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A WORD FROM THE GOVERNOR

The dominant event of last year was the outbreak of the pandemic, which triggered a deep economic, social and health crisis, and also had a major impact on the dynamics and scope of economic policy measures. The lockdown disrupted international trade, and reduced private consumption, investment and activity across a broad spectrum of the economy. If signs of a reversal in the economic cycle were already evident in 2019, the slowdown in economic activity intensified last year. The Eurosystem responded with immediate, wide-ranging anti-crisis measures, thereby reiterating our commitment to the inflation target and the maintenance of financial stability in the euro area. Despite the difficult circumstances and the elevated risks, the banking system also managed to maintain its vital role in financing the economy thanks to extensive monetary and fiscal policy measures. While the circumstances surrounding the successful fulfilment of Banka Slovenije's legal mandate have been quite exceptional since March 2020, the future challenges will mainly relate to the gradual recovery of the economy after the health crisis is over.

According to the latest IMF estimates, global GDP contracted by 3.3% last year, significantly more than during the global financial crisis of 2008 and 2009. Other than China, all major global economies suffered recession last year. The euro area also suffered its most severe recession to date: GDP declined by 6.6% last year, 2.1 percentage points more than in the crisis of 2009. The euro area countries with the largest economic contractions included the three hit worst by the epidemic (Spain, Italy and France), where the large service sectors were a factor in the magnitude of the shock. The crisis in Slovenia was slightly less severe than expected, and also less than in the euro area overall: GDP declined by 5.5%, driven largely by a decline in final household consumption.

The euro area's common monetary policy responded promptly to the changing situation and the increased uncertainty. With the aim of maintaining stable inflation at its medium-term target of close to but less than 2%, we extended certain existing measures and took new measures to provide even greater monetary policy stimulus. We introduced the new pandemic emergency purchase programme (PEPP), with an envelope of EUR 1,850 billion. With the aim of injecting extra liquidity, we also introduced the pandemic emergency longer-term refinancing operations (PELTRO), and provided more favourable terms for the targeted longer-term refinancing operations (TLTRO-III) until June 2022. The key interest rates were left unchanged at their current low levels.



We also took a number of measures in the areas of banking regulations and supervision, and macroprudential policy, to maintain the financing of the economy, to reduce uncertainty and to ease the institutional burden on banking. At the national level, under the aegis of the SSM, the EBA and the BIS, we were quick to respond effectively by adjusting the supervisory prudential requirements for banks, and through other measures to alleviate the impact of the pandemic (e.g. more favourable regulatory treatment of loan moratoria). Banka Slovenije also responded by adopting certain temporary adjustments to prudential requirements and supervisory measures, and by putting in place macroprudential measures that fall under national jurisdiction.

Extensive measures to contain the economic impact of the health crisis were also put in place by governments, most notably labour market measures. It can be emphasized that in contrast to the previous global financial crisis, the timing of the response from euro area monetary policy, from fiscal policy in individual countries and from the European Commission was coordinated, which alongside the appropriate fiscal efforts is giving a good chance of preventing a slide into a longer-lasting contraction in economic activity, with an adverse impact on inflation.

As elsewhere, the economic difficulties are of course having an impact on the performance of the banking sector in Slovenia. With macroeconomic risks being realised, the banks are first and foremost facing credit risk and income risk, which will curtail the profitability of the banking system in the period ahead. Via the retention of earnings driven in part by our macroprudential measures, profitability has been a key resource in strengthening the banking system's capital resilience. The banking system saw relatively high profitability last year, and the latest figures suggest that ROE was actually the highest in the EU. However, this was not entirely attributable to bank performance: if the one-off effect of the merger of two banks is excluded, profitability would be almost a half lower. Despite the increase in credit risk, a major part in the relatively good picture is still being played by the extensive government support measures and the favourable regulatory treatment. With the exception of the consumer loans portfolio, NPL ratios in the banking system remained at relatively low levels over the course of the year. Reclassifications of claims to the stage with increased (but as-yet unrealised) credit risk are however increasing. These transitions are most evident for non-financial corporations, particularly in sectors that were shut down or heavily curtailed by the epidemic, but recently have also become more evident for households.

The experience of last year indicates that the economy is heavily affected by the containment measures: with the lifting of the containment measures, economic activity will begin to recover relatively quickly, but at the same time the situation could worsen quickly again if the virus spreads and new containment measures are imposed. This will guide us in calibrating the measures in all areas of our work. In the second half of this year and in the near future there will need to be careful consideration of the monetary policy stance and the continuation of measures to support the economy, but at the same time we must ensure that we meet the inflation target across the euro area. Measures in the areas of banking regulations,

microprudential supervision and macroprudential policy will in the future focus on the emergence from the current crisis and economic recovery. The aim is for the banking system to continue its vital function of financial intermediation for the healthy part of the economy, and at the same time to quickly, efficiently and cautiously address the exposures to customers who have been affected badly enough by the current crisis that they will be unable to remain in business.

Finally, I would also like to mention certain highlights of Banka Slovenije's performance. Banka Slovenije's balance sheet total increased by EUR 7.2 billion in 2020, largely as a result of the monetary policy stimulus and the government measures to alleviate the impact of the epidemic. On the liability side, there were increases in current account balances of banks, euro deposits by the government sector and other customers, banknotes in circulation and liabilities to the Eurosystem from adjustments in euro banknotes. On the asset side, there were increases in net securities purchases for monetary policy purposes, and the stock of longer-term refinancing operations, while other euro investments declined. The aforementioned changes brought an increase in claims against the ECB from Banka Slovenije's TARGET2 position. The surplus of income over expenses amounted to EUR 81.0 million in 2020, less than in the previous year, primarily as a result of negative revaluations of positions being marked to market, a negative net result from the combination of Eurosystem monetary income, and the net creation of provisions for risks. Net interest income was higher than in 2019. On the basis of the realised surplus, Banka Slovenije will contribute a total of EUR 20.2 million to the state budget.

In my opinion, Banka Slovenije's actions in 2020 saw it successfully fulfil its mandate as set out by law. Despite the constraints on working, we organised ourselves to allow our staff to continue doing their jobs safely and in line with all recommendations of the profession. At the same time we all ensured that all of our collective tasks within the framework of EU institutions and machinery and at the national level proceeded smoothly. As part of the European System of Central Banks, we participated in shaping monetary policy to ensure price stability, while this monetary policy also acted to encourage economic activity in Slovenia amid the sharp downturn in business conditions. We responded quickly and decisively to the latest information about changes in the macroeconomic environment. We also attended to financial stability in Slovenia, either independently, or in conjunction with the competent authorities at the European level, and responded promptly to current trends in the banking system by taking appropriate action. We will work to consistently fulfil our mandate also 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.

BANKA SLOVENIJE'S KEY AI

MONETARY POLICY

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

0.3
%

was average headline deflation in 2020, as measured by the HICP.

€6.7
billion

was excess liquidity of the Slovenian banking system at the end of 2020.

€1,377
million

was stock of TLTROs in Slovenia at the end of 2020.

3.2
tonnes

gold held in Banka Slovenije's intl. reserves. Gold and gold receivables amounted to €158 million at the end of 2020.

MICROPRUDENTIAL SUPERVISION

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

52
findings

of irregularities and deficiencies in the supervision of significant banks in 2020.

127
findings

of irregularities and deficiencies in the supervision of less significant banks in 2020.

43
procedures

of licensing completed with an authorisation being granted.

19
procedures

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

PAYMENTS AND INFRASTRUCTURE

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

975,423 transactions

with a total value of €473.68 billion settled in the TARGET2-Slovenija payment system in 2020.

€21.98 billion

of transactions in securities settled by Slovenian market participants in T2S cash accounts in 2020.

24/7/365

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

134 transactions

with a total value of €370.57 thousand settled in TIPS in December 2020 when the first Slovenian banks joined the system.

6th

CONSECUTIVE
YEAR

of Banka Slovenije earning a
Best Employer award.

€81

MILLION SURPLUS
OF INCOME OVER
EXPENSES IN 2020

compared with €180.7 million surplus
of income over expenses in 2019.

51

MILLION
TRANSACTIONS

executed by Banka Slovenije
in 2020 for its 193 clients.

AREAS OF WORK AND TASKS

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.

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.

€44.7
billion

was balance sheet total
of the banking system
at the end of 2020.

1.9
%

was NPE ratio in the
banking system at the
end of 2020 (down from
2.2% at the end of 2019).

0.2
%

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

18.3
%

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

192.5
million

assets were under
management of the
bank resolution fund
at the end of 2020.

96
million

assets were under
management of the
deposit guarantee fund
at the end of 2020.

22.1
million

were the banks'
total contributions to
the deposit guarantee
fund in 2020.

9
million

were total contributions
to the Single Resolution
Fund in 2020 by
Slovenian banks.

BANKNOTES AND COINS

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

€10.8 billion

net total of cash issued into
circulation by the end of 2020
by Banka Slovenije since
the adoption of the euro.

€31.8 million

was total value of tolar
banknotes and payment
notes still in circulation
at the end of 2020.

887

counterfeit euro banknotes
and 2,622 counterfeit euro
coins were withdrawn from
circulation in 2020.

124.8 million

banknotes and coins
were counted by
our processing
unit in 2020.



