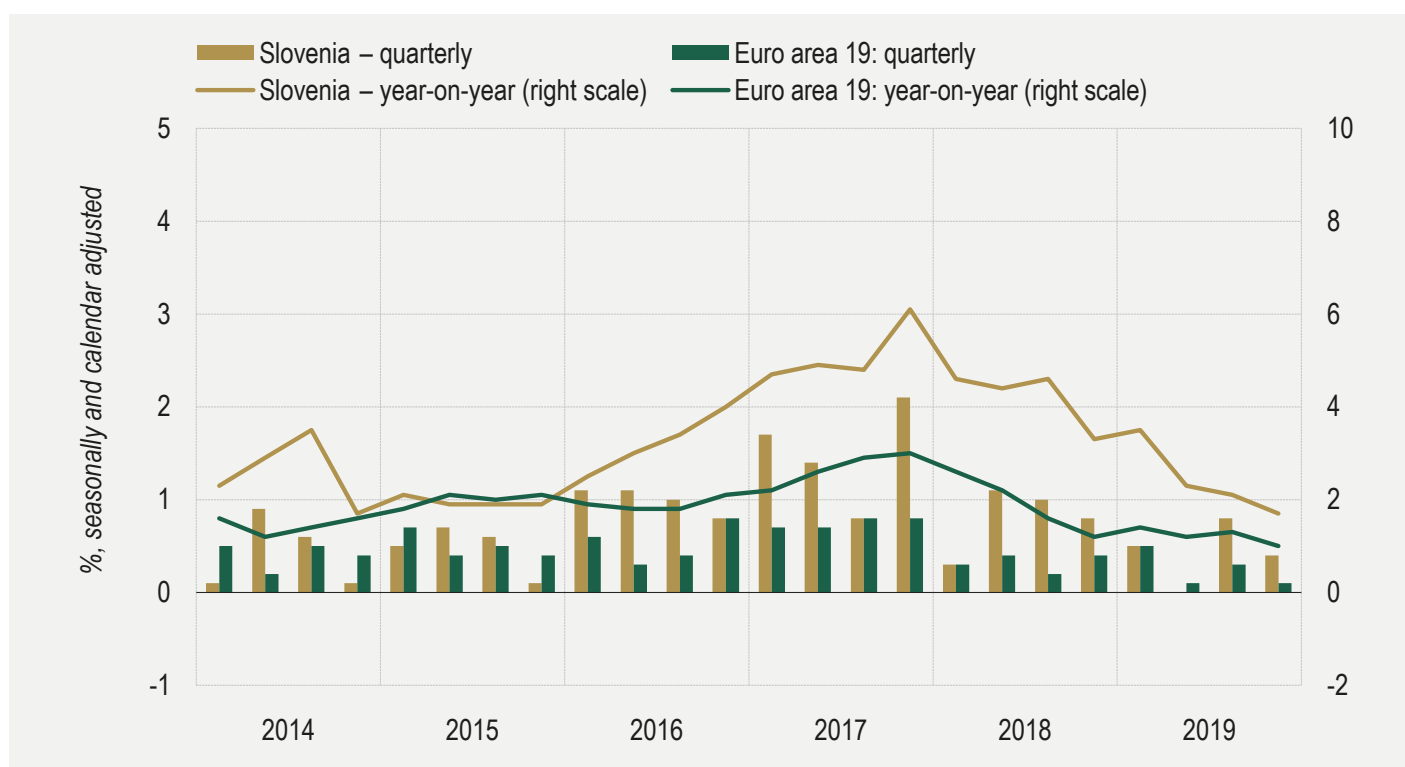
Amid sizeable spreads in interest rates, differing risks in the international environment, and low economic growth in the euro area, the euro gradually slid against the US dollar in 2019. The Fed cut its key interest rate three times during the year, from a target rate of 2.00% to 2.25% to a target rate of 1.50% to 1.75%. In the autumn the ECB responded to the downturn in the economy by cutting the interest rate on the deposit facility, introducing higher remuneration on holdings of banks' excess reserves, modifying the terms of the new third series of targeted longer-term refinancing operations (TLTRO-III), and resuming net asset purchases under the APP with a monthly envelope of EUR 20 billion. The average price of a barrel of Brent crude fell in 2019, by 9.9% in US dollar terms. US dollar prices of other commodities also fell, which reduced inflationary pressures in the international environment.

1.2 SLOVENIAN ECONOMY

Economic growth in Slovenia slowed to 2.4% last year.

Economic growth in Slovenia remained above the average rate in the euro area last year, despite slowing. GDP in Slovenia was up 2.4% on 2018, 1.2 percentage points more than the average growth in the euro area. Slovenia's economic growth had outpaced the euro area average by 2.2 percentage points in 2018. The largest contribution to last year's growth came from private consumption, as public transfers and the situation on the labour market allowed for a further rise in household purchasing power. Private-sector investment was significantly weaker, an indicator of the increased uncertainty and the weaker international climate. Growth in investment in machinery and equipment declined from 10.6% in 2018 to just 1.4% last year. The contribution made to GDP growth by net trade was significant, at 0.5 percentage points, albeit in an environment of weaker export growth and an actual contraction in imports in the final quarter. The business conditions for the export sector deteriorated last year, but growth in the sector remained favourable relative to the international situation. For example, industrial production increased by 3.0% according to calendar-adjusted figures, compared with a decline of 1.4% in the euro area overall. At the same time growth in value-added in construction declined significantly after the completion of certain major private-sector projects, and on account of the anticipated slowdown in government investment.

Figure 2: Comparison of GDP growth between Slovenia and the euro area



Sources: Eurostat, Banka Slovenije calculations

The labour market remained buoyant, despite the slowing international and domestic economic activity. According to national accounts figures, employment growth stood at 2.4% last year, down just under 1 percentage point on 2018, but remained broadly based and higher than the euro area average. The labour intensity of economic growth increased further, as productivity growth stalled. The employment growth was driven by a rise in the employment rate, which remained above the euro area average, the recruitment of foreign nationals, who accounted for approximately 70% of last year's aggregate growth, and a fall in unemployment. The last of these slowed last year, which was attributable not only to reduced demand for labour but also to the structure of unemployment, which is dominated by more vulnerable groups for whom it is harder to find work. The surveyed unemployment rate stood at 4.5%, close to its record low, and well below the euro area average. Nominal growth in the average wage stood at 4.3%, down just under 1 percentage point on the previous year, and was primarily driven by the agreement signed between the government and the public sector unions at the end of 2018. Wage growth stood at 6.5% in public services, the highest rate since 2009, while the rate in the private sector was lower than in 2018 amid the less favourable business conditions faced by firms, at 3.6%.

The surveyed unemployment rate stood at just 4.5% in 2019.

Despite a rise in real labour costs, the external competitiveness of the Slovenian economy remained roughly within the bounds of recent years, when developments were relatively favourable. The depreciation of the euro brought a slight improvement in price competitiveness,¹ albeit less than in the majority of other euro area countries, and it remained more favourable than its long-term average. Slovenian exporters saw a slight deterioration in their competitive position vis-à-vis euro area partners compared with the three preceding years, while the position vis-à-vis numerous partner countries outside the euro area improved. Competitive position thus remained relatively favourable in the longer-term outlook. By contrast, growth in compensation per employee outpaced productivity growth last year, and real growth in unit labour costs therefore exceeded the euro area average. The continuing growth in Slovenia's global market share of merchandise exports is further evidence of the maintenance of the external competitiveness of the Slovenian economy.

The Slovenian economy remained competitive last year despite a rise in real unit labour costs.

The available figures for last year show a record current account surplus. It amounted to almost EUR 3.2 billion, or 6.6% of GDP, up approximately EUR 370 million on 2018. The surplus increased despite the downturn in the international environment, which strongly held down export growth, particularly at the end of the year. Exports of goods and services rose by 8.8% in nominal terms in 2018, but by just 4.4% last year. The slowdown in import growth was even sharper, from 9.5% in 2018 to 3.9% last year. The trade surplus thus increased by EUR 360 million. With domestic private consumption again strengthening last year, these developments were attributable to lower growth in intermediate consumption, and even more so to weak domestic investment. Investment in Slovenia last year amounted to 19.3% as a ratio to GDP, 2.6 percentage points less than in the euro area

The current account surplus is indicative of the maintenance of export competitiveness, but also of weak growth in domestic demand.

¹ Price competitiveness is measured by the ECB's harmonised competitiveness indicator deflated by the consumer price index (HICP), relative to 37 trading partners.

Slovenia's net external debt amounted to just 2.5% of GDP last year.

overall. There was no significant change in the income position, although its structure did change. The deficit in primary income narrowed as a result of a smaller deficit in income from equity, while the deficit in secondary income widened on account of larger payments into the EU budget from VAT and gross national income. The large current account surplus is indicative of the maintenance of competitiveness on export markets despite last year's deterioration in certain competitiveness indicators, but also of the relatively low level of domestic demand.

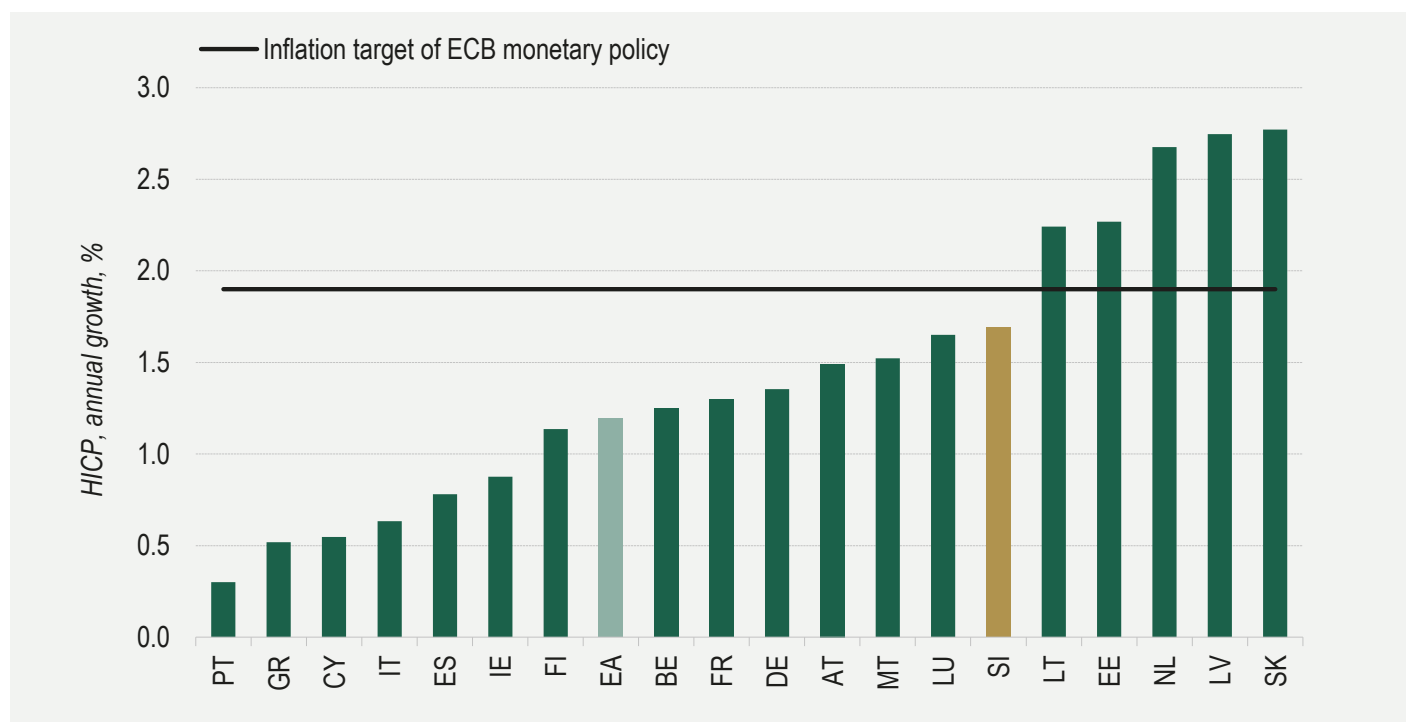
The surplus in the financial account of the balance of payments, through which the Slovenian economy is a net financier of the rest of the world, narrowed slightly last year, while the net external debt again declined significantly. Slovenia's net financing of the rest of the world amounted to 4.8% of GDP² in 2019, 0.8 percentage points less than in the previous year. The financial transactions of the government sector, the central bank and the private sector made relatively equal contributions to the net outflow of capital. At the level of the total economy, capital primarily flowed to the rest of the world via net other assets (4.7% of GDP), largely as a result of the placement of currency and deposits in accounts in the rest of the world, and partly via the ongoing issuance and repayment of debt to the rest of the world. There was also a net outflow, albeit significantly smaller, in investments in securities (1.8% of GDP), slightly larger than that recorded in the previous year, while the net inflow of direct investment into the Slovenian economy declined slightly to reach 1.4% of GDP last year. Slovenia's net external debt amounted to EUR 1.2 billion or just 2.5% of GDP at the end of 2019, 6.5 percentage points less than at the end of the previous year. This was the fifth consecutive year of decline in absolute terms, while as a ratio to GDP it has been falling for fully seven years. For the fifth consecutive year the government sector alone was a net debtor vis-à-vis the rest of the world; its debt stood at 33.5% of GDP, 1.9 percentage points less than at the end of the previous year. The private sector increased its net creditor position slightly further against the rest of the world.³

Domestic inflation factors raised core inflation to 1.9% last year.

Inflation as measured by the HICP averaged 1.7% in Slovenia in 2019, down 0.2 percentage points on 2018, but remained above the euro area average. The fall in inflation relative to the previous year was primarily attributable to declining inflationary pressures from the external environment. This was reflected in a smaller contribution from the inflation components that are not part of core inflation, most notably energy prices. By contrast, the domestic inflationary pressures associated with higher labour costs and the persistently robust private consumption strengthened, as a result of which the narrowest core inflation indicator rose by 0.9 percentage points to 1.9%. The main factor was higher service price inflation, while prices of non-energy industrial goods also rose slightly on an annual basis after falling for many years.

² The gap between the surpluses in the current account and the financial account is the result of a statistical error of EUR 700 million, mostly deriving from unidentified net external claims.

³ The external debt includes debt financial instruments alone, while the financial account records flows in all financial instruments (debt and equity).

Figure 3: Inflation in euro area countries in 2019

Sources: Eurostat, Banka Slovenije calculations

There was a general government surplus in 2019 for the second consecutive year. It amounted to 0.5% of GDP, 0.2 percentage points less than in the previous year. In line with the slowing economy, last year general government revenues grew by less than in the two preceding years, but the rate was still solid at 4.8%, and similar to nominal GDP growth. General government expenditure increased by 5.2%, driven by expenditures on employee compensation, investment and social security benefits. The interest burden continued to decline. The general government debt declined as a ratio to GDP for the fourth consecutive year to reach 66.1% by the end of last year. Slovenia has again achieved a better budget position and smaller government debt than the euro area average.

The required yield on 10-year government bonds fell, and temporarily entered negative territory in the middle of the year, which reflected the soundness of the Slovenian economy and the increased monetary policy stimulus from the ECB. Slovenia's sovereign credit ratings at rating agencies also improved. The spreads on 10-year Slovenian government bonds over the German benchmark, which reflect the risk premium on government securities, narrowed in the first half of the year, before stabilising at a low level close to 50 basis points.

BANKA S

2 BANKING SYSTEM

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A total of 17 credit institutions were operating in Slovenia at the end of last year.

The number of credit institutions in Slovenia has fallen over recent years, primarily as a result of consolidation, but was unchanged over the course of last year. At the end of 2019 there were 12 banks, three savings banks and two branches of foreign banks operating in Slovenia. The banks held a market share of 91.4% of the banking system in terms of the balance sheet total, while the savings banks held a share of less than 5% and the branches a share of less than 4%. The trend of decline in the number of banking institutions is nevertheless continuing, thanks to the consolidation process. An agreement was signed in the middle of last year for the sale of Abanka d.d. to NKBM d.d. In January 2020 the ECB issued an authorisation to NKBM for the takeover of Abanka, and the transaction was executed on 5 February 2020. The merger is expected to be completed in the second half of 2020. The banking system accounted for two-thirds of the financial system's balance sheet total last year.⁴

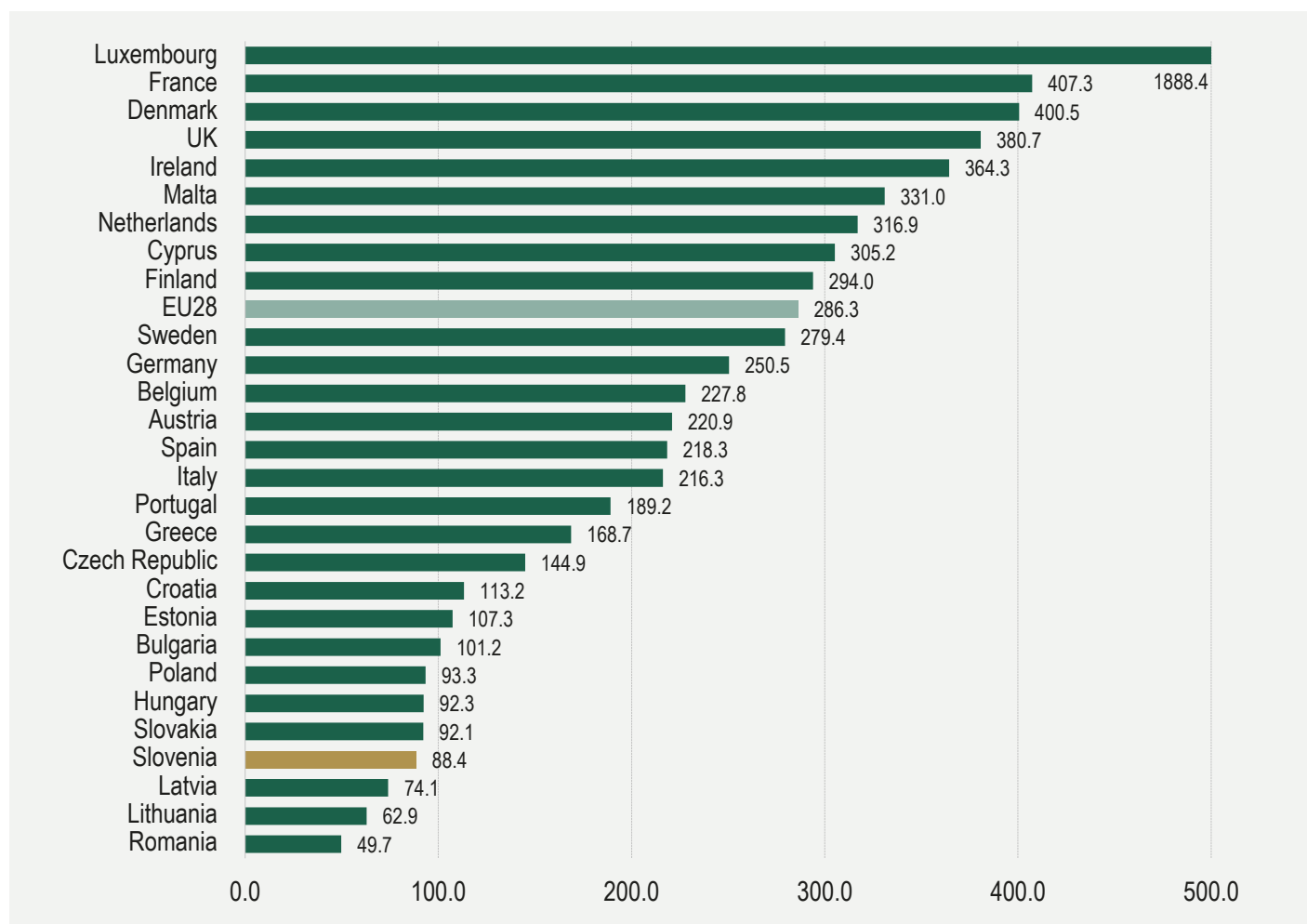
The banking system's balance sheet total increased by 6.3% in 2019 to EUR 41.2 billion. On the funding side, the largest factor in the increase was deposits by the non-banking sector, household deposits in particular. On the investment side, the main increases were in loans to the non-banking sector and in highly liquid assets. Investments in securities remained almost unchanged in absolute terms, but the expansion of the balance sheet meant that the proportion of the balance sheet total that they account for had declined to 21.4% by the end of the year. The ratio of the banking system's balance sheet total to GDP has declined slightly in recent years as GDP has recorded relatively high nominal growth; the figure stood at 83.5% at the end of 2019.⁵ Slovenia has one of the lowest figures for the ratio of the banks' balance sheet total to GDP among all EU Member States.⁶

⁴ Banks accounted for 67.7% of the balance sheet total of financial institutions in Slovenia at the end of the third quarter of 2019 (excluding the balance sheet total of the central bank).

⁵ Balance sheet figures on an individual basis from bank reporting of closing accounts. Comparison of latest data for GDP and balance sheet total in the banking system (SORS, Banka Slovenije)

⁶ According to Eurostat and ECB figures, the median ratio of the banking system's balance sheet total to GDP stood at 217% in the EU at the end of the third quarter 2019, while the arithmetic mean was 267%. Slovenia had the fourth lowest figure (88%) according to this dataset, and was comparable to Slovakia, Hungary and Poland.

Figure 4: Ratio of the banking system's balance sheet total to GDP, third quarter of 2019



Sources: Eurostat, ECB

The banking system remained well-capitalised in 2019, although there are considerable variations from bank to bank. The sound capital position of the banks has a favourable impact on their capacity to cover losses under any stress scenarios. The banking system's common equity Tier 1 capital ratio stood at 17.8% on a consolidated basis, and remained above the euro area average. The banks increased their regulatory capital not only via retained earnings and other reserves, as was the case in previous years, but also via issuance of subordinated debt securities. Growth in risk-weighted assets strengthened, primarily as a result of an increase in corporate and household lending, but did not outpace year-on-year growth in regulatory capital. The small domestic banks and savings banks, which are weaker in capital terms, improved their capital adequacy via recapitalisations. Despite the increase in regulatory capital, their leverage ratio remained a half lower than the average in the Slovenian banking system.

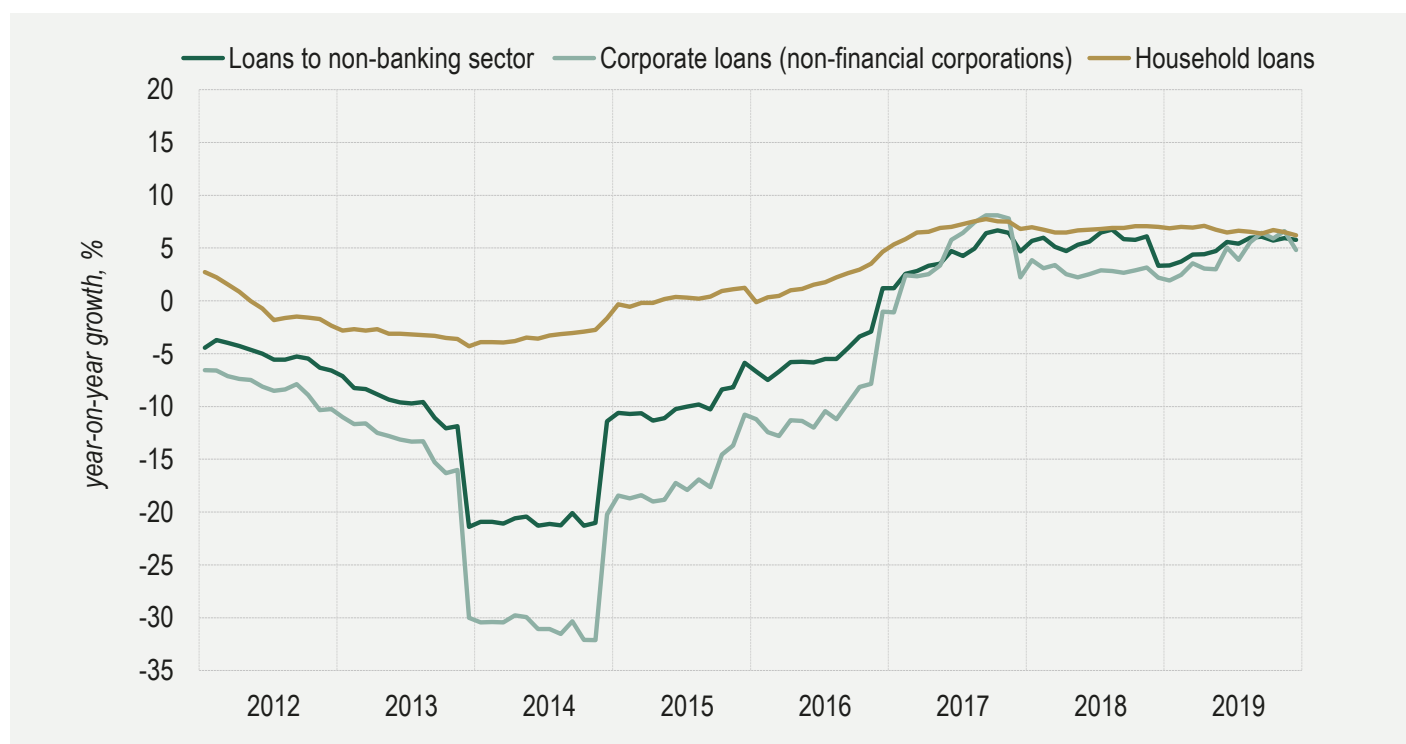
The banking system's total capital ratio remained above the euro area average last year.

Year-on-year growth in loans to the non-banking sector strengthened to 5.8% last year. Similarly to the previous year, the increase in loans to the non-banking sector was attributable to vigorous lending to households, and a moderate increase in corporate lending. Year-on-year growth in corporate loans only increased in the second half of the year, to 4.8%, as a result of a few large transactions, having barely exceeded 3% in the first half of the year. The stock of corporate loans on the balance sheet of the Slovenian banking system declined sharply in the post-crisis period after 2008, and remained behind household loans last year for the fifth consecutive year. Growth in corporate loans was affected last year by the improved financial position of non-financial corporations relative to previous years, i.e. low indebtedness, high profits and high liquidity, and by the good economic situation at home and abroad. Internal resources (retained earnings) and trade credits have risen in importance in recent years, and there has also been a shift in the approach to corporate financing.

Household loans recorded year-on-year growth of 6.2% last year, and were the largest factor in the increase in loans to the non-banking sector. Growth in consumer loans remained very high: it averaged more than 12% over the first ten months of 2019, thus outpacing economic growth and growth in disposable income. The maintenance of such high growth in consumer loans was attributable to favourable economic factors, and the active marketing of these loans. Year-on-year growth in consumer loans had slowed to 8.9% by the end of the year. The changing developments in household loans in the final quarter of last year were most likely related to November's enactment of the Regulation on macroprudential restrictions on household loans, which aimed to limit the risks associated with increased lending activity in the consumer loans segment, but it is still too early to draw any final conclusions. The effect also needs to be seen in light of the current macroeconomic situation and the impact of coronavirus, the consequences of which are not yet entirely clear.

By contrast, growth in housing loans was moderate and stable for the majority of last year, at just over 5%, driven primarily by the buoyant labour market, rising household disposable income and households' ongoing demand for real estate purchases. The year-on-year rate had increased to 5.8% by the end of the year.

On the investment side of the balance sheet, there was also notable growth in loans to foreign corporations, which stood at 25% in December, although they only account for a small proportion of the balance sheet total and do not entail any major exposure to risk.

Figure 5: Lending to the non-banking sector

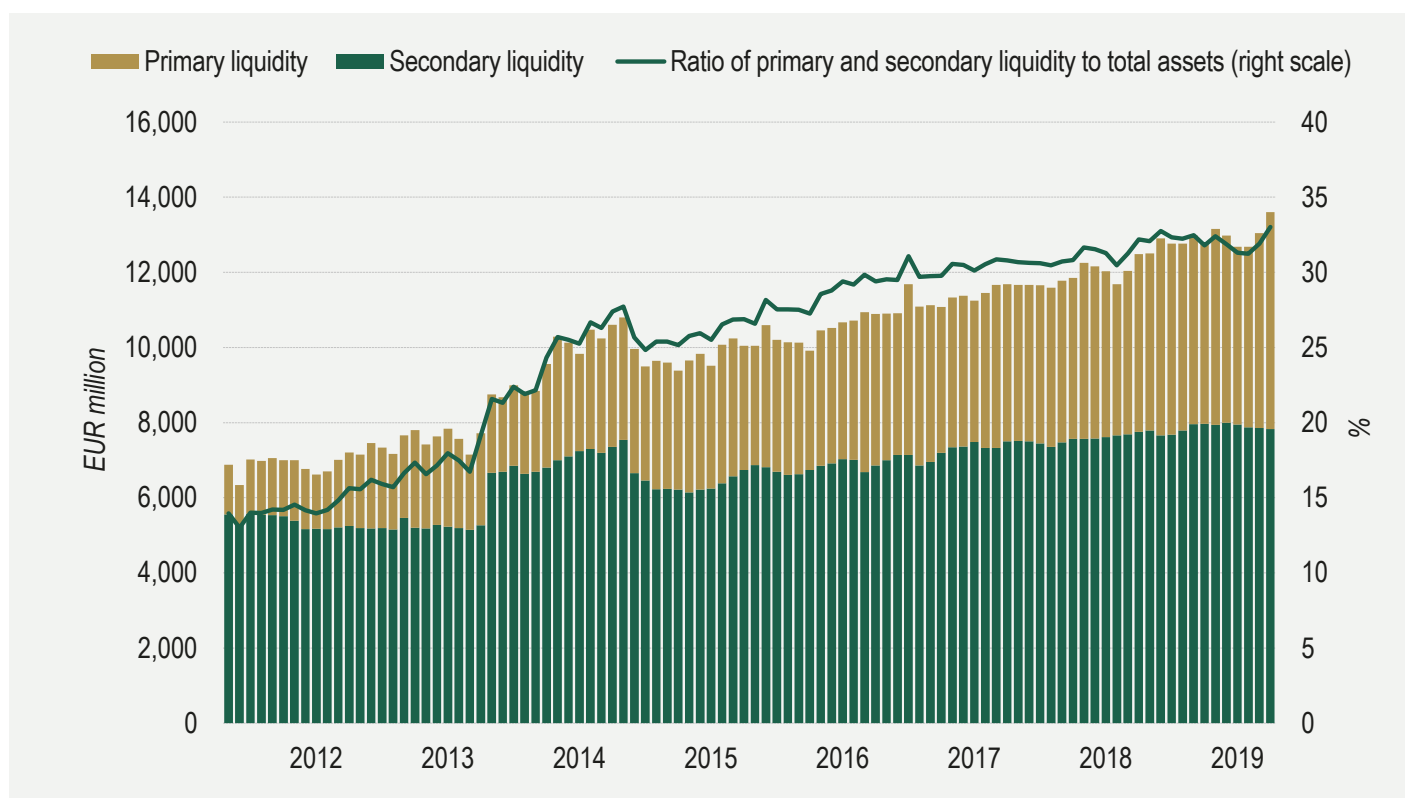
Source: Banka Slovenije

The quality of bank investments improved again in 2019. The stock of NPEs had declined to EUR 1 billion by the end of 2019, taking the NPE ratio across the banking system to 2.2%, down 1.8 percentage points on the end of 2018. The largest stock of NPEs and highest NPE ratio remained in the non-financial corporations portfolio, although portfolio quality in this segment was significantly better at the end of 2019 than in previous years. Despite high growth in household loans, the NPE ratio remains low for now in both the consumer and housing segments. One potential source of increased risk is consumer loans concluded under laxer credit standards before the introduction of the binding macroprudential instrument in the area of household lending.

The NPE ratio almost halved over the course of 2019.

The liquidity position of banks in Slovenia remained good, although there is considerable variation from bank to bank. The large stock of primary and secondary liquidity is reducing the banking system's vulnerability inherent in the maturity gap.⁷ The increase in the gap slowed at the end of last year, but the gap nevertheless remains relatively high. The banks increased their highly liquid assets in the form of cash on hand and deposits at the central bank to 14% of the balance sheet total, and maintained their secondary liquidity at almost a fifth of the balance sheet total. The high proportion of the pool of eligible collateral at the Eurosystem that is free allows banks to obtain additional liquidity in the event of major liquidity needs. Further evidence of the good liquidity position comes from the liquidity coverage ratio, which at system level remains well above the regulatory requirement, although there is considerable variation from bank to bank.

Figure 6: Primary and secondary liquidity in the banking system



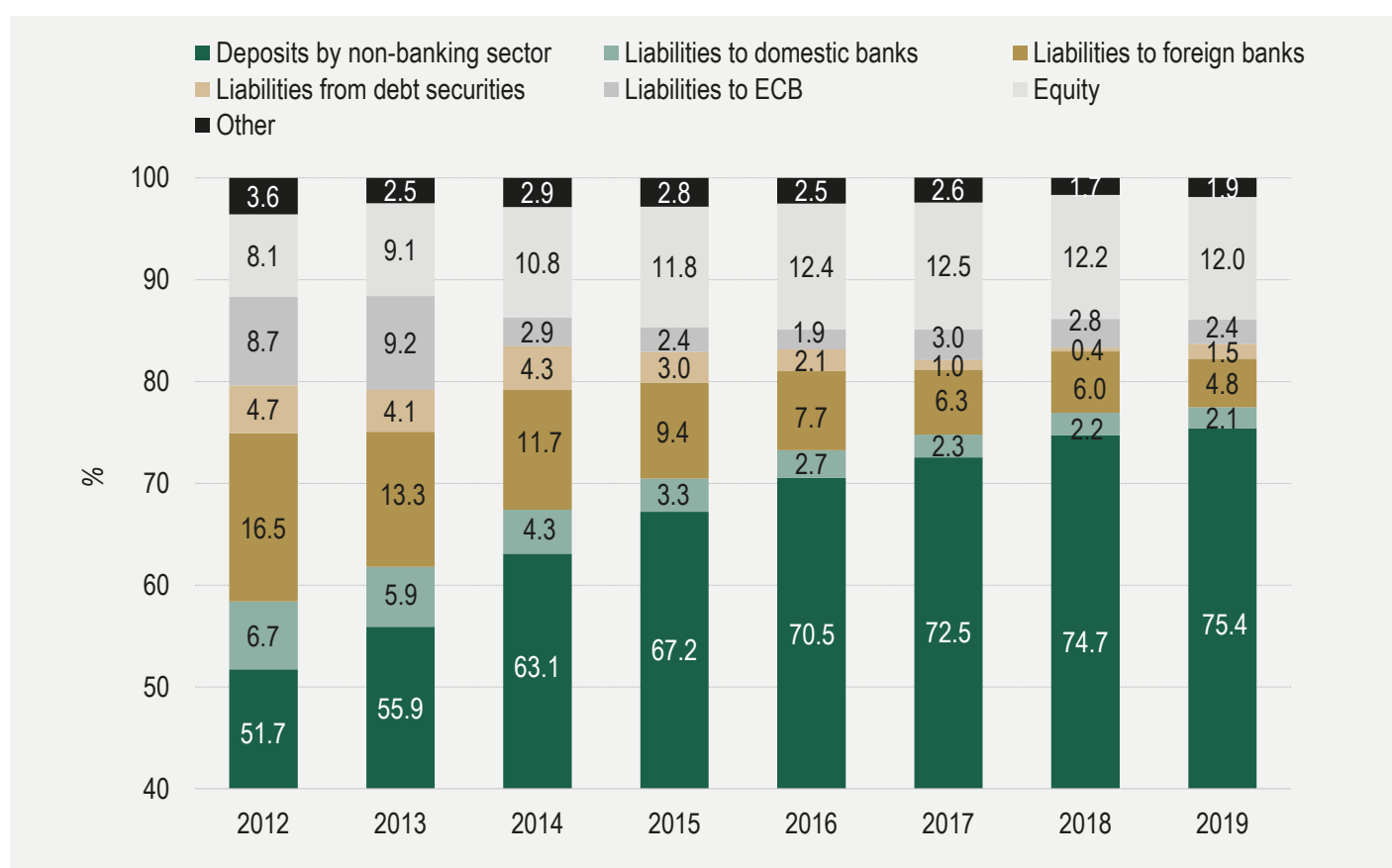
Source: Banka Slovenije

⁷ Since the beginning of the surge in sight deposits in 2013, the maturity gap has widened by 1.5 months, and stood at almost 5 years at the end of 2019.

The proportion of funding accounted for by deposits by the non-banking sector increased further, and now exceeds 75%. Deposits by the non-banking sector increased by 7% or EUR 2 billion in 2019, while the banks paid down debt to foreign banks and to the Eurosystem. The increase in deposits by the non-banking sector was driven primarily by household deposits, while corporate deposits declined for the first time since 2012. Amid low unemployment and a rising wage bill, there was an improvement in the financial position of households, which laid the foundation for increased saving. The extremely low interest rates on fixed-term deposits are deterring savers from tying up their money in these assets, which meant that it was mainly sight deposits that continued to increase. They accounted for fully 73% of total deposits by the non-banking sector at the end of 2019.

Sight deposits are the prevalent form of deposit.

Figure 7: Structure of bank funding



Source: Banka Slovenije

Box 1: Custodian fees and negative interest rates on household deposits

The response from banks in Slovenia to an environment in which the interest rate on the ECB's deposit facility is negative has not been to reduce interest rates for all depositors to negative territory. They have decided to only pass the negative interest rate onto deposits of large depositors such as non-financial corporations, other financial institutions and the government, while to date they have not been passed onto household deposits. Inflation means that the real interest rate on sight deposits has been negative in Slovenia for several years now, while the nominal interest rate on household sight deposits during this period has been slightly above zero.

In a survey of future challenges facing the banking system in the low interest rate environment (Banka Slovenije, November 2019), banks reported that the introduction of negative interest rates or custody fees for households is not being planned, but that the potential for introduction primarily depends on how long the low interest rate environment lasts, and how competitor banks respond. If the banks decide to introduce a measure to this end, according to the pattern seen in other countries it would most likely be custody fees, which would be determined as a percentage depending on the size of the deposit. Slovenian banks would most likely act similarly to certain other European banks, which have exempted deposits of up to EUR 100,000 from negative remuneration. The majority of banks would tie the custody fees to the interest rate on the deposit facility at the central bank, or would adjust them to this rate as appropriate.

The possible introduction of custody fees or negative interest rates from the perspective of the behaviour of customers and banks was examined by Banka Slovenije staff in an analysis conducted in February 2020. It was emphasised that Slovenia has to date not seen longer periods of nominal negative interest rates on bank deposits, for which reason a quantitative assessment of the effects relies on numerous assumptions or merely on simulations.

The following can be concluded on the basis of the analysis:

- there is no expectation of the general introduction of negative interest rates or custody fees for household sight deposits (at least on deposits of up to EUR 100,000), unless interest rates fall drastically;
- even if negative interest rates or custody fees were to be introduced for individual categories of sight deposits (e.g. deposits over EUR 100,000), there is no expectation of a significant impact on outflows of deposits, as the most likely effect would be a change in the structure of deposits (a decline in sight deposits, an increase in fixed-term deposits);

- even if, however unlikely, a fall in interest rates on deposits or even the introduction of negative interest rates or custody fees for household deposits were to result in an outflow of deposits from the banking sector, the assessment is that the liquidity of the banking sector is relatively high, the banks' access to alternative sources of funding is currently good, and the banks' potential mitigation measures are sufficiently robust to avoid any shocks to the financial system.

