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A Word from the Governor



Banka Slovenije's work in 2021 again unfolded in the context of Covid-19 pandemic, which had put the whole world to the test in the previous year. In contrast to 2020, there was much greater optimism, given the possibility of vaccination and the gradual relaxation of the containment measures. Economic policy remained accommodative for the majority of last year, which was a major factor in economic activity exceeding its pre-pandemic level by the end of 2021, and the economy remained in good shape coming into this year. Thanks to the health measures, an effective combination of decisive and coordinated economic policy responses, and major adaptations by people and businesses, we seem to have successfully overcome the epidemiological crisis. The beginning of this year was marred by Russia's military aggression against Ukraine and all its consequences, where the Slovenian economy was not spared.

While measures from economic policymakers had focused from the outbreak of the pandemic on stimulating hard-hit economic activity and increasing the robustness of financial institutions, the need for such measures diminished in the second half of last year. The majority of fiscal policy measures (such as labour market measures) were thus left to gradually expire, as were the measures relating to the operations of financial institutions (such as restrictions on profit distributions, and loan moratoria). The measures put in place also had a broader favourable impact – I should highlight the labour market (with high employment and record-low unemployment) – while the financial system also remained robust.

Monetary policy remained accommodative in 2021, but there was a change in the forward guidance towards the end of the year: with inflation beginning to strengthen after several years of being below target, we decided to gradually normalise monetary policy. A decision was taken last December to end net purchases under the pandemic emergency purchase programme, which happened in March of this year. Our decisions were based on the expectation that on account of one-off effects and the low base from last year, inflation this year would temporarily overshoot its target, but should settle around the target level over the course of the year. Given the interplay of various factors, inflation has this year proven to be higher, more sustained and more broadly based than initially thought. The war in Ukraine is of course a major factor, and has exacerbated the situation on the energy and food markets, while the uncertainty is worsening the general business conditions, and production chains are crumbling and adapting. Current inflation in the euro area is actually at its highest level since the euro came into being.

The causes of current and future inflationary pressures will be at the fore of our deliberation with regard to future monetary policy measures and the tempo of normalisation. Currently it is supply-side factors that are to the fore, which cannot be addressed by monetary policy alone, and coordinating all economic policy will therefore be vital on this occasion too. Our actions within the framework of the euro area's common monetary policy remain committed to our mandate, and last year we updated our strategy for fulfilling it: we introduced a new symmetric 2% inflation target to be met over the medium term. In light of this, and given the current situation, this year we are continuing the gradual normalisation of monetary policy.

In the aforementioned update to monetary policy strategy we placed a particular focus on climate change, and on deliberating what our contribution will be to the global response to climate change and to meeting the targets of the Paris Agreement. We adopted an action plan with a timetable for dealing with climate change. Our thinking now turns to how to include these aspects in the implementation of our monetary policy, while certain euro area countries have already adjusted their asset management strategies in the direction of socially responsible and sustainable investment. Banka Slovenije has not just formally committed itself to this by joining the Network for Greening the Financial System and through its new strategy adopted last year, which supports the general efforts to deal with climate change, but is now actually implementing it. Last year we doubled our holdings of bonds where the issuer typically earmarks the funds to finance projects that have a beneficial impact on the environment and/or society. This year we are also conducting climate stress tests for banks as part of our supervisory activity. These will show how banks are methodologically prepared for monitoring climate change, and also how various scenarios affect their performance.

The banks performed well last year: the banking sector's pre-tax profit was almost as high as in its record year of 2019. Despite the increase in risks caused by the pandemic, the banks succeeded in reducing their NPEs, which are currently at record-low levels. Conversely, the interest margin achieved by the banks is also at a record low, and the banks are finding it hard to compensate for the decline in interest income by means of non-interest income. Similarly to almost all of the last few years, a net release of impairments and provisions was a major factor in the banks' aforementioned excellent performance. Our estimate is that the banking sector's pre-tax profit would have been just a third of that actually achieved, had impairments and provisions been at the level of their long-term average from ordinary years.

And now we must turn to the risks affecting the banking sector in the post-pandemic period. Russia's military aggression has brought an end to any further reduction in macroeconomic risk and credit risk, and both remain elevated (with a trend of increase over the next 12 months). Other risks subject to assessment are more structural in nature. The income risk inherent in the aforementioned approach to generating profit is not declining, given the factors previously highlighted. Given the banks' asset structure, which they have changed radically over recent years by increasing the importance of fixed-rate loans, and the expectation of a general rise in interest rates, interest rate risk is increasing.

Funding risk is similarly increasing, given that the banks are still mostly (and increasingly) funded by sight deposits. The consequences of uncertainty and this funding structure on the part of the banks were evident in the first few days of Russia's military aggression: given the huge uncertainty surrounding its owner, one of the banks trading in Slovenia suffered a significant run on sight deposits at that time (banks in the same group in other countries suffered similar or worse runs), which meant that in conjunction with the relevant European institutions we had to activate one of the four pillars of our activities, namely bank resolution. The bank was in need of resolution despite being capitally sound, meeting all regulatory requirements, and focusing primarily on the domestic market on both the investment and deposit sides. The quick, decisive action by all involved helped to maintain confidence in the banking system.

In the wake of the fast rise in residential real estate prices, the risk inherent in the real estate market is also strengthening, which amid the rapid increase in housing loans at the end of last year and the early part of this year has also begun to be transmitted into the banking system to a greater extent. We therefore had to respond to these developments this year through our macroprudential toolkit. The banks' resilience to these elevated risks will be strengthened by the newly introduced sectoral systemic risk buffer, while the transmission of risks into the banking system will be reduced by a cut in the LTV recommendation. Certain other parameters of the macroprudential instruments for restricting household lending will be adjusted at the same time, to bring them into line with the changing situation on the market.

On this occasion I can once again say that in 2021 we successfully fulfilled our mandate as set out by law. Our monetary policy helped to maintain macroeconomic stability, to normalise inflation, and to support other policies. Our macroprudential policy helped to preserve financial stability by maintaining high standards in banking operations, and upholding the banks' robustness to risks. The microprudential supervision of individual banks focused on ensuring operational compliance with banking regulations. And not least, our previous years' preparations with regard to bank resolution proved to be effective, as we maintained financial stability and confidence in the banking system by carrying out a successful resolution this year. We will also work consistently to fulfil our mandate in the future.

Boštjan Vasle
Governor of Banka Slovenije

ABOUT BANKA SLOVENIJE

Banka Slovenije is the central bank 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.

76

PERCENT OF
EMPLOYEES

at Banka Slovenije has at least
level 7 education.

€37,1

MILLION SURPLUS
OF INCOME OVER
EXPENSES IN 2021

€81 million surplus of income over
expenses in 2020

53,6

MILLION
TRANSACTIONS

executed by Banka Slovenije in
2021 for its 158 clients

BANKA SLOVENIJE'S KEY AREAS OF WORK AND TASKS

MONETARY POLICY

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

2,0
%

average headline inflation
in 2021, as measured by
the HICP.

€9,4
billion

excess liquidity of the
Slovenian banking system
at the end of 2021.

€2.363
million

was stock of TLTRO III
in Slovenia at the
end of 2021.

3,2
tonnes

gold held in Banka
Slovenije's intl. reserves.
Gold and gold receivables
amounted to €165 million
at the end of 2021.

MICROPRUDENTIAL SUPERVISION

We supervise banks and savings banks for
the purpose of promptly identifying risks.

97
findings

of irregularities and
deficiencies in the
supervision of significant
banks in 2021.

192
findings

of irregularities and
deficiencies in the
supervision of less
significant banks
in 2021.

85
procedures

of licensing completed
with an authorisation
being granted.

22
procedures

of F&P assessment
for members of bank
supervisory boards
completed with a positive
assessment.

MACROPRUDENTIAL POLICY

We identify, monitor and assess systemic risks to financial
stability, and put in place the requisite measures
to prevent and mitigate specific risks.

€48,3
billion

at the end of 2021 was
the balance sheet total of
the banking system which
generated a pre-tax profit
of €562 million in 2021.

1,2
%

NPE ratio in the banking
system at the end of 2021
(down from 1.9% at the
end of 2020).

6,3
%

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

18,4
%

total capital ratio of the
banking system on a
consolidated basis.

BANK RESOLUTION AND DEPOSIT GUARANTEE SCHEME

We provide for the orderly resolution of banks in difficulties,
minimising the impact on the economy
and on the public finances.

€190,9
million

assets under
management of the bank
resolution fund at the end
of 2021.

€121,8
million

assets under
management of the
deposit guarantee fund at
the end of 2021.

€26,8
million

of the banks' total
contributions to the
deposit guarantee fund
in 2021.

€8,5
million

the total contribution by
Slovenian banks in 2021 to
the Single Resolution Fund
managed by the Single
Resolution Board.

PAYMENTS AND INFRASTRUCTURE

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

1.084.570 transactions
with a total value of €480.11
billion were settled in the
TARGET2-Slovenija payment
system in 2021.

€13,01 billion
of transactions in securities
settled by Slovenian market
participants in T2S cash
accounts in 2021

24/7/365
firms and individuals
across the EU are able to
exchange euro
payments via TIPS

87.361 transactions
with a total value of €94.93
million settled in
the TIPS payment
system in 2021.

BANKNOTES AND COINS

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

€12,9 billion
net total of cash issued into
circulation until 31 December
2021 by Banka Slovenije since
the adoption of the euro.

€31,7 million
was total value of tolal
banknotes and payment notes
still in circulation at
the end of 2021.

598 pieces
counterfeit euro banknotes
and 2,475 counterfeit euro
coins withdrawn from
circulation in 2021.

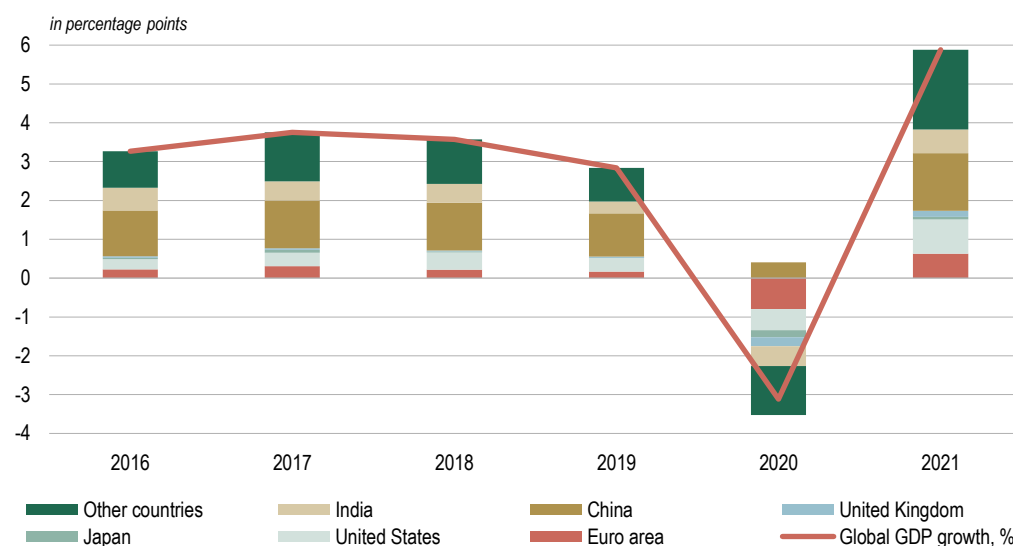
118,9 million
banknotes and coins counted
by our processing
unit in 2021.

1.1 International situation

After a deep recession in 2020, global economic activity surpassed its pre-pandemic level last year, but the climate weakened in the second half of the year as a result of disruption to supply chains and a resurgence in the pandemic. After falling by 3.1% in the previous year, global GDP rose by 6.1% according to the IMF's estimate (see Figure 1), the highest rate of the last 80 years. The majority of the growth was driven by private consumption, as consumers adapted to the pandemic conditions, and containment measures were less stringent than in 2020, which brought a strong recovery in private-sector services. Industrial production also strengthened last year amid rising global demand. The climate in the international environment weakened in the second half of the year under the influence of a resurgence in the pandemic, disruptions to supply chains, and sharp rises in energy prices and other input raw materials. Last year saw notably high GDP growth in China (more than 8.0%), and in countries that had been hit worst by the pandemic in 2020, such as India (8.9%) and the UK (7.4%). Euro area GDP also rose sharply (by 5.3%), and reached its pre-pandemic level in the final quarter of last year. It remains behind this level in a third of the euro area countries. Slovenia, where GDP was up 6.6% on its pre-pandemic level, was ranked third in terms of the strength of its recovery.

The global economy grew by 6.1% last year, despite the pandemic and the disruption to supply chains.

Figure 1: Contributions to global GDP growth by various economies



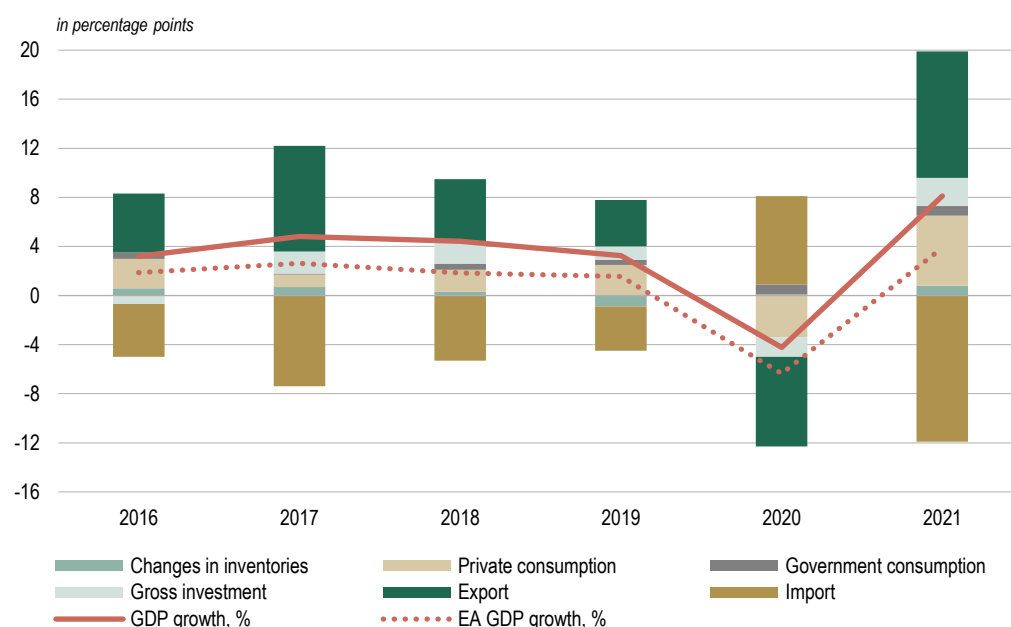
Source: IMF, Banka Slovenije calculations

1.2 Slovenian economy

After a sharp decline in GDP during the pandemic crisis of 2020, Slovenia recorded its highest economic growth to date. According to the currently available quarterly national accounts figures, GDP rose by 8.1% last year, 2.8 percentage points more than the euro area average. GDP was up 3.5% on 2019. With various economic policy support measures during the pandemic successfully protecting the labour market, private consumption began to recover as soon as the most-stringent containment measures were relaxed, and it was a major driver of last year's economic growth (see Figure 2). Private consumption increased by 11.4% last year, and was up 3.5% on the pre-crisis year of 2019. With firms surviving the pandemic crisis well, given their high build-up of savings, the favourable financing conditions and the robust demand, they invested heavily last year, and were joined in doing so by the government. Aggregate growth in gross fixed capital formation stood at 12.3% last year, and investment exceeded its level of 2019 by 3.1%. Through sharp growth in foreign demand for the Slovenian export sector, the strong recovery in the global economy prompted a 13.2% real increase in exports. Because domestic demand was even stronger, real growth in imports amounted to 17.4%, and net trade thus made a negative contribution to GDP growth. Last year's strong economic growth was also reflected in value-added on the supply side of the economy. Amid minor adverse effects from disruptions to global supply chains, value-added was up 9.7% in industry, and up 9.6% in private-sector services, despite the containment measures in international tourism and other recreational services. The vast majority of sectors recorded higher value-added last year compared with 2019, some by more than 10%.

Following the crisis year of 2020, economic growth in Slovenia reached 8.1% last year.

Figure 2: Contributions to annual GDP growth by components of expenditure

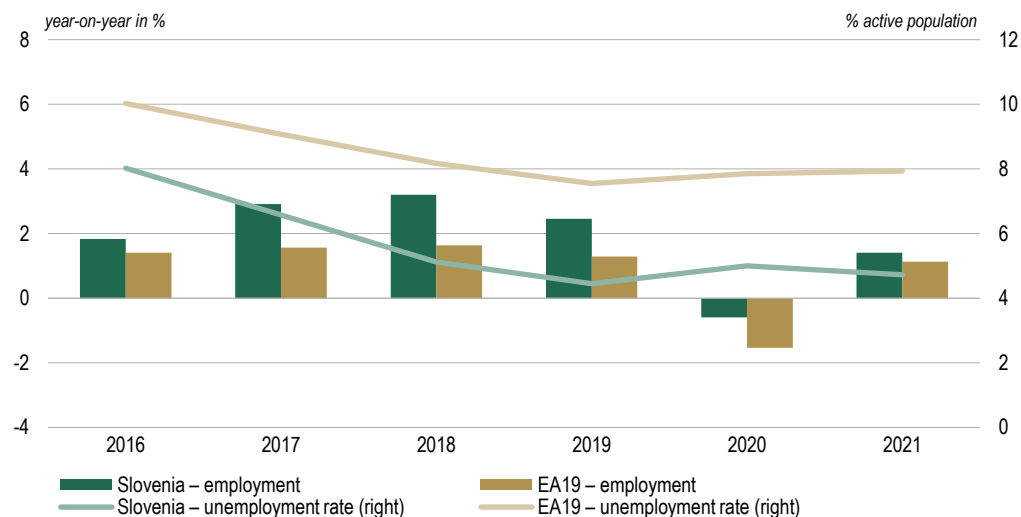


Source: SORS, Banka Slovenije calculations

In the strongly growing economy, employment hit its highest level to date, while wage growth as measured by compensation per employee was at its highest level since 2008. Employment growth hit 1.4% according to the national accounts figures, 0.3 percentage points more than the euro area average (see Figure 3). Employment reached 1,054 thousand, up 8.5 thousand on its previous peak in 2019. It was broadly based across sectors, and highest in construction. Productivity growth was also high, which in addition to the strong economic climate was attributable in part to the decline in productivity in 2020, when job preservation measures prevented employment from falling in line with the decline in GDP. The surveyed unemployment rate fell to 4.7%, significantly below the euro area average (see Figure 3). In addition to the fall in unemployment, the rise in employment was also attributable to a rise in the labour force participation rate, while firms also addressed their problems with a shortage of qualified workers by hiring foreign workers. Despite the ending of pandemic-related bonuses in public services in the second half of the year, wage growth as measured by compensation per employee amounted to 5.4% last year, the highest rate since 2008. It was driven in part by a fall in the number of employees included in job preservation measures.¹

Growing numbers of firms are facing a shortage of qualified workers.

Figure 3: **Developments on the labour market, comparison between Slovenia and the euro area**



Source: Eurostat, SORS, Banka Slovenije calculations

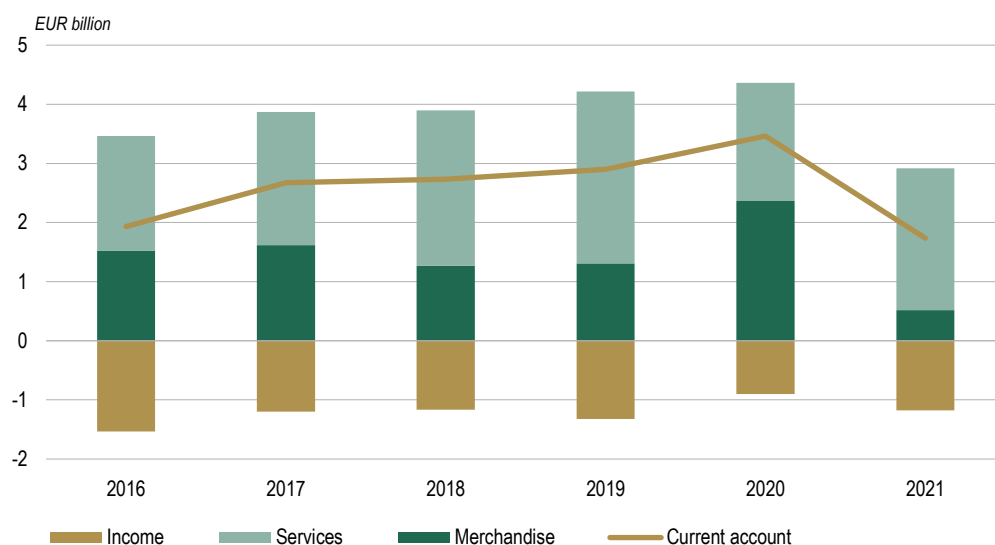
The current account surplus declined by EUR 1.7 billion last year as the merchandise trade surplus narrowed. It amounted to EUR 1.7 billion or 3.3% of GDP (see Figure 4), the lowest figure of the last seven years. The majority of the decline was attributable to a decline of EUR 1.8 billion in the merchandise trade surplus, which fell to its level of early 2013. In the wake of the rise of more than 10% in prices of imported products, merchandise imports increased by 27.6% and merchandise exports by 19.1% in nominal terms, with all product categories recording high growth in exports. The sole exception was exports of road vehicles, which remained down 10.7% on their pre-pandemic level, as a result of the global shortage of components in the car industry.

¹ Employees included in job preservation measures (the furlough scheme and the short-time work scheme) had lower earnings during their absence from work. An average of 81 thousand people were included in measures of this type in 2020 while they were in place, compared with an average of 36 thousand in 2021.

Services trade also increased, mostly as a result of increased trade in transport services and miscellaneous business services. Exports of travel services increased last year amid the less-stringent containment measures, but nevertheless remained down on their pre-pandemic level by approximately a half (EUR 1.3 billion). The services trade surplus amounted to EUR 2.4 billion, EUR 0.5 billion less than its 12-month peak recorded in February 2020. The changes in income were significantly smaller, although the deficit widened slightly as a result of a large one-off dividend payment to owners of FDI.

The current account surplus narrowed sharply last year as a result of the rise in prices of imported products and the strength of domestic demand.

Figure 4: Components of the current account



Source: Banka Slovenije

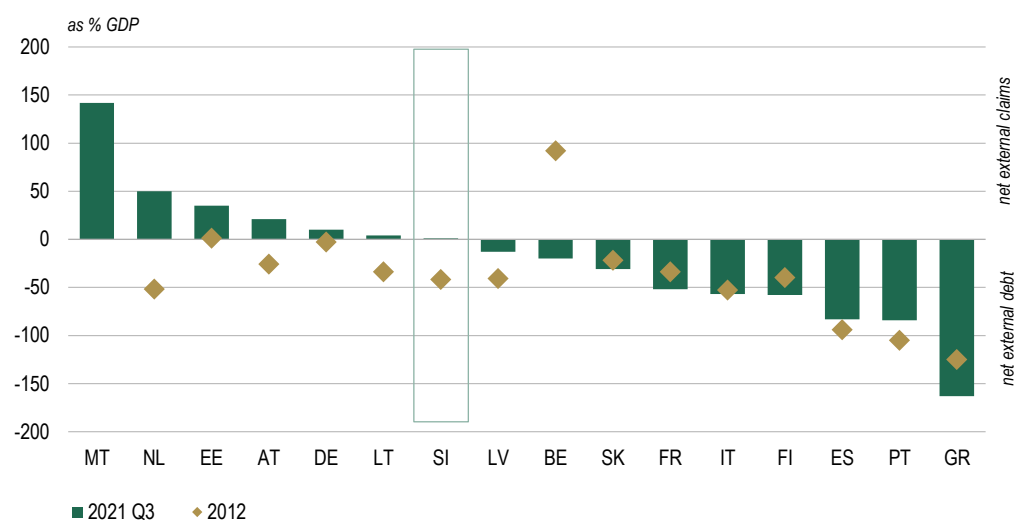
The financial account surplus halved last year, but net claims against the rest of the world via debt instruments increased further. Slovenia was a net financier of the rest of the world to the tune of 2.8% of GDP in 2021,² 3.7 GDP percentage points less than in the previous year. The main capital outflow was via financial transactions by the financial sector, particularly via net purchases of securities and the ongoing net repayment of loans to the rest of the world. An even larger capital outflow was mainly prevented by transactions by the central bank and the government sector, who both recorded a net inflow of capital, the former via the sale of foreign portfolio investments, and the latter via a reduction in holdings of currency and deposits in accounts in the rest of the world and an increase in liabilities from loans. The general government sector repaid EUR 2.4 billion of liabilities to the rest of the world in the form of portfolio investors' government bond holdings, but its financial inflows exceeded these outflows. At the end of the year holdings of debt instruments in the rest of the world exceeded liabilities to non-residents for the second consecutive year. The trend of decline in the net external debt seen over the previous five years thus continued. Having amounted to 0.4% of GDP at the end of 2020 (see Figure 5), net debt claims against the rest of the world increased to 1.6% of GDP or approximately EUR 820 million by the end of

² The difference between the current account surplus and the financial account surplus is attributable to a negative statistical error in the amount of around EUR 700 million, which is indicative of the difference between the recorded positions of real and financial transactions.

last year. Roughly half of the euro area countries hold net claims against the rest of the world alongside Slovenia, while the other half remain net external debtors. Only the government sector remains a net external debtor, but it saw no increase in its debt last year: as a ratio to GDP, it actually declined by 4.2 percentage points to 35.0%. The private sector slightly increased its net creditor position against the rest of the world.

Last year Slovenia had no net external debt for the second consecutive year.

Figure 5: Euro area countries' net external positions in debt instruments.

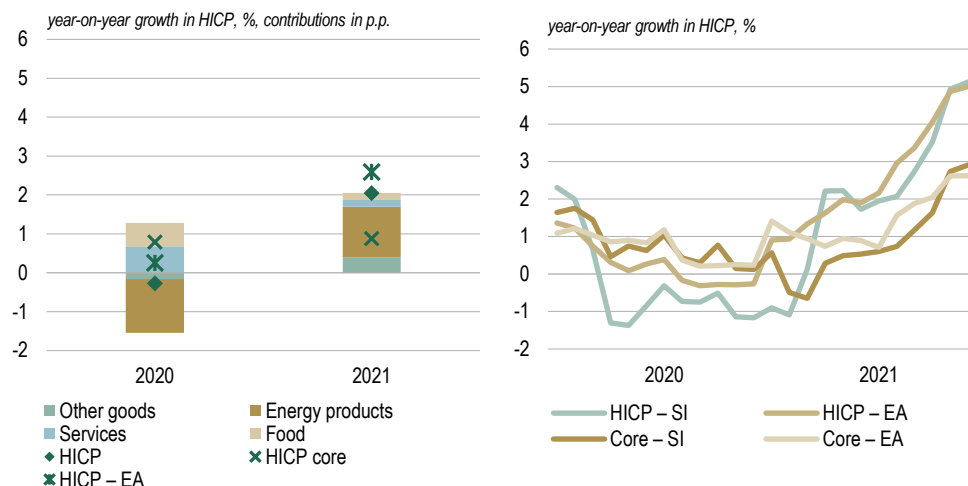


Note: Q3 2021: Luxembourg (2,595% of GDP), Ireland (288% of GDP) and Cyprus (-266% of GDP); 2012: Malta (466% of GDP). 2012 is illustrated because this is the year when Slovenia's net external debt peaked.
Source: ECB

Last year's average inflation in Slovenia was weaker than in the euro area overall, but the rate rose sharply in the second half of the year. Demand began to strengthen fast following the relaxation of the most-stringent containment measures in the spring, and inflation rose along with it. Following the deflation in 2020, inflation averaged 2.0% last year, 0.6 percentage points less than in the euro area overall (see Figure 6), but it picked up notably in the second half of the year, as price rises spread across the consumer basket. Inflation had already reached 5.1% by December. Strengthening price pressures were reflected in rises in energy prices on global markets, which then passed through into higher import prices and domestic supplier prices. Energy price inflation accounted for more than half of the headline annual inflation rate, but the contributions of other price categories began to rise in the second half of the year. Core inflation rose in parallel. As measured by the index excluding energy and food it averaged just 0.9% last year, but picked up at the end of the year. It reached 2.9% in December (see Figure 6). The rise in core inflation was mostly attributable to the strength of domestic demand, and to the disruptions to supply chains and the resulting supply-side issues and rise in input costs for firms, who in the context of high demand found it easy to pass their higher costs through into final prices. Prices of non-energy industrial goods thus began to rise significantly in the second half of the year, while services prices also rose.

Energy prices were the largest factor in last year's rise in inflation, but price rises began to spread across the consumer basket.

Figure 6: Reversal of price developments in Slovenia and in the euro area overall

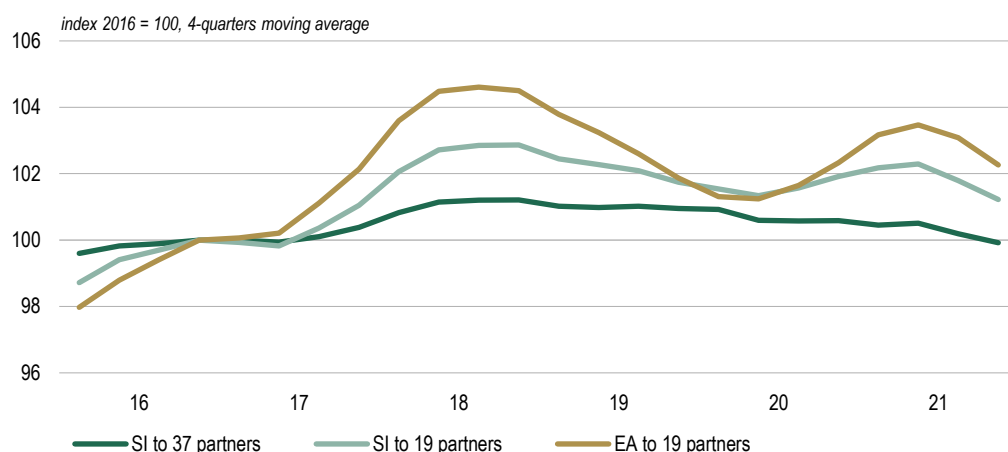


Sources: ECB, SORS, Eurostat, Banka Slovenije calculations

The price competitiveness of the economy improved slightly further last year, and the deterioration in cost competitiveness came to an end³. With no change in the euro exchange rate against the basket of trading partners' currencies, the ongoing favourable developments in price competitiveness were attributable solely to domestic inflation, which despite rising sharply in the second half of the year remained lower than the average rate in partner countries. Last year's developments in price competitiveness were again more favourable than in most other euro area countries, in relation to these countries and also in relation to partners outside the euro area (see Figure 7). Amid a gentle decline in relative unit labour costs over the first three quarters of last year, cost competitiveness stayed close to its level of the previous year, and thus remained worse than in the years before the outbreak of the pandemic.

An annual inflation rate below that of partner countries again supported exporters' price competitiveness last year.

Figure 7: Price competitiveness of Slovenia and the euro area



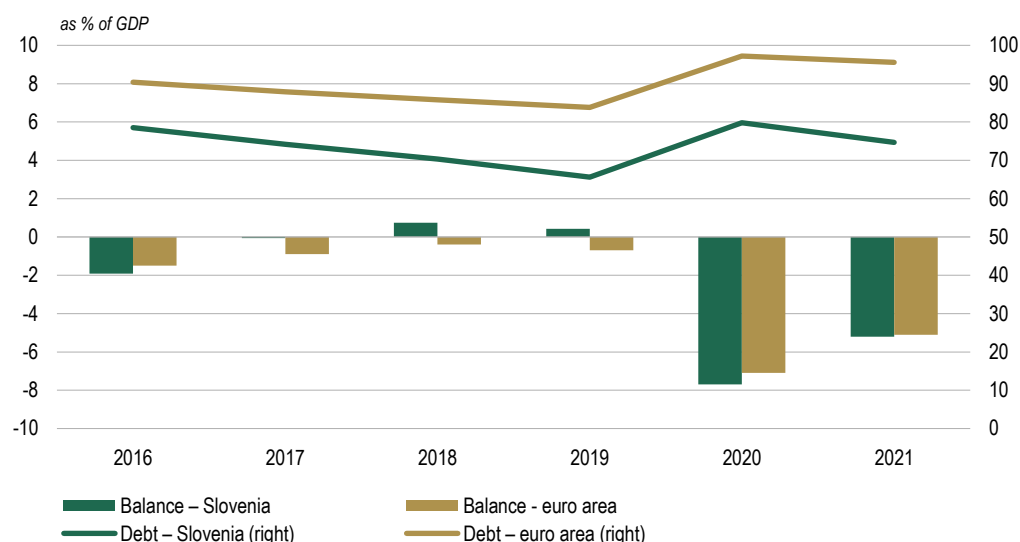
Note: Price competitiveness is expressed by the effective euro exchange rate deflated by the HICP.
Sources: ECB, Banka Slovenije calculations

³ The competitiveness indicators do not necessarily present a genuine picture of developments, on account of the difficulties in measuring inflation, which is an input in the calculation of price competitiveness, and unit labour costs, which are an input for cost competitiveness. They are measured by the ECB's effective exchange rate deflated by consumer prices or unit labour costs in relation to 37 trading partners. A decline in the indicator signifies an improvement in competitiveness. The data for cost competitiveness is available up to the third quarter of 2021.

The high economic growth brought an improvement in the public finances. The general government deficit amounted to 5.2% of GDP, 2.6 percentage points less than in the previous year, and 2.3 percentage points less than forecast in the government plans, despite the continuing significant effect of measures to alleviate the impact of the pandemic. General government revenues increased by 11.9% in the growing economy, with tax revenues and non-tax revenues increasing alike. Growth in expenditure was approximately a half lower, with notably high growth in government investment. Interest payments declined for the sixth consecutive year. Thanks to the quick rebound in economic growth following the outbreak of the pandemic and the utilisation of pre-financing, the general government debt as a ratio to GDP declined to 74.7% (see Figure 8). The general government deficit in 2021 was at a similar level to the euro area overall, while the ratio of general government debt to GDP declined more strongly and remained below the euro area average, although it was up on its pre-pandemic level.

High economic growth meant that the general government deficit and debt were lower as ratios to GDP than in 2020, but higher than before the pandemic.

Figure 8: Fiscal position: comparison between Slovenia and the euro area



Sources: SORS, Eurostat

Government borrowing terms were extremely favourable. Yields on 10-year government bonds hit record lows as the accommodative monetary policy was maintained. There was a slight rise at the end of the year, given the expectation of monetary policy tightening because of rising inflation. The spreads on 10-year Slovenian government bonds over the German benchmark, which reflect the risk premium of Slovenian government debt, rose at the same time. The rating agencies left their assessments of Slovenia's sovereign borrowing risk unchanged last year, with a stable outlook. Last year's average borrowing terms were even more favourable than in 2020. While interest rates on treasury bills remained negative, the first bond with a coupon rate of zero was issued.

The number of credit institutions in Slovenia, which has been falling in recent years, remained unchanged last year – there were sixteen of them. At the end of 2021 there were 11 banks, three savings banks and two branches of foreign banks operating in Slovenia. Banks dominate the banking system, with a market share of 91.1%, while savings banks held a share of 5.2% and branches of foreign banks a share of 3.7%. There was no significant change in the shares compared with previous years. The trend of a falling number of banking institutions will presumably continue, since the largest banking group acquired a small bank in the beginning of March 2022. The banking system accounted for two-thirds of the Slovenian financial system's financial assets as of December last year.⁴ Concentration in the Slovenian banking system is gradually increasing. After an increase of more than two hundred points two years ago, as measured with the Herfindahl-Hirschman index of total assets, it further increased by almost 69 points in 2021 to 1,395 points. A decade ago, the value of the index was 1,110 points.⁵

A total of 16 credit institutions were operating in Slovenia at the end of last year.

The banking system's balance sheet total increased by 8.1% in 2021 to EUR 48.3 billion. Year-on-year growth was comparable to that recorded in the year before last. The main factor on the funding side were deposits by the non-banking sector, which have increased the most, namely by four fifths or EUR 2.9 billion this year. In spite of the increase, their growth was somewhat less intensive compared with the previous year. On the investment side the increase was once again most evident in the most-liquid forms of assets, i.e. claims against the central bank, which increased by EUR 2.7 billion. Following the stagnation in 2020, loans to the non-banking sector increased again last year by EUR 1.5 billion, while holdings of securities fell, with their share in the balance sheet total dropping further, to 17.3% of the balance sheet total. The ratio of the banking system's balance sheet total to GDP dropped last year to 92.8%, down 2.4 percentage points amid the increase in nominal GDP and balance sheet total growth.⁶

Lending to the non-banking sector strengthened throughout 2021. Year-on-year growth in loans to the non-banking sector was still negative in the first quarter of 2021; at -1.0% in February it was at its lowest since the start of the pandemic. With increasing household lending and, in the second half of the year, also lending to non-financial

⁴ Banks accounted for 67.5% of the financial assets of financial institutions in Slovenia in December 2021 (excluding the financial assets of the central bank).

⁵The Herfindahl-Hirschman index (HHI) is a common measure of the market concentration of an industry, based on the size of the companies in the industry, in our case the banking industry, and is used for determining market competitiveness. It is calculated by squaring the market share of each competing bank in the industry and then adding together all the market shares, with market shares being expressed as fractions or points. The result is proportional to the average market share weighed with the market share. As such, it can range between 0 and 1.0. If full percentages are used, as indicated in our case, the index ranges from 0 to 10,000 points. A low level of concentration, when the value is close to 0, means that the branch is closer to full competition, while in the case of a single bank in the market the value would reach 10,000 points. In the literature, HHI values under 100 mean a highly competitive sector, values under 1,500 mean non-concentrated activity, values between 1,500 and 2,500 mean moderate concentration and values above 2,500 mean high concentration in the market. An increase in the index in general shows a reduction in competition and increase in market power, while a decrease means the opposite. See also [https://ec.europa.eu/eurostat/statisticsexplained/index.php?title=Glossary:Herfindahl_Hirschman_Index_\(HHI\)](https://ec.europa.eu/eurostat/statisticsexplained/index.php?title=Glossary:Herfindahl_Hirschman_Index_(HHI)).