1 ECONOMIC DEVELOPMENTS



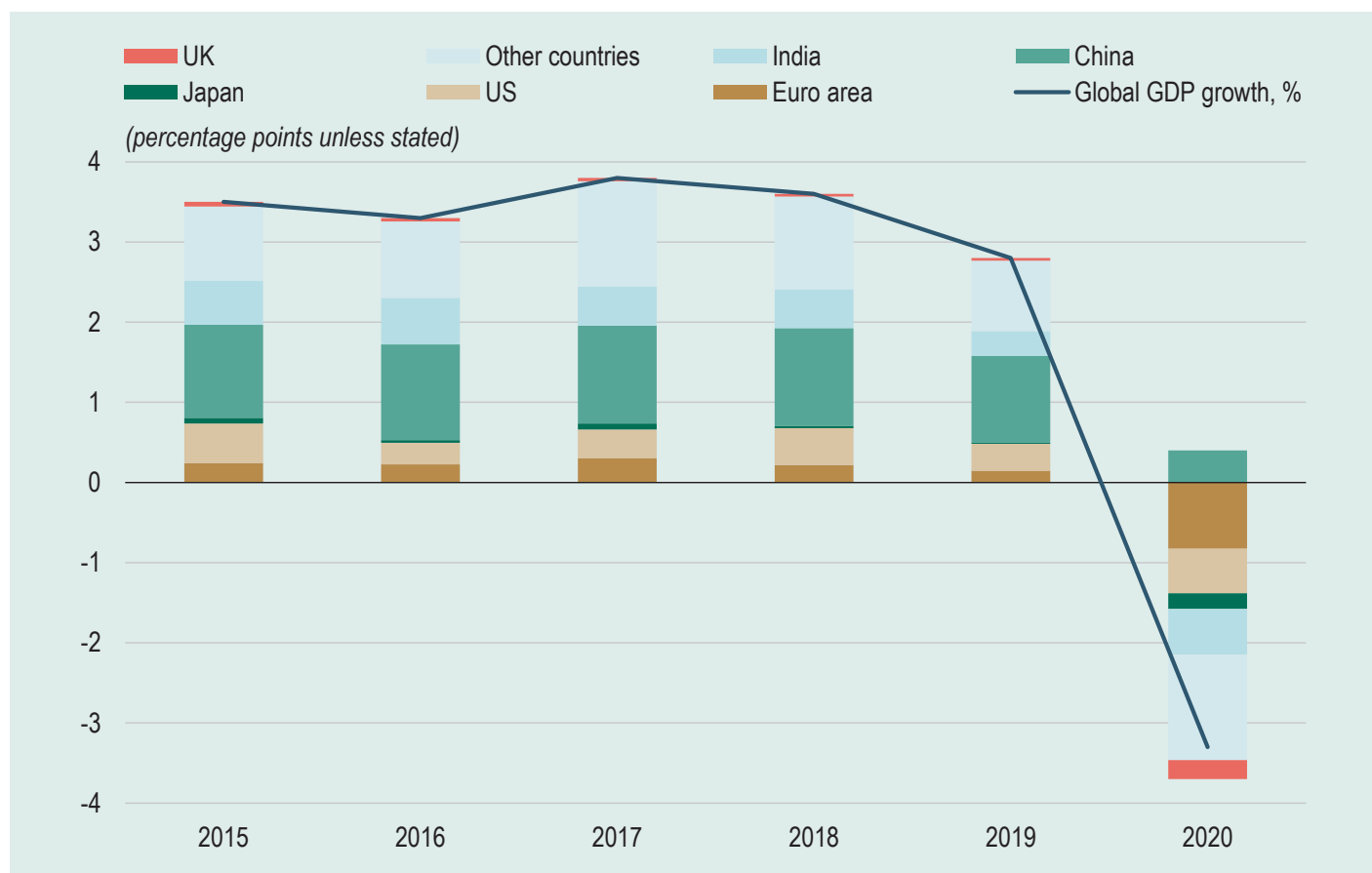
The title pages to each chapter of the Annual Report show images of exhibits in the Banka Slovenije museum.

The pandemic in 2020 triggered the largest global economic crisis since the Great Depression of the 1930s.

1.1 INTERNATIONAL SITUATION

The outbreak of the pandemic triggered a deep economic, social and health crisis, despite the extraordinary actions taken by central banks and governments. The lockdown in the spring disrupted international trade, and reduced investment and activity across a broad spectrum of the economy. Global economic activity did begin to recover with the lifting of the containment measures after the first wave of the pandemic, but the situation in many economies began to worsen again amid the renewed spread of the virus at the end of the year. According to the latest IMF estimates, global GDP contracted by 3.3% last year, significantly more than during the global financial crisis of 2008 and 2009. Although the depth of the crisis varied from country to country because of differences in the severity of the epidemic and the response to it, all major economies were in recession last year. The sole exception was China, where the spread of the virus was contained relatively quickly. Its GDP rose by 2.3%, the lowest rate in more than 40 years. The largest economic contractions were suffered by the UK (9.9%) and India (8.0%). The euro area also suffered its most severe recession to date: GDP declined by 6.6% last year, 2.1 percentage points more than in the crisis of 2009. The euro area countries with the largest economic contractions included those hit worst by the epidemic: Spain (where GDP declined by 11.0%), Italy (8.9%) and France (8.2%). The intensity of the shock in these countries was also attributable to the structure of their economies, as services account for a larger share than on average in the euro area. The US saw a smaller contraction (of 3.5%), albeit larger than in the previous financial crisis.

At the ECB we put extensive monetary policy measures in place to alleviate the crisis. We emphasize the introduction of the pandemic emergency purchase programme (PEPP) with an envelope of EUR 1,850 billion and a horizon to March 2022, with the principal of maturing securities being fully reinvested at least until the end of 2023. With the aim of injecting extra liquidity, we also introduced the new pandemic emergency longer-term refinancing operations (PELTRO), and provided more favourable terms for the targeted longer-term refinancing operations (TLTRO-III) until June 2022. The key interest rates were left unchanged at their current low levels. Another central bank that adopted extensive measures was the Fed, which modified the long-term targets and strategy of its monetary policy, most notably moving to an average inflation target of 2%. The euro rose sharply against the US dollar during the pandemic, while the price of Brent crude fell by approximately a third last year. US dollar prices of other commodities on global markets also fell, which gave rise to additional deflationary pressures in the international environment.

Figure 1: Contributions to growth in global GDP by country

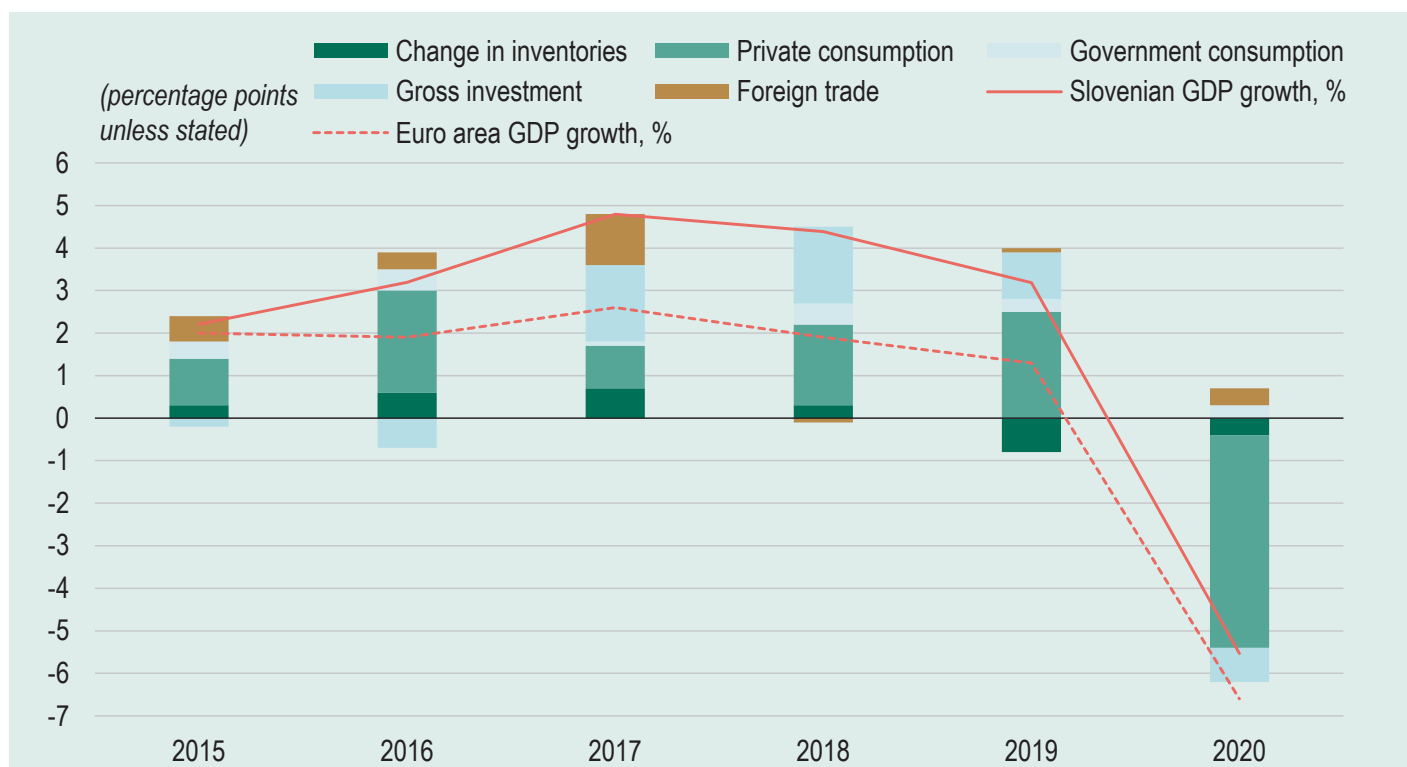
Sources: IMF, Banka Slovenije calculations

1.2 SLOVENIAN ECONOMY

Last year's decline in GDP was smaller than in the euro area overall.