To ensure the high-quality monitoring of risks that are elevated during a period of low interest rates, Banka Slovenije has put in place an analytical supervisory tool for modelling sight deposits for the purposes of managing liquidity risk and interest rate risk. The tool aids the supervisor in:

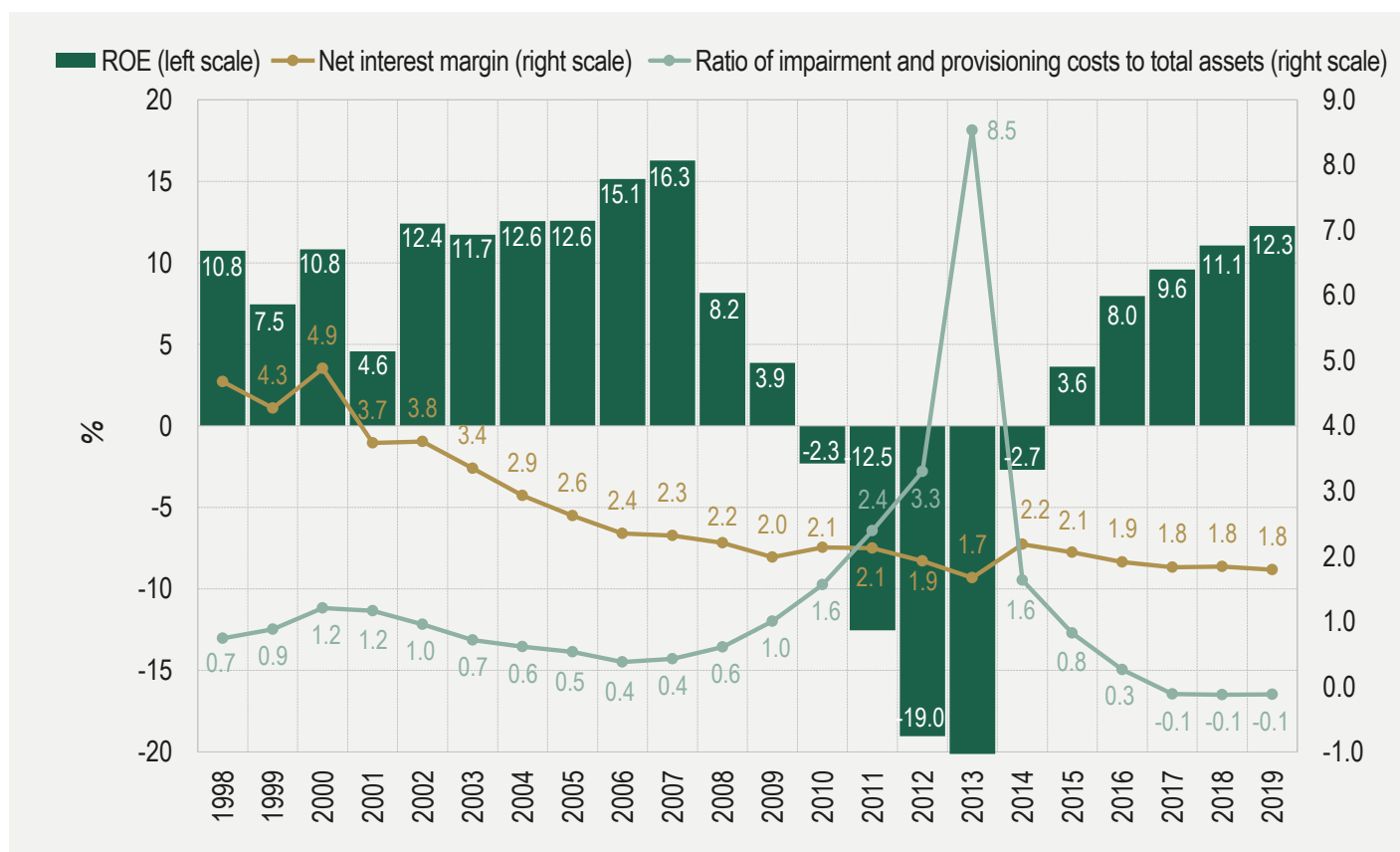
- during an inspection, understanding an increase in sight deposits at an individual bank and the impact of changes in interest rates on the behaviour of sight deposits;
- modelling the market interest rate at a given moment;
- modelling the behaviour of deposit interest rates and the stock of sight deposits;
- determining the behaviour of the stable component and the core balance of sight deposits, and conducting stress tests; and
- not least, verifying whether the model is functioning well at the bank, and how stable it is over time (model validation).

The banks recorded a pre-tax profit of EUR 597 million in 2019, with an ROE of 12.3%.⁸ Developments on the income side and the net release of impairments and provisions were factors in last year's high profits and above-average profitability. Year-on-year growth in net interest income was positive for the second consecutive year, but slowed to just 1.6%. The positive growth in net interest income was driven by an increase in loans. Thanks to falling interest rates and the increase in sight deposits, interest expenses had fallen to record low levels in previous years, and by last year were unable to further contribute to any increase in net interest income. The 12% increase in pre-tax profit was also attributable to an increase of 19% in net non-interest income, as net fees and commission increased by 6%. The proportion of gross income accounted for by net interest income declined last year, to a relatively low 54%.

There was a net release of impairments and provisions last year for the third consecutive year. The net release of impairments and provisions was attributable to an improvement in the credit portfolio, particularly at certain large banks.

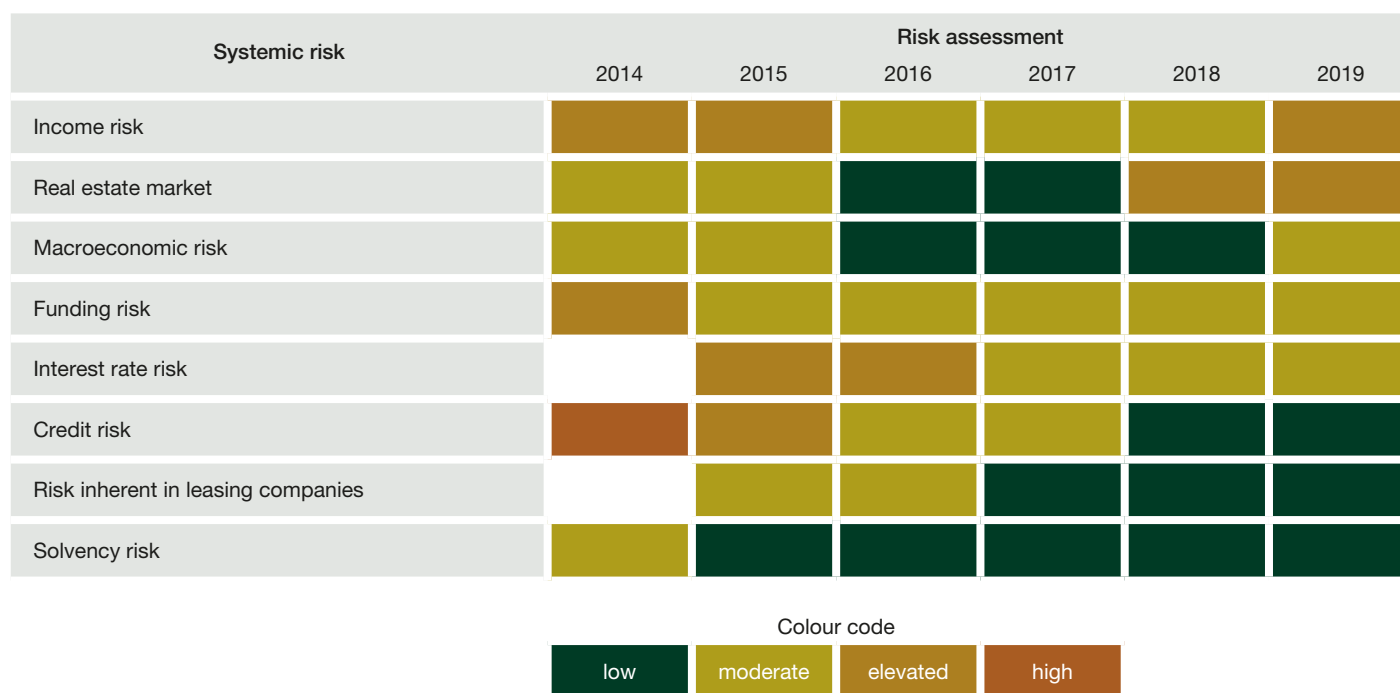
The banking system recorded its highest profit since Slovenia gained independence.

⁸ Data from closing accounts for 2019.

Figure 8: ROE, net interest margin on interest-bearing assets, and ratio of impairment and provisioning costs to total assets

Source: Banka Slovenije

The key systemic risks to financial stability in 2019 were assessed as elevated or moderate with a trend of increase, as illustrated in Figure 9. Alongside the aforementioned risks, the risk inherent in the real estate market also remains elevated, primarily on account of surging residential real estate prices in recent years. The indicators and model assessments of price developments on the real estate market suggest that prices are now close to being in line with fundamentals. The price rises followed a period of undervaluation, and constituted a recovery phase. Further rises in residential real estate prices would lead to overvaluation. A large fall in prices on the residential real estate market would reduce the value of real estate collateral at the banks, while a simultaneous deterioration in the economic situation would also increase probability of default. The banking sector's exposure to price developments on the real estate market remains relatively low. The banking system's resilience to the risks inherent in the real estate market is also greater than during the last financial crisis.

Figure 9: Banka Slovenije's risk dashboard for the Slovenian banking system

Source: Banka Slovenije

Alongside the traditional types of systemic risk, climate risks are becoming increasingly important to economic policymakers because of their potentially significant impact on financial stability.⁹ Climate risks may take the form of physical risks caused by the increased frequency of natural disasters, or transition risks in the transition to a low-carbon economy, and may have a significant impact on financial stability. This comes from the systemic impact on all stakeholders in society, and the inherent uncertainty of climate change and environmental policy. The preliminary assessment of climate risks in the Slovenian banking system is low to moderate. The banks' exposure to climate-sensitive activities amounted to between 33% and 41% of the balance sheet total in December 2019, depending on the definition of climate-sensitive exposure (households, total manufacturing, electricity, transport, or sub-sectors within these with the highest carbon footprints). The banks have good awareness of the importance of climate risks, although actions to date remain at the level of principle operational.

Climate risks may be material to financial stability; according to the preliminary assessment, climate risks in Slovenia are low to moderate.

⁹ The analysis of the impact of fintech and of cyber risks and climate risks to financial stability is based primarily on a survey of future challenges in the banking system conducted by Banka Slovenije in October 2019.

The banking system is facing competitive pressure from the fintech industry, which is bringing changes to the banks' business models.

The frequency of cyber incidents in the banking system is increasing, which means that banks need to increase their cyber resilience.

Digitalisation and the use of fintech are bringing new challenges to banks, and putting competitive pressure on their business models and strategic policies. The fintech industry's primary competitive threat to banks is in the management of current accounts and payments, which is also reducing the number of potential customers and the potential income for banks. However, banks are investing more and more to develop new products based on established and tested technologies. Banks are primarily introducing fintech related to open banking.¹⁰ Banks' adaptations to the rise of technological innovations and competition are also being reflected in changes in business strategy, and in increased investment in the development of fintech.

Amid the aforementioned processes of rapid digitalisation in the financial system, the banks' exposure to cyber risks is being increased by the insufficient pace at which information systems are being upgraded. This is increasing the risks of successful cyber penetration, and inadequate oversight of the external service providers and suppliers who manage information technology. In addition, to eliminate their cyber vulnerabilities banks are increasing their spending on software to ensure better protection against cyber attacks. To improve cyber resilience, the banks must conduct testing such as vulnerability scans, penetration tests and TLPT more frequently.¹¹

¹⁰ Under the EU's new payment services directive (the PSD2), banks are required to provide their customers with greater oversight of their own data, tailored new services and an improved user experience. The main aim of the directive is to improve the security of payments and to ensure greater security for payment service users, while encouraging payment service providers to compete with one another and to innovate in the financial sector. On this basis banks have embarked on the development of open banking, which enables various stakeholders from the financial industry, such as third-party providers and other financial institutions, to work together. One feature of open banking is its incorporation of fintech.

¹¹ Threat-led penetration testing or red-team testing is based on analysis of insecurities for the financial sector and the individual institution. Specialist third-party providers draw up insecurity analysis and a cyber attack simulation. The employees are unaware that it is merely a test. The objective of the testing is to assess the response of the bank and the employees to cyber attack (testing can take up to six weeks).

A grayscale photograph of the Banka Slovenije building facade. The image shows a multi-story building with a grid of windows and balconies. A flag is visible on the right side. The ground floor features arched windows with decorative grilles and statues of figures supporting the entrance. The text 'BANKA S' is visible on a horizontal band above the ground floor.

BANKA S

3 IMPLEMENTATION OF BANKA SLOVENIJE'S TASKS



SLOVENIJE

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Koroška c.

BANKA
SLOVENIJE
POSLOVALNICA

GARNIER2:
VZPONIL IN PANEŽI RIZANSKE GROFICE
19. 12. 2019 - 19. 1. 2020

MGBI Hala Galerija
Banka Slovenije

torok-četrtek
11.00-18.00

3.1 BANKA SLOVENIJE'S MANDATE AND INSTITUTIONAL FRAMEWORK

Banka Slovenije fulfils its mandate independently and within the framework of the European System of Central Banks, based on four pillars of activity:

- **Monetary policy** relates to the central bank decisions that exert an influence on prices and the availability of money in the economy, thereby exerting an effect on the chosen target of the monetary policy. Under the Bank of Slovenia Act, price stability is Banka Slovenije's objective, and it is also the primary objective of the European System of Central Banks, of which Banka Slovenije is part. Maintaining price stability is monetary policy's greatest contribution to economic growth and to job creation. The Eurosystem target is to maintain growth in prices of goods and services (i.e. inflation) at close to but below the 2% mark over the medium term.
- **Microprudential supervision** is part of Banka Slovenije's mandate relating to the maintenance of financial stability. The objective of the supervisory activities is identifying risks in all areas of the operations of banks and savings banks (credit risk, liquidity risk, operational risk, capital risk, interest rate risk, profitability risk, internal controls, corporate governance, reputation, anti-money laundering) in timely fashion, and ensuring the stability of credit institutions and the financial system through effective action.
- **Macroprudential policy:** The purpose of macroprudential policy is to mitigate the effects of financial cycles and to increase the resilience of the financial system to disruptions. Macroprudential policy identifies, monitors and assesses systemic risks to financial stability, and adopts the requisite measures for the prevention and mitigation of systemic risks. The ultimate objective of macroprudential policy is to contribute to safeguarding the stability of the financial system as a whole, including strengthening the resilience of the financial system, and preventing and mitigating the build-up of systemic risks, thereby ensuring a viable and sustained contribution to economic growth from the financial sector.
- **Bank resolution and deposit guarantee scheme:** Banka Slovenije's basic mission in this context is ensuring the orderly resolution of a bank or banks in (serious) difficulties, minimising the consequences to the economy and the public finances. The aim in establishing a resolution mechanism is transferring the burden of any bank resolution to the banking sector (and not to the public finances), thereby reducing the moral hazard and increasing confidence in banks on the part of the public and investors. At the same time we are the operator of the deposit guarantee scheme, whose basic objective is to protect depositors and to maintain their confidence in the banking system. A sound and effective deposit guarantee scheme is one of the important conditions for the maintenance of financial stability in a country.

We also perform certain other tasks, such as issuing cash, operating payment systems, managing the official foreign exchange reserves and other Banka Slovenije assets, acting as the payment and/or fiscal agent of the state or as a representative of the state at international monetary organisations, managing accounts for the state, government bodies and public-sector entities, attending to financial, monetary, banking and balance of payments statistics, and managing the central credit register.

Banka Slovenije's actions in 2019 were again fixed within an institutional framework at the European level, particularly in the following tasks:

- **In managing the Eurosystem and the European System of Central Banks, a key part of which is the implementation of monetary policy and the pursuit of the Eurosystem's primary objective (i.e. price stability),** we worked with the ECB's decision-making bodies in the manner set out in the Treaty on the Functioning of the European Union,¹² the Statute of the ESCB and of the ECB,¹³ and the Rules of Procedure of the Governing Council, the General Council and the Executive Board of the ECB.¹⁴ The Governor of Banka Slovenije is, by function, one of the members of the Governing Council, which is the main decision-making body of the ECB and is responsible for taking the most important strategic decisions that are key to the functioning of the Eurosystem.
- **In the area of microprudential supervision and the setting of rules** for banks and other supervised entities, we actively worked within the framework of the Single Supervisory Mechanism¹⁵ and the European Banking Authority.¹⁶ The Single Supervisory Mechanism (SSM) is one of the three pillars of the banking union, whose task is carrying out direct supervision of significant banks and bank groups in the euro area, and is also responsible for carrying out indirect supervision of less significant banks through the introduction of standard rules for conducting supervision in participating countries. The European Banking Authority (EBA) is an independent EU authority whose purpose is ensuring effective and consistent prudential regulation and supervision in the European banking sector by putting in place a single European banking rulebook. The vice-governors of Banka Slovenije are members of the most senior decision-making bodies of the SSM and the EBA.

¹² Treaty on the European Union and the Treaty on the Functioning of the European Union: <https://www.ecb.europa.eu/ecb/legal/1341/1342/html/index.en.html>.

¹³ Statute of the European System of Central Banks and of the European Central Bank: <https://www.ecb.europa.eu/ecb/legal/1341/1343/html/index.en.html>.

¹⁴ Rules of Procedure of the Governing Council, the General Council and the Executive Board of the ECB: <https://www.ecb.europa.eu/ecb/legal/1001/1009/html/index.en.html>.

¹⁵ For more on the Single Supervisory Mechanism, see <https://www.bankingsupervision.europa.eu/home/html/index.en.html>.

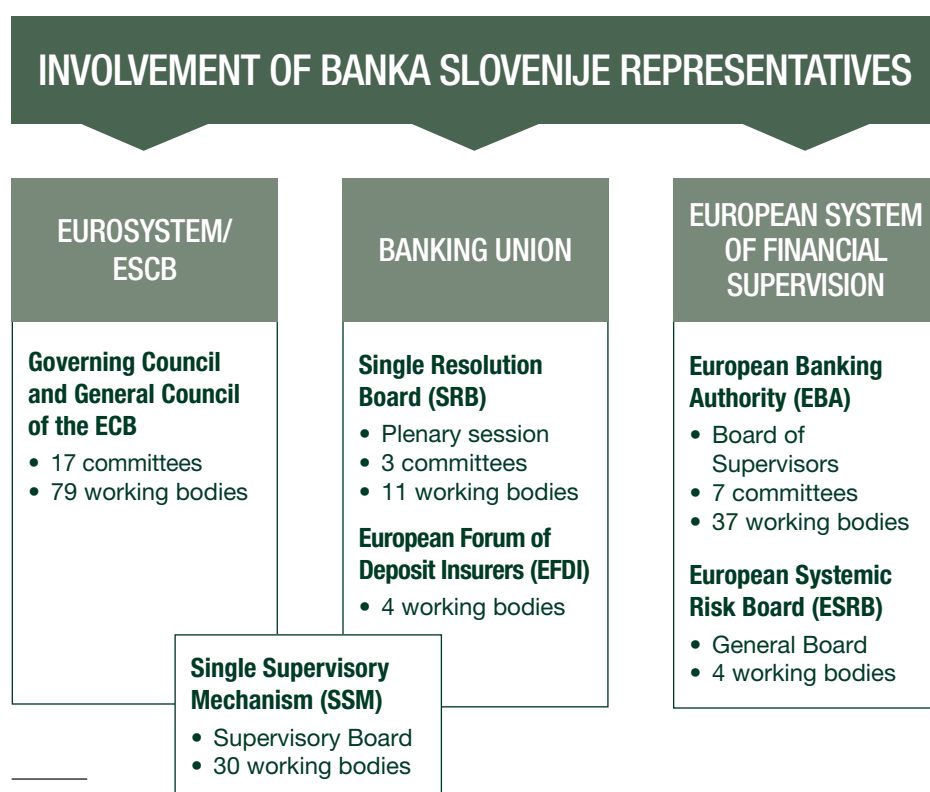
¹⁶ For more on the European Banking Authority, see <http://www.eba.europa.eu/>.

- **In the area of macroprudential supervision**, we worked within the institutional framework of the ECB and the European Systemic Risk Board (ESRB), which is responsible for the macroprudential supervision of the financial system in the EU. The objective of the ESRB's work is preventing and mitigating systemic risks to financial stability in the EU, while its tasks include defining risks on the basis of which it may issue recommendations for remedial measures. The Governor of Banka Slovenije (by function) and one of the vice-governors are members of the General Board.

In the area of bank resolution, Banka Slovenije works within the framework of the Single Resolution Mechanism (SRM), which is responsible for drawing up resolution plans and analysing the resolvability of systemically important banks or groups, and for using the resolution fund. Our objective is to put in place a single European rulebook and standardised resolution processes, and to minimise the resolution costs and asset devaluation if a bank failure occurs. Like the SSM, the SRM operates at the pan-European national level by working with the national competent authorities, in this case the national resolution authorities. The centralised application of resolution powers has been assigned to the Single Resolution Board, whose membership includes a representative of national resolution authorities (one of the vice-governors in the case of Banka Slovenije), and to the national resolution authorities, where the rules on the establishment and operation of the SRM in Member States are applied directly.

Our actions are also related to our collaboration with other authorities and institutions in Slovenia, the EU and further afield. For more on this, see Section 4.

Diagram 1: Institutional framework for the functioning of Banka Slovenije at the end of 2019



3.2 MONETARY POLICY

The accommodative stance of monetary policy ensured the maintenance of favourable financing conditions in 2019, to support economic growth and converge on the inflation target.

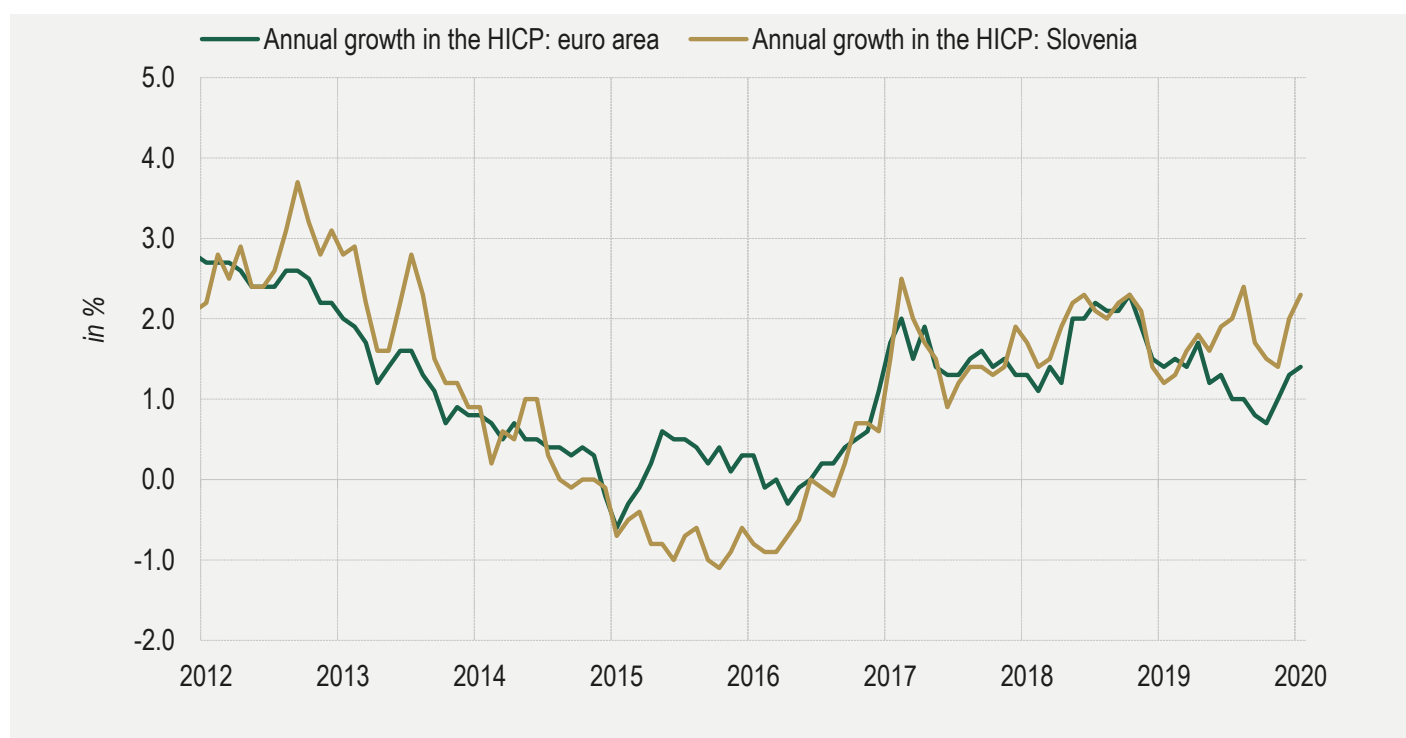
The Governing Council of the ECB adjusted its monetary policy several times in 2019, adopting a wide range of measures in response to a long period of economic weakness, more pronounced downside risks and subdued inflationary pressures.

A third series of targeted longer-term refinancing operations (the TLTRO-III) was announced in March 2019, to help maintain favourable conditions for bank lending and to make it easier to access financing, particularly for SMEs. The forward guidance with regard to key interest rates was also strengthened, while conducting lending operations in the form of fixed-rate tender procedures with full allotment was extended at least until the end of the reserve maintenance period that will begin in March 2021.

Because the medium-term inflation outlook remained below the target level, in June 2019 the Governing Council again adjusted its forward guidance with regard to key interest rates, and at the July 2019 meeting signalled the possibility of further cuts.

The monetary policy stance remained highly accommodative in 2019.

Figure 10: Inflation in Slovenia and the euro area, 2012 to 2019



Source: Eurostat

An extensive package of monetary policy measures was adopted in September 2019. They are mutually complementary, and act to provide stimulus to inflation (see Figure 10) and economic growth in the euro area by ensuring favourable financing conditions. The measures encompass:

- a cut of 10 basis points in the deposit facility rate to -0.50%;
- the strengthening of forward guidance with regard to key interest rates, to give clear indication that interest rates will remain at low levels over the long term;
- the resumption of net asset purchases with a monthly envelope of EUR 20 billion as of 1 November 2019;
- an adaptation of the modalities of the TLTRO-III announced in March;
- the introduction of two-tier remuneration of excess reserves.

Box 2: September package of non-standard monetary policy measures

I. Cut in the deposit facility rate

In an environment of excess liquidity, the deposit facility rate is the anchor for short-term interest rates, particularly those on the money market, and underlies the pricing of many financial instruments, in particular the benchmark interest rates that are the basis for setting interest rates of loans to households and firms. Cutting the deposit facility rate by 10 basis points increases the accommodative stance of monetary policy, by reducing the financing costs of households and firms.

II. Strengthening of forward guidance with regard to key interest rates

The key interest rates will remain at or below at their present levels until the inflation outlook has robustly converged to a level sufficiently close to but below 2% within the projection horizon, and the convergence has been consistently reflected in underlying inflation dynamics. The formulation of forward guidance was strengthened by linking it to a more stringent set of conditions. First, inflation forecasts must reliably approach the target, and second, they must be reflected in the core inflation dynamic, i.e. inflation excluding energy and food prices. These elements provide a safeguard against reacting too strongly to transitory inflation shocks, as well as to forecast and measurement errors.

III. Resumption of net asset purchases

Under the APP only the principal of maturing securities previously purchased in the APP was reinvested during the first ten months of 2019. As of 1 November 2019 net asset purchases under the APP resumed, with a monthly envelope of EUR 20 billion. The net purchases entail an increase in the stock of APP securities held by the Eurosystem, and therefore include the continued reinvestment of the principal payments from maturing securities. The net asset purchases are expected to run for as long as necessary to reinforce the accommodative impact of the key interest rates, and to end shortly before the Governing Council begins raising the key ECB interest rates. The resumption of net asset purchases, and the intended time horizon for the purchases will help to anchor medium-term and long-term interest rates that are important to setting loan financing costs for households and firms.

IV. Adaptation of the modalities of the TLTRO-III

With the aim of maintaining favourable conditions for bank lending and the smooth transmission of monetary policy, in March the Governing Council decided to introduce a new series of TLTROs. Seven TLTRO-III operations will be conducted between September 2019 and March 2021. A downturn in economic forecasts prompted the adaptation of the modalities of the TLTRO-III, making them more attractive compared with the March announcement. First, the 10-basis-point spread was removed, meaning that the interest rate will be set at the average of the MRO rates over the respective lifetimes of the individual TLTRO-III operations. Banks that increase their lending to a sufficient degree and exceed a specified benchmark (the sum of net lending in the 12 months to 31 March 2019) will be offered a lower interest rate, which can be as low as the average interest rate on the deposit facility during the lifetime of the operation. Second, the maturity of the TLTRO-III operations was prolonged from two to three years to better align their length with the typical maturity of bank-based financing of investment projects. Third, counterparties will have the opportunity to make voluntary early repayments at a quarterly frequency starting two years after the settlement of each operation, which for banks increases their flexibility in funding. These changes aim to improve the lending conditions that banks offer to the economy. Two other modalities differ between the TLTRO-II and the TLTRO-III: (1) the maximum amount of borrowing in an individual operation,¹⁷ and (2) the indexation of the interest rates of the operation to the interest rates of main refinancing operations or the deposit facility during the lifetime of the operation.¹⁸ The purpose of the first is to encourage banks to draw down funds more evenly in order to avoid concentration in only a few operations, while the second aims to encourage banks to participate in all operations, independently of the expectations of future changes in key interest rates.

V. Two-tier remuneration of excess reserves

Banks' excess reserves have been remunerated at the negative deposit facility rate since June 2014. The introduction of a two-tier remuneration system means that as of 30 October 2019 excess reserves in the amount of up to six times the minimum reserve requirements are exempted from the negative remuneration and carry an interest rate of zero. The measure was introduced to support the bank-based transmission of monetary policy, as a longer period of negative interest rate policy and large excess liquidity could have an adverse impact on banks' costs because negative interest rates are not charged on most deposits at banks. The desired accommodative effects of negative interest rates are left intact at the same time.

¹⁷ In an individual operation a bank may borrow no more than a tenth of its stock of eligible loans to households and firms held as at 28 February 2019, and no more than three-tenths of the stock across the seven operations in total.

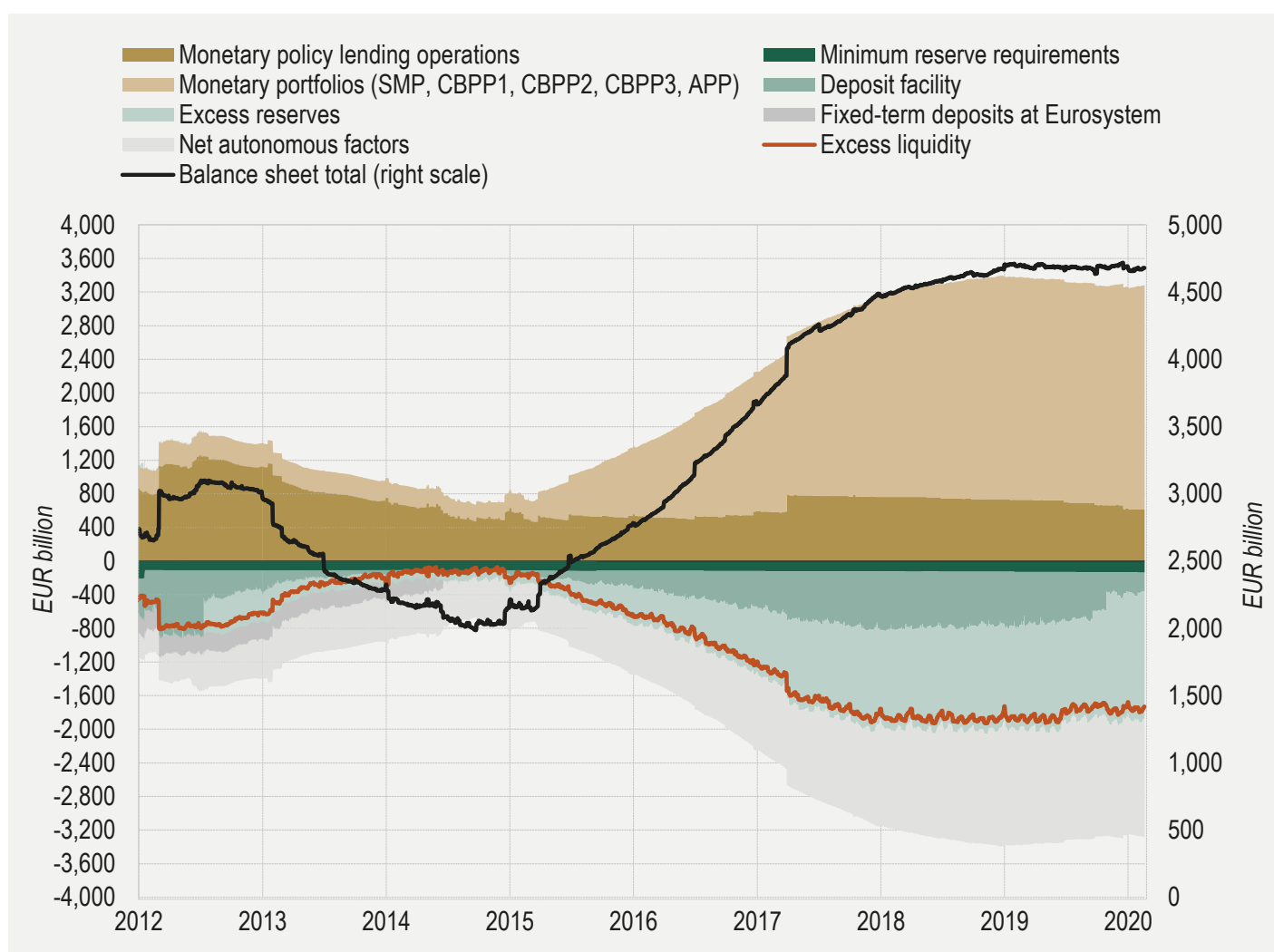
¹⁸ In the TLTRO-II the interest rate was fixed, i.e. equal to the interest rate on main refinancing operations or the deposit facility at the drawdown of the individual operation, and did not change over the cycle of changes in the key ECB interest rates.

3.2.1 Excess liquidity and low interest rates

The Eurosystem's balance sheet total was stable at approximately EUR 4,700 billion, while excess liquidity stood at EUR 1,800 billion.

Following the end of the net asset purchases under the APP in December 2018, the Eurosystem's balance sheet total remained at around EUR 4,700 billion in 2019, while excess liquidity amounted to around EUR 1,800 billion (see Figure 11).¹⁹ Excess liquidity was down approximately EUR 100 billion compared with 2018, mainly as a result of early repayments of the TLTRO-II, which exceeded borrowing in the new TLTRO-III. Minor fluctuations during the year were caused by deposits by non-banking customers of the Eurosystem, e.g. non-residents and the public sector in the euro area.

Figure 11: Simplified Eurosystem consolidated balance sheet



Source: ECB

¹⁹ Excess liquidity is the liquidity that the banks hold in excess of their needs deriving from autonomous factors and the prescribed minimum reserve requirements. It is defined as the sum of the deposit facility at the Eurosystem and the banks' excess reserves. Excess reserves are the banks' account balances at the Eurosystem in excess of the minimum reserve requirements. Banks must hold the latter over the reserve maintenance period (which lasted between five and eight weeks in 2019) based on the Regulation of the ECB on the application of minimum reserves. Autonomous factors include issued banknotes, deposits by public-sector entities at the central bank and financial assets of the central bank that are not a consequence of the implementation of monetary policy (e.g. foreign reserves). An increase in autonomous factors on the asset side of the central bank balance sheet (e.g. the central bank's investments in securities) increases banks' liquidity, while an increase on the liability side (e.g. issued banknotes) reduces banks' liquidity.

Following the introduction of two-tier remuneration of excess reserves, use of the deposit facility halved, as banks transferred the money to accounts at the central banks to take advantage of the exemption from negative remuneration of excess reserves. The Governing Council can modify the remuneration of exempted excess reserves, and the multiplier, as necessary. If the two parameters remain at their current values, the annual saving to euro area banks from the introduction of two-tier remuneration could reach EUR 4 billion, while the figure for banks in Slovenia would be EUR 9 million.

In Slovenia the excess liquidity of the banking system fluctuated between EUR 2.5 billion and EUR 3.5 billion in 2019, before temporarily exceeding EUR 4 billion at the end of the year. Owing to the high liquidity, low interest rates that did not compensate for risk of lending to other banks on the money market, increase in the proportion of sight deposits by the non-banking sector, and specific factors at individual banks at the end of the year, the banks retained a large proportion of their liquidity surpluses in accounts at Banka Slovenije. The banks' excess reserves exceeded EUR 4 billion at the end of 2019, or 14 times their minimum reserve requirements. Banks in Slovenia have not used the deposit facility for several years. Excess reserves in the euro area fluctuated between EUR 1,100 billion and EUR 1,300 billion in 2019, i.e. between nine and ten times the minimum reserve requirements, while following the introduction of two-tier remuneration they exceeded EUR 1,500 billion or 12 times the minimum reserve requirements.

The introduction of the €STR and two-tier remuneration of excess reserves did not trigger any major shifts in interest rates on the euro area money market. Interest rates remained negative. The ECB began publishing the €STR, its new benchmark for overnight euro deposits, on 2 October 2019,²⁰ and it will ultimately replace the EONIA in January 2022. Since the introduction of the €STR, the EONIA has been calculated as the €STR plus a fixed spread of 8.5 basis points. After initially rising gently, the €STR stabilised at close to -0.54%, i.e. 4 basis points below the deposit facility rate (see Figure 12). The inclusion of transactions with entities that do not have access to the deposit facility means that, unlike the EONIA, the €STR can be lower than the deposit facility rate.

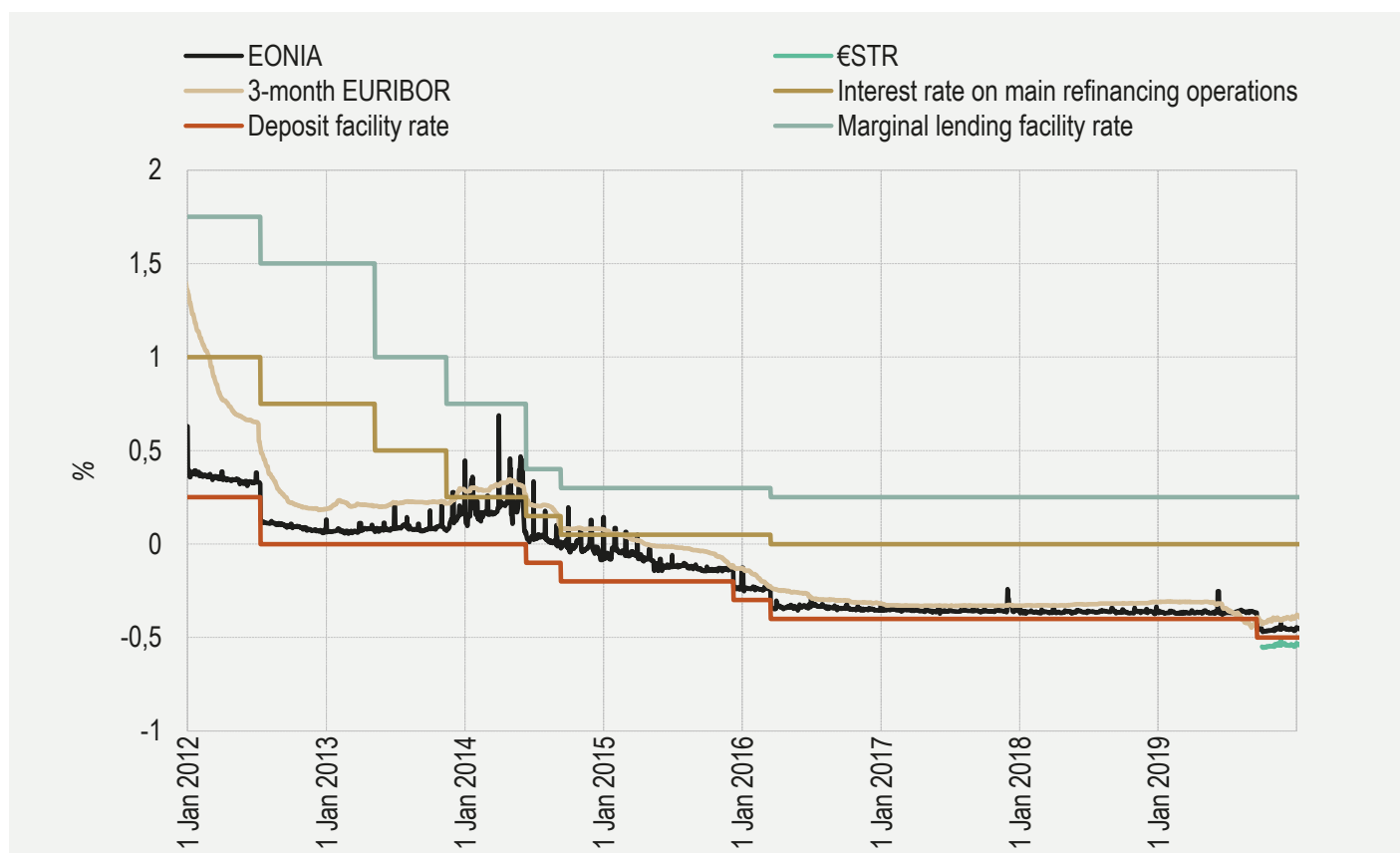
The introduction of two-tier remuneration of excess reserves temporarily raised the interest rates on the secured (repo) market, but they had returned to their previous levels by mid-December. Major shifts were seen from May 2019 in the EURIBORs of all maturities, primarily on account of expectations of a cut in the deposit facility rate, and partly on account of the changeover to a new hybrid methodology for their calculation.²¹

Following the introduction of two-tier remuneration of excess reserves, use of the deposit facility halved.