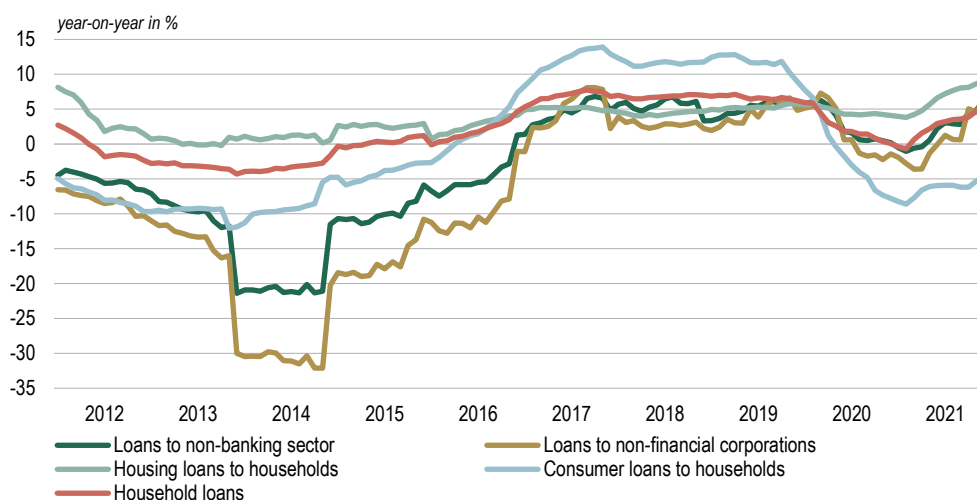
⁶ Balance sheet figures on an individual basis from bank reporting of closing accounts. Comparison of latest data for GDP and balance sheet total in the banking system (SURS, Banka Slovenije).

corporations, the growth increased to 6.3% by December, which was the highest growth rate in 2021. Year-on-year growth in housing loans increased rapidly in the remainder of the year after being stable until the first quarter of 2021 and not declining much after the start of the pandemic. With favourable terms of financing and a downward trend in fixed interest rates in particular, growth reached the highest level in the last ten years in December, at 9.1%. A reduction in the growth of consumer loans which started after the introduction of binding macroprudential restrictions on household lending in November 2019⁷ and became intensive with the outbreak of the pandemic peaked in February 2021 when the volume of consumer loans dropped by 8.6% year-on-year. The drastic decline followed a significant decrease in private consumption resulting from more prudent consumer spending related to major uncertainties due to the pandemic, also restricted by the measures aimed at halting the spread of infections. The year-on-year decrease in consumer loans also continued throughout the year, as the volume of repayment of existing loans compared to the volume of newly granted loans was considerably higher because of the high growth in the past years. The rate of decrease dropped to 4.6% by December 2021. The year-on-year growth in household loans thus increased to 5.1% by December 2021, thanks to high growth in housing loans and a reduced decline in consumer loans.

The growth in housing loans and loans to non-financial corporations increased significantly.

Lending to non-financial corporations strengthened again in the second half of 2021. Following the start of the pandemic, it first slowed down rapidly and then declined from August 2020 to June 2021, year-on-year. Firms on average entered the adverse economic situation in good financial shape, and adapted their operations to maintain liquidity while deferring planned investments; those with major financial difficulties benefited from deferred repayment of existing loans. After March 2021 when the year-on-year growth hit bottom with -3.6%, loans to non-financial corporations recovered swiftly. In June, the volume of loans did not significantly decrease year-on-year, while the year-on-year growth increased to 6.3% by December.

Figure 9: **Lending to the non-banking sector**



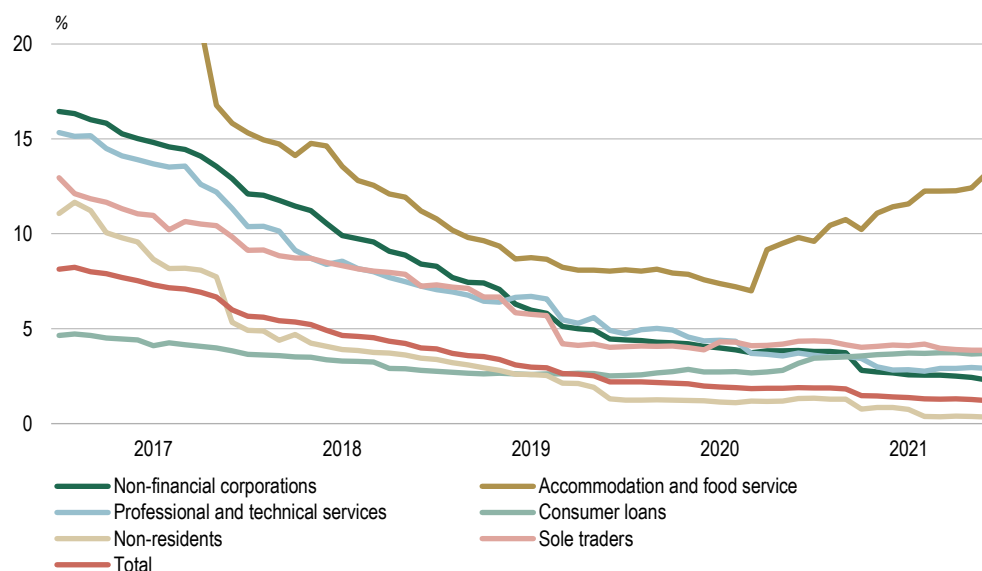
Source: Banka Slovenije.

⁷ Lower credit growth was one of the targets of the restrictions.

NPEs continued to decrease in 2021. Given the low levels already reached, the decline in NPE was slower than in previous years. The NPE ratio declined to 1.2% in December, following four months of stagnation, a total of 0.7 percentage points in the whole year. In the non-financial corporations (NFC) portfolio, the NPEs dropped faster in 2021, by a total of 1.6 percentage points to stand at 2.3%. The accommodation and food service activities stood out as the only activities with an increasing share of NPE, and not only in 2021 but throughout the pandemic period the share of NPE in these activities increased by 5.2 percentage points over two years to 13.2%. Such a significant increase in spite of the largest share of deferred loans among activities shows that the pandemic support measures only managed to mitigate but not prevent the deterioration of the asset quality due to the limitations on the operations of these activities. After rising in the first half of the year, the NPE ratio in the consumer loans portfolio stabilised at 3.7% in the second half, while housing loans stayed on a downward trend in 2021 as well, until reaching 1,6% in December in December.

Asset quality deteriorated in some segments.

Figure 10: NPE ratios for selected portfolio segments



Source: Banka Slovenije

Most of deferred loans continued to be regularly repaid after their maturity, but nevertheless NPE started increasing in this portfolio segment. By the middle of 2021, 80% of deferred debt repayment granted for the purpose of mitigating the consequences of the pandemic fell due; almost all the remaining debt fell due by the end of the year. In the NFC segment, the shares of NPE increased to 8.1% by December, relatively high shares of deferred exposures were also reached in consumer loans, 13.7%, and housing loans, 9.8%. Exposures with deferrals represented 3.7% of the total bank portfolio at the end of 2021.

The reclassification of bank exposures between credit risk stages points to a deterioration in quality of individual credit portfolio segments. The share of the stage with increased credit risk (Stage 2 under the IFRS) again started to increase after falling in the first half of the year. At the level of the entire portfolio, it stood at 5.8% at the end of 2021, 0.7% less than the year before but more than the minimum share achieved between July and

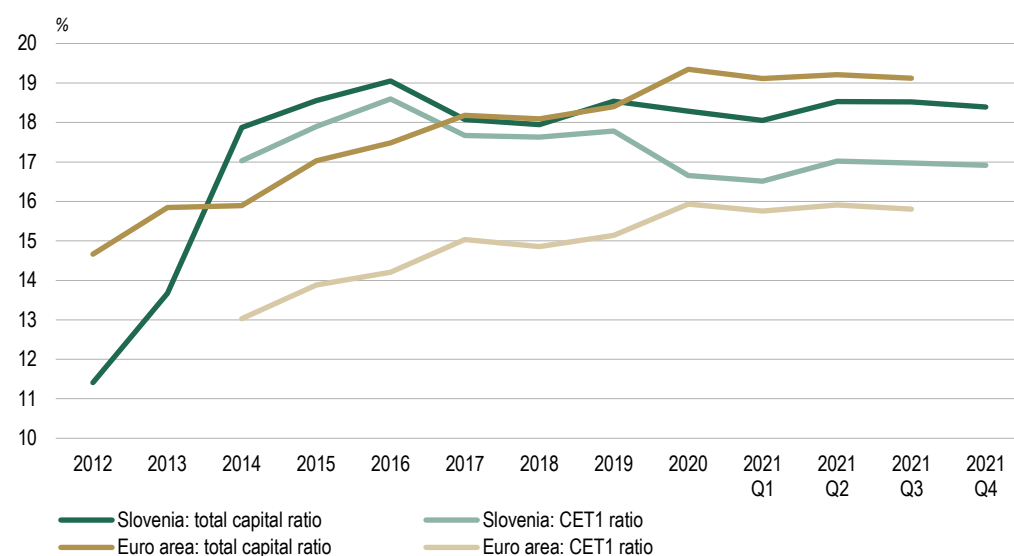
October, at 5.4%. The share of Stage 2 persistently increased in accommodation and food service activities and recreation, culture and entertainment, and reached a similar, 55% share in December. The trend of decline in the share of Stage 2 exposures reversed in professional, scientific and technical activities and in transportation in the second half of the year, and also in manufacturing in the final two months of the year. The share of Stage 2 exposures also ended the year up in year-on-year terms in wholesale and retail trade, having shown a more variable dynamic over the course of the year. The changes in the dynamics of this indicator across different sectors most likely reflect the increased uncertainty with regard to credit risk as of the second half of the year, amid the resurgence of the pandemic and deteriorated expectations regarding the economic growth.

The banking system capitalisation remained at a solid level but the differences between the banks are still considerable.

The banking system's capital position remained solid last year, but there are still considerable variations from bank to bank as regards resilience to systemic risks.

The preservation of a solid and stable capital position significantly affects the ability to cover losses that could arise in potentially stressful situations or with the materialisation of systemic risks. The total banking system capital adequacy ratio increased by 0.1 percentage points to 18.4% on a consolidated basis in 2021, remaining below the euro area average, while the common equity Tier 1 capital ratio increased by 0.2 a percentage point to 16.9%, thus still exceeding the average of the euro area. The capital adequacy ratios of some banks dropped. These are banks where strengthening lending to non-financial corporations and households meant that the increase in risk-weighted assets outpaced the increase in regulatory capital. The latter was increased by the banks, taking into account the macroprudential restriction of distributing bank profits, mainly by retaining profits from past operations, which remains an important factor in maintaining stable capital adequacy. There remain considerable variations from bank to bank in the capital surpluses above overall capital requirements, and thus in their ability to face the negative consequences of potential economic shocks.

Figure 11: **Capital ratios compared with the euro area, consolidated basis**



Source: Banka Slovenije, ECB (SDW)

The liquidity of the banking system has remained high. The liquidity coverage ratio (LCR), which indicates the capacity to cover net liquidity outflows over a one-month stress period at the level of the banking system, declined to stand at 312%, but remained well above the regulatory requirement of 100%. The values of the LCR indicator also dropped in other countries of the euro area, where Slovenia ranks high – in fourth place.⁸ The primary liquidity of the Slovenian banking system increased to almost one quarter of total balance sheet. The banks did not direct the sharp increase in deposits by the non-banking sector entirely into lending or other assets, and therefore mainly built up liquid assets at the central bank. The NSFR of the banking system, which shows the ability to cover the needs for financing over a one-year period, increased to 162%. Although all banks exceeded the minimum LCR and NSFR requirements, there remain considerable differences between them in terms of liquidity surpluses and their ability to cover the negative effects of potential stress events.

The liquidity stress tests show the good liquidity position of the banks.

Banka Slovenije has been monitoring the liquidity position of Slovenian banks since the outbreak of the pandemic, including by means of liquidity stress tests. The scenarios used are based on previous liquidity crises, and were calibrated for all European countries by the ECB. The banks' results are evaluated through a survival period, and a normalised net liquidity position at the end of the six-month test horizon. The findings show the liquidity position of Slovenian banks and savings banks remained sound at the end of 2021, having improved relative to the previous year. Despite the crisis, over the course of the year Slovenian banks and savings banks increased their liquidity surpluses compared to the end of 2020 in all scenarios, and remain resilient to shocks and other adverse effects that might be caused by deposits by the non-banking sector being switched between banks or withdrawn from the banking system suddenly and in large quantities.

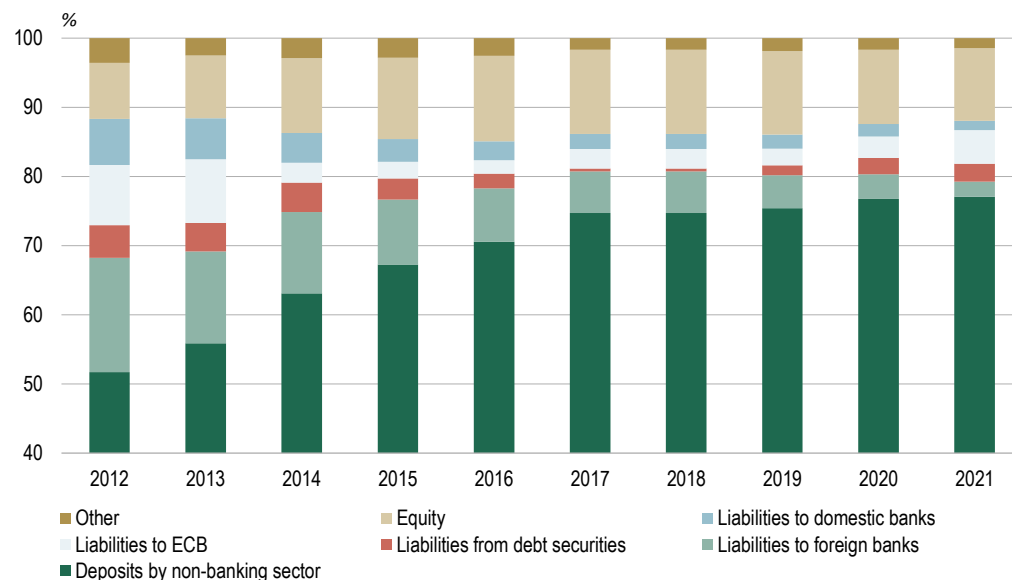
In terms of the banking system's funding, deposits by the non-banking sector also grew significantly in 2021, while their year-on-year growth slowed down. The stock of deposits by the non-banking sector increased by 8.5% or EUR 2.9 billion, household deposits contributing most significantly to the increase (EUR 1.5 billion). With increased private consumption and the gradual elimination of measures for coping with the consequences of the pandemic, household inflows eased during the year. Low interest rates, the introduction of custody fees for personal savings and growing inflation were probably additional factors that encouraged savers with large amounts saved to reallocate part of the savings to alternative investments (e.g. mutual funds, real estate). Year-on-year growth in household deposits slowed to 6.8% by the end of 2021. With the normalisation of the economic situation and increased investments, the year-on-year growth in deposits by non-financial corporations slowed down as well, since they are an important internal source of company funding. In spite of that, their scope widened by EUR 967 million or 12.0% last year.

Growth in household and non-financial deposits slowed down.

⁸ Taking into account the consolidated data available by September 2021, for the sake of comparability.

Low interest rates and high uncertainty deter savers from placing time deposits with banks, which is why sight deposits strengthened again. Their share increased to 82.5% of total non-banking deposits, while short- and long-term deposits were down. Even though (sight) deposits also increased last year in other countries of the euro area, Slovenia stands out in terms of the highest share of household deposits in total balance sheet (49.6%), with sight deposits prevailing.

Figure 12: **Structure of bank funding at the end of each year**

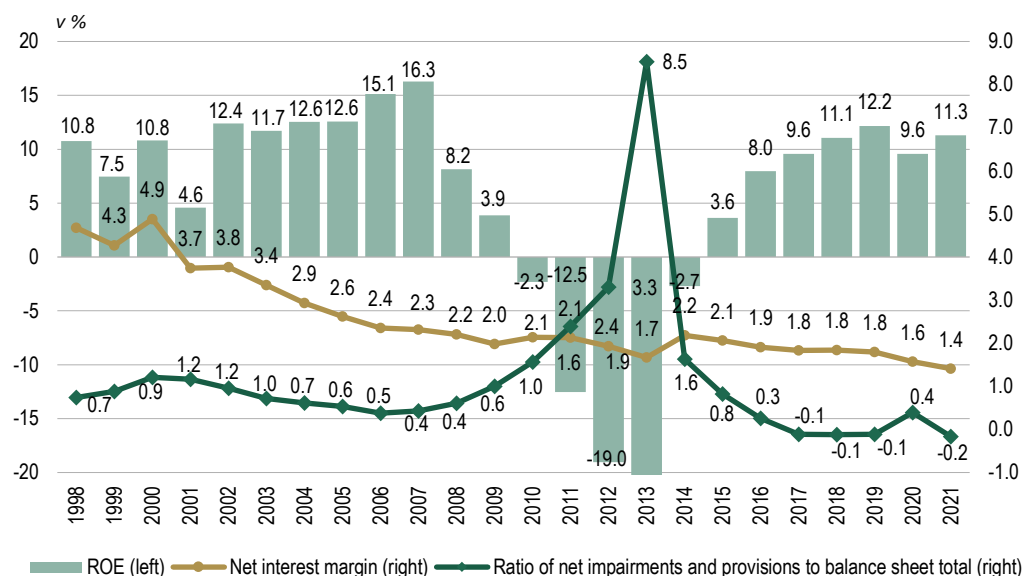


Source: Banka Slovenije

The banks recorded a pre-tax profit of EUR 562 million in 2021, with an ROE of 11.3%. The Slovenian banking system has thus been maintaining a relatively high return on equity for a number of years. Last year's pre-tax profit increased by a fifth (+19.1%) over the previous year. A merger of two banks contributed to the high profit in 2020, while last year the most prominent factor with regard to the increase in profit was the net release of impairments and provisions. Growth in net interest income was negative for the second consecutive year, but the lag of net interest slowed down towards the end of last year to -2.2% in December, mainly as a result of resurged growth in loans. There was a decline in both interest income and interest expenses last year, by 2.2% and 2.5%, respectively. Developments in income have improved gradually. Ignoring the previous year's one-off effects (in connection with the merger of two banks), non-interest income in 2021 would be up 11.9% on the previous year, while gross and net income would be up 4.1% and 11.1%, respectively, on the previous year. The increase in non-interest income was further boosted last year by a relatively high growth in net fees and commissions, the most stable part of net interest income (totaling 14.4%) and towards the end of the year the dividend income. Operating costs were completely comparable to the previous year (-0.2%). Net release of impairments and provisions, noted in more than two thirds of credit institutions last year, has been an important factor in the high profitability of the Slovenian banking sector in the last five years, since it was present each year except in 2020. Taking into account the long-term share of impairments and provisions in gross income, the pre-tax return on equity (ROE) in the Slovenian banking system in 2021 could account for just under four tenths of the actually realised return on equity in this year, and in the last five-year period just under one half of the actually realised return.

Profit in the banking system was one fifth higher in 2021, year-on-year.

Figure 13: Return on equity (ROE), net interest margin on interest-bearing assets, net impairments and provisions on the balance sheet total



Source: Banka Slovenije

It is estimated that in 2021 the risks to the financial system were generally reduced compared with the previous year. The situation is different in the risks to financial stability that arise from the real estate market. The banks' resilience to systemic risks was high in the liquidity segment, but has deteriorated in the solvency and profitability segments compared to 2020, and is now assessed as medium. The differences in the banks' resilience to systemic risks are significant, and the maintenance of a stable capital adequacy is also uncertain because of the uncertain sustainability of high future profitability.

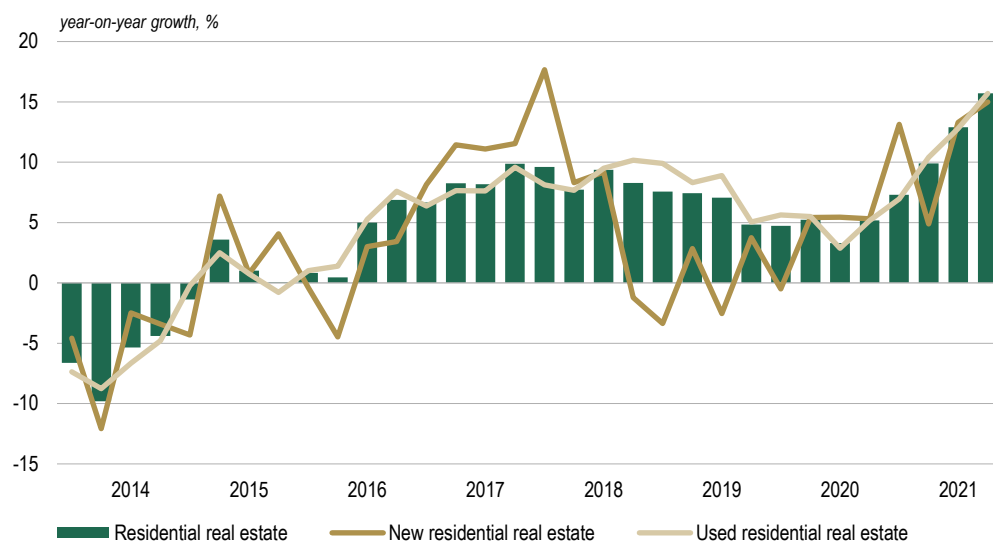
Figure 14: Banka Slovenije's risk dashboard for the Slovenian banking system

	2017	2018	2019	2020	2021
Systemic risk					
Macroeconomic risk					
Risk inherent in real estate market					
Funding risk in the banking system					
Interest rate risk in the banking system					
Credit risk in the banking system					
Income risk in the banking system					
Risk inherent in leasing companies					
Resilience to systemic risks					
Solvency and profitability of the banking system					
Liquidity of the banking system					
Colour code	risk resilience				
	low high	moderate medium	elevated low	high very low	

Source: Banka Slovenije

The risks for financial stability that arise from the real estate market increased in 2021 over the previous year from moderate to high. Housing prices rose sharply in 2021, and surpassed the previous record rates seen in 2008. Year-on-year growth in house prices stood at 15.7% in the final quarter of 2021, compared with the moderate figure of 4.6% recorded in 2020. Thus, real estate became rather overpriced, considering certain indicators. The majority of other European countries also saw high year-on-year growth in residential real estate prices: the rate averaged 8.8% in the euro area in the third quarter of 2021.

Figure 15: Residential real estate prices



Source: SURS

The banks maintain credit standards for housing loans at a stable level. The vulnerability of the banking system was smaller than during the last financial crisis since the stock of loans to non-financial corporations in the sectors of construction and real estate activities declined sharply from EUR 3.5 billion in 2011 to EUR 1 billion at the end of 2021. The imbalance between the supply of and demand for real estate could be slightly reduced over the medium term, as the number of building permits issued for residential buildings rose again in the second half of 2021, although the rapid rise in material and labour costs might curtail the expectations of any reduced imbalance in the future.

The digitalisation of banking services is increasingly changing the face of banking. Banka Slovenije conducted a survey of the challenges of the banking system in 2021. The survey asked banks about the impact of fintech, climate risks and cyber risks on their business operations. It is evident from the survey results that the digitalisation of banking services is increasingly changing the face of banking and that the COVID-19 pandemic accelerated the digitalisation of the banking sector. The banks have faced competitive pressure from fintech firms and digital banks for several years now, especially in the management of transaction accounts, payment transactions and consumer lending. The COVID-19 pandemic encouraged banks to expand their offer of services in connection with mobile wallets, as bank customers increasingly make use of services remotely via online applications.

Digitalisation of banking services strengthened during the COVID-19 pandemic.

In addition to standard risks for financial stability, new types of risk have also appeared in the recent years, such as cyber and climate risks that are mostly structural in nature.

The digitalisation of the banking system is increasing the importance of cybersecurity. In recent years the banks have earmarked additional funding for cybersecurity in their information systems. The banks face problems in connection with the lack of supervision of outsourcing and suppliers, and the obsolescence of information systems, albeit less than they did in the recent years. The COVID-19 pandemic also induced the banks to change their strategic cybersecurity planning by updating the information security strategy and incorporating access controls for working from home. The majority of banks identified a rise in the number of cyberattacks on bank information systems during the COVID-19 pandemic, but they were no threat to the banking system. The majority of banks increased their spending on cybersecurity as follows during the pandemic: (i) the introduction of additional protection against cyberattacks (such as DDoS attacks), (ii) the use of fintech to identify potential security developments and attacks, and (iii) project plans to raise the level of cybersecurity.

Climate risks, defined as physical and transition risks, have been regularly monitored by Banka Slovenije during the past few years and we are also actively cooperating in international organisations and relevant climate risk workgroups (ESRB, NGFS, Slovenian FSB). The current assessments of climate risks take into account several indicators of climate risks that are based on the structure of emissions, climate relevance or emissions intensity of an activity.

The share of exposure in the NFC portfolio ranged between one third and 60% as of 31 December 2021. Taking into account the stricter criteria of emissions intensity or exposure to the companies in the EU ETS emission coupon trading system, the share is reduced to 15% or 9%, indicating reduced climate risks. However, these can be significantly increased due to the energy transition and the uncertainty regarding the persistence of the effects of the post-pandemic recovery and the war in Ukraine, particularly in relation to energy prices and the energy transition timeline. In addition to the structure of exposures we are also monitoring climate metrics such as carbon footprint and intensity, which indicate a partial decarbonisation process with substantial differences across banks.

The data gaps, particularly regarding the assessment of physical risks, along with the standardisation of indicators, represent a considerable challenge in the area of monitoring climate risks. New regulations in the area of sustainable financing can contribute significantly to the improvement of the climate risk monitoring frameworks, particularly in the medium term.

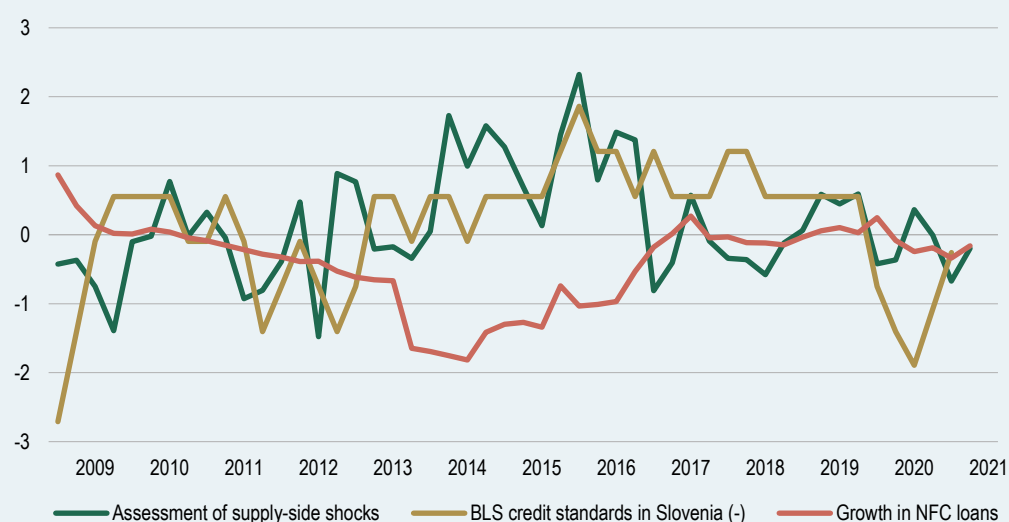
**Box 2: Empirical analysis
of the supply of and
demand for corporate
loans**

In the five years before the outbreak of the COVID-19 pandemic Slovenia recorded moderate but sustained economic growth. Annual GDP growth averaged 3.8% between 2015 and 2020, although growth in loans was not a significant factor in this recovery. During this period the ratio of bank loans to non-financial corporations to GDP declined from 118.8% to 74.7%. While a decline in indebtedness contributes to the resilience of the financial system, any bottlenecks in the supply of loans or demand for loans could impede future economic growth.

The contributions to growth in loans by supply-side and demand-side factors cannot be observed. We used econometric methods to assess the factors affecting the supply of and demand for loans to NFCs. The supply of loans depends on the banks' willingness to lend to NFCs, which in turn depends on the creditworthiness of the borrower and the general economic outlook, and on the banks' capacity to lend. This is contingent in part on the attributes of the individual banks, and also on banking regulations. The demand side comprises NFCs who opt for debt financing for their fixed assets, inventories and/or working capital.

The analysis⁹ combines data from the credit register and the business register (AJ PES), and covers the period of recovery after the financial crisis and the period after the COVID-19 pandemic outbreak. The results further indicate the significant impact of credit shocks on the Slovenian economy (figures below).

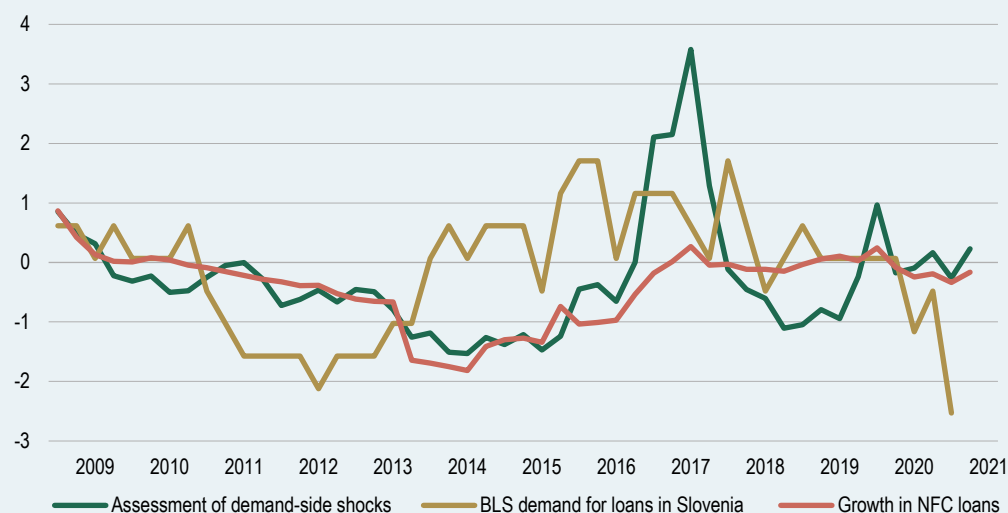
**Figure 16: Assessment of
supply-side shocks**



Note: The figure illustrates the assessments of supply and demand and the results of the bank lending survey (BLS). The estimated supply shocks are premultiplied with (-1) for easier comparison with the credit standards from the survey. The negative values of the reported credit standards represent a tightening. The supply-side and demand-side shocks and the results of the bank lending survey are standardised and illustrated as standard deviations.
Source: Banka Slovenije, AJ PES, Banka Slovenije calculations

⁹ The extensive analysis is published in the Financial Stability Review, October 2021.

Figure 17: Assessment of demand-side shocks



Note: The figure illustrates the assessments of supply and demand and the results of the bank lending survey (BLS). Negative supply-side shocks are compared with the credit standards from the survey, which are illustrated with a negative sign where a negative value entails a tightening. The supply-side and demand-side shocks and the results of the bank lending survey are standardised and illustrated as standard deviations.

Source: Banka Slovenije, AJ PES, Banka Slovenije calculations

The results of the analysis show that credit conditions¹⁰ and credit supply have not been limiting factor in the period between 2014 and 2016, as the euro area monetary policy was particularly accommodative (including the introduction of negative interest rates on deposits in 2014 and the asset purchase programme (APP) in 2015). Slovenia was also completing the bank recovery and resolution process at that time. The finding that loan terms were not a limiting factor is also supported by the BLS results.¹¹ The model estimate suggest that the decline in the stock of loans during this period can be explained at least in part by weak demand for loans. The period of contraction in the stock of loans came to an end in 2017. The model attributes this change in trend to an increased loan demand during the year in question.

The analysis identifies a positive correlation between factors affecting the banks' capacity and/or willingness to lend, and the value-added of the sector where they are lending. The impact of credit supply shocks on real economy can be denoted as a real economy multiplier. The real economy multiplier of credit supply is estimated to be largest at the fourth lag, i.e. after four quarters, where an increase of 1% in the supply of bank loans is reflected in an increase of 2.3% in value-added in the sector.¹² These results emphasise the importance of bank lending to Slovenian NFCs and to the economy in general.¹³

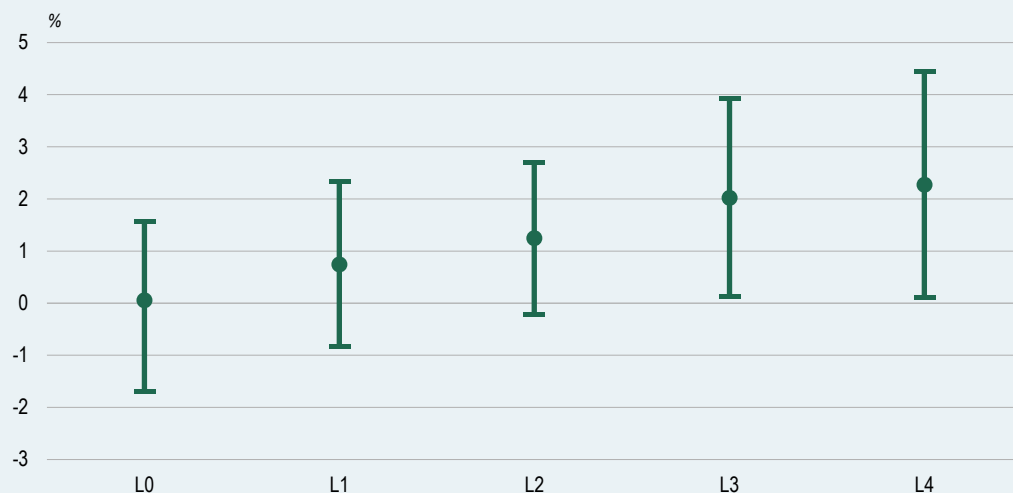
¹⁰ For the needs of the analysis, the notions "credit terms and conditions" and "credit standards" are used as synonyms in spite of their separate definitions in the financial terminology.

¹¹ In the BLS, a net percentage of the sample of banks in Slovenia reported that they had relaxed their credit standards. The net percentage is defined as the difference between the percentage of banks responding "tightening of credit standards" (increase in demand) and the percentage of banks responding "relaxation of credit standards" (decline in demand).

¹² This result means that the effect increases over time, due to feedback between banks and the real sector.

¹³ A negative shock to the banking system could impact the real sector via several transmission channels, where the credit channel is extremely important for the euro area and for the Slovenian economy. For example, bank loans account for almost 50% of NFCs' debt financing in the euro area, compared with less than 25% in the US. This is indicative of the SMEs' high level of dependence on bank lending, and of the important role that bank loans play in the economy.

Figure 18: **Impact of supply-side shocks on the real sector**



Note: The figure illustrates the estimated impact of supply-side shocks on sectoral value-added. The coefficients (real sector multiplier) are illustrated together with the 90% confidence interval over time or L (between the instantaneous effect and the effect four quarters later).

Sources: Banka Slovenije, AJPES, Banka Slovenije calculations

The decline in GDP growth during the COVID-19 pandemic was not accompanied by a credit crunch such as that observed after 2008 during the global financial crisis, or during the sovereign debt crisis that followed in the euro area. These developments are reflected in the analysis as it does not find any significant negative supply shocks in the credit market following the outbreak of the Covid-19 pandemic. This phenomenon can be explained by the relatively low levels of non-performing loans and the generally good level of capitalisation of the banking system. Such a position could mostly be maintained thanks to the aligned response of the monetary and fiscal policy and their supportive role to both supply of and demand for loans.

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 fundamental 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 job creation. The Eurosystem target is to maintain growth in prices of goods and services (i.e. inflation) at around 2% over the medium term.¹⁴

Microprudential supervision is part of Banka Slovenije's mandate relating to the maintenance of financial stability. The objective of 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 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 Banka Slovenije is 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 as part of our legal mandate, 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

¹⁴ In the framework of the Eurosystem, a new monetary policy strategy was adopted in July 2021 which also defines the inflationary goal of our monetary policy. More information is provided in Box 3.

credit register. A number of our tasks relate to the operation of critical national infrastructure under the Critical Infrastructure Act.

Banka Slovenije's actions in 2021 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, the Statute of the European System of Central Banks (ESCB) and of the ECB, and the Rules of Procedure of the Governing Council, the General Council and the Executive Board of the ECB. 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.