The epidemic and containment measures also hit the Slovenian economy hard last year, although the crisis was slightly less severe than expected and slightly smaller than the euro area average. GDP declined by 5.5%, driven largely by a decline in final household consumption. Households strongly increased their saving, as a result of increased caution and an inability to spend, but their purchasing power remained stable amid the extensive support measures. The shock to investment was smaller than forecast last year: firms in most sectors adapted quickly to doing business in the more challenging circumstances, and their financial position remained stable on aggregate thanks to subsidies. Foreign demand also began to recover in the second half of the year. Exports of merchandise and most services thereby began to rise, and net trade actually made a positive contribution to last year's change in GDP. This is also the case of government consumption, which is the expected response from fiscal policy in an economic crisis. The nature of the containment measures meant that large differences arose between sectors: for example, turnover in accommodation and food service activities fell by more than 40%, while turnover in online and mail-order retail was up more than a half. Last year's decline in GDP was 1.1 percentage points less than in the euro area overall, where the main expenditure factor was a smaller decline in investment, and the main value-added factor was the slightly better situation in most activities.

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

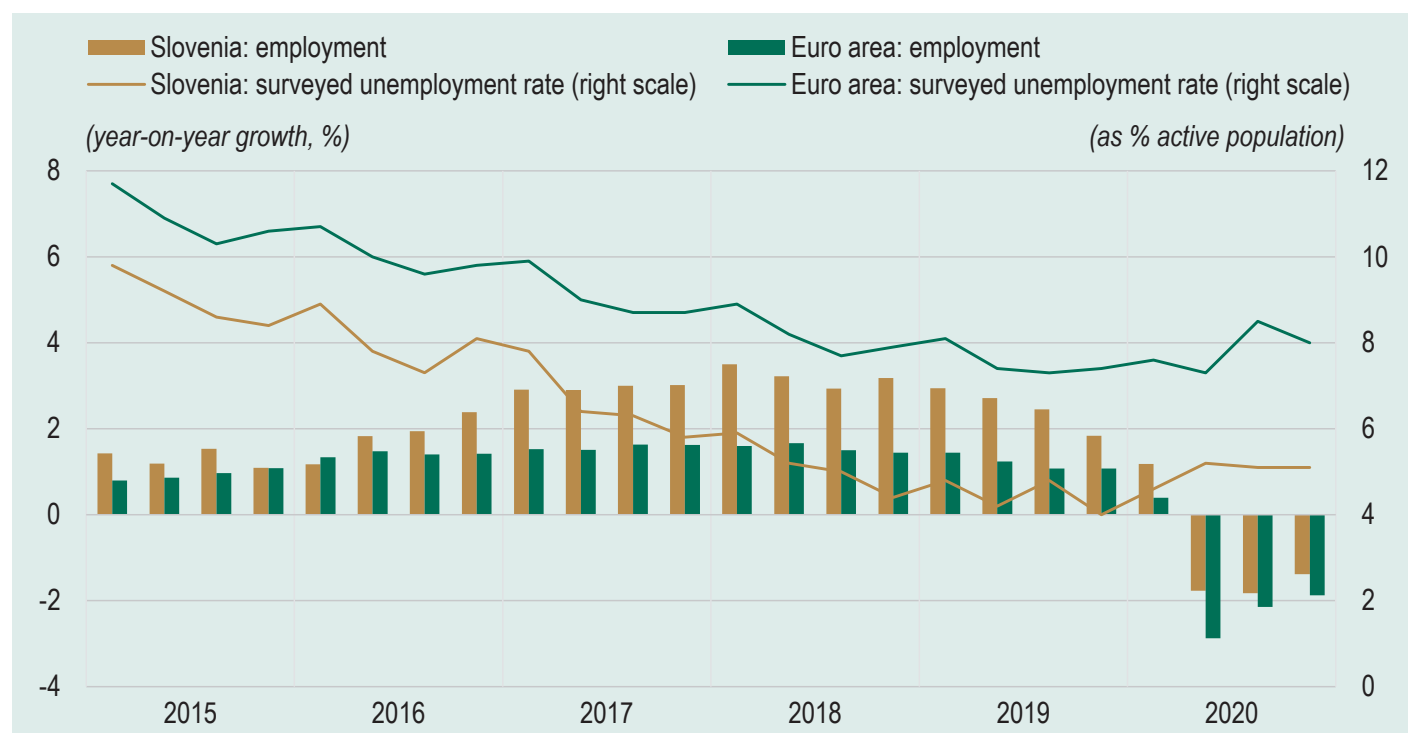


Sources: SORS, Eurostat, Banka Slovenije calculations

The outbreak of the epidemic brought an end to six years of rising employment. Total employment according to the national accounts figures was down 1.0% on 2019, 0.6 percentage points less than the decline in the euro area overall. An even larger decline was prevented by the extensive job retention measures, which covered almost 180,000 employees at their peak. The surveyed unemployment rate rose to 5.0%, a low figure given the magnitude of the decline in economic activity, and less than the euro area average. However, the epidemic did further expose the heterogeneity of the labour market, with young people and workers in precarious forms of employment bearing the brunt of the crisis. Amid the small decline in employment, the impact of the epidemic and the support measures was most evident in the large decline in the number of hours worked and the lower growth in employee earnings. As a result of the increase in the share of employees not working full-time, the number of hours worked declined by 6.3%, while growth in average compensation per employee slowed to 2.2%. This decent growth compared with the depth of the crisis was attributable to the high growth in wages in the public sector driven by crisis bonuses; employees in the private sector saw their earnings decline.

Job retention schemes have prevented a larger surge in unemployment.

Figure 3: Comparison of labour market developments between Slovenia and the euro area

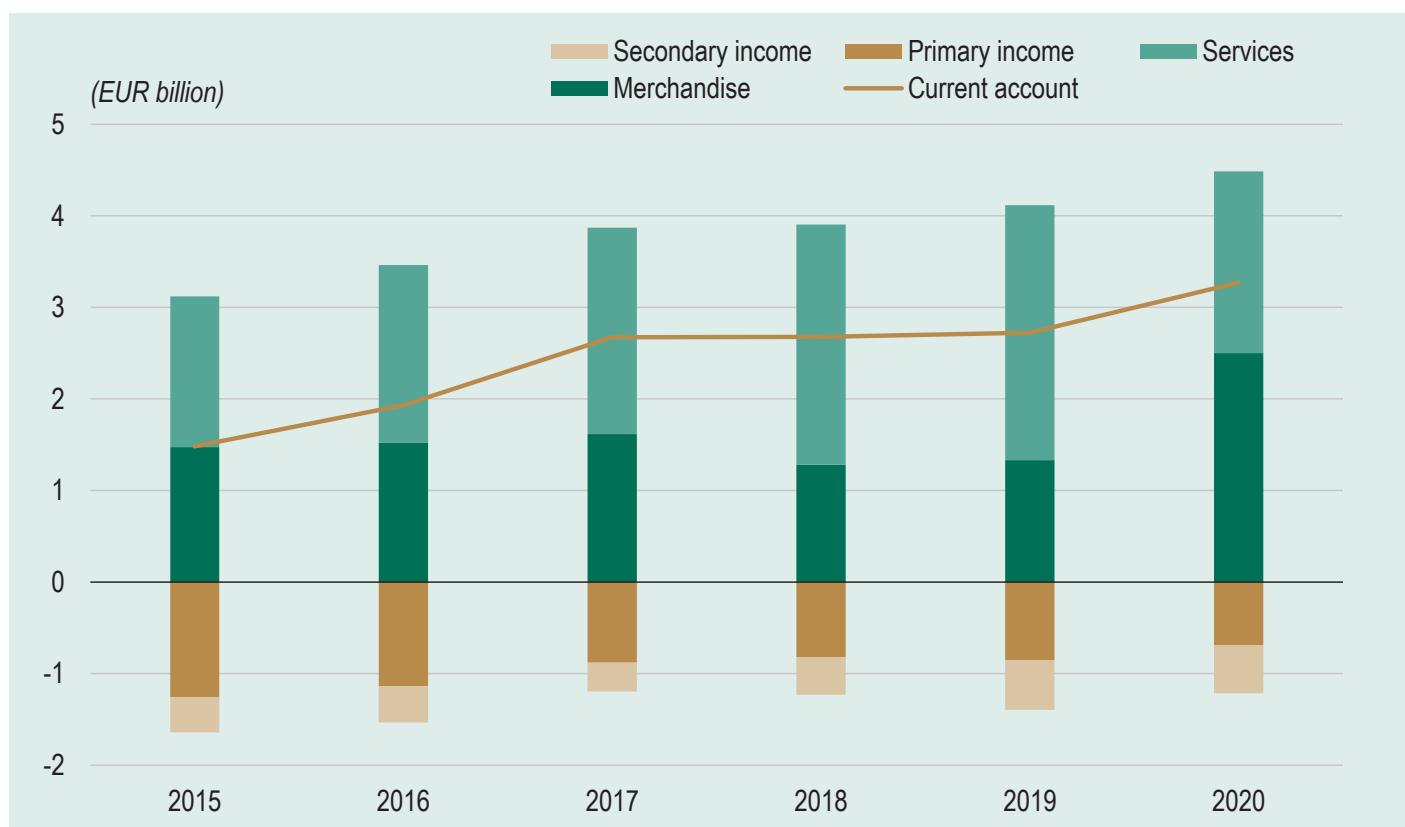


Sources: Eurostat, SORS, Banka Slovenije calculations

The large current account surplus suggests that the export sector has remained competitive, but is also indicative of the large decline in domestic demand.