The €STR and two-tier remuneration of excess reserves did not trigger any major shifts in interest rates on the euro area money market, which remained in negative territory.

²⁰ The €STR (euro short-term rate) is an overnight interest rate calculated on the basis of unsecured euro deposits received by reporting banks from other banks and non-banking financial institutions (insurance corporations, investment funds, pension funds, etc.). The €STR is based on statistical reporting, which at the end of 2019 included the fifty largest euro area banks in terms of total assets. It is published one business day after the date of the transactions included in its computation.

²¹ The European Money Markets Institute, the administrator of the EURIBOR, began the gradual changeover to a hybrid methodology on 6 May 2019, where other interest rate sources are taken into account alongside the transactions of banks on the panel. Previously only the quotes of banks on the panel were taken into account in the computation. The changeover was completed at the end of November 2019.

Figure 12: Interest rates of the ECB and the interbank money market, 2012 to 2019

Sources: Bloomberg, ECB

3.2.2 Open market operations

There was no change in 2019 to the modalities of the monetary policy loans offered regularly to banks by the Eurosystem. Given the high excess liquidity created by the APP and the targeted longer-term refinancing operations (TLTRO-II and TLTRO-III), the one-week main refinancing operations and the three-month longer-term refinancing operations played a side role in the implementation of monetary policy and in the funding of banks in Slovenia and across the euro area.

The TLTRO-II and TLTRO-III, however, remained a significant source of funding for the euro area banking system. The stock of these loans amounted to EUR 612 billion at the end of 2019. Banks that participated in the TLTRO-II in 2016 and 2017 made early repayments of EUR 208 billion in 2019. Some of this money was replaced by borrowing from the TLTRO-III, the stock of which amounted to EUR 101 billion at the end of the year.

Slovenian banks retained the majority of the TLTRO-II, on account of the favourable funding terms. After early repayments by certain banks in the amount of EUR 126.5 million, the stock of loans had fallen to EUR 975 million by the end of 2019. Slovenian banks' participation in the TLTRO-III in 2019 was minimal.

3.2.3 Asset purchase programmes

Following the adoption of the package of measures in September, net purchases of securities of euro area issuers resumed in November 2019.

As in the past, the purchases included the public sector purchase programme (PSPP) and three private sector purchase programmes: the asset-backed securities purchase programme (ABSPP), the third covered bond purchase programme (CBPP3) and the corporate sector purchase programme (CSPP). The stock of APP bonds stood at EUR 2,579 billion at the end of 2019 (at amortised cost), of which the PSPP accounted for 82%.

The stock of the APP stood at EUR 2,579 billion at the end of 2019.

The reinvestment of maturing principal continued in parallel with the resumption of net asset purchases. The commitment is to continue reinvesting the principal payments from maturing securities for an extended period of time past the date when the ECB starts raising its key interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. The reinvestment of principal payments from maturing securities within the framework of all APP programmes amounted to EUR 205 billion in 2019.

Banka Slovenije purchased Slovenian government bonds and SID banka bonds under the PSPP, but did not make any purchases within the framework of the ABSPP, the CBPP3 or the CSPP during the year. The stock of APP bonds held by Banka Slovenije amounted to EUR 10 billion at the end of 2019.

Like the entire Eurosystem, Banka Slovenije continued to lend securities purchased under the APP. The purpose of this lending is to maintain liquidity on the securities secondary and repo markets. The Eurosystem accepts cash collateral for such lending in the maximum total amount of EUR 75 billion, in addition to other securities. Banka Slovenije retained two lending channels in 2019: via Deutsche Bank as its agent, and within the framework of the automated Securities Lending and Borrowing programme of Euroclear, the custodian bank.

3.2.4 US dollar lending

The banks' demand for one-week US dollar lending remained low in 2019: less than USD 1 billion was lent on average in each individual operation. Slovenian banks have not participated in US dollar operations since 2009.

3.2.5 Banka Slovenije as the lender of last resort²²

According to the Bank of Slovenia Act, one of our key objectives is to strive to ensure financial stability. Within this framework we may act as a lender of last resort, i.e. in exchange for collateral it lends to a solvent bank or savings bank in liquidity difficulties. We did not approve any such loans in 2019, as there was no demand for them.

²² Banks in the euro area may obtain a loan from the central bank not solely via monetary policy operations, but also, in exceptional circumstances, in the form of a loan of last resort, known as Emergency Liquidity Assistance (ELA). The procedures, which set out the role of the Governing Council of the ECB, are described at https://www.ecb.europa.eu/pub/pdf/other/201402_elaprocedures.en.pdf?0cae72c9838301505831a640aa5305.

3.3 MICROPRUDENTIAL SUPERVISION

The ECB conducts microprudential supervision of significant banks (in collaboration with Banka Slovenije), while Banka Slovenije supervises less significant banks directly.

The objective of our supervisory activities is identifying risks in all areas of the operations of banks and savings banks (credit risk, liquidity risk, operational risk, capital risk, interest rate risk, profitability risk, internal controls, corporate governance, reputation, AML, etc.) in timely fashion, and ensuring the stability of the banking system and the financial system through effective action.

The establishment of the SSM saw supervision of significant institutions (SIs) in the EU²³ transferred to the ECB in 2014, although in operational terms this supervision is conducted via joint supervisory teams (JSTs²⁴). The national supervisory authorities, including Banka Slovenije, actively participate in all operational supervisory activities for all European SIs. The final supervisory decisions are taken for these banks by the ECB, while representatives of the ECB and the national supervisory authorities²⁵ participate in the decision-making.

The supervision of banks and savings banks that do not meet the criteria for being classed as significant institutions, i.e. less significant institutions (LSIs),²⁶ is conducted by national supervisors, in accordance with national and EU legislation, having regard for the rules and methodology of the ECB and the SSM. National supervisors regularly submit supervisory data for less significant institutions to the ECB, and inform it of the material findings of their supervision. The national supervisory authorities may consult the ECB on the imposition of measures, but the final decision is their responsibility, other than in exceptional cases. These arrangements also allow the ECB, when necessary, to take over the direct supervision of less significant institutions at the proposal of the national supervisor, at its own initiative in the event of the potential occurrence of a systemic crisis, or if the national supervisor is failing to conduct adequate supervision.

²³ According to the ECB criteria, significant institutions are banks (1) whose total assets amount to more than EUR 30 billion or more than 20% of GDP (except banks whose total assets are less than EUR 5 billion); (2) who are among the three largest banks in the country; (3) who have received funding from the European Stability Mechanism; (4) whose total assets amount to more than EUR 5 billion and who account for more than 20% of the assets/liabilities in more than one Member State. For more, see: <https://www.bankingsupervision.europa.eu/banking/list/criteria/html/index.en.html>.

²⁴ The JST for each bank consists of a coordinator from the ECB, and members from the national supervisory authority and the ECB.

²⁵ The ECB's most complex supervisory decisions are taken by the SSM Supervisory Board, where voting rights are held by one representative from each of the national supervisory authorities alongside the ECB representatives.

²⁶ Banks and savings banks are classed as less significant banks (LSIs).

**Table 1: Significant banks and less significant banks
(as at 31 December 2019)**

SIGNIFICANT BANKS (SIS)	LESS SIGNIFICANT BANKS (LSIS)
Nova Ljubljanska banka d.d.	Gorenjska banka d.d., Kranj
Nova kreditna banka Maribor d.d.	Deželna banka Slovenije d.d.
Abanka d.d.	Addiko Bank d.d.
UniCredit Banka Slovenija d.d.	Delavska hranilnica d.d., Ljubljana
SKB banka d.d., Ljubljana	Hranilnica Lon d.d., Kranj
Banka Intesa Sanpaolo d.d.	Primorska hranilnica Vipava d.d.
Sberbank banka d.d.	SID – Slovenska izvozna in razvojna banka*
Banka Sparkasse d.d.	

Source: Banka Slovenije

* Has special status as a bank specialising in promotion of exports and development.

In accordance with the Slovene Export and Development Bank Act (the ZSIRB), supervision of SID banka is conducted by Banka Slovenije, the Insurance Supervision Agency and the Ministry of Finance within the framework of their powers.

Two branches of banks and banking groups of Member States (BKS Bank AG, Bančna podružnica, and RCI Banque Societe Anonyme, bančna podružnica Ljubljana) were also operating in Slovenia at the end of the year.²⁷

3.3.1 Supervision of significant banks

Supervision of significant banks is conducted by the ECB in collaboration with Banka Slovenije. The supervision takes the form of ongoing supervision, and on-site inspections at banks.

The principal supervisory activities are defined for each bank on the basis of regulatory requirements, the SSM supervisory manual and the SSM's supervisory priorities. Specific supervisory activities are also set out for a bank, as the supervisor responds to a change in the bank's risk profile or to changes in the banking system. This is a risk-based approach, where supervisory activities are focused on the most material risks at each bank.

The main task of the JST, which conducts operational supervision of banks, is conducting the supervisory review and evaluation process (SREP) on an annual basis. Another part of ongoing supervision is thematic reviews, which are conducted simultaneously at all significant banks or a group of significant banks in the SSM. Thematic reviews are conducted in areas where the ECB assesses that elevated risks have arisen. On-site inspections are also conducted alongside ongoing supervision.

When deficiencies or breaches of regulations are identified, the JST draws up supervisory measures, which may be imposed on a bank in the form of an operational act, or a letter with recommendations, or a decision, which is a legally binding act. Supervisory measures are imposed on significant banks by the ECB.

²⁷ Branches of EEA Member States in Slovenia: <https://www.bsi.si/en/financial-stability/institutions-under-supervision/eea-states-credit-institutions-in-slovenia>.

The ECB set the following supervisory priorities within the framework of the SSM in 2019, which also formed the starting point for the supervision of Slovenia's significant banks:

- credit risk, with a focus on NPL guidance, loan approval procedures and the quality of specific asset-class exposures (e.g. real estate, leverage finance);
- risk management, with an emphasis on:
 - validation and approval of internal models to calculate capital requirements;
 - the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP), and their inclusion in the SREP;
 - cyber risk and IT risk;
 - liquidity stress test;
- multiple risk dimensions, such as Brexit preparations, and trading risks and asset valuations.

Within the framework of the annual SREP, in 2019 an assessment of individual risks and internal controls was conducted for all banks, individual capital requirements that must be maintained in excess of the minimum capital requirements were stipulated for them, and qualitative measures were imposed. These primarily related to the management of NPLs, internal governance and operational risk.

Given the specific risks at individual banks, the JSTs conducted six deep-dive inspections in 2019, which were confined to a narrow segment of banking: credit standards in selected portfolios, credit protection management, operational risk management and internal governance.

In the low interest rate environment banks have become more aggressive in seeking interest income and non-interest income, which could lead to a relaxation of credit standards. The ECB therefore decided to carry out a project aimed at assessing the quality of credit standards in the area of loan approval at significant banks. The first part of the project involved collecting data on loans approved in selected segments. Based on a review of the data and an assessment of the portfolios, the second part of the project (in 2020) was to consist of an in-depth review of selected portfolios, where loosening credit standards were to be identified. No portfolio of Slovenian banks was included among the selected portfolios. There were no critical findings with regard to Slovenian banks, although credit standards in the consumer lending segment had begun to loosen. Banka Slovenije acted to curb this trend by imposing macroprudential measures that entered into force on 1 November 2019.

Six on-site prudential inspections were conducted at significant banks in 2019. Supervisors from other countries or external specialists hired by the ECB were involved as team members in all of them. Two inspections were mostly conducted abroad. Inspections were conducted in the areas of credit risk, the ICAAP followed by liquidity, and IT risk.

In accordance with Article 84 of the Banking Act, at the end of 2018 the banks again submitted updated recovery plans, which the JSTs reviewed and assessed in accordance with Article 197 of the Banking Act.

In the supervision of significant banks, there were 214 irregularities and deficiencies identified in their operations in 2019, of which the largest number related to credit risk and the ICAAP, the content of the recovery plan, and operational risk and liquidity risk (see Figure 13).

The majority of the findings have a low or medium impact on the financial position of the supervised entity, the level of capital, internal governance, and risk management and risk control at banks, for which reason the ECB imposed a measure on the banks in question in the majority of cases in the form of a letter with recommendations (see Table 2).

3.3.2 Supervision of less significant banks²⁸

Banka Slovenije is independently and directly responsible for supervising less significant banks. The supervision is conducted in the form of ongoing supervision, i.e. monitoring and review of reports, data and information that the banks are required to submit to Banka Slovenije periodically or at its explicit request, and in the form of on-site inspections in connection with the identification, measurement and management of various risks.

We set out our principal supervisory activities for each less significant bank in the upcoming calendar year on the basis of a comprehensive annual risk assessment at the bank.

As at significant banks, the most important part of the supervisory process at less significant banks consists of the supervisory review and evaluation process, based on which we define individual requirements for the maintenance of capital adequacy and also qualitative measures for risk management.

For 2019 we identified the following risks as the most material in the operations of less significant banks:

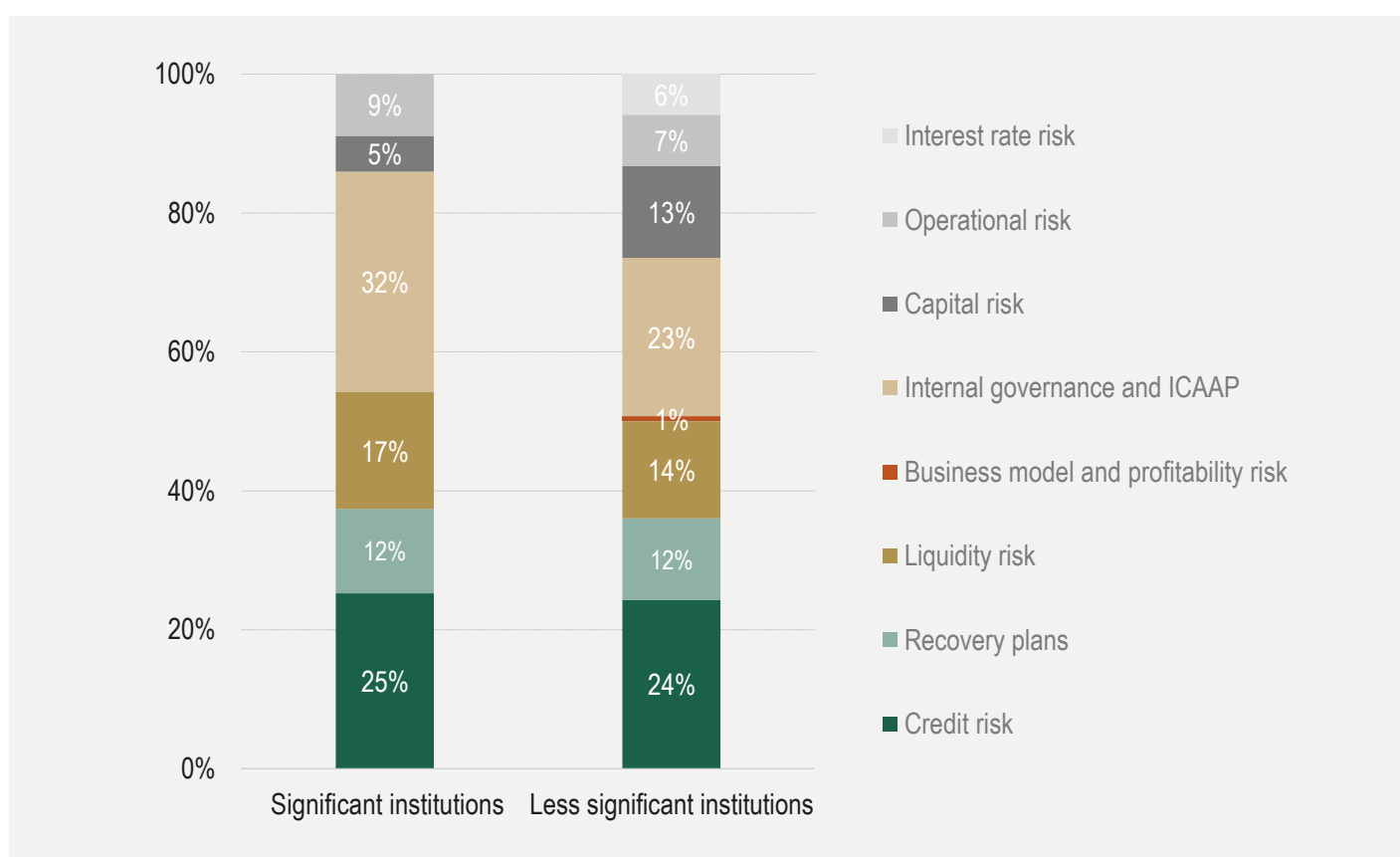
- credit risk with a focus on consumer and housing lending, and on further reduction of NPLs;
- risk management with a focus on the ICAAP and the risk inherent in the large holdings of sight deposits;
- operational risk with a focus on IT and cyber security;
- internal governance with a focus on changes in bank ownership structures, and the related changes in management bodies, and proper prudential consolidation.

²⁸ Banks and savings banks (credit institutions) are classed as less significant banks (LSIs). The term "bank" in the context of less significant banks also includes savings banks.

In 2019 we conducted five on-site supervisory inspections at less significant banks in the areas of credit risk, with a focus on consumer lending and internal controls, operational risk from the perspective of cyber security, bank governance and the ICAAP. As of the middle of the year, inspections at less significant banks have been undertaken using a methodology that is substantively the same as that used at significant banks. We also conducted follow-up inspections of the implementation of measures at less significant banks as part of our ongoing supervision.

In the supervision of less significant banks we identified 129 irregularities and deficiencies, largely in the area of credit risk and the ICAAP. Certain identified irregularities were rectified in 2019, while the rectification of the others will be followed up in 2020.

Figure 13: Breaches identified at banks in 2019, by risk category



Source: Banka Slovenije

Banka Slovenije issued 14 letters to less significant banks in 2019 in which Tier 1 capital and total capital requirements were set out. Having examined the recovery plans of less significant banks, we drew attention to 16 deficiencies and areas where the institutions need to devote more attention in the preparation of their plans in the upcoming year.

Table 2: Supervisory measures imposed on banks and savings banks in 2019

TYPE OF MEASURE	NUMBER OF MEASURES IMPOSED AT SIGNIFICANT INSTITUTIONS	NUMBER OF MEASURES IMPOSED AT LESS SIGNIFICANT INSTITUTIONS
Decision with supervisory measures	4	
Follow-up letter with recommendations	20	
Order on rectification of breaches		3
Post-inspection letter		1
Declaratory decision on rectification of breaches		2
Order to dispose of shares		1
Decision to initiate procedure to revoke authorisation to perform function on management body		3

Source: Banka Slovenije

There are now two branches of foreign banks and banking groups of Member States operating in Slovenia (one from Austria and one from France). Supervision of their operations was conducted via regular reports, requests for additional clarification, and the monitoring of their liquidity positions. No measures were imposed on the branches in 2019.

Box 3: Stress tests

The EBA conducts EU-wide bank stress tests every two years (most recently in 2018). In line with established practice, it was decided at ECB level within the framework of the SSM to use the interim year to conduct targeted stress tests, which last year focused on liquidity risk. All significant banks under direct ECB supervision were included in the exercise. Similarly to significant banks, Banka Slovenije also conducted stress tests for less significant Slovenian banks and subsidiary banks under majority foreign ownership.

The primary metric of liquidity risk during the stress tests was the survival period, measured in days, when the net liquidity position becomes negative. The survival period is the period during which an institution is able to deploy its liquid assets to survive a sudden liquidity shock. On the basis of cashflows and scenarios, calculations were made for individual banks as to whether liquidity outflows would exceed inflows over a six-month period, taking account of secondary liquidity. In addition to the survival period, the net liquidity position (funding surplus/deficit) measured as a proportion of total assets was also calculated.

The banks disclosed a good liquidity position at system level, primarily on account of the high level of secondary liquidity. The stress tests produced detailed insight into the liquidity position of each bank, and the results of the stress tests were incorporated into the overall risk assessment for the institution.

The 2019 stress tests were significantly less demanding in terms of scope and complexity than the stress tests of the previous year, but the exercise again showed that an understanding of data requirements and concern for higher data quality have to remain a priority for banks and supervisors.

The stock of NPEs declined by EUR 1 billion in 2019.

3.3.3 Management of non-performing exposures

Banka Slovenije continued its activities in 2019 to reduce legacy NPE portfolios of banks, and to prevent creation of new NPEs. Joint efforts of all credit institutions and Banka Slovenije in 2019 have led to reduction in the NPE ratio, from 4% to 2.2%, while the stock of NPEs declined by EUR 1 billion over the course of the year. The most notable factors contributing to the reduction in NPEs were loan repayments and the sale of claims.

In monitoring the progress of NPE management in individual credit institutions of the operational reduction plans, and the pace of change in NPEs were analyzed. In addition to the aforementioned two regular activities, also supervisory dialogue with outlier institutions was conducted. In 2019 we also began monitoring the banks' implementation of the EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06), which entered into force on 30 June 2019.

Despite the significant decline, the management of NPEs remains one of the priorities for banks and supervisors in the near future. The activities are increasingly aimed at preventive tasks of all stakeholders, in order to maintain and develop further adequate infrastructure for the early identification of potential problems and to limit the adverse consequences to an acceptable level.

Supervision of AML/CFT, restrictive measures and consumer protection is conducted by Banka Slovenije on an autonomous basis.

3.3.4 Supervision of compliance and AML/CFT

In contrast to prudential supervision, which is conducted by the ECB in conjunction with Banka Slovenije, **non-prudential supervision is the exclusive responsibility of Banka Slovenije.** The central focus of this supervision is prevention of money laundering and terrorist financing (AML/CFT), which in addition to banks and savings banks covers other institutions that are supervised by Banka Slovenije in accordance with the ZPPDFT-1 (payment institutions, electronic money institutions, currency exchange offices, and entities engaged in virtual currency activities). Alongside AML/CFT, other supervisory activities carried out in 2019 related to consumer protection under the ZPotK-2, and to restrictive measures.

The following activities were carried out in the area of AML/CFT and restrictive measures:

- Inspections

In keeping with the guidelines of European supervisory authorities requiring risk-based supervision, in 2019 Banka Slovenije conducted seven direct inspections and participated in two direct inspections initiated by other supervisory authorities (Office for Money Laundering Prevention, SMA).

- Drafting of regulations

Banka Slovenije issued the Guidelines on the assessment of the risk of money laundering and terrorist financing and the Guidelines on information for monitoring the transfer of assets in 2019.

- International cooperation

There were a wide range of developments in international cooperation in the area AML/CFT in 2019. To strengthen the interaction between prudential supervision and supervision in the area of AML/CFT, an agreement was signed on mutual cooperation and exchange of information between the ECB and the national authorities responsible for supervision in the area of AML/CFT in Member States.

Banka Slovenije is involved in activities unfolding within the framework of the joint AML/CFT sub-committee, which operates at the level of EU supervisory authorities (EBA, ESMA, EIOPA), and activities unfolding within the framework of Moneyval, the Council of Europe's AML/CFT committee.

- Other activities

In the second half of the year Banka Slovenije actively participated in public discussions of the new ZPPDFT-1, and in activities related to the update of the National Risk Assessment for Money Laundering and Terrorist Financing.

Banka Slovenije collaborated with the Jožef Stefan Institute on the Infinitech international project, within the framework of which we will develop a platform for conducting supervision in the area of AML/CFT more effectively.

In the area of compliance with the ZPotK-2, which governs consumer lending, last year brought an update to the supervisory procedural manual, which is modelled on prudential supervision, and sets out standards and activities in the area of compliance supervision that are to be followed within the framework of direct supervision, while three direct inspections were conducted in line with the annual plan. Banka Slovenije also addressed initiatives submitted by the Slovenian Consumers' Association.

3.3.5 Licensing

Banka Slovenije issues authorisations in accordance with the ZBan-2, the ZPlaSSIEd, Commission Delegated Regulation (EU) No 2018/389, the Foreign Exchange Act, the CRR and the ZPotK-2.

Banka Slovenije conducted 41 procedures last year in accordance with the ZBan-2, the ZPlaSSIEd, Commission Delegated Regulation (EU) No 2018/389, the Foreign Exchange Act, the CRR and the ZPotK-2. Of these, 33 ended with an authorisation being granted, while the remainder were halted, withdrawn, or remained unfinished at the end of the year and were deferred until 2020.

In addition to granting authorisations, Banka Slovenije is also responsible for determining the suitability of members of bank supervisory boards. We conducted 31 procedures for assessing the suitability of members of bank supervisory boards in 2019. Of these, 14 ended with a positive assessment, while the remainder were halted, withdrawn, or remained unfinished at the end of the year and were deferred until 2020.

Banka Slovenije also issued 15 decisions to terminate authorisations in 2019: eight for the performance of the function of a member of a bank's management board, two for financial services, two for qualifying holdings, and three for currency exchange services.

Banka Slovenije is also responsible for processing notifications under the ZBan-2, the ZPotK-2 and the ZPlaSSIEd. In 2019 we received 169 notifications of the direct provision of services in Slovenia by banks of Member States, notifications of the cross-border provision of consumer credit intermediation services for real estate, and notifications of the provision of payment services in Slovenia by payment institutions of Member States, and the provision of electronic money issuance services and payment services by electronic money institutions of Member States. One bank established in Slovenia notified the direct provision of services in another Member State in 2019.

3.3.6 Secondary legislation

The content of the individual regulations in the area of supervision adopted in 2019 is summarised below.

New Regulation on credit risk management at banks and savings banks

On the basis of an amendment to the regulation, maximum mortgages on real estate may also be taken into account as eligible collateral for the purpose of estimating credit risk losses. In the case of mortgages of this type, in line with established legal precedent there is no requirement to obtain a directly enforceable notarial deed of collateral via the registration of a mortgage on the mortgagor's real estate (which is a condition for taking account of real estate collateral for the purpose of estimating credit risk losses), but it is necessary to provide for a valid lien agreement and a land registry permit for the establishment of a maximum mortgage on the mortgagor's real estate, and other documents that make evident which claims are secured by the maximum mortgage and to what degree.

Guidelines for implementing the Regulation on reporting by monetary financial institutions

In the reporting of financial information, a change is being made to reporting requirements relating to leases under the new IFRS 16, and income statement items in connection with costs and expenses from fees and provisions. The methodology for compiling the recapitulation of the statement of comprehensive income has also been modified in consequence. The changes are a result of compliance with the amended Commission Implementing Regulation (EU) No 680/2014 (in the part relating to FINREP financial information), which, following publication of the regulation in the Official Journal of the EU, banks will first take into account in their reporting for 30 June 2020 (including Section 3.6.7.1 Statistics of financial institutions and markets).

New Regulation on the books of account and annual reports of banks and savings banks, with implementing guidelines

Owing to the aforementioned changes, banks whose total assets are EUR 1 billion or more are required to provide certain additional information about performing and non-performing exposures within the framework of their FINREP financial information on an individual basis starting as at 30 June 2020.

The templates for the income statement and consolidated income statement were updated for the purposes of disclosure in the annual reports of banks, and changes were also made to performance indicators. Within the framework of credit quality indicators (first time use for the 2019 financial year), in place of the indicators of coverage of non-performing exposures by credit loss allowances and provisions, and coverage of non-performing exposures by collateral, banks disclose two indicators where the coverage is calculated exclusively for non-performing loans, and other financial assets.

The methodology for calculating indicators was therefore also amended in the implementing guidelines (Guidelines for compiling the statement of financial position, income statement and statement of comprehensive income, and calculating the performance indicators of banks and savings banks). The methodology for calculating the NPL ratio has been aligned with the methodology used for the purposes of making an assessment from the perspective of additional supervisory requirements with regard to the management of NPEs, and consequently more detailed reporting and disclosure of information about NPEs (reaching or exceeding a threshold value of 5% for the ratio).

Regulations on the application of EBA guidelines

Pursuant to the ZBan-2 Banka Slovenije also decided on the application of individual EBA guidelines or recommendations in the form of regulations on the application of guidelines or recommendations. Banka Slovenije issued 11 regulations on the application of guidelines in the area of supervision in 2019.

Macprudential policy in Slovenia is formulated by the Financial Stability Board.

3.4 MACROPRUDENTIAL POLICY

Macprudential policy is used to identify, monitor and assess systemic risks to financial stability with the aim of safeguarding the stability of the entire financial system.²⁹ Macprudential policy in Slovenia is formulated within the framework of the Financial Stability Board (FSB), while decisions on the implementation of macprudential measures in a particular area are taken by the competent national supervisory authority. Banka Slovenije is responsible for the implementation of macprudential measures for the banking sector and for leasing companies. The legal basis for the implementation of macprudential policy is provided by the Capital Requirements Regulation (CRR), the Banking Act (ZBan-2) and the Macprudential Supervision of the Financial System Act (ZMbNFS).

The formulation of macprudential policy is a cyclical process, comprising of four stages:

1. identification and assessment of systemic risks;
2. selection and formulation (calibration) of the macprudential instruments;
3. implementation of the macprudential instruments;
4. evaluation of macprudential policy and macprudential instruments.

Banka Slovenije assesses the level of systemic risks on the basis of tools for monitoring financial stability. Systemic risk is defined as the risk of disruptions in the financial system that could have serious adverse effects on the functioning of the financial system and the real economy. Banka Slovenije regularly publishes its assessment of systemic risks in the Financial Stability Review and in other publications.³⁰ Banka Slovenije has developed a suite of indicators to monitor the evolution of systemic risks and the attainment of individual intermediate macprudential policy objectives, which are:³¹

- to mitigate and prevent excessive credit growth and excessive leverage;
- to mitigate and prevent excessive maturity mismatch and market illiquidity;
- to limit direct and indirect exposure concentrations;
- to limit the systemic impact of misaligned incentives with a view to reducing moral hazard;
- to strengthen the resilience of financial infrastructures.

²⁹ Article 2 of the Macprudential Supervision of the Financial System Act (Official Gazette of the Republic of Slovenia, No. 100/13).

³⁰ <https://www.bsi.si/en/publications/financial-stability-review>

³¹ The intermediate macprudential policy objectives are defined in the Strategic Framework for Macprudential Policy at Banka Slovenije, and are aligned with Recommendation ESRB/2013/1.

If the level of systemic risk is assessed as elevated or there is a risk of the intermediate macroprudential policy objectives not being attained, Banka Slovenije can opt to impose macroprudential measures. The selection and calibration of the measure follow the principles described in the Strategic Framework for Macroprudential Policy.³²

Once selected and calibrated, the instrument is implemented and then subjected to assessments of its effectiveness. A macroprudential measure is successful if it contributes to the attainment of the intermediate macroprudential policy objectives, and helps to reduce systemic risks.

Macroprudential measures may have adverse cross-border effects, and can be the target of regulatory arbitrage. This makes cross-border cooperation important. The European Systemic Risk Board is involved in the coordination of macroprudential policy at the European level. It is also responsible for issuing recommendations on the reciprocity of macroprudential measures, and may issue recommendations and warnings to national macroprudential authorities and other bodies.

Table 3: Banka Slovenije macroprudential measures currently in force

MACROPRUDENTIAL INSTRUMENT	YEAR OF INTRODUCTION/ CHANGE ³³	TYPE OF MEASURE ³⁴	INTERMEDIATE OBJECTIVE
Limits on deposit rates	2012	BINDING	To limit the systemic impact of misaligned incentives with a view to reducing moral hazard
Limits on the pace of reduction in the LTD ratio for the non-banking sector (GLTDF)	2014/2018	RECOMMENDATION	To mitigate and prevent excessive maturity mismatch and market illiquidity
Countercyclical capital buffer	2016	BINDING	To mitigate and prevent excessive credit growth and excessive leverage
O-SII buffer	2016	BINDING	To limit the systemic impact of misaligned incentives with a view to reducing moral hazard
Macroprudential restrictions on household lending (LTV, DSTI, caps on maturity)	2016/2018/2019*	BINDING	To mitigate and prevent excessive credit growth and excessive leverage

Source: Banka Slovenije

*The non-binding Macroprudential recommendation for household lending was in force until 1 November 2019.³⁵

³² More information is available on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macroprudential-supervision/strategic-framework-for-macroprudential-policy>.

³³ Cites the year when the measure entered into force.

³⁴ Macroprudential instruments that are non-binding are adopted in the form of recommendations.

³⁵ More information is available on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macroprudential-supervision/macroprudential-instruments/previous-macroprudential-restrictions-on-households-lending>.

Four binding and one non-binding macroprudential measures were in force at the end of 2019. The GLTDF measure became a recommendation on 1 January 2018.³⁶ A decision was taken last year that as of 1 April 2020 the measure requiring the first-bucket and second-bucket liquidity ratios to be calculated and reported to Banka Slovenije on a daily basis would cease to apply, but the liquidity monitoring measure was reactivated temporarily due to the outbreak of the epidemic. The limits on deposit rates³⁷ are currently not affecting banks.

There are also two binding capital measures in force, namely the countercyclical capital buffer³⁸ and the O-SII buffer,³⁹ and one binding borrower-based macroprudential instrument. Banks calculate their countercyclical capital buffers with regard to geographical exposure. The buffer rate set by the local macroprudential authority should be applied to each country. A zero rate currently applies to exposures in Slovenia.

The O-SII buffer increases the resilience of systemically important banks in Slovenia. The buffer rate is determined on the basis of the average values of indicators of systemic importance, which measure the size of a bank, its importance to the real economy, its interaction with other institutions, and the complexity of its business model or its cross-border activities. Banks are required to meet the O-SII buffer requirement as of 1 January 2019: SID banka is required to meet the buffer requirement in full as of 1 January 2020, and Banka Intesa Sanpaolo as of 1 January 2021.

Table 4: O-SII buffer rates at various banks, as of 1 January 2020

BANK	CAPITAL BUFFER RATE
NLB d.d.	1.00%
SID banka d.d., Ljubljana	0.50%*
Nova KBM d.d.	0.25%
Abanka d.d.	0.25%
SKB d.d.	0.25%
UniCredit Banka Slovenija d.d.	0.25%
Banka Intesa Sanpaolo d.d.	0.25%

Source: Banka Slovenije

³⁶ More information on the measure is available on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macprudential-supervision/macprudential-instruments/gltdf>.

³⁷ More information on the measure is available on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macprudential-supervision/macprudential-instruments/limits-on-deposit-rates>.

³⁸ More information on the measures is available on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macprudential-supervision/macprudential-instruments/countercyclical-capital-buffer>.

³⁹ The methodology is explained in detail on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macprudential-supervision/macprudential-instruments/capital-buffer-for-other-systemically-important-institutions-o-sii-buffer>.

Box 4: Macroprudential restrictions on household lending

Banka Slovenije introduced a (non-binding) macroprudential recommendation for the housing loans market in 2016.⁴⁰ The measure was precautionary in nature, with the aim of preventing excessive credit growth and preventing the loosening of credit standards. In light of the high growth in consumer loans, the macroprudential recommendation was extended to also cover this segment in 2018. The Regulation on macroprudential restrictions on household lending, which introduces binding macroprudential instruments for consumer loans and housing loans, entered into force on 1 November 2019. A binding measure was imposed on consumer loans, because:

- despite the introduction of the macroprudential recommendation, credit growth remained high and excessive; year-on-year growth in consumer loans was above 10% for more than two years;
- the banks proved not to be following the macroprudential recommendations to a sufficient extent; a binding measure was needed to attain the intermediate macroprudential policy objectives;
- the average maturity of new loans was lengthening; it stood at 5.6 years at the end of 2015, and 7 years in August 2019;
- the average contractual amount of a consumer loan increased by EUR 2,000 or 32% over a period of four years from 2015, reaching around EUR 8,200.⁴¹

The measure was also extended to housing loans with the aim of preventing arbitrage between housing loans and consumer loans.

The Regulation on macroprudential restrictions on household lending introduces three macroprudential instruments:

- A cap on the ratio of total annual debt servicing costs (including leasing) to the borrower's net annual income (DSTI) applies to consumer loans and housing loans. The maximum allowed DSTI ranges from zero to 67% (depending on income, see Figure 14). Irrespective of the DSTI, borrowers must be left with at least 76% of the gross minimum wage after deducting total debt servicing costs. This figure is increased as appropriate if the borrower has family dependents.⁴²

⁴⁰ More information on the content of the recommendation is available (in Slovene) on the Banka Slovenije website at https://www.bsi.si/ckfinder/connector?command=Proxy&lang=sl&type=Files¤tFolder=%2FFinancial%20Stability%2FMacroprudential%2FHousing%20loans%2F&hash=6ce6c512ea433a7fc5c-8841628e7696cd0ff7f2b&fileName=Priporo%C4%8Dilo_LTVDSTI_2016.pdf.

⁴¹ For more information about the introduction of the binding macroprudential measures, see the December 2019 Financial Stability Review (pp. 27-31 and 61-62).

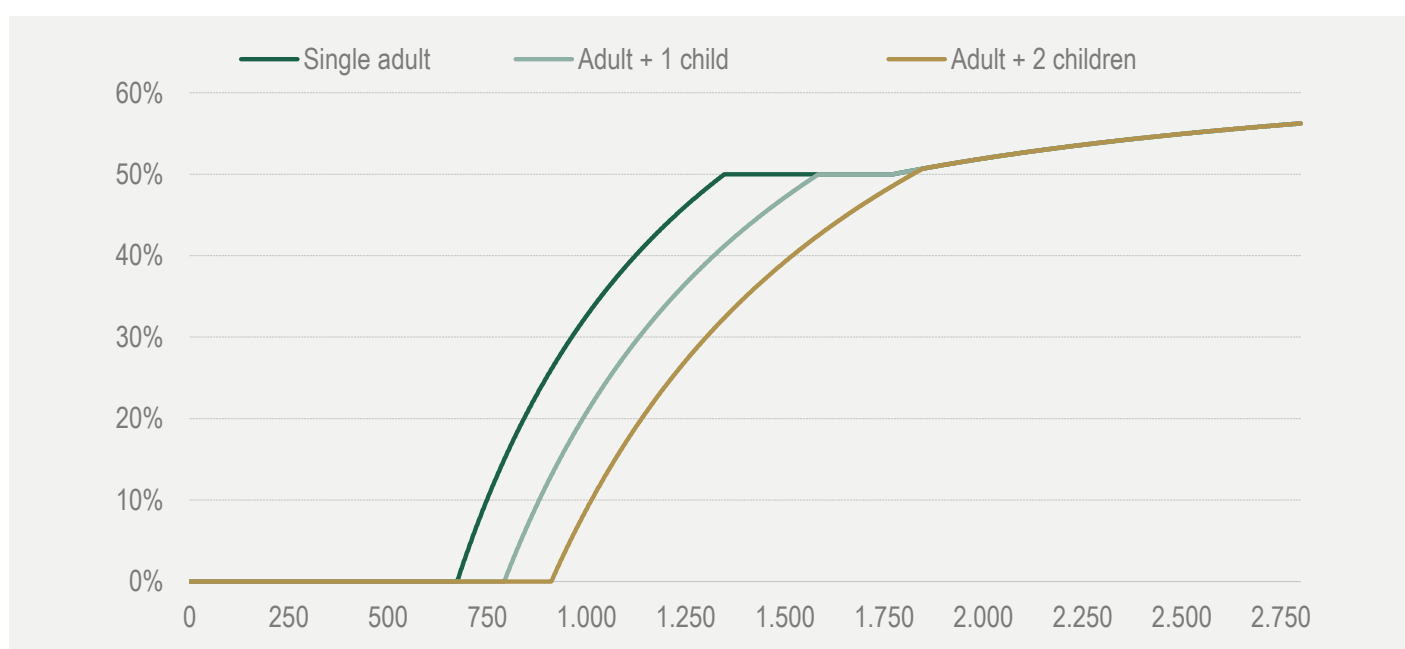
⁴² More information on the Regulation on macroprudential restrictions on household lending is available on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macroprudential-supervision/macroprudential-instruments/macroprudential-restrictions-on-household-lending>.