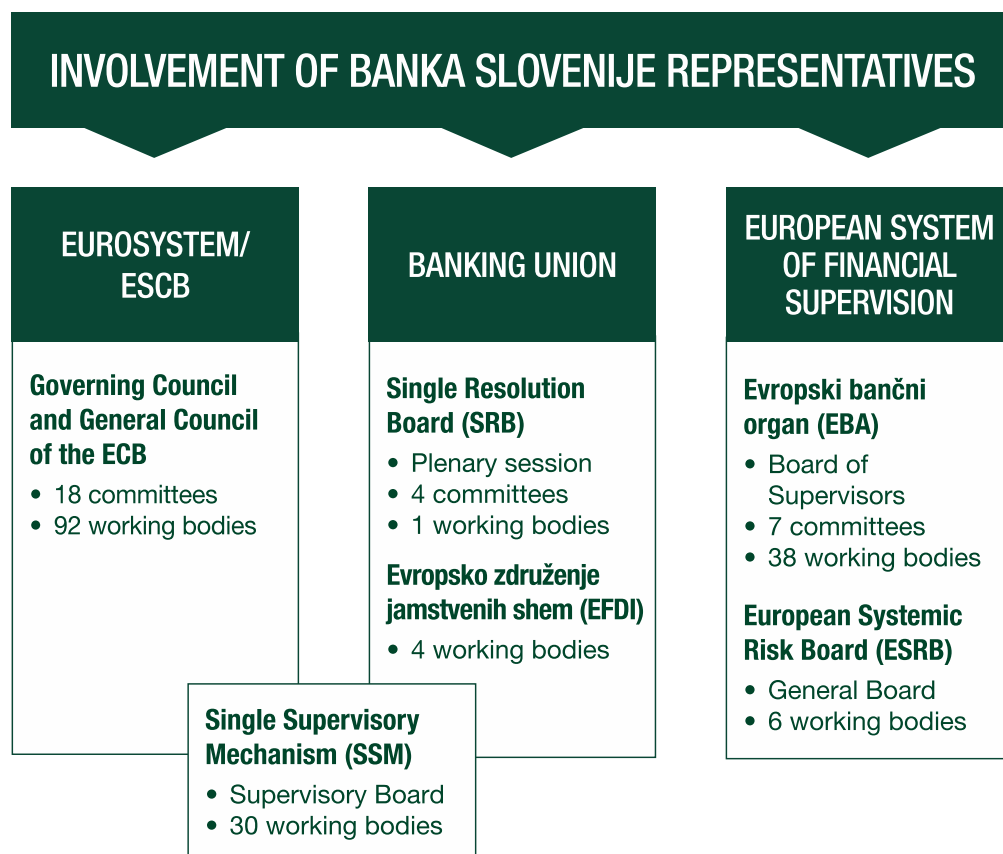
In the area of microprudential supervision and the setting of rules for banks and other supervised entities, we actively worked within the framework of the Single Supervisory Mechanism and the EBA. The Single Supervisory Mechanism (SSM) is one of the three pillars of the banking union, whose task is 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 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.

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 European Systemic Risk Board's (ESRB) 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 the 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 2020



3.2 Monetary policy

The monetary policy in 2021 was still affected by the coronavirus pandemic. The accommodative monetary policy that was established with the measures adopted during 2020 also continued in 2021. The measures of the monetary policy, together with the fiscal measures of individual countries and other European institutions provided favourable conditions of financing for households, companies and banks, and reduced the risk of a liquidity and credit crunch by maintaining sufficient liquidity.

The accommodative monetary policy also provided support for economy and inflation expectations in 2021.

They included the **Asset Purchase Programme (APP)** and the **Pandemic Emergency Purchase Programme (PEPP)**. Net purchases of the APP continued during the year at the monthly level of EUR 20 billion. During that time there were no changes in the programme design which included the public sector purchase programme (PSPP) and three small private sector purchase programmes: the corporate sector purchase programme (CSPP), the third covered bond purchase programme (CBPP3) and the asset-backed securities purchase programme (ABSPP).

The PEPP, which was one of the key responses to the pandemic in 2020, efficiently stabilised the market and prevented the deterioration of the financing terms and conditions. **In 2021, the PEPP remained the core of our response to the pandemic crisis; over the year, it adapted to the development of the pandemic and the macrofinancial situation.** Also in 2021, all purchases were conducted flexibly over time, across asset classes and between jurisdictions. The quarterly approximate volume of

PEPP purchases was determined on the basis of the joint assessment of inflation expectations and assurance of the financing conditions in compliance with the inflation expectations. We maintained the option of adjusting the scope of purchases in the event of potential changes of the market situation, as we did in 2020.

We started the year by continuing with the PEPP purchases in the total possible amount of EUR 1,850 billion, planned to be executed by no later than the end of March 2022. From the beginning of the year, the financing conditions for companies and households remained mostly stable, while the market interest rates increased continuously, partially also as a result of improved economic expectations. As this could lead to premature deterioration of the financing conditions for all economic sectors, the volume of the net PEPP purchases in the second and third quarters was significantly increased compared to the initial months of the year. The economy of the euro area started slowly opening towards the middle of the year, with the improvement of the situation concerning the coronavirus pandemic, gradual lifting of the restrictive measures and significant progress with vaccination. Since economic recovery improved the mid-term outlook regarding the achievement of new symmetrical 2% inflation goal, it was assessed in September that the favourable financing conditions can be maintained with a somewhat reduced volume of the PEPP purchases in the last quarter of the year.

We continued to provide an extensive amount of liquidity through refinancing operations in 2021. Banks had four targeted longer-term refinancing operations (TLTRO-III) with the maturity of three years at their disposal. Due to the very favourable conditions of these operations, more banks were encouraged to participate in the entire euro area. There were also four pandemic emergency long-term refinancing operations (PELTRO) with the maturity of one year available to banks. To ensure that banks were able to participate in the TLTRO-III and PELTRO operations, the pandemic collateral easing measures adopted in 2020 remained in effect.

In view of the improved conditions of financing in US dollars and scarce demand for liquidity providing operations in US dollars, we discontinued the US dollar liquidity-providing operations with a 84-day maturity. The decision was adopted in cooperation with the Federal Reserve and other major central banks. The weekly offer of US dollar liquidity-providing operations with a 7-day maturity was continued.

In December 2021 it was assessed that the progress of economic recovery and the achievement of the mid-term inflation goal allowed for a gradual exit from pandemic measures. The decision included a gradual reduction of the volume of securities purchases. The net PEPP purchases were conducted at a slower pace in the first quarter of 2022 than in the last quarter of 2021, and was discontinued at the end of March 2022. The reinvestment horizon for principal of maturing securities under the PEPP will be extended until at least the end of 2024 while the programme flexibility element will be maintained, should it be necessary to address the fragmentation in the future due to the pandemic. We have also decided to temporarily and slightly increase the scope of monthly net purchases within the APP after the conclusion of the PEPP.

A lengthy and comprehensive ECB's monetary policy strategy review was completed in 2021. Unlike the first decade since the introduction of the euro, the last decade was characterised above all by the deflation shocks accompanied by declining equilibrium interest rates, which is why it was more difficult to address these shocks with only the policy of interest rates. The result of the review was the introduction of a new symmetrical 2% inflation goal (before that, the inflation goal was close to but below 2%). The symmetric target means that negative and positive deviations are considered equally undesirable. The central bank's orientation is and has always been to achieve the inflation goal in the medium term.

Even though both positive and negative deviations are unwanted in the case of a symmetric goal, the response of the central bank can be stronger and last longer where disinflationary shocks are involved. Such an approach is particularly relevant where the monetary policy operates close to the effective lower bound, so as not to stabilise the inflation deviations below the goal. This can imply a temporary period of inflation higher than the targeted 2%.

The harmonised index of consumer prices (HICP) remains the most appropriate measure of inflation, but the strategy identifies owner-occupied housing costs as a major component missing from consumer prices, and envisages their inclusion over time. Given that this is a multi-year project, over the transitional period we will take account of inflation measures that include initial estimates of the cost of owner-occupied housing to supplement the set of broader inflation measures.

As a result of lowering the equilibrium interest rate, the global central banks have used non-standard measures when directing inflation towards the targeted levels, which is why the review of the ECB's monetary policy strategy also included the review of the efficiency of such measures. The use of negative interest rates, the future orientation of monetary policy, the purchases of debt securities and long-term refinancing operations, turned out to be successful in increasing GDP, employment and inflation, among other reasons because their effects mutually strengthen each other. The adopted set of instruments turned out to be proportional, taking into account the side effects on the financial system and real economy, an aspect that the ECB Governing Council will also be regularly assessing in the future, where special attention will be paid to financial stability.

The primary goal of the Eurosystem is price stability; nevertheless, the Treaty on the Functioning of the European Union also foresees the support of the Eurosystem for the general economic policies of the European Union – provided that this does not endanger the price stability – which includes balanced economic growth and a highly competitive and social-market economy, as well as high protection for and improved quality of the environment. We therefore concluded that the design of monetary policy will also take into account the aspect of climate change and its consequences in the pursuit of the primary inflation goal. We will thus make adjustments over time to the operational monetary policy framework as far as it concerns disclosures, risk assessment, the Eurosystem collateral system and allocation of the purchases of corporate bonds and disclosure of climate information related to the CSPP. The action plan for the inclusion of the issue of climate change into the monetary policy strategy will be implemented in line with progress on the realisation of EU policy and initiatives in the area of taxonomy,

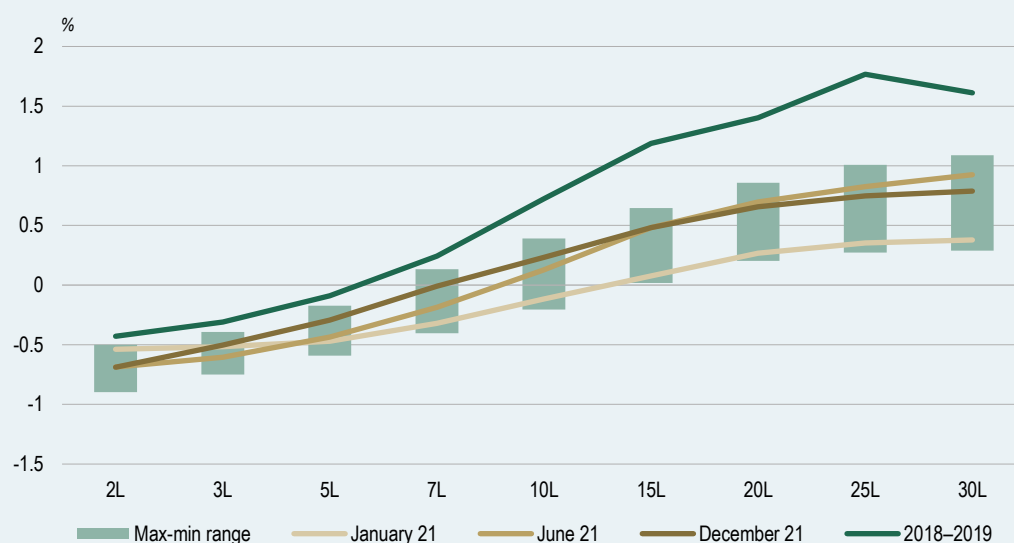
disclosures and reporting in connection with climate change by businesses and the financial sector. This action plan will allow the Eurosystem to make a greater contribution to addressing climate change, in line with its mandate as set out in the Treaty on the Functioning of the European Union.

Box 4: Implementation of the monetary policy in Slovenia in the year of recovery after the period of the pandemic

Similarly as in 2020, the most relevant to Slovenia in 2021 were the APP and PEPP, within the framework of which Slovenian government bonds and SID banka bonds have been purchased.

Also in 2021, the monetary policy provided favourable borrowing conditions for the Republic of Slovenia (Figure 19, line 2018–2019) and other economic entities in the country on the financial markets. The end of purchases within the additional temporary APP envelope in December 2020 (EUR 120 billion) and the adjustment of the creation of the scope of purchases within the PEPP in 2021 in accordance with the commitment of maintaining favourable conditions of financing in line with the inflation expectations have not changed this either. The average spread of the 10-year RS bond over the benchmark German bond was less than 40 bp on average in 2021, while in the two pre-pandemic years 2018 and 2019 it was 60 bp on average. With regard to the average growth of the RS yield curve in 2021, first the long and then the middle part of the curve followed a similar government bonds' trend of other euro countries, and reflected the economic recovery and improved foundations in 2021. In 2021, the APP portfolio balance held by Banka Slovenije increased in terms of amortised cost from EUR 10.5 billion to EUR 11.2 billion, while PEPP grew from EUR 3.0 billion to EUR 5.2 billion; for the sake of comparison, EUR 33.2 billion of RS securities were issued at the end of 2020 and EUR 35.3 billion at the end of Q3 2021 (last available data).

Figure 19: Movement in the yield curve of the government bonds of the Republic of Slovenia in 2021 compared with the pre-pandemic period



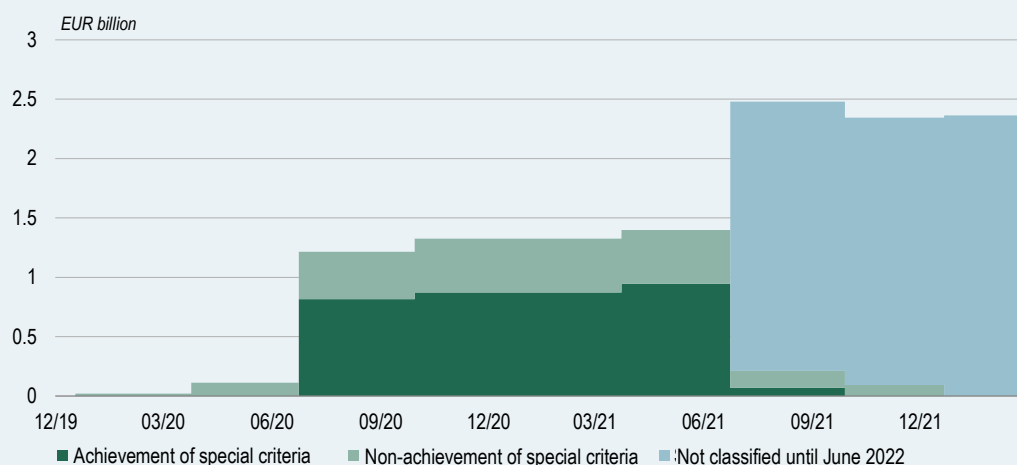
Note: The range includes the maximum and minimum achieved end-of-day values in 2021, while monthly or multi-year curves show the average value of required end-of-day yields in the selected period.
Source: Bloomberg, own calculations of Banka Slovenije

The favourable financing conditions for households and corporates were also supported by better terms for the TLTRO-III. With increasing stress due to the pandemic, the conditions of the TLTRO-III have been improved several times, most recently in December 2020, by extending the period over which considerably more favourable interest rate will apply by twelve months, by additionally raising the amount that banks are allowed to borrow, and by introducing three additional operations. Consequently, the TLTRO-III balance in Slovenia increased by EUR 1,039 million to EUR 2,363 million in 2021, while the banks repaid some of the drawn amounts early, also in 2021 (EUR 258 million). The bank's participation in the June TLTRO-III (EUR 1,080 million) accounted for the bulk of drawing in 2021, coinciding with the start of the additional special interest rate period in which the banks were able to gain the minimum interest rate of -1% on borrowed funds with a sufficiently large volume of lending to corporates and households (excluding housing loans). Slovenian banks' participation in the TLTRO-III was low compared with the euro area overall. They utilised 33% of their available funding, which is significantly below the euro area average. The lower utilisation was attributable to the excess liquidity at banks in Slovenia, which was high and rising (see below). A total of 45% of participating banks exceeded the lending reference criteria in the special reference period and benefitted from the most favourable interest rate in the one-year period that ended in June 2021 (at the level of the euro area, the banks were on average much more successful).

Slovenian banks were not constrained by a lack of eligible collateral in their utilisation of the TLTRO-III: unused collateral pool at Banka Slovenije averaged 53% across the year. The pandemic collateral easing measures, which positively affected the increase in Eurosystem collateral, were of no importance with regard to Slovenian banks. The pool of collateral at Banka Slovenije amounted to EUR 4.1 billion at the end of December 2021.

Slovenian banks did not participate in any other operations of Eurosystem refinancing in 2021 (MRO, LTRO and PELTRO). The same as last year, they showed some interest in US dollar liquidity-providing operations.

Figure 20: The volume of TLTRO-III operations according to the category of lending efficiency in Slovenia



Source: Banka Slovenije

The excess liquidity in the Slovenian banking system¹⁵ increased significantly in 2021, namely by EUR 2.6 billion, to the new highest level of above EUR 9.4 billion. After the settlement of the June TLTRO-III it increased by approximately EUR 1 billion. The reasons for the retention of excess liquidity in accounts at Banka Slovenije also remained

¹⁵ The liquidity surplus in Slovenia is equal to the excess reserves, given that the banks have not used to the deposit facility for several years now (in 2021 there was one usage due to the testing of procedures). What constitutes excess liquidity is clarified in the footnote below.

unchanged in 2021: high general liquidity, low market interest rates that did not compensate for the risk of lending to other banks on the money market, and the ongoing increase in the proportion of sight deposits by the non-banking sector. The latter also increased due to the government measures to mitigate the adverse impact of the epidemic on the income position of households and firms.

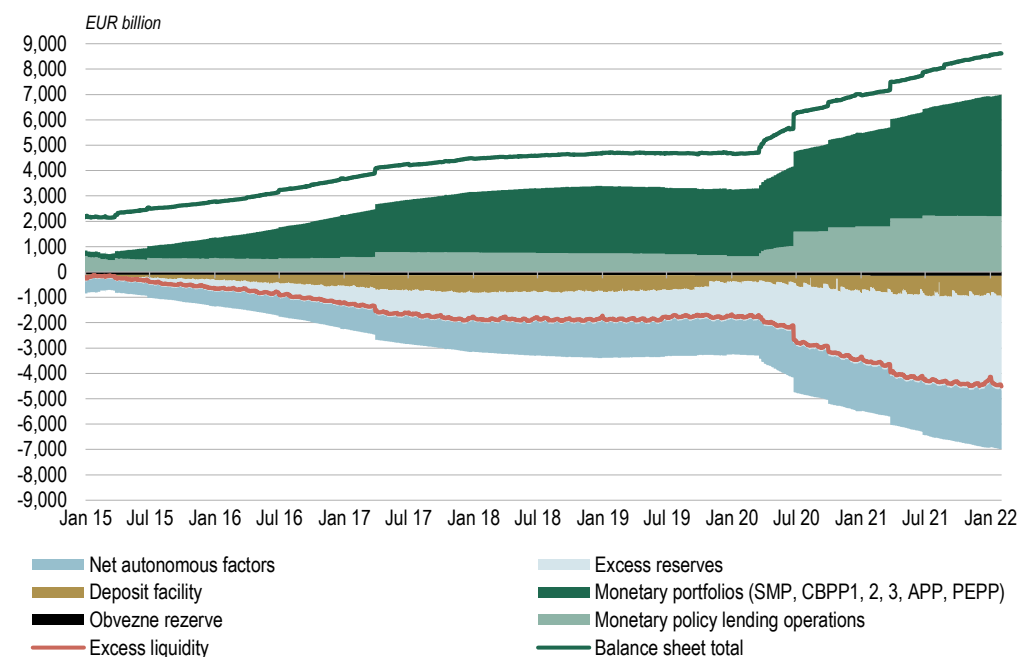
The banks' excess reserves exceeded EUR 9 billion – or 26 times their minimum reserve requirements – in the eighth and final reserve maintenance period of 2021. Utilisation of the exemption from negative remuneration of excess reserves in the amount of six times the banks' minimum reserve requirements exceeded 99% at all times in the banking system.

Monetary policy implementation and the money market

The monetary policy measures that were adopted in response to the coronavirus pandemic further increased the Eurosystem's balance sheet total by almost EUR 1,600 billion to the new highest level of just under EUR 8,600 billion (Figure 21) in 2021. The purchases of APP and PEPP securities increased the balance sheet total by a good EUR 1,000 billion and monetary policy lending operations, particularly the TLTRO-III by a good EUR 400 billion. At the end of 2021, open market operations accounted for about 81% of total assets of the Eurosystem's balance sheet.

The Eurosystem's balance sheet total approached EUR 8,600 billion as securities purchases and lending operations grew further.

Figure 21: Simplified Eurosystem consolidated balance sheet



Note: The more negative the excess liquidity is, the larger it is.
Source: ECB

The loans of TLTRO-III operations still represented the major share of the Eurosystem credit operations and remained a significant source of funding for the euro area banking system. At the end of the year, the balance was EUR 2,198 billion. The banks showed most interest in the March TLTRO-III operations, the first after the

December easement of the TLTRO-III conditions, when banks were granted EUR 331 billion. Banks repaid EUR 139 billion of assets early under TLTRO-III. In 2021, the entire TLTRO-II operation worth EUR 16 billion fell due. EUR 27 billion fell due under the PELTRO operations, with EUR 3.4 billion being allocated to banks in four PELTRO operations. Due to the large amount of excess liquidity and availability of the more favourable operations TLTRO-III and PELTRO, the borrowing in the main refinancing operations and three-month long-term refinancing operations was very limited, with the average balance on both separately amounting to around EUR 0.2 billion.

The pandemic collateral easing measures which the ECB Governing Council adopted in April 2020 positively affected the increase in collateral and allowed for intensified utilisation of TLTRO-III. In December 2020 the ECB Governing Council extended these measures until June 2022 which coincides with the expiry of favourable conditions under the TLTRO-III operations. The increase in eligible collateral from pandemic measures was primarily boosted by the decrease in valuation haircuts and use of extended additional credit claims. At the end of December 2021, the mobilized collateral at the Eurosystem totalled EUR 2,850 billion, with collateral extended by the pandemic contributing around 23% to the total increase and accounting for around 10% of total collateral at the end of the year. Unused collateral pool dropped from 31% to 22% in a year.

Purchases of APP and PEPP securities were carried out smoothly and continued to provide support for the euro economy. Purchases of Eurosystem securities comprised public-sector and private-sector debt securities. The public sector comprised the debt securities of central governments (including the Hellenic Republic securities under the PEPP), agencies and supranational institutions, while the purchases in the private sector included debt securities of non-financial corporations, and covered and asset-backed securities; the PEPP also included non-financial corporations' commercial papers. At the end of the year, the balance of purchases at amortised cost totalled EUR 3,124 billion for APP (7% more than at the end of 2020) and EUR 1,581 billion for PEPP (EUR 827 billion more than at the end of 2020), of which almost 80% in APP and more than 95% in PEPP were securities of public-sector issuers. In addition to net purchases, both programmes also included the reinvestment of maturing principal in 2021. The Eurosystem will continue reinvesting the principal from maturing securities under the APP for an extended period of time past the date when the interest rates begin to be raised, and, in any case, for as long as necessary to maintain favourable liquidity conditions and an accommodative monetary policy stance. The maturing principal from securities purchased under the PEPP will be reinvested until at least the end of 2024. In 2021, a total of EUR 362 billion of public sector securities were reinvested altogether (of which EUR 189 billion in APP and EUR 173 billion in PEPP), and EUR 60 billion were reinvested in private sector securities under APP.

At the end of 2021, the balance of APP totalled EUR 3,124 billion and the balance of PEPP EUR 1,581 billion.

Within the Eurosystem, Banka Slovenije continued to lend securities purchased under the APP and PEPP. The purpose of this lending is to maintain liquidity on the secondary and repo securities markets, and thus continuous functioning of these markets in spite of the reduced available volume of bonds due to extensive purchases of securities under APP and PEPP. The Eurosystem accepts cash collateral for such

lending, in addition to other securities. In November 2021, the ECB Governing Council increased the limit for borrowing securities for cash collateral from EUR 75 billion to EUR 150 billion due to a significant increase in securities holding at the Eurosystem level.

The banks' demand for US dollar lending was low in 2021, since the market conditions of bank borrowing were normalised. Consequently, the Eurosystem cancelled the 84-day operations in July 2021. On average, the balance of 7- and 84-day operations in 2021 amounted to less than USD 1 billion, which is similar to as in 2019, prior to the pandemic.

Monetary policy lending operations, securities purchases and the countries' fiscal responses to the coronavirus pandemic also increased the banks' excess liquidity in 2021, and were transferred into an increase in net autonomous factors on the liability side of the Eurosystem balance sheet.¹⁶ Excess liquidity increased from approximately EUR 2,000 billion to almost EUR 4,500 billion in November 2021 (Figure 21). Its growth was slowed down by increasingly higher net autonomous factors, particularly the non-banking deposits within the Eurosystem, and to a smaller extent also the issued euro banknotes.

The excess liquidity of euro area banks stopped at just under EUR 4,500 billion.

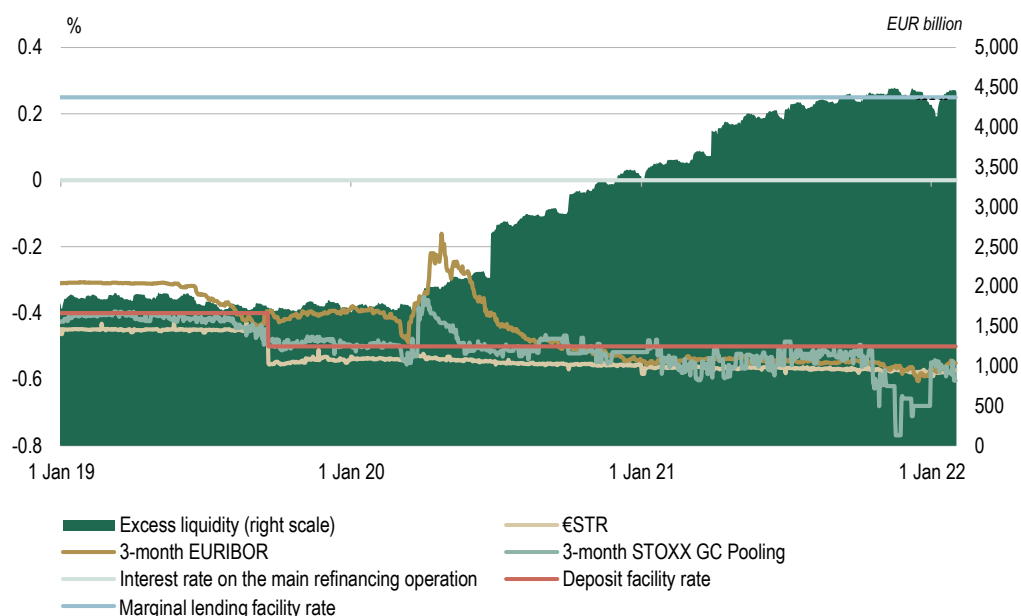
The banks' excess reserves exceeded EUR 3,600 billion at the end of the year, or 23 times their minimum reserve requirements. As in Slovenia, the utilisation of the exemption from negative remuneration of excess reserves in the amount of six times the banks' minimum reserve requirements in the Eurosystem exceeded 99% at all times, and the two-tier remuneration of excess reserves which are remunerated at the deposit facility rate had no consequences for the money market in 2021 either.

High excess liquidity kept the money market interest rates in almost all maturities and almost all segments under the deposit facility rate of -0.50% (Figure 22). Interest rates were constantly stable with the exception of the end of the year when the seasonal increase in the demand for quality securities strongly reduced the interest rates on the secured money market. The interest rate of overnight deposits collateralised with German securities dropped to -4.65%. After the end of the year, the situation stabilised and the interest rates returned to normal levels. Lower liquidity at the end of the year was also reflected in lower EURIBOR interest rates.

Our monetary policy measures kept interest rates on the euro area money-market at their lowest levels to date.

¹⁶ Excess liquidity is the liquidity that the banks hold in excess of their needs deriving from net 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 their minimum reserve requirements. The banks are required to hold the latter over the reserve maintenance period on the basis of the ECB Regulation 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 investment in securities) increases banks' liquidity, while an increase on the liability side (e.g. issued banknotes) reduces banks' liquidity.

Figure 22: ECB interest rates, interbank money-market rates and excess liquidity in the euro area



Source: Bloomberg, ECB

Banka Slovenije as the lender of last resort¹⁷

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. lending to a solvent bank or savings bank in liquidity difficulties, in exchange for collateral. There was no demand for loans of this type in 2021.

3.3 Banking supervision

Supervisory activities in 2021 were focused on priority areas in which the coronavirus pandemic could have an impact: credit risk management, capital adequacy, business model sustainability and management.

Microprudential supervision of significant banks is undertaken within the framework of the ECB, while the less significant banks are supervised directly by us.

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 a timely fashion, and ensuring the stability of the banking system and the financial system through effective action. Banka Slovenije is a member of the Single Supervisory Mechanism, which is responsible for supervising significant banks and institutions (SIs) in the European banking union.¹⁸ In operational

¹⁷ 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 allotment 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.sl.pdf?0cae72c9838301505831a640aa5305f.

¹⁸ According to the ECB criteria, significant banks and institutions are those (1) with total assets over EUR 30 billion or more than 20% of GDP (unless they have total assets below EUR 5 billion); (2) those that rank among the three biggest banks in the country; (3) those that have received funds from the European Financial Stability Facility; (4) those with total assets over EUR 5 billion and with more than 20% of assets/liabilities in more than one Member State. For more, see: <https://www.bankingsupervision.europa.eu/banking/list/criteria/html/index.en.html>.

terms, this supervision is conducted via joint supervisory teams (JSTs).¹⁹ 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 within the framework of the ECB, while representatives of the ECB and the national supervisory authorities participate in the decision-making.²⁰

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),²¹ is conducted by national supervisors, in accordance with national and EU legislation, having regard for the rules and methodology of the ECB and SSM. National supervisors regularly submit supervisory data for less significant institutions to the ECB, and inform it of the material findings of their supervision. Within the ECB we are endeavouring to standardise our supervisory approaches and practices by issuing joint supervisory standards and guidance in various areas. The national supervisory authorities may consult the ECB on the imposition of measures, but the final decision is our 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.

There were changes in the lists of significant banks and less significant banks in 2021. Gorenjska banka became an SI after the merger of Nova kreditna banka Maribor and Abanka in 2020. Supervision over Gorenjska banka is carried out at the highest level of consolidation, i.e. at the level of Agri Europe Cyprus.

Table 1: Significant banks and less significant banks (as at 31 December 2021)

Significant banks (SIs)	Less significant banks (LSIs)
NOVA LJUBLJANSKA BANKA, d.d.	SKB BANKA, d.d., LJUBLJANA
NOVA KREDITNA BANKA MARIBOR, d.d.	DEŽELNA BANKA SLOVENIJE, d.d.
GORENJSKA BANKA, d.d., Kranj	DELAVSKA HRANILNICA, d.d., Ljubljana
UNICREDIT BANKA SLOVENIJA, d.d.	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*
ADDIKO BANK, d.d.	
BANKA SPARKASSE, d.d.	

Source: Banka Slovenije

* Has special status as a bank specialising in the 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 2021.²²

¹⁹ The JST for each bank consists of a coordinator from the ECB, and members from the national supervisory authority and the ECB.

²⁰ 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.

²¹ Banks and savings banks are classed as less significant institutions (LSIs).

²² Branches of banks of other EEA Member States in Slovenia:

<https://www.bsi.si/financna-stabilnost/subjekti-nadzora/kreditne-institucije-drzav-egp-v-sloveniji>.

The supervision takes the form of ongoing supervision, and on-site supervision at banks. The principal supervisory activities are defined annually for each bank on the basis of regulatory requirements, the supervisory manual and the supervisory priorities. In addition, we set out specific supervisory activities for each bank, thereby responding to a change in the bank's risk profile or 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 ongoing supervision 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 banks or a group of banks. Thematic reviews are conducted in areas where we assess those elevated risks have arisen. In addition to thematic reviews, planned inspections of individual areas of risk are also conducted at banks. Supervisory measures are drawn up when breaches of regulations or deficiencies are identified.

We set the following supervisory priorities in 2021, which also formed the starting point for the supervision of Slovenia's banks:

- credit risk management:
 - early detection of the deterioration of asset quality;
 - adequate creation of impairments;
 - management of non-performing assets including identification and management of exposures to vulnerable sectors;
- capital strengthening:
 - adequacy of dividend distribution policy;
 - planning of capital in unfavourable and changing conditions;
 - supervisory stress tests;
- business model sustainability:
 - supervision and liability of bank managements;
 - sustainability of business models and business strategy;
 - digitalisation strategy and bank progress;
- management:
 - crisis management framework and stability in a time of crisis;
 - information management and aggregation;
 - management of IT and cyber risks and outsourcing.

In 2021 we returned to the implementation of SREP in common and comprehensive scope. In 2020 we implemented our basic annual task using a pragmatic approach in view of the Covid-19 epidemic. The SREP results show stable operations in spite of the challenges brought about by the epidemic as the banks in general were able to cope with the situation due to their strong capital base. In accordance with the previous SREP cycle and the priority tasks from the 2021 supervision, most of the measures were related to credit risk deficiencies (the process of identifying and processing of groups of related persons, limit system, monitoring and reporting process,

probability of default process) and internal governance (internal control functions and functioning of supervisory boards).

In spite of the challenges brought about by the epidemic, it turned out that the banks' capital adequacy was adequate and stable, despite considerable differences among the banks. In the scope of the SREP process we thoroughly checked the banks' dividend plans and implemented the supervisory dialogue with the banks whose plans were not proportional to their risk profiles. The limitation of dividend sharing additionally contributed to the strengthening of capital adequacy.²³

At times of increased uncertainty, including the Covid-19 epidemic, credit risk management – and above all the identification, classification and measurement of credit risk in a suitable and timely manner – was crucial for the assurance that the banks were able to provide quick and feasible solutions for debtors in distress. We presented the supervisory expectations in this respect to the banks within the framework of ECB and BS. In 2021 we assessed the banks' risk management practices in line with these expectations, and found that there is still room for improvement in the future.

The main expected improvements are related to early warning systems, classification (including the assessments of deviation and probability of payment) and the practices of establishing impairments. The identified issues are of a structural nature and are important in the context of the Covid-19 epidemic as well as in normal times. In the scope of regular supervision we are monitoring the implementation of corrective measures in banks.

We carried out enhanced due diligence of the compliance of the internal remuneration policies and practices with special regard for the EBA Guidelines on sound remuneration policies (EBA/GL/2015/22) in two banks. In one bank it was established that in terms of contents the remuneration policy was not fully aligned with the regulatory requirements, and deficiencies were identified in the management of remuneration (i.e. procedures and methodologies for the implementation of the remuneration policy, monitoring and supervision) and also in the structure of variable remuneration.

In 2021 we continued with thematic reviews in the area of IFRS 9. The objective of the reviews was to establish the adequacy of the identification of a significant increase in credit risk and the inclusion of forward-looking information in the calculation of expected credit losses. Reviews were conducted in three less significant banks. Deficiencies were identified in both areas, and measures were imposed on the banks that were subject to the review. An enhanced due diligence of IFRS 9 was conducted in one of the significant banks.

Due diligence was carried out in two significant banks in cooperation with the supervisors from other countries. A prudential inspection in the area of operational risk was conducted at one of the significant banks, and in the other a prudential inspection in the area of internal management.

Eight planned prudential inspections in less significant banks have been conducted, namely two in the area of operational risks, two in the area of managing the internal capital adequacy assessment process (ICAAP), two in the area of interest rate risk and two in the area of credit risk.

Gorenjska banka and Addiko bank were included in the comprehensive assessment in 2021 which the ECB conducts in banks after assuming the authorisation for supervi-

²³ For more details see Section 3.4.

sion. With such a comprehensive assessment, the ECB obtains a consistent and comparable assessment of the bank's financial statements and its capital adequacy/solvency. The comprehensive assessment to be concluded in 2022 comprises the exact Asset Quality Review and the implementation of stress tests.

In November 2020 the ECB issued the Guide on climate-related and environmental risks in which it defined 13 supervisory expectations about how the banks should integrate the risks associated with the climate into their business models, governance, risk management and disclosures. Following the publication of the guide in the framework of the ECB we asked all significant banks to make an assessment considering those expectations and submit their action plans with details on how they would align their practices with the instructions. The supervisory assessment showed that more comprehensive activities will have to be implemented by banks in this area in order to meet all the supervisory expectations, even though the banks have adopted the initial steps to include the climate-related risks in their risk management practices. We also reviewed the disclosures of climate and environmental risks of significant banks. Banks were sent feedback with expectations to improve disclosures. In 2022 we will continue the work in the area of climate and environmental risks, namely in the form of topical reviews and stress tests.

At the end of 2020 the banks again submitted updated recovery plans, which we reviewed and assessed in accordance with Article 220 of the Banking Act.

As part of our prudential supervision we also granted several different authorisations in connection with the exclusion of a subsidiary from prudential consolidation, the inclusion of capital instruments in the calculation of additional capital, the acquisition of a qualifying holding, migration to the standardised approach for the calculation of capital requirement for credit risk, reduction of capital without substitution and exemption from the approval of financial holding and approval of financial holding.

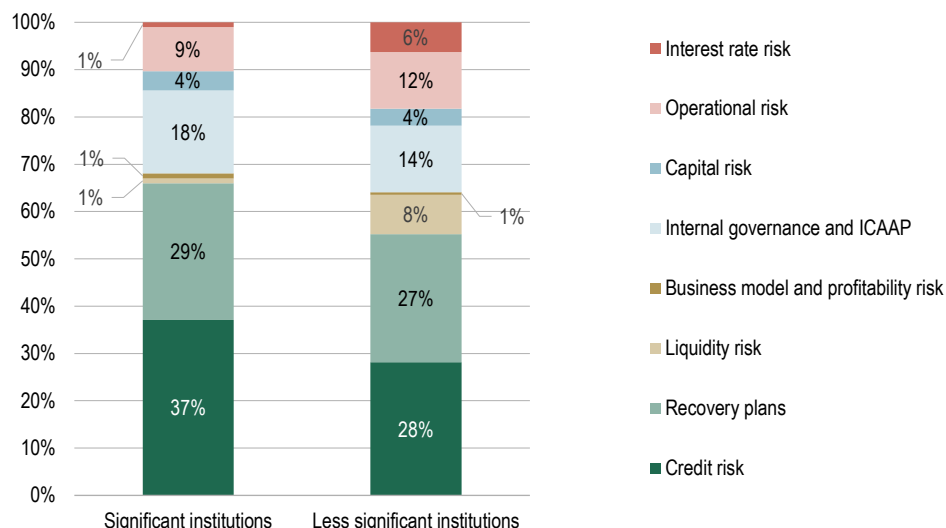
In the supervision of significant banks, there were 97 irregularities and deficiencies identified in their operations in 2021, of which the largest number related to credit risk, recovery plans and internal governance (Figure 23).

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

In the supervision of less significant banks we identified 192 irregularities and deficiencies, largely in the area of credit risk, recovery plans, internal governance and operational risks. Certain identified irregularities were rectified in 2021, while the rectification of the others will be followed up in 2022.

The majority of the findings have a low or medium impact on the financial position of the banks in question.

Figure 23: **Breaches identified at banks and savings banks in 2021, by risk category**



Source: Banka Slovenije

Table 2: **Supervisory measures imposed on banks and savings banks in 2021**

Type of measure	Number of measures imposed at significant institutions	Number of measures imposed at less significant institutions
Decision with supervisory measures	7	5
Follow-up letter with recommendations	13	9
Orders on the rectification of breaches	0	0
Post-inspection letter	2	8
Declaratory decision on the rectification of breaches	0	2
Order to dispose of shares	0	1
Decision to initiate the procedure to revoke authorisation to perform a function in the management body	0	0

Source: Banka Slovenije

Supervisory measures are imposed on significant banks by the ECB. The most common forms of measures are the operational act and the letter with recommendations. The more important measures are imposed in the form of a decision, which is a legally binding act. In 2021, 20 measures in the form of decisions were issued to significant banks.