The current account surplus widened sharply last year. It reached a record EUR 3.3 billion or 7.1% of GDP, approximately EUR 550 million larger than in 2019. The increase was driven by an increase of EUR 1.2 billion in the merchandise trade surplus, which – in contrast to previous years – made up the majority of the current account balance, at EUR 2.5 billion. The wider surplus was attributable to the decline in domestic demand outpacing the decline in foreign demand. The favourable terms of trade also contributed to the wider surplus, in the amount of EUR 320 million. It was a different matter in services trade: the surplus declined by fully EUR 800 million, to reach its lowest level since 2016. Tourism and transport were the worst-hit sectors, on account of the border closures and disruptions to supply chains. Trade in travel services was down approximately 60% on 2019, which resulted in a decline of almost EUR 1.7 billion in exports of travel services. The decline in aggregate trade in 2020 was nevertheless smaller than at the worst point of the previous crisis in 2009: nominal imports of merchandise and services were down 12.2%, while exports were down 10.0%. The changes in the income balances were significantly smaller. The impact of the crisis was mainly seen in a decline in inflows of labour income, a decline in dividend payments to the rest of the world, and an increase in inflows of European subsidies.

Figure 4: Current account

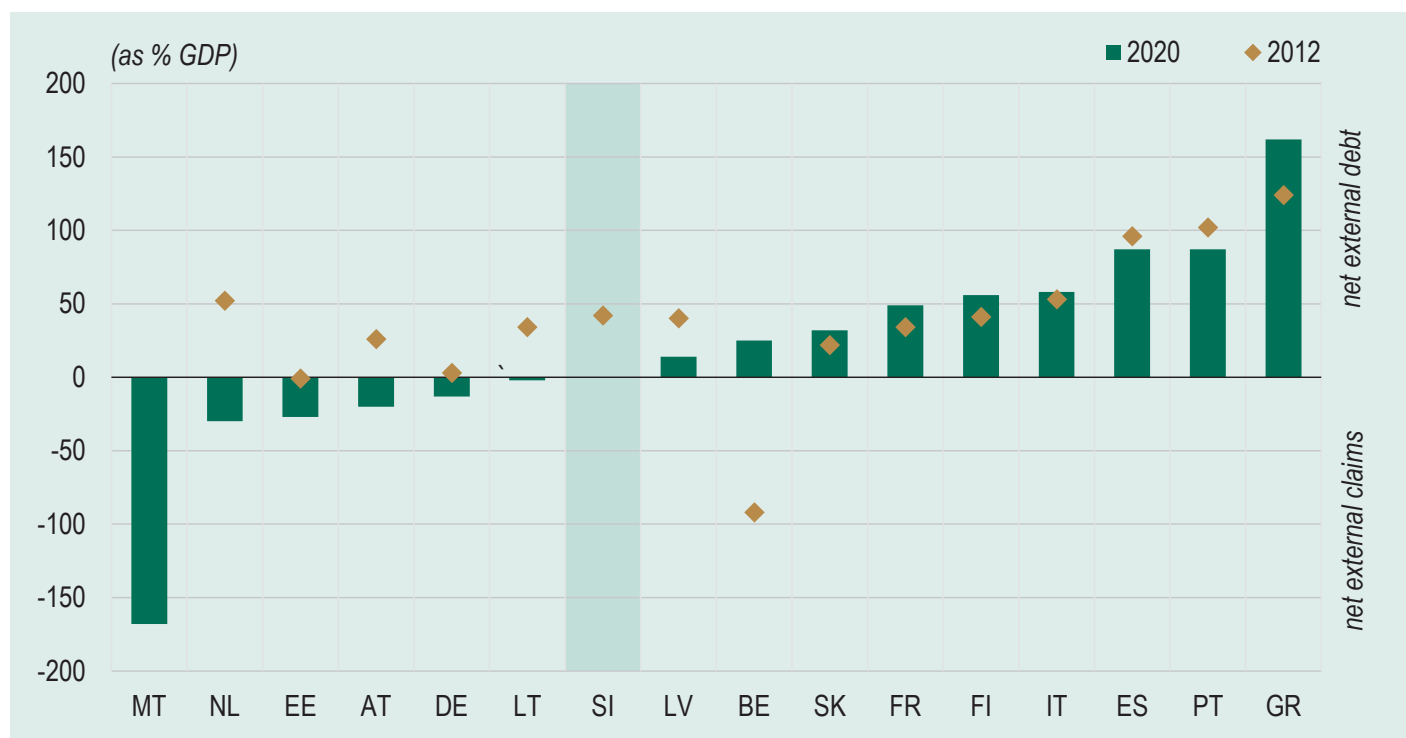


Source: Banka Slovenije

The surplus in the financial account remained large last year, and the net external debt declined, despite the sizeable government borrowing. Slovenia's net financing of the rest of the world amounted to 4.4% of GDP¹ in 2020, 0.7 percentage points less than in the previous year. There was a net flow of capital to the rest of the world via financial transactions by the private sector and the central bank (7.8% of GDP), primarily via net other assets, most notably the placement of currency and deposits in accounts in the rest of the world, and partly via the ongoing repayment of debt. The net financial outflow was reduced by non-residents' net inward investments in securities (3.8% of GDP), government bonds in particular, while the crisis meant that the net flow in direct investment was completely negligible. The trend of decline in the net external debt continued. It declined from approximately EUR 1 billion or 2.0% of GDP to just EUR 83 million or 0.2% of GDP over the course of the last year, which ranks Slovenia as one of the least-indebted countries of the euro area. The government sector alone was a net debtor vis-à-vis the rest of the world; last year its debt increased by 6.7 percentage points to stand at 39.9% of GDP. The private sector increased its net creditor position slightly further against the rest of the world.

Slovenia's net external debt amounted to just 0.2% of GDP last year.

Figure 5: Net international investment position of euro area countries in debt instruments



Note: Last year's net debt for Luxembourg (-2,611% of GDP), Ireland (-252% of GDP) and Cyprus (366% of GDP). The figures for 2012 are illustrated because it was then that Slovenia recorded its largest net external debt.