- A cap on maturity applies to loans not intended for the purchase, construction or renovation of residential real estate or not secured by residential real estate. The maximum allowed maturity for such loans is 84 months.

- The recommendation with regard to a cap on the ratio of the loan amount to the value of the residential real estate collateral (LTV) still applies to loans secured by residential real estate. The recommendation is that the LTV should not exceed 80%.

The allowed deviations give banks certain room for manoeuvre in approving loans that do not comply with the caps on DSTI and maturity.

Figure 14: Maximum allowed DSTI (y-axis) versus net monthly wage (x-axis)



Source: Banka Slovenije

Note: In the calculation of the allowed DSTI for a person with one or two children, the assumption is that the borrower is part of a two-parent family.

3.5 BANK RESOLUTION AND THE DEPOSIT GUARANTEE SCHEME

3.5.1 Preparation of bank resolution plans

Under the Resolution and Compulsory Winding Up of Banks Act⁴³ (ZRPPB), Banka Slovenije is the designated national resolution authority. Banka Slovenije independently draws up and updates resolution plans for all banks under its direct jurisdiction, and participates in the internal resolution taskforces of the Single Resolution Board⁴⁴ in creating and updating the plans of international banking groups with a presence in Slovenia.

Banka Slovenije works with the Single Resolution Mechanism in the area of bank resolution.

The SRB is responsible for drawing up resolution plans for banks and banking groups that are under the direct supervision of the ECB, and for all banks that pursue cross-border activities. These banks are NLB, NKBM, Abanka, UniCredit, Intesa Sanpaolo, Erste (whose subsidiary in Slovenia is Sparkasse), Addiko and Sberbank. The updating of the resolution plans for banks under the competence of the SRB proceeds in the form of internal resolution taskforces at all the national resolution authorities of countries of the banking union where individual members of the banking group have a presence. The international working groups collaborate via document exchange, regular teleconferences and meetings. Banka Slovenije is responsible for drawing up resolution plans for all banks that do not fall under the competence of the SRB, namely Gorenjska banka, Deželna banka Slovenije, Delavska hranilnica, Hranilnica Lon and Hranilnica Vipava.

In drawing up a resolution plan for the OTP Group, Banka Slovenije collaborates with the Hungarian National Bank, which is the resolution authority for the OTP Group, which SKB banka has been a member of since December 2019.

Banka Slovenije put in place a methodology in 2019 for identifying critical functions and the public interest in resolution. The methodology presents an integrated approach to identifying whether resolution measures for a particular bank in Slovenia are needed in order to safeguard the public interest, and defines the thresholds for determining the criticality of individual economic functions provided by banks in Slovenia.

All resolution plans of banks in Slovenia were updated to ensure the use of up-to-date data. Improvements to the resolution plans falling under the competence of the SRB were made in 2019, with a focus on defining in detail procedures at the bank in the event of the use of the bail-in instrument, identifying the key services supporting critical functions, and upgrading banks' capacity to provide data for the purposes of resolution. The resolution plans falling under Banka Slovenije competence were upgraded to provide analysis of the capacity of the deposit guarantee scheme, and to put in place the possibility of drawing up simplified resolution plans for banks where a

⁴³ Official Gazette of the Republic of Slovenia, Nos. 44/16 and 71/16 [constitutional court decision].

⁴⁴ For more about the SRB, see Section 3.1 Institutional framework.

compulsory winding-up procedure can be applied in the event of difficulties that the bank is unable to address itself. A presentation of the resolution plan and the requirements with regard to capital and qualified credit was made with each bank whose resolution plan is the responsibility of Banka Slovenije.

Banka Slovenije
manages Slovenia's bank
resolution fund.

3.5.2 Bank Resolution Fund at Banka Slovenije

Since the end of March 2015 Banka Slovenije has managed a bank resolution fund, which was established pursuant to the Bank Resolution Authority and Fund Act.⁴⁵ The fund's assets are earmarked for financing measures of compulsory wind-down that can be imposed on banks by Banka Slovenije. The banks paid assets totalling EUR 191.1 million into the fund in March 2015 (1.3% of total covered deposits at that time).

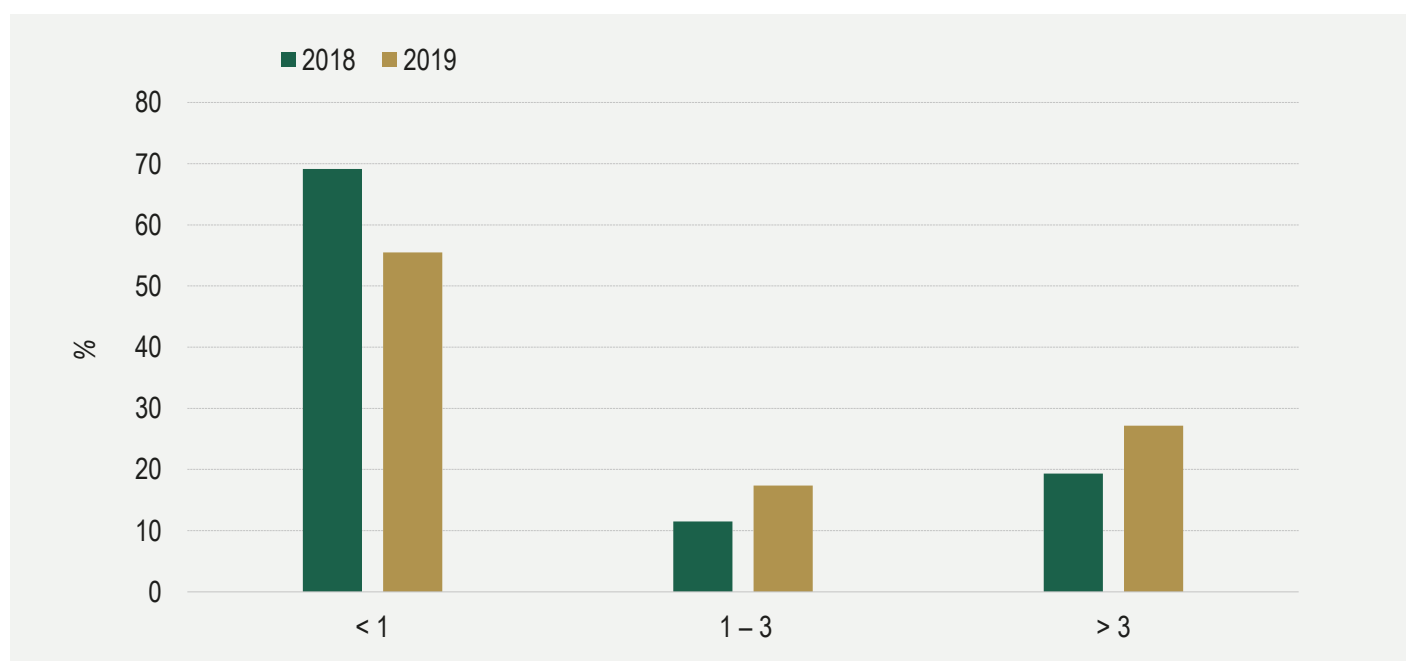
To minimise the costs of active management, as of 1 January 2019 Banka Slovenije has managed a joint fund containing the assets of the two funds that it manages, namely the bank resolution fund and the deposit guarantee fund (for more, see Section 3.5.5 Deposit guarantee fund). The assets of the latter reached an amount in 2019 that justifies active management (previously all the deposit guarantee fund's assets had been held in an account at Banka Slovenije). The investment policies of the two funds^{46, 47} follow comparable requirements with regard to liquidity, safety and return on investment. Consequently the set of suitable forms of investment is the same for both funds, and it became cost-effective to manage them as a single fund (portfolio) with unambiguous attribution of the effects of management to both funds.

The joint fund invests assets in highly liquid government, regional, agency and corporate debt instruments, generally restricting its investments to those with an internal Banka Slovenije rating of at least A-. Because interest rates on the money market were negative again in 2019, instead of investing in short-term deposits, the joint fund left its money in an account at Banka Slovenije, where the interest rate was also negative (equal to the deposit facility rate), but higher than the interest rates on the money market. In addition, given the expectations of a general fall in market rates (and thus a rise in the value of assets), the fund maintained its interest rate exposure (modified duration) at close to the maximum allowed level. The maturity breakdown was as follows: 55% of the joint fund's assets were in the bucket of up to 1 year, 17% in the bucket of 1 to 3 years, and 27% in the bucket of more than 3 years.

⁴⁵ <http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7059>.

⁴⁶ https://www.bsi.si/ckfinder/connector?command=Proxy&lang=sl&type=Files¤tFolder=%2FFinan%C4%8Dna%20stabilnost%2FRe%C5%A1evanje%20bank%2F&hash=6ce6c512ea433a7fc5c8841628-e7696cd0ff7f2b&fileName=SRB_Sklep_o_nalozbeni_politiki_in_stroskih_upravlj_201812.pdf.

⁴⁷ https://www.bsi.si/ckfinder/connector?command=Proxy&lang=sl&type=Files¤tFolder=%2FFinan%C4%8Dna%20stabilnost%2FJamstvo%20za%20vloge%2F&hash=6ce6c512ea433a7fc5c8841628-e7696cd0ff7f2b&fileName=SVJ_Sklep_o_nalozbeni_politiki_in_stroskih_upravlj_201812.pdf.

Figure 15: Maturity breakdown of joint fund assets⁴⁸

Source: Banka Slovenije

The bank resolution fund's assets under management amounted to EUR 191.7 million at the end of 2019, while the value of the joint fund was EUR 265.2 million. The bank resolution fund's operating result was a net profit of EUR 868,839.94 in 2019, while the joint fund recorded a net profit of EUR 1,057,461.93. Its performance is disclosed in detail in its annual report.⁴⁹

By law, the bank resolution fund will cease operating on 31 December 2024. The fund has not been activated to date.

⁴⁸ The figures for 2019 are for the joint fund, while for the purpose of easier comparability those for 2018 are for the bank resolution fund and the deposit guarantee fund combined, even though the funds were being managed separately at the time.

⁴⁹ The annual report is published online (in Slovene) at <https://www.bsi.si/publikacije/letna-porocila/letno-porocilo-sklada-za-resevanje-bank>.

3.5.3 Single Resolution Fund

Banks, credit institutions and certain investment firms from the 19 countries of the banking union, including Slovenia, pay into the Single Resolution Fund (SRF). The SRF was established in accordance with Regulation (EU) No 806/2014, and is owned by the SRB, which also manages the fund. **The SRF's purpose is bank resolution when an individual bank's capital and qualified credit are insufficient to carry out resolution measures.**

The SRF is being built up according to the rules for pooling contributions collected at national level, as set out in the Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund. The target level of the SRF is available financial assets in the amount of at least 1% of covered deposits of all credit institutions authorised in all participating Member States, by 1 January 2024.

The total contributions to the SRF amounted to EUR 7,819 million in 2019, of which Slovenian banks contributed EUR 9.0 million.⁵⁰ The total size of the SRF had reached EUR 33 billion following the contributions made in 2019. The SRF has not been activated to date.

3.5.4 Deposit guarantee scheme

The Deposit Guarantee Scheme Act⁵¹ stipulates that Banka Slovenije should establish and operate a deposit guarantee scheme to guarantee depositors' deposits in the event of a bank having no available funds. Banka Slovenije provides for the execution of the payment of covered deposits to depositors, or uses other measures to maintain depositors' access to covered deposits in the event of the bank's compulsory winding-up.

Banka Slovenije stands behind procedures allowing for quick payout of covered deposits.

The scheme put in place provides for payouts of covered deposits to commence within seven business days in the event of the unavailability of deposits at an individual bank (the deadline is binding as of 1 January 2024; the deadline period is 10 business days as of 1 January 2021, and is currently 15 business days). A similar payout procedure is undertaken in the event of the payout of covered claims in the wake of the bankruptcy of an investment firm.

In 2019 Banka Slovenije continued its periodic testing of the capture of data on covered deposits at the level of the individual client at all banks in Slovenia. A test of the secure transfer of data required for the payout of covered deposits was undertaken with the payout bank. Dialogue has been established with the Ministry of Finance on the envisaged procedures and the financial capacity of the deposit guarantee scheme in the event of the payout of covered deposits. In 2019 this work also included an exchange of views on the European Guarantee Scheme.

⁵⁰ A detailed breakdown of the contributions to the SRF by country is available at <https://srb.europa.eu/en/content/single-resolution-fund>.

⁵¹ Deposit Guarantee Scheme Act (Official Gazette of the Republic of Slovenia, No. 27/16): <http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7428>.

In the event of the bankruptcy of a bank branch, Banka Slovenije is responsible for coordinating the payout of covered deposits. Banka Slovenije is a co-signatory of the multilateral agreement of the European Forum of Deposit Insurers, which sets out cross-border cooperation between deposit guarantee schemes. There are two bank branches operating in Slovenia, and they are covered by the Austrian and French schemes. Banka Slovenije began preparations in 2019 with Einlagensicherung Austria, the Austrian guarantee scheme, for testing the secure exchange of information in the event of the payout of the covered deposits of a branch of an Austrian bank.

3.5.5 Deposit guarantee fund

The requisite funds for the payout of covered deposits are provided from several sources. The banks in Slovenia pay contributions into the deposit guarantee fund. The banks' contributions to the deposit guarantee fund amounted to EUR 20.8 million in 2019. The fund's assets amounted to EUR 73.5 million at the end of 2019, and it will reach its full size in the amount of 0.8% of total deposits covered by guarantee at banks in Slovenia in 2024. Should the deposit guarantee fund's assets not suffice for the needs of the actual payout of covered deposits, the fund may undertake additional borrowing, and Banka Slovenije may instruct the banks to make an additional extraordinary contribution to the fund. As a last resort, funds may be provided by the government in the form of a short-term loan. The funds for the payout of the covered deposits of bank branches are provided by the guarantee schemes in which the banks are included.

The assets of the deposit guarantee fund are managed together with the assets of the bank resolution fund (for more, see Section 3.5.2 Bank Resolution Fund at Banka Slovenije). The deposit guarantee fund's operating result was a net profit of EUR 182,521.99 in 2019. The fund has yet to be activated. Its performance is disclosed in detail in its annual report.⁵²

⁵² The annual report of the deposit guarantee fund is published online (in Slovene) at <https://www.bsi.si/publikacije/letna-porocila/letno-porocilo-sklada-za-jamstvo-vlog>.

3.6 OTHER TASKS OF BANKA SLOVENIJE

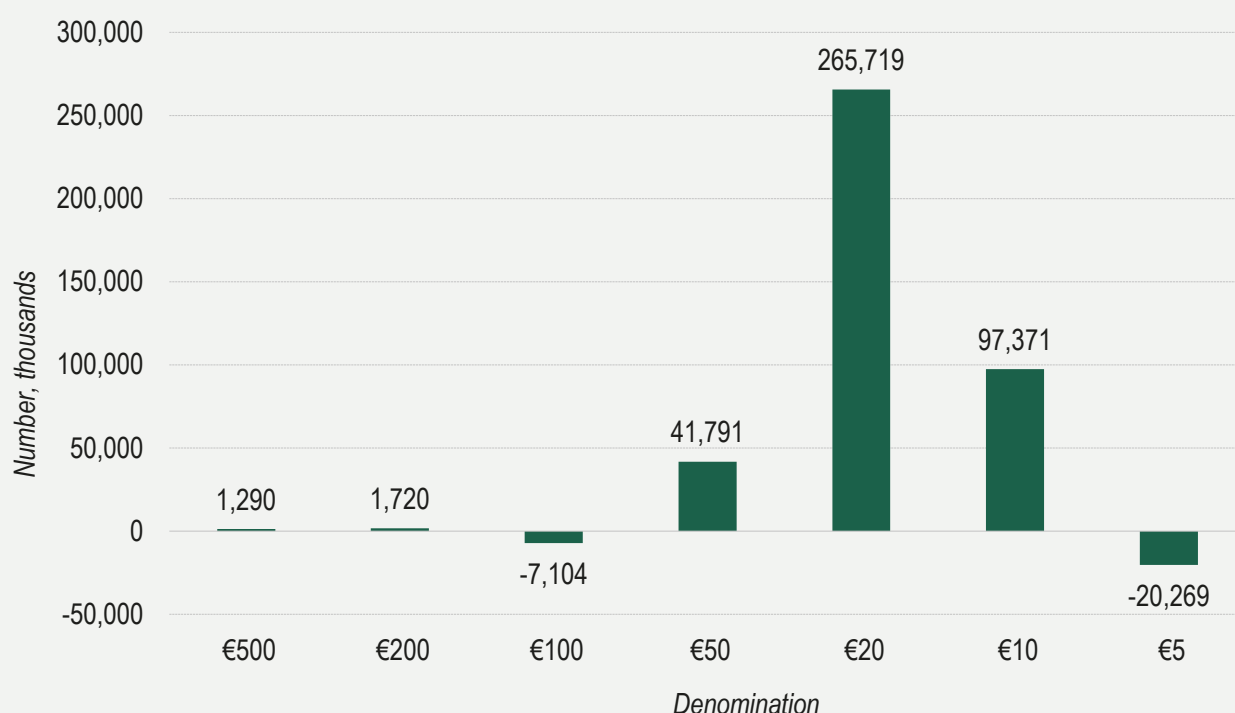
By the end of 2019, a net total of EUR 8.66 billion of cash had been issued into circulation by Banka Slovenije since the introduction of the euro.

The national central banks of the Eurosystem ceased issuing 500-euro notes on 26 January 2019, but they remain legal tender.

3.6.1 Banknotes and coins

By the end of 2019, a net total of EUR 8.66 billion of cash had been net issued into circulation by Banka Slovenije since the introduction of the euro, of which banknotes accounted for EUR 8.56 billion (380.52 million banknotes) and coins for EUR 107.10 million (390.27 million coins). In terms of quantity, the 20-euro note has the highest net issuance (265.72 million banknotes), followed by the 10-euro note (97.37 million banknotes), the 50-euro note (41.79 million banknotes), the 200-euro note (1.72 million banknotes) and the 500-euro note (1.29 million banknotes). In the case of the other two denominations (100-euro and 5-euro), there has been negative net issuance since the introduction of the euro (the number of banknotes issued was lower than the number returned to us). The coins with the highest net issuance in terms of net quantity were the 1-cent (125.88 million coins) and the 2-cent (81.63 million coins), while the lowest net issuance was recorded by the 50-cent (12.5 million coins). Euro cash was supplied to the market by Banka Slovenije from the central cash centre and through our banknote depots.

Figures 16 and 17: Net issued banknotes and coins by denomination, 31 December 2019



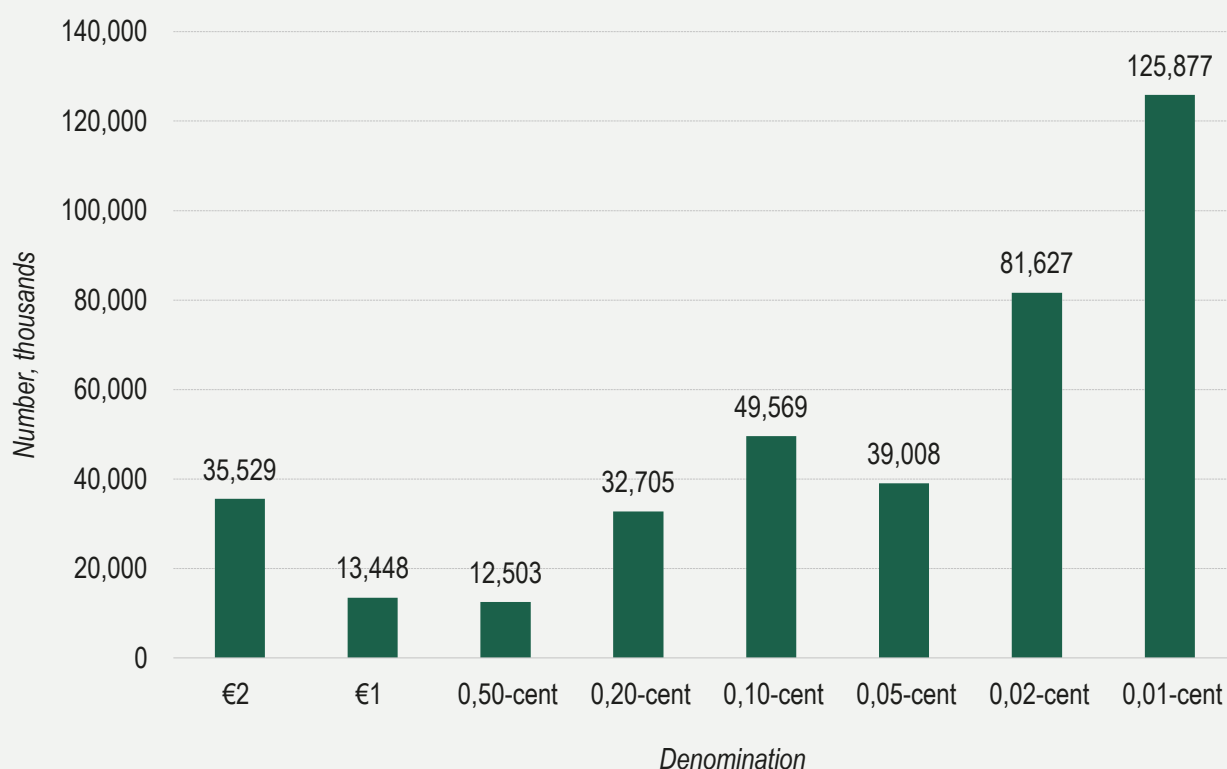
Source: Banka Slovenije

The Governing Council of the ECB decided on 4 May 2016 to permanently stop producing the 500-euro banknote, and to exclude it from the Europa series. Accordingly it was agreed at Eurosystem level that the

national central banks of the Eurosystem would end the issuance of 500-euro banknotes on 26 January 2019 (end of day), although other market participants (commercial banks, merchants, households, etc.) would be able to continue recirculating these banknotes after this date. Since the end of their issuance 500-euro banknotes have remained legal tender, and can still be used as a means of payment and a store of value. The 500-euro banknote retains its value, and can be exchanged at Banka Slovenije for an unlimited time.

Banka Slovenije organised the issuance, distribution and storage of general circulation and occasional coins for the Republic of Slovenia on the basis of the Occasional Coins Act.⁵³ In 2019 we issued a commemorative 2-euro coin into circulation to mark the centenary of the founding of the University of Ljubljana⁵⁴ (1 million coins were minted), and collector coins to mark the centenary of Prekmurje rejoining its homeland⁵⁵ (500 gold, 1,500 silver and 59,750 bimetallic 3-euro coins). For the numismatic market we issued a collection of euro coins minted in 2019 in BU (brilliant uncirculated) and proof versions, and a 2-euro commemorative coin and 3-euro collector coin, both proof-quality. The numismatic products issued by the Republic of Slovenia and Banka Slovenije are/were available at our counters and at selected branches of our two agents for collector products, Deželna banka Slovenije and NKBM (the latter was our agent only until 15 July 2019).

In 2019 Banka Slovenije issued a commemorative coin into circulation to mark the centenary of the founding of the University of Ljubljana, and collector coins to mark the centenary of Prekmurje rejoining its homeland.



⁵³ For more, see the Numismatics section of the Banka Slovenije website:

<https://www.bsi.si/en/banknotes-and-coins/numismatics/f>.

⁵⁴ <https://www.bsi.si/en/banknotes-and-coins/numismatics/f/2019/45/100-obletnica-ustanovitve-univerze-v-ljubljani-2019>.

⁵⁵ <https://www.bsi.si/en/banknotes-and-coins/numismatics/f/2019/44/100-obletnica-prikljucitve-prekmurja-k-maticni-domovini-2019>.

Photograph 1: Collector coins marking the centenary of Prekmurje rejoining its homeland (gold coin, silver coin and 3-euro coin)



Source: Banka Slovenije

Photograph 2: Commemorative coin marking the centenary of the founding of the University of Ljubljana



Source: Banka Slovenije

Photograph 3: Collection of Slovenian euro coins in 2019



Source: Banka Slovenije

A total of 1,201 exchanges of tolar banknotes and payment notes were made in 2019 (2018: 1,114 exchanges of tolar banknotes and payment notes). The total value of the tolar banknotes and payment notes still in circulation as at 31 December 2019 was EUR 31.94 million. This comprised 46.35 million tolar banknotes (worth SIT 7.25 billion or EUR 30.26 million), and 20.91 million payment notes (worth SIT 402.51 million or EUR 1.68 million). Compared with the figures from the end of 2005, 59.05% of the notes have been returned from circulation (96.61% of the total value of the tolar banknotes and payment notes). Payment notes and tolar banknotes are exchangeable at Banka Slovenije counters with no time limit, while the exchange of tolar coins ended on 3 January 2017 in accordance with the Adoption of the Euro Act.

The total value of the tolar banknotes and payment notes still in circulation at the end of 2019 was EUR 31.94 million.

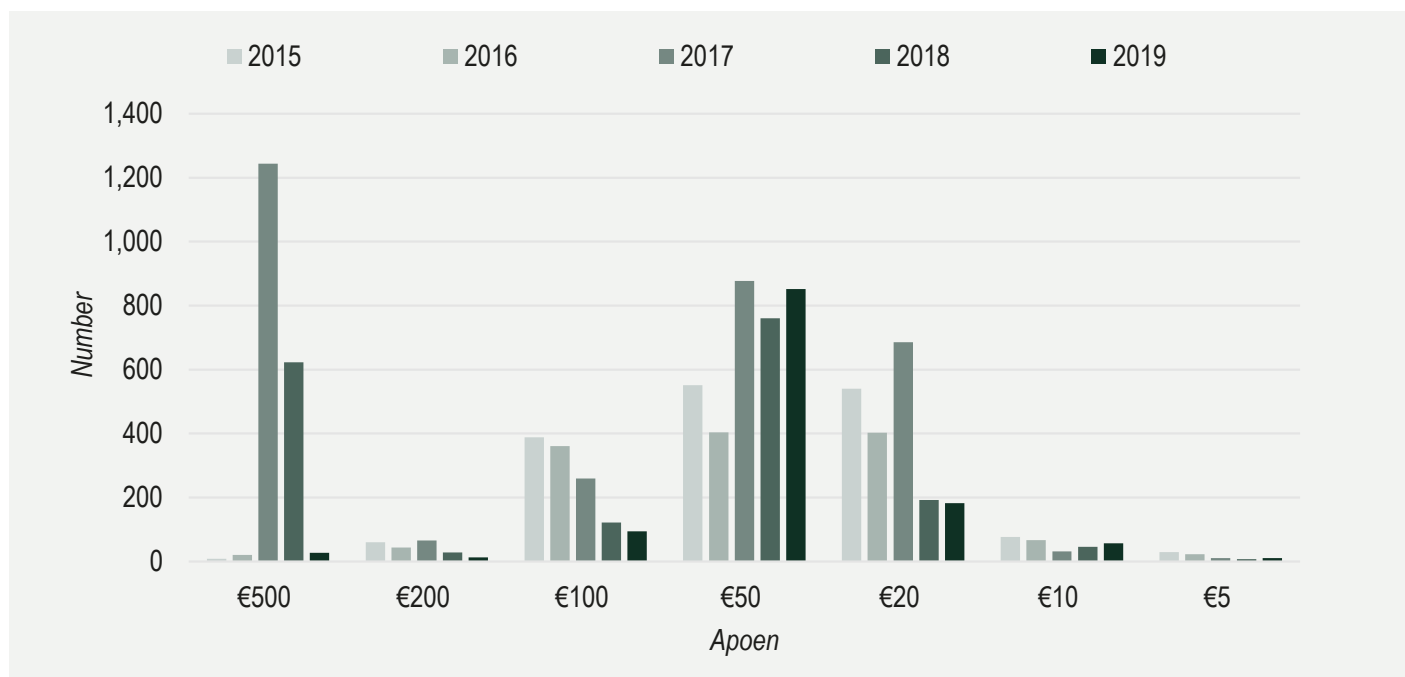
Like the entire Eurosystem, we are aware of climate change and the fragility of the environment, for which reason all accredited manufacturers involved in the production chain for banknotes are required to meet the ISO 14001 requirements on environmental management and the OHSAS 18001 requirements on occupational health and safety. To reduce the adverse environmental impact of banknotes measured in accordance with ISO 14040 Environmental management – Life cycle assessment, production of banknotes for 2019 at our selected manufacturer was switched to the exclusive use of paper made from sustainably produced cotton (integrated organic production, fair trade), and we are working with other national central banks of the Eurosystem to extend the useful life of banknotes through the use of new materials. The longer banknotes can remain in circulation, the smaller their environmental impact is.

Production of banknotes for 2019 at our selected manufacturer exclusively used sustainably produced cotton.

The cash processing unit sorted 146.07 million banknotes and coins in 2019, compared with 131.8 million in 2018. A total of 145.28 million banknotes and 0.79 million coins were sorted in 2019 (compared with 130.49 million banknotes and 1.31 million coins in 2018). A total of 22.37 million euro banknotes (compared with 15.99 million banknotes in 2018) were taken out of circulation and destroyed in order to maintain the general quality of banknotes in circulation.

By monitoring the functioning of our cash processing machines and providing training in checking the fitness and authenticity of cash, Banka Slovenije ensures that our machines and staff are able to identify counterfeits, and thus ensures that all counterfeit banknotes and coins are withdrawn from circulation. A total of 1,236 counterfeit euro banknotes and 2,237 counterfeit euro coins were withdrawn⁵⁶ from circulation in 2019, compared with 1,779 euro banknotes and 1,397 euro coins in 2018. The 50-euro banknote accounted for the largest proportion of counterfeit banknotes in terms of quantity (69% of the total), while 2-euro coins accounted for the largest proportion of counterfeit coins (78%). The Eurosystem figures in this area rank Slovenia among countries where a small number of counterfeits are withdrawn from circulation. Some 21 foreign currency counterfeits (Swiss francs, US dollars, Russian roubles and British pounds) were discovered in 2019, compared with 45 counterfeits in 2018. The quality of foreign currency counterfeits has remained at approximately the same level.

⁵⁶ According to the figures of the National Analysis Centre and the Coin National Analysis Centre. Their authorisation proceeds from Council Regulation (EC) No 1338/2001.

Figure 18: Breakdown of counterfeit euro banknotes withdrawn from circulation, by denomination and year

Source: Banka Slovenije

3.6.2 Payment and settlement systems

Payment and settlement systems are a vital component of the financial system. By ensuring the reliable, safe and effective processing of financial transactions (i.e. the exchange, processing and settlement of payments and financial instruments), they make a significant contribution to the smooth functioning of financial markets, and thereby to general economic stability and efficiency. Banka Slovenije operates the TARGET2-Slovenija payment system for large-value payments, manages the dedicated cash accounts in the TARGET2-Securities (T2S), the pan-European platform for the settlement of securities transactions, acts as a participant in the aforementioned systems, conducts supervision of payment and settlement systems and of providers of payment services and electronic money issuance services, provides access for Slovenian credit institutions to pan-European payment systems for retail payments, and acts as an advisor and steerer of change and of the activities of market participants in the area of payments and market infrastructure for payments and securities.

3.6.2.1 Operation of payment and settlement systems

Banka Slovenije was managing settlement accounts in the TARGET2 payment system for large-value payments for 19 Slovenian market participants at the end of 2019, who during the course of the year settled total of 1,027,020 transactions with a total value of EUR 367.81 billion, up 0.4% and down 0.2% on 2018 respectively. We managed 23 cash accounts for securities transactions on the T2S platform for 12 Slovenian market participants, who settled 69,583 transactions over the course of the year in the total amount of EUR 14.99 billion (down 22.0% and up 22.9% respectively on 2018).

In the cross-border retail payments segment, we enabled credit institutions in Slovenia to exchange SEPA credit transfers with more than 4,000 payment service providers and to exchange SEPA direct debits with more than 3,300 payment service providers across the EU.

In connection with these roles, we worked in 2019 to increase the cyber resilience of the infrastructures under our management. Within this framework we participated in the development of a special solution in the event of a cyber attack on TARGET2, which we tested ourselves after setting it up, and then organised a test by Slovenian participants.

In 2019 we also took part in the continuing development of the financial market infrastructures owned and operated by the Eurosystem. In connection with the new payment system (the successor to TARGET2), which will launch in 2021, Banka Slovenije worked on adjustments to be made as the central bank. TARGET2 participants will also have to make changes to their execution of large-value payments. We therefore closely monitored their activities in connection with these changes, and provided support to them in making the requisite changes.

Slovenian participants settled 1,027,020 transactions worth EUR 367.81 billion in TARGET2-Slovenija last year, and 69,583 transactions worth EUR 14.99 billion in cash accounts in T2S.

3.6.2.2 Supervision of payment and settlement systems and of payment service providers

As part of its competence under the Payment Services, Electronic Money Issuance Services and Payment Systems Act, Banka Slovenije supervises payment systems, credit institutions, payment institutions and electronic money institutions, while in accordance with Decree on the implementation of the Regulation (EU) on improving securities settlement in the European Union and on central securities depositories we also conduct supervision of the central securities depository and its securities settlement system. The objective of Banka Slovenije's supervisory activities is identifying risks in all areas of the operations of supervised entities in timely fashion, and taking effective action to ensure the security and reliability of their operations.

Supervision of payment service providers was strengthened in 2019.

In 2019 we conducted inspections at two payment system operators, granted one authorisation to provide payment services as a payment institution, one authorisation to extend an authorisation to provide electronic money issuance services and to provide payment services as an electronic money institution, and authorisations to three credit institutions for an exemption from the obligation to provide a fallback mechanism in accordance with the requirement under Commission Delegated Regulation (EU) No 2018/389. In light of the changes brought by the digitalisation of payments and new regulatory requirements in this area, in 2019 we strengthened our supervision of payment service providers and conducted inspections at two credit institutions in the area of the provision of payment services.

During the procedure for granting authorisation to the central securities depository, which was conducted by the Securities Market Agency, we drew up and argued the Eurosystem's view from the perspective of the central bank of issue for euro. As the national competent authority we issued a comprehensive opinion during the same procedure with regard to the central securities depository's compliance with the European regulatory requirements under Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories.

3.6.2.3 Guiding and encouraging the actions of market participants

Relying on our systemic outlook, knowledge, analytical capacity and reputation, we were able to actively guide and encourage the actions of stakeholders in the payments and securities markets in 2019. Here the key is that Banka Slovenije does not represent any competition to market participants. In this role on the payments and securities market, we focus on objectives that service providers and users in these markets cannot attain alone, or that require the alignment of private and public interests. Because action of this type is typically undertaken in the absence of regulatory requirements, we rely primarily on moral suasion, which demands the ability to put pressure on market participants at the right time to encourage them to take the necessary actions.

In 2019 our activities focused on encouraging stakeholders' activities with the aim of improving competition and accelerating the development of the payments market, ensuring harmonisation with pan-European (and global) practices and standards in the area of financial collateral management, and promoting the cyber resilience of market infrastructures for payments and securities, and the regulatory treatment of crypto assets, with an emphasis on the issue of stablecoins. In this respect we guided the activities of stakeholders of three working bodies, namely the National Payments Council, the Advisory Group on Market Infrastructures for Securities and Collateral National Stakeholder Group, and the Advisory Group on Market Infrastructures for Payments National Stakeholder Group.

Box 5: Instant payments

The advent of new technologies has also brought changes to people's habits and expectations in the area of payments. Many users of payment services expect to be able to make payments anywhere, anytime, as quickly as possible. This demand is being exploited by entities who are not credit institutions in order to enter the payment services market, most notably tech giants and fintech firms. The former initially offer payment services as ancillary services, but thanks to their ownership of the modern technologies that provide a good user experience, are able to grow these services into a fundamental part of their package.

In response to the requirements of users on one hand, and the advent of non-bank providers on the payment services market on the other, banks have begun to offer instant payment services. These are payments that are continuously available (24 hours a day, every day of the year), where the payee receives the money within a few seconds of the order being submitted by the payer.

To ensure the standardisation of instant payments, a pan-European rulebook has been put in place for instant payments at the EU level since November 2017. On its basis all payment service providers offer instant payments services to their customers in the same way for domestic and cross-border payments. For the moment payment service providers can accede to the rulebook on an voluntary basis. The European Commission's position is that this approach can be expected to become mandatory in 2020 for the majority of payment service providers in the EU, including for all Slovenian credit institutions providing payment services.

Work to establish instant payments has also been ongoing in Slovenia for quite some time now. The infrastructure for executing domestic instant payments was put in place under the aegis of Bankart in early 2019, and the development of solutions for end users was also undertaken. As of November 2018 Banka Slovenije has allowed Slovenian credit institutions to open a special account with us via which they can execute domestic and cross-border instant payments. Execution proceeds in central bank money via the TARGET Instant Payment Settlement (TIPS) infrastructure put in place in November 2018 by the Eurosystem. Through their inclusion in TIPS, Slovenian credit institutions will also be able to provide cross-border instant payment services for their customers.

Banka Slovenije's activities in 2019 focused on encouraging Slovenian credit institutions to offer cross-border instant payment services to their customers. To this end we made a detailed presentation to Slovenian credit institutions about joining TIPS, including opening the aforementioned special account, regularly briefed them on new developments, and provided assistance for them in joining TIPS. We will continue providing all necessary support in 2020 to allow them to join TIPS in timely fashion.

3.6.3 Joint management of the ECB's foreign reserves

Banka Slovenije manages just under EUR 195 million of the ECB's foreign reserves.

Banka Slovenije also manages part of the ECB's foreign reserves. Upon the introduction of the euro on 1 January 2007, Banka Slovenije transferred a portion of its foreign reserves in US dollars and gold to the ECB (the value of the transferred foreign reserves was EUR 194.8 million as at 31 December 2019). The main purpose of the ECB's foreign reserves is to ensure adequate liquidity for the Eurosystem for interventions on the currency market. All euro area national central banks have contributed their shares to the ECB's foreign reserves, which they manage jointly with the ECB. Since 1 January 2007 Banka Slovenije and the Central Bank of Luxembourg have jointly managed their share of the ECB's foreign reserves. In addition to the foreign reserves transferred to the ECB, Banka Slovenije also holds a portion of its investments in foreign currency in case the ECB calls for additional foreign reserves, in accordance with Article 30 of the Protocol on the Statute of the ESCB and the ECB.

3.6.4 Management of Banka Slovenije's financial assets

Banka Slovenije's financial assets amounted to EUR 3.9 billion at the end of 2019.

Banka Slovenije manages its own portfolio of financial assets, with the aim of strengthening its capital over the medium term, thereby helping to ensure its financial independence in performing its central banking tasks.