Supervisory measures are imposed on less significant banks by Banka Slovenije. The more important measures imposed on banks and savings banks, members of their management bodies and shareholders are issued in the form of the binding legal acts set out by the ZBan-3, i.e. in the form of orders and decisions.

Supervision of the operations of the two branches of foreign banks and banking groups from other Member States (one from Austria and one from France) was conducted via regular reports, requests for additional clarification, and the monitoring of the liquidity positions. No measures were imposed on the branches in 2021.

In contrast to prudential supervision, non-prudential supervision is exclusively the responsibility of Banka Slovenije. The central focus is anti-money laundering and countering the financing of terrorism (AML/CFT), which in addition to banks and savings banks covers other institutions that are supervised by Banka Slovenije in accordance with the provisions of the Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-1) (payment institutions, electronic money institutions, currency exchange offices, and entities engaged in virtual currency activities). Alongside the AML/CFT activities, other supervisory activities in 2021 were conducted in connection with consumer lending in accordance with the Consumer Credit Act (ZPotK-2), having regard for the Act Governing Restrictive Measures Introduced or Implemented by the Republic of Slovenia in Compliance with Legal Instruments and Decisions Adopted by International Organisations (the ZOUPAMO). In accordance with Article 269 of the ZBan-3, Banka Slovenije operates a whistleblowing system.

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, Banka Slovenije conducted seven direct inspections in 2021 and participated in five supervisory meetings in the AML/CFT area. In 2021 supervisory activities related to providers working with virtual currencies strengthened.

Drafting of regulations

Banka Slovenije issued the updated Guidelines on anti-money laundering and terrorist financing prevention in 2021, and also issued numerous opinions and clarifications with regard to the implementation of legal requirements and guidelines.

International cooperation

Our international cooperation in 2021 saw us again increase our attention to AML/CFT issues and compliance with restrictive measures, which has been reflected in a rise in the number of international activities in which Banka Slovenije participates via various bodies (ECB, EBA AML/CFT standing committee, European Commission, Council of Europe – MONEYVAL Committee). We also intensively cooperated in the Slovenian EU Council Presidency in the scope of which a new legislative package in the AML/CFT area is being aligned (for more information see Section 4).

Other activities

In the scope of other activities, Banka Slovenije actively participated in the preparation of the new ZPPDFT-2 bill. As a supervisor in the AML/CFT area we regularly cooperate with prudential supervisors and the information exchanged in the framework of AML/CFT is included in the assessments in the licensing procedures and in the fit and proper assessment of the members of governing bodies. In the area of restrictive measures the action under the aegis of the standing steering group for restrictive measures continued to strengthen.

Banka Slovenije collaborated with the Jožef Stefan Institute on the Infinitech international project to develop a platform for conducting supervision in the area of AML/CFT more effectively, including using technology for processing large volumes of data.

Five inspections were carried out in the area of compliance of the banks' operations with the ZPotK-2, which governs consumer lending. The rules of procedure of supervising the compliance of operations were updated based on the approach in prudential supervision. Banka Slovenije monitors the alignment of the proposed amendments to the EU Directive on consumer loans, and we also cooperate with the Ministry of the Economy, Development and Technology, the European Commission and EBA.

Licensing and notification procedures

Banka Slovenije issues authorisations in accordance with the ZBan-3, the EMIR, the ZPlaSSIED, Commission Delegated Regulation (EU) No 2018/389, the ZDP-2, the CRR and the ZPotK-2. Banka Slovenije is also responsible for processing notifications under the ZBan-3 and the ZPlaSSIED.

In 2021 Banka Slovenije conducted 119 procedures under the ZBan-2, the EMIR, the ZPlaSSIED, Commission Delegated Regulation (EU) No 2018/389, the ZDP-2, the CRR and the ZPotK-2. Of these, 85 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 2022. In 2021 we handled one notice on the performance of additional financial services according to the ZBan-3, and one notice related to capital instruments in line with the CRR.

In addition to granting authorisations, Banka Slovenije was also responsible for determining the suitability of members of bank supervisory boards up until the enforcement of the ZBan-3 in 2021. We conducted 24 fit and proper assessment procedures for members of bank supervisory boards in accordance with the ZBan-2. Of these, 22 ended with a positive assessment and two were halted, withdrawn, or remained unfinished at the end of the year and were deferred until 2022. Following the introduction of the ZBan-3, such procedures end with the issue of approval.

In 2021 we issued 12 decisions to terminate authorisations: eight for the performance of the function of a member of a bank's management board, one for financial services, one for a qualifying holding, one for the termination of exemptions for transactions within the framework of the group under the EMIR, and one for discontinuation of currency exchange services.

Banka Slovenije is also responsible for processing notifications under the ZBan-2, the ZPotK-2 and the ZPlaSSIED. In 2021 we received 100 notifications of the direct provision of services in Slovenia by banks from other 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 other Member States, and the provision of electronic money issuance services and payment services by electronic money institutions of other Member States. One bank established in Slovenia notified us of the direct provision of services in another Member State in 2021.

3.4 Macroprudential policy

Macroprudential policy is used to identify, monitor and assess systemic risks to financial stability with the aim of safeguarding and maintaining the stability of the entire financial system.²⁴ The ultimate objective of macroprudential policy is ensuring that the financial sector makes a lasting contribution to economic growth. Macroprudential policy in Slovenia is formulated by the Financial Stability Board.

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

Banka Slovenije is responsible for the development and implementation of macroprudential measures for the banking sector and for leasing companies. The legal basis for the implementation of macroprudential policy is provided by the Capital Requirements Regulation (CRR), the Banking Act (ZBan-2) and the Macroprudential Supervision of the Financial System Act (ZMbNFS).

The process of drawing up and implementing macroprudential policy can be divided into four interconnected phases:

1. the identification of systemic risks and assessment of their level;
2. the selection and formulation (calibration) of the macroprudential instrument;
3. the implementation of the macroprudential instrument;
4. evaluation of macroprudential policy and the macroprudential instrument.

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 real sector. Banka Slovenije regularly publishes its assessment of systemic risks in the Financial Stability Review and in other publications. Banka Slovenije has developed a suite of indicators to monitor the evolution of systemic risks and to evaluate the attainment of individual intermediate macroprudential policy objectives. They are:²⁵

- 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.

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 depend on the level and source of risk, and follow the principles described in the Strategic Framework for Macroprudential Policy.

²⁴ Article 2 of the Macroprudential Supervision of the Financial System Act (Official Gazette of the Republic of Slovenia, No. 100/13).

²⁵ The intermediate macroprudential policy objectives are defined in the Strategic Framework for Macroprudential Policy at Banka Slovenije, and are aligned with Recommendation ESRB/2013/1.

Once selected and calibrated, the instrument is implemented and 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.

Implemented macroprudential measures may also have adverse cross-border effects, and can be the subject of avoidance. This makes cross-border cooperation extremely 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. It can issue recommendations and warnings to national macroprudential authorities and other European bodies.

Table 3: **Banka Slovenije macroprudential measures valid in 2021**

Macroprudential measure	Year of introduction of the change ²⁶	Type of measure	Intermediate goal	Assessment of goal achievement
Macroprudential restrictions on profit distributions by banks	2020/2021*	BINDING	Strengthening the resilience of financial infrastructures.	The capital adequacy of the banking system and with it the resilience of the financial system remained high.
Macroprudential restrictions on profit distributions by leasing companies	2020**	RECOMMENDATION	Strengthening the resilience of financial infrastructures.	The capital adequacy of leasing companies remained high.
Macroprudential restrictions on household lending (LTV, DSTI, caps on maturity)	2016/2018/2019***/2020****	BINDING	To mitigate and prevent excessive credit growth and excessive leverage	Growth in consumer loans was not excessive, and credit standards have improved in the approval of consumer loans and housing loans.
Other systemically important institutions (O-SII) buffer	2016	BINDING	To limit the systemic impact of misaligned incentives with a view to reducing moral hazard	Higher resilience as a result of higher requirements for common equity Tier 1 capital, which was not binding on the banks.
Countercyclical capital buffer (CCyB)	2016	BINDING	To mitigate and prevent excessive credit growth and excessive leverage	The buffer rate remains at zero, given the state of the credit and financial cycles.
Restriction of the pace of reduction in the gross loans to deposits flows (GLTDF)	2014/2018*****	RECOMMENDATION	To mitigate and prevent excessive maturity mismatch and market illiquidity	Slowed down pace of reduction in the loan-to-deposit ratio (LTD) ratio in the banking system after the bank recovery and resolution process, and helped stabilise the structure of funding.

Source: Banka Slovenije

* The restriction on the payment of variable remuneration to identified staff was modified into a recommendation on 1 April 2021. As of 10 April 2021 banks may make limited dividend distributions, but only on the condition that they were profitable in the first quarter of 2021. The measure ceased to apply on 30 September 2022.

**The measure ceased to apply on 30 September 2022.

*** The non-binding macroprudential recommendation for household lending was in force until 1 November 2019.

**** The measure was adjusted on 12 May 2020 (effective as of 1 June) to allow a temporary decline in the borrower's income to be excluded from the calculation of DSTI, provided that the decline was the result of COVID-19 epidemic.

***** The GLTDF measure was modified into a recommendation in 2018, having previously been binding. The measure ceased to apply as of 22 October 2021.

Banka Slovenije also actively participated in the implementation of different macroprudential measures in 2021. In August it carried out the assessment of the eligibility of the further duration of macroprudential measures for the profit sharing of banks and leasing companies. Given the improving economic picture in 2021 and the diminishing uncertainty surrounding the economic recovery, it was decided that the two measures could be allowed to expire in September, as had been envisaged.

²⁶ Cites the year when the measure entered into force.

In the autumn Banka Slovenije assessed the macroprudential liquidity measure, which determines the gross loans to deposits flows (GLTDF). This measure was introduced in 2014 to slow the decline in the banking system loan-to-deposit ratio and thus stabilise the banking system funding structure. Since then, it has been adjusted several times. Considering the moderate funding risk, high resilience of the banking sector to liquidity risk and revival of credit growth, Banka Slovenije believes this recommendation is no longer required.

After the termination of validity of the GLTDF instrument and the instruments related to the distribution of profit of the banks and leasing companies, the macroprudential area of measures comprises three sets of macroprudential instruments:

- retail lending limitations;
- countercyclical capital buffer and
- other systemically important institutions (O-SII) buffer.

Macroprudential restrictions on household lending also remained in place in 2021. The measure of retail lending has been adjusted several times since the introduction of minimum lending standards for approving retail consumer and housing loans, thus improving the quality of credit portfolios. This also prevented excessive growth in loans, consumer in particular.

Also in 2021, Banka Slovenije conducted quarterly reviews of the need to modify the countercyclical capital buffer rate (CCyB) applied to exposures of banks in Slovenia. The buffer rate has remained unchanged since its introduction on 1 January 2016, namely 0%.

Some institutions were classed as systemically important because of their size, their interconnectedness with other financial institutions and the real sector, the complexity of their business model, and the size of their cross-border activity. These institutions are required to meet the O-SII buffer to increase resilience.²⁷ The buffer rate is determined once a year with regard to the aforementioned attributes. Banks are granted a transitional period to build up to any changes in the buffer rate. The table shows the amount of the O-SII buffer the banks are required to meet in 2021, and there were six such banks identified in 2021.

Table 4: **O-SII buffer rates that had to be achieved by the banks in 2021**

Bank	Capital buffer rate
NLB, d. d.	1.00%
Nova KBM d. d.	0.50%*
SID banka, d. d., Ljubljana	0.25%
SKB, d. d.	0.25%
Unicredit banka Slovenija, d. d.	0.25%
Banka Intesa Sanpaolo, d. d.	0.00%

Note: *NKBM was required to meet the buffer as of 1 January 2022.
Source: Banka Slovenije

As already mentioned, the focus of risks has changed slightly in the Slovenian banking system in recent months. Namely, there is growing focus on the risks associated with the real estate market dynamics. If necessary, Banka Slovenije will address these with new, appropriate adjustments of macroprudential measures.

²⁷ The methodology is explained in detail on our website.

The purpose of macroprudential policy is to mitigate the impact of systemic financial shocks on the real sector. The challenge in managing risks is that the underlying financial vulnerabilities cannot be observed directly. They can, however, be still mitigated when adverse shocks disturb the real sector. The development of a framework that will help macroprudential policy in formulating the policies for reducing the downside risk to GDP growth is an important component of Slovenia's broadly defined macroprudential stance. Growth at Risk (GaR) seeks links between the macrofinancial conditions (variables) and the probability distribution of future growth in real GDP. One of the advantages of the GaR approach is that it takes account of the entire growth distribution, including the probability of adverse economic outcomes.

The future real GDP growth distribution is estimated using quantile regression where the explanatory variables include financial conditions index, systemic risk index, an indicator of broader macroeconomic conditions, and macroprudential policy index. The analysis identifies the financial conditions index (FCI) and the systemic risk index (SRI) as most important factors that affect the evolution of tail risk. Both indexes are, together with year-on-year real GDP growth, illustrated in the figures below.

Figure 24: **Financial conditions index (FCI) and annual real GDP growth**



Note: Large declines in real GDP growth usually coincide with large increases in the FCI. The FCI reflects financial uncertainty phenomena with short-term effects. FCI – left scale; GDP growth in % – right scale.
Source: Banka Slovenije

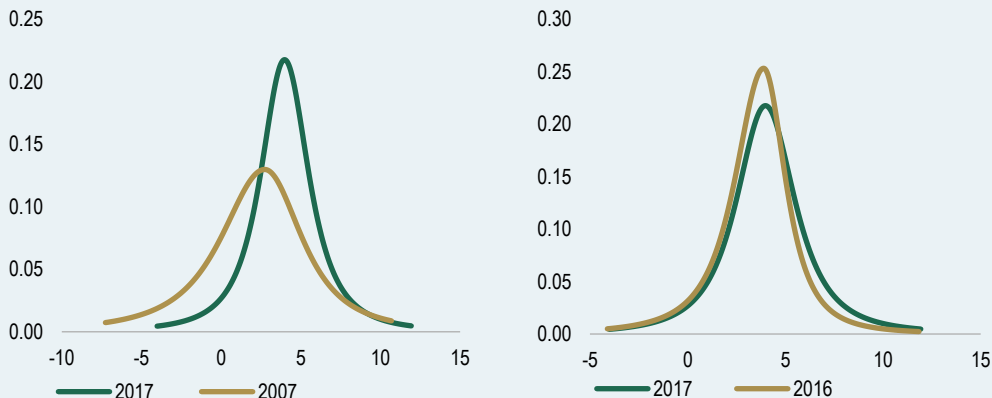
Figure 25: **Systemic risk index (SRI) and annual real GDP growth**



Note: The domestic systemic risk index (SRI) is negatively correlated with GDP growth, although compared with the latter it is less variable, as it captures differences in financial imbalances and vulnerabilities with medium-term consequences. The SRI is a composite index built from six early warning indicators. SRI – left scale; GDP growth in % – right scale.
Source: Banka Slovenije

Although the assumptions behind the different model parameters in estimating growth-at-risk can be different, the dynamics of the probability distribution of future GDP growth reveals that the downside risks to growth change much more profoundly over time compared to the upside risks. A corroboration of this evidence can be seen, at least to a degree, in the comparison of the conditional distributions of real GDP growth in Slovenia between 2007 and 2017, and between 2016 and 2017. It is evident that the distributions in 2016 and 2017 (years of expansion) are much more symmetrical. By contrast, the growth distribution in 2007 (pre-crisis period) has a greater probability of recession compared with 2017.

Figures 26 and 27: **Comparison of the skew of the conditional distribution in years of recession (left figure) and expansion (right figure)**



Source: Banka Slovenije

The GaR model can be a powerful tool for analysing financial stability, as it enables the dynamic quantification of macroprudential measures and their effects, and the time interactions over the short and medium terms. The advantage of the GaR approach for macroprudential policy design is that it flexibly captures the nonlinear interaction between systemic risk, financial conditions, and economic outcomes predicted by theory, and offers support for policy action.²⁸ Recent studies have provided evidence of the positive effects of macroprudential policy on the left tail of the GDP growth distribution.²⁹ Analysis of this type should also be gradually included in the assessment of macroprudential policy in Slovenia.

²⁸ Periods of low future growth rates in the tail of the distribution could be indicative of large downside risks, and the macroprudential stance could be loosened, and vice versa.

²⁹ See for example Duprey, T. and Uebfeldt, A. (2020). Managing GDP Tail Risk, Staff Working Papers 20-3, Bank of Canada.

3.5 Bank resolution and the deposit guarantee scheme

The area of bank resolution and deposit guarantee is regulated by several EU legal acts. Directive 2001/24/EC³⁰ of the European Parliament and of the Council on the reorganisation and winding up of credit institutions was adopted on 4 April 2001, and Directive 2014/59/EU³¹ establishing a framework for the recovery and resolution of credit institutions and investment firms was adopted on 15 May 2014. A key role in bank resolution is played by the resolution authorities responsible for using the resolution instruments and exercising powers of resolution. An important innovation within the framework came with Regulation (EU) No 806/2014³² of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund. The key EU legal act in the area of deposit guarantees is Directive 2014/49/EU³³ of 16 April 2014, which sets out the rules and procedures in connection with the establishment and functioning of deposit guarantee schemes.

Bank resolution

Under the Resolution and Compulsory Winding Up of Banks Act³⁴ (ZRPPB-1), we exercise the powers and tasks of the designated national resolution authority. The aforementioned act transposes Directive 2001/24/EC and Directive 2014/59/EU into Slovenian legislation. The ZRPPB-1 regulates the responsibilities and procedures implemented by Banka Slovenije in exercising the powers and tasks of the bank resolution authority, bank resolution planning, the resolution procedure and powers in connection with the use of resolution measures, and procedures for the compulsory winding up of banks (compulsory liquidation and bankruptcy). The objectives of bank resolution are, through the use of resolution measures, to ensure the continuing implementation of critical functions, to prevent a serious adverse impact on financial stability, to protect public resources, to protect depositors whose deposits are covered, and investors in terms of guaranteed claims, and to protect the assets and resources of customers. Regulation (EU) No 806/2014 established the Single Resolution Board (SRB).³⁵ Under the ZRPPB-1 and Regulation 806/2014/EU, Banka Slovenije exercises powers and tasks in connection with resolution, other than the powers and tasks for which the Single Resolution Board is responsible in accordance with Regulation 806/2014/EU.

Banka Slovenije exercises the powers and tasks of the designated national resolution authority.

In 2021 Banka Slovenije focused primarily on preparing and updating resolution plans, which set out the measures for resolution or compulsory wind-up that could be implemented at banks should they fail. To this end Banka Slovenije independently draws up resolution plans for all banks under our direct jurisdiction, and participates in the SRB's internal resolution taskforces in creating and updating the plans of international

³⁰ Official Journal of the EU, L 125, 5 May 2001, pp. 15–23, with amendments.

³¹ Official Journal of the EU, L 173, 12 June 2014, pp. 190–348, with amendments.

³² Official Journal of the EU, L 225, 30 July 2014, pp. 1–90, with amendments.

³³ Official Journal of the EU, L 173, 12 June 2014, pp. 149–178, with amendments.

³⁴ Official Gazette of the Republic of Slovenia No. 92/21.

³⁵ For more on the Single Resolution Board, see Section 3.1 Banka Slovenije's mandate and institutional framework.

banking groups operating in Slovenia. 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 banking groups that pursue cross-border activities. In 2021 these banks were NLB, NKBM, Gorenjska banka, UniCredit, Intesa Sanpaolo, Sparkasse (member of the Erste Group), Addiko and Sberbank. The drafting of the resolution plans for banks under the competence of the SRB proceeds in the form of internal resolution taskforces in cooperation with all the national resolution authorities of countries of the banking union where individual members of the banking group have a presence. Participation in internal resolution taskforces is 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. In 2021 this was Deželna banka Slovenije, Delavska hranilnica, Hranilnica Lon and Hranilnica Vipava. In drawing up a resolution plan for the OTP Group, of which SKB banka is part, Banka Slovenije collaborates with the Hungarian National Bank, which is the resolution authority for the OTP Group.

The resolution plans of banks in Slovenia were updated in line with the foreseen time schedule. Improvements to the resolution plans falling under the competence of the SRB were made in 2021, with a focus on defining in detail procedures in the event of the use of the bail-in instrument, ensuring unhindered access to critical financial markets infrastructure, guaranteeing business continuity at a bank in resolution, and calculating MREL in accordance with the new policy. The level of complexity and development of the resolution plans of individual banks for which the SRB is responsible differed in 2021. The reasons lay mainly in the different size of the banks and in the period of inclusion of a bank in the resolution planning process. In 2021, one bank established in the Republic of Slovenia came under the competence of the SRB. The bank resolution plans under the competence of the SRB also included the references to stress tests. The emphasis in the resolution plans also included the adjustment to the changed conditions of fulfilling the internal MREL requirements from Directive 2014/59/EU. The process of aligning the approaches to resolution planning for banks under the competence of the SRB with those for banks covered by national resolution authorities continued in 2021. The resolution plans under Banka Slovenije's competence were upgraded to include the calculation of MREL in accordance with the new MREL policy, and were presented to banks together with the requirements in connection with capital and qualified liabilities.

Regulation (EU) No 806/2014 established the Single Resolution Fund (SRF). The SRF is owned by the SRB, which also manages the fund. The SRB only uses the SRF for the purposes of ensuring the efficient application of resolution tools and the exercise of resolution powers, in line with the objectives of resolution and the principles governing resolution set out in Regulation (EU) No 806/2014. The SRF is being built up in accordance with the rules for pooling contributions collected at a national level, as set out in the Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund.³⁶ 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 size of the SRF had reached EUR 52.44 billion following the contributions made in 2021. The total contributions to the SRF amounted to EUR 10,414 million in 2021, of which Slovenian banks contributed EUR 8.5 million.³⁷

The SRF funds have not been activated since their establishment.

³⁶ Act Ratifying the Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund (Official Gazette of the Republic of Slovenia - International Treaties, Nos. 15/15 and 15/15 - corrigendum).

³⁷ A detailed breakdown of the contributions to the SRF by country is available on the SRB website.

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.³⁸ The fund is designed for financing the compulsory wind-up measures under the ZRPPB-1 that can be imposed on banks by Banka Slovenije. Compulsory liquidation proceedings against a bank are proceedings for winding up a bank as a legal entity and are carried out by Banka Slovenije in order to close the bank's operations and settle its liabilities to creditors arising from contracts for the provision of banking services, financial services and ancillary financial services performed by the bank on the basis of the authorisation to provide banking services under the act governing banking. The target level of the fund's assets is 2.3% of the sum of all deposits in Slovenia covered by guarantee as at 30 September 2014, whereby assets in the amount of 1.3% of the sum of all deposits covered by guarantee are provided via the payment of founding cash, while 1% of the sum of all deposits covered by guarantee is provided by banks in the form of liquid assets as collateral for the extraordinary cash contributions.

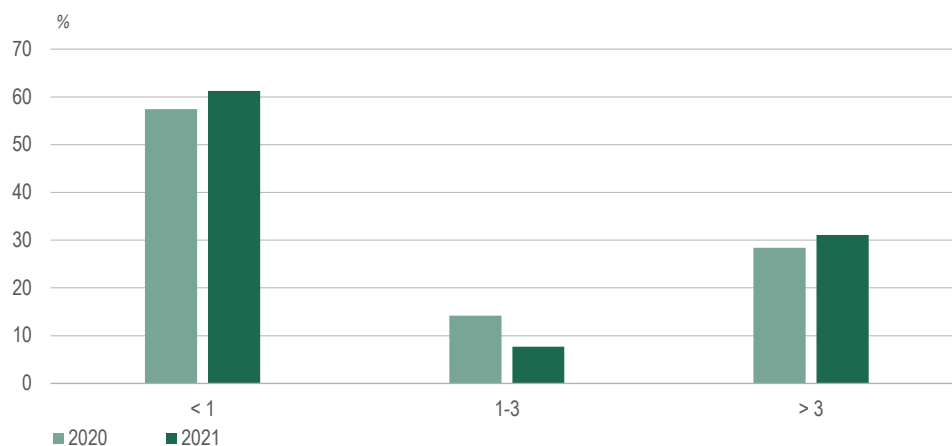
Banka Slovenije manages Slovenia's bank resolution fund.

To reduce management costs to the minimum, the assets of the bank resolution fund are managed at Banka Slovenije together with the assets of the deposit guarantee fund. The bank resolution fund and the deposit guarantee fund have a share of the joint fund (the resolution and deposit guarantee fund) that is proportional to their respective holdings of the pooled assets. Banks paid founding contributions to the bank resolution fund in the amount of EUR 191.1 million in March 2015. After that, there were no additional contributions to this fund.

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 2021, 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 (the deposit facility rate), but higher than the interest rates on the money market. Furthermore, the joint fund kept the interest rate exposure (modified duration) relatively close to the upper permitted level in the light of investing in bonds with better yield. The maturity breakdown is as follows: 61% of the joint fund's assets are in the bucket of up to 1 year, 8% in the bucket of 1 to 3 years, and 31% in the bucket of more than 3 years.

³⁸ Official Gazette of the Republic of Slovenia, Nos. 97/14, 91/15, 44/16 [ZRPPB] and 27/17.

Figure 28: **Maturity breakdown of joint fund assets**



Source: Banka Slovenije

The bank resolution fund's assets under management amounted to EUR 190.9 million at the end of 2021, while the value of the joint fund was EUR 312.7 million. The bank resolution fund's operating result was a net loss of EUR 1,644,798 in 2021, while the joint fund recorded a net loss of EUR 2,593,167, mainly because of the general increase in the market yield of German government bonds in 2021. Its performance is disclosed in detail in its annual report.³⁹

The bank resolution fund will cease operating on 31 December 2024. The funds of the bank resolution fund have not been activated since its establishment.

Deposit guarantee scheme

As the deposit guarantee authority, Banka Slovenije exercises powers and tasks in connection with the deposit guarantee scheme in Slovenia in accordance with the Deposit Guarantee Scheme Act⁴⁰ (the ZSJV). The aforementioned act transposes Directive 2014/49/EU into Slovenian legislation. The ZSJV 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. The deposit guarantee is exercised via the payment of covered deposits to depositors, or through other measures by which depositors' access to deposits covered by guarantee is maintained in the event of the bank's resolution or compulsory wind-up. Deposits at each bank or savings bank established in Slovenia are guaranteed up to the value of EUR 100,000 on the basis of the ZSJV. The deadline for paying out covered deposits in 2021 was ten business days from the publication of Banka Slovenije's decision on the unavailability of deposits (it will be ten business days for a transitional period between 1 January 2021 and 31 December 2023, and seven days as of 1 January 2024).

Banka Slovenije exercises the powers and tasks of the national deposit guarantee authority.

In 2021 Banka Slovenije continued its periodic testing of the capture of data on covered deposits at banks in Slovenia. We continued our dialogue with the Ministry of Finance on the financial capacity of the deposit guarantee scheme and the

³⁹ The annual report is published online (in Slovene) at the Banka Slovenije website.

⁴⁰ Official Gazette of the Republic of Slovenia, Nos. 27/16 and 17/22.

envisaged procedures in the event of the payout of covered deposits. The collaboration with the Ministry of Finance also included an exchange of views with regard to establishment of the European Deposit Insurance Scheme (EDIS).

Banka Slovenije has established the deposit guarantee fund as part of its operation of the deposit guarantee scheme. The fund may be used to make repayments of deposits covered by guarantee, and to finance resolution or compulsory wind-up measures by means of which access to deposits covered by guarantee is maintained for depositors. The fund is primarily financed via regular contributions by banks. The fund is required to reach its target level by 3 July 2024, in the amount of 0.8% of the total covered deposits in Slovenia. Should the fund's available assets not suffice for paying out covered deposits or for repaying the fund's other liabilities, banks will be ordered to make extraordinary contributions to the fund. The fund is also financed via income earned by its assets, borrowing on the market, and loans obtained from other sources in accordance with the ZSJV. The ZSJV additionally envisages the possibility of an emergency liquidity loan from Banka Slovenije and a short-term loan from the state, if the fund is unable to secure sufficient funds in time from the aforementioned sources to meet the obligations.

The deposit guarantee fund's assets under management amounted to EUR 121.8 million at the end of 2021, after the banks contributed EUR 26.8 million to the fund during 2021. The deposit guarantee fund's operating result was a net loss of EUR 961,369 in 2021. Its performance is disclosed in detail in its annual report.⁴¹ The assets of the deposit guarantee fund are managed at Banka Slovenije in a joint fund together with the assets of the bank resolution fund (see Section Bank resolution).

The funds of the deposit guarantee fund have not been activated since its establishment.

Deposits at banks from EEA countries that provide banking services in Slovenia via a branch or directly are covered by the deposit guarantee scheme in the country in which the bank is established. The deposit guarantee scheme in Slovenia pays out coverage for deposits at the branch of a bank of the aforementioned country in Slovenia at the request of and on behalf of the deposit guarantee scheme in the aforementioned country. The deposit guarantee scheme of the aforementioned country provides funds in the amount of the covered deposits that will be paid out in Slovenia, and all necessary information and instructions for paying out the covered deposits of the branch.

Banka Slovenije is a signatory to the multilateral cooperation agreement of the European Forum of Deposit Insurers (EFDI), which regulates cooperation between deposit guarantee schemes.⁴² Two branches of banks from EEA countries were able to provide financial services in Slovenia in 2021.

3.6 Banknotes and coins

Supplying cash to the market is one of Banka Slovenije's key tasks. By the end of 2021, a total of EUR 12.9 billion of cash had been net issued into circulation by Banka Slovenije since the introduction of the euro, of which banknotes accounted for EUR 12.8 billion (475.1 million banknotes) and coins for EUR 128.4 million (481.2 million coins). In terms of quantity, the 20-euro note has the highest net issuance (293.7 million banknotes), followed by the 10-euro note (112.4 million banknotes), the 50-euro note (90.7 million banknotes), the 200-euro note (7.7 million banknotes) and

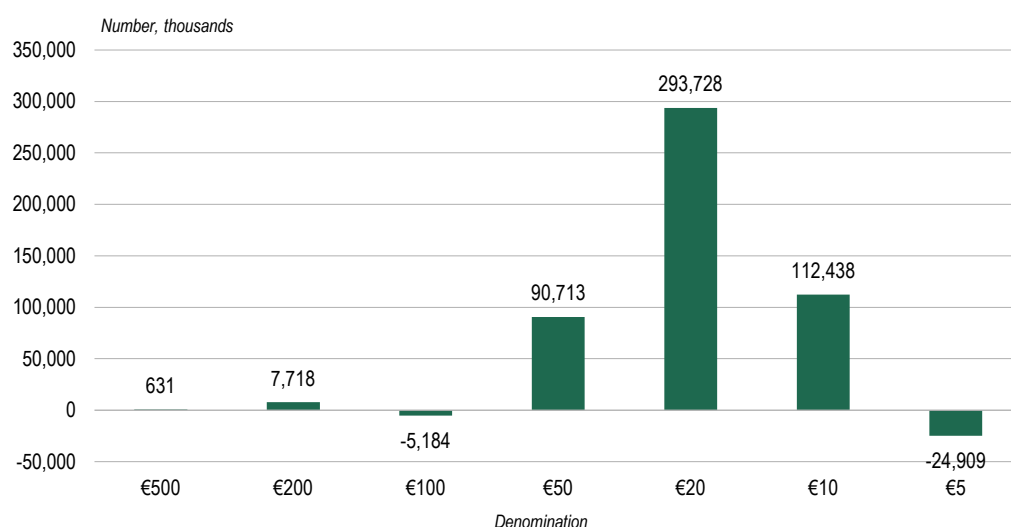
⁴¹ The annual reports of the deposit guarantee fund are published on [our website](#).

⁴² For more about the EFDI Home-Host Multilateral Agreement, see [link](#).

the 500-euro note (630,900 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 of returned banknotes). The coins with the highest net issuance in terms of quantity were the 1-cent (153.7 million coins) and the 2-cent (101.9 million coins), while the lowest net issuance was recorded by the 50-cent (15.5 million coins). Euro cash was supplied to the market by Banka Slovenije from the central cash centre and through our banknote depots.

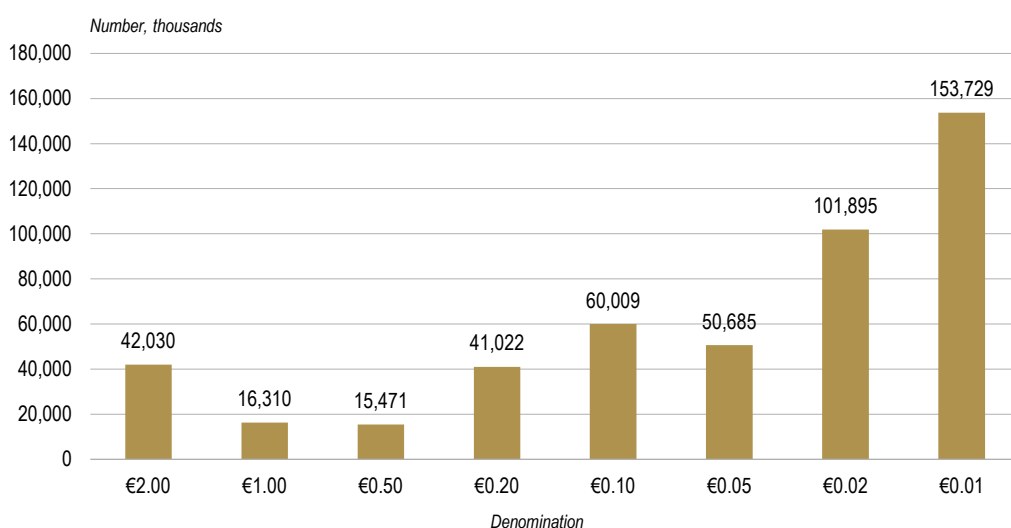
By the end of 2021, a total of EUR 12.9 billion of cash had been net issued into circulation by Banka Slovenije since the introduction of the euro.

Figure 29: **Net issued banknotes by denomination, 31 December 2021**



Source: Banka Slovenije

Figure 30: **Net issued coins by denomination, 31 December 2021**



Source: Banka Slovenije

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.⁴³ Banka Slovenije issued a commemorative 2-euro coin into circulation to mark the

⁴³ For more, see the Numismatics section on our [website](#).

200th anniversary of the founding of the Provincial Museum for Carniola, the first museum in Slovenia (1 million coins minted), and collector coins marking the 300th anniversary of the Škofja Loka Passion (500 gold, 1,000 silver and 47,250 bimetallic 3-euro coins were minted) and the 30th anniversary of Slovenia's statehood (750 gold, 1,250 silver and 51,000 bimetallic 3-euro coins were minted). For the numismatic market we issued a collection of euro coins minted in 2021 in BU (brilliant uncirculated) and proof versions, and a 2-euro commemorative coin and 3-euro collector coin, both proof-quality. The collector products issued by the Republic of Slovenia and Banka Slovenije are/were available at our cash desk and at selected branches of our two agents for collector products, Deželna banka Slovenije, d. d., and Moro & Kunst, d. o. o.

In 2021 Banka Slovenije placed in circulation a commemorative coin to mark the 200th anniversary of the founding of the Provincial Museum for Carniola, the first museum in Slovenia, collector coins marking the 300th anniversary of the Škofja Loka Passion, and collector coins to mark the 30th anniversary of Slovenian statehood.

Photograph 1: Collector coins marking the 300th anniversary of the Škofja Loka Passion (gold coin, silver coin and 3-euro coin)



Photograph 2: Collector coins issued to mark the 30th anniversary of Slovenia's statehood (gold coin, silver coin, 3-euro coin)



Photograph 3:
**Commemorative coin
marking the 200th
anniversary of the
founding of the Provincial
Museum for Carniola, the
first museum in Slovenia**



Photograph 4: **Collection
of Slovenian coins in 2021**



On special occasions, Banka Slovenije issues medallions, which are also prized among numismatic enthusiasts. In October 2021 we marked the 30th anniversary of Banka Slovenije with the issue of gold and silver medals (500 gold and 1,000 silver medals minted). In contrast to commemorative and collector coins, the medals are not legal tender and have an exclusively numismatic value. To date Banka Slovenije has issued three medals, marking the 10th anniversary of the tolar and on the 20th and 30th anniversaries of Banka Slovenije. As part of the celebrations of the 30th anniversary of Banka Slovenije, we made available special sets of medals containing gold and silver medals marking the 20th and 30th anniversaries of Banka Slovenije (altogether four medallions).

In October 2021 we issued gold and silver medals on the 30th anniversary of Banka Slovenije.

Photograph 5: **Gold and
silver medals on the 30th
Anniversary of Banka
Slovenije**



A total of 366 exchanges of tolar banknotes and payment notes were made at Banka Slovenije (2020: 577 exchanges of tolar banknotes and payment notes). In 2021 a total of EUR 149,300 value of tolar banknotes and payment notes were returned from circulation (2020: EUR 118,600 worth). The total value of the tolar banknotes and payment notes still in circulation as at 31 December 2021 was EUR 31.7 million. Payment notes and tolar banknotes are exchangeable at Banka Slovenije cash desk with no time limit, while the exchange of tolar coins ended on 3 January 2017 in accordance with the Euro Adoption Act.

At the end of 2021 the total value of the tolar banknotes and payment notes still in circulation was EUR 31.7 million.