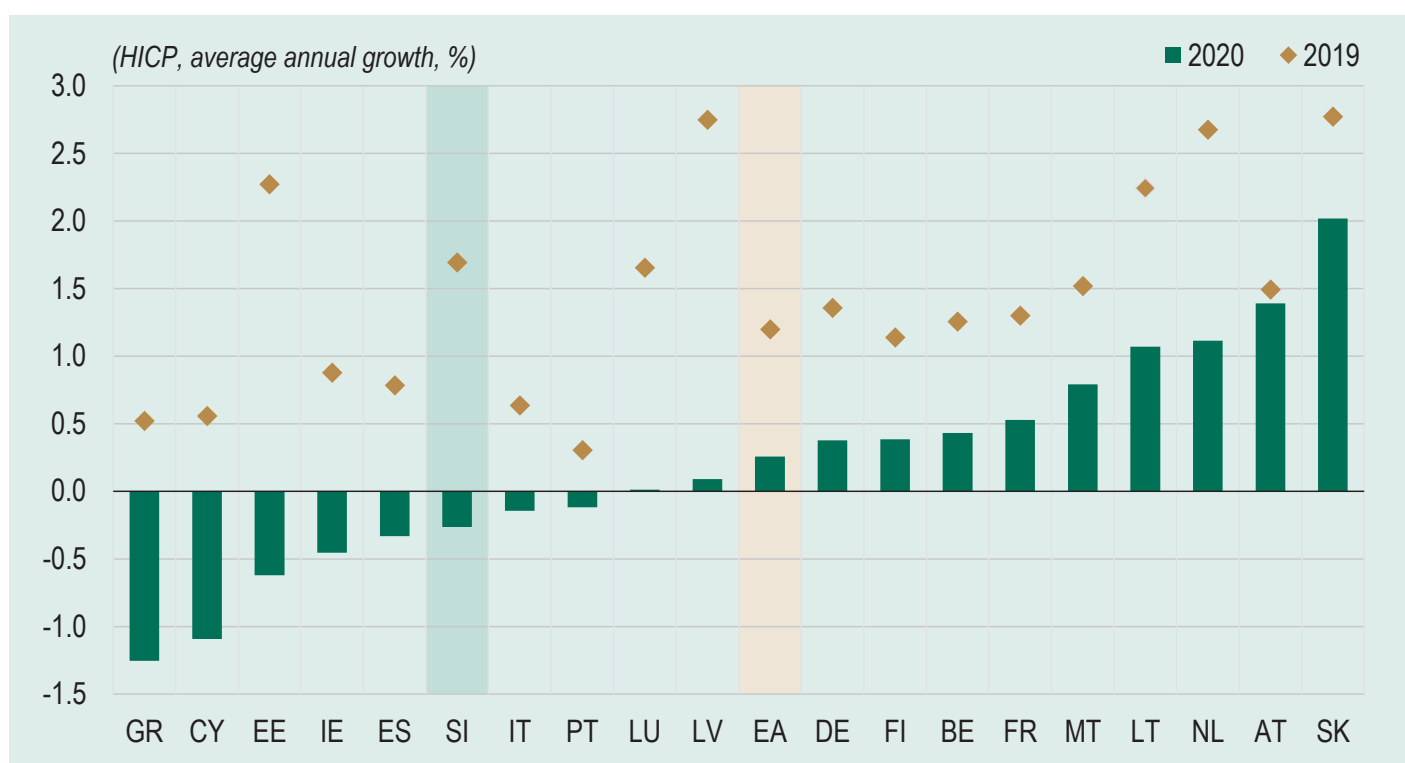
Source: ECB

¹ The difference between the current account surplus and the financial account surplus is attributable to a negative statistical error of EUR 1 billion, which illustrates the difference between the recorded balances of real transactions and financial transactions.

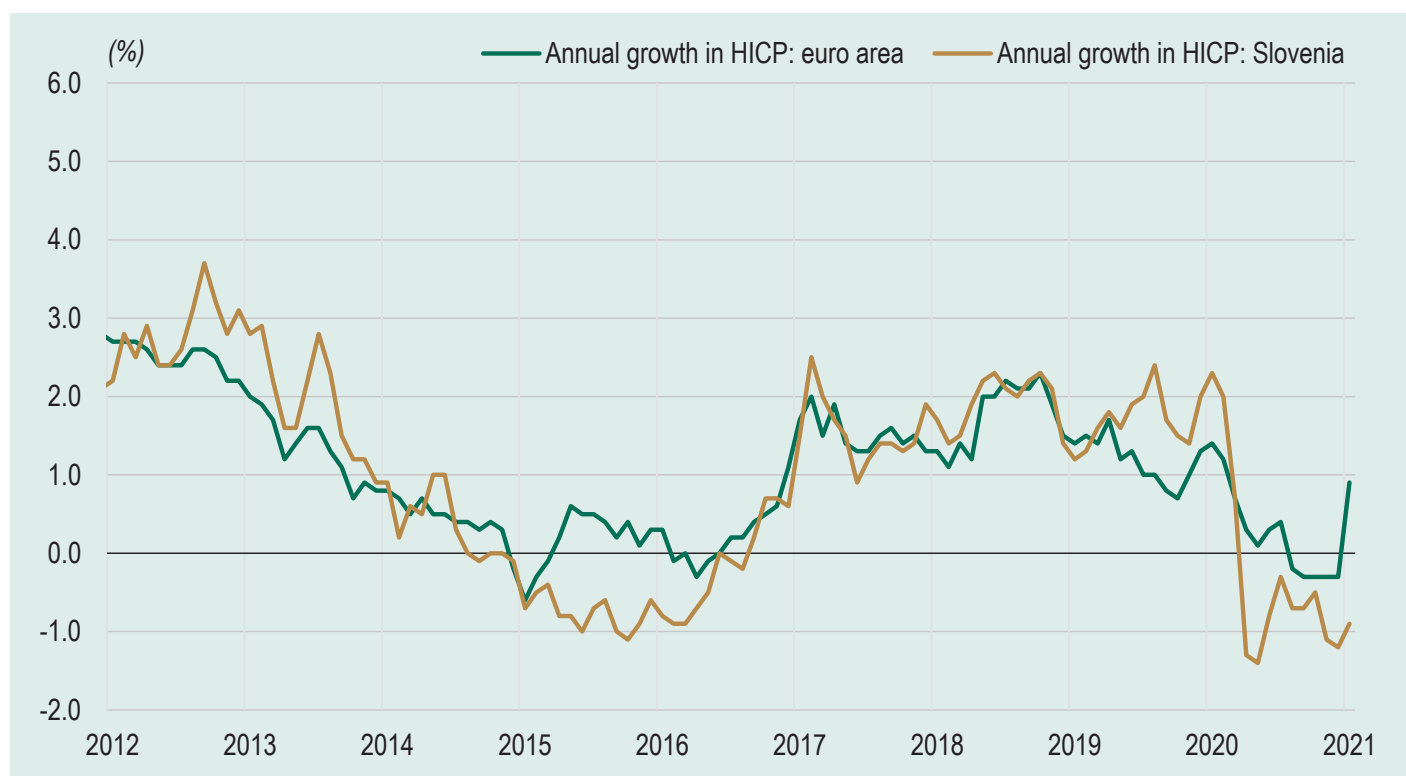
Last year's deflation of 0.3% was driven primarily by external factors.

Last year's price developments in Slovenia were weaker than in the euro area overall. The crisis triggered by the epidemic led to deflation, which averaged 0.3% over the year as measured by the HICP (harmonised index of consumer prices). This was primarily driven by external factors, as the pronounced fall in global oil prices resulted in a highly negative contribution from energy price inflation. The fall in energy prices was also driven by an anti-crisis measure in the form of a temporary cut in electricity prices during the spring wave of the epidemic, and the countercyclical excise duty policy in place until October, when the government fully liberalised prices of refined petroleum products. As a result of the containment measures, which sharply curtailed the supply of numerous services, rising unemployment and increased household saving, there was a sharp decline in private consumption, which in turn reduced domestic inflationary pressures. Core inflation as measured by the narrowest indicator stood at 0.8%, down 1.1 percentage points on 2019. The main factor was a fall in service price inflation, while prices of non-energy industrial goods also fell after rising in 2019. Inflation in the euro area overall stood at 0.3% last year. Given the difficulties of measurement while the containment measures were in place, price data grew less reliable in Slovenia, as was the case in other countries.

Figure 6: Inflation in euro area countries



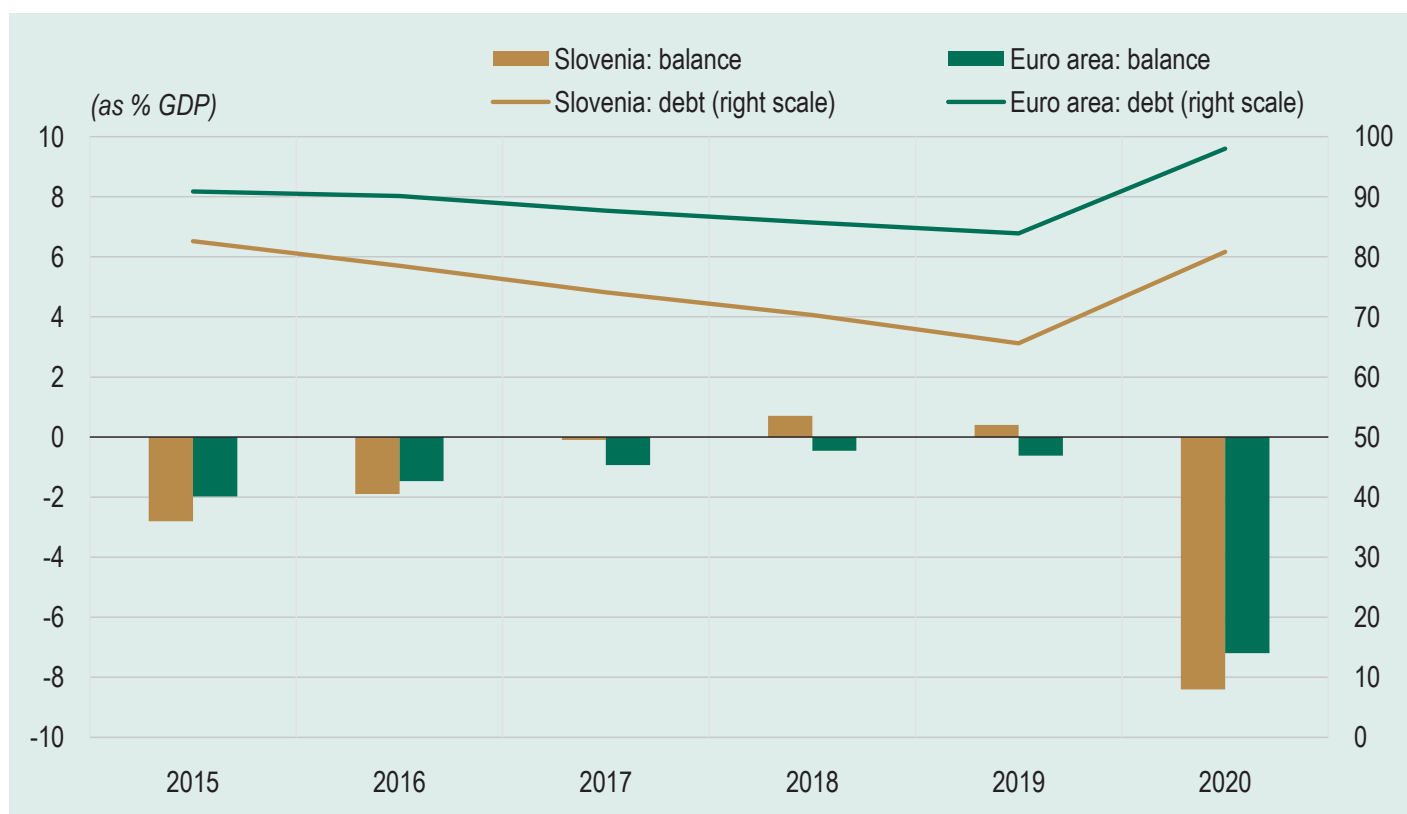
Sources: ECB, Eurostat, Banka Slovenije calculations