Banka Slovenije's financial assets that are not related to the implementation of Eurosystem monetary policy amounted to EUR 3.9 billion at the end of 2019 (up EUR 0.1 billion on 2018), of which EUR 3.4 billion was denominated in euros, and the remainder in foreign currencies.

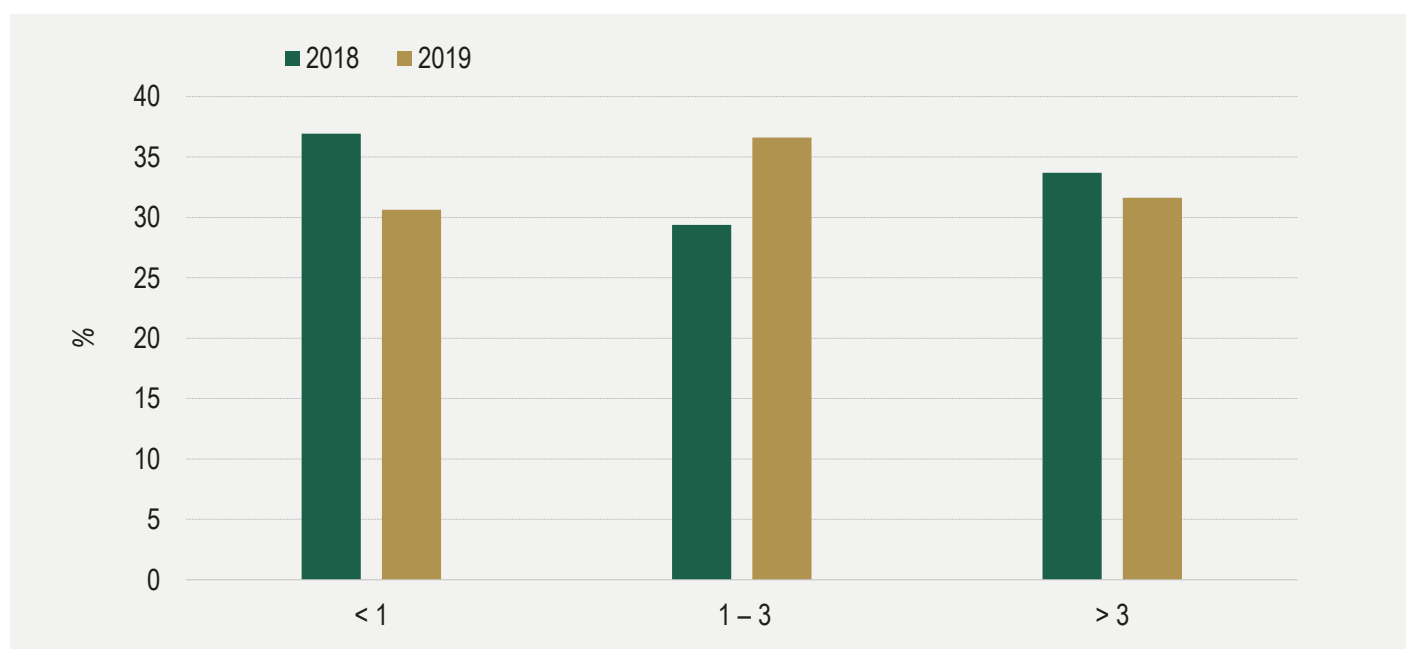
The asset breakdown is determined on the basis of the strategic asset allocation, which is updated once a year, subject to constraints, by optimising the expected return while keeping risk to an acceptable level. The strategic asset allocation is approved annually by the Governing Board of Banka Slovenije at the proposal of the Investment Committee. Under the strategic asset allocation, Banka Slovenije's financial assets are spread across several portfolios, which differ in terms of currency or asset class. Approximately half of Banka Slovenije's assets are actively managed against benchmark portfolios.

Banka Slovenije's financial assets encompass holdings of sovereign, supranational, agency, covered, bank and corporate debt. Moreover, monetary gold is also included. In addition, with the aim of diversifying risks and attaining higher potential long-term returns we began investing a small portion of our financial assets in exchange-traded funds (ETFs), which match the movements of a global share index that is diversified in terms of geography, currency and sector.

Investments in debt instruments are generally restricted to those with an internal Banka Slovenije rating of at least A-. Furthermore, investments in different types of debt are additionally limited by the prescribed maximum allowed aggregate exposure to an individual type of debt, and are limited to a list of eligible issuers. There is also an upper exposure limit per individual entity or per individual group of connected entities, which depends on the internal Banka Slovenije rating.

There was no significant change in the currency breakdown of Banka Slovenije's portfolio of financial assets in 2019. The currency exposure was fully hedged, with the exception of the amount of the potential additional call-up of ECB foreign reserves, and investments in equity ETFs. The maturity breakdown was as follows: 31% in the bucket of up to 1 year, 37% in the bucket of 1 to 3 years, and 32% in the bucket of more than 3 years. There was a slight increase in the proportion of Banka Slovenije's financial assets accounted for by the higher investment grades in 2019: approximately 23% of the assets were rated AAA, 46% were rated AA, and the remainder were rated below AA (of which the majority were rated A).

Figure 19: Maturity breakdown of Banka Slovenije's financial assets



Source: Banka Slovenije

Box 6: Socially responsible and sustainable investing within the framework of Banka Slovenije's financial assets

A considerable number of central banks and other institutional investors have in recent years been devoting growing attention to socially responsible and sustainable investing. Banka Slovenije also took a number of actions in the direction of this type of investing in the management of its own assets in 2019. In addition to aiming to reach the primary objective of asset management (strengthening capital over the medium term), we also strive for socially responsible and sustainable investing. A small, but in terms of market capitalisation more than proportionate, share of assets is invested in green bonds, where the issuer typically earmarks the funds to finance environmentally sustainable projects. In addition, in the corporate bond segment we follow the exclusion list of the world's largest pension fund, which is operated by Norges Bank Investment Management. Firms in the tobacco and arms industries and firms engaged in coal mining and in electricity generation using thermal power stations (i.e. where these sectors account for more than 30% of their revenues) are excluded from the list of eligible issuers. Firms involved in corruption and firms causing major environmental harm or breaching human rights and other fundamental ethical norms are also excluded.

Data on the debts of 1,558,570 individuals and 153,524 business entities is managed in the information exchange systems.

3.6.5 Central Credit Register

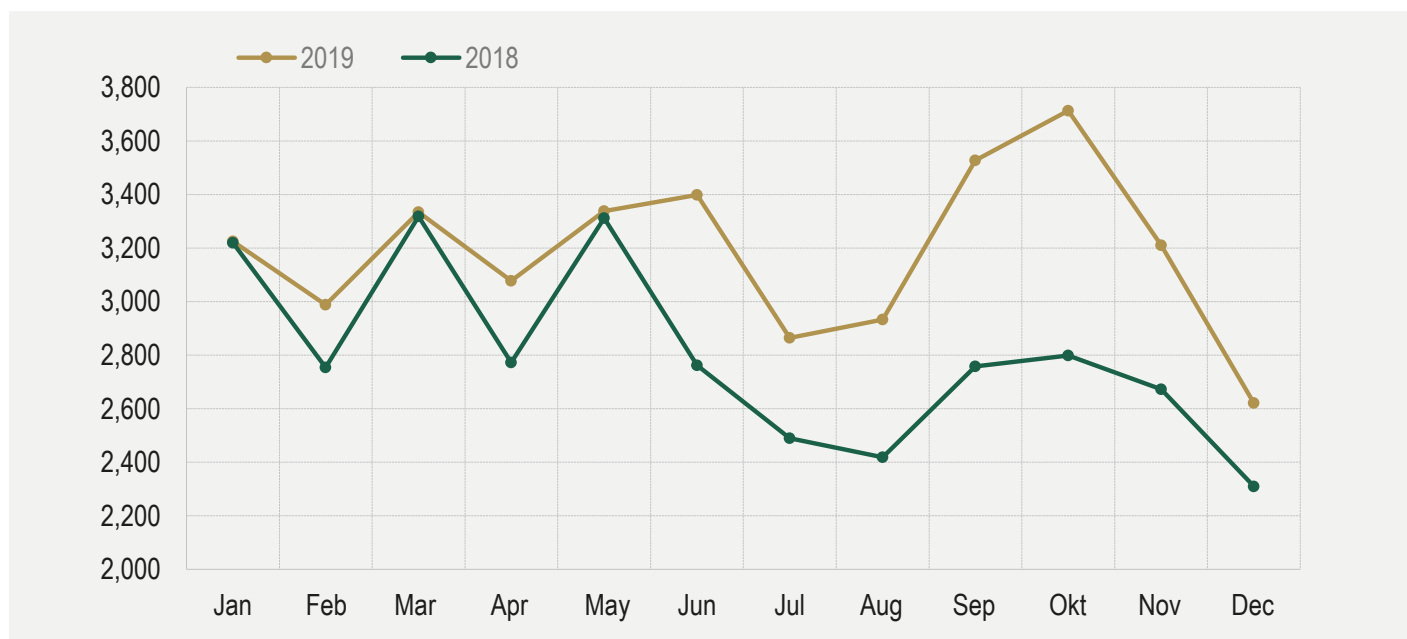
The Central Credit Register is the central national database of the debts of individuals and business entities. There are two information systems operating within the Central Credit Register: SISBON, the information exchange system for personal debt, which included data on 1,558,570 individuals, and SISBIZ, the information exchange system for the debts of business entities, which included data on 153,524 business entities at the end of 2019.

At the end of 2019 there were 57 different creditors that had access to SISBON, of whom 35 were members (entities referred to in Article 15 of the Central Credit Register Act⁵⁷), who have access to all data in the SISBON system, and 22 were included creditors, who have access to a limited amount of data only, as set out by the third paragraph of Article 19 of the aforementioned act. There were 17 creditors, all with system member status, that had access to data in the SISBIZ system.

In 2019 Banka Slovenije was able to ensure that the information exchange system functioned smoothly for system members and for included creditors, in line with the relevant legislation, while ensuring that individuals and business entities whose data is in the system were able to exercise their statutory rights with regard to their own data. Within the framework of enquiry procedures for data subjects' own data, we sent a total of 5,340 data transcripts to individuals, up 20.8% on the previous year, while 32,889 individuals (up 12.8% on the previous year) and 289 business entities (up 135% on the previous year) submitted online requests for their own data.

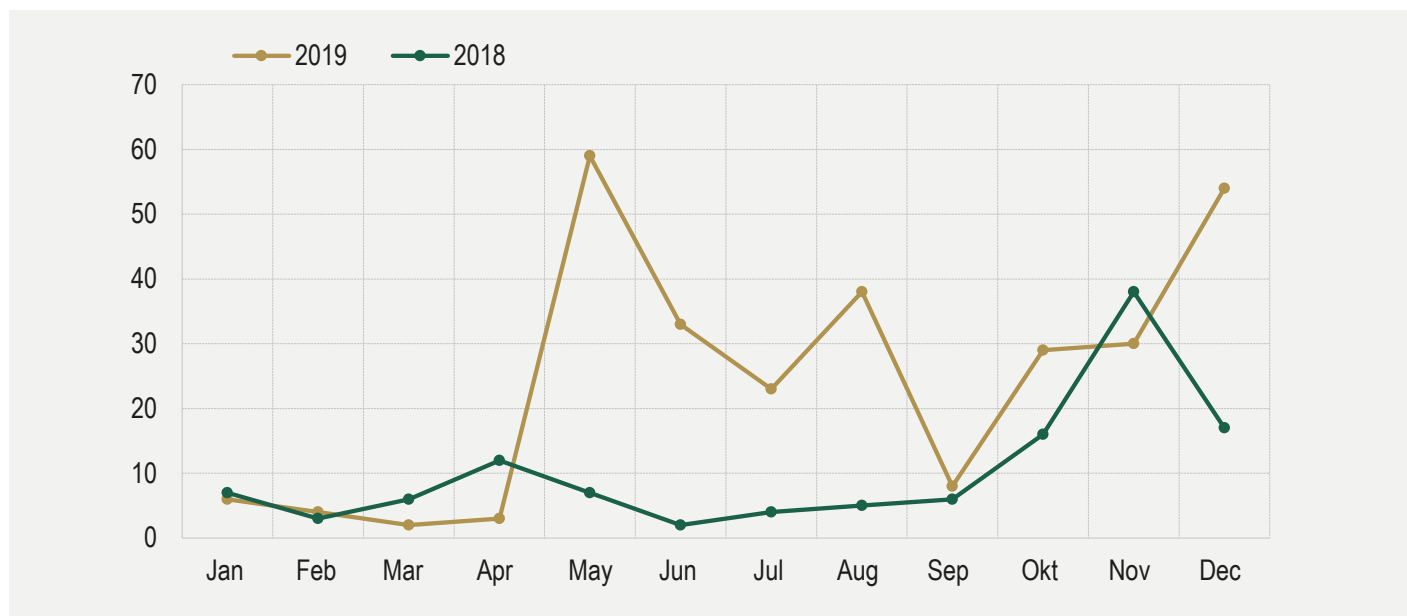
⁵⁷ Central Credit Register Act (Official Gazette of the Republic of Slovenia, No. 77/16): <http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7517>.

Figure 20: Number of individual data subjects' enquiries into their own data



Source: Banka Slovenije

Figure 21: Number of business entities' enquiries into their own data



Source: Banka Slovenije

In managing the information exchange system, we placed a heavy focus on security and on the information in the system being up-to-date. To ensure that data in the SISBON system is more up-to-date, the requirements of the SISBON rulebook, a piece of secondary legislation that requires members to immediately submit data into the system, began to be applied in March 2019. The same requirement (immediate reporting) was adopted by the Governing Board of Banka Slovenije in November 2019 in connection with the reporting of data on the debts of business entities (SISBIZ), and will begin to be applied in June 2020. For the purpose of ensuring greater security in the data administered in the information exchange system, audits of nine members of the SISBON system, six members of the SISBIZ system and one included creditor were conducted by Banka Slovenije in 2019, within the framework of which 97 recommendations were issued. Three additional audits of members were conducted for the purpose of determining whether the conditions had been met for transfer to the SISBON production environment.

A total of 1,018 complaints were submitted by individuals in 2019 in connection with the accuracy of the data in the SISBON system, equivalent to 0.07% of all people whose data is administered in the system. Of these, 28.1% were upheld, an increase of 1.7 percentage points relative to the previous year. More than 90% of complaints still pertain to the non-reporting or erroneous reporting of the closure of a transaction by system members.

3.6.6 Payment services for Banka Slovenije clients

Banka Slovenije provides payment services for its clients, and enables them to execute credit and debit payments. To this end we are members of various payment systems, and have developed a network of correspondent accounts via which we process and settle payments.

We administer the government's single treasury account and the single municipal treasury accounts in the role of payment service provider. The accounts of direct and indirect spending units of the state budget and municipal budgets, the Health Insurance Institute and the Pension and Disability Insurance Institute (included in the single treasury account system as set out in the Public Finances Act) are opened as sub-accounts of the single government or municipal treasury accounts. The sub-accounts are administered by the Public Payments Administration of the Republic of Slovenia.

In addition to the single treasury accounts, we also manage purpose-specific current accounts of the government and other budget spending units, and provide payment bank services for the Ministry of Finance and manage a cash account for it in the TARGET2-Securities system.

KDD also holds accounts at Banka Slovenije: the guarantee fund account, the fiduciary account for custody services, and the current account for own resources. Foreign financial institutions and EU institutions are also Banka Slovenije clients. The Single Resolution Board, which is responsible for bank resolution in the banking union, opened an account with us in 2019.

In 2019 we conducted more than 52 million transactions for our 197 clients, who hold a total of 205 accounts with us. Of these transactions, 94% were credit transfers, while the remainder were direct debits. The number of transactions was up 2.4% relative to 2018. The vast majority of transactions were processed automatically, and manual transactions accounted for less than 1% of the total.

Early 2019 saw the launch of a new payment system in Slovenia, BIPS, which is operated by Bankart d.o.o. Together with the commercial banks we successfully carried out the migration of processing of SEPA credit transfers from the existing payment system to the new system. The establishment of BIPS has put in place infrastructure that will allow the development of new payment services in Slovenia.

These new services include instant payments, where the payee receives the payment from the payer in a matter of seconds, 24 hours a day, 365 days a year. Instant payments will be provided for budget spending units, initially, when they are in the role of payee. IT infrastructure support was put in place in 2019, the legal basis was updated, and the internal processes for providing payment services were adapted. Instant payment services will be available to budget spending units in April 2020.

3.6.7 Statistics

All regular tasks in connection with monetary and financial statistics, external statistics, national financial accounts statistics and other statistics, including publication and the comprehensive provision of statistics to users, were carried out successfully by Banka Slovenije in 2019.

3.6.7.1 Statistics of financial institutions and markets

Two updates to the guidelines on reporting by monetary financial institutions were issued in 2019. The July amendments relate to an update in the content of quarterly data reporting (BS1K) and to partial changes in the requirements of the BS1S, BSMAP and BSSOL reports. The December amendments were the result of an amendment to Commission Implementing Regulation (EU) No 680/2014, with a change in the FINREP reporting framework (version 2.9), and the Regulation on the application of the Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10).

AnaCredit, the ESCB's multi-purpose dataset with detailed data on loans and credit risk for loans approved for legal entities by credit institutions in the euro area, contains data from more than 2,700 credit institutions reporting on 25.1 million instruments for approximately 4.5 million debtors. Banka Slovenije submits data from Slovenian banks and savings banks into the dataset, with the exception of one of the foreign branches, which reports to its home national central bank. The first data for the period from September 2018 was submitted to the dataset in March 2019. The introduction of AnaCredit reporting also increased the entry of data on related parties and foreign business entities in the ESCB database and RIAD, which already contains around 10 million business entities.

Reporting of data on payment frauds was put in place by Banka Slovenije in 2019, with the first report for the first half of 2019, on the basis of the Guidelines on reporting requirements for fraud data under Article 96(6) PSD2.

For the purposes of introducing reporting of pension fund statistics, we reached agreement on data exchange with the other supervisory authorities, namely the ISA and the SMA, who each cover part of the reporting population, and directly with Pension Fund for Craftsmen, Tradesmen and Manufacturers, who took over the technical reporting standards as used by Banka Slovenije and the SMA. We drew up a methodology for calculating and aggregating data, and all output reports required under Regulation ECB/2018/2.

3.6.7.2 External statistics

In June 2019 **Banka Slovenije undertook the revision of its statistics on the balance of payments, the international investment position and the external debt** for the period since 2009. The revision was part of the benchmark revision conducted on statistics for non-financial accounts, financial accounts, and the balance of payments and international investment position. The largest change related to the use of additional data sources and estimates of household assets in the rest of the world, and to the elimination of the undervaluation of tourism imports, where the data source is an SORS survey. The revision of data for 2009 to 2019 saw a reduction in the surplus in the current account and the capital account, and an increase in the surplus in the financial account. This led to a reduction in the statistical error, which before the revision was predominantly negative, but after the revision was intermittently positive and negative, which could entail an absence of statistical errors.

Banka Slovenije **worked with the Statistical Office on an overhaul of surveys in the area of tourism**. Surveys of foreign tourists and foreign passengers (one-day and transit passengers) were overhauled. The updated surveys will cover all seasons of the year, and questions on mobile phone use were added. Traffic counting at borders was also carried out in 2019. The surveys and the traffic counting were also co-financed by Banka Slovenije.

For the sake of improvements to the travel estimation model using data from mobile operators, we **agreed on a new dataset** with the Agency for Communication Networks and Services of the Republic of Slovenia. In addition to the existing data on mobile phone use (calls, texts), under the new agreement we also receive mobile phone data on data transfer, itemised as one-day visitors, transit passengers and tourists making overnight stays.

3.6.7.3 Financial accounts statistics

In accordance with Regulation (EU) No 549/2013, quarterly financial accounts data for the government sector for the Q1 1999 to Q4 2003 period was compiled and submitted to Eurostat and the ECB for the first time, due to expiration of the derogation granted to Slovenia until 2020.

A major (benchmark) revision to the financial accounts statistics was made to reduce inconsistencies among financial and non-financial accounts in the household sector. Households' financial transactions were adjusted for the period of 12 years, which resulted in a cumulative increase in households' claims against domestic sectors and the rest of the world. These changes also impacted stocks and transactions in the sectors of non-financial corporations and the rest of the world, and were coordinated with the revision to the balance of payments. Following the revisions made to financial and non-financial accounts for the period of 2007 to 2018, the inconsistency in all sectors is at an acceptable level of less than 2% of GDP.

3.6.7.4 Other statistics and activities

The work undertaken in 2019 included adaptation to the new SDSS Plus standard, which under the instructions of the IMF sets out the substantive and technical conditions for publishing selected statistics. Banka Slovenije set up a new national site, upgraded with the newly required indicators, and together with the other institutions involved (Ministry of Finance and SORS) put in place the required time series of existing and additional data and the corresponding metadata.

3.6.8 Public relations

3.6.8.1 Media and other public communications

At Banka Slovenije we endeavour to communicate with all audiences in a transparent, substantive and effective manner. In 2019 we fielded and answered a total of more than 1,050 questions from journalists, and issued 56 press releases, 41 Banka Slovenije publications and seven ECB publications. Banka Slovenije representatives took part in seven major interviews, and organised three press conferences and two informal briefings with journalists. In November 2019 we organised a roundtable on the theme of Numismatics – one tile in the mosaic of building national identity, which was attended by representatives of the profession and the media.

In terms of content, the largest number of media questions related to the tightening of measures in the area of household lending, the bank recovery and resolution process, and the adoption of the law on judicial relief granted to holders of qualified bank credit. The media were also interested in economic forecasts, bank performance, the sale of banks, and the real estate situation.

The media published a total of 2,982 stories in connection with Banka Slovenije in 2019, approximately 250 a month. Slightly more than 55% of these were carried by online media: the largest number were on the portals of Sta.si, Delo.si, Finance.si, Dnevnik.si and Siol.net. The print media published approximately 31% of all media stories on Banka Slovenije in 2019, while TV and radio were responsible for the remaining 14%.

In addition to media questions, in 2019 Banka Slovenije received and responded to more than 970 questions from the general public, individuals and businesses alike. The questions concerned all areas of our work. The most popular subjects related to the possibility of exchanging foreign

currencies or legacy currencies for euros and to numismatics, while there were also many questions concerning difficulties for retail and corporate clients in opening current accounts at commercial banks, and questions in connection with new measures in the area of consumer lending. We also answered a large number of questions in the area of fintech, crypto assets, strong authentication and online payment platforms.

3.6.8.2 Publications

Banka Slovenije's key periodical publications issued in 2019 were as follows:

Eight research papers were issued in 2019 as part of the Banka Slovenije Working Papers and Discussion Papers.

- *the Financial Stability Review*, in which Banka Slovenije analyses systemic risks in the financial system every six months or so;
- *the Macroeconomic Projections for Slovenia*, which is issued twice yearly, in June and December, and provides macroeconomic forecasts for the next three years;
- *The Monthly report on bank performance*, with a summary of the monthly snapshot of the banking system;
- *the Bulletin*, Banka Slovenije's monthly statistical publication, which contains statistics produced in-house (financial institutions, external statistics, and financial accounts) to complement the basic macroeconomic statistics produced by the Statistical Office of the Republic of Slovenia and the Ministry of Finance.

Other major regular publications include *Economic and Financial Developments*, *Financial Accounts*, and *Direct Investment*.

Banka Slovenije also issues two collections aimed at research and analysis: *Banka Slovenije Working Papers*, and *Discussion Papers*. Eight original research papers were issued in the two collections in 2019.

3.6.8.3 Education and training

Banka Slovenije organised the Generation Euro competition for the eighth consecutive year in 2019, under the aegis of the ECB. The competition is in three rounds, and is aimed at encouraging students in senior years at secondary school to study economics and finance, and to learn about the role, duties and actions of the ECB and the Eurosystem. The winning team in 2018/19 was Pecunia, from the St Stanislav's Institute, Diocesan Classical Gymnasium. A total of 23 teams from 11 secondary schools participated in the first round.

Banka Slovenije works with secondary schools and universities in providing mandatory work experience to students. A total of two school students and 12 university students, including two from abroad, took work experience placements with us in 2019. We are also sponsoring eight students on master's programmes in economics and mathematics.

Photograph 4: Winning team in the Generation Euro 2019 competition

Source: Banka Slovenije

Banka Slovenije awarded prizes in 2019 to seven students from Slovenian universities for the best master's and doctoral theses in the area of finance.

We also organised a series of seminars on economics and finance in conjunction with the University of Ljubljana's Faculty of Economics, aimed at students and members of the profession. The purpose of the seminars was exchanging knowledge and experience with high-profile researchers and experts. The seminars were held alternately at Banka Slovenije and at the Faculty of Economics.

For several years now we have been organising the Education Days programme, which aims to improve financial literacy among the general public, particularly primary and secondary school students. Education Days were attended by more than 900 visitors in 2019, including students from the first three years of primary school for the first time. Visiting groups were first provided with information about the role, tasks and importance of the central bank, and were then able to choose between lectures about seven areas (for the time being) of Banka Slovenije's activities. Our youngest visitors were given a brief talk and a workshop on the subject of money.

3.6.8.4 Banka Slovenije library

The Banka Slovenije library is home to around 16,000 bibliographic units, primarily in the areas of banking and central banking, finance, economics, legislation and information technology.

The library allows internal and external users to borrow books for home, to borrow materials via interlibrary loans, and to search for materials across various databases.⁵⁸

Around 4,481 books, professional journals and other materials were borrowed from the library in 2019, and 146 staff requests for interlibrary loans were serviced. Last year 30 e-journals were maintained and updated on the intranet site. The library purchased about 68 new books.

Box 7: Little Gallery

April 2019 saw the reopening of the renovated Little Gallery, which had spent part of its past life as an exhibition space of the Moderna Galerija, and is now primarily dedicated to presenting works by young artists and art students at the University of Ljubljana. In collaboration with the University of Ljubljana we hosted eight exhibitions in various fields of art at the Little Gallery last year, supporting young artists who are not yet established figures. The Little Gallery featured artists from the university's Academy of Fine Arts and Design, the Faculty of Architecture, the Faculty of Education, the Faculty of Natural Sciences and Engineering, and the Academy of Music. The exhibitions were viewed by more than three thousand visitors, while the accompanying events such as lectures, guided tours and roundtables were attended by 235 participants.

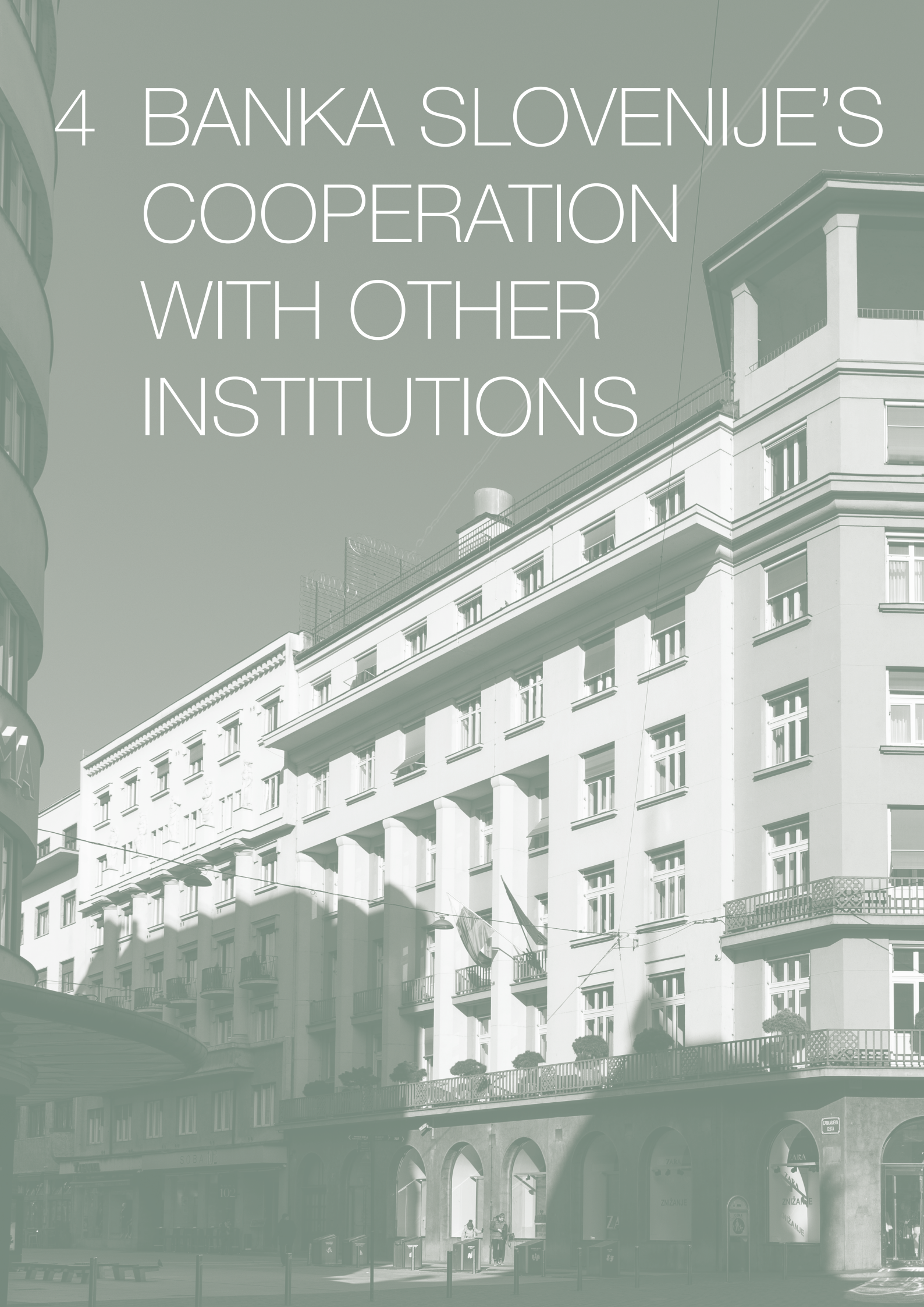
⁵⁸ For more, see <https://www.bsi.si/en/about-us/library>.

Photograph 5: School for All exhibition at the Little Gallery by the Faculty of Architecture and the Roofs for All society, 17 October to 11 November 2019



Source: Banka Slovenije

4 BANKA SLOVENIJE'S COOPERATION WITH OTHER INSTITUTIONS





Alongside the institutional framework of which Banka Slovenije forms part, in keeping with the arrangements of the European System of Central Banks, the Single Supervisory Mechanism, and the Single Resolution Mechanism, Banka Slovenije also works with other institutions in Slovenia and abroad.

4.1 COOPERATION WITH INSTITUTIONS IN SLOVENIA

4.1.1 Ministry of Finance

Banka Slovenije actively works with the Ministry of Finance on drafting legislative proposals in connection with banking and finance. Banka Slovenije again worked intensively in 2019 on technical coordination and the preparation of positions on drafts of new legislation and amendments (including the Companies Act, the Act on Judicial Relief Granted to Holders of Qualified Bank Credit, the Prevention of Money Laundering and Terrorist Financing Act, the Central Credit Register Act and the Decree on the provision of data for the activities of SID).

We also worked with the Ministry of Finance to coordinate positions on the detailed arrangements for the involvement of workers' representatives on the management bodies of banks and savings banks in the Banking Act, in order to establish good practice for their appointment and work.

As part of our legislative work at EU level, we took part in negotiations on the revision of the European System of Financial Accounts (in the part relating to the EBA and the ESRB), sustainable finance (taxonomy regulation, disclosure of information and reference values), prudential requirements for investment firms (regulation and directive), the European deposit insurance scheme (EDIS), and certain other legislative proposals that will be debated in 2020. These proposals notably include the legislative proposal for transposing Basel III into EU legislation, which represents the completion of the post-crisis reforms to prudential banking regulation. We also work with the Ministry of Finance in drawing up positions with regard to proposals for delegated and implementing regulations adopted by the European Commission in the case of regulations governing the operations of banks and non-bank payment service providers, and other areas of relevance to Banka Slovenije (e.g. draft regulation on European service providers of mass financing for non-financial corporations).

At the level of the ESCB, we are involved in adopting the opinions of the ECB with regard to proposed EU acts and draft regulations submitted by the competent national authorities for consultation. An opinion of this type may also be submitted by the ECB even when it has not been directly and explicitly requested. Banka Slovenije and the other national central banks work together in adopting the aforementioned opinions, in particular by providing expert support.

4.1.2 Financial Stability Board

The Financial Stability Board (FSB) is the macroprudential body responsible for formulating macroprudential policy in Slovenia. Banka Slovenije, the Securities Market Agency and the Insurance Supervision Agency exercise macroprudential policy, as members of the FSB. The Ministry of Finance also sits on the FSB, but has no right to vote in its decision-making. The purpose of the FSB is to contribute to the stability of the Slovenian financial system, including strengthening its resilience and reducing the build-up of systemic risks. The FSB is chaired by the Governor of Banka Slovenije, while Banka Slovenije also provides administrative and expert support.

At its four meetings in 2019 the FSB discussed systemic risks, and was briefed on supervisors' macroprudential measures, actions taken to meet the ESRB's recommendations, and the work of the FSB's fintech and cyber security taskforce. Other issues of relevance to financial stability discussed at meetings of the FSB included the methodologies for identifying critical functions and the public interest in resolution, the simplification of obligations in the preparation of resolution plans, the macro stress tests for the Slovenian banking system and insurance system, and Brexit. The FSB also discussed a report on negative interest rates on household deposits (custody fees). The FSB reported on its work to the National Assembly in accordance with the Macroprudential Supervision of the Financial System Act.

The FSB's fintech and cyber security taskforce met seven times during 2019. In the area of fintech the taskforce focused on regulatory treatment of crypto assets, in particular stablecoins. Other issues discussed were quantum computing, AI, blockchain technology and distributed ledgers. In the area of cyber security there was coordination of the activities of the supervisory authorities in connection with a review of cyber security in the financial system in Slovenia. The taskforce's work also involved formulating the conceptual model of systemic cyber risk and analysing various scenarios for cyber attacks on the financial system.

4.1.3 Office for Money Laundering Prevention

Banka Slovenije works with the Office for Money Laundering Prevention (OMLP) on AML/CFT activities. In keeping with customary practice, meetings are organised before the kick-off of on-site inspections for the purpose of exchanging relevant information that might have a significant impact on the content and scope of the inspection. After completing an inspection, we regularly brief the OMLP on the findings and any measures imposed, as set out by the ZPPDFT-1. In line with its inspection powers, the OMLP continued to conduct direct supervision of obliged entities in 2019, within the framework of which one joint inspection by Banka Slovenije and the OMLP was conducted. Intensive cooperation between Banka Slovenije and the OMLP also continued within the framework of the drafting of the Act Amending the Prevention of Money Laundering and Terrorist Financing Act, which will transpose the 5AMLD⁵⁹ into Slovenian law, and within the framework of the assessment of compliance with the 4AMLD⁶⁰ being conducted by the Council of Europe on behalf of the European Commission in EU Member States. Other activities relating to the update of the National Risk Assessment for Money Laundering and Terrorist Financing were also commenced in 2019. To this end, meetings were held with the OMLP and the banks involved in the project.

4.1.4 Committee for Cooperation between Supervisory Authorities

Banka Slovenije representatives took part in two ordinary meetings of the Committee for Cooperation between Supervisory Authorities (Banka Slovenije, Ministry of Finance, Securities Market Agency, Insurance Supervision Agency) in 2019. In these meetings the committee discussed new developments in connection with financial legislation, and activities related to the meetings of the Financial Stability Board. It set out joint activities including cooperation on on-site inspections, exchanged information on the functioning of the board of supervisors at EU level, and discussed other subjects of mutual interest.

⁵⁹ Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU.

⁶⁰ Directive (EU) 2015/849 of the European Parliament and the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC.

4.1.5 National Payments Council

The National Payments Council (NPC) is a strategic and consultative platform that under Banka Slovenije leadership brings together stakeholders from the payments and payment services market in Slovenia: payment service providers and users, operators of payment infrastructures, and public authorities. The NPC facilitates the coordination of interests, the resolution of disagreements, and the identification of priorities and measures to improve the situation in payment services and payments in general. Banka Slovenije and other public authorities express their views within the NPC and guide the functioning of the payment services market, while collecting information that may be used in the formulation of their own policies and the representation of the Slovenian payment services market within the framework of the Eurosystem and the EU. The NPC's key aims are to support the balanced and sustainable development of the market for safe and efficient payment services in Slovenia, and to ensure that the Slovenian payment services market adapts to changes in the international environment and finds a suitable place within the Single Euro Payments Area.

The NPC's activities in 2019 focused on implementing its vision for the development of the payments market in Slovenia, where the NPC defined the concept for analysis of the payments market in Slovenia, including the content, objectives and purpose of the analysis. This is expected to be ready in 2020, and its findings could be seen as a response to the challenges facing NPC stakeholders, while also allowing them to define subsequent priorities. The findings will also allow competent institutions to obtain information as to whether, given the situation on the payments market and the stakeholders' expectations, adjustments in legislation are required for the purpose of improving the functioning of the payments market.

The NPC also discussed the issue of discrepancies between Slovenian and foreign regulatory requirements for payment service providers. In this connection the Office for Money Laundering Prevention submitted proposals for changes to the legal arrangements in the area of AML/CFT.

As chair of the National Payments Council, Banka Slovenije played a coordinating role in 2019 in planning analysis of the payments market in Slovenia.

4.1.6 Bank Association of Slovenia

Close cooperation with the Bank Association of Slovenia (BAS) continued in 2019, most notably through regular participation in various committees, technical workshops and expert conferences organised by the BAS for executives and technical experts at banks.

Part of our cooperation with the BAS related to further work on completing the implementation of the Banka Slovenije Guidelines on Risk Appetite Practices for Banks, the formulation of which was the subject of technical assistance for Banka Slovenije in 2016 and 2018 from the European Commission's Structural Reform Support Service and from the EBRD. In order to assess the effectiveness of the technical assistance, in collaboration with banks we drew up comprehensive analysis of the actual implementation of the guidelines at banks, and presented the findings at various BAS committees and conferences.

Banka Slovenije representatives also participated in BAS workshops on outsourcing from the perspective of the new EBA guidelines, which thoroughly overhauled the arrangements in this area. Representatives of the banks, the BAS and Banka Slovenije discussed unresolved issues with regard to external contractors that have arisen in practice for banks on the basis of the new EBA guidelines.

Banka Slovenije organised a special workshop for credit institutions and operators of payment and settlement systems on the theme of improvements in the cyber resilience of financial institutions, which included a presentation of the TIBER-EU initiative, which envisages the testing of cyber resilience using an advanced approach to controlled penetration of the production environment of the attacked institution.

Banka Slovenije also participated, via papers and discussions, in all of the BAS's most important conferences for banks aimed at the most senior technical staff and management.

4.1.7 Agency for Public Oversight of Auditing

The Agency for Public Oversight of Auditing is the supervisory authority in the area of valuation, and the supervisory and regulatory authority in the area of the auditing of public interest entities.

In their joint meetings generally held once a year or as necessary, and via correspondence sessions, representatives of Banka Slovenije and the agency exchange up-to-date information in connection with the auditing of banks and savings banks, and new developments in the area of regulation of the banking industry, with the aim of ensuring effective supervision of banks and savings banks, which is essential for their orderly functioning, thus contributing to increased financial stability at banks and savings banks and having a positive impact on financial markets.

4.2 COOPERATION INSIDE THE EU

Representatives of Banka Slovenije participated in informal meetings of the ECOFIN (the EU's council of economics and finance ministers and central bank governors) in 2019. Last year's first meeting was held in April in Bucharest, and discussed the priorities for the next institutional cycle in ensuring growth and convergence in the EU, the way forward for the capital markets union, and taxation and challenges in public finances. The second meeting was held in September in Helsinki, and discussed the resilience of financial markets infrastructure and the role of the financial sector in combatting hybrid threats. It also discussed ideas for rebooting the capital markets union, EU fiscal rules and energy taxation. In 2019 Banka Slovenije representatives again attended meetings of committees, working groups and other bodies that are active within the institutions of the EU with a focus on financial and monetary matters. These included sessions of the Economic and Financial Committee and its subcommittees, meetings of the Committee on Monetary, Financial and Balance of Payments Statistics, the European Statistical Forum and other working groups from the relevant areas that are active within the European Commission and the Council of the EU.