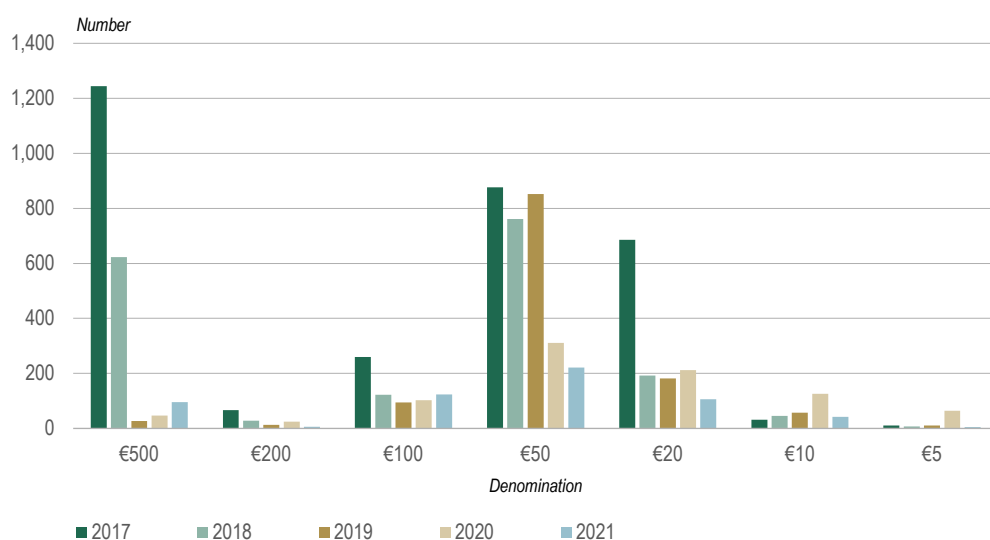
As part of the Eurosystem, we are aware of climate change and the fragility of the environment, for which reason all accredited manufacturers involved in the production chain for banknotes are required to meet the ISO 14001 requirements on environmental management and the OHSAS 18001 requirements on 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 2021 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 life-time of banknotes through the use of new materials. The longer banknotes can remain in circulation, the smaller their environmental impact is.

The cash processing unit sorted 118.9 million banknotes and coins (2020: 124.8 million banknotes and coins). A total of 118.6 million banknotes and 0.3 million coins were sorted in 2021 (2020: 124.5 million banknotes and 0.3 million coins). A total of 13.7 million euro banknotes were taken out of circulation and destroyed in order to maintain the general quality of banknotes in circulation (2020: 17.6 million banknotes). Last year's reduction in the quantities of processed banknotes and coins, as in the previous year, was directly attributable to the containment measures in connection with the coronavirus epidemic. The closure of sales outlets meant that consumer spending was lower, and consequently cash use was also lower, and less was returned to Banka Slovenije.

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 598 counterfeit euro banknotes and 2,475 counterfeit euro coins were withdrawn⁴⁴ from circulation in 2021, compared with 887 euro banknotes and 2,622 euro coins in 2020. The number of detected counterfeits reached their lowest level since 2002. The 50-euro banknote accounted for the largest proportion of counterfeit banknotes in terms of quantity (37% of the total), while 2-euro coins accounted for the largest proportion of counterfeit coins (90%). The Eurosystem figures in this area rank Slovenia among countries where a small number of counterfeits are withdrawn from circulation. Some 26 foreign currency counterfeits (US dollars and Croatian kuna) were discovered in 2021, compared with 177 counterfeits in 2020. The quality of foreign currency counterfeits has remained at approximately the same level.

⁴⁴ 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 31: **Breakdown of counterfeit euro banknotes withdrawn from circulation, by denomination**



Source: Banka Slovenije

Box 6: **Cash operations during the pandemic**

The impact of the Covid-19 pandemic on demand for cash diminished in 2021 compared with 2020. Particularly in the first and less so in the second wave of the Covid-19 pandemic, we observed a significant increase in demand for cash, especially on account of cash as a store of value, while the use of cash as a means of payment decreased.

In 2021 demand for cash eased further, but remained at a higher level than in the years prior to the Covid-19 pandemic. This is confirmed by the average net issuance of cash and the amounts of all transactions and individual withdrawals at ATMs (Automated Teller Machines). The latter remain at around EUR 150, while prior to the pandemic the average amount of an individual withdrawal was a little under EUR 120. Just like since the beginning of the pandemic, in 2021 too, ATMs were used less frequently, but when they were used, larger amounts on average were withdrawn.

In July 2021 the ECB published a [study](#) in which it was determined that the SARS-CoV-2 virus was transmitted from cash to human fingers in quantities that were less than required for infection, so the possibility of transmitting infection both via banknotes and coins was extremely low, and lower than the possibility of infection from iron or plastic. The ECB also found that there is increasing evidence that the virus for the most part is spread via respiratory fluids and air (aerosols). Based on the results of testing, scientific literature and also the previous findings about the transfer of avian and swine flu, the ECB concluded that the danger of transmitting infection via cash was extremely low and for this reason it was safe to use.

By means of appropriate preventive measures, in 2021 Banka Slovenije again ensured the smooth functioning of cash operations throughout the Covid-19 epidemic, and will continue to do so in the event of possible new outbreaks of infection, just as it would do so in all eventualities.

As part of its regular activities, Banka Slovenije is implementing tasks related to education and training for verifying the authenticity and fitness of euro cash. In order for this programme to be accessible to the widest possible circle of people, including professional users of cash, to this end we devised and developed an e-learning tool accessible at the [Banka Slovenije website](#).

Through this free tool Banka Slovenije is seeking to encourage banks, savings banks, exchange offices and also traders to train up their employees, or simply refresh their knowledge, in the area of verifying the authenticity and fitness of euro cash. There is special emphasis on recognising the basic characteristics of euro banknotes and coins, their security features and on recognising counterfeits, so we recommend this training for all tellers and cash handlers.

3.7 Payment and settlement systems

Payment and settlement systems are financial market infrastructures that facilitate the transfer of funds and securities and is a fundamental component of the financial system. By ensuring the effective, continuous and secure processing of a large number and high value of financial transactions (i.e. the exchange and settlement of payments and securities), they make a significant contribution to the smooth functioning of financial markets, and thereby to general economic stability and efficiency.

We enable operators in the market to make settlements in risk-free central bank money in the TARGET Services infrastructure. In this regard we operate the TARGET2-Slovenija payment system within which we manage accounts for participants for settling large-value payments, dedicated cash accounts for settling securities transactions in the TARGET2-Securities (T2S), the pan-European platform for the settlement of securities transactions, and dedicated cash accounts in Target Instant Payment Settlement (TIPS), the pan-European infrastructure for instant payments in euros. In addition, we are also a participant of the TARGET Services infrastructure. Moreover, we enable access to pan-European retail payment systems for Slovenian banks and savings banks. As supervisors we ensure the compliance of payment and settlement systems, providers of payment services and electronic money issuance services and exchange offices with the regulatory requirements. We also act as a catalyst for the activities of market participants in the area of payments and market infrastructure for payments and securities.

Despite the difficult circumstances, Banka Slovenije carried out the aforementioned tasks smoothly in 2021, a year still marked by the Covid-19 epidemic, including through remote working.

Management of payment infrastructure

Banka Slovenije was managing settlement accounts in the TARGET2-Slovenija payment system for 18 Slovenian market participants at the end of 2021 (the same as at the end of 2020), who during the course of the year settled a total of 1,084,570 transactions (up 11.2% on 2020) with a total value of EUR 480.11 billion (up 1.4% on 2020). We managed 23 cash accounts for settling securities transactions on the T2S platform for 11 Slovenian market participants (the same as at the end of 2020), who

settled 39,134 transactions over the course of the year (down 21.5% on 2020) in the total amount of EUR 13.01 billion in securities (up 18.4% on 2020). Regarding instant payments in TIPS, for each of the 11 Slovenian participants (nine more than at the end of 2020) we operated one cash account through which we settled 87,361 transactions in the value of EUR 94.93 million.⁴⁵

In 2021 the Slovenian participants in the TARGET2-Slovenija system settled 1,084,570 transactions worth EUR 480.11 billion, 39,134 transactions worth EUR 13.01 billion in cash accounts in T2S, and 87,361 transactions worth EUR 94.93 million in cash accounts in TIPS.

In the cross-border retail payments segment, we enabled credit institutions in Slovenia to exchange SEPA credit transfers with more than 5,000 payment service providers and to exchange SEPA direct debits with more than 4,000 payment service providers across the EU.

In 2021 we took part in the continuing development of TARGET Services as the financial market infrastructures owned and operated by the Eurosystem, with a focus on the project of consolidating the existing TARGET2 payment system and T2S platform. The project, which is aimed at facilitating for the European banking community easier access to the market infrastructure services of the Eurosystem, ensuring more efficient liquidity management and a higher level of security, will be concluded in November 2022 with the migration of TARGET2 payment system participants to the new technical platform. This involves the participation of 25 European central banks and their banking communities, and in the Slovenian environment Banka Slovenije is monitoring progress of all the necessary adjustments made by TARGET2 Slovenian participants, and is providing the requisite expert support in this process. Project activities in the Slovenian banking community proceeded in accordance with the plan in 2021.

Supervision of payment and settlement systems and of payment service providers

With the aim of ensuring efficient, continuous and secure operation of payment and settlement systems and payment service providers, Banka Slovenije monitors and analyses their operation and issues supervisory measures. In accordance with the ZPlaSSIED we supervise payment systems, credit institutions, payment institutions and electronic money institutions, and exchange offices in accordance with the Foreign Exchange Act (ZDP-2). In line with the *Decree on implementation of Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories*, we share our supervisory powers with the Securities Market Agency (ATVP) regarding supervision of the settlement system operator.

In 2021 in accordance with the ZPlaSSIED we issued one licence for the issuing of electronic money and one for obtaining a qualifying holding, two licences for performing payment services due to a merger, and registered one account information service provider. In accordance with Commission Delegated Regulation (EU) 2018/389 we issued two banks licences for exemption from the obligation to set up a fall back mechanism, and in accordance with the ZDP-2 we issued one licence for performing currency exchange services.

⁴⁵ A comparison with 2020 is not shown, since the first two Slovenian banks joined the TIPS system in December 2020, and the number of transactions in 2021 amounted to 134 worth EUR 370,570.

We continued supervision of the implementation of security measures in e-commerce card payments within e-trade and removing obstacles on dedicated interfaces for accessing payment accounts. In the area of payment services we conducted full-scope supervision of one savings bank and began focused supervision at three banks and one savings bank. Moreover, we concluded two procedures of supervising payment system operators, as part of which we checked their compliance with the relevant legal requirements. We also concluded a focused supervisory procedure of one payment system operator with an aim of inspecting its cyber resilience. We also conducted supervision of three exchange offices.

In 2021 we completed our first supervisory procedure of the central securities depository in cooperation with the ATVP, pursuant to Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories. In accordance with the regulatory requirement to perform annual supervisory procedure, we commenced our second supervisory procedure of the same central securities depository in October 2021.

Supporting and promoting the actions of market participants

In 2021 we continued efforts to guide market participants with the aim of improving competition and accelerating the development of payment and securities markets, in line with the Eurosystem policy. Here we focus on objectives that service providers and users in these markets cannot attain alone, or that require the broader alignment of private and public interests, and we proceed from our own neutrality, systemic view, knowledge, reputation and the fact that we are not acting as a competitor to other participants.

In 2021 we started the project of analysing the payments market in Slovenia, which is financed by the European funds. The purpose of this is to obtain an in-depth overview of the retail payments market in Slovenia, and to design a strategy to increase the efficiency and competitiveness of the payments market in Slovenia. We also set up a special working group that started compiling a selection of proposed measures to combat the grey economy in Slovenia in connection with methods of payment. Our regular activities include promoting harmonisation with pan-European (and global) practices and standards in the area of financial collateral management, and efforts to raise the level of cyber resilience of payment infrastructures and securities. In this respect we guided the activities of stakeholders on three working bodies, namely the National Payments Council, the National Stakeholder Group for Market Infrastructure for Securities and Financial Collateral, and the National Group of Stakeholders for Market Infrastructure for Payments.

Via the Banka Slovenije fintech innovation hub we provide clarifications in connection with regulatory requirements falling under our jurisdiction to market entities whose financial solutions are based on advanced technologies. In 2021 the majority of clarifications related to offering services in connection with crypto-assets, obtaining authorisation to perform payment services or electronic money issuing services and to listing in the register providers of account information services. We are building on our proactive role in the promotion of innovations in financial services through activities undertaken at the international level, where we participate in the European Forum for Innovation Facilitators (EFIF) and the BIS Innovation Hub. We also work actively with associations representing market stakeholders as part of various fintech-related events.

The digital euro would be a central bank digital currency, representing the new electronic form of the euro issued by the Eurosystem and adapted to the digital age. Holders of digital euros would have – as they would with cash – a non-risk claim against the central bank, with digital euros not replacing cash but complementing it.

In October 2021 the Eurosystem initiated the investigation phase of the Digital Euro project, which is aimed at responding to key questions related to the issuance of the digital euro. The principal aims of the investigation phase are to define the functionality of the digital euro, deal with unresolved questions, identify specific use cases, business models and the technical solutions and to decide on the role of financial intermediaries in the distribution of digital euros. Once the investigation phase is completed, a decision will be made on the transition to the implementation stage, and provided there is an ultimate positive decision the digital euro could be available at the earliest at the end of 2026.

The digital euro will affect a wide selection of stakeholders, so their involvement will be key to the project's success. In the first step, as part of the Eurosystem we concluded the public consultation in January 2021 regarding the anticipated features of the digital euro, and the response of more than 8,000 interested representatives of the general public and professional circles was a record for the history of the Eurosystem. Privacy, security and the possibility of payment using digital euros throughout the euro area are the most desired properties of the digital euro, and interested circles anticipate even lower costs of use (free of charge for consumers), simplicity and the possibility of interoperability with the existing payment systems. The Eurosystem further bolstered relations with stakeholders in 2021, with a local focus group being set up in each Member State of the euro area, enabling us to get insight into the payment habits of the general public and its opinion regarding the digital euro. Here we work with the banking sector and industry in the context of the Market Advisory Group, which serves for the exchange of opinions on the key properties of the digital euro with market participants.

Through its expert positions, Banka Slovenije helps formulate the foundation of the digital euro within Eurosystem working bodies. At the same time we ensure the full and timely notification of the Slovenian public regarding progress on the project, and to this end in March 2021 we organised a public debate with the aim of exchanging positions and viewpoints on the challenges and opportunities associated with the issuance of the digital euro. We also organised several events in 2021 for interested experts, who had the chance to present their concepts and analyses concerning the digital euro, along with their views of the possibilities of implementing the digital euro in Slovenia's payment environment.

Instant payments allow the payee to receive the funds in their account immediately or shortly after the payer has submitted the payment order. They are available to users 24 hours a day, every day of the year.

2021 was important for establishing instant payment in Slovenia, for we noted a high increase in the number and value of instant payments, and the growth trend is expected to continue in the coming years. In 2021 the share of instant payments amounted to 2.1% of the number and 0.2% of the value of all payments in the payment systems operating under Slovenian law. Due to their characteristics instant payments have great potential to become established as an effective alternative to existing methods of payment.

The fundamental characteristic of instant payments is network effects, meaning that each increase in the number of new users increasing the benefits for the entire market. For this reason the European Commission and the Eurosystem are encouraging the activities of market participants to increase the use of instant payments, as the payment solutions based on instant payments offered by EU payment providers still lack European reach and can be used only in certain countries. The consequence of this fragmentation is that in the payments segment, points of sale are still dominated by international card payment providers based outside the EU.

With the aim of increasing the autonomy of the European payments market, in line with the strategies of the European Commission and Eurosystem, the vision for retail payments is therefore that instant payments be fully established and become the new 'norm' for payments. In line with this, as part of the National Payments Council (NSP) Banka Slovenije supports the activities to develop effective Europe-wide solutions, and we are steering and encouraging market participants towards looking into the potentials of business models of the emerging European initiatives in the area of payments.

In this regard, with the aim of facilitating the efficient execution of instant payments and ensuring their Europe-wide reach, since November 2018 Banka Slovenije has enabled banks and savings banks to join the TIPS Eurosystem infrastructure for executing instant euro payments. In this way it enables them to make instant payments with all payment service providers in the EU that are participating in the TIPS infrastructure. By the end of 2021 a total of 11 Slovenian banks and savings banks had joined TIPS, while Banka Slovenije itself has enabled instant payment services for budget users since April 2020 for domestic, and since October 2021 also for cross-border instant payments.

3.8 Joint management 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 194.3 million as at 31 December 2021). 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 NCBs have contributed their shares to the ECB's foreign reserves, which they manage jointly with the ECB.

In 2021 Banka Slovenije and the Central Bank of Luxembourg were among the most successful in the Eurosystem in their joint management of the ECB's foreign reserves.

Since 1 January 2007 Banka Slovenije and the Central Bank of Luxembourg have jointly managed their share of the ECB's foreign reserves, and were among the most successful central banks in the Eurosystem in doing so in 2021, as we were in 2020. 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.

3.9 Management of Banka Slovenije's financial assets

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 4 billion at the end of 2021 (similar to 2020).

Banka Slovenije's financial assets amounted to EUR 4 billion at the end of 2021.

The asset breakdown is determined on the basis of the strategic asset allocation, which is updated once a year, having regard for all constraints, by optimising the expected return while keeping quantitatively expressed financial risks 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 either in terms of currency breakdown or in terms of asset class breakdown. Approximately half of Banka Slovenije's assets are actively managed against benchmark portfolios. Banka Slovenije's financial assets encompass holdings of sovereign, supranational, agency, regional, covered and corporate debt (financial and non-financial). In addition, with the aim of diversifying risks and attaining higher potential long-term returns we began investing a portion of our financial assets in exchange-traded funds (ETFs), which match the movements of a global equity index that is diversified in terms of geographical region, currency and sector. Monetary gold also constitutes part of our financial assets.

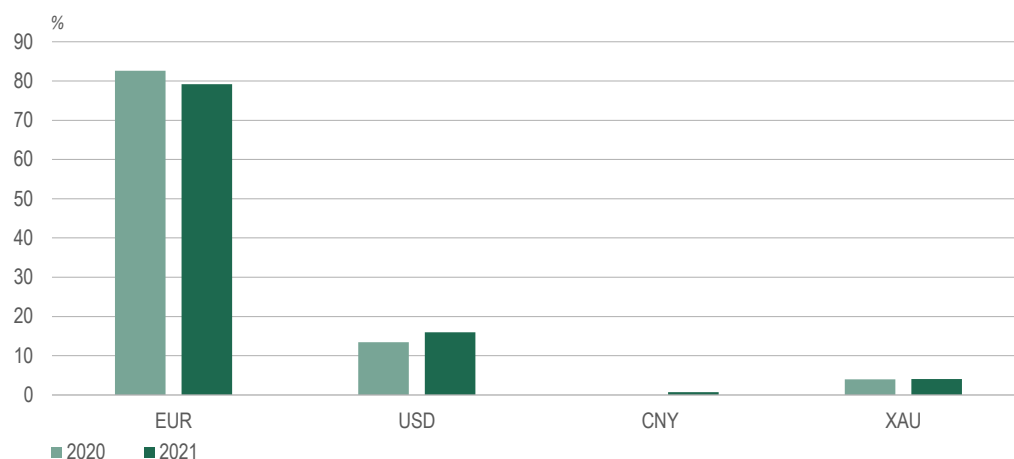
Investments in debt instruments are generally restricted to those with an internal Banka Slovenije rating of at least A–. Furthermore, investments in different types of debt are additionally limited by the prescribed maximum allowable aggregate exposure to an individual type of debt, and are limited to a list of eligible issuers. There is also an upper exposure limit per individual issuer or per group of connected entities, which depends on the internal Banka Slovenije rating. Any deviations from the aforementioned constraints are approved by the Governing Board of Banka Slovenije, or by the investment committee under the Governing Board's guidelines. The latter also monitors the asset management process on a monthly basis.

The great majority of our financial assets is denominated in euros (EUR 3.2 billion), with the remainder in foreign currencies. There was a slight change in the

currency breakdown of Banka Slovenije's portfolio of financial assets in 2021, related to an increase in the share of unhedged USD reserves as the national amount of currency swaps used to hedge currency exposures declined. Equally, with the aim of diversifying risk and achieving higher potential long-term yields, we invested a smaller portion of assets in the fund of Chinese government bonds administered by the Bank for International Settlements (BIS) in 2021.

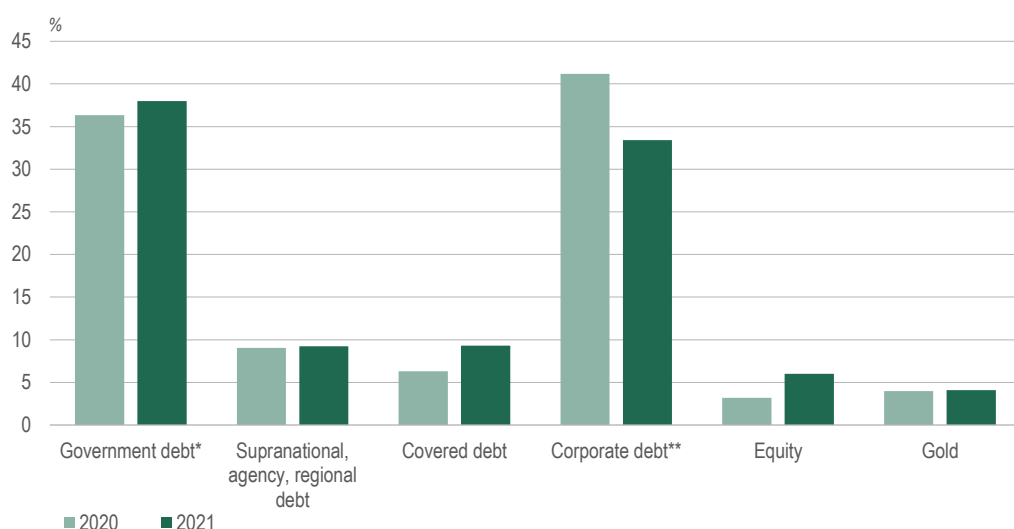
The breakdown of Banka Slovenije's financial assets by asset class in 2021 exhibits a decline of corporate debt (33%) compared to last year in favour of a slight increase of investments in government (38%) and covered debt (9%) and in equity ETFs (6%). The maturity breakdown is as follows: 37% in the bucket of up to 1 year, 18% in the bucket of 1 to 3 years, and the remainder in the bucket of more than 3 years (including holdings in the BIS fund and equity ETFs, which have no determinate maturity). There were no significant changes in the breakdown of Banka Slovenije's financial assets by credit rating in 2021. The proportion of assets rated AAA amounted to 49%, those rated AA amounted to 16%, and the remaining were rated below AA (including holdings of equity ETFs, which are unrated).

Figure 32: **Currency structure of Banka Slovenije's financial assets**



Source: Banka Slovenije

Figure 33: **Asset class breakdown of Banka Slovenije's financial assets**

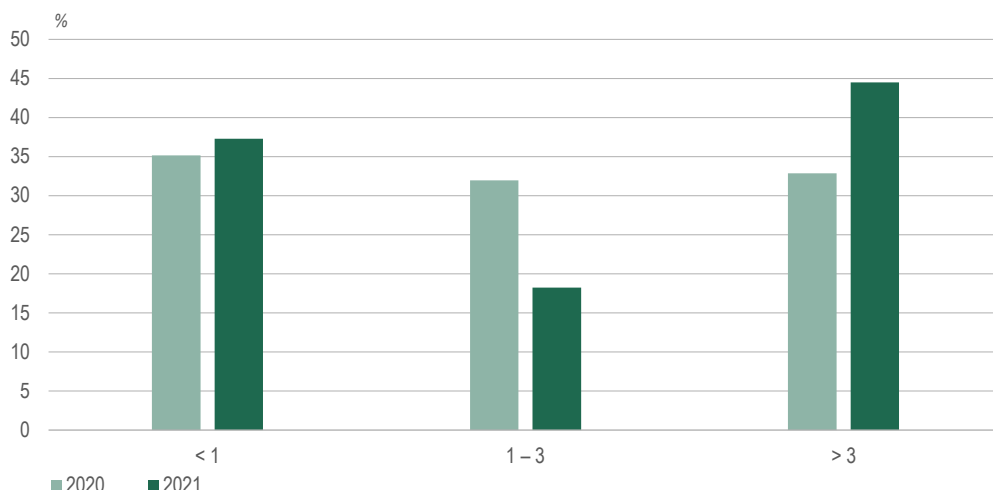


* Includes account balance.

** Financial and non-financial corporate debt.

Source: Banka Slovenije

Figure 34: **Maturity breakdown of Banka Slovenije's financial assets**



Source: Banka Slovenije

Box 10: Further steps in integrating sustainable investing

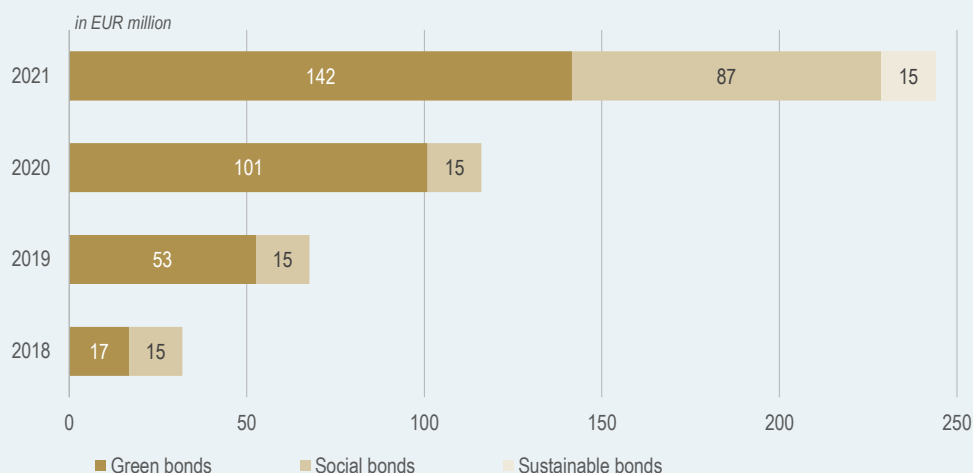
Numerous central banks and other institutional investors have in recent years been devoting growing attention to socially responsible and sustainable investing, with the aim of actively contributing to the transition to a low-carbon economy. We wish to raise awareness and understanding of the public regarding climate risks and challenges, and at the same time we are making efforts to improve the quality of disclosed information related to effects on climate change. In line with this a number of Eurosystem central banks, including Banka Slovenije, already follow various approaches to the socially responsible and sustainable management of their own financial assets.

In recent years at Banka Slovenije we have already put several measures in place in our asset management that strive for socially responsible and sustainable investing, while meeting the primary objective of asset management (strengthening capital over the medium term). In 2021 we additionally increased the scope of investments in bonds where the issuers typically allocate the collected funds to financing projects that have a positive impact on the environment and/or society. We have increased the scope of investments in green, socially beneficial and sustainable bonds by EUR 128 million to EUR 244 million (at the end of 2020 a total of EUR 116 million). Moreover as part of investing in euro denominated corporate bonds we are continuing to follow the exclusion list of one of the largest pension funds, operated by Norges Bank Investment Management. Companies in the tobacco and arms industries and companies engaged in coal mining and in electricity generation using thermal power stations (i.e. where these activities account for 30% or more 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.

With the aim of contributing to global efforts to improve the quality of reporting on the effects on climate change, in 2023 the central banks of the Eurosystem will begin measuring and reporting carbon footprint and other indicators of socially responsible and sustainable investing for their own portfolios of euro-denominated securities. Moreover in the future Banka Slovenije will strive to build up the framework of socially responsible

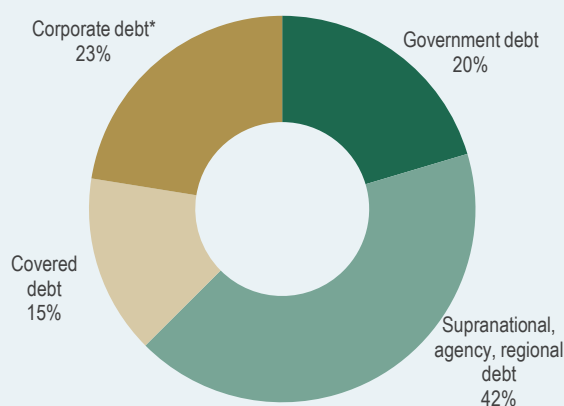
and sustainable investment through the analysis and implementation of new, more progressive management strategies and through the aim of reducing the carbon footprint of our own financial assets.

Figure 35: **Market value of investments in green, socially beneficial and sustainable bonds**



Source: Banka Slovenije

Figure 36: **Investments in green, socially beneficial and sustainable bonds by asset class as at 31 December 2021**



* Financial and non-financial corporate debt

Source: Banka Slovenije

3.10 Central Credit Register

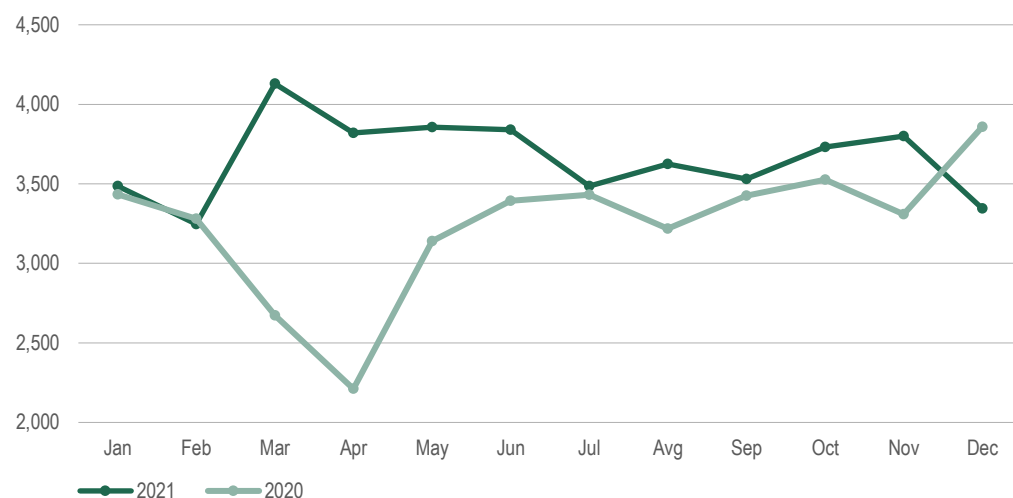
The central national database of the debts of individuals (SISBON) and business entities (SISBIZ) had by 31 December 2021 processed data on the credit operations of 1,577,861 individuals and 107,416 business entities. At the end of 2021 there were 62 different creditors that had access to SISBON, of whom 39 were members (entities referred to in Article 15 of the Central Credit Register Act⁴⁶), who have access to all data in the SISBON system, and 23 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 36 creditors, all with system member status, that had access to data in the SISBIZ system.

⁴⁶ Central Credit Register Act (Official Gazette of the Republic of Slovenia, No. 77/16): <http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7517>.

Data on the debts of 1,577,861 individuals and 107,416 business entities is managed in the information exchange systems.

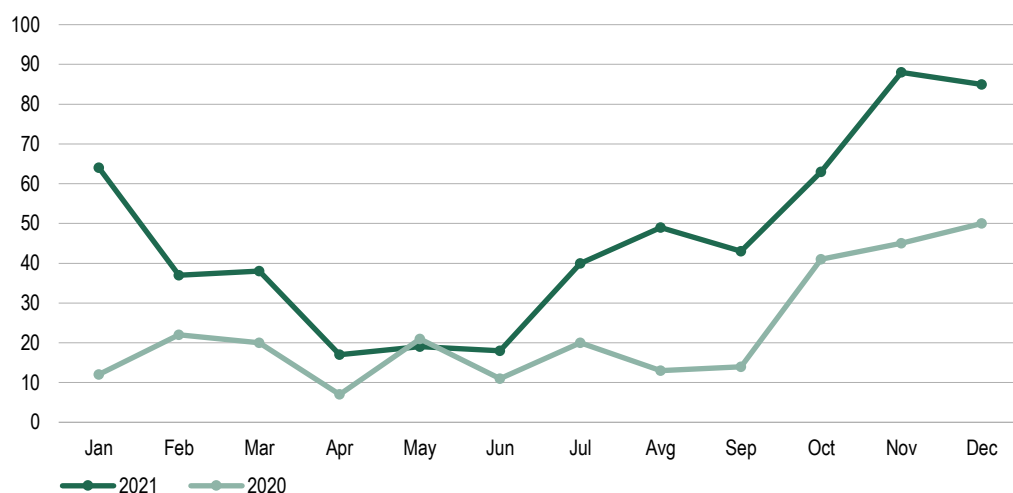
We administered the information exchange system efficiently in line with the requirements of the relevant legislation. Members of the system and included lenders were ensured uninterrupted operation of the system 24 hours a day, every day of the year. We enabled individuals and business entities whose data is in the system to freely exercise their statutory rights with regard to their own data. Individuals viewed their own data 43,896 times in total in 2021, of which 39,048 were via the Moj SISBON mobile app or online app, and 4,848 were orders for printed or electronic transcripts. Business entities viewed their own data 561 times, via the Moj SISBIZ online app.

Figure 37: Number of individual data subjects' enquiries into their own data



Source: Banka Slovenije

Figure 38: Number of business entities' enquiries into their own data



Source: Banka Slovenije

With a view to ensuring the security of the system and the accuracy and currency of the data kept in the system, we conducted supervision of the members' compliance with sectoral legislation. In the supervision procedures we conducted 18 audits of SISBON members and 18 audits of SISBIZ members, which resulted in a total of 127 audit recommendations. One additional audit of a new SISBON member and

two audits of new SISBIZ members were conducted for the purpose of determining whether all technical and security conditions for joining the system and processing the data held in the system had been met.

The volume of complaints concerning the accuracy of data is relatively small given the number of individuals and business entities for which data is kept in the system. A total of 979 complaints were submitted by individuals in 2021 in connection with the accuracy of the data in the SISBON system (up 18.5% on the previous year), equivalent to 0.06% of all people whose data is administered in the system. Of these, 31.6% were upheld, an increase of 5.3 percentage points relative to the previous year. In terms of content, justified complaints for the most part relate to the incorrect reporting of the conclusion of credit transactions for persons that were in personal bankruptcy and to the incorrect reporting of the status of concluded execution. Business entities made a total of 17 complaints in 2021, equivalent to 0.02% of all the business entities about which data is administered in the system.

3.11 Payment services for Banka Slovenije clients

Banka Slovenije is a payment service provider, and manages accounts for clients, of whom the largest group are budget spending units. Banka Slovenije administers the government's single treasury account and the single municipal treasury accounts. The accounts of direct and indirect spending units of the state budget and municipal budgets, which include the Health Insurance Institute and the Pension and Disability Insurance Institute, were 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.

Banka Slovenije allows its clients to execute credit transfers and direct debits. We also offer receipt of instant payments, the number of which in 2021 already exceeded a million transactions.

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

We are included in various payment systems and other systems, and have put in place a network of correspondent accounts abroad. This ensures that our clients can make payments to their counterparties around the world without disruption, and receive payments from them. We provide payment services with a high degree of automation, mainly using in house developed software. Less than 1 percent of all transactions are performed manually.

In 2021 the number of customers fell to 158 and the number of accounts held to 166, which is a consequence of including individual municipalities and thereby their budget spending units in the state single treasury account system. A total of 35 municipalities closed their single treasury accounts and together with the budget spending

units transferred the performance of payment transactions to newly opened sub-accounts in the state single treasury account.

The number of transactions was up by 2.6 million or 5 percent relative to 2020. The biggest increase was in the number of domestic credit payments, which include instant payments. We exceeded the milestone of a million received domestic instant payments, while we also carried out a portion of client credit payments as instant payments.

The area of payment services is undergoing continuous development. In 2021 we ensured cross-border accessibility for instant payments. In September 2021 we joined the European SEPA instant payments scheme (SCT Inst scheme), which is managed by the European Payments Council. In October 2021 by joining TIPS we enabled our clients to receive cross-border instant payments.

We also devoted a considerable portion of our efforts in 2021 to upgrading our applications for operating with the new consolidated platform of the TARGET2 and TARGET2-Securities system, to which migration is scheduled to go live in November 2022 as part of a Eurosystem's T2/T2S Consolidation project.

3.12 Statistics

In 2021 Banka Slovenije successfully carried out 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.

Financial Institution and Market Statistics

Two updates to the guidelines on reporting by monetary financial institutions (MFI) were issued in 2021. With the first amendment we supplemented the information on approved deferrals in repaying debt due to Covid-19, with the date of maturity of the last approved deferral and the number of months of deferral in BS1S and BSZAM reports. The second amendment served to change the reporting of the carrying amount of debt instruments, which are measured at fair value via other comprehensive income (due to the changed definition of gross carrying amount of these instruments in the Commission Implementing Regulation of 2021). Moreover due to the AnaCredit Regulation we introduced additional labelling of the postcode for the location of real estate provided as collateral, information in the BSZAV collateral table and comprehensive reporting of the BSPOV table of associated persons.

At the end of 2021 **in the Official Gazette of the Republic of Slovenia we published for the first time Instructions on the Reporting of Monetary Financial Institutions (MFI)**, together with the completely revised Regulation on Reporting by MFIs, which did not affect the obligation to report. We also published for the first time on the website an English translation of the Regulation on Reporting by MFIs.

With the regular monthly reporting **of data on interest rates and balance sheets of MFIs** we had to change the data requirements in line with the new Regulation ECB/2021/2 on the balance sheet items of credit institutions and of the monetary financial institutions sector. The updated calculation methodology required additional breaking down by sector and the introduction of additional reporting items.

In the context of investment funds statistics, given the regular reporting we agreed with the ATVP on the introduction of reporting for alternative investment funds (AIF), including for the needs of financial account statistics. We drafted instructions for AIF reporting which will be supplemented with the requirements of the new ECB regulation. Our aim is to secure reporting by AIFs with a total asset value of over EUR 1 million.

In 2021 **access to the ESCB AnaCredit database on credit and credit risk** based on prior approval and a signed confidentiality statement based on need-to-know criteria was acquired by users within the ESCB/SSM system. Access to the database for potential external users (SRB, EBA, EC, etc.) is not yet possible, since some countries are still in the process of intensive improvement of the quality of data. The quality of data for Slovenian reporting entities is among the highest, since at all required levels of quality assessment we achieve 100-percent criteria.