Figure 7: Inflation in Slovenia and the euro area

Source: Eurostat

Alleviating the impact of the crisis led to a sharp deterioration in the general government position. There was a deficit in the amount of 8.4% of GDP last year, after two years of budget surpluses. General government revenues were down 4.7% as the economy contracted sharply. An even larger factor in the deterioration in the general government position was the increase of 14.9% in general government expenditure. This was largely driven by measures to alleviate the impact of the epidemic, most notably subsidies on the labour market. Government investment increased again, while interest payments declined. There was a sharp increase in the general government debt, to 80.8% of GDP, driven by the large deficit, the contracting economy and prefinancing. The general government deficit in 2020 was 1.2 percentage points larger than the euro area average, but Slovenia's debt remained significantly lower than the euro area average despite this larger increase, thanks to its better initial position.

The epidemic drove a large general government deficit and a rise in debt.

Figure 8: General government balance and debt

Sources: Eurostat, SORS

Last year saw an improvement in government borrowing terms. The required yield on 10-year government bonds rose sharply at the outbreak of the epidemic in response to the increased uncertainty, but fell again after the adoption of fiscal and monetary policy stimulus measures, and actually ended the year in negative territory. The spreads on 10-year Slovenian government bonds over the German benchmark, which reflect the country risk premium, also underwent a temporary sharp rise before settling back to their pre-crisis levels in the second half of the year. Despite the epidemic, there was no downgrading in the rating agencies' assessments of sovereign risk, and borrowing terms were more favourable on average last year than in 2019. The coupon rates of newly issued 10-year government bonds were down 0.7 percentage points for example, and the borrowing terms improved further in the early part of 2021.



2 BANKING SYSTEM



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

The number of credit institutions in Slovenia has fallen in recent years. It fell to 16 last year, down one following the merger of two banks. At the end of 2020 there were 11 banks, three savings banks and two branches of foreign banks operating in Slovenia. The banks dominate the banking system with a market share of 90.8%, while the savings banks held a share of just over 5% and the branches of foreign banks a share of just over 4%. There was no significant change in the shares compared with previous years. The trend of decline in the number of banking institutions is nevertheless continuing, as a result of the consolidation process. The merger of NKBM d.d. and Abanka d.d. went through on 1 September 2020. The banking system accounted for two-thirds of the Slovenian financial system's financial assets last year.² Concentration in the Slovenian banking system as measured by the Herfindahl index thus increased by more than 200 points last year, most notably in September: it ended 2020 at 1,327 points in terms of the balance sheet total, well above the figure from the end of 2019, and the figure of 1,149 points recorded 10 years ago.

The banking system's balance sheet total increased by 8.3% in 2020 to EUR 44.7 billion. The year-on-year increase was 2 percentage points higher than in the previous year. On the funding side, the largest factor in the increase was deposits by the non-banking sector, i.e. household deposits and corporate deposits, most of which are sight deposits. On the investment side, the slowdown in growth in loans led to an increase of EUR 3 billion in the most-liquid forms of asset, i.e. claims against the central bank. Holdings of securities increased moderately, but the proportion of total assets that they account for declined again, to 20.2%. Having declined in the years before the crisis triggered by the epidemic, the ratio of the banking system's balance sheet total to GDP ended last year at 96.4%, up 11.2 percentage points amid the decline in nominal GDP.³

Growth in consumer loans and corporate loans declined sharply.

Year-on-year growth in loans to the non-banking sector slowed sharply last year, to end the year at just 0.2%. The sharp slowdown was mainly attributable to the economic struggles driven by the containment measures. Year-on-year growth in household loans slowed sharply, but remained in positive territory in December at 0.1%. The largest decline in year-on-year growth was recorded by consumer loans. Slower growth was evident even after the introduction of binding macroprudential restrictions on household lending in November 2019,⁴ and rates slowed further after the outbreak of the pandemic. The stock of consumer loans has been contracting since May of last year, the year-on-year contraction reaching 7.8% by the end of the year. Growth in consumer loans also slowed in other euro area countries during the pandemic, and hit negative territory in most of them before the end of the year. By contrast year-on-year growth in housing loans remained relatively stable, despite the adverse economic situation: it was down less than 1 percentage point on the previous year on average, and ended the year at 4.1%.

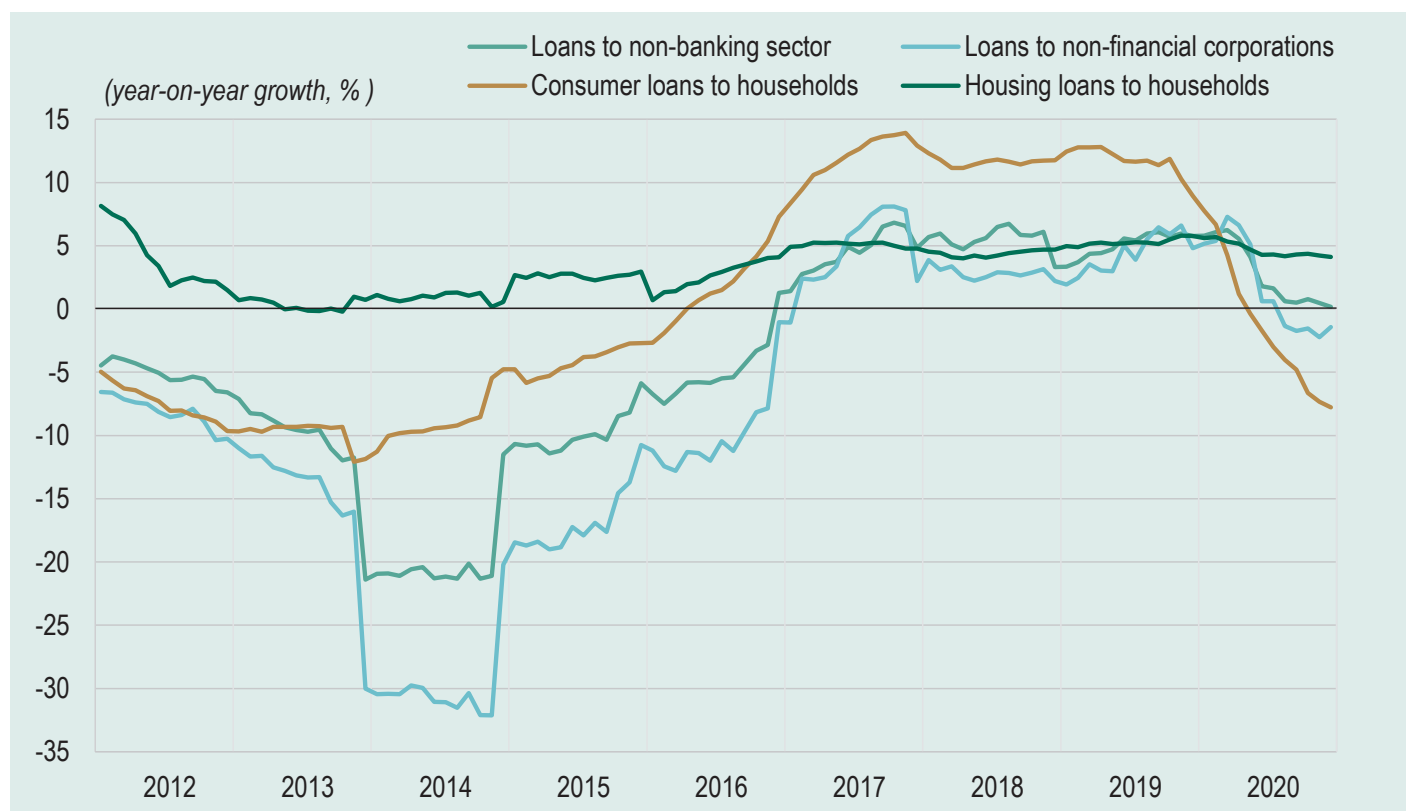
² Banks accounted for 68.5% of the financial assets of financial institutions in Slovenia at the end of 2020 (excluding the financial assets of the central bank).

³ Balance sheet figures on an individual basis from bank reporting of closing accounts. Comparison of latest data for GDP and balance sheet total in the banking system (SORS, Banka Slovenije).

⁴ Lower credit growth was one of the targets of the restrictions.