Representatives of the ESCB's statistics system work with the European Statistical System (consisting of Eurostat and the national statistical offices) in the European Statistical Forum and the Committee on Monetary, Financial and Balance of Payments Statistics with its sub-groups. The joint discussions in 2019 included quality assurance for statistics for indicators in connection with macroeconomic imbalances, and activities within the excessive deficit procedure. Other notable topics of discussions included the ESA, BPM and LEI international statistics, big data, and the impact of the FRIBS legislative framework on external statistics.

In the area of macroprudential policy, Banka Slovenije representatives actively work with the ESRB, the ECB and other macroprudential authorities of Member States. The formulation of national macroprudential policy also depends on participating and defending positions on the working groups of the ESRB and the ECB in which the starting points for implementing European macroprudential policy are formulated. At the ESRB, Banka Slovenije representatives sit on ten working groups, the most important of which are the analysis working group, the instruments working group, the Advisory Technical Committee and the General Board. At the ECB, Banka Slovenije representatives sit on eight working groups, the most important of which are the macroprudential policy group, the macroprudential analysis group, the Financial Stability Board and the Macroprudential Forum. To date the ESRB has issued a total of 12 recommendations via which European macroprudential policy is to be implemented at national level. The two ESRB recommendations addressed to national macroprudential authorities that are still in the process of being implemented relate to the closure of real estate data gaps (Recommendation ESRB/2016/14) and to the exchange and collection of information on branches of credit institutions having their head office in another Member State or in a third country (Recommendation ESRB/2019/18). Some of the already implemented ESRB recommendations require periodic reporting on the measures

taken to limit or prevent the build-up of systemic risks. An example is the ESRB recommendation on recognising and setting countercyclical buffer rates for exposures to third countries (Recommendation ESRB/2015/1). The recommendation on liquidity and leverage risks in investment funds (Recommendation ESRB/2017/6) was issued by the ESRB to European institutions, and is still undergoing implementation. The effectiveness of macroprudential policy also depends on limiting the potential adverse cross-border effects of the spillover of national measures, for which reason Banka Slovenije representatives work closely with the macroprudential authorities of key Member States.

4.3 COOPERATION WITH OTHER INTERNATIONAL INSTITUTIONS

4.3.1 International Monetary Fund

Banka Slovenije is responsible for Slovenia's cooperation within the IMF, and the Governor of Banka Slovenije is a member of the IMF Board of Governors. Slovenia's quota at the IMF stood at SDR 586.5 million⁶¹ at the end of 2019, or 0.12% of the total IMF quota. A Banka Slovenije delegation attended the annual and spring meetings of the IMF and the World Bank in 2019. The main topics of the meetings were current developments in the global economy and on international financial markets, the outlook and the potential policy responses. Within the framework of Banka Slovenije's participation in the IMF's financial arrangements, a bilateral loan agreement between Banka Slovenije and the IMF is in force until the end of 2020, having been extended for one year in 2019 with our approval.

Slovenia also participated in financial transactions under the FTP in 2019. Slovenia's reserve tranche position at the IMF increased relative to 2018 to stand at SDR 110 million at the end of December 2019. Slovenia was called on once to contribute funds in 2019, in the total amount of SDR 12 million, and received five repayments from the IMF, in the total amount of SDR 10 million.

As part of an Article IV mission, IMF representatives conducted a brief visit to Slovenia in July. Between 1 and 3 July 2019 IMF representatives under the leadership of Bernardin Akitoby visited Slovenia and were briefed on the macroeconomic situation and conditions in the financial sector, issues in the management of public finances, and the institutional and legal framework for administering economic policy.

4.3.2 Bank for International Settlements

The Governor of Banka Slovenije attends meetings of central bank governors of BIS members, which are held every two months. The meetings discuss developments in the global economy and on the financial markets. The governors' meetings are also an opportunity to exchange views on various central banking issues, most notably in 2019 on innovations in financial inclusion and the role of central banks, digitalisation in central banking, and the macroeconomic consequences of weak bank profitability. Banka Slovenije is a shareholder in the BIS, and the Governor of Banka Slovenije attended the annual general meeting of the BIS in Basel in June 2019.

⁶¹ Special drawing rights (SDRs) are a unit of account whose value is based on a basket of five currencies (US dollar, euro, renminbi, Japanese yen and pound sterling).

4.3.3 Organisation for Economic Cooperation and Development

Banka Slovenije representatives attended sessions of committees and working groups of the OECD. They participated in meetings of the Committee on Financial Markets, the Working Group on International Investment Statistics, the Working Party on Financial Statistics, and the Working Party on International Trade in Goods and Services, and provided information for the Working Party on SMEs and Entrepreneurship.

4.3.4 Technical assistance

Banka Slovenije participates in a regional programme to support central banks and banking supervisors in candidate countries and potential candidates from the western Balkans.

Banka Slovenije staff are also involved in programmes of technical assistance to other central banks and supervisory institutions. In 2019 we provided assistance to the central banks and supervisory authorities of Bosnia and Herzegovina, Montenegro, Serbia and Turkey, in the following areas: banking supervision, banking regulations, accounting and internal auditing. Three workshops, two expert missions and one study visit were held within the framework of this technical assistance. The assistance in the area of accounting took place under the aegis of interinstitutional cooperation funded by the EU.

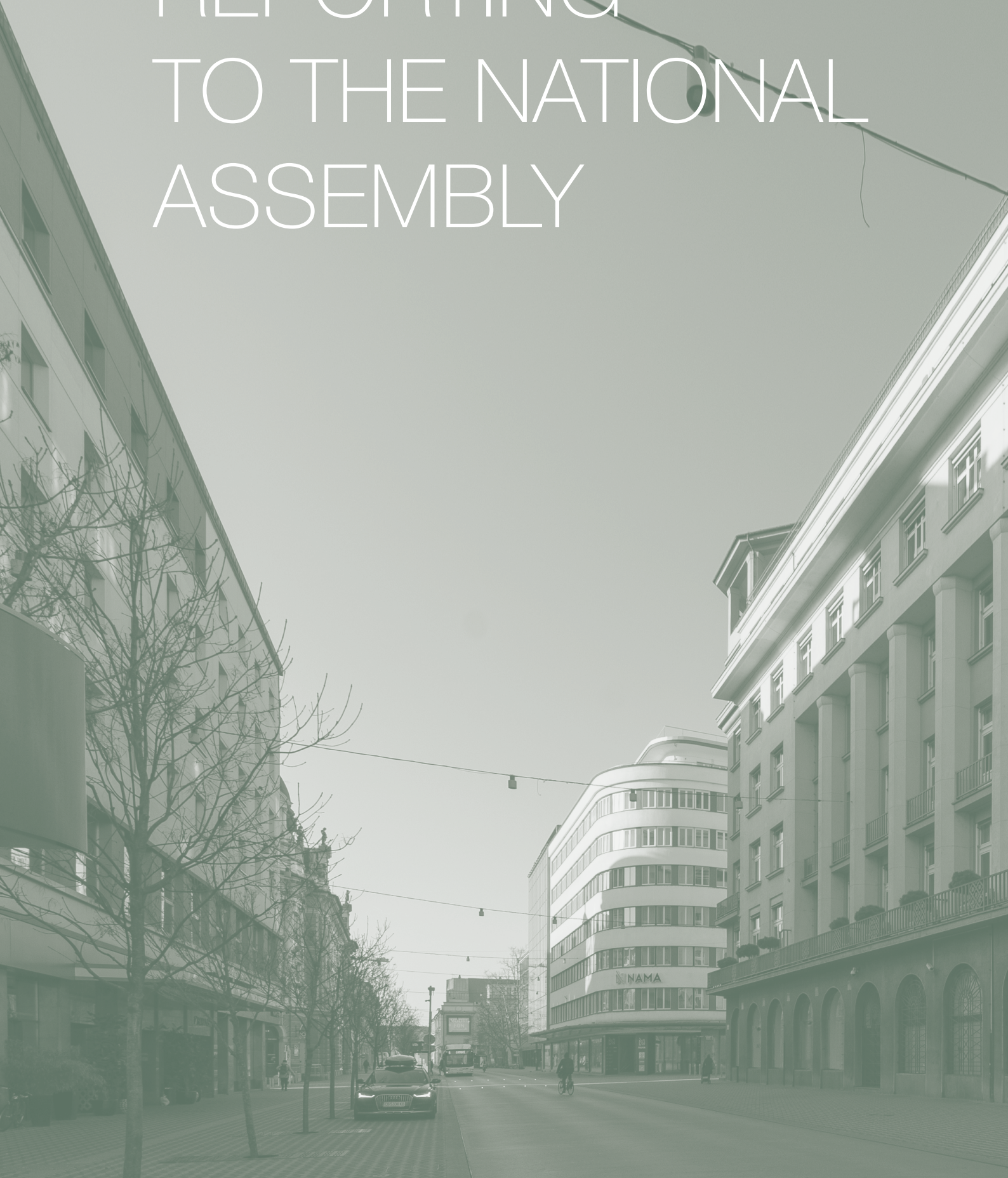
March 2019 saw the beginning of a two-year regional programme to support central banks and banking supervisors in candidate countries and potential candidates from the western Balkans (Albania, Bosnia and Herzegovina, Montenegro, Kosovo, North Macedonia and Serbia), and Banka Slovenije is a participant in this programme. The programme is being carried out by the national central banks of the ESCB and the ECB, and is funded by the EU. As part of this programme Banka Slovenije provided assistance in the area of accounting in the form of an expert mission and a three-day training course in banking supervision.

Within the framework of the technical assistance received from the European Commission (the structural reform support programme), in 2019 Banka Slovenije completed a project in the area of cash operations and comparative analysis of the effectiveness of banking supervision.

Work on a project to develop a tool for modelling the behaviour of bank deposits with no maturity in the management of liquidity risk and interest rate risk at banks came to an end in the middle of the year, while work continued on assistance in the establishment of an effective data management system. Both projects were being run under the aegis of European Commission technical assistance in conjunction with other institutions.

Banka Slovenije obtained funding in 2019 for new European Commission technical assistance for upgrading tools to analyse bank business models. The project will begin in the second half of 2020.

5 BANKA SLOVENIJE'S REPORTING TO THE NATIONAL ASSEMBLY





BANKA SLOVENIJE

GARNIER2:
VZPOMEN NA PRVI LJUBANSKE GROBELCE
15. 12. 2019 - 15. 1. 2020

MCS

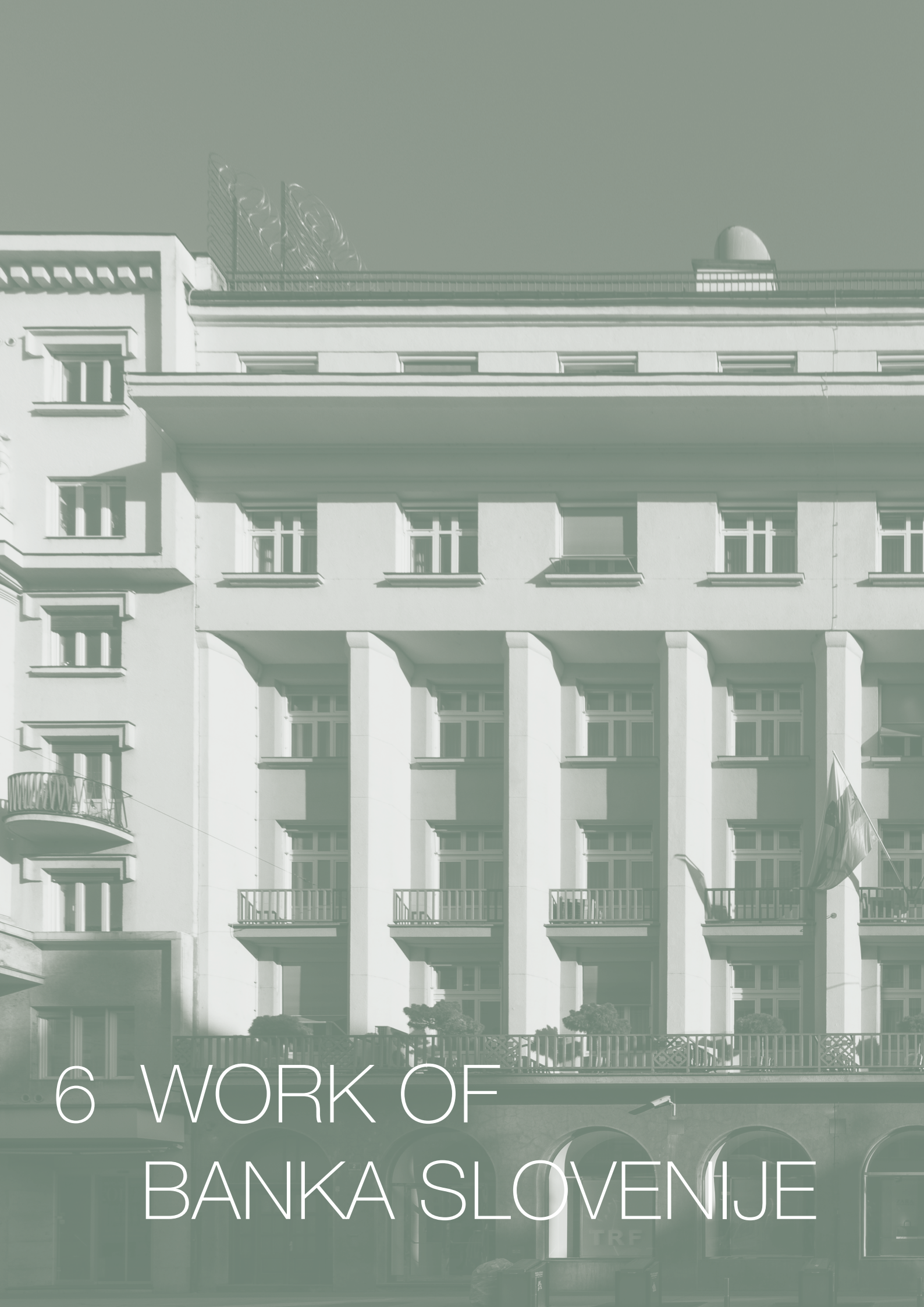
Banka Slovenije
Ljubljana

Under Article 26 of the ZBS-1, Banka Slovenije reports on its work to the National Assembly of the Republic of Slovenia. In 2019 Banka Slovenije representatives reported to the National Assembly's finance and monetary policy committee during the presentation of Banka Slovenije's 2018 annual report and the Financial Stability Board's annual report.

Under Article 33 of the Bank of Slovenia Act, the representative of the National Assembly's finance and monetary policy committee and the finance minister are regularly invited to meetings of the Governing Board of Banka Slovenije, but they do not hold voting rights. This ensures that the executive and legislative branches of government are briefed promptly on matters that are the responsibility of the Governing Board. The chair of the finance and monetary policy committee did not attend in 2019, while the finance minister attended twice.

Another integral part of Banka Slovenije's reporting to the National Assembly is its financial statements, which are audited by an independent international auditor selected for a three-year period in accordance with Article 27(1) of the Statute of the ESCB and of the ECB (Article 52 of the ZBS-1), which stipulates that the accounts of the ECB and national central banks are audited by independent external auditors recommended by the Governing Council and approved by the Governing Board of Banka Slovenije. The auditors are authorised to inspect all the accounts and books of account of the ECB and the national central banks, and to obtain complete information about their operations. The Governing Board of Banka Slovenije selects and proposes a candidate to go forward to the final selection procedure following the prior collection of tenders at least six months before the expiry of the contract signed with the previous auditor.

Banka Slovenije representatives attended six sessions of National Assembly committees and commissions in 2019, where they gave clarifications and answers to deputies' questions to the finance and monetary policy committee (on four occasions) and the commission for commerce, small business, tourism and finance (on two occasions). Banka Slovenije also took part in one session of the National Council, at the latter's invitation.



6 WORK OF BANKA SLOVENIJE



Banka Slovenije's decision-making bodies are the Governor, and the Governing Board of Banka Slovenije.

6.1 DECISION-MAKING BODIES

According to the Bank of Slovenia Act, Banka Slovenije's decision-making bodies are the Governor and the Governing Board of Banka Slovenije. The Governing Board comprises five members: the Governor and four vice-governors. The Governor is the president of the Governing Board.⁶²

The Governor of Banka Slovenije acts as its statutory representative, directs its business, organises its work, executes the decisions of the Governing Board, and issues individual and general bylaws of Banka Slovenije that are not the responsibility of the Governing Board. The Governor may also issue guidelines for implementing resolutions by the Governing Board.

The Governor of Banka Slovenije is a member of the Governing Council of the ECB, and his/her membership is *ad personam*.

The members of the Governing Board of Banka Slovenije are independent in performing their duties set out by the Bank of Slovenia Act, and are not bound by the resolutions, positions or instructions of government bodies or any other bodies, and may not seek the guidance or instructions of such bodies. Since the introduction of the euro on 1 January 2007 the members of the Governing Board of Banka Slovenije have observed the Statute of the ESCB and ECB in performing their duties.

Boštjan Vasle was appointed as Governor on 19 December 2018, and took up his role on 9 January 2019.

The members of the Governing Board of Banka Slovenije as at 31 December 2019 were:

- Boštjan Vasle, Governor;
- Dr Primož Dolenc, Vice-Governor and Deputy-Governor;
- Irena Vodopivec Jean, Vice-Governor;
- Marko Bošnjak, Vice-Governor;
- Jožef Bradeško, Vice-Governor.

⁶² Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, Nos. [72/06](#) [official consolidated version], [59/11](#) and [55/17](#)).

6.2 WORK OF THE GOVERNING BOARD OF BANKA SLOVENIJE IN 2019

The Governing Board decides on all matters that fall under Banka Slovenije's competence under the Bank of Slovenia Act and other laws governing banking, bank resolution and compulsory winding-up of banks, payment services and payment systems, macroprudential supervision, the deposit guarantee scheme, AML/CFT, consumer credit and foreign exchange operations.

Within this framework the Governing Board takes decisions on the adoption of secondary legislation and other general regulations under its competence. It also takes positions on draft laws, secondary legislation and other general regulations governing matters falling under Banka Slovenije's competence but not adopted by it. The Governing Board grants and revokes authorisations and imposes measures in the supervision of banks, savings banks and other entities.

Under the Bank of Slovenia Act, the Governing Board also has the right to take decisions on other matters affecting Banka Slovenije's operations, and may propose an external auditor, regulate employment rights and obligations for members of the Governing Board, identify any incompatibility of functions for members of the Governing Board, and take a position on Banka Slovenije's internal administrative issues.

The Governing Board's rules of procedure define certain tasks as vital to Banka Slovenije's functioning. The Governing Board decides on the strategic allocation of Banka Slovenije's financial assets, an increase in its share capital from the general reserves, and the distribution of the surplus of income over expenses within the limits and in the scope set out by the Bank of Slovenia Act, and adopts the annual report and the financial and business plan. These decisions ensure Banka Slovenije's independence in conducting its monetary policy.

The Governing Board is also responsible for regulating certain internal organisational matters, such as the appointment and dismissal of staff with special authorisations, and it functions as an appeals body in objections to individual legal acts issued by the governor, when so envisaged by law. It also adopts bylaws on the rights, obligations and responsibilities of staff in accordance with the Bank of Slovenia Act, secondary legislation setting out the method and scope of the recording, collection, processing, disclosure and transfer of data and information required for the functioning of Banka Slovenije's information system. In addition, it is regularly briefed on reports on the implementation of important tasks submitted by working bodies and staff.

The Governing Board decides on relevant matters at meetings, where a decision is passed if at least three members vote in favour. The chair of the National Assembly's finance and monetary policy committee and the minister responsible for finance are invited to all meetings of the Governing Board.

The members of the Governing Board convened at 21 ordinary meetings and six correspondence sessions in 2019. The Governing Board discussed a total of 434 agenda items in 2019, most often in the area of banking supervision, as is the case every year, followed by the areas of economic and monetary policy, financial stability and statistics, payment and settlement systems, and cash operations.

6.3 RISK MANAGEMENT

Risk management is monitored and overseen on the basis of a structured systemic approach, which is set out by the overall risk management framework. The overall framework defines the principal types of risk that Banka Slovenije faces and manages.

The actions of the risk management system focus on supporting Banka Slovenije's decision-making bodies in the risk management process, primarily by providing structured comprehensive information on what the overall risk exposure is at any given moment, and how we can continually actively manage/mitigate the identified risks in full. Risk management at Banka Slovenije does not constitute an independent business process separate from its principal activities and processes, but instead constitutes an integral part of the senior management's responsibilities, and an integral part of all business processes, including strategic planning and all change management projects and processes. Activities to ensure that there is an effective risk management process are included in the business plans of all our organisational units.

The risk management system is designed as a model based on three lines of defence against risks, as described by the overall risk management framework. The functioning of the system ensures the identification of risks that could endanger the realisation of our strategic and other objectives. The risk management framework defines the main strategic elements of the risk management system, and represents the starting point for subordinate bylaws, policies, methodologies and guidance for managing the identified types of risk.

The first line of defence consists of the organisational units whose business decisions actually manage the specific identified risks, and who are primarily responsible for implementing the policies in each area for managing individual types of risk.

Diagram 2: Three-level system of lines of defence against risk at Banka Slovenije



Source: Overall risk management framework at Banka Slovenije

The second line of defence consists of our committees, the risk management department, and the compliance officer. The primary purpose of the committees is supporting the Governor or the Governing Board in regularly monitoring, coordinating and providing information about risk management. On the basis of the standard definition of the system, the risk management department coordinates the functioning of sub-systems for managing financial, operational, strategic, IT, legal, project and other risks, and our various ways of responding to interruptions in business caused by contingencies (business continuity for various periods during contingencies). The compliance function works within the framework of the internal control system, monitors the compliance of operations with legislation, internal regulations and other commitments, and briefs the Governor and the Governing Board accordingly.

The third line of defence consists of the internal audit department and the audit committee. The internal audit department conducts regular audits of risk management processes and internal control systems, and assurances of compliance. An extra layer of independent supervision is provided by the audit committee, which regularly reports on its findings to the Governing Board. The risk management department reports to the audit committee on the functioning of the integrated risk management system. The Governing Board is committed to putting in place a comprehensive and effective risk management system that reduces the occurrence of unforeseen consequences for Banka Slovenije. Annual reviews of the implementation of the overall framework are conducted by the Governing Board, which also discusses current issues of relevance to risk management.

6.4 AUDIT COMMITTEE

Two members of Banka Slovenije's Audit Committee are external experts.

Alongside its internal working bodies, Banka Slovenije has also put in place an Audit Committee, which consists of two external experts, one of whom chairs the committee, and two members of the Governing Board. The audit committee's aim is to improve governance at Banka Slovenije by means of additional independent oversight alongside internal and external auditing. It functions as a consultative body for the Governing Board, and in so doing formulates opinions and advice to aid the Governing Board in making decisions with regard to:

- the integrity and reliability of financial information;
- oversight of internal controls and risk management;
- the performance of internal audit activities at Banka Slovenije; and
- compliance with laws, regulations and Codes of Ethics.

The audit committee met ten times in 2019, discussing 75 agenda items, including the external auditor's report on the audited financial statements, and the method of auditing at Banka Slovenije. Although Banka Slovenije is not subject to the requirements of Regulation (EU) No 537/2014 and Directive 2014/56/EU, which apply to audits of public-interest entities, after conducting the closing audit the external auditor prepared the audit report (as in 2018) in accordance with Article 11 of the aforementioned regulation, which prescribes mandatory elements for an additional report to the Audit Committee.⁶³

The Audit Committee was also briefed on reports on the work of the Internal Audit Department, issued an opinion with regard to all auditing conducted, and followed up the implementation of internal audit recommendations. It also discussed the procurement documents for the selection of the external auditor for the period of 2021 to 2023, and the reports of the Commission for internal investigation of breaches of employees at Banka Slovenije, and was briefed on Banka Slovenije's activities in connection with the audit by the Court of Audit.

The audit committee was also involved in updating its own rules of procedure and the internal rules and regulations of the Internal Audit Department and the Commission for internal investigation of breaches in 2019.

⁶³ <https://eur-lex.europa.eu/legal-content/SL/TXT/?uri=CELEX%3A32014R0537>.

6.5 BANKA SLOVENIJE'S PERFORMANCE IN 2019

The results presented in Banka Slovenije's financial statements reflect the financial effect of the implementation of its tasks and objectives.

6.5.1 Balance sheet developments in 2019

The balance sheet total stood at EUR 18.8 billion as at 31 December 2019, up EUR 2.4 billion on the end of 2018. On the asset side, there were increases of EUR 0.1 billion in net securities purchases for monetary policy purposes, and EUR 0.1 billion in other euro investments, while the stock of longer-term refinancing operations declined by EUR 0.1 billion as loans were repaid early. The largest exposure in the form of investments in securities for monetary policy purposes consisted of Slovenian government bonds (EUR 6.9 billion).

On the liability side, there were increases in current account balances of banks (by EUR 1.0 billion) and banknotes in circulation (by EUR 0.2 billion), while euro deposits by the government sector and other clients declined (by EUR 0.3 billion). There was an increase of EUR 1.3 billion in liabilities to the Eurosystem from adjustments in euro banknotes. This liability represents the difference between the value of banknotes belonging to Banka Slovenije as the legal issuer of 0.44% of all banknotes in circulation in the Eurosystem, and the value of banknotes actually placed into circulation by Banka Slovenije.

The aforementioned developments brought an increase in Banka Slovenije's claims against the ECB from cross-border transactions with other national central banks and the ECB via the TARGET2 system (by EUR 2.2 billion).

6.5.2 2019 financial results

The main source of Banka Slovenije's income is interest on monetary policy instruments and portfolios, and on its own investments in securities. Net interest income amounted to EUR 139.7 million in 2019, up EUR 6.5 million on the previous year. The increase was driven primarily by an increase in the stock of monetary policy portfolios.

The net gain realised on the sale of securities and foreign exchange positions amounted to EUR 11.0 million. Banka Slovenije marks its positions to market at the end of the year, disclosing the negative revaluation effects as an expense. These expenses amounted to EUR 1.4 million in 2019, and were the result of market prices of securities and exchange rates at the end of the year being lower than the average price of the positions. To mitigate the assessed risks, and in light of Article 49a of the Bank of Slovenia Act, we released provisions for covering expenses from financial and other risks in the net amount of EUR 21.0 million.

Net fees and commission (EUR 10.8 million), income from participating interests (EUR 9.9 million), the net result from the pooling of Eurosystem monetary income (EUR 27.2 million) and other income (EUR 2.4 million) amounted to EUR 50.3 million in 2019.

Operating costs amounted to EUR 39.9 million in 2019. Banka Slovenije thus generated a surplus of income over expenses in the amount of EUR 180.7 million. The distribution of the surplus will be carried out in line with the applicable legislation.

Table 5: Banka Slovenije's contributions to Slovenia's state budget, EUR million

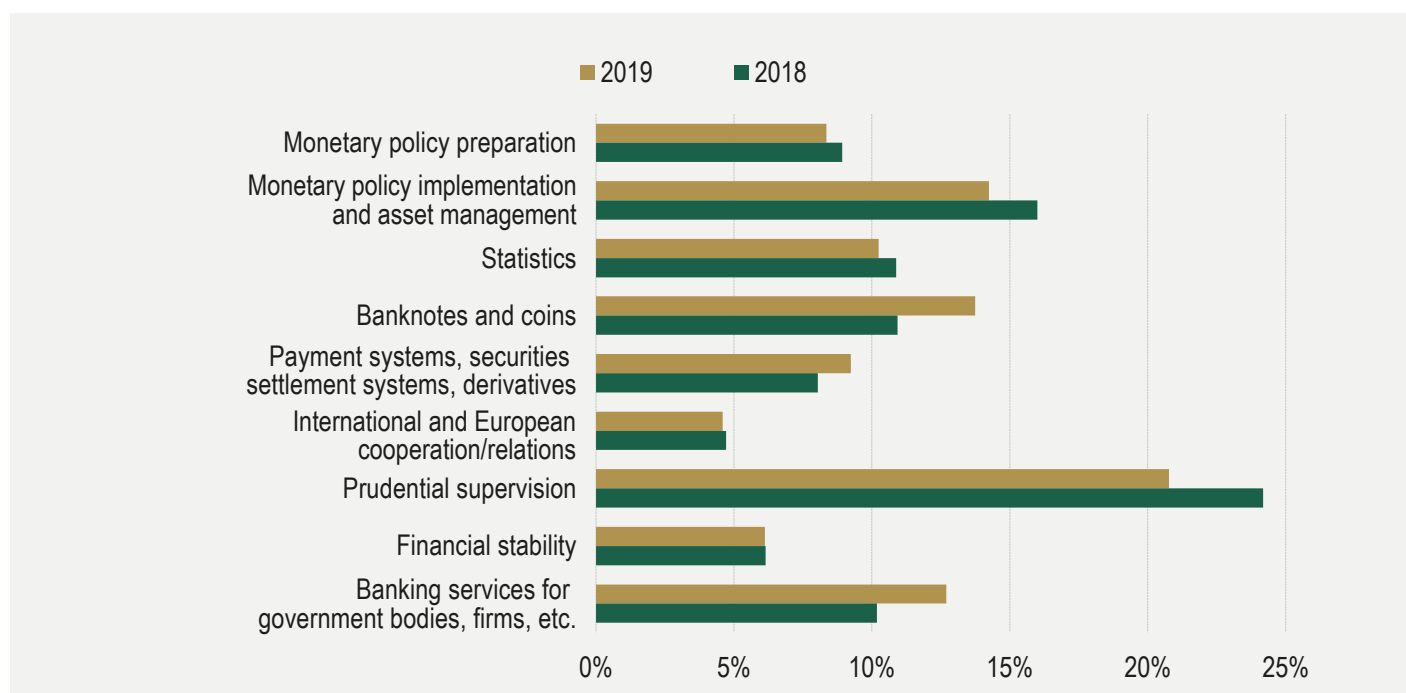
YEAR	SURPLUS	STATUTORY CONTRIBUTIONS TO STATE BUDGET	CONTRIBUTION TO STATE BUDGET
2015	54.0	13.5	40.5
2016	57.3	14.3	43.0
2017	70.7	17.7	17.7
2018	63.4	15.9	15.9
2019	180.7	45.2	45.2
Total			162.2

Source: Banka Slovenije

6.5.3 Operating costs

Our operating expenses are the result of the implementation of its tasks set out by law. Figure 22 illustrates the percentage allocation of costs by task. In addition to direct costs, these include the imputed indirect costs of support functions (information technology, accounting, legal services and similar internal services).

Operating expenses amounted to EUR 39.9 million in 2019, up EUR 2.3 million on the previous year.

Figure 22: Itemisation of costs by individual task

Source: Banka Slovenije

Staff costs make up the majority (66%) of our operating costs. They include costs of salaries and other labour costs together with the corresponding taxes and social security contributions, and amounted to EUR 26.2 million in 2019 (compared with EUR 24.6 million in 2018). The increase was the result of a rise in the basic salary in accordance with the agreement on the indexation of the basic salary for the 2019 to 2020 period, the introduction of organisational changes, and changes in staff qualifications structure caused by turnover and promotions. Employee compensation at Banka Slovenije rose by 6.5% in nominal terms in 2019, less than the increase of 7.4% in the economy as whole, and less than the increase of 7.7% in public services.

Banknote printing costs, depreciation of fixed assets, and other costs amounted to EUR 13.7 million, up EUR 0.7 million on 2018. The most important factor was a rise of EUR 1.0 million in banknote printing costs; the amount of banknote printing depends on the production allocation agreed at Eurosystem level. Depreciation and other costs were down EUR 0.3 million on the previous year.

Table 6: Year-end balance sheet, 2015 to 2019, EUR million

ASSETS	2015	2016	2017	2018	2019
1. Gold and gold receivables	100	112	111	115	138
2. Claims on non-euro-area residents denominated in foreign currency	685	591	630	699	763
3. Claims on euro area residents denominated in foreign currency	220	260	152	94	37
4. Claims on non-euro-area residents denominated in euro	1,059	1,217	1,199	1,224	1,365
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	901	714	1,142	1,102	995
6. Other claims on euro area credit institutions denominated in euro	51	201	2	0	0
7. Securities of euro area residents denominated in euro	4,999	8,274	10,656	11,290	11,355
8. General government debt denominated in euro	–	–	–	–	–
9. Intra-Eurosystem claims	1,948	956	282	1,564	3,748
10. Items in course of settlement	–	–	–	–	–
11. Other assets	291	340	325	342	412
Total assets	10,254	12,666	14,498	16,429	18,815
LIABILITIES	2015	2016	2017	2018	2019
1. Banknotes in circulation	4,892	5,085	5,286	5,559	5,740
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	1,627	2,249	2,939	3,391	4,348
3. Other liabilities to credit institutions denominated in euro	4	3	–	–	–
4. Debt certificates issued	–	–	–	–	–
5. Liabilities to other euro area residents denominated in euro	1,743	2,018	2,531	3,780	3,416
6. Liabilities to non-euro-area residents denominated in euro	16	20	73	63	134
7. Liabilities to euro area residents denominated in foreign currency	60	78	56	5	6
8. Liabilities to non-euro-area residents denominated in foreign currency	–	–	–	–	–
9. Counterpart of special drawing rights allocated by the IMF	275	275	256	262	266
10. Intra-Eurosystem liabilities	–	1,223	1,646	1,502	2,815
11. Items in course of settlement	–	–	1	–	–
12. Other liabilities	155	147	113	137	145
13. Provisions	423	457	515	594	573
14. Revaluation accounts	122	151	94	103	163
15. Capital and reserves	882	903	917	970	1,027
16. Surplus of income over expenses for the current year	54	57	71	63	181
Total liabilities	10,254	12,666	14,498	16,429	18,815

Source: Banka Slovenije

Table 7: Profit and loss account, 2015 to 2019, EUR million

	2015	2016	2017	2018	2019
1. Net interest income	58	78	105	133	140
2. Net result of financial operations, write-downs and risk provisions	-0	-22	-38	-84	31
3. Net income from fees and commissions	3	6	8	10	11
4. Other income	23	29	33	42	39
5. Operating expenses	-31	-33	-38	-38	-40
Profit for the year	54	57	71	63	181

Source: Banka Slovenije

6.5.4 Human resources

In the exercise of its public powers and tasks, staff at Banka Slovenije endeavour to uphold the highest standards of ethical conduct, in line with the common guidelines and values established within the framework of the ESCB and the ECB. Upholding these standards is an essential prerequisite for building and maintaining the public's trust in the sound and reliable governance of Banka Slovenije in carrying out its tasks. Banka Slovenije has set out fundamental rules of conduct for staff in the form of the Code of Ethics of Banka Slovenije, which maintains and strengthens independence, objectivity and expertise in the performance of its tasks.

The Code of Ethics also put in place the function of compliance officer, who ensures that staff conduct complies with the applicable regulations in connection with independence and integrity, and professional ethical rules. The compliance function is independent in its work, and is directly answerable to the Governor.

One of the fundamental objectives of the compliance function is strengthening integrity and reputation. Staff members are thus required to consistently draw attention to and report circumstances relating to their personal interests that affect or could give the impression of affecting the impartial and objective performance of their professional duties at Banka Slovenije. Staff members are also required to obtain the prior permission of the compliance officer for any private activities connected with Banka Slovenije or its business processes and activities, irrespective of whether these private activities are paid or unpaid. We have also put in place a procedure for reporting breaches by staff members, which allows staff members and external stakeholders to report a breach by a staff member in connection with the performance of his/her professional tasks.

In defining the fundamental principles and standards of professional ethics, the Code of Ethics follows the ECB guidelines governing the principles of the ethical framework for the implementation of monetary policy and prudential supervision. Our representatives involved in the work of ECB bodies or the work of other EU institutions are also bound by the codes of conduct and ethical standards set out by the aforementioned institutions and their bodies.

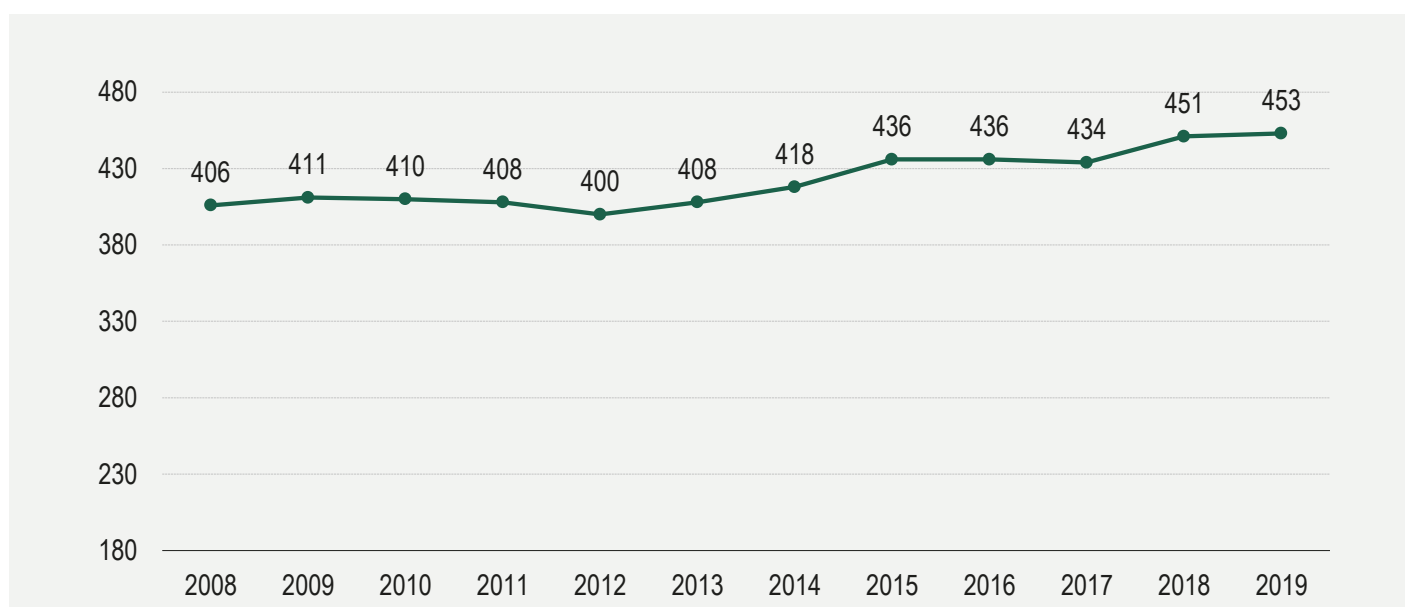
Banka Slovenije has put in place an independent compliance officer.

In HR development we adopted the Strategy of Banka Slovenije for 2015–2020, which defines effective and efficient functioning and operations as one of the fundamental objectives, with flexible organisation and highly motivated staff.

We continued to introduce new approaches and changes at the strategic and operational levels in 2019 in the area of HR and organisation. After successfully pushing through measures, we were awarded full Family-Friendly Enterprise certification, which stands for social responsibility in corporate governance, and is the only such certification in Slovenia. We were again recognised as one of the best employers in the country, and received recognition from MojeDelo.com as the most reputable employer in the sector of banking, accounting and finance. In improving our efficiency and document management, last year we took further steps in the introduction of paperless operations, which are now being used by all Banka Slovenije staff for the second consecutive year.