In the area of payments statistics, alongside the regular work a change was effected in reporting in line with the amended payments statistics regulation (Regulation ECB (EU) 2020/2011 of 1 December 2020 amending Regulation (EU) 1409/2013 on payments statistics (ECB/2013/43) (ECB/2020/59)). We issued a new Regulation on the Reporting of Payments Statistics (Official Gazette of the Republic of Slovenia, No. 153/21) and Guidelines for the reporting of payments statistics (Official Gazette of the Republic of Slovenia, No. 153/21). We also established regular communication with reporting entities on the preparations for the revised reporting, which begins in 2022 and which in addition to expanded already existing data on payments will cover data on fraud. The extensive substantive changes to reporting also required thorough and extensive technical overhauling of the reporting system.

External Statistics

Banka Slovenije conducted a revision of its statistics on the balance of payments, the international investment position and the external debt for the period from 2018 to 2020. Despite the epidemic we carried out the revision in accordance with the calendar of publications. Although we received annual and final report data from AJ PES in May, instead of in April as is usual, we were able to perform the main quality controls and adjustments to the population for the international economic relations statistics.

Through the revision of the three-year period we increased the surplus in the current account by EUR 0.4 billion and in the financial account by EUR 0.7 billion. In this way we reduced the statistical error by EUR 0.3 billion and consequently increased the net balance of international assets at the end of 2020 by EUR 0.5 billion.

One of the biggest remaining challenges in current account data is assessing travel services. Data on exports of travel are fairly well covered, since they incorporate data from the TU_TURISTI survey for 2019 and the TU_POTNIKI survey for 2020, which are conducted by the Statistical Office. There was weaker coverage of data on imports of travel, due to the poorer results of the TU_ČAP telephone survey, which is also conducted by the Statistical Office. This meant that the assessment of imports depends particularly on the analysis of Eurostat bilateral data for 2020. The change to travel data contributed to a higher current account surplus – with an increase of EUR 91 million in 2019 and EUR 61 million in 2020.

The biggest change in the revision of the balance of payments was in the financial account. We significantly increased the estimate of cash in circulation. This is connected to the sharply increased issuing of euro cash during the epidemic. The change generated a major financial account surplus (EUR 0.8 billion), which contributed most to the significantly lower statistical error in 2020.

In 2021 we fully satisfied the requirement for expanded reporting of data to the European Central Bank for the period starting in 2013 in accordance with the Guidelines of the European Central Bank (EU) 2018/1151.

In 2021 together with the Statistical Office we set up an informal working group for implementing the new business statistics regulations. At the end of 2019 Regulation (EU) 2019/2152 on European business statistics (EBS) was adopted, with entry into force on 1 January 2021. Detailed technical requirements were defined in the Commission general implementing regulation (EU) 2020/1197, with additional requirements for monitoring data in the area of foreign undertakings and domestic associated branches and for detailed analysis of international trade in services (ITSS). The ITSS requirements were added to the general implementing regulation very late (after the adoption of the EBS, in the beginning of 2020), and a certain part (analysis of ITSS in terms of method of supply) of the methodology was known only in December 2021. Banka Slovenije and the Statistical Office cannot fulfil the new requirements without linking up their sources. We obtained an informal agreement regarding the method of fulfilling the requirements, and at the end of 2021 we had already started preparing our portion of the data for this purpose.

Financial Accounts Statistics

In 2021 a revision to the financial accounts data for 2019 and 2020 was made, the purpose of which was to reduce inconsistencies between the financial and non-financial accounts, particularly in the household sector. Following the revision, the inconsistency between financial and non-financial accounts in all sectors is at an acceptable level of less than 2% of GDP.

Other statistics and activities

In cooperation with SID banka, in 2021 we again conducted a **survey of corporate access to financing, including questions on the impact of the epidemic on companies.** The Banka Slovenije survey gives a view of the availability of external financing from the corporate perspective.

By the end of 2021 we had performed a **replacement of the ECB standard for creating GESMES reports with the newer SDMX standard.** We implemented the SDMX standard successfully and in a timely fashion.

By October 2020, when the epidemic put a halt to **field surveying for the ESCB Household Finance and Consumption Survey (HFCS),** around 40% had been completed. It was continued from May to the end of 2021. There were difficulties mainly due to a lack of survey takers, and a somewhat higher level of rejection due to the epidemiological situation.

Banka Slovenije's cooperation with other institutions and expert groups

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 and expert groups in Slovenia and abroad.**

4.1 Banka Slovenije's work in the domestic and international environments

Slovenia's Financial Stability Board (FSB) **again discussed systemic risks in 2021, and was briefed on supervisors' macroprudential measures and actions taken to meet the ESRB's recommendations.** There were no new reports issued in 2021, but the FSB regularly monitors the implementation of already issued recommendations. Other topics addressed by the Board that involve the work of Banka Slovenije were the government initiative to change the arrangements for macroprudential supervision of non-banking providers of credit to households, a review of the issue of voluntary pension insurance and establishing the co-presidency and updating the mandate of the FSB Working Group for fintech and cybersecurity.

As part of the FSB Working Group for fintech and cybersecurity, in 2021 we continued addressing the trends in the area of technology associated with the provision of financial services, and of European legislative proposals and other initiatives associated with financial technologies. At the same time we devoted special attention to the issue of cybersecurity in the wider financial system.

In 2021 as part of the FSB Working Group for climate risk we assessed the transition risk in the banking system and in insurance companies, and monitored the development of regulations in the area of sustainable financing. The current assessments of climate risk indicate that it is low to moderate in insurance companies and the banking system.

Banka Slovenije representatives took part in four meetings of the **Committee for Cooperation between Supervisory Authorities** (Banka Slovenije, Ministry of Finance, Securities Market Agency, Insurance Supervision Agency) in 2021. The meetings discussed the following:

- legislative innovations in the financial realm;
- joint inspections and major individual inspections by supervisory authorities at supervised entities;
- the main decisions and debates of the EBA's Board of Supervisors and the SSM, the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA);
- the consequences of the Covid-19 crisis on the financial sector and supervisory authorities;
- other subjects of relevance to supervisory authorities, the financial sector and users of financial services (e.g. the pan-European personal pension plan).

As part of the National Payments Council in 2021 using acquired European funds we started the project of analysing the payments market in Slovenia. We set up a special

working group whose activities will contribute to the timely and high-quality implementation of the aforementioned project, financed with funds in the European Commission call for support for reforms under the instrument for technical support for EU Member States. We also started compiling proposed measures to combat the grey economy in Slovenia in connection with methods of payment, incorporating the experiences of other countries, and addressed current events in the area of payments and paying in the EU.

In 2021 Banka Slovenije representatives 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.

There were two informal meetings of the ECOFIN (the EU's council of economics and finance ministers, joined by the EU central bank governors) in 2021. The first meeting was held in Lisbon in May 2021, and the second was in September 2021 in Brdo pri Kranju as part of the Slovenian Presidency of the EU Council. On that occasion, Banka Slovenije held a working lunch at which it hosted the President of the ECB and the governors of the EU national central banks.⁴⁷

In 2021 the Economic Financial Committee (EFC) addressed both current economic and financial developments, especially the growing prices of energy and inflationary pressures, as well as matters related to finalising the banking union, establishing a union of capital markets and financing the recovery instrument *NextGenerationEU*. It also discussed the current proposed legislative packages of the European Commission (preventing money laundering, Basel III, the capital markets union) and issues related to international meetings on the global level.

Representatives of the ESCB's statistics system and the European Statistical System (consisting of Eurostat and the national statistical offices) sit on the **Committee on Monetary, Financial and Balance of Payments Statistics** and the **European Statistical Forum** with its sub-groups. Joint discussions continued in 2021 in connection with the excessive deficit procedure, the exchange of confidential information, the asymmetry of foreign investment, the revision of statistical standards, identification of business entities and aspects of globalisation.

In the **area of macroprudential policy**, Banka Slovenije representatives actively work with the **ESRB, the ECB and other macroprudential authorities of Member States**. We sit on the working groups of the ESRB and the ECB in which the starting points for implementing European macroprudential policy are formulated. To date, under the aegis of the ESRB we have issued a total of 18 recommendations via which European macroprudential policy is to be implemented at national level. The ESRB recommendations addressed to the national macroprudential authority are implemented in accordance with the Banking Act (ZBan-3). 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 other Member States.

In the area of microprudential policy, Banka Slovenije representatives are involved in the activities of the European Banking Authority (EBA), where through collaboration in the Board of Supervisors, permanent committees and numerous working groups we contribute to drafting regulatory and implementing technical standards, guidelines and recommendations aimed at ensuring a uniform method of implementing

⁴⁷ For more on this, see Box 11: Activities of Banka Slovenije during the Slovenian Presidency of the Council of the European Union.

rules and standardising of supervisory practices. In 2021 under the aegis of the EBA we worked on the following strategic priorities: (1) finalising implementation of the revised prudential framework for supervision and resolution, (2) upgrading the framework for carrying out EU stress tests, (3) preparing the conditions for setting up an integrated EU data centre, (4) contributing to the development of financial innovation and digital resilience of the financial sector, (5) setting up infrastructure in the EU for supervision of the prevention of money laundering and terrorist financing and (6) the design of tools for managing ESG risk.

In 2021 as part of the **technical assistance received from the European Commission** under the auspices of the programme to support structural reform, work was completed on assistance in setting up an effective system of data management, and work continued in relation to upgrading the tool for analysing bank business models. Under the auspices of the European Commission technical assistance instrument, which replaced the programme to support structural reform, work began on analysing the payments market in Slovenia.

Banka Slovenije staff take part in programmes of technical assistance to other central banks and supervisory institutions. In 2021 they provided assistance to the central bank of Montenegro in the area of resolution of credit institutions.

Work continued in 2021 in connection with the 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 staff play a part in this programme. The programme is provided by national central banks in the ESCB and by the ECB, and is funded by the EU. The programme was extended to the end of 2021 because of the epidemic. In addition to cooperation in the programme of workshops organised at partner institutions, Banka Slovenije organised a workshop on the topic of EU integration, administration and the issue of compliance.

Banka Slovenije is also responsible for representing Slovenia in certain other international institutions. **Slovenia is a member of 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 586.5 million SDRs⁴⁸ at the end of 2021, 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 2021. While the spring meeting took place virtually, the Banka Slovenije delegation attended the meeting in October 2021 in Washington, as it was carried out in a hybrid format. 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 in light of the pandemic, and measures to alleviate its impact on the global economy.

Under the general allocation, Banka Slovenije received 562.1 million SDRs.

In response to the crisis brought about by the pandemic, with the aim of increasing liquidity in the international monetary system the IMF adopted a decision in August 2021 on a new general allocation in the amount of 650 billion SDRs. In view of its share of the quota, Slovenia received 562.1 million SDRs.

⁴⁸ SDRs (special drawing rights) are a unit of account whose value is based on a basket of five currencies (US dollar, euro, renminbi, Japanese yen and pound sterling).

Slovenia also participated in financial transactions under the FTP in 2021. Slovenia's reserve tranche position at the IMF increased relative to 2020 to stand at 157 million SDRs at the end of December 2021. Slovenia was called on once to contribute funds in 2021, in the total amount of 12 million SDRs.

IMF consultations with Slovenia under Article IV of the IMF Statute took place in March 2021 virtually. Due to the pandemic conditions, virtual meetings were arranged with representatives of Banka Slovenije, the Ministry of Finance, other ministries, the IMAD, the Fiscal Council, the BAMC, the Slovenian-German Chamber of Commerce, the Chamber of Commerce and Industry, the Association of Employers of Slovenia, the PDII, the National Assembly, the Bank Association of Slovenia, selected commercial banks and trade unions, and with representatives of firms in the tourism sector. The purpose of these consultations was to review the latest economic developments, the evolution and economic impact of the pandemic, the functioning of the financial sector and banking system, and challenges for the future. The consultations were concluded with discussion of the report by the IMF Executive Board and its publication on the [IMF website](#).

Two brief visits by IMF representatives were also made in 2021, in January and November. In these cases too the meetings with the representatives of various institutions were only held virtually.

The IMF continued to play an important part in the global financial system's response to the crisis. By means of special crisis lending instruments, it was able to provide timely financial assistance particularly to the most vulnerable countries with low revenues that were hardest hit by the health and economic crisis. A key part was also played by the decision on the most extensive general allocation of SDRs in history, which entered into force in August 2021. Related to this, a decision was also made on the voluntary channelling of SDRs away from member states with solid economic foundations to those that are more vulnerable and are most in need of additional help during this crisis. To this end a new instrument is in the process of being formulated – the IMF Resilience and Sustainability Trust (RST).

Its activities also continued to focus on debt relief and restructuring for the most vulnerable countries, and the provision of conditional financing to the countries that needed it.

Following recovery, which must be green, inclusive and digital, the IMF also comes to the fore in an oversight role. In this area it focuses on challenges associated with climate change and the formulation of the institutional aspect regarding liberalisation and the management of capital flows.

The Governor of Banka Slovenije attends meetings of central bank governors of members of the Bank for International Settlements, 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, in 2021 most notably on managing foreign exchange reserves and central bank risks, tackling climate change, methods of work after the pandemic and multilateral payment systems. A Banka Slovenije representative also attended virtually the regular meeting of the BIS Working Party on Monetary Policy in Central and Eastern Europe in 2021. Banka Slovenije is a shareholder in the BIS, and the Governor of Banka Slovenije attended the annual general meeting of the BIS, which was held virtually in June 2021.

Banka Slovenije representatives attended sessions of certain committees and working groups of the Organisation for Economic Co-operation and Development (OECD). They participated in virtual 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.

Box 11: Activities of Banka Slovenije during the Slovenian Presidency of the Council of the European Union

The second half of 2021 was notable for the Slovenian Presidency of the EU Council, which also involved Banka Slovenije. In cooperation with the Ministry of Finance, at the beginning of September 2021 we organised an informal meeting of the Economic and Financial Affairs Council (ECOFIN), which in addition to the finance ministers of EU Member States was attended by members of the expanded ECB Governing Council. On that occasion, Banka Slovenije held a working lunch in its premises, at which it hosted the governors of the EU national central banks and the President of the ECB, Christine Lagarde.

By providing expert support, Banka Slovenije was also very active in the negotiations of the Slovenian Presidency in several legislative packages related to financial services. These include efforts to complete the banking union, where special emphasis was on improving the method of rescuing banks in difficulty and harmonisation of the liquidation regimes for banks. On the expert level Banka Slovenije has also participated in negotiations over the legislative package in the area of prevention of money laundering and terrorist financing (AML package) and implementation of the Basel III agreement, as well as packages in the area of digital finance (digital operational resilience for the financial sector, cryptocurrency markets, market infrastructure based on distributed ledger technology).

Despite the obstacles associated with the Covid-19 pandemic, Banka Slovenije boosted its international activities in 2021. As Slovenia embarked on its Presidency of the Council of the EU, in July 2021 Banka Slovenije held a consultation entitled The Future of Europe: Monetary Policy Challenges and Citizens' Views was held as part of a Europe-wide debate among citizens about the future of Europe. The panellists, who included the governor of the central bank of Slovakia, gave their views of the current situation and the euro area's future challenges.

4.2 Cooperation with domestic institutions

Banka Slovenije again worked with the **Ministry of Finance** in 2021 to draft legislative proposals in banking and finance, most notably on expert coordination and the preparation of positions with regard to new draft regulations and amendments.⁴⁹ The past year was also noted for activities related to the Slovenian Presidency of the EU Council

⁴⁹ Areas in which we worked included amending and drafting the Banking Act, the Prevention of Money Laundering and Terrorist Financing Act, the Payment Services, Electronic Money Issuance Services and Payment Systems Act, the Central Credit Register Act, the Companies Act, and the emergency laws in the area of finance (the emergency measure of the loan moratorium, and the guarantee scheme).

that also involved Banka Slovenije representatives. We participated in activities related to the legislative package for the transposition of Basel III into EU banking legislation.

In the context of the adoption of legislation at the EU level we were involved in the formulation of positions with regard to the next steps in the completion of the banking union, sustainability legislation and consumer credit.

At the level of the ESCB, we are involved each year 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 works with the **Office for Money Laundering Prevention (OMLP)** on AML/CFT supervisory 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. There was also cooperation between Banka Slovenije and the OMLP as part of the drafting of a proposed new Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-2), the report on progress achieved in the assessment of Slovenia by the MONEYVAL committee of the Council of Europe and the updating of indicators for identifying suspicious transactions, and together with the Ministry of Finance and OMLP we worked intensively on the Slovenian Presidency of the EU Council.

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. Consequently this contributes to the greater financial stability of banks and savings banks and thus has a positive effect on financial markets.

Banka Slovenije's collaboration with the **Bank Association of Slovenia (BAS)** continued in 2021. Banka Slovenije representatives also participated in numerous expert conferences and committee sessions organised for bank executives and professionals, contributing articles and discussions. These included the presentation of new features of banking legislation and sustainable financing, and the emergency legislation adopted during the coronavirus epidemic, plus supervisory expectations in the area of AML and terrorist financing and consumer credit. We also used the BAS to inform banks of new developments in legislation, and of major consultations in connection with regulatory products adopted at EBA level.

Banka Slovenije's reporting to the National Assembly

Under Article 26 of the ZBS-1, Banka Slovenije reports on its work to the National Assembly of the Republic of Slovenia, and attends meetings of other National Assembly bodies when invited to do so. In 2021 Banka Slovenije representatives reported to the National Assembly's finance committee during the presentation of *Banka Slovenije's 2020 Annual Report* and the *Financial Stability Board's Annual Report*. We also participated in ten sessions of National Assembly committees and commissions, where we gave clarifications and answers to deputies' questions, to the finance and monetary policy committee on five occasions, the public finance supervision commission on two occasions and the commission for commerce, small business, tourism and finance on three occasions. 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 committee and the finance minister did not attend meetings in 2021.

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 (Article 52 of the Bank of Slovenia Act) in accordance with Article 27(1) of the Statute of the ESCB and of the ECB. The Statute lays down that the accounts of the ECB and national central banks must be audited by independent external auditors recommended by the Governing Council and approved by the Council, then confirmed by the Banka Slovenije Governing Board. 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.

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.⁵⁰ 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.

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

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.

As at 31 December 2021, the composition of the Governing Board was as follows:

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

6.2 Work of the Governing Board of Banka Slovenije in 2021

The Governing Board decides upon matters falling within Banka Slovenije's competences. These competences are set out by 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.**

⁵⁰ Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, Nos. 72/06 – official consolidated text, 59/11 and 55/17).

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 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 6 correspondence sessions in 2021. The Governing Board discussed a total of 502 agenda items in 2021, most often in the area of banking supervision and licensing, as is the case every year, with somewhat fewer items in the areas of cash operations, economic and monetary policy, financial stability, bank resolution and payment and settlement systems.

**Box 12: Response of
Banka Slovenije to
increased climate risk**

Banka Slovenije is well aware of the increasing climate risks and of the importance of collective efforts, and so we take an active role in the working groups of the relevant international institutions, for instance in the European Central Bank, the European Systemic Risk Board and the European Banking Authority. In October 2020 Banka Slovenije joined the Network for Greening the Financial System (NGFS). Around a hundred institutions work together in the network, including central banks, other banking supervisors and international financial institutions. Involvement in the NGFS helps to promote more comprehensive discussion of climate risks in the Slovenian banking system.

The new monetary policy strategy of the European Central Bank (ECB) also systematically takes into account climate factors. The Governing Council of the ECB has

adopted a comprehensive action plan with an ambitious timetable of activities to further incorporate climate change considerations into its policy framework.

In the autumn of 2021 the United Nations climate conference took place in Glasgow (COP26), regarding which in the framework of our mandates, the central banks made a commitment to cooperation in the global response in the fight against climate change.

Banka Slovenije committed to contribute to the goals of the Paris Agreement and the efforts of the NGFS as part of its mandate over the following years in the following areas:

- as a member of the Eurosystem, we will continue our engagement in the development and implementation of supervisory methodologies and practices for climate-related and environmental risks; in 2022 banks will thus be subject to a climate risk stress test exercise for the first time;
- in analyses we will take into account climate change and the impacts of measures associated with it on macroeconomic trends;
- in the context of managing our own financial assets we will strive towards socially responsible and sustainable goals; over the next two years we will begin reporting the carbon footprint and other indicators of socially responsible and sustainable investing, which will contribute to the goals of a low-carbon economy;
- we will promote the integration of climate and environmental risks into risk management frameworks and decision-making processes by maintaining an open and regular dialogue with credit institutions;
- we will strengthen employee qualifications (training) to adequately address the impact of climate change in all areas of the operations of Banka Slovenije; we will deepen cooperation with other relevant institutions in order to introduce best practices and avoid duplication of work;
- in 2022 we will adopt an action plan aimed at reducing our own carbon footprint.

In the autumn of 2021 Banka Slovenije set up a Climate Change and Green Agenda Committee. We set up the committee so as to effectively link, coordinate and steer work in the area of climate change and the green agenda within Banka Slovenije, and so as to cooperate with other institutions in this area.

The committee is tasked with ensuring that climate change and green agenda content relevant for the functioning and implementation of tasks of Banka Slovenije will be addressed comprehensively, and in line with the Banka Slovenije Strategy and the ECB monetary policy strategy. We will assess the strategic and other long-term aspects of this issue that affect our functioning and the implementation of our tasks. We will also work to ensure the exchange of opinions and information in this area among the various specialised departments at Banka Slovenije and to ensure cooperation with external stakeholders.

6.3 Public relations

At Banka Slovenije we endeavour to communicate with all audiences in a clear, substantive and effective manner. In this way we make sure that our message reaches the right audience at the right time. Our transparent communications help to raise Banka Slovenije's profile, and to build its reputation in the domestic and foreign environments.

Media and other public communications

In 2021 we fielded and answered a total of more than 570 questions from journalists, and issued 81 press releases, 63 Banka Slovenije publications and six ECB publications. Banka Slovenije representatives took part in six major interviews and five expert contributions, issued ten statements for TV and radio, and organised six press conferences, three informal meetings for journalists and a briefing for journalists. We also organised four panel discussions involving representatives of the profession and the media.

Our activities in 2021 were dominated by the epidemic, which was reflected in the questions addressed to us by journalists. There were frequent questions about the impact of the coronavirus on the economy (loans, inflation, the property market) and our forecasts. The media also sought information on the introduction of custody fees and possible bank take-overs.

The media published a total of 2,250 stories in connection with Banka Slovenije in 2021, approximately 188 a month. Slightly more than 64% of these were carried by online media: the largest number were on the portals of Sta.si, Delo.si and Finance.si. The print media published approximately 30% of all media stories on Banka Slovenije, while TV and radio were responsible for the remaining 6%.

In addition to media questions, in 2021 Banka Slovenije received and responded to more than 1,200 questions from the general public, individuals and businesses alike. We also dealt with a large number of complaints from consumers, and responded to multiple questions regarding numismatics, the issuing of authorisations and other banking regulations.

Publications

In 2021 we issued all the established periodical publications:

The *Financial Stability Review*, in which Banka Slovenije analyses systemic risks in the financial system every six months;

The *Macroeconomic Projections for Slovenia*, which is issued twice yearly, in June and December, and provides macroeconomic forecasts for the next three years;

Economic and Financial Developments, which four times a year provides detailed analysis of the international environment, the real sector in Slovenia, the labour market, public finances, the financing of firms, households and banks, and inflation.

Monthly Information on the Operation of Banks, which contains key balance sheet data of the banking system for the last available month, current monthly data on interest rates and non-performing loans, and every quarter data on the operation of leasing companies.

We also published the *Bulletin* (monthly), *Slovenian International Economic Relations* (monthly), *Financial Accounts* (annually and quarterly) and *Direct Investments* (annually).

In addition to periodical publications, Banka Slovenije issues original research articles and occasional publications. Last year for instance the *Banka Slovenije Working Papers* contained two articles and *Surveys and Analyses* contained one. We also issued three additional publications: *Fintech and payments: trends*, *Assessing the suitability of members of supervisory boards of banks and savings banks* and *Analysis of the impact of measures in connection with the Covid-19 epidemic on cash and card operations*.

As part of marking the 30th anniversary of Banka Slovenije we issued several special publications, which are described in Box 12.

Education and training

Banka Slovenije organised the Generation Euro competition for the tenth consecutive year in 2021, 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 third round was held virtually. The finalists nevertheless showed a high level of knowledge and innovation, despite the circumstances. The winning team in 2020/21 was Absolutne ničle (Absolute Zeros) of Grammar School II in Maribor.

In 2021 we awarded prizes for the best master's and doctoral theses in the areas of economics, banking, insurance, finance and financial law with seven theses winning prizes.

During the pandemic education and training were for the most part transferred online. In cooperation with the School of Economics and Business of the University of Ljubljana we conducted online seminars, and also held the majority of education days remotely. The financial literacy programmes, which we provide mainly for primary and secondary schools, were attended last year by around 1,500 pupils. In 2021 we enhanced our education and training activities by marking Global Money Week, i.e. the worldwide week of financial education, which ran from 22 to 28 March 2021 and which we joined officially for the first time. We designed two prize creative competitions, with particular note being taken of the primary schools art competition *Mascot of Banka Slovenije*. More than 450 kindergarten and primary school children sent in their creations. We awarded prizes to the three best in the three age categories. The banking hours, which we designed in that week for the third triad of primary schools and for secondary schools, saw the participation of around 600 pupils. For the first time we also created a prize quiz which took place on social networks.

Banka Slovenije library

The Banka Slovenije library is a specialist library, whose range of informative resources and literature provides support for the work process of its host organisation. The material is scanned into Cobiss, and is thus available for borrowing by external users. In 2021 the library opened its doors once again, albeit gradually, to external users. Our external users mostly have highly specific requirements, and use the library as a research resource featuring a variety of economic material not available elsewhere, most notably various reports and financial data from global monetary institutions and banks (IMF, OECD, Fed).

The library is home to around 16,000 bibliographic units, primarily in the areas of banking and central banking, finance, economics, legislation and information technology. In 2021 we published 137 e-books. We forwarded 250 online professional papers and reports issued by various financial institutions that we monitor. Last year 30 e-journals were maintained and updated on the intranet site. We purchased 35 print versions of books and 135 serial publications (financial journals and foreign dailies specialising in economics and finance). Banka Slovenije staff borrowed 177 books on interlibrary loans. Subscriptions were renewed for 21 different databases used by staff members in their work.

Banka Slovenije's Mala galerija (Little Gallery)

In 2021 we carried out in full the programme planned for Banka Slovenije's Mala galerija. We also strengthened cooperation with certain prominent international projects taking place in Ljubljana.

We held nine exhibitions, of which five were in collaboration with the University of Ljubljana (one still from the 2020 programme), one independent exhibition staged by Banka Slovenije (marking the 30th anniversary of its founding) and three with other external partners, specifically with the Slovenian Illustration Biennial, Forum Ljubljana (the Lighting Guerrilla festival) and with the International Graphic Arts Centre as part of the 34th Graphics Biennial. The Graphics Biennial was the most noted and best visited exhibition of 2021. Given the conditions during the epidemic, our assessment is that the gallery was very well visited in general, since we recorded more than 3,200 visitors, which is comparable with the pre-epidemic period.

While the space was closed, access to the gallery's content was maintained again in 2021 by increasing the amount of content online, particularly on social media, for which specially tailored content was produced, and we are continuing this in 2022. We regularly produce video content and presentations in which we provide comprehensive information on our exhibitions and accompanying events.

Photograph 6: **Exhibition as part of the 34th Graphics Biennial: The Possibility We Are Poisoned**



Banka Slovenije Museum

In 2021 we opened the Banka Slovenije Museum, intended for visitors of all ages. Visitors learn, in instructive but fun ways, about the historic role played by Banka Slovenije during the independence process, how the central bank supervises the financial system, how it attends to price stability, and how in conjunction with the other central banks of the Eurosystem it takes decisions on the Governing Council of the ECB.

Since it opened, the Banka Slovenije Museum has hosted numerous events. We organised guided tours for the Summer Museum Night, provided guided tours of the museum for closed groups, we included a museum tour in the education days activities, and we presented the museum's work to numerous prominent Slovenian and international guests.

The opening of the Banka Slovenije museum was continuously adjusted to the latest epidemiological situation, so visits in the late autumn and winter were limited. Nevertheless in the second half of 2021 around 200 people visited the museum. Visitors to the museum included the President of the ECB, Christine Lagarde, Slovenian President Borut Pahor, former governors of Banka Slovenije and representatives of the European Commission.

Photograph 7: Visit of ECB President Christine Lagarde to the Banka Slovenije Museum, 9 October 2021



Banka Slovenije had a celebratory year in 2021 on its 30th anniversary. So how did we mark it?

In the spring we opened the Banka Slovenije Museum, which presents a part of our efforts towards financial literacy, and is designed so that all generations can learn about the work of Banka Slovenije and its place in the Eurosystem. On 19 May 2021 the museum was officially opened by Slovenian President Borut Pahor and Governor Boštjan Vasle.

Photograph 8: **Official opening of the Banka Slovenije Museum, 19 May 2021**



We created a special [website](#) that features an overview of the main activities marking the 30th anniversary, the history, interesting photos and lighter topics. You can also follow the journey that Banka Slovenije has travelled over the past 30 years – from the introduction of our own currency to the present day.

We produced a short animation intended principally to present to the general public in a relatively simple way the four key pillars of Banka Slovenije.

In September we marked the anniversary by issuing gold and silver medallions.⁵¹ Chosen in an online survey, the design depicts the mutual dependence of the country and the central bank.

On the eve of the anniversary of the birth of the tolar, 7 October 2021, the main event was held: a gala celebration at Cankarjev Dom. The ceremonial speeches were given by Boštjan Vasle, Governor of Banka Slovenije, and President Borut Pahor. The official ceremonies were followed by an informal gathering and a look at an exhibition staged specially for the occasion.

⁵¹ For more details see Section 3.6 Coins and banknotes.

Photograph 9: **Speech by Governor Boštjan Vasle at the national celebration marking the 30th Anniversary of Banka Slovenije, 7 October 2021**



We also awakened memories of October 1991, when Banka Slovenije was making its final preparations for issuing payment notes. One of the ways that Banka Slovenije marked this key milestone was with a projection mapping on the façade of the Banka Slovenije building at Slovenska 35. The video projection showed the transition from payment notes via tolar banknotes and coins to euro cash.

Photograph 9: **Video projection on the Banka Slovenije building as part of the 30th anniversary celebrations**



Banka Slovenije staff presented the diversity of tasks and challenges to the public on social media.

In the Banka Slovenije Mala galerija we opened an exhibition on the Story of the Tolar. We placed a spotlight on the first currency in independent Slovenia and on those who created it.

Photograph 11: **The Story of the Tolar exhibition**



We designed for primary school children an art competition, while secondary school and university students tried their hand at making videos.

We also put together extensive informational material in which we present clearly, along with illustrations, the key tasks of the central bank – the brochure 30 Years of Banka Slovenije, the Story of the Tolar and flyers to promote the Banka Slovenije Museum.

In view of the deteriorated epidemiological outlook, some events planned for the autumn were postponed to a time when the situation would allow for in-person events.

We also published an internal magazine highlighting some of the main milestones, we talked to staff who have worked at Banka Slovenije since it was established, we pieced together better and lesser known facts and pictorial material and of course took a look into the future.

6.4 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 department. 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.

The risk management department is connected to two Banka Slovenije committees holding risk management powers: the risk committee and investment committee. The first one works principally in the area of non-financial risk, and the latter has a mandate from the Banka Slovenije Governing Board to manage the financial risks of Banka Slovenije's financial assets. Over the past year the risk committee met nine times and addressed 48 items, mainly in the area of operational risk and information security risk, while the investment committee met 13 times to discuss 104 agenda items, mainly in connection with the management of Banka Slovenije's financial assets.

6.5 Audit Committee

Alongside its internal working bodies, Banka Slovenije has an Audit committee, which aims to improve governance at Banka Slovenije by means of additional independent oversight alongside internal and external auditing. Headed by an external expert, it functions as a consultative body to the Governing Board, and in doing so 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 Code of Ethics.

Banka Slovenije's Audit committee functions as a consultative body to the Governing Board, with the aim of improving governance through additional independent oversight.

The Audit committee met nine times in 2021. Items addressed included the external auditor's report on the audited financial statements, and the method of auditing at Banka Slovenije, the Bank resolution fund, the Deposit guarantee fund, and the Resolution and deposit guarantee fund for 2020. Although Banka Slovenije is not subject to the requirements of Regulation (EU) No 537/2014 and Directive 2014/56/EU (which applies to audits of public-interest entities), after conducting the closing audit the external auditor revised the audit report in 2021 (as in 2019 and 2020) at the Audit committee's request in accordance with Article 11 of the aforementioned regulation, which prescribes mandatory elements for an additional report to the Audit committee.⁵²

The Audit committee was also briefed on reports on the work of the Internal audit department, issued opinions with regard to audit engagements, followed up the implementation of internal audit recommendations and the selection of the external auditor for the period from 2021 to 2023, and discussed the reports of the whistleblowing commission at Banka Slovenije.

Furthermore in 2021 the Audit committee was briefed on the Banka Slovenije's risk reports compiled by the Risk management department, and on the work plan of the Compliance department and its report on work completed in the previous year.

⁵² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0537>.

Data are of strategic importance for Banka Slovenije, and are a vital component of the majority of business processes, so efficient data management is the duty of all employees at Banka Slovenije. We affirmed the special importance of this area with the establishing of the data management department, which started operation on 1 May 2021. This department represents the second (coordination) level of three levels of data management. The first (operational) level comprises administrators of the data of different offices and departments that own data, and the third (strategic) level is Banka Slovenije bodies. The department's mandate focuses on:

- setting up and monitoring the data management process;
- establishing effective infrastructure for data management and data architecture and
- coordinating processes tied to new and changed data requirements.

One of the key challenges we noted in the area of data management in 2021 is the integration and rationalisation of the reporting framework and the design of an efficient data architecture and management processes. Due to the great heterogeneity of data supporting numerous basic functions at Banka Slovenije, and the involvement of our institution in international reporting chains, the projects to rationalise and integrate reporting, such as the ECB's IREF (Integrated Reporting Framework) and the EBA's Feasibility Study on Integrated Reporting, are increasingly important factors in designing internal processes and long-term strategies for data management. In the context of creating a domestic reporting framework, in 2021 Banka Slovenije deliberated over 12 new or changed reporting requirements that were almost entirely intended for the banking system, of which five were questionnaires and seven were changes to the existing reporting framework. Due to the technological and procedural advances in the wider area of data management that we have witnessed globally in recent years, a large part of our efforts has been focused on modernising the data architecture. Indeed a modern data architecture together with agile processes that support it are essential for adaptation to the challenges that are coming. We may expect activities in both these areas to be further enhanced in the next few years.

6.6 Banka Slovenije's performance in 2021

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

Balance sheet developments in 2021

The balance sheet total stood at EUR 33.2 billion as at 31 December 2021, up EUR 7.2 billion on the end of 2020.

On the asset side, there were increases of EUR 2.8 billion in net purchases of securities for the implementation of monetary policy, and EUR 1.0 billion in the stock of banks' longer-term refinancing operations. The largest exposure in the form of investments in securities for monetary policy purposes consisted of Slovenian government bonds (EUR 14.3 billion). The growth in receivables from the International Monetary Fund (IMF) in the amount of EUR 0.8 billion is the result mainly of the new general SDR allocation in 2021.

On the liability side, there were increases in current account balances of banks (by EUR 2.6 billion), euro deposits by the government sector and other clients (by EUR 1.6 billion), liabilities to the IMF (by EUR 0.7 billion) and banknotes in circulation (by EUR 0.5 billion). There was an increase of EUR 1.6 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 2.5 billion).

Financial performance in 2021

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 160.4 million in 2021, up EUR 10.3 million on the previous year. This was driven primarily by the rise in the stock of banks' excess reserves and the government's euro deposits, which are remunerated at the deposit facility rate.

The net gain realised on the sale of securities and foreign exchange positions amounted to EUR 10.8 million. Banka Slovenije marks its positions to market prices at the end of the year, disclosing the negative revaluation effects as an expense. These expenses amounted to EUR 14.9 million in 2021, 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. Given the rising risk assessment, we created provisions for covering expenses from financial and other risks in the net amount of EUR 75.2 million. Net fees and commission (EUR 12.9 million), income from participating interests (EUR 7.4 million), the net result of pooling of Eurosystem monetary income (minus EUR 23.5 million) and other income (EUR 2.3 million) amounted to minus EUR 0.9 million in 2021. Operating costs amounted to EUR 43.0 million in 2021. Banka Slovenije thus generated a surplus of income over expenses in the amount of EUR 37.1 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, in EUR million

Year	Surplus	Legal requirement of contribution to state budget	Contribution to state budget
2017	70.7	17.7	17.7
2018	63.4	15.9	15.9
2019	180.7	45.2	45.2
2020	81.0	20.2	20.2
2021	37.1	9.3	9.3
Total			108.2

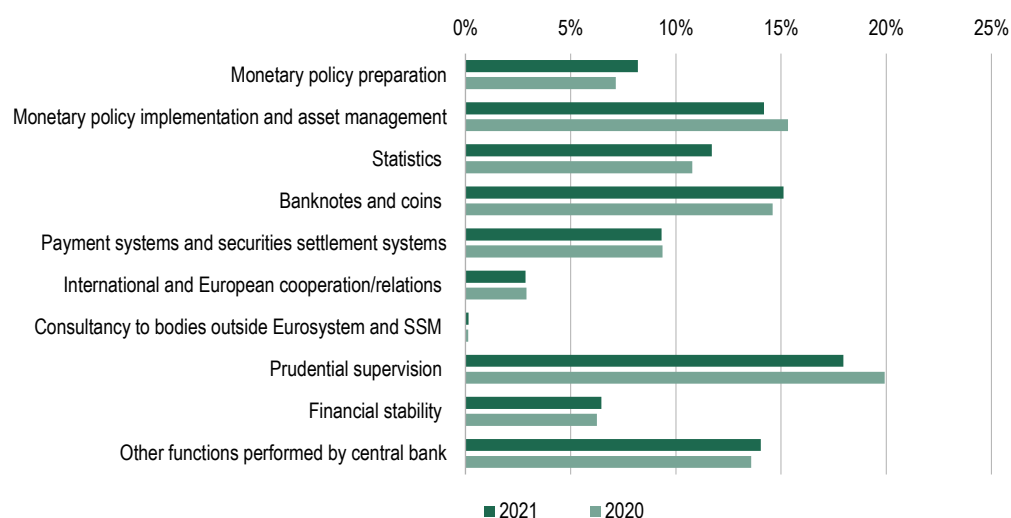
Source: Banka Slovenije

Operating costs

Banka Slovenije's operating costs are the result of the implementation of its tasks set out by law. Figure 39 shows the apportioning of costs by task, and in addition to direct costs, these include the imputed indirect costs of support functions (information technology, accounting, legal services and similar internal services).