There was also a sharp slowdown in growth in corporate loans in 2020: year-on-year growth came to an end in June, and has been in negative territory since August.⁵ The rate stood at -1.4% in December. Firms came into the adverse economic situation in good financial shape, and adapted their operations to maintain liquidity while deferring planned investments. Similarly to 2019, last year saw notable growth in loans to non-residents, the rate reaching 27.7% by December. These loans account for just 3.0 % of the balance sheet total.

Figure 9: Lending to the non-banking sector



Source: Banka Slovenije

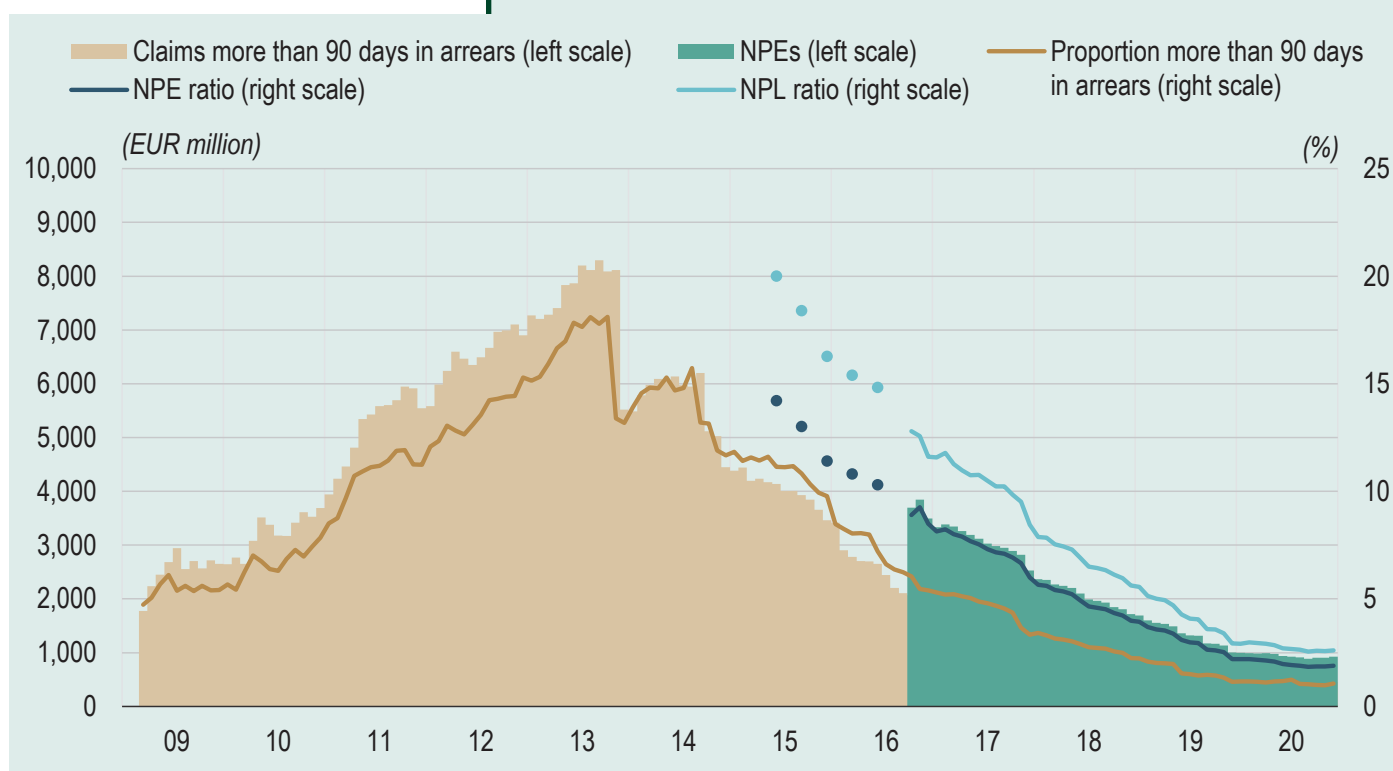
⁵ This was confirmed by the survey on the access to finance of enterprises, where firms stated that their number of applications for bank loans had fallen (the survey can be found at <https://bankaslovenije.blob.core.windows.net/publication-files/rezultati-ankete-o-virih-financiranja-podjetij-2020.pdf>). Individual banks in the Bank Lending Survey (BLS) also reported falling demand for corporate loans in the second half of 2020.

Box 1: Non-performing exposures during the Covid-19 epidemic

Behind us lie several years of successful reduction of non-performing exposures (NPEs) in the banking system, but the Covid-19 epidemic brought this to an end in late 2020.

The key factor in limiting the rise in NPEs was the loan moratorium measure in connection with the Covid-19 epidemic, which eased the difficulties facing households and firms in repaying bank loans. More flexible regulatory treatment of legislative moratoria was also allowed under certain conditions. There was no need to automatically reclassify exposures of this type as forborne (performing or non-performing) exposures when the moratorium was approved. By the end of 2020 the banks had received almost 27,000 applications for moratorium from borrowers, the majority of which have already been approved, covering loans in the amount of almost EUR 2.5 billion. By far the largest number of applications were received during the first officially declared epidemic last spring (in April and May), while the second epidemic declaration (mainly November) brought another bout of applications.

Figure 10: NPEs, NPLs and claims more than 90 days in arrears, stocks and ratios



Source: Banka Slovenije

The NPE ratio at the level of the banking system continued to decline for more than six months after the declaration of the epidemic,

reaching 1.8% in September, its lowest level to date.⁶ It was not until the final quarter of 2020 that the decline in NPEs came to an end, as they increased slightly in October and November. The stock of NPEs in the corporate portfolio amounted to EUR 552 million at the end of 2020, taking the NPE ratio to 3.9%. NPEs in the total portfolio amounted to EUR 928 million, an NPE ratio of 1.9%. The increase in NPEs in recent months was seen in the sectors hit hardest by the restrictions on business. The NPE ratio had increased to 10.4% in the accommodation and food service activities sector and 7.1% in the arts, entertainment and recreation sector by December 2020. The deterioration in portfolio quality in other sectors was reflected in the increased reclassification of exposures to the stage with increased credit risk, and increased creation of impairments on performing exposures. Reclassification to Stage 2 under the IFRS has been evident since the very outbreak of the epidemic. In the worst-hit sectors, where business was shut down for the majority of the year, the share of exposure classified as Stage 2 at the end of the year reached very high levels: 58% in accommodation and food service activities and 64% in arts, entertainment and recreation. The banking system's exposure to these sectors is not large (they account for just under 5% of total exposure to non-financial corporations), but the shifts in the portfolio breakdown into credit risk stages is indicative of the banks' expectations of where the major increases in non-performing claims might occur after the expiry of temporary anti-crisis measures. NPE ratios remained stable in the household portfolio, at 3.2% in the consumer loans portfolio⁷ and 1.7% in the housing loans portfolio.

The loan moratorium measure is temporary, which means that NPEs could gradually increase in the banking system after the loan moratoria expire. The longer the Covid-19 epidemic lasts, the more chance that loan liabilities covered by moratoria will be classed as NPEs, i.e. as liabilities that will not be repaid in part or in full. At firms in the sectors hit hardest by the containment measures, i.e. accommodation and food service activities, and arts, entertainment and recreation, the moratoria on liabilities to banks (and liquidity loans to a lesser extent) account for more than 60% of the total exposure to firms in these sectors.