Banka Slovenije had an effective headcount of 453 as at 31 December 2019.⁶⁴

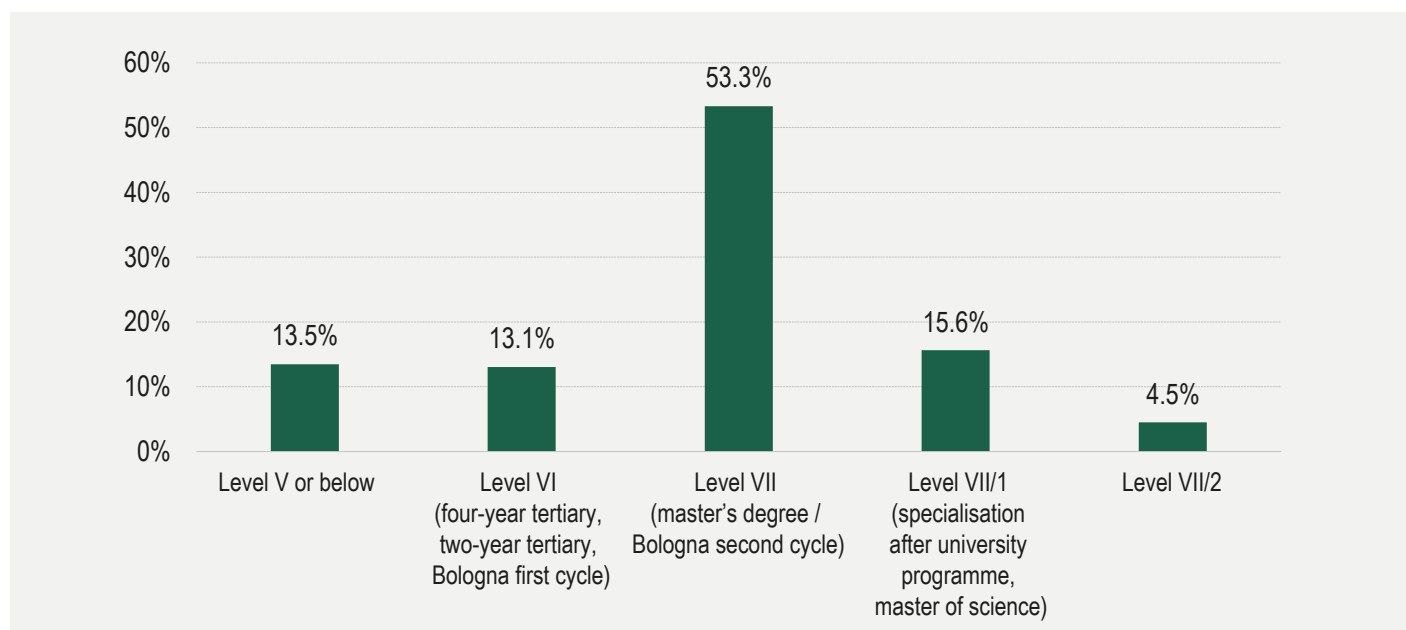
Figure 23: Effective headcount at Banka Slovenije, 31 December 2019



Source: Banka Slovenije

The gender breakdown was relatively equal, and unchanged from the previous year (53% of staff are women).

⁶⁴ The effective headcount includes all those who were present in the workplace on the reporting date (including all those who on the reporting date were taking annual leave or short-term sick leave of up to 30 working days).

Figure 24: Breakdown of staff qualifications, 31 December 2019

Source: Banka Slovenije

The average age of staff members at Banka Slovenije was 44 years and 9 months at the end of 2019, having risen by two months over the course of the year.

6.6 COURT PROCEEDINGS

Banka Slovenije was involved in 11 pending proceedings at the end of 2019. It was a third-party intervener in three disputes against a decision by the Information Commissioner, and the defendant in seven challenges to the Information Commissioner's decisions and resolutions. One case relates to Banka Slovenije's decision on extraordinary measures from 2013.

Banka Slovenije was involved in 119 pending litigation proceedings at the end of 2019, either as the defendant or co-defendant, or as an accessory participant. With one exception, they related to compensation claims by holders of qualified bank credit who were subject to extraordinary measures in 2013 and 2014.

Two court cases were pending at the end of 2019 with regard to misdemeanours decisions issued by Banka Slovenije, while Banka Slovenije was involved in four cases of bankruptcy proceedings as a creditor, and one labour dispute as the defendant.

There were no pending proceedings before the Constitutional Court as at 31 December 2019, but in January 2020 (in part because the law fails to comply with the principle of the prohibition of monetary financing and the principle of independence) Banka Slovenije lodged a request to assess the constitutionality of the ZPSVIKOB and the ZBan-1 together with a motion to stay implementation, a motion for absolute priority treatment and a motion to refer the case for a preliminary ruling procedure at the Court of Justice of the European Union.

7 BANKA SLOVENIJE'S FINANCIAL STATEMENTS FOR 2019

Statement of responsibilities of the Governing Board of the Bank of Slovenia

The Bank of Slovenia Act requires the Bank of Slovenia to prepare financial statements to give a true and fair view of the state of affairs of the Bank of Slovenia and the surplus or deficit of the Bank of Slovenia for that period. The financial statements are adopted by the Governing Board of the Bank of Slovenia. In preparing those financial statements, the Bank of Slovenia is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank of Slovenia will continue in business.

The Governing Board of the Bank of Slovenia has a general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Bank of Slovenia.

INDEPENDENT AUDITOR'S REPORT

To the Governing Board of Banka Slovenije

Opinion

We have audited the financial statements of Banka Slovenije, which comprise the statement of financial position as at 31 December 2019, the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements are presented in all material respects in accordance with the Guideline (EU) 2016/2249 of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34) and provisions of the Bank of Slovenia Act relating to the accounting (inclusive of subsequent amendments to the Guideline).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of Banka Slovenije in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Governing Board of Banka Slovenije and the Audit Committee for the financial statements

The Governing Board of Banka Slovenije is responsible for preparation and fair presentation of the financial statements in accordance with the Guideline (EU) 2016/2249 of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34) and provisions of the Bank of Slovenia Act relating to the accounting (inclusive of subsequent amendments to the Guideline), and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. The Audit Committee assists the Governing Board of Banka Slovenije in overseeing the preparation of the financial statements.

In preparing the financial statements, the Governing Board of the Bank is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

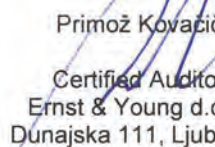
As part of an audit in accordance with audit rules, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Banka Slovenije's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

We communicate with the Governing Board of Banka Slovenije and Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ljubljana, 17 March 2020



Primož Kovarič
Certified Auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 3

Constitution

The Bank of Slovenia was constituted by the Law on the Bank of Slovenia dated 25 June 1991. The Bank of Slovenia is a legal entity, governed by public law, which independently disposes of its own property. The Bank of Slovenia is wholly owned by the state and is autonomous as regards its finances and administration. The Bank of Slovenia is supervised by the Parliament. The primary objective of the Bank of Slovenia shall be to maintain price stability. In pursuing this objective, the Bank of Slovenia shall strive for financial stability, while taking into account the principles of an open market economy and free competition. According to the Bank of Slovenia Act, on the day of introduction of the euro as the Republic of Slovenia's currency, the Bank of Slovenia shall begin to perform the tasks in accordance with the Treaty establishing the European Community and in accordance with the Statute of the ESCB and the ECB¹.

Accounting policies

Introduction of euro

Republic of Slovenia introduced the euro as a new legal tender on 1 January 2007. The Bank of Slovenia became part of the Eurosystem and took over joint responsibility for defining and implementing monetary policy and for exercising the common strategic goals of the ESCB².

Accounting principles and standards

The Bank of Slovenia applies the Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2016/34)³ (Accounting Guideline) as the legal basis for the accounting and reporting. According to the Bank of Slovenia Act and the Statute of the ESCB and of the ECB, this legal framework was adopted by the Governing Board of the Bank of Slovenia at its 342nd meeting on 20 December 2006.

Financial statements are presented in accordance with the valuation rules as defined by the Accounting Guideline.

In cases that are not covered by the Accounting Guideline or are governed by non-mandatory provisions, the valuation principles in accordance with International Financial Reporting Standards valid in EU and with the Bank of Slovenia Act are applied.

Basic principles

The financial statements are prepared in conformity with the provisions governing the Eurosystem's accounting and reporting procedures, which follow accounting principles, harmonized by Community law, with generally accepted international financial reporting standards valid in EU and with the Bank of Slovenia Act.

The following fundamental accounting principles have been applied:

- Economic reality and transparency: the accounting methods and financial reporting shall reflect economic reality and shall be transparent;
- Prudence: the valuation of assets and liabilities, as well as the recognition of income, shall be carried out prudently. In the context of the Accounting Guideline, this implies that unrealised positive revaluation effects are not recognised as income in the profit and loss account, but are transferred directly to a revaluation account;
- Post-balance-sheet events: assets and liabilities shall be adjusted to take into account events that occur between the end of financial year and the date on which the annual accounts are approved by the Governing Board, if they materially affect the fair presentation of assets or liabilities at the balance sheet date;

¹ Protocol (No. 18) (ex No. 3) on the Statute of the European System of Central Banks and of the European Central Bank (Protocol annexed to the Treaty establishing the European Community, OJ C 191, 29.07.1992).

² The term 'ESCB (European System of Central Banks)' refers to the twenty-eight National Central Banks (NCBs) of the member states of the European Union on 31 December 2019 plus the European Central Bank (ECB). The term 'Eurosystem' refers to the nineteen NCBs of the member states participating in the Monetary Union, plus the ECB on the same date.

³ OJ L 347, 20.12.2016, p. 37-86, as amended.

- Materiality: deviation from the accounting rules shall not be allowed unless they can reasonable be judged to be immaterial in the overall context and presentation of the financial statements;
- Going concern basis: when assessing assets and liabilities, it must be assumed that the activities will continue;
- The accruals principle: income and expenditure shall be recognised in the accounting period in which they were earned or incurred, regardless of when the payment is made or received;
- Consistency and comparability: the criteria for balance sheet valuation and income recognition shall be applied consistently to ensure comparability of data in the financial statements.

Recognition of assets and liabilities

An asset or liability is only recognised in the balance sheet when it is probable that any associated future economic benefit will flow to or from the Bank of Slovenia, and substantially all of the associated risks and rewards have been transferred to the Bank of Slovenia, and the cost or value of the asset or the amount of the obligation can be measured reliably.

Economic approach

On the basis of definition of alternative economic approach in the Accounting Guideline, transactions in financial assets and liabilities are reflected during the year in the accounts on the date on which they were settled.

For transactions in foreign currency, agreed in one year but maturing in a subsequent year, the trade date approach is applied. Transactions are recorded in off-balance sheet accounts on the trade date. On the settlement date, the off-balance sheet entries are reversed and transactions are booked on-balance sheet. Purchases and sales of foreign currency affect the net foreign currency position on the trade date and realised results arising from sales are also calculated on the trade date.

Securities transactions are recorded according to the cash/settlement approach. Accrued interest, premiums and discounts related to financial instruments in foreign currency are calculated and booked daily from the settlement date, and the foreign currency position is also affected daily by these accruals.

Conversion of foreign currencies

Foreign currency transactions whose exchange rate is not fixed against the euro are recorded in the balance sheet at market rates prevailing on the day of the transaction. At year-end, both financial assets and liabilities are revalued at current market rates of the last day of the year, as derived from the ECB's daily quotation of reference exchange rates. This applies equally to on-balance-sheet and off-balance-sheet transactions. The revaluation takes place on a currency-by-currency basis.

Income and expenses are converted at the exchange rate prevailing on the recording date.

Gold and gold receivables

Gold and gold receivables are valued at market price prevailing at the year-end. No distinction is made between the price and currency revaluation differences for gold. Instead, a single gold revaluation difference is accounted for, based on the euro price per fine ounce of gold, derived from the gold price in US dollar as at the balance sheet date.

Securities held for monetary policy purposes

Debt securities currently held for monetary policy purposes are accounted for at amortised cost (subject to impairment).

Other securities

Marketable securities (other than debt securities held for monetary policy purposes and those classified as held-to-maturity) and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. For the year ending 31 December 2019, mid-market prices on 31 December 2019 were used.

Marketable securities classified as held-to-maturity and non-marketable securities are all valued at amortised cost subject to impairment. Illiquid equity shares and any other equity instruments held as permanent investments are valued at cost, subject to impairment.

Marketable investment funds are valued at market prices on a net basis and not on the basis of the underlying assets provided that they meet certain predetermined criteria in relation to the level of influence of the Bank of Slovenia on the day-to-day operations of the fund, the legal status of the fund and the way the investment is evaluated. There is no netting between the revaluation results of different marketable investment funds.

Securities lending transactions under automated security lending contracts are concluded as part of the management of the Bank of Slovenia's assets. Securities lent by the Bank of Slovenia are collateralised. Income resulting from lending operations is included in the profit and loss account. Automated securities lending is conducted via agent and custodian banks. Transactions outstanding at year-end are recorded off-balance sheet.

Tangible fixed assets

Depreciation is calculated on a straight-line basis, beginning with the month after acquisition, so as to write off the cost of the assets over their estimated economic lifetime at the following annual percentage rates:

	2019	2018
Buildings	1.3 – 1.8%	1.3 – 1.8%
Hardware and software	20 – 33%	20 – 33%
Other equipment	10 – 25%	10 – 25%

Gains and losses related to disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the profit and loss account.

Properties located in Austria are included in the Bank of Slovenia's fixed assets. They are carried at a value in the middle interval of the estimated fair values and are not depreciated. The fair value is based on a middle value in the range of appraised values, obtained by an external certificated valuer (the Bank of Slovenia revalues these properties once every 5 years; the last revaluation was performed in year 2019). This revaluation method gives a more appropriate and accurate view to the reader of the financial statements.

Leases

For all long-term leases involving a tangible asset, the related right-of-use asset and liability are recognised on the balance sheet at the lease commencement date at the present value of the future lease payments and included under asset item 'Tangible and intangible fixed assets' and liability item 'Sundry'. Right-of-use assets are valued at cost less depreciation, which is calculated on a straight-line basis.

Until the end of 2018, the Bank of Slovenia recorded costs related to rental contracts under 'Administrative expenses' in the profit and loss account. Following the issue of the International Financial Reporting Standard 16 (Leases) in 2019, this costs are recognised in the same amount as a right-of-use asset and a lease liability. The related expenses are recorded as deleveraging in the profit and loss account in accordance with IFRS16. The application of IFRS16 does not affect the financial result.

ESCB capital key

The capital key is essentially a measure of the relative size of EU member states and is a 50:50 composite of GDP and population size. The key is used as the basis for allocation of each NCB's share of capital in the ECB and must be adjusted every five years under the Statute of the ESCB and of the ECB, and every time a new country joins EU.

The Eurosystem key is an individual NCB's share in the total key held by Eurosystem members and is used as the basis for allocation of monetary income, ECB's income on euro banknotes in circulation, ECB's (net) income arising from securities held for monetary policy purposes and the ECB's profit/loss.

Banknotes in circulation

The ECB and the euro area NCBs, which together comprise the Eurosystem, issue euro banknotes⁴. The total value of euro banknotes in circulation is allocated to the Eurosystem central banks on the last working day of each month in accordance with the banknote allocation key⁵.

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% has been allocated to NCBs according to their weightings in the capital key of the ECB. The share of banknotes allocated to each NCB is disclosed in the balance sheet under liability item 'Banknotes in circulation'.

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation also gives rise to remunerated⁶ intra-Eurosystem balances. These claims or liabilities are disclosed under the sub-item 'Intra Eurosystem: Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem' (see 'Intra-ESCB balances/Intra-Eurosystem balances' in the notes on accounting policies).

From the cash changeover year⁷ until five years following the cash changeover year the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in NCBs' relative income positions as compared to previous years. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the reference period⁸ and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments will be reduced in annual stages until the first day of the sixth year after the cash changeover year when income on banknotes will be allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital. In the year under review the adjustments resulted from the accession of Latvijas Banka (in 2014) and Lietuvos bankas (in 2015) and terminates at the end of 2019 and 2020, respectively.

The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under 'Net interest income' in the profit and loss account.

Intra-ESCB balances / Intra-Eurosystem balances

Intra-Eurosystem balances result primarily from cross-border payments in the EU that are settled in central bank money in euro. They are primarily settled in TARGET2⁹ and give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are netted and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-a-vis the ECB only.

Intra-Eurosystem balances of the Bank of Slovenia vis-a-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro (e.g. interim ECB profit distributions to NCBs, monetary income results), are presented on the balance sheet of the Bank of Slovenia as a single net asset or liability position and disclosed under 'Other claims within the Eurosystem (net)' or 'Other liabilities within the Eurosystem (net)'. Intra-ESCB balances versus non-euro area NCBs not arising from TARGET2 are disclosed either under 'Claims on non-euro area residents denominated in euro' or 'Liabilities to non-euro area residents denominated in euro'.

Intra-Eurosystem claims arising from the Bank of Slovenia's participating interest in the ECB are reported under 'Participating interest in ECB'. In particular this balance sheet item includes (i) the Bank of Slovenia's paid-up share in the ECB's subscribed capital, (ii) the net amount paid by the Bank of Slovenia due to the increase in its

⁴ Decision of the European Central Bank of 13 December 2010 on the issue of euro banknotes (recast) (ECB/2010/29), OJ L 35, 09.02.2011, p. 26-30, as amended.

⁵ Banknote allocation key means the percentages that result from taking into account the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCBs' share in such total.

⁶ Decision of the European Central Bank of 3 November 2016 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast) (ECB/2016/36), OJ L 347, 20.12.2016, p. 26-36.

⁷ Cash changeover year refers to the year in which the euro banknotes are introduced as legal tender in the respective Member State, for the Bank of Slovenia this is 2007.

⁸ The reference period refers to the 24 months which start 30 months before the day on which euro banknotes become legal tender in the respective Member State, for the Bank of Slovenia this is the period from July 2004 to June 2006.

⁹ Trans-European Automated Real-time Gross settlement Express Transfer system 2.

share in the ECB's equity value¹⁰ resulting from all previous ECB's capital key adjustments, and (iii) contributions in accordance with Article 48.2 of the Statute of the ESCB and the ECB with respect to central banks of Member States whose derogations have been abrogated.

Intra-Eurosystem claims arising from the transfer of foreign reserve assets to the ECB by the Bank of Slovenia at the time of joining the Eurosystem are denominated in euro and reported under 'Claims equivalent to the transfer of foreign reserves'.

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a single net asset/liability under 'Net claims/net liabilities related to the allocation of euro banknotes within the Eurosystem' (see 'Banknotes in circulation' in the notes on accounting policies).

ECB profit distribution

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, as well as the income arising from the securities held under (a) the securities markets programme (SMP), (b) the third covered bond purchase programme (CBPP3), (c) the asset-backed securities purchase programme (ABSPP) and (d) the public sector purchase programme (PSPP) is distributed in January of the following year by means of an interim profit distribution, unless otherwise decided by the Governing Council¹¹. It is distributed in full unless it is higher than the ECB's net profit for the year, and subject to any decisions by the Governing Council to make transfers to the provision for financial risks. The Governing Council may also decide to reduce the amount of the income on euro banknotes in circulation to be distributed in January by the amount of the costs incurred by the ECB in connection with the issue and handling of euro banknotes.

The amount distributed to NCBs is disclosed in the profit and loss account under 'Income from equity shares and participating interest'.

Provisions

Provisions are recognised when the Bank of Slovenia has a present legal or other obligation as a result of past events, when it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

In compliance with Article 49.a of the Bank of Slovenia Act, after introduction of the euro as the Republic of Slovenia's currency, the Governing Board of the Bank of Slovenia may, with the intention of maintaining the real value of assets, take a decision to create general provisions for anticipated exchange rate, interest rate and price risks. Provisions may not be created if they should, together with the unrealised exchange rate differences, securities valuation effects and gold valuation effects, exceed 20% of identified net income. With the amendment of the Accounting Guideline, which entered into force as at the end of 2012, the legal background was also given for the creation of provisions for credit risks. With the amendment of the Accounting Guideline at the end of 2019¹², which extends the area of provisioning to all financial risks, the Bank of Slovenia created also provisions for equity risks for the first time in 2019. The relevant amount of provisions for all such financial risks is determined annually on the basis of Value-at-Risk (VaR) or Expected Shortfall (ES) method. VaR is defined as the maximum loss of portfolio with a given diversification at a given confidence level (99%) and for a given holding period (one year). ES is defined as the expected portfolio loss in the same period selected taking into account only the losses equal or greater to VaR figure at the same confidence level and the unchanged investment structure. The Bank of Slovenia also creates provisions based on the calculation of interest sensitivity gap. This risk arises from the growing imbalances between the short-term liabilities and long-term investments as a result of the implementation of the Eurosystem monetary policy operations.

¹⁰ Equity value means the total of the ECB's reserves, revaluation accounts and provisions equivalent to reserves, minus any loss carried forward from previous periods. In the event of capital key adjustments taking place during the financial year, the equity value also includes the ECB's accumulated net profit or net loss until the date of the adjustment.

¹¹ Decision of the European Central Bank of 15 December 2014 on the interim distribution of the income of the European Central Bank (recast) (ECB/2014/57), OJ L 53, 25.02.2015, p. 24-26.

¹² Guideline of the European Central Bank of 28 November 2019 amending Guideline on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2019/34), OJ L 332, 23.12.2019, p. 184-203.

Income recognition

Income and expenses are recognised in the financial year in which they are earned or incurred. Realised gains and losses are taken to the profit and loss account.

From the beginning of 2007, the foreign exchange and price valuation is performed on a quarterly basis in accordance with the Accounting Guideline. Net unrealised positive valuation effects which arose before the euro adoption are separated from the unrealised positive valuation effects recorded after that date. They are considered as a 'Pre-Stage Three' revaluation reserves and are included into the liability balance sheet item 'Reserves'.

At the end of the year, unrealised positive valuation effects are not recognised as income in the profit and loss account but are recorded on the revaluation accounts on the liability side of the balance sheet.

Unrealised negative valuation effects are taken to the profit and loss account if they exceed previous positive valuation effects registered in the corresponding revaluation account. Such losses cannot be reversed against any future unrealised positive valuation effects in subsequent years. Unrealised valuation effects in respect of securities and foreign currency denominated items are entered on an item-by-item basis and a currency-by-currency basis. Netting is not allowed.

Premiums and discounts arising from purchased securities are calculated and presented as part of the interest income and are amortised over the remaining life of the securities according to the internal rate of return (IRR) method.

Cost of transactions

With regard to gold, foreign currencies and securities, the average cost method as defined in the Accounting Guideline is used daily to establish the acquisition cost of items sold when calculating effects of exchange rates and prices.

When net acquisitions of currency (or gold) are made, the average acquisition cost for the day's acquisition with regard to each individual currency is added to the previous day's holdings to obtain a new weighted average of the exchange rate (or gold price) respectively. In case of net sales, the realised result is calculated on the basis of the average acquisition cost of the previous day for the respective foreign currency position.

Gains and losses on disposals of securities are calculated on the basis of the weighted average price of individual security.

The market prices and rates applied in the opening balance sheet as at 1 January 2007 were considered as the opening average cost of the Bank of Slovenia's assets and liabilities. In case of foreign currency positions and gold, the opening costs were the exchange rates prevailing on 1 January 2007, communicated by the ECB. For securities investments, the securities prices as at 31 December 2006 represented the opening average prices, which served as a starting-point for premium and discount amortisation and calculation of realised gains and losses in case of their sale.

Off-balance-sheet instruments

Forward legs of foreign exchange swaps are disclosed off-balance-sheet and are included in the net foreign currency position for the purpose of calculating the average cost of currencies and foreign exchange gains and losses. Gains and losses arising from the forward legs are recognised and treated in a similar manner to on-balance sheet instruments. Unrealised positive valuation effects are not recognised as income but are transferred to the revaluation accounts. Unrealised negative valuation effects are taken to the profit and loss account when exceeding previous positive valuation effects registered in the revaluation accounts. Unrealised valuation effects of the forward legs of foreign exchange swaps are recorded from the trade date to the settlement date under 'Other assets/liabilities'.

Since spot and forward amounts in foreign currencies are converted to euro at the same exchange rate, foreign exchange swaps do not influence profit and loss account nor the revaluation accounts on the liability side.

Post-balance-sheet events

Assets and liabilities are adjusted for events that occur between the annual balance sheet date and the date on which the Governing Board approves the financial statements, if such events materially affect the condition of assets and liabilities on the balance sheet date.

As a result of the departure of the United Kingdom from the European Union and consequent withdrawal of the Bank of England from the ESCB, the weightings in the key for subscription to the ECB's capital are adjusted with effect from 1 February 2020. The ECB kept its subscribed capital unchanged at EUR 10,825 million after Bank of England's withdrawal from the ESCB. The share of the Bank of England in the ECB's subscribed capital, which stood at 14.3%, was reallocated among both the euro area NCBs and non-euro area NCBs. As a result, the Bank of Slovenia's share in the ECB's subscribed capital increased by 0.0555% from 0.3361% to 0.3916%.

The ECB's paid-up capital will also remain unchanged at EUR 7,659 million in the year of the United Kingdom's departure from the EU, i.e. in 2020, as the remaining NCBs will cover the withdrawn Bank of England's paid-up capital of EUR 58 million. Furthermore, euro area NCBs will then pay up in full their increased subscriptions to the ECB capital following Bank of England's withdrawal from the ESCB in two additional annual instalments in years 2021 and 2022. As a result, the Bank of Slovenia will transfer to the ECB an amount of EUR 0.1 million in 2020, EUR 2.9 million in 2021 and EUR 2.9 million in 2022.

Pursuant to Article 30.2 of the Statute of the ESCB, the contributions of the NCBs to the transfer of foreign reserve assets to the ECB are fixed in proportion to their share in the ECB's subscribed capital. Following (a) the increase in the weighting of the euro area NCBs (which have transferred foreign reserve assets to the ECB) in the ECB's subscribed capital resulting from Bank of England's withdrawal from the ESCB and (b) a decision of the Governing Council to reduce the proportion of the euro area NCBs' contributions, so that the total amount of foreign reserve assets already transferred by the euro area NCBs will remain at the current level, the claim equivalent to this transfer was marginally adjusted. This resulted in decrease in the Bank of Slovenia's claim amounting to EUR 0.5 million.

Cash flow statement

Taking into account of the Bank of Slovenia's role as a central bank, publishing a cash flow statement would not provide the readers of the financial statements with any additional relevant information. Therefore, such a statement is not included as part of these statements.

Taxation

The Bank of Slovenia is not subject to Slovenian corporate income tax.

Appropriations

In accordance with the Bank of Slovenia Act, net profit is allocated to general reserves and the budget of the Republic of Slovenia. Unrealised positive valuation effect deriving from exchange rate and price changes is allocated in its entirety to the revaluation accounts and is not included in the net profit available for distribution. Revaluation accounts may only be used to cover a shortfall deriving from unrealised negative valuation effects as a result of exchange rate and price movements.

A net loss of the Bank of Slovenia is covered from general reserves. Should the net loss arise from unrealised exchange rate and price changes, it shall be covered from the special reserves created for that purpose. Any net loss which cannot be covered from general reserves, is covered by the budget of the Republic of Slovenia.

Auditing of financial statements

The financial statements were audited by Ernst & Young d. o. o., Ljubljana, who were appointed as the external auditor of the Bank of Slovenia for the financial years 2018 to 2020.

Balance Sheet as at 31 December 2019

ASSETS (thousands of euro)	Note number	31 December 2019	31 December 2018
1 Gold and gold receivables	1	138,410	114,579
2 Claims on non-euro area residents denominated in foreign currency	2	763,343	698,893
2.1 Receivables from the IMF		381,447	372,278
2.2 Balances with banks and security investments, external loans and other external assets		381,896	326,615
3 Claims on euro area residents denominated in foreign currency	3	37,472	93,856
4 Claims on non-euro area residents denominated in euro	4	1,364,617	1,223,816
4.1 Balances with banks, security investments and loans		1,364,617	1,223,816
4.2 Claims arising from the credit facility under ERM II		-	-
5 Lending to euro area credit institutions related to monetary policy operations denominated in euro	5	995,140	1,101,600
5.1 Main refinancing operations		-	-
5.2 Longer-term refinancing operations		995,140	1,101,600
5.3 Fine-tuning reverse operations		-	-
5.4 Structural reverse operations		-	-
5.5 Marginal lending facility		-	-
5.6 Credits related to margin calls		-	-
6 Other claims on euro area credit institutions denominated in euro	6	295	455
7 Securities of euro area residents denominated in euro	7	11,355,207	11,290,248
7.1 Securities held for monetary policy purposes		10,072,207	9,999,118
7.2 Other securities		1,282,999	1,291,130
8 General government debt denominated in euro		-	-
9 Intra-Eurosystem claims	8	3,748,243	1,564,008
9.1 Participating interest in ECB		78,563	82,199
9.2 Claims equivalent to the transfer of foreign reserves		194,773	200,221
9.3 Claims related to the issuance of ECB debt certificates*		-	-
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem		-	-
9.5 Other claims within the Eurosystem (net)		3,474,907	1,281,588
10 Items in course of settlement		-	-
11 Other assets	9	411,967	342,045
11.1 Coins of euro area		1,570	991
11.2 Tangible and intangible fixed assets		54,898	40,444
11.3 Other financial assets		52,157	51,681
11.4 Off-balance sheet instruments revaluation differences		8,724	4,069
11.5 Accruals and prepaid expenditure		158,088	166,018
11.6 Sundry		136,531	78,841
12 Loss for the year		-	-
Total assets		18,814,695	16,429,499

* Only an ECB balance sheet item

LIABILITIES (thousands of euro)	Note number	31 December 2019	31 December 2018
1 Banknotes in circulation	10	5,739,774	5,558,570
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	11	4,347,882	3,391,330
2.1 Current accounts (covering the minimum reserve system)		4,347,882	3,391,330
2.2 Deposit facility		-	-
2.3 Fixed-term deposits		-	-
2.4 Fine-tuning reverse operations		-	-
2.5 Deposits related to margin calls		-	-
3 Other liabilities to euro area credit institutions denominated in euro		-	-
4 Debt certificates issued		-	-
5 Liabilities to other euro area residents denominated in euro	12	3,416,359	3,779,858
5.1 General government		3,120,214	3,703,722
5.2 Other liabilities		296,145	76,135
6 Liabilities to non-euro area residents denominated in euro	13	134,050	62,717
7 Liabilities to euro area residents denominated in foreign currency	14	6,169	4,595
8 Liabilities to non-euro area residents denominated in foreign currency		-	-
8.1 Deposits, balances and other liabilities		-	-
8.2 Liabilities arising from the credit facility under ERM II		-	-
9 Counterpart of special drawing rights allocated by the IMF	15	266,376	262,383
10 Intra-Eurosystem liabilities	16	2,815,245	1,502,442
10.1 Liabilities equivalent to the transfer of foreign reserves*		-	-
10.2 Liabilities related to the issuance of ECB debt certificates		-	-
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem		2,815,245	1,502,442
10.4 Other liabilities within the Eurosystem (net)		-	-
11 Items in course of settlement		-	-
12 Other liabilities	17	144,779	136,616
12.1 Off-balance sheet instruments revaluation differences		18,607	20,967
12.2 Accruals and income collected in advance		25,664	21,235
12.3 Sundry		100,508	94,414
13 Provisions	18	573,037	593,836
14 Revaluation accounts	19	162,984	103,484
15 Capital and reserves	20	1,027,339	970,223
15.1 Capital		8,346	8,346
15.2 Reserves		1,018,994	961,877
16 Profit for the year		180,699	63,446
Total liabilities		18,814,695	16,429,499

* Only an ECB balance sheet item

Profit and Loss Account for the year ended 31 December 2019 and 2018

(thousands of euro)		Note number	2019	2018
1.1	Interest income		154,010	145,497
1.2	Interest expense		-14,301	-12,329
1	Net interest income	24	139,710	133,168
2.1	Realised gains/losses arising from financial operations		11,014	4,274
2.2	Write-downs on financial assets and positions		-1,429	-9,054
2.3	Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks and other operational risks		21,005	-79,188
2	Net result of financial operations, write-downs and risk provisions	25	30,590	-83,968
3.1	Fees and commissions income		14,072	12,509
3.2	Fees and commissions expense		-3,260	-2,956
3	Net income from fees and commissions	26	10,813	9,553
4	Income from equity shares and participating interests	27	9,932	7,655
5	Net result of pooling of monetary income	28	27,158	32,619
6	Other income	29	2,407	2,072
	Total net income		220,608	101,098
7.1	Staff costs		-26,193	-24,637
7.2	Administrative expenses		-7,958	-7,998
7.3	Depreciation of tangible and intangible fixed assets		-2,859	-2,628
7.4	Banknote production services		-1,731	-721
7.5	Other expenses		-1,168	-1,668
7	Total operating expenses	30	-39,910	-37,653
8	Profit for the year	31	180,699	63,446

The notes on pages 15 to 34 form an integral part of the financial statements.

The unaudited financial statements were approved by the Governing Board on 3 March 2020 and these audited financial statements were approved by the Governing Board on 24 March 2020 and were signed on its behalf by:

Boštjan Vasle, M. Sc.
President of the Governing Board and
Governor of the Bank of Slovenia

In accordance with Article 49 of the Bank of Slovenia Act, the Bank of Slovenia shall inform the National Assembly of the Republic of Slovenia of these annual financial statements.

Notes to the balance sheet

1. Gold and gold receivables

With the exception of stock of gold held at the Bank of Slovenia, the Bank of Slovenia's gold holdings consist of gold deposits and gold in the foreign bank accounts. In the annual accounts, gold is valued on the basis of the euro price per fine ounce (ozf) derived from the quotation in USD established at the London fixing on 31 December 2019. This price, communicated by the ECB, amounts to EUR 1,354.104 per ounce of fine gold compared to EUR 1,120.961 on 31 December 2018. Unrealised positive valuation effects of EUR 89.1 million were disclosed under the liability balance sheet item 'Revaluation accounts'.

	000 EUR	Fine troy ounces
Balance as at 31 December 2017	110,584	102,214
Overdelivery of gold in 2018 (gold deposit transactions)	0	0
Revaluation of gold stock as at end of 2018	3,995	-
Balance as at 31 December 2018	114,579	102,215
Overdelivery of gold in 2019 (gold deposit transactions)	1	1
Revaluation of gold stock as at end of 2019	23,831	-
Balance as at 31 December 2019	138,410	102,215

2. Claims on non-euro area residents denominated in foreign currency

This item includes holdings of SDRs allocated by the IMF and the foreign currency claims on non-euro area residents included in the Bank of Slovenia's foreign reserves.

The sub-item 2.1 'Receivables from the IMF' consists of drawing rights within the reserve tranche and special drawing rights. It is remunerated by the IMF at a remuneration rate that is updated weekly.

The reserve tranche corresponds to the difference between quota of the Republic of Slovenia in the IMF and the IMF's euro holdings with the Bank of Slovenia. SDRs are reserve assets created by the IMF and allocated by it to its members in order to increase international liquidity. They are used in transactions between official monetary authorities. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted average of exchange rates of five currencies (USD, GBP, JPY, EUR and CNY).

All claims in the balance sheet are shown on the basis of the market rate of SDR 1 = EUR 1.2339 (31 December 2018: SDR 1 = EUR 1.2154) calculated by the ECB at the end of the year for all central banks participating in the Eurosystem. At the balance sheet date, the market rate of the SDR was above the average cost and positive valuation effects were therefore recognised in accordance with the accounting rules in the liability balance sheet item 'Revaluation accounts'.

	31 December 2019		31 December 2018		Change	
	000 SDR	000 EUR	000 SDR	000 EUR	000 SDR	000 EUR
Quota	586,500	723,682	586,500	712,832	-	10,850
less IMF holdings of euro	-476,539	-588,001	-478,539	-581,616	2,000	-6,385
Reserve tranche at the IMF	109,961	135,681	107,961	131,216	2,000	4,465
SDR Holdings	199,178	245,766	198,339	241,062	839	4,704
Total	309,139	381,447	306,301	372,278	2,839	9,169

The sub-item 2.2 'Balances with banks and security investments, external loans and other external assets' includes the foreign currency assets held with non-euro area residents (including international and supranational organisations). Foreign currency assets are shown under this sub-item at their euro equivalent as calculated on the basis of the market exchange rates on 31 December 2019.

Breakdown of foreign currency assets by type of investment:

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
Sight deposits	634	731	-97
Time deposits	17,922	215	17,707
Debt securities	320,288	325,669	-5,381
Marketable investment funds	43,052	-	43,052
Total	381,896	326,615	55,280

Breakdown of foreign currency assets by currency:

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
USD	381,602	326,292	55,310
Other currencies	294	324	-30
Total	381,896	326,615	55,280

Breakdown of debt securities according to their residual maturity:

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	-	6,971	-6,971
>1 year and ≤5 years	205,049	162,491	42,558
> 5 years	115,239	156,207	-40,968
Total	320,288	325,669	-5,381

3. Claims on euro area residents denominated in foreign currency

The foreign currency assets held with euro area residents are invested in sight deposits, time deposits and debt securities in foreign currencies. Foreign currency assets are shown at their euro equivalent as calculated on the basis of market exchange rates on 31 December 2019.

Breakdown of foreign currency assets by type of investment:

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
Sight deposits	9	32	-23
Time deposits	5,875	20,087	-14,212
Debt securities	31,588	73,736	-42,148
Total	37,472	93,856	-56,383

Breakdown of foreign currency assets by currency:

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
USD	37,472	93,856	-56,383
Total	37,472	93,856	-56,383

Breakdown of debt securities according to their residual maturity:

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	-	44,171	-44,171
>1 year and ≤5 years	28,851	15,777	13,074
> 5 years	2,737	13,789	-11,051
Total	31,588	73,736	-42,148

4. Claims on non-euro area residents denominated in euro

The claims on non-euro area residents denominated in euro included under this balance sheet item are invested in sight deposits and debt securities.

Breakdown of euro denominated assets by type of investment:

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
Sight deposits	0	0	0
Debt securities	1,364,617	1,223,816	140,801
Total	1,364,617	1,223,816	140,801

Breakdown of debt securities according to their residual maturity:

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	236,078	245,125	-9,047
>1 year and ≤5 years	1,072,707	955,070	117,637
>5 years	55,831	23,620	32,212
Total	1,364,617	1,223,816	140,801

5. Lending to euro area credit institutions related to monetary policy operations in euro

This item shows operations carried out by the Bank of Slovenia within the framework of the single monetary policy of the Eurosystem and reflects the volume and pattern of the Bank of Slovenia's refinancing of the Slovenian credit institutions.

The total Eurosystem holding of monetary policy assets amounts to EUR 624,232 million (2018: EUR 734,381 million), of which the Bank of Slovenia holds EUR 995 million (2018: EUR 1,102 million). In accordance with Article 32.4 of the Statute of the ESCB and the ECB, losses from monetary policy operations, if they were to materialise, are shared, by decision of the Governing Council, in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

Losses can only materialise if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided by the counterparty is not sufficient. For specific collateral which can be accepted by NCBs at their own discretion, risk sharing has been excluded by the Governing Council of the ECB.

Longer-term refinancing operations aim to provide counterparties with additional longer-term refinancing. In 2019, operations were conducted with maturities of 3 months. These operations were conducted as fixed rate tender with full allotment. Additionally, in 2016 the Governing Council introduced a series of four targeted longer-term refinancing operations (TLTRO II). These operations have a four-year maturity, with a possibility of repayment after two years. Additionally, in 2019 the Governing Council introduced a new series of seven quarterly targeted longer-term refinancing operations (TLTRO III). These operations have a three-year maturity, with a possibility of repayment after two years. According to the decisions taken by the Governing Council, the final interest rate applicable to each TLTRO-III operation can be as low as the average interest rate on the deposit facility prevailing over the life of the operation. Given that the rate for accruing interest will only be known starting from 2021 and that a reliable estimate is not possible until that time, the deposit facility rate is used for calculating the TLTRO III interest for 2019, as this was deemed a prudent approach.

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
Longer term refinancing operations	995,140	1,101,600	-106,460
Total	995,140	1,101,600	-106,460

6. Other claims on euro area credit institutions denominated in euro

This item, amounting to EUR 0.3 million, comprises claims on credit institutions which do not relate to monetary policy operations. Funds are invested in sight deposits.