Operating costs amounted to EUR 43.0 million in 2021, up EUR 2.1 million on the previous year. Labour costs make up the majority (67%) of Banka Slovenije's operating costs. They include costs of wages and salaries and other labour costs together with the corresponding taxes and social security contributions. In 2021 they amounted to EUR 28.8 million (EUR 27.4 million in 2020). The increase was the result of a rise in the basic wage in accordance with the agreement on the indexation of the basic wage, the introduction of organisational changes, and changes in staff qualifications structure caused by turnover and promotions. Other administrative costs, banknote printing costs, amortisation and depreciation of non-current assets, and other costs amounted to EUR 14.2 million, up EUR 0.7 million on 2020.

Figure 39: **Itemisation of costs by individual task (in %)**



Source: Banka Slovenije

Table 6: Year-end balance sheet, 2017 to 2021, EUR million

Assets	2017	2018	2019	2020	2021
1 Gold and gold receivables	111	115	138	158	165
2 Claims on non-euro-area residents denominated in foreign currency	630	699	763	911	1,836
3 Claims on euro area residents denominated in foreign currency	152	94	37	33	25
4 Claims on non-euro-area residents denominated in euros	1,199	1,224	1,365	1,209	1,079
5 Lending to euro area credit institutions related to monetary policy operations denominated in euros	1,142	1,102	995	1,377	2,363
6 Other claims on euro area credit institutions denominated in euros	2	0	0	0	4
7 Securities of euro area residents denominated in euros	10,656	11,290	11,355	14,888	17,782
8 General government debt denominated in euros	-	-	-	-	-
9 Intra-Eurosystem claims	282	1,564	3,748	7,024	9,501
10 Items in course of settlement	-	-	-	-	-
11 Other assets	325	342	412	396	402
Total assets	14,498	16,429	18,815	25,995	33,157
Liabilities	2017	2018	2019	2020	2021
1 Banknotes in circulation	5,286	5,559	5,740	6,355	6,842
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euros	2,939	3,391	4,348	7,097	9,748
3 Other liabilities to credit institutions denominated in euros	-	-	-	17	582
4 Debt certificates issued	-	-	-	-	-
5 Liabilities to other euro area residents denominated in euros	2,531	3,780	3,416	5,735	6,489
6 Liabilities to non-euro-area residents denominated in euros	73	63	134	34	292
7 Liabilities to euro area residents denominated in foreign currency	56	5	6	6	6
8 Liabilities to non-euro-area residents denominated in foreign currency	-	-	-	-	-
9 Counterpart of special drawing rights allocated by the IMF	256	262	266	254	962
10 Intra-Eurosystem liabilities	1,646	1,502	2,815	4,333	5,909
11 Items in course of settlement	1	-	-	-	4
12 Other liabilities	113	137	145	109	125
13 Provisions	515	594	573	622	697
14 Revaluation accounts	94	103	163	189	241
15 Capital and reserves	917	970	1,027	1,163	1,224
16 Surplus of income over expenses for the current year	71	63	181	81	37
Total liabilities	14,498	16,429	18,815	25,995	33,157

Source: Banka Slovenije

Table 7: Profit and loss account, 2017 to 2021, EUR million

	2017	2018	2019	2020	2021
1 Net interest income	105	133	140	150	160
2 Net result of financial operations, write-downs and risk provisions	-38	-84	31	-51	-79
3 Net income from fees and commissions	8	10	11	13	13
4 Other income	33	42	39	10	-14
5 Operating costs	-38	-38	-40	-41	-43
Surplus of income over expenses for the current year	71	63	181	81	37

Source: Banka Slovenije

Employees

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.

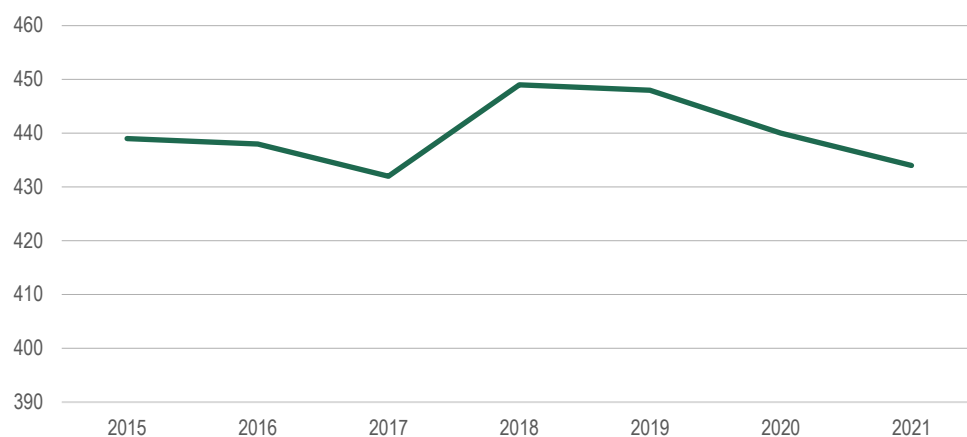
We continued to introduce new approaches and changes at the strategic and operational levels in 2021 in the area of HR and organisation. In line with the conditions in the country, Banka Slovenije adapted the amount of work done from home in view of the epidemiological situation. Due to the epidemic, at the beginning and end of 2021 a larger number of employees worked from home. Working from home did not have any impact on the operations of the bank. In the more favourable months, staff performed the majority of work at the bank premises. Banka Slovenije also observed both the required and recommended preventive measures.

We advertised 31 vacancies, to which a total of 417 candidates applied. The greatest demand was in the areas of supervision, IT and analytics. We hired a total of 21 new employees, with four on mobility returning from the ECB. Four staff members retired in the past year, 12 opted to continue their careers outside Banka Slovenije and the ESCB, and five decided in favour of gaining work experience at the ECB for a shorter or longer period. The average age of staff members at Banka Slovenije was 45 years and three months last year. The average age of staff members increased by nine months, and at the end of 2021 amounted to 46 years. We are still something of a rarity among central banks in Europe, since we employ more women (53% of the total) than men. Of the management positions, 44% are occupied by women. At Banka Slovenije 76% of employees have at least level 7 education.

Banka Slovenije had an effective headcount of 434 as at 31 December 2021.⁵³

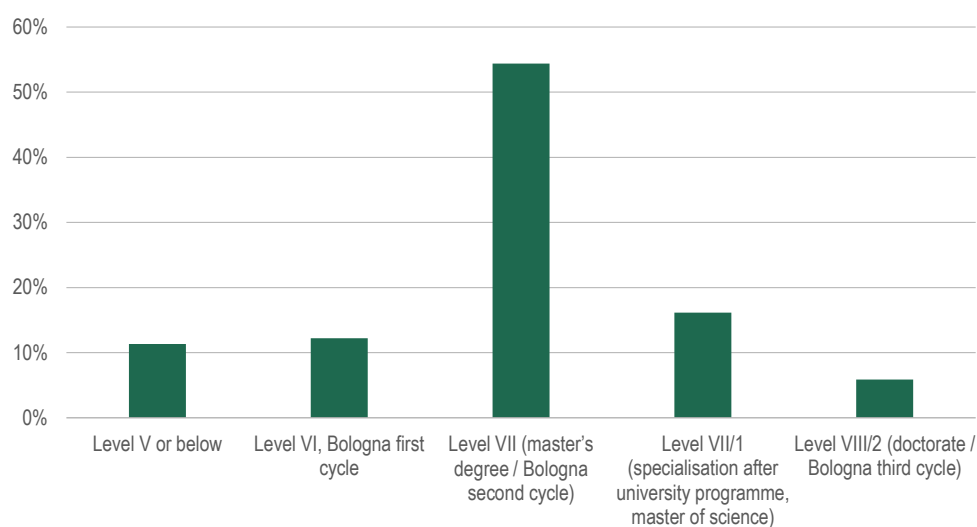
⁵³ The effective headcount includes all those who were present in the workplace on the reporting date (including all those who on the reporting date were taking annual leave or short-term sick leave).

Figure 40: **Effective headcount at Banka Slovenije, 31 December 2021**



Source: Banka Slovenije

Figure 41: **Breakdown of staff qualifications, 31 December 2021**



Source: Banka Slovenije

6.7 Court proceedings

Banka Slovenije was involved in five pending administrative proceedings at the end of 2021. It was an accessory participant in two disputes against a decision by the Information Commissioner, and the plaintiff in one challenge to the Information Commissioner's decisions. In two cases Banka Slovenije is the defendant in connection with issued supervisory decisions.

Banka Slovenije was involved in 121 pending litigation proceedings at the end of 2021, either as the defendant or co-defendant, or as an accessory participant. Almost all related to compensation claims by holders of qualified bank credit who were subject to extraordinary measures in 2013 and 2014.

Six labour disputes were also pending.

Two court cases were pending at the end of 2021 with regard to misdemeanours decisions issued by Banka Slovenije, while Banka Slovenije was involved in five cases of bankruptcy proceedings as a creditor.

Banka Slovenije had two cases pending before the Constitutional Court of the Republic of Slovenia as at 31 December 2021.

Statement of responsibilities of the Governing Board of Banka Slovenije

The Banka Slovenije Act requires Banka Slovenije to prepare financial statements to give a true and fair view of the state of affairs of Banka Slovenije and the surplus or deficit of Banka Slovenije for a given period. The financial statements are adopted by the Governing Board of Banka Slovenije. In preparing the financial statements, Banka Slovenije 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, namely 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 (ECB/2016/34) (and subsequent amendments thereto)¹ and the provisions of the Banka Slovenije Act relating to accounting; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that Banka Slovenije will continue in business.

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

¹ OJ L 347, 20.12.2016, pp. 37–86, as amended. The unofficial consolidated text with the list of amendments can be found [here](#).

Independent Auditor's Report

To the Governing Board of Banka Slovenije

Our opinion

In our opinion, the financial statements of Banka Slovenije (the "Bank") are prepared, 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, inclusive of subsequent amendments to the Guideline) and in accordance with the provisions of the Banka Slovenije Act relating to the accounting (together: the "Reporting framework for Banka Slovenije").

What we have audited

The Bank's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the profit and loss account for the year then ended; and
- the summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Slovenia. We have fulfilled our other ethical responsibilities in accordance with those requirements and with the IESBA Code.

Responsibilities of the Management of the Bank and the Audit Committee of the Bank for the accounting information

The Management is responsible for the preparation of these financial statements in accordance with the Reporting framework for Banka Slovenija, and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers d.o.o.,
Cesta v Kleče 15, SI-1000 Ljubljana, Slovenia
T: +386 (1)5836 000, F:+386 (1) 5836 099, www.pwc.com/si
Matriculation No.: 5717159, VAT No.: SI35498161

The company is entered into the company register at Ljubljana District Court under Insert no. 12156800 per resolution Srg. 200110427 dated 19 July 2001 and into the register of audit companies at the Agency for Public Oversight of Auditing under no. RD-A-014/94. The registered share capital is EUR 34,802. The list of employed auditors with valid licenses is available at the company's registered office.

Translation note:

This version of our report is a translation from the original, which was prepared in Slovenian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

In preparing the financial statements, the Management 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 unless the Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Governing Board of Banka Slovenije and the Audit Committee of Banka Slovenije are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance on 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 ISAs, we exercise professional judgment 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 Bank'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 the 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 the Bank'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.

We communicate with the Governing Board of Banka Slovenije and Audit Committee of Banka Slovenije 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.

For and on behalf of PricewaterhouseCoopers d.o.o.:

Damjan Ahčin, Certified auditor

5 April 2022
Ljubljana, Slovenia

Translation note:

This version of our report is a translation from the original, which was prepared in Slovenian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Constitution

Banka Slovenije was constituted by the Law on Banka Slovenije dated 25 June 1991. Banka Slovenije is a legal entity, governed by public law, which independently disposes of its own property. Banka Slovenije is wholly owned by the state and is autonomous as regards its finances and administration. Banka Slovenije is supervised by Parliament. The primary objective of Banka Slovenije shall be to maintain price stability. In pursuing this objective, Banka Slovenije shall strive for financial stability, while taking into account the principles of an open market economy and free competition. According to the Banka Slovenije Act, on the day of introduction of the euro as the Republic of Slovenia's currency, Banka Slovenije shall begin to perform its tasks in accordance with the Treaty establishing the European Community and in accordance with the Statute of the ESCB and the ECB.²

Accounting policies

Introduction of the euro

The Republic of Slovenia introduced the euro as a new legal tender on 1 January 2007. Banka Slovenije thus 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 ESCB.³

Accounting principles and standards

Banka Slovenije 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) (the Accounting Guideline) as the legal basis for the accounting and reporting. According to the Banka Slovenije Act and the Statute of the ESCB and of the ECB, this legal framework was adopted by the Governing Board of Banka Slovenije 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 the EU and with the Banka Slovenije 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, harmonised by Community law, with generally accepted international financial reporting standards valid in the EU and with the Banka Slovenije 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 and income recognition 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 for events that occur between the end of the 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;
- Materiality: deviation from the accounting rules shall not be allowed unless they can reasonably be judged to be immaterial in the overall context and presentation of the financial statements;

² 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).

³ The term "ESCB" (European System of Central Banks) refers to the 27 national central banks (NCBs) of the member states of the European Union on 31 December 2021 plus the European Central Bank (ECB). The term "Eurosystem" refers to the 19 NCBs of the member states participating in the Monetary Union plus the ECB on the same date.

- Going concern basis: when assessing assets and liabilities, it must be assumed that the activities will continue;
- 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 Banka Slovenije, substantially all of the associated risks and rewards have been transferred to Banka Slovenije, and the cost or value of the asset or the amount of the obligation can be measured reliably.

Economic approach

On the basis of the 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 the 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 dollars 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 currently 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. Options embedded in securities are not separated for valuation purposes. For the year ending 31 December 2021, mid-market prices on 31 December 2021 were used.

Debt securities classified as held-to-maturity and non-marketable securities are 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.

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 Banka Slovenije 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 investment funds.

Securities lending transactions under automated security lending contracts are conducted as part of the management of Banka Slovenije's assets. Securities lending transactions are collateralised. Income resulting from lending operations is included in the profit and loss account. 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:

	2021	2020
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 Banka Slovenije'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 (Banka Slovenije revalues these properties once every five years; the last revaluation was carried out in 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 in 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.

ECB 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 or whenever there is a change in the composition of the ESCB national central banks.

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, the ECB's income on euro banknotes in circulation, the 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 banknotes.⁴ 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".

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, pp. 26–30, as amended. The unofficial consolidated text with the list of amendments can be found [here](#).

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.

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 affected 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 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 there were no such adjustments.

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-à-vis the ECB only.

The intra-Eurosystem balances of Banka Slovenije vis-à-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 Banka Slovenije as a single net asset or liability position 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 Banka Slovenije’s participating interest in the ECB are reported under “Participating interest in ECB”. In particular this balance sheet item includes (i) the NCBs’ paid-up share in the ECB’s subscribed capital, (ii) any net amount paid by the NCBs due to the increase in their share in the ECB’s equity value¹⁰ resulting from all previous ECB 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 Banka Slovenije 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).

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, pp. 26–36, as amended. The unofficial consolidated text with the list of amendments can be found [here](#).

⁷ Cash changeover year refers to the year in which the euro banknotes are introduced as legal tender in the respective member state, for Banka Slovenije 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 Banka Slovenije this is the period from July 2004 to June 2006.

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

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.

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), (d) the public sector purchase programme (PSPP) and (e) the pandemic emergency purchase programme (PEPP) is distributed in January of the following year by means of an interim profit distribution, unless otherwise decided by the Governing Council.¹¹ 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 Banka Slovenije 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 estimated reliably.

In compliance with Article 49.a of the Banka Slovenije Act, after the introduction of the euro as the Republic of Slovenia's currency, the Governing Board of Banka Slovenije 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. Following the amendment of the Accounting Guideline at the end of 2019,¹² which extends the area of provisioning to all financial risks, Banka Slovenije also created 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 the Expected Shortfall (ES) method at a 99% confidence level. ES is defined as the expected or average loss in the selected period for those events that are worse than the VaR¹³ figure at the same confidence level and holding period, with an unchanged investment structure. Banka Slovenije also creates provisions based on the calculation of the 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.

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 has been performed on a quarterly basis in accordance with the Accounting Guideline. Net unrealised positive valuation effects which arose before the adoption of the euro are separated from the unrealised positive valuation effects recorded after that date. They are considered as "Pre-Stage Three" revaluation reserves and are included in 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

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, pp. 24–26, as amended. The unofficial consolidated text with the list of amendments can be found [here](#).

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, pp. 184–203.

¹³ 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).

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 the 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 an 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 Banka Slovenije's assets and liabilities. In the 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 the event 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.

Cash flow statement

Taking into account Banka Slovenije'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

Banka Slovenije is not subject to Slovenian corporate income tax.

Appropriations

In accordance with the Banka Slovenije Act, net profit is allocated to general reserves and the budget of the Republic of Slovenia. Unrealised positive valuation effects deriving from exchange rate and price changes are allocated in their entirety to the revaluation accounts and are 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 Banka Slovenije 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 PricewaterhouseCoopers d.o.o., who were appointed as the external auditor of Banka Slovenije for the financial years 2021 to 2023.

The impact of the COVID-19 pandemic on the operations of Banka Slovenije

The effects of the COVID-19 pandemic on the implementation of Banka Slovenije's tasks are explained in individual sections of the business part of the Annual Report of Banka Slovenije.

Post-balance-sheet events

We estimate that there were no significant events after the balance sheet date that would affect the presented financial statements, taking into account the impact of the COVID-19 coronavirus pandemic, the Currency Risk Limitation and Distribution Act among Swiss franc lenders and borrowers (ZOPVTKK), and the current geopolitical situation, including the consequences of sanctions against Russia.

Changes to accounting policies

Following the recast of ECB Regulation (EU) 2021/378 on the application of minimum reserve requirements (ECB/2021/1) in 2021, funds of credit institutions that are not freely disposable are excluded from the reserve holdings in item 2.1 "Current accounts (covering the minimum reserve system)". In result, in 2021 the related amounts are presented under liability item 3 "Other liabilities to euro area credit institutions denominated in euro".

	Published in 2020	Adjustment due to reclassification	Restated amount
	000 EUR	000 EUR	000 EUR
Current accounts (covering the minimum reserve system)	7,096,987	-140,514	6,956,473
Other liabilities to euro area credit institutions denominated in euro	16,593	+140,514	157,107

Balance Sheet as at 31 December 2021 and 31 December 2020

ASSETS (thousands of euro)		Note number	31 December 2021	31 December 2020 audited	31 December 2020 adjusted
1	Gold and gold receivables	1	164,515	157,809	157,809
2	Claims on non-euro area residents denominated in foreign currency	2	1,836,066	910,796	910,796
2.1	Receivables from the IMF		1,192,136	405,446	405,446
2.2	Balances with banks and security investments, external loans and other external assets		643,930	505,350	505,350
3	Claims on euro area residents denominated in foreign currency	3	25,383	32,661	32,661
4	Claims on non-euro area residents denominated in euro	4	1,079,226	1,208,805	1,208,805
4.1	Balances with banks, security investments and loans		1,079,226	1,208,805	1,208,805
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	2,363,320	1,376,650	1,376,650
5.1	Main refinancing operations		-	-	-
5.2	Longer-term refinancing operations		2,363,320	1,376,650	1,376,650
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	4,185	201	201
7	Securities of euro area residents denominated in euro	7	17,782,300	14,888,332	14,888,332
7.1	Securities held for monetary policy purposes		16,426,351	13,584,056	13,584,056
7.2	Other securities		1,355,950	1,304,276	1,304,276
8	General government debt denominated in euro		-	-	-
9	Intra-Eurosystem claims	8	9,500,806	7,023,857	7,023,857
9.1	Participating interest in ECB		81,130	78,192	78,192
9.2	Claims equivalent to the transfer of foreign reserves		194,257	194,257	194,257
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)		9,225,419	6,751,407	6,751,407
10	Items in the course of settlement		-	-	-
11	Other assets	9	401,530	395,767	395,767
11.1	Coins of euro area		1,842	1,109	1,109
11.2	Tangible and intangible fixed assets		53,941	54,952	54,952
11.3	Other financial assets		52,222	50,757	50,757
11.4	Off-balance sheet instruments revaluation differences		1,255	6,514	6,514
11.5	Accruals and prepaid expenditure		169,499	173,308	173,308
11.6	Sundry		122,770	109,127	109,127
12	Loss for the year		-	-	-
Total assets			33,157,331	25,994,878	25,994,878

* Only an ECB balance sheet item

LIABILITIES (thousands of euro)	Note number	31 December 2021	31 December 2020 audited	31 December 2020 adjusted
1 Banknotes in circulation	10	6,841,630	6,354,888	6,354,888
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	11	9,747,814	7,096,987	6,956,473
2.1 Current accounts (covering the minimum reserve system)		9,745,814	7,096,987	6,956,473
2.2 Deposit facility		-	-	-
2.3 Fixed-term deposits		-	-	-
2.4 Fine-tuning reverse operations		-	-	-
2.5 Deposits related to margin calls		2,000	-	-
3 Other liabilities to euro area credit institutions denominated in euro	12	581,891	16,593	157,107
4 Debt certificates issued		-	-	-
5 Liabilities to other euro area residents denominated in euro	13	6,489,166	5,734,585	5,734,585
5.1 General government		6,086,072	5,407,423	5,407,423
5.2 Other liabilities		403,094	327,161	327,161
6 Liabilities to non-euro area residents denominated in euro	14	292,230	34,352	34,352
7 Liabilities to euro area residents denominated in foreign currency	15	6,196	5,933	5,933
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	16	961,549	254,438	254,438
10 Intra-Eurosystem liabilities	17	5,909,116	4,332,905	4,332,905
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		5,909,116	4,332,905	4,332,905
10.4 Other liabilities within the Eurosystem (net)		-	-	-
11 Items in the course of settlement		3,857	-	-
12 Other liabilities	18	125,247	109,374	109,374
12.1 Off-balance sheet instruments revaluation differences		-	1,862	1,862
12.2 Accruals and income collected in advance		35,551	18,395	18,395
12.3 Sundry		89,696	89,117	89,117
13 Provisions	19	696,739	621,646	621,646
14 Revaluation accounts	20	241,158	189,335	189,335
15 Capital and reserves	21	1,223,607	1,162,870	1,162,870
15.1 Capital		8,346	8,346	8,346
15.2 Reserves		1,215,262	1,154,525	1,154,525
16 Profit for the year		37,129	80,972	80,972
Total liabilities		33,157,331	25,994,878	25,994,878

* Only an ECB balance sheet item

Profit and loss account for the years ending 31 December 2021 and 2020

(thousands of euro)		Note number	2021	2020
1.1	Interest income		178,314	163,035
1.2	Interest expense		-17,912	-12,929
1	Net interest income	25	160,402	150,106
2.1	Realised gains/losses arising from financial operations		10,831	19,166
2.2	Write-downs on financial assets and positions		-14,949	-18,964
2.3	Transfer to/from provisions for financial and other risks		-75,176	-50,908
2	Net result of financial operations, write-downs and risk provisions	26	-79,293	-50,705
3.1	Fees and commissions income		15,520	15,408
3.2	Fees and commissions expense		-2,604	-2,700
3	Net income from fees and commissions	27	12,915	12,708
4	Income from equity shares and participating interests	28	7,387	12,206
5	Net result of pooling of monetary income	29	-23,500	-4,542
6	Other income	30	2,264	2,121
	Total net income		80,176	121,894
7.1	Staff costs		-28,825	-27,421
7.2	Administrative expenses		-8,186	-7,485
7.3	Depreciation of tangible and intangible fixed assets		-2,849	-3,233
7.4	Banknote production services		-2,311	-1,762
7.5	Other expenses		-874	-1,020
7	Total operating expenses	31	-43,046	-40,921
8	Profit for the year	32	37,129	80,972

The notes on pages 15 to 37 form an integral part of the financial statements.

The unaudited financial statements were approved by the Governing Board on 4 March 2022, and these final financial statements were approved by the Governing Board on 5 April 2022 and were signed on its behalf by the President of the Governing Board:

Boštjan Vasle, M.Sc.
President of the Governing Board
Governor of Banka Slovenije

In accordance with Article 49 of the Banka Slovenije Act, Banka Slovenije 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 the stock of gold held at Banka Slovenije, Banka Slovenije's gold holdings consist of gold in 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 2021. This price, communicated by the ECB, amounts to EUR 1,609.483 per ounce of fine gold compared to EUR 1,543.884 on 31 December 2020. Unrealised positive valuation effects of EUR 115.2 million were disclosed under the liability balance sheet item "Revaluation accounts".

	000 EUR	Fine troy ounces
Balance as at 31 December 2019	138,410	102,215
Over-delivery of gold in 2020 (gold deposit transactions)	1	1
Revaluation of gold stock as at end of 2020	19,399	-
Balance as at 31 December 2020	157,809	102,216
Revaluation of gold stock as at end of 2021	6,705	-
Balance as at 31 December 2021	164,515	102,216

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 Banka Slovenije'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 the quota of the Republic of Slovenia in the IMF and the IMF's euro holdings with Banka Slovenije. 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). The significant increase in the balance of special drawing rights in 2021 compared to the previous year reflects the new general allocation of SDRs to IMF member states (see balance sheet liability item "Counterpart of special drawing rights allocated by the IMF").

All claims in the balance sheet are shown on the basis of the market rate of SDR 1 = EUR 1.2359 (31 December 2020: SDR 1 = EUR 1.1786), 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 in accordance with the accounting rules disclosed under the liability balance sheet item "Revaluation accounts".

	31 December 2021		31 December 2020		Change	
	000 SDR	000 EUR	000 SDR	000 EUR	000 SDR	000 EUR
Quota	586,500	724,855	586,500	691,249	-	33,606
less IMF holdings of euro	-429,539	-530,867	-441,539	-520,398	12,000	-10,469
Reserve tranche at the IMF	156,961	193,988	144,961	170,851	12,000	23,137
SDR Holdings	807,628	998,147	199,045	234,595	608,583	763,553
Total	964,589	1,192,136	344,006	405,446	620,583	786,690

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. Foreign currency assets are shown under this sub-item at their euro equivalent as calculated on the basis of the market exchange rates as at 31 December 2021.

Breakdown of foreign currency assets by type of investment:

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
Sight deposits	4,690	627	4,063
Time deposits	-	6,285	-6,285
Debt securities	369,829	372,427	-2,597
Investment funds	269,411	126,011	143,400
Total	643,930	505,350	138,581

Breakdown of foreign currency assets by currency:

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
USD	615,461	505,043	110,417
CNY	28,024	-	28,024
Other currencies	445	306	139
Total	643,930	505,350	138,581

Breakdown of debt securities according to their residual maturity:

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	46,763	41,460	5,304
>1 year and ≤5 years	151,838	201,785	-49,948
> 5 years	171,229	129,182	42,047
Total	369,829	372,427	-2,597

3. Claims on euro area residents denominated in foreign currency

The foreign currency assets held with euro area residents are invested in sight deposits and debt securities in foreign currencies. This item also includes a claim arising from reverse operations with Eurosystem counterparties in connection with the short-term USD liquidity providing programme (the standing reciprocal currency arrangement with the Federal Reserve). Under this programme, US dollars were provided by the Federal Reserve to the ECB by means of a swap line with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into back-to-back swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct liquidity-providing operations with the Eurosystem counterparties in the form of reverse and swap transactions. The back-to-back swap transactions between the ECB and NCBs resulted in intra-Eurosystem balances reported under “Other claims within the Eurosystem (net)”.

Foreign currency assets are shown at their euro equivalent as calculated on the basis of market exchange rates on 31 December 2021.

Breakdown of foreign currency assets by type of investment:

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
Sight deposits	23	8	16
Reverse operations	-	7,986	-7,986
Debt securities	25,360	24,667	693
Total	25,383	32,661	-7,278

Breakdown of foreign currency assets by currency:

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
USD	25,383	32,661	-7,278
Total	25,383	32,661	-7,278

Breakdown of debt securities according to their residual maturity:

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	2,329	-	2,329
>1 year and ≤5 years	23,031	22,000	1,031
> 5 years	-	2,667	-2,667
Total	25,360	24,667	693

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 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
Sight deposits	0	0	-
Debt securities	1,079,226	1,208,805	-129,579
Total	1,079,226	1,208,805	-129,579

Breakdown of debt securities according to their residual maturity:

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	465,154	239,235	225,919
>1 year and ≤5 years	450,415	895,957	-445,542
>5 years	163,657	73,613	90,044
Total	1,079,226	1,208,805	-129,579

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

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

The total Eurosystem holding of monetary policy assets amounts to EUR 2,201,882 million (2020: EUR 1,793,194 million), of which Banka Slovenije holds EUR 2,363 million (2020: EUR 1,377 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 a decision of the Governing Council, in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares (see “Provisions” in the notes to the balance sheet).

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 2021 operations were conducted with maturities of between 3 and 36 months. These operations were conducted at fixed rate with allotment of the total amount bid. In 2016 the Governing Council introduced a new series of four targeted longer-term refinancing operations (TLTRO-II) with a four-year maturity. The last of these operations matured in 2021. Additionally, in 2019 the Governing Council introduced a new series of seven quarterly targeted longer-term refinancing operations (TLTRO-III). Furthermore, on 10 December 2020 the Governing Council added three further operations to this series, which were conducted between June and December 2021. These operations have a three-year maturity. For the first seven TLTROs-III, from September 2021, starting 12 months after the settlement of each TLTRO-III, participants have the option on a quarterly basis of terminating or reducing the amount of TLTRO-III concerned before maturity. For the eighth or subsequent TLTROs-III, participants have that option on a quarterly basis starting in June 2022. According to the initial decisions taken by the Governing Council, the final interest rate applicable to each TLTRO-III operation could be as low as the average interest rate on the deposit facility prevailing over the life of the operation. Furthermore, in response to the COVID-19 shock, in 2020¹⁴ the Governing Council decided that for the period between 24 June 2020 and 23 June 2021 and the period between 24 June 2021 and 23 June 2022 – referred to as the special interest rate period and the additional special interest rate period respectively – the interest rate applicable can be as low as 50 basis points below the average interest rate on the deposit facility prevailing over the same period, but in any case may not become less negative than -1%. The actual interest rates can only be known at the maturity or early repayment of each operation and before that a reliable estimate is only possible as far as the interest rate related data regarding the special interest rate period and the additional special interest rate period have already been communicated to the counterparties. Consequently, it was deemed a prudent approach to use the deposit facility rate minus 50 basis points, but in any case not higher than -1%, for calculating the TLTRO III interest over the two special interest rate periods, and the deposit facility rate for calculating the TLTRO III interest over the rest of the life of an operation, until more reliable data is available. This means that for the annual accounts 2021, the following rates are used for calculating the TLTRO III interest accruals: interest rates over the special interest rate periods until 23 June 2021, for which the interest rate related data was communicated to the counterparties on 10 September 2021, and the deposit facility rate minus 50 basis points, with a ceiling of -1%, over the additional special interest rate period from 24 June 2021 until 31 December 2021.

Additionally, on 30 April 2020 the Governing Council decided to conduct a new series of seven additional longer-term refinancing operations which matured in the third quarter of 2021, called pandemic emergency longer-term refinancing operations (PELTROs). These operations provide liquidity support to the euro area financial system and contribute to preserving the smooth functioning of money markets by providing an effective backstop after the expiry of the bridge longer-term refinancing operations that have been conducted since March 2020 to TLTRO-III, conducted in June 2020. Furthermore, on 10 December 2020 the Governing Council also decided to offer four additional PELTROs in 2021 allotted on a quarterly basis, each with a tenor of one year. The purpose of the operations was to continue to provide a liquidity backstop to the euro area banking system. The PELTROs are conducted as fixed rate tender procedures with full allotment. The interest rate is 25 basis points below the average rate applied in the Eurosystem’s main refinancing operations over the life of the respective PELTRO.

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
Longer-term refinancing operations	2,363,320	1,376,650	986,670
Total	2,363,320	1,376,650	986,670

¹⁴ Decisions of the Governing Council of 30 April 2020 and 10 December 2020.

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

This item, amounting to EUR 4.2 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.

As at 31 December 2021, the sub-item 7.1 “Securities held for monetary policy purposes” consisted of securities acquired by Banka Slovenije within the scope of the third covered bonds purchase programme (CBPP3)¹⁵, the public sector purchase programme (PSPP)¹⁶ and the pandemic emergency purchase programme (PEPP)¹⁷.

In 2021 the Eurosystem conducted net purchases under the asset purchase programme (APP)¹⁸ at a monthly pace of EUR 20 billion on average. Purchases were conducted in a flexible manner based on the assessment of financing conditions and the inflation outlook. In December 2021 the Governing Council decided¹⁹ on a monthly net purchase pace of EUR 40 billion in the second quarter and EUR 30 billion in the third quarter of 2022. From October 2022 onwards, the Governing Council will maintain net asset purchases at a monthly pace of EUR 20 billion 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.

In addition, in 2021 the Eurosystem carried on its net asset purchases under the pandemic emergency purchase programme (PEPP)²⁰ with a total envelope of EUR 1,850 billion.²¹ In December 2021 the Governing Council also decided to discontinue net asset purchases under the PEPP at the end of March 2022, but they could be resumed, if necessary, to counter negative shocks related to the pandemic. Furthermore, the Governing Council extended the reinvestment horizon for the principal payments from maturing securities purchased under the PEPP until at least the end of 2024. PEPP reinvestments can be adjusted flexibly across time, asset classes and jurisdictions at any time. The future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

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).

¹⁵ 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, pp. 22–24, as amended.

¹⁶ 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, pp. 20–24, as amended.

¹⁷ Decision of the European Central Bank of 24 March 2020 on a temporary pandemic emergency purchase programme (ECB/2020/17), OJ L 91, 25.03.2020, pp. 1–4, as amended.

¹⁸ The APP programme consists of 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>

¹⁹ See the press release of 16 December 2021 on the Governing Council’s decisions.

²⁰ Further details on the PEPP can be found on the ECB’s website: <https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html>.

²¹ If favorable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full.

The amortised cost of the securities held by Banka Slovenije, and their market value²² (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 2021		31 December 2020		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
Third covered bond purchase programme	586,884	599,921	671,858	695,654	-84,975	-95,732
Securities market programme	-	-	64,928	66,482	-64,928	-66,482
Public sector purchase programme	10,593,794	11,256,158	9,827,217	11,071,883	766,576	184,276
Pandemic emergency purchase programme	5,245,673	5,139,700	3,020,053	3,097,680	2,225,621	2,042,021
Total	16,426,351	16,995,780	13,584,056	14,931,699	2,842,295	2,064,082

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

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	640,636	1,179,979	-539,343
>1 year and ≤5 years	3,731,797	3,107,214	624,583
> 5 years	12,053,918	9,296,863	2,757,056
Total	16,426,351	13,584,056	2,842,295

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 holding of CBPP, SMP, ABSPP, PSPP, CSPP and PEPP securities amounts to EUR 4,713,403 million (2020: EUR 3,694,496 million), of which Banka Slovenije holds EUR 16,426 million (2020: EUR 13,584 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 and PEPP 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.

In the context of the impairment test conducted as at the end of 2021 on securities purchased under the ABSPP programme, the Governing Council identified one impairment indicator²³ for two securities. 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 ABSPP programme.

As a result of an impairment test conducted as at 31 December 2021 on securities purchased under the CBPP, SMP, CSPP, PSPP and PEPP, the Governing Council decided that all future cash flows on these securities are expected to be received.

²² 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.

²³ A significant deterioration of the credit quality of the security.

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 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
Marketable securities other than those held to maturity	1,334,575	1,282,599	51,975
Held-to-maturity securities	21,375	21,676	-302
Total	1,355,950	1,304,276	51,674

Held-to-maturity securities are securities with fixed or determinable payments and a fixed maturity that Banka Slovenije intends to hold until maturity.

Breakdown of other securities according to their residual maturity:

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	77,189	199,798	-122,610
>1 year and ≤5 years	676,338	796,944	-120,606
> 5 years	602,422	307,533	294,889
Total	1,355,950	1,304,276	51,674

8. Intra-Eurosystem claims

Sub-item 9.1 shows Banka Slovenije’s participating interest in the ECB and includes (i) Banka Slovenije’s paid-up share in the ECB’s subscribed capital, (ii) the net amount paid by Banka Slovenije due to the increase in its share in the ECB’s equity value resulting from all previous ECB 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.

As a result of the departure of the United Kingdom from the European Union on 31 January 2020 and consequent withdrawal of the Bank of England from the ESCB, the weightings assigned to the remaining NCBs in the key for subscription to the ECB’s capital were adjusted with effect from 1 February 2020. As a result, Banka Slovenije’s share in the ECB’s subscribed capital increased by 0.0555% from 0.3361% to 0.3916%.

The ECB kept its subscribed capital unchanged at EUR 10,825 million after the 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.

The ECB's paid-up capital also remained unchanged at EUR 7,659 million in 2020, as the remaining NCBs were required to cover the withdrawn Bank of England's paid-up capital of EUR 58 million. As a result, Banka Slovenije paid EUR 0.1 million to the ECB on 1 February 2020.

Euro area NCBs would pay up in full their increased subscriptions to the ECB capital following Bank of England's withdrawal from the ESCB in two annual instalments.²⁴ As a result, Banka Slovenije was required to pay EUR 2.9 million in 2021 and the same payment of EUR 2.9 million is foreseen for 2022.