7. Securities of euro area residents denominated in euro

This item includes securities held for monetary policy purposes and other securities issued by euro area residents denominated in euro.

The sub-item 7.1 'Securities held for monetary policy purposes' contains securities acquired by the Bank of Slovenia within the scope of the two covered bonds purchase programmes (CBPP)¹³, the securities markets programme (SMP)¹⁴ and the public sector purchase programme (PSPP)¹⁵.

Purchases under the first covered bond purchase programme were completed on 30 June 2010, while the securities markets programme was terminated on 6 September 2012.

On 1 November 2019, the Eurosystem restarted its net purchases of securities under the asset purchase programme (APP)¹⁶ at a monthly pace of EUR 20 billion on average. This followed a period of ten months since end-2018 during which the Eurosystem only reinvested, in full, the principal payments from maturing securities purchased under the APP. The Governing Council expects net purchases to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. The Governing Council also intends to continue the reinvestments for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The securities purchased under these programmes are valued on an amortised cost basis subject to impairment (see 'Securities held for monetary policy purposes' in the notes on accounting policies).

The amortised cost of the securities held by the Bank of Slovenia, as well as their market value¹⁷ (which is not recorded on the balance sheet or in the profit and loss account but is provided for comparison purposes only), are as follows:

	31 December 2019		31 December 2018		Change	
	Amortised cost	Market value	Amortised cost	Market value	Amortised cost	Market value
	000 EUR	000 EUR	000 EUR	000 EUR	000 EUR	000 EUR
First covered bond purchase programme	15,999	16,090	15,995	16,722	4	-633
Third covered bond purchase programme	803,796	825,286	823,098	825,221	-19,302	65
Securities market programme	79,702	85,088	135,327	146,057	-55,626	-60,969
Public sector purchase programme	9,172,710	9,980,363	9,024,698	9,237,463	148,012	742,900
Skupaj	10,072,207	10,906,827	9,999,118	10,225,464	73,089	681,363

¹³ Decision of the European Central Bank of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), OJ L 175, 04.07.2009, p. 18-19 and Decision of the European Central Bank of 15 October 2014 on the implementation of the third covered bond purchase programme (ECB/2014/40), OJ L 335, 22.11.2014, p. 22-24, as amended.

¹⁴ Decision of the European Central Bank of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ L 124, 20.05.2010, p. 8-9.

¹⁵ Decision of the European Central Bank of 4 March 2015 establishing a public sector purchase programme (ECB/2015/10), OJ L 121, 14.05.2015, p. 20-24, as amended.

¹⁶ The APP programme consists of the third covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP), the PSPP and the corporate sector purchase programme (CSPP). Further details on the APP can be found on the ECB's website:

<https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html>

¹⁷ Market values are indicative and were derived on the basis of market quotes. When market quotes were not available, market prices were estimated using internal Eurosystem models.

Breakdown of securities held for monetary policy purposes according to their residual maturity:

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	491,917	346,030	145,888
>1 year and ≤5 years	2,573,079	2,483,147	89,931
> 5 years	7,007,211	7,169,941	-162,730
Total	10,072,207	9,999,118	73,089

The Governing Council assesses on a regular basis the financial risks associated with the securities held under these programmes. Impairment tests are conducted on an annual basis, using data as at the year-end and are approved by the Governing Council. In these tests, impairment indicators are assessed separately for each programme.

The total Eurosystem NCB's holding of CBPP, SMP, ABSPP, PSPP and CSPP securities amounts to EUR 2,632,057 million (2018: EUR 2,651,281 million), of which the Bank of Slovenia holds EUR 10,072 million (2018: EUR 9,999 million). In accordance with the decision of the Governing Council taken under Article 32.4 of the Statute of the ESCB and the ECB, losses from holdings of SMP, CBPP3, ABSPP and CSPP securities and PSPP securities issued by an international organisation or a multilateral development bank, if they were to materialise, are shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

As a result of an impairment test conducted on the CSPP portfolio, the Governing Council has deemed it appropriate to maintain a buffer against credit risks in monetary policy operations during 2019 (see 'Provisions' in the notes to the balance sheet).

In the context of the impairment test conducted as at the end of 2019 on securities purchased under the CBPP3 programme, the Governing Council identified one impairment indicator in particular, relating to the holdings of a security issued by a credit institution, which continued to encounter significant financial difficulties in 2019. The Governing Council considered that the identified impairment indicator had not affected the estimated future cash flows. No impairment losses were therefore recorded at the year-end on the securities purchased under the CBPP3 programme.

As a result of an impairment test conducted as at 31 December 2019 on securities purchased under the CBPP1, CBPP2, SMP, ABSPP and PSPP, the Governing Council decided that all future cash flows on these securities are expected to be received.

The sub-item 7.2 'Other securities' covers the portfolio of marketable securities, issued by governments, credit and corporate institutions of the euro area.

Breakdown of securities per portfolio:

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
Marketable securities other than those held to maturity	1,255,770	1,263,652	-7,882
Held-to-maturity securities	27,229	27,478	-248
Total	1,282,999	1,291,130	-8,131

Held-to-maturity securities are securities with fixed or determinable payments and a fixed maturity that the Bank of Slovenia intends to hold until maturity.

Breakdown of other securities according to their residual maturity:

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	106,331	218,161	-111,830
>1 year and ≤5 years	888,250	833,926	54,324
> 5 years	288,418	239,043	49,375
Total	1,282,999	1,291,130	-8,131

8. Intra-Eurosystem claims

Sub-item 9.1 shows the Bank of Slovenia's participating interest in the ECB and includes (i) the paid-up share in the ECB's subscribed capital, (ii) the net amount paid by the Bank of Slovenia due to the increase in its share in the ECB's equity value resulting from all previous ECB's capital key adjustments, and (iii) contributions in accordance with Article 48.2 of the Statute of the ESCB and the ECB.

Pursuant to Article 28 of the Statute of the ESCB and the ECB, the ESCB national central banks are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with the Article 29 of the Statute of the ESCB and the ECB and are subject to adjustment every five years or whenever there is a change in composition of the ESCB national central banks. The most recent such adjustment took effect on 1 January 2019. Consequently, on 1 January 2019, the share that the Bank of Slovenia held in the subscribed capital of the ECB decreased from 0.3455% to 0.3361% and asset item 9.1 "Participating interest in the ECB" decreased by EUR 1.0 million to EUR 36.38 million, as a result of the repayment of part of the capital contribution by the ECB

The subscribed and paid up capital of the 28 European central banks in the capital of the ECB on 31 December 2019 is as follows:

	Capital key	Subscribed capital	Of which fully paid up	Eurosystem key
	%	EUR	EUR	%
Nationale Bank van België/ Banque Nationale de Belgique	2.5280	273,656,179	273,656,179	3.6313
Deutsche Bundesbank	18.3670	1,988,229,048	1,988,229,048	26.3827
Eesti Pank	0.1968	21,303,614	21,303,614	0.2827
Central Bank and Financial Services Authority of Ireland	1.1754	127,237,133	127,237,133	1.6884
Bank of Greece	1.7292	187,186,022	187,186,022	2.4839
Banco de España	8.3391	902,708,165	902,708,165	11.9784
Banque de France	14.2061	1,537,811,329	1,537,811,329	20.4059
Banca d'Italia	11.8023	1,277,599,809	1,277,599,809	16.9530
Central Bank of Cyprus	0.1503	16,269,986	16,269,986	0.2159
Latvijas Banka	0.2731	29,563,094	29,563,094	0.3923
Lietuvos bankas	0.4059	43,938,704	43,938,704	0.5830
Banque centrale du Luxembourg	0.2270	24,572,766	24,572,766	0.3261
Central Bank of Malta/Bank Ċentrali ta' Malta	0.0732	7,923,905	7,923,905	0.1051
De Nederlandsche Bank	4.0677	440,328,813	440,328,813	5.8429
Oesterreichische Nationalbank	2.0325	220,018,269	220,018,269	2.9195
Banco de Portugal	1.6367	177,172,891	177,172,891	2.3510
Banka Slovenije	0.3361	36,382,849	36,382,849	0.4828
Národná banka Slovenska	0.8004	86,643,357	86,643,357	1.1497
Suomen Pankki-Finlands Bank	1.2708	137,564,190	137,564,190	1.8254
Total euro-area NCBs	69.6176	7,536,110,122	7,536,110,122	100.0000
Bulgarian National Bank	0.8511	92,131,635	3,454,936	
Česká národní banka	1.6172	175,062,014	6,564,826	
Danmarks Nationalbank	1.4986	162,223,556	6,083,383	
Hrvatska narodna banka	0.5673	61,410,265	2,302,885	
Magyar Nemzeti Bank	1.3348	144,492,194	5,418,457	
Narodowy Bank Polski	5.2068	563,636,468	21,136,368	
Banca Națională a României	2.4470	264,887,923	9,933,297	
Sveriges Riksbank	2.5222	273,028,328	10,238,562	
Bank of England	14.3374	1,552,024,564	58,200,921	
Total non-euro area NCBs	30.3824	3,288,896,948	123,333,636	
Total euro area and non-euro area NCBs	100.0000	10,825,007,070	7,659,443,757	

In accordance with the Article 48.2 of the Statute of the ESCB and the ECB and the legal acts adopted by the Governing Council of the ECB, the Bank of Slovenia also made a contribution of EUR 36.7 million to the ECB's foreign exchange, gold and security price revaluation accounts and to the ECB's provision for financial risks in the year 2007. The payment was made in two parts. As a result of a difference between the euro equivalent of foreign reserve assets to be transferred to the ECB at current exchange rates and the claim of the Bank of Slovenia in accordance with its capital key (disclosed under asset item 9.2), the amount of EUR 7.6 million was used as the advance contribution to the ECB reserves, provisions and provisions equivalent to reserves on 3 January 2007. The rest of the contribution was paid after the approval of the ECB's 2006 Annual Accounts by the Governing Council of the ECB in March 2007.

Due to a change in the ECB's capital key on 1 January 2009, 1 July 2013 and 1 January 2014, the additional contributions were made to the ECB's net equity by the Bank of Slovenia on 9 March 2009, 12 July 2013 and 21 February 2014. As a result of the capital key change on 1 January 2019, the relative share of the Bank of Slovenia in the accumulated net equity of the ECB decreased.

	31.12.2019
	000 EUR
Contribution to revaluation accounts	
- paid on 3 January 2007	7,647
- paid on 12 March 2007	18,105
Contribution to provisions	
- paid on 12 March 2007	10,947
Contribution paid on 9 March 2009	2,700
Contribution paid on 12 July 2013	50
Contribution paid on 21 February 2014	5,350
Contribution received on 22 February 2019	-2,618
Total	42,180

Sub-item 9.2 represents the Bank of Slovenia's claims amounting to EUR 194.8 million arising from the transfer of foreign reserve assets to the ECB, when the Bank of Slovenia joined the Eurosystem. The remuneration of these claims is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations, adjusted to reflect a zero return on the gold component.

The adjustments to the capital key weightings of the ECB on 1 January 2019 also resulted in the adjustment of the claim of the Bank of Slovenia with respect to the foreign reserve assets transferred to the ECB. In order to reflect its reduced capital key share, the euro-denominated claim of Bank of Slovenia decreased by EUR 5.4 million to EUR 194.8 million on 1 January 2019.

Sub-item 9.5 'Other claims within the Eurosystem (net)' represents the sum of three components: 1) the position of the Bank of Slovenia vis-à-vis the ECB in respect of the transfers issued and received through TARGET2 by the ESCB national central banks, including the ECB; 2) the position vis-à-vis the ECB in respect of pooling and allocation of monetary income within the Eurosystem pending settlement; and 3) the Bank of Slovenia's position vis-à-vis the ECB in respect of any amounts receivable or payable, including the amount due to the Bank of Slovenia from the ECB in respect of the ECB's interim profit distribution.

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
Due from the ECB in respect of TARGET2 balances	3,441,193	1,242,669	2,198,524
Due from the ECB in respect of monetary income	26,806	33,071	-6,266
Due from the ECB in respect of the ECB interim profit distribution	6,908	5,848	1,061
Total	3,474,907	1,281,588	2,193,319

The year-end net transfers via TARGET2 had a debit balance of EUR 3,441.2 million. The remuneration of this position is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for the main refinancing operations.

The second component, i.e. the position vis-à-vis the ECB in respect of the annual pooling and allocation of monetary income within the Eurosystem NCBs, had a debit balance of EUR 26.8 million at year-end (see 'Net result of pooling of monetary income' in the notes to the profit and loss account).

In 2019, following a decision by the Governing Council, the amount due to euro area NCBs with respect to the ECB's interim profit distribution was EUR 1,431 million (see 'ECB profit distribution' in accounting policies). The related amount due to the Bank of Slovenia as at 31 December 2019 was EUR 6.9 million (see 'Income from equity shares and participating interests' in the profit and loss account).

9. Other assets

The Bank of Slovenia's holding of coins, issued by the Republic of Slovenia, are shown in sub-item 11.1 'Coins of euro area' in the amount of EUR 1.6 million.

Sub-item 11.2 'Tangible and intangible fixed assets' comprises land and buildings, computer hardware and software, furniture and other equipment.

	Land and buildings	Computers & equipment	Total
	000 EUR	000 EUR	000 EUR
Cost or valuation			
At 31 December 2018	35,496	27,732	63,229
Reclassifications	-229	229	-
Additions	14,125	3,274	17,399
Disposals	-	1,820	1,820
At 31 December 2019	49,392	29,416	78,808
Depreciation			
At 31 December 2018	1,338	21,447	22,785
Reclassifications	-12	12	-
Disposals	-	1,814	1,814
Charge for the year	347	2,593	2,940
At 31 December 2019	1,674	22,237	23,911
Net book value			
At 31 December 2018	34,159	6,285	40,444
At 31 December 2019	47,719	7,178	54,898

As at 31 December 2019 an amount of EUR 21.9 million related to investment properties in Austria is included in land and buildings (2018: EUR 12.4 million). Furthermore, in 2019 the Bank of Slovenia recognised long-term leases as a right-of-use asset among fixed assets.

Sub-item 11.3 'Other financial assets' amounting to EUR 52.2 million contains the Bank of Slovenia's participating interests in international financial organisations and other financial assets.

Sub-item 11.4 'Off-balance sheet instruments revaluation differences' amounting to EUR 8.7 million includes the positive revaluation effects arising from the forward legs of foreign currency swaps, which are recorded on off-balance-sheet account, and the valuation results of foreign exchange spot transactions agreed in 2019 which are to be settled in the subsequent year.

Sub-item 11.5 'Accruals and prepaid expenses' amounting to EUR 158.1 million contains the accrued income identified at 31 December 2019. This consists mainly of interest income which is due in the subsequent financial year.

Sub-item 11.6 'Sundry' amounting to EUR 136.5 million consists of fiduciary and other assets.

10. Banknotes in circulation

This item consists of the Bank of Slovenia's share of the total euro banknotes in circulation (see 'Banknotes in circulation' in the notes on accounting policies).

During 2019, the total value of banknotes in circulation within the Eurosystem increased by 4.8%. According to the allocation key, the Bank of Slovenia had euro banknotes in circulation worth EUR 5,739.8 million at the end of the year (compared with EUR 5,558.6 million at the end of 2018). The value of the euro banknotes actually issued by the Bank of Slovenia in 2019 increased by 17.5% from EUR 7,061.0 million to EUR 8,555.0 million. As this was more than the allocated amount, the difference of EUR 2,815.2 million (compared to EUR 1,502.4 million at the end of 2018) is shown under liability sub-item 10.3 'Net liabilities related to the allocation of euro banknotes within the Eurosystem'.

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
Total value of euro banknotes put into circulation by the Bank of Slovenia	8,555,019	7,061,012	1,494,007
Liability resulting from the ECBs share of euro banknotes in circulation	-499,288	-483,418	-15,870
Claim/liability according to the Bank of Slovenia's weighting in the ECB's capital key	-2,315,956	-1,019,024	-1,296,932
Total banknotes in circulation	5,739,774	5,558,570	181,204

The denomination structure of the euro banknotes put into circulation by the Bank of Slovenia is the following:

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
EUR 5	-101,344	-87,447	-13,896
EUR 10	973,714	864,280	109,435
EUR 20	5,314,371	4,945,164	369,207
EUR 50	2,089,547	1,142,887	946,660
EUR 100	-710,378	-734,667	24,290
EUR 200	344,059	-136,811	480,870
EUR 500	645,049	1,067,607	-422,559
Total value of euro banknotes put into circulation by the Bank of Slovenia	8,555,019	7,061,012	1,494,007

11. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

Current accounts contain the credit balances on the reserve accounts with the national central bank of credit institutions that are required to hold minimum reserves. The average balance on the banks' accounts during the

maintenance period are, up to the amount of calculated minimum reserves, remunerated at the average marginal interest rate of the main refinancing operations in the maintenance period. From June 2014 until the end of October 2019, the reserve holdings exceeding the required minimum reserves are remunerated at either zero per cent or the deposit facility rate, whichever is lower. Starting on 30 October 2019, the Governing Council introduced a two-tier system for reserve remuneration, which exempts part of credit institutions' excess liquidity holdings from negative remuneration at the rate applicable on the deposit facility. The average volume of reserve holdings in excess of minimum reserve requirements, determined as a multiple of 6 on an institution's minimum reserve requirements (i.e. the exempt tier), is remunerated at the annual rate of 0%. The non-exempt tier of excess liquidity holdings continues to be remunerated at the lower of either zero percent or the deposit facility rate.

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
Current accounts (covering the minimum reserve system)	4,347,882	3,391,330	956,552
Total	4,347,882	3,391,330	956,552

12. Liabilities to other euro area residents denominated in euro

Sub-item 5.1 'General government' encompasses the balances of the government sight deposits and its special funds in euro. The deposits of other public depositors constitute balances held by local communities, by resolution fund and by deposit guarantee fund.

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
Government sight deposits and special funds	2,872,507	3,441,299	-568,792
Other public sector deposits	247,707	262,423	-14,716
Total	3,120,214	3,703,722	-583,508

Sub-item 5.2 'Other liabilities' includes accounts of Central Securities Clearing Corporation, Bankart and stock exchange market customers' accounts.

13. Liabilities to non-euro area residents denominated in euro

Balance sheet item 'Liabilities to non-euro area residents denominated in euro' amounting to EUR 134.0 million contains cash received as collateral in connection with the APP securities lending as well as euro balances of international and supranational organisations. The IMF account No. 2 is also included in this balance sheet item.

14. Liabilities to euro area residents denominated in foreign currency

This item amounting to EUR 6.2 million contains the foreign currency sight and fixed-term deposits of central government and the government's special funds.

15. Counterpart of special drawing rights allocated by the IMF

This item amounting to EUR 266.4 million represents the liability of the Bank of Slovenia towards the IMF, which corresponds to the allocation of SDRs to the Republic of Slovenia as a result of its membership in the IMF. At the end of 2019, the liability is shown in the balance sheet on the basis of the market rate of SDR 1 = EUR 1.2339 (31 December 2018: SDR 1 = EUR 1.2154) calculated by the ECB at the end of the year for all central banks participating in the Eurosystem. The increase in the amount of this liability in 2019 is solely due to valuation effects, i.e. the appreciation of the SDR against the euro.

16. Intra-Eurosystem liabilities

Sub-item 10.3 'Net liabilities related to the allocation of euro banknotes within the Eurosystem' consists of the claims and liabilities of the Bank of Slovenia vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem (see 'Banknotes in circulation' and 'Intra-ESCB balances/Intra-Eurosystem balances' in the notes on accounting policies).¹⁸ The increase of net liability in comparison to 2018 (EUR 1,312.8 million) was due to the increase in banknotes put into circulation by Bank of Slovenia in 2019 (which represents an increase of 17.5%), as well as the rise in banknotes in circulation in the Eurosystem as a whole (increase of 4.8% compared to 2018). The remuneration of these liabilities is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for the main refinancing operations.

17. Other liabilities

Sub-item 12.1 'Off-balance sheet instruments revaluation differences' amounting to EUR 18.6 million includes the negative revaluation effects arising from the forward legs of foreign currency swaps, which are recorded on off-balance-sheet account.

Sub-item 12.2 'Accruals and income collected in advance' amounting to EUR 25.7 million contains the accrued interest and other expenses identified at 31 December 2019, which are due in the new financial year or later but were incurred in the financial year just ended.

Sub-item 12.3 'Sundry' amounting to EUR 100.5 million consists mainly of fiduciary liabilities and non-returned tolar banknotes.

18. Provisions

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
Provisions for employees and for known risks	18,999	18,045	954
Provisions for general risks	553,600	575,000	-21,400
Provisions in respect of monetary policy operations	439	791	-352
Total	573,037	593,836	-20,798

¹⁸ According to the accounting regime chosen by the Eurosystem on the issue of euro banknotes, a share of 8% of the total value of the euro banknotes in circulation is allocated to the ECB on a monthly basis. The remaining 92% of the value of the euro banknotes in circulation are allocated to the NCBs also on a monthly basis, whereby each NCB shows in its balance sheet a share of the euro banknotes issued corresponding to its paid-up share in the ECB's capital. The difference between the value of the euro banknotes allocated to the NCB according to the aforementioned accounting regime, and the value of euro banknotes put into circulation, is recorded as a 'Net Intra-Eurosystem claim/liability related to the allocation of euro banknotes within the Eurosystem'.

Provisions for employees and for known risks

Provisions for post-employment benefits include provisions for severance pay and long-service awards and are calculated in accordance with IAS 19 – Employee benefits. The latter consider the stipulations of the Bank of Slovenia's collective agreement, expected future salary increases, employee turnover and a rate to discount future obligations. Provisions are calculated based on actuarial assumptions as at 31 December 2019.

Provisions for known risks relate to potential liabilities of the Bank of Slovenia stemming from on- and off-balance sheet positions and potential liabilities arising from the performance of the tasks of the Bank of Slovenia. Provisions for potential liabilities streaming from off-balance sheet positions were calculated on the basis of Value-at-Risk assessment (VaR).

Provisions for general risks

Taking into account the Bank of Slovenia's exposure to financial risks, general provisions for covering losses arising from changes in interest rates, exchange rates and prices as well as losses from credit events can be created. Provisions for interest rate, price (gold) and exchange rate risk are subject to the limitation set in Article 49.a of the Bank of Slovenia Act, according to which these provisions may not be created if they should, together with the unrealised exchange rate differences, securities valuation effects and gold valuation effects, exceed 20% of the identified surplus of receipts over expenditure. The increase in the unrealized positive valuation effects in this respect in 2019 amounts to EUR 56.4 million, which exceeds 20% of the established surplus, therefore these provisions could not be created. Exposure to credit risks decreased in 2019, mainly due to lower credit risks in securities for monetary policy purposes.

Provisions in respect of monetary policy operations

In accordance with the decision of the Governing Council taken under Article 32.4 of the ESCB Statute, the provision against credit risks in monetary policy operations is allocated between the national central banks of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in the year when the initial impairment occurred. As a result of the annual impairment test of the CSPP portfolio, the Governing Council has reviewed the appropriateness of the volume of the provision against credit risks established in 2018 and decided to reduce this provision from a total amount of EUR 161 million as at 31 December 2018 to an amount of EUR 89 million as at 31 December 2019. The Bank of Slovenia's share in this provision amounts to EUR 0.4 million (2018: EUR 0.8 million). The respective adjustments are reflected in the NCBs' profit and loss accounts. In the case of the Bank of Slovenia the resulting income amounted to EUR 0.4 million in 2019 (see 'Net result of pooling of monetary income' in the notes to the profit and loss account).

19. Revaluation accounts

The positive difference between the market value and the average acquisition costs in case of gold holdings, net positions in each foreign currency and securities portfolio is shown in this balance sheet item.

In the case of valuation of securities, positive valuation effects of EUR 34.1 million arose from the valuation of EUR denominated portfolio (2018: EUR 13.1 million) and EUR 16.1 million from the valuation of USD denominated assets (2018: EUR 1.1 million).

In the case of foreign currency positions, positive valuation effects of EUR 19.3 million arose from the valuation of USD position and EUR 4.4 million from the valuation of SDR position (2018: EUR 21.4 million from the valuation of USD position and EUR 2.6 million from the valuation of SDR position). The average acquisition cost of foreign currencies at the end of 2019 was USD 1.2110 for EUR and EUR 1.1972 for SDR (2018: USD 1.2599 for EUR and EUR 1.1926 for SDR), while the market rate was USD 1.1234 for EUR and EUR 1.2339 for SDR (2018: USD 1.1450 for EUR and EUR 1.2154 for SDR).

In the case of gold the acquisition cost was EUR 482.696 per fine ounce of gold at the end of 2019 (2018: EUR 482.689), compared to the market price at the end of 2019, which was EUR 1,354.104 per fine ounce of gold (2018: EUR 1,120.961). Market value of gold position exceeded its acquisition price and resulted in a positive valuation effects amounting to EUR 89.1 million (2018: EUR 65.2 million).

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
Price effect	50,230	14,178	36,051
- securities in foreign currencies (asset items 2 and 3)	16,109	1,081	15,028
- securities in euro (asset items 4 and 7)	34,120	13,097	21,023
Exchange rate effect	23,683	24,065	-382
Gold valuation effect	89,071	65,241	23,831
Total	162,984	103,484	59,500

20. Capital and reserves

In accordance with the Article 5 of the Bank of Slovenia Act, the capital of the Bank of Slovenia was created in 2002 from the general reserves in the amount of EUR 8.3 million. The Bank of Slovenia's initial capital may be increased by allocating funds from the general reserves in an amount to be determined by the Governing Board.

The reserves of the Bank of Slovenia are composed of general reserves and special reserves. General reserves serve to cover general risks associated with the operations of the Bank of Slovenia. They are generated through the allocation of annual surplus of the Bank of Slovenia. Special reserves serve to cover exchange rate and price risks. Investment properties revaluation reserves are created from the valuation gains arising mainly from the appraisal of the investment properties in Austria, performed by the independent real estate assessor.

The composition of reserves is the following:

	31 December 2019	31 December 2018	Change
	000 EUR	000 EUR	000 EUR
Initial capital of the Bank of Slovenia	8,346	8,346	-
General reserves	803,011	755,427	47,584
Special reserves for foreign exchange differences	174,214	174,214	-
Special reserves – price risk (gold)	19,736	19,736	-
Valorisation reserves	22,033	12,501	9,533
Total reserves	1,027,339	970,223	57,117

Notes to the off-balance-sheet items

21. Foreign currency swaps

As at 31 December 2019, the forward foreign currency position arising from EUR/foreign currency swap transactions amounts net to EUR 136.6 million (2018: EUR 184.4 million), of which forward liabilities amounts to EUR 257.3 million and forward claims to EUR 120.6 million.

The forward claims and forward liabilities in foreign currencies are revalued at the same exchange rates as those used for spot holdings in foreign currencies.

	31 December 2019		31 December 2018		Change	
	000 USD	000 EUR	000 USD	000 EUR	000 USD	000 EUR
Forward liabilities in USD	289,000	257,255	262,200	228,996	26,800	28,259
Forward claims in USD	135,500	120,616	51,100	44,629	84,400	75,987
Skupaj	153,500	136,639	211,100	184,367	-57,600	-47,728

22. Securities lending

As at 31 December 2019, securities with a market value of EUR 174.1 million (31 December 2018: EUR 244.9 million) were lent under automated security lending contracts with the agents. The collateral received was reinvested into reverse repo transactions, asset backed securities or deposited with the Bank of Slovenia.

23. Other off-balance-sheet items

The following other financial claims and liabilities of the Bank of Slovenia were stated off-balance-sheet as at 31 December 2019:

- obligation under the IMF's statutes to provide currency on demand in exchange for SDRs up to three times the amount that the Bank of Slovenia received gratuitously from the IMF, which was equivalent to EUR 553.4 million as at 31 December 2019 (31 December 2018: EUR 546.1 million);
- obligation under the Loan Agreement between the Bank of Slovenia and the IMF to lend to the IMF an SDR denominated amount up to the equivalent of EUR 910.0 million (31 December 2018: EUR 910.0 million);
- a contingent liability of EUR 168.1 million, equivalent to the Bank of Slovenia's share of the maximum of EUR 50 billion reserve assets that the ECB may request the euro area NCBs to transfer under Article 30.1 of the Statute of the ESCB and of the ECB (31 December 2018: EUR 172.8 million);
- contingent claim arising from the credit lines as an instrument of intraday liquidity provision, amounting to EUR 700.0 million, granted based on eligible collateral and by means of overdraft on participant's settlement accounts (31 December 2018: EUR 600.0 million).

Notes to the profit and loss account

24. Net interest income

Interest income

Interest income consists of interest income from foreign reserve assets and euro-denominated assets, interest income related to foreign currency swaps and other interest income. Negative interest expense generated by liabilities related to credit institutions, government and other clients' accounts and deposits is also disclosed under interest income.

	2019	2018	Change
	000 EUR	000 EUR	000 EUR
Gold	95	142	-47
Current accounts and deposits	1,269	398	871
- in foreign currency	1,269	397	872
- in euro	-	1	-1
Securities	121,572	114,512	7,060
- in foreign currency	9,016	9,725	-710
- in euro	112,556	104,787	7,769
IMF	3,665	3,111	555
Foreign currency swaps	2,441	835	1,606
Other interest income	28	23	5
Negative interest expense	24,939	26,476	-1,537
- current accounts of credit institutions	11,824	11,535	290
- government and other clients' accounts and deposits	13,115	14,941	-1,826
Total	154,010	145,497	8,513

Interest expense

Interest expense arises from the liabilities in the form of government accounts and deposits, from the liabilities to the IMF and the interest expense related to foreign currency swaps. Interest expense also includes negative interest on longer-term refinancing operations as well as negative interest on sight deposits and fixed-term deposits. Positive and negative interest accrued on the longer-term refinancing operations are disclosed in the net amount.

	2019	2018	Change
	000 EUR	000 EUR	000 EUR
Current accounts and deposits	1	260	-259
- in foreign currency	1	260	-259
IMF	2,339	2,135	204
Foreign currency swaps	7,331	5,487	1,844
Negative interest income	4,630	4,447	182
- longer-term refinancing operations	4,239	4,438	-199
- sight and fixed-term deposits	391	9	382
Total	14,301	12,329	1,972

25. Net result of financial operations, write-downs and risk provisions

The net income shown in sub-item 'Realised gains/losses arising from financial operations' arises from the sale of currency positions and securities.

Write-downs of financial assets and positions reflect the decline in market prices of balance sheet items as at 31 December 2019 below the average cost of the respective currencies or securities. The valuation loss in 2019 occurred on EUR denominated securities.

In 2019 provisions for known risks arising from on-balance sheet positions were increased in the amount of EUR 1.3 million. Provisions for risks arising from off-balance sheet positions were released in the amount of EUR 1.3 million on the basis of risk assessment (VaR). In accordance with the decision of the Governing Board of the Bank of Slovenia, provisions were created in the amount of EUR 0.4 million due to potential costs in relation to possible legal and audit procedures initiated against the Bank of Slovenia.

Transfer from provisions for general risks in the amount of EUR 21.4 million represents the net amount of released provisions, created for potential losses from financial risks as well as interest rate sensitivity gap (see 'Provisions' in the notes to the balance sheet).

	2019	2018	Change
	000 EUR	000 EUR	000 EUR
Realised gains/losses arising from financial operations			
Gold	0	0	0
Currency position	6,648	3,267	3,381
Securities	4,366	1,007	3,359
Total	11,014	4,274	6,740
Write-downs on financial assets and positions			
Currency position	-91	-33	-58
Securities	-1,338	-9,021	7,683
Total	-1,429	-9,054	7,625
Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks and other operational risks			
Provisions for known risks	-395	-2,588	2,193
Provisions for general risks	21,400	-76,600	98,000
Total	21,005	-79,188	100,193
Total	30,590	-83,968	114,558

26. Net income from fees and commissions

Net income from fees and commissions amounts to EUR 10.8 million. Fees and commissions are mainly received from supervisory and regulatory functions, payment and settlement services, managing the Central Credit Register, management of the funds, processing of cash and from securities lending transactions.

27. Income from equity shares and participating interests

This item amounting to EUR 9.9 million represents the dividends received on the Bank of Slovenia's shares in the international financial institutions and the ECB, as well as from investments in marketable investment funds.

Also included under this caption is the amount due to the Bank of Slovenia with respect to the ECB's interim profit distribution totalling EUR 6.9 million (2018: EUR 5.8 million) (see 'ECB profit distribution' in the notes on accounting policies).

28. Net result of pooling of monetary income

This item contains the net result of pooling of monetary income for 2019, amounting to an income of EUR 26.8 million compared to the income of EUR 33.1 million in the previous year, together with the Bank of Slovenia's share of the net result of the provisioning against credit risks in monetary policy operations amounting to EUR 0.4 million, as compared to an expense of EUR 0.5 million in 2018 (see 'Provisions' in the notes to the balance sheet).

The net income shown in this item amounted to EUR 27.2 million in comparison to the net income of EUR 32.6 million in 2018.

	2019	2018	Change
	000 EUR	000 EUR	000 EUR
Net monetary income pooled by the Bank of Slovenia	27,674	28,570	-896
Net monetary income allocated to the Bank of Slovenia	54,559	59,913	-5,354
Monetary income reallocation for the year	26,884	31,343	-4,459
Adjustments of monetary income reallocation for previous years	-78	1,729	-1,807
Provisions in respect of monetary policy operations	352	-453	804
Total	27,158	32,619	-5,461

The monetary income of the Eurosystem national central banks is allocated in accordance with the decision taken by the Governing Council of the ECB¹⁹. The amount of each Eurosystem NCB's monetary income is determined by measuring the annual income that derives from the earmarkable assets held against its liability base.

Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

Where the value of a NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset by applying to the value of the difference the latest available marginal rate for the Eurosystem's main refinancing operations.

The monetary income pooled by the Eurosystem is allocated among the NCBs according to the subscribed ECB capital key. The pooling and reallocation of monetary income to NCBs leads to certain net reallocation effects. One reason is that the yields earned on certain earmarkable assets and the interest expense paid on certain liability base items may differ to a varying degree among the Eurosystem NCBs. In addition, usually each Eurosystem NCB's share of earmarkable assets and in the liability base deviates from its share in the subscribed capital of the ECB. The difference between the monetary income pooled by the Bank of Slovenia amounting to EUR 27.7 million and reallocated to the Bank of Slovenia amounting to EUR 54.6 million is the net result arising from the pooling of monetary income.

29. Other income

Other income amounting to EUR 2.4 million includes income from non-bank services like rental income, reimbursements, sales of fixed assets, numismatics and other income.

¹⁹ Decision of the European Central Bank of 3 November 2016 on the allocation of monetary income of the national central banks of member states whose currency is euro (recast) (ECB/2016/36), OJ L 347, 20.12.2016, p. 26-36.

30. Operating expenses

Staff costs

Staff costs amounting to EUR 26.2 million include salaries and other staff costs together with the related taxes and contributions.

The Bank of Slovenia employed 467 employees as at 31 December 2019 (31 December 2018: 462 employees). The average number of employees, based on the number of hours worked, stood at 441 employees (2018: 428 employees).

In accordance with the contract between the Bank of Slovenia and the Trade union from March 2002, the Bank of Slovenia's employees have been included into Voluntary supplementary pension insurance, which is defined as a contribution plan. Staff costs include Bank of Slovenia's contribution to the Voluntary supplementary pension insurance of EUR 0.7 million (2018: EUR 0.7 million).

In 2019 the remuneration of the Governing board members of the Bank of Slovenia was of EUR 0.8 million (2018: EUR 0.7 million).

Administrative expenses

This item amounting to EUR 8.0 million consists mainly of expenses related to the building and equipment maintenance, communication and energy costs, IT related expenses (software maintenance, system assistance), expenses for services outsourced, rent, business travel and training costs, expenses for materials and other office expenses.

Depreciation of tangible and intangible fixed assets

Depreciation of buildings, furniture and office equipment, computer hardware and software amounting to EUR 2.9 million is performed according to the adopted depreciation rates.

Banknote production services

Expenses for banknotes production services amounting to EUR 1.7 million include mainly the expenses related to the production and transportation. The additional quantity of banknotes to be printed is determined on the basis of assessed needs for banknotes in circulation and for the maintenance of adequate volume of stock in the Eurosystem, distributed to individual NCB according to its capital key and denomination structure.

Other expenses

Other expenses amounting to EUR 1.2 million consist of contributions, subscriptions, taxes and other operating expenses of the Bank of Slovenia.

31. Profit for the year

According to the Accounting Guideline, to which the unrealised negative valuation effects shall be covered from the current financial result, whilst the unrealised positive valuation effects are transferred directly to revaluation accounts, the Bank of Slovenia shows the profit amounted to EUR 180.7 million (2018: EUR 63.4 million). Appropriation of the financial result will be performed in accordance with the applicable legislation.

ABBREVIATIONS

ABSPP

Asset-Backed Securities Purchase Programme

AnaCredit

new database of detailed information on individual bank loans in the euro area (analytical credit datasets)

APP

Asset Purchase Programme

SMA

Securities Market Agency

ISA

Insurance Supervision Agency

BIPS

payment system operated by Bankart d.o.o. for the execution of domestic credit transfers and instant payments

BIS

Bank for International Settlements

BRIC

Brazil, Russia, India and China

CBPP3

Third Covered Bond Purchase Programme

CSPP

Corporate Sector Purchase Programme

O-SIIs

other systemically important institutions

DSTI

ratio of the annual costs of debt servicing to a borrower's annual income when a loan agreement is concluded (debt service to income)

EBA

European Banking Authority

EBRD

European Bank for Reconstruction and Development

ECB

European Central Bank

EDIS

European Deposit Insurance Scheme

ECOFIN

Economic and Financial Affairs Council Configuration

EFC

Economic and Financial Committee

EFDI

European Forum of Deposit Insurers

EEA

European Economic Area

EIOPA

European Insurance and Occupational Pensions Authority

ELA

emergency liquidity assistance

ESCB

European System of Central Banks

ESMA

European Securities and Markets Authority

ESRB

European Systemic Risk Board

€STR

euro short-term rate

Fed

Federal Reserve System of the United States

FTP

Financial Transaction Plan

GLTDF

ratio of the annual change in the stock of loans to the non-banking sector before impairments to the annual change in the stock of deposits by the non-banking sector (gross loans to deposits flows)

HICP

Harmonised Index of Consumer Prices

ICAAP

Internal Capital Adequacy Assessment Process

ILAAP

Internal Liquidity Adequacy Assessment Process

JST

Joint Supervisory Team

KDD

Central Securities Clearing Corporation

LSIs

less significant institutions

LTV

ratio of the amount of a housing loan to the value of the real estate pledged as loan collateral (loan-to-value)

IMF

International Monetary Fund

IFRS 16

International Financial Reporting Standard 16

NPEs

non-performing exposures

NPLs

non-performing loans

NPC

National Payments Council

OECD

Organisation for Economic Co-operation and Development

FSB

Financial Stability Board

AML/CFT

anti-money laundering / combating the financing of terrorism

PSPP

Public Sector Purchase Programme

RIAD

Register of Institutions and Affiliates Database

SDR

special drawing rights

SEPA

Single Euro Payments Area

SIs

significant institutions

SISBIZ

system for the exchange of information on the indebtedness of business entities and credit risks

SISBON

system for the exchange of information on personal debt from credit operations

SRB

Single Resolution Board

SREP

Supervisory Review and Evaluation Process

SRF

Single Resolution Fund

SSM

Single Supervisory Mechanism

STEP2-T

pan-European payment system for executing SEPA credit transfers and SEPA direct debits

TARGET2-Securities (T2S)

Eurosystem single technical platform for the settlement of securities transactions

TARGET2

Trans-European Automated Real-Time Gross Settlement Express Transfer System

TLPT

threat-led penetration testing

TLTRO, TLTRO-II and TLTRO-III

Targeted Longer-Term Refinancing Operations

OMLP

Office for Money Laundering Prevention

BAS

Bank Association of Slovenia