²⁴ This will lead to an increase in the ECB's paid-up capital from EUR 7,659 million to EUR 8,270 million in 2021 and EUR 8,880 million in 2022.

The subscribed and paid-up capital of the 27 European central banks in the capital of the ECB on 31 December 2021 is as follows:

	Capital key	Subscribed capital	Of which fully paid up	Eurosystem key
	%	EUR	EUR	%
Nationale Bank van België/				
Banque Nationale de Belgique	2.9630	320,744,959	298,517,938	3.6432
Deutsche Bundesbank	21.4394	2,320,816,566	2,159,988,350	26.3615
Eesti Pank	0.2291	24,800,091	23,081,492	0.2817
Central Bank and Financial Services Authority of Ireland	1.3772	149,081,997	138,750,896	1.6934
Bank of Greece	2.0117	217,766,667	202,675,847	2.4735
Banco de España	9.6981	1,049,820,011	977,069,462	11.9246
Banque de France	16.6108	1,798,120,274	1,673,513,927	20.4243
Banca d'Italia	13.8165	1,495,637,102	1,391,992,269	16.9885
Central Bank of Cyprus	0.1750	18,943,762	17,630,995	0.2152
Latvijas Banka	0.3169	34,304,447	31,927,214	0.3897
Lietuvos bankas	0.4707	50,953,308	47,422,340	0.5788
Banque centrale du Luxembourg	0.2679	29,000,194	26,990,535	0.3294
Central Bank of Malta/Bank Ċentrali ta' Malta	0.0853	9,233,731	8,593,851	0.1049
De Nederlandsche Bank	4.7662	515,941,487	480,187,714	5.8604
Oesterreichische Nationalbank	2.3804	257,678,468	239,821,836	2.9269
Banco de Portugal	1.9035	206,054,010	191,774,855	2.3405
Banka Slovenije	0.3916	42,390,728	39,453,130	0.4815
Národná banka Slovenska	0.9314	100,824,116	93,837,195	1.1452
Suomen Pankki-Finlands Bank	1.4939	161,714,781	150,508,251	1.8369
Total euro-area NCBs	81.3286	8,803,826,700	8,193,738,097	100.0000
Bulgarian National Bank	0.9832	106,431,470	3,991,180	
Česká národní banka	1.8794	203,445,183	7,629,194	
Danmarks Nationalbank	1.7591	190,422,699	7,140,851	
Hrvatska narodna banka	0.6595	71,390,922	2,677,160	
Magyar Nemzeti Bank	1.5488	167,657,709	6,287,164	
Narodowy Bank Polski	6.0335	653,126,802	24,492,255	
Banca Națională a României	2.8289	306,228,625	11,483,573	
Sveriges Riksbank	2.9790	322,476,961	12,092,886	
Total non-euro area NCBs	18.6714	2,021,180,370	75,794,264	
Total euro area and non-euro area NCBs	100.0000	10,825,007,070	8,269,532,360	

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, Banka Slovenije 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 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 Banka Slovenije 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 revaluation accounts 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 changes 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 Banka Slovenije on 9 March 2009, 12 July 2013 and 21 February 2014. As a result of the ECB's capital key changes on 1 January 2019 and 1 February 2020, the relative share of Banka Slovenije in the accumulated net equity of the ECB decreased.

	31 December 2021
	000 EUR
Contribution to revaluation accounts	
- paid on 3 January 2007	7,647
- paid on 12 March 2007	18,105
Contribution to reserves and 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
Contribution received on 28 February 2020	-504
Total	41,677

Sub-item 9.2 represents Banka Slovenije's claims amounting to EUR 194.3 million arising from the transfer of foreign reserve assets to the ECB when Banka Slovenije joined the Eurosystem. Pursuant to Article 30.2 of the Statute of the ESCB, these contributions are fixed in proportion to NCBs' share in the subscribed capital of the ECB. 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.

Sub-item 9.5, "Other claims within the Eurosystem (net)", represents the sum of three components: 1) the position of Banka Slovenije 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) Banka Slovenije's position vis-à-vis the ECB in respect of any amounts receivable or payable, including the amount due to Banka Slovenije from the ECB in respect of the ECB's interim profit distribution.

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
Due from the ECB in respect of TARGET2 balances	9,248,196	6,750,320	2,497,876
Due to/from the ECB in respect of monetary income	-23,500	-4,980	-18,519
Due from the ECB in respect of the ECB interim profit distribution	722	6,068	-5,346
Total	9,225,419	6,751,407	2,474,012

The year-end net transfers via TARGET2 had a debit balance of EUR 9,248.2 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 credit balance of EUR 23.5 million at year-end (see “Net result of pooling of monetary income” in the notes to the profit and loss account).

Concerning 2021, 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 150 million (see “ECB profit distribution” in accounting policies). The related amount due to Banka Slovenije as at 31 December 2021 was EUR 0.7 million (see “Income from equity shares and participating interests” in the notes to the profit and loss account).

9. Other assets

Banka Slovenije’s holding of coins, issued by the Republic of Slovenia in the amount of EUR 1.8 million, is shown in sub-item 11.1 “Coins of euro area”.

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 2020	50,026	31,313	81,339
Reclassifications	-	-	-
Additions	236	1,641	1,877
Disposals	38	540	579
At 31 December 2021	50,224	32,414	82,637
Depreciation			
At 31 December 2020	2,066	24,321	26,387
Reclassifications	-	-	-
Disposals	17	539	556
Charge for the year	418	2,447	2,865
At 31 December 2021	2,467	26,230	28,696
Net book value			
At 31 December 2020	47,960	6,992	54,952
At 31 December 2021	47,757	6,184	53,941

As at 31 December 2021, an amount of EUR 21.9 million related to investment properties in Austria is included in land and buildings (2020: EUR 21.9 million). From 2019 onwards, Banka Slovenije has 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 Banka Slovenije’s participating interests in international financial organisations and other financial assets.

Sub-item 11.4, “Off-balance sheet instruments revaluation differences”, amounting to EUR 1.3 million, includes the positive revaluation effects arising from the forward legs of foreign currency swaps, which are recorded on off-balance-sheet account.

Sub-item 11.5, “Accruals and prepaid expenses”, in the amount of EUR 169.5 million, contains the accrued income identified at 31 December 2021. This consists mainly of interest income which is due in the subsequent financial year.

Sub-item 11.6, “Sundry”, amounting to EUR 122.8 million, consists of fiduciary and other assets.

10. Banknotes in circulation

This item consists of Banka Slovenije’s share of the total euro banknotes in circulation (see “Banknotes in circulation” in the notes on accounting policies).

During 2021, the total value of banknotes in circulation within the Eurosystem increased by 7.7%. According to the allocation key, Banka Slovenije had euro banknotes in circulation worth EUR 6,841.6 million at the end of the year compared with EUR 6,354.9 million at the end of 2020. The value of the euro banknotes actually issued by Banka Slovenije in 2021 increased by 19.3% from EUR 10,687.8 million to EUR 12,750.7 million. As this was more than the allocated amount, the difference of EUR 5,909.1 million (compared to EUR 4,332.9 million at the end of 2020) is shown under liability sub-item 10.3, “Net liabilities related to the allocation of euro banknotes within the Eurosystem”.

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
Total value of euro banknotes put into circulation by Banka Slovenije	12,750,746	10,687,793	2,062,953
Liability resulting from the ECB’s share of euro banknotes in circulation	-594,902	-552,578	-42,324
Liability according to Banka Slovenije’s weighting in the ECB’s capital key	-5,314,214	-3,780,327	-1,533,887
Total banknotes in circulation	6,841,630	6,354,888	486,742

The denomination structure of the euro banknotes put into circulation by Banka Slovenije is the following:

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
EUR 5	-124,544	-113,159	-11,386
EUR 10	1,124,384	1,053,778	70,606
EUR 20	5,874,561	5,631,707	242,854
EUR 50	4,535,625	3,305,796	1,229,829
EUR 100	-518,381	-579,420	61,039
EUR 200	1,543,664	916,966	626,698
EUR 500	315,437	472,126	-156,689
Total value of euro banknotes put into circulation by Banka Slovenije	12,750,746	10,687,793	2,062,953

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

Current accounts contain the credit balances on the transaction accounts of credit institutions that are required to hold minimum reserves, excluding funds of credit institutions that are not freely disposable and accounts of credit institutions exempt from minimum reserve requirements, which are disclosed separately under Liability item 3, “Other liabilities to euro area credit institutions denominated in euro” (see also “Changes to accounting policies” in accounting policies).

Banks’ minimum reserve balances have been remunerated since 1 January 1999 at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations. Since June 2014, the reserve holdings exceeding the required minimum reserves have been remunerated at 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 (i.e. reserve holdings in excess of minimum reserve requirements) from negative remuneration at the rate applicable on the deposit facility. This part is remunerated at an annual rate of 0%. The volume of reserve holdings in excess of minimum reserve requirements that was exempt at year-end from the deposit facility rate – the exempt tier – was determined as a multiple of 6 on an institution’s minimum reserve requirements.²⁵ 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 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
Current accounts (covering the minimum reserve system)	9,747,814	7,096,987	2,650,827
Total	9,747,814	7,096,987	2,650,827

12. Other liabilities to euro area credit institutions denominated in euro

Item 3, “Other liabilities to euro area credit institutions denominated in euro”, amounting to EUR 581.9 million (2020: EUR 16.6 million) contains cash received as collateral in connection with the APP securities lending, amounting to EUR 439.2 million, and funds of credit institutions that are not freely disposable amounting to EUR 142.7 million (see also “Changes to accounting policies” in accounting policies).

13. 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, resolution fund and deposit guarantee fund.

²⁵ The multiplier may be adjusted by the Governing Council over time in line with changing levels of excess liquidity holdings.

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
Government sight deposits and special funds	5,614,128	5,080,390	533,737
Other public sector deposits	471,945	327,033	144,912
Total	6,086,072	5,407,423	678,649

Sub-item 5.2, “Other liabilities”, amounting to EUR 403.1 million, includes accounts of Central Securities Clearing Corporation and Bankart.

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

The balance sheet item “Liabilities to non-euro area residents denominated in euro”, amounting to EUR 292.2 million, contains cash received as collateral in connection with the APP securities lending and euro balances of international and supranational organisations. The IMF account No. 2 is also included in this balance sheet item.

15. Liabilities to euro area residents denominated in foreign currency

This item, amounting to EUR 6.2 million, contains foreign currency sight deposits and special funds of central government.

16. Counterpart of special drawing rights allocated by the IMF

This item, amounting to EUR 961.5 million, represents the liability of Banka Slovenije 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 2021, the liability is shown in the balance sheet on the basis of the market rate of SDR 1 = EUR 1.2359 (31 December 2020: SDR 1 = EUR 1.1786) calculated by the ECB at the end of the year for all central banks participating in the Eurosystem. The increase of this liability in 2021 in the amount of EUR 707.1 million was due to the new general allocation amounting to 675.2 million (SDR 562.1 million) and valuation effects, i.e. the appreciation of the SDR against the euro (EUR 31.9 million).

17. Intra-Eurosystem liabilities

Sub-item 10.3, “Net liabilities related to the allocation of euro banknotes within the Eurosystem”, amounting to EUR 5,909 million, consists of the claims and liabilities of Banka Slovenije 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).²⁶ The increase of net liability in comparison to 2020 (EUR 1,576 million) was due to the increase in banknotes put into circulation by Banka Slovenije in 2021 (which represents an increase of 19.3%), as well as the rise in banknotes in circulation in the Eurosystem as a whole (increase of 7.7% compared to 2020). The remuneration of these liabilities is calculated

²⁶ 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”.

daily at the latest available marginal interest rate used by the Eurosystem in its tenders for the main refinancing operations.

18. Other liabilities

Sub-item 12.2, “Accruals and income collected in advance”, amounting to EUR 35.6 million, contains the accrued interest and other expenses identified at 31 December 2021 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 89.7 million, consists mainly of fiduciary liabilities and non-returned tolar banknotes.

19. Provisions

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
Provisions for employees and for known risks	13,039	14,846	-1,807
Provisions for general risks	683,700	606,800	76,900
Total	696,739	621,646	75,093

Provisions for employees and for known risks

Provisions for employees include provisions for severance pay and long-service awards and are calculated in accordance with IAS 19 – “Employee benefits”. These take into account the stipulations of Banka Slovenije’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 2021.

Provisions for known risks relate to potential liabilities of Banka Slovenije stemming from on-balance sheet positions and potential liabilities arising from the performance of the tasks of Banka Slovenije.

Provisions for general risks

Taking into account Banka Slovenije’s exposure to financial risks, general provisions for covering losses arising from changes in interest rates, exchange rates and prices, and losses from credit events can be created. In 2021, the total exposure to these risks increased significantly due to APP and PEPP securities purchases (see “Securities of euro area residents denominated in euro” in the notes to the balance sheet). In the case of Banka Slovenije’s own financial investments, the amount of the assessed risk is affected by the adjustment of the calculation method to the ECB’s methodology, which results in EUR 75.8 million lower risk in total. The difference is attributed partly to the effects of diversification, which according to the new methodology are recognised in favour of Banka Slovenije, and partly to different assumptions of the model.

20. 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 18.9 million arose from the valuation of the EUR-denominated portfolio (2020: EUR 41.1 million), EUR 57.9 million from the valuation of the USD-

denominated portfolio (2020: EUR 39.8 million) and EUR 1.0 million from the valuation of the CNY-denominated portfolio.

In the case of foreign currency positions, positive valuation effects of EUR 37.5 million at the end of 2021 arose from the valuation of the USD position and EUR 8.7 million from the valuation of the SDR position. The average acquisition cost of foreign currencies at the end of 2021 was USD 1.2075 for EUR and EUR 1.1949 for SDR (2020: USD 1.1786 for EUR and EUR 1.1978 for SDR), while the market rate was USD 1.1326 for EUR and EUR 1.2359 for SDR (2020: USD 1.2271 for EUR and EUR 1.1786 for SDR).

In the case of gold, the acquisition cost was EUR 482.700 per fine ounce of gold at the end of 2021 (2020: EUR 482.700), compared to the market price at the end of 2021, which was EUR 1,609.483 per fine ounce of gold (2020: EUR 1,543.884). The market value of the gold position exceeded its acquisition price and resulted in positive valuation effects amounting to EUR 115.2 million (2020: EUR 108.5 million).

	31 December 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
Price effect	77,847	80,827	-2,980
- securities in foreign currencies (asset items 2 and 3)	58,964	39,756	19,208
- securities in euro (asset items 4 and 7)	18,883	41,071	-22,188
Exchange rate effect	48,136	38	48,097
Gold valuation effect	115,175	108,470	6,705
Total	241,158	189,335	51,823

21. Capital and reserves

In accordance with Article 5 of the Banka Slovenije Act, the capital of Banka Slovenije was created in 2002 from the general reserves in the amount of EUR 8.3 million. Banka Slovenije'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 Banka Slovenije are composed of general reserves and special reserves. General reserves serve to cover general risks associated with the operations of Banka Slovenije. They are generated through the allocation of the annual surplus of Banka Slovenije. 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 2021	31 December 2020	Change
	000 EUR	000 EUR	000 EUR
Initial capital of Banka Slovenije	8,346	8,346	-
General reserves	999,264	938,535	60,729
Special reserves for foreign exchange differences	174,214	174,214	-
Special reserves for price risk (gold)	19,736	19,736	-
Valorisation reserves	22,048	22,040	8
Total	1,223,607	1,162,870	60,737

Notes to the off-balance-sheet items

22. Foreign currency swaps

As at 31 December 2021, the forward foreign currency position arising from EUR/foreign currency swap transactions amounted to a net claim in USD of EUR 19.9 million (2020: net liability in USD of EUR 105.0 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 2021		31 December 2020		Change	
	000 USD	000 EUR	000 USD	000 EUR	000 USD	000 EUR
Forward liabilities in USD	-	-	184,400	150,273	-184,400	-150,273
Forward claims in USD	22,500	19,866	55,500	45,229	-33,000	-25,363
Total	-22,500	-19,866	128,900	105,044	-151,400	-124,910

23. Securities lending

As at 31 December 2021, securities with a market value of EUR 737.4 million (31 December 2020: EUR 67.3 million) were lent under automated securities lending contracts with the agents. The collateral received was reinvested into reverse repo transactions or deposited with Banka Slovenije.

24. Other off-balance-sheet items

The following other financial claims and liabilities of Banka Slovenije were stated off-balance-sheet as at 31 December 2021:

- obligation under the IMF's statute to provide currency on demand in exchange for SDRs up to three times the amount that Banka Slovenije received from the IMF, which was equivalent to EUR 1,886.5 million as at 31 December 2021 (31 December 2020: EUR 528.7 million);
- obligation under the Loan Agreement between Banka Slovenije and the IMF to lend to the IMF an SDR denominated amount up to the equivalent of EUR 392.0 million (31 December 2020: EUR 910.0 million);
- a contingent liability of EUR 195.8 million, equivalent to Banka Slovenije's share of the maximum of EUR 50 billion reserve assets that the ECB may additionally request the euro area NCBs to transfer under Article 30.1 of the Statute of the ESCB and of the ECB (31 December 2020: EUR 195.8 million);
- a future liability of EUR 2.9 million, equivalent to Banka Slovenije's unpaid contribution to the ECB's capital (see "Intra-Eurosystem claims" in the notes to the balance sheet) (31 December 2020: EUR 5.9 million);
- a contingent claim arising from the credit lines as an instrument of intraday liquidity provision within TARGET2, amounting to EUR 185.0 million, granted based on eligible collateral and by means of overdraft on participants' settlement accounts (31 December 2020: EUR 320.0 million).

Notes to the profit and loss account

25. 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 generated by liabilities related to credit institutions, government and other clients' accounts and deposits is also disclosed under interest income.

	2021	2020	Change
	000 EUR	000 EUR	000 EUR
Gold	-	1	-1
Current accounts and deposits	1	266	-265
- in foreign currency	1	266	-265
Securities	105,304	117,482	-12,178
- in foreign currency	6,232	7,689	-1,457
- in euro	99,072	109,793	-10,721
IMF	352	755	-403
Foreign currency swaps	380	730	-350
Other interest income	61	44	18
Negative interest	72,217	43,758	28,459
- current accounts of credit institutions	30,258	16,422	13,836
- government and other clients' accounts and deposits	41,959	27,336	14,623
Total	178,314	163,035	15,280

Interest expense

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

	2021	2020	Change
	000 EUR	000 EUR	000 EUR
Current accounts and deposits	0	1	-1
- in foreign currency	0	1	-1
IMF	254	472	-218
Foreign currency swaps	633	2,935	-2,302
Negative interest	17,025	9,520	7,504
- longer-term refinancing operations	16,592	9,114	7,479
- sight and fixed-term deposits	432	406	26
Total	17,912	12,929	4,983

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

The net income shown in the 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 below the average cost of the respective currencies or securities as at 31 December 2021. The valuation loss in 2021 occurred mainly on euro-denominated securities (2020: USD and SDR currency positions).

In 2021 provisions for employees and for known risks arising from on-balance sheet positions were decreased in the amount of EUR 1.7 million. Provisions amounted to EUR 1.4 million were created. A provision for employees in the amount of EUR 1.0 million was created in accordance with IAS 19 (Employee Benefits). In accordance with the decision of the Governing Board of Banka Slovenije, provisions due to potential costs related to the procedure for regulating the status of holders of subordinated bank bonds in the amount of EUR 0.2 million and provisions for anticipated costs of settling labour disputes in the amount of EUR 0.2 million were created. In 2021, provisions for employees and known risks arising from balance sheet positions were released in the amount of EUR 3.1 million. Provisions for the maintenance of buildings in Austria in the amount of EUR 2.0 million, provisions for employees in the amount of EUR 1.1 million and provisions for personnel reorganisation in the amount of EUR 0.2 million were released.

Transfer to provisions for general risks in the amount of EUR 76.9 million represents the net amount of provisions, created for potential losses from financial risks as well as interest rate sensitivity gap (see “Provisions” in the notes to the balance sheet).

	2021	2020	Change
	000 EUR	000 EUR	000 EUR
Realised gains/losses arising from financial operations			
Gold	-	0	0
Currency position	2,680	3,966	-1,286
Securities	8,152	15,201	-7,049
Total	10,831	19,166	-8,335
Write-downs on financial assets and positions			
Currency position	-126	-18,811	18,684
Securities	-14,822	-153	-14,669
Total	-14,949	-18,964	4,015
Transfer to/from provisions for financial and other risks			
Provisions for employees and for known risks	1,724	2,292	-568
Provisions for general risks	-76,900	-53,200	-23,700
Total	-75,176	-50,908	-24,268
Total	-79,293	-50,705	-28,588

27. Net income from fees and commissions

Net income from fees and commissions amounts to EUR 12.9 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.

28. Income from equity shares and participating interests

This item amounting to EUR 7.4 million represents the income received from Banka Slovenije's participation in the international financial institutions and the ECB, as well as from investments in investment funds.

Also included under this caption is the amount due to Banka Slovenije with respect to the ECB's interim profit distribution totalling EUR 0.7 million (2020: EUR 6.1 million) (see "ECB profit distribution" in the notes on accounting policies).

29. Net result of pooling of monetary income

This item contains the net result of pooling of monetary income for 2021, amounting to an expense of EUR 23.5 million compared to the expense of EUR 5.0 million in the previous year. This item also contains Banka Slovenije's share of the realised loss in relation to the sale of the securities held by an NCB of the Eurosystem in its CSPP portfolio in 2020.

The net expense shown in this item amounted to EUR 23.5 million in comparison to the net expense of EUR 4.5 million in 2020.

	2021	2020	Change
	000 EUR	000 EUR	000 EUR
Net monetary income pooled by Banka Slovenije	28,579	25,505	3,074
Net monetary income allocated to Banka Slovenije	5,634	20,827	-15,192
Monetary income reallocation for the year	-22,945	-4,678	-18,266
Adjustments of monetary income reallocation for previous years	-555	-302	-253
Provisions in respect of monetary policy operations	-	439	-439
Total	-23,500	-4,542	-18,958

The monetary income of the Eurosystem national central banks is allocated in accordance with the decision taken by the Governing Council of the ECB²⁷. The amount of each Eurosystem NCB's monetary income is determined by measuring the annual income that derives from its 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 liability base deviates from its share in the subscribed capital of the ECB. The difference between the monetary income pooled by Banka Slovenije amounting to EUR 28.6

²⁷ 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, pp. 26–36, as amended.

million and reallocated to Banka Slovenije amounting to EUR 5.6 million is the net result arising from the pooling of monetary income.

30. Other income

Other income amounting to EUR 2.3 million includes income from non-bank services like rental income, reimbursements, numismatics and other income.

31. Operating expenses

Staff costs

Staff costs amounting to EUR 28.8 million include salaries and other staff costs together with the related taxes and contributions.

Banka Slovenije employed 458 employees as at 31 December 2021 (31 December 2020: 453 employees). The average number of employees, based on the number of hours worked, stood at 438 employees (2020: 441 employees).

In accordance with the contract between Banka Slovenije and the Trade union from March 2002, Banka Slovenije's employees have been included into Voluntary supplementary pension insurance, which is defined as a contribution plan. Staff costs include Banka Slovenije's contribution to the Voluntary supplementary pension insurance of EUR 0.8 million (2020: EUR 0.8 million).

In 2021 the remuneration of the Governing board members of Banka Slovenije was of EUR 0.9 million (2020: EUR 0.8 million).

Administrative expenses

This item, amounting to EUR 8.2 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 2.8 million is performed according to the adopted depreciation rates.

Banknote production services

Expenses for banknotes production services amounting to EUR 2.3 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 0.9 million consist of contributions, subscriptions, taxes and other operating expenses of Banka Slovenije.

32. Profit for the year

As per the Accounting Guideline, according 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, Banka Slovenije shows the profit amounted to EUR 37.1 million (2020: EUR 81.0 million). Appropriation of the financial result will be performed in accordance with the applicable legislation.

Secondary legislation

Macroprudential supervision

- 1 [Regulation repealing the Regulation on macroprudential monitoring of funding structure](#)
Official Gazette of the Republic of Slovenia, No. 167, 22 October 2021
- 2 [Macroprudential recommendation on the temporary restriction of profit distributions by leasing companies](#)
Official Gazette of the Republic of Slovenia, No. 70, 7 May 2021
- 3 [Regulation on the macroprudential restriction on profit distribution by banks](#)
Official Gazette of the Republic of Slovenia, No. 21, 12 February 2021

Prudential supervision of banks and savings banks

- 4 [Regulation on the application of the Guidelines specifying the criteria to assess the exceptional cases when institutions exceed the large exposure limits of Article 395\(1\) of Regulation \(EU\) No 575/2013 and the time and measures to return to compliance pursuant to Article 396\(3\) of Regulation \(EU\) No 575/2013](#)
Official Gazette of the Republic of Slovenia, No. 205, 29 December 2021
- 5 [Regulation on the application of the Guidelines on sound remuneration policies under Directive 2013/36/EU](#)
Official Gazette of the Republic of Slovenia, No. 196, 17 December 2021
- 6 [Regulation on the documentation for demonstrating fulfilment of the conditions for appointment as a member of the governing body of a bank or savings bank](#)
Official Gazette of the Republic of Slovenia, No. 196, 17 December 2021
- 7 [Guidelines for implementing the Regulation on reporting by monetary financial institutions](#)
Official Gazette of the Republic of Slovenia, No. 195, 15 December 2021
- 8 [Guidelines for calculating performance indicators of banks and savings banks](#)
Official Gazette of the Republic of Slovenia, No. 195, 15 December 2021
- 9 [Regulation on the application of the Guidelines on internal governance](#)
Official Gazette of the Republic of Slovenia, No. 184, 26 November 2021
- 10 [Regulation on the application of the Guidelines on the assessment of the suitability of members of the management body and key function holders](#)
Official Gazette of the Republic of Slovenia, No. 184, 26 November 2021
- 11 [Regulation on the books of account and annual reports of banks and savings banks](#)
Official Gazette of the Republic of Slovenia, No. 184, 26 November 2021
- 12 [Regulation on reporting by branches of Member State banks](#)
Official Gazette of the Republic of Slovenia, No. 184, 26 November 2021
- 13 [Regulation on reporting by monetary financial institutions](#)
Official Gazette of the Republic of Slovenia, No. 184, 26 November 2021
- 14 [Regulation on the application of the Guidelines on the monitoring of the threshold and other procedural aspects on the establishment of intermediate EU parent undertakings under Article 21b of Directive 2013/36/EU](#)
Official Gazette of the Republic of Slovenia, No. 176, 9 November 2021
- 15 [Regulation on documentation in connection with the request for approval or exemption from approval of a financial holding company or mixed financial holding company](#)
Official Gazette of the Republic of Slovenia, No. 173, 5 November 2021
- 16 [Regulation on the application of the Guidelines on criteria for the use of data inputs in the risk-measurement model referred to in Article 325bc of Regulation \(EU\) No 575/2013](#)
Official Gazette of the Republic of Slovenia, No. 162, 8 October 2021
- 17 [Regulation on the application of the Guidelines on customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions](#)
Official Gazette of the Republic of Slovenia, No. 153, 24 September 2021
- 18 [Regulation on credit risk management at banks and savings banks](#)
Official Gazette of the Republic of Slovenia, No. 115, 16 July 2021
- 19 [Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks](#)
Official Gazette of the Republic of Slovenia, No. 115, 16 July 2021
- 20 [Regulation on the criteria for designation of a significant bank](#)
Official Gazette of the Republic of Slovenia, No. 115, 16 July 2021
- 21 [Regulation on the reporting of individual facts and circumstances of banks and savings banks](#)
Official Gazette of the Republic of Slovenia, No. 115, 16 July 2021
- 22 [Guidelines for implementing the Regulation on the reporting of data in the area of money laundering and terrorist financing prevention](#)
Official Gazette of the Republic of Slovenia, No. 105, 2 July 2021
- 23 [Regulation on the exercise of options and discretions under European Union law](#)
Official Gazette of the Republic of Slovenia, No. 105, 2 July 2021
- 24 [Regulation on the application of the Guidelines on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply a systemic risk buffer in accordance with Article 133\(5\)\(f\) of Directive 2013/36/EU](#)
Official Gazette of the Republic of Slovenia, No. 100, 24 June 2021

- 25 [Regulation on the application of the Guidelines on reporting under Articles 4 and 12 SFTR](#)
Official Gazette of the Republic of Slovenia, No. 80, 21 May 2021
- 26 [Regulation on the application of the Guidelines specifying the conditions for the application of the alternative treatment of institutions' exposures related to "tri-party repurchase agreements" set out in Article 403\(3\) of Regulation \(EU\) 575/2013 for large exposures purposes](#)
Official Gazette of the Republic of Slovenia, No. 80, 21 May 2021
- 27 [Regulation on the reporting of data in the area of money laundering and terrorist financing prevention](#)
Official Gazette of the Republic of Slovenia, No. 64, 23 April 2021
- 28 [Regulation on the documentation for the granting of an authorisation to include a capital instrument in the calculation of the own funds of banks and savings banks and the documentation on subsequent issuances of instruments](#)
Official Gazette of the Republic of Slovenia, No. 21, 12 February 2021
- 29 [Regulation on data and information for designating a bank as a small and non-complex institution](#)
Official Gazette of the Republic of Slovenia, No. 21, 12 February 2021
- 30 [Regulation on the application of the Guidelines on the specification and disclosure of systemic importance indicators](#)
Official Gazette of the Republic of Slovenia, No. 10, 22 January 2021

Payment services

- 31 [Guidelines for implementing the Regulation on the reporting of information on fees for the provision of payment services](#)
Official Gazette of the Republic of Slovenia, No. 192, 7 December 2021
- 32 [Regulation repealing the Regulation on the application of the Final guidelines on the security of internet payments](#)
Official Gazette of the Republic of Slovenia, No. 184, 26 November 2021
- 33 [Regulation on the application of the Revised Guidelines on major incident reporting under PSD2](#)
Official Gazette of the Republic of Slovenia, No. 168, 25 October 2021
- 34 [Guidelines for reporting data subject to publication on the list of identifying designations of IBAN allocators](#)
Official Gazette of the Republic of Slovenia, No. 35, 11 March 2021
- 35 [Regulation on the content and use of the Slovenian structure of the international bank account number](#)
Official Gazette of the Republic of Slovenia, No. 21, 12 February 2021

Statistical reporting

- 36 [Guidelines for implementing the Regulation on the reporting of payments statistics](#)
Official Gazette of the Republic of Slovenia, No. 153, 24 September 2021
- 37 [Regulation on the reporting of payments statistics](#)
Official Gazette of the Republic of Slovenia, No. 108, 9 July 2021

Central credit register and the system for the exchange of information on the indebtedness of borrowers

- 38 [Amendments to the Rules on the data exchange system on individual indebtedness – SISBON](#)
Official Gazette of the Republic of Slovenia, No. 97, 18 June 2021

Bank resolution and the deposit guarantee scheme

- 39 [Regulation on the application of the Guidelines on the provision of information in summary or collective form for the purposes of Article 84\(3\) of Directive 2014/59/EU](#)
Official Gazette of the Republic of Slovenia, No. 183, 23 November 2021
- 40 [Regulation on the application of the Final Guidelines on the minimum criteria to be fulfilled by a business reorganisation plan](#)
Official Gazette of the Republic of Slovenia, No. 183, 23 November 2021
- 41 [Regulation on the application of the Final Guidelines on the treatment of shareholders in bail-in or the write-down and conversion of capital instruments](#)
Official Gazette of the Republic of Slovenia, No. 183, 23 November 2021
- 42 [Regulation on the application of the Final Guidelines concerning the interrelationship between the BRRD sequence of write-down and conversion and CRR/CRD](#)
Official Gazette of the Republic of Slovenia, No. 183, 23 November 2021
- 43 [Regulation on the application of the Final Guidelines on the rate of conversion of debt to equity in bail-in](#)
Official Gazette of the Republic of Slovenia, No. 183, 23 November 2021

- 44 [Regulation on the application of the Guidelines on the interpretation of the different circumstances when an institution shall be considered as failing or likely to fail under Article 32\(6\) of Directive 2014/59/EU](#)
Official Gazette of the Republic of Slovenia, No. 183, 23 November 2021
- 45 [Regulation on the application of the Guidelines on the specification of measures to reduce or remove impediments to resolvability and the circumstances in which each measure may be applied under Directive 2014/59/EU](#)
Official Gazette of the Republic of Slovenia, No. 183, 23 November 2021
- 46 [Regulation on the application of the Guidelines on the determination of when the liquidation of assets or liabilities under normal insolvency proceedings could have an adverse effect on one or more financial markets under Article 42\(14\) of Directive 2014/59/EU](#)
Official Gazette of the Republic of Slovenia, No. 183, 23 November 2021
- 47 [Regulation on the application of the Guidelines on factual circumstances amounting to a material threat to financial stability and on the elements related to the effectiveness of the sale of business tool under Article 39\(4\) of Directive 2014/59/EU](#)
Official Gazette of the Republic of Slovenia, No. 183, 23 November 2021
- 48 [Regulation on the application of the Guidelines on the minimum list of services or facilities that are necessary to enable a recipient to operate a business transferred to it under Article 65\(5\) of Directive 2014/59/EU](#)
Official Gazette of the Republic of Slovenia, No. 183, 23 November 2021

Consumer protection

- 49 [Average effective interest rates on consumer credit agreements entered into by banks and savings banks between 1 January and 30 June 2021](#)
Official Gazette of the Republic of Slovenia, No. 123, 27 July 2021
- 50 [Average effective interest rates on consumer credit agreements entered into by banks and savings banks between 1 July and 31 December 2020](#)
Official Gazette of the Republic of Slovenia, No. 12, 28 January 2021

Cash operations

- 51 [Regulation on the issuance of collector coins for sale and circulation to mark the 30th anniversary of statehood of the Republic of Slovenia](#)
Official Gazette of the Republic of Slovenia, No. 163, 15 October 2021
- 52 [Regulation on the issuance of collector coins for sale and circulation to mark the 300th anniversary of the Škofja Loka Passion](#)
Official Gazette of the Republic of Slovenia, No. 70, 7 May 2021

Other Banka Slovenije regulations

- 53 [Regulation on the calculation of annual fees in connection with the resolution and compulsory winding-up of banks and EU branches and the calculation of EU branches' contributions for the purposes of resolution](#)
Official Gazette of the Republic of Slovenia, No. 204, 28 December 2021
- 54 [Regulation on annual fees for supervision and fees in connection with decision-making procedures of Banka Slovenije](#)
Official Gazette of the Republic of Slovenia, No. 202, 24 December 2021
- 55 [Regulation amending the regulation on the tariff for charging fees for Banka Slovenije services](#)
Official Gazette of the Republic of Slovenia, No. 194, 10 December 2021
- 56 [Regulation on the amount of annual fees for supervision of the central securities depository by Banka Slovenije](#)
Official Gazette of the Republic of Slovenia, No. 173, 5 November 2021
- 57 [Regulation amending the Regulation on annual fees for supervision and fees in connection with decision-making procedures of Banka Slovenije](#)
Official Gazette of the Republic of Slovenia, No. 159, 1 October 2021
- 58 [Regulation on the calculation of annual fees in connection with the resolution and compulsory winding-up of banks and EU branches and the calculation of EU branches' contributions for the purposes of resolution](#)
Official Gazette of the Republic of Slovenia, No. 159, 1 October 2021
- 59 [Regulation setting the level of interest rates by which Banka Slovenije charges interest on the assets of public entities](#)
Official Gazette of the Republic of Slovenia, No. 196, 17 December 2021

List of abbreviations

AIS	alternative investment funds
AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
APP	Asset Purchase Programme
ATVP	Securities Market Agency
GDP	gross domestic product
BIS	Bank for International Settlements
BLS	Bank Lending Survey
CET1	Common equity Tier 1
CSDB	Centralised Securities Database
O-SIIs	Other systemically important institutions
DSTI	Debt service-to-income
EA	Euro area
EBA	European Banking Authority
ECB	European Central Bank
EDIS	European Deposit Insurance Scheme
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
EONIA	Euro overnight index average
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
€STR	Euro short-term rate
Fed	US Federal Reserve System
FTP	Financial Transaction Plan
FURS	Financial Administration of the Republic of Slovenia
GLTDF	Gross Loans to Deposits Flows ratio
HICP	Harmonised Index of Consumer Prices
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
JST	Joint Supervisory Team
KDD	Centralna klirinško depotna družba, d.d. (Central Securities Clearing Corporation)
LCR	Liquidity coverage ratio
LSI	Less significant institutions
LTV	Loan-to-value
IMF	International Monetary Fund
MFIs	Monetary financial institutions
MREL	Minimum requirement for own funds and eligible liabilities
IFRS 16	International Financial Reporting Standard 16
NFCs	Non-financial corporations
NGFS	Network for Greening the Financial System
NPE	Non-performing exposures
NPL	Non-performing loan
NSFR	Net stable funding ratio
NSP	National Payments Council
OECD	Organisation for Economic Co-operation and Development
FSB	Financial Stability Board
MRO	Main refinancing operations
LTRO	Longer-term refinancing operations
PELTRO	Pandemic emergency longer-term refinancing operations
PEPP	Temporary pandemic emergency purchase programme
AML/CFT	Prevention of money laundering and terrorist financing
PSP	Public Sector Purchase Programme
ROE	Return on equity
SDRs	Special drawing rights
SEPA	Single Euro Payments Area
SI	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
SPACE	Study on the payment attitudes of consumers in the euro area
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
STEP2-T	Pan-European payment system for executing SEPA credit transfers and SEPA direct debits
SUCH	Study on the use of cash by households in the euro area
SURS	Statistical Office of the Republic of Slovenia
TARGET2	Securities (T2S) Eurosysteem single technical platform for the settlement of securities transactions

TARGET2	Trans-European Automated Real-time Gross Settlement Express Transfer System
TIPS	TARGET Instant Payment Settlement
TLPT	Threat led penetration testing
TLTRO, TLTRO-II and TLTRO-III	Targeted longer-term refinancing operations
OMLP	Office for Money Laundering Prevention
ZBS/BAS	Bank Association of Slovenia