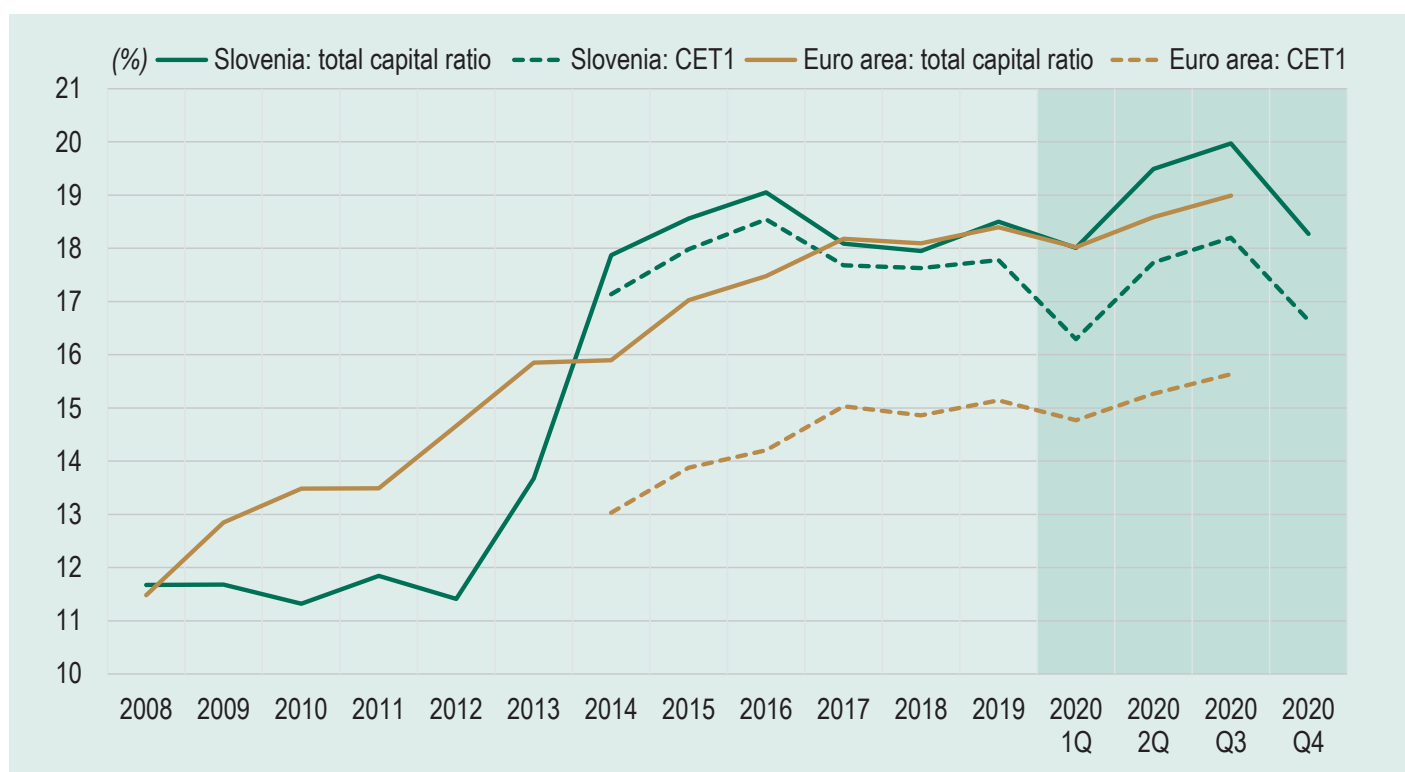
Effective credit risk management requires the banks to regularly and promptly identify debtors who will be unable to make regular debt repayments after the support measures expire. Our assessment is that despite the support that they have received during the crisis caused by the Covid-19 epidemic, certain firms will be dealing with the consequences for a long time yet, or perhaps will even not survive. It is therefore important for the banks to prepare accordingly and to improve the effectiveness of their early warning systems, which will enable the prompt identification of increased credit risk.

⁶ Data according to the comparable EBA methodology is available from October 2016. Even under the previous methodology for measuring non-performing claims, i.e. arrears of more than 90 days, for which data is available from 2007, the current figures are the lowest to date.

⁷ The rise in the NPE ratio in December was attributable to a methodological change in the inclusion of interest on NPEs.

The majority of the banks saw an improvement in capital adequacy in 2020, although there are considerable differences in the size of the capital surplus at individual banks. The banks are in a better capital position than when they went into the last financial crisis, which will have a significant impact on their ability to cover the losses driven by the economic shock of the Covid-19 epidemic. The banking system's total capital ratio fell to 18.3% on a consolidated basis at the end of 2020, while the common equity Tier 1 capital ratio declined to 16.7%. The changes in the capital ratios at system level reflect declines at just a few banks, while the majority of banks saw an improvement in their capital ratios. The banks primarily increased their regulatory capital via retained earnings from the previous financial year and other reserves, as they applied the Banka Slovenije macroprudential measure restricting profit distributions; some also increased capital by issuing subordinated debt securities included in Tier 2 capital. Risk-weighted assets mainly declined at the banks that reduced their lending to non-financial corporations and households after the declaration of the Covid-19 epidemic.

Figure 11: Total capital ratio compared with the euro area, consolidated basis



Sources: Banka Slovenije, ECB (SDW)

Despite the economic shock triggered by the Covid-19 epidemic, banks in Slovenia saw an improvement in liquidity, although there remain considerable differences between individual banks. Amid the pronounced increase in deposits by the non-banking sector and the decline in lending, the banks have sharply increased their liquid assets in accounts at the central bank. This raised the share of primary liquidity to one-fifth of the balance sheet total, while secondary liquidity remained relatively stable. The liquidity coverage ratio (LCR) increased to 325% at system level, and remains well above the regulatory requirement, although the liquidity surpluses vary considerably from bank to bank. Slovenia is ranked a high fourth among EU Member States in terms of its LCR.⁸ The proportion of the banks' pool of eligible collateral at the Eurosystem that is free remained relatively high, allowing them to obtain additional liquidity at favourable cost in the event of need.

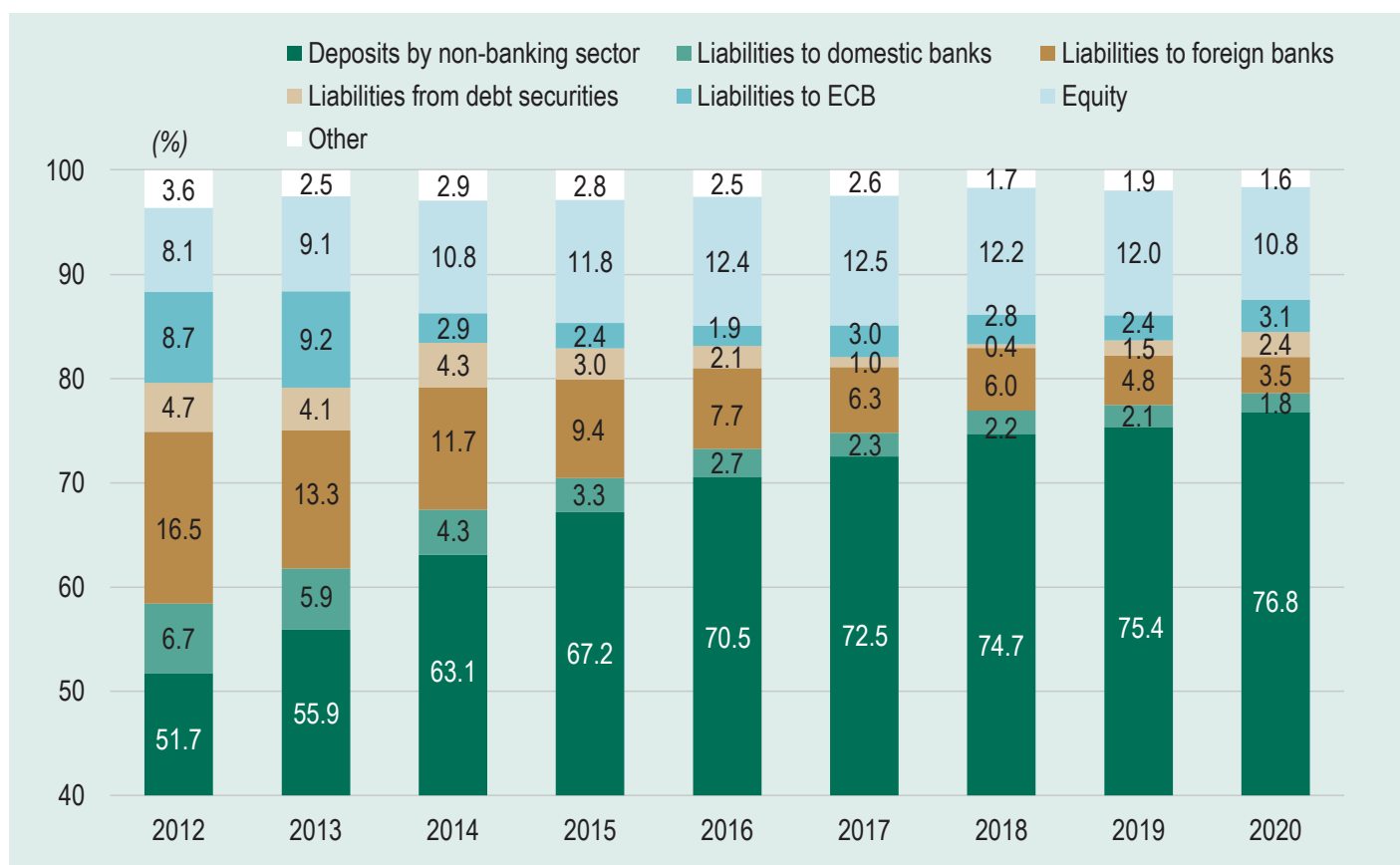
Banka Slovenije has been monitoring the liquidity position of Slovenian banks since the outbreak of the epidemic, including by means of liquidity stress tests. The scenarios used are based on previous liquidity crises, and were calibrated for all European countries by the ECB. The banks' results are 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 to have remained sound at the end of 2020, having improved relative to the previous year. Despite the crisis, over the course of the year Slovenian banks and savings banks became slightly more 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.

The proportion of the banking system's funding accounted for by deposits by the non-banking sector has been increasing over recent years, and approached 77% at the end of 2020. Deposits by the non-banking sector increased by 10% or EUR 3.2 billion last year, as household deposits rose by EUR 2.1 billion, most likely driven by the decline in consumption and the government financial support. Corporate deposits also increased last year, by EUR 1.3 billion. As a result of the increase in deposits and the decline in lending activity, the LTD ratio for the non-banking sector fell below 69% last year. The sharp fall in interest rates on fixed-term deposits meant that it was only sight deposits that increased last year, while short-term and long-term deposits declined. Sight deposits increased to account for 78% of total deposits by the non-banking sector, and 60% of the balance sheet total at the end of last year.

Deposits now account for more than three-quarters of total bank funding, predominantly in the form of sight deposits.

⁸ Takes account of consolidated data available by September 2020, for the sake of comparability.

Figure 12: Structure of bank funding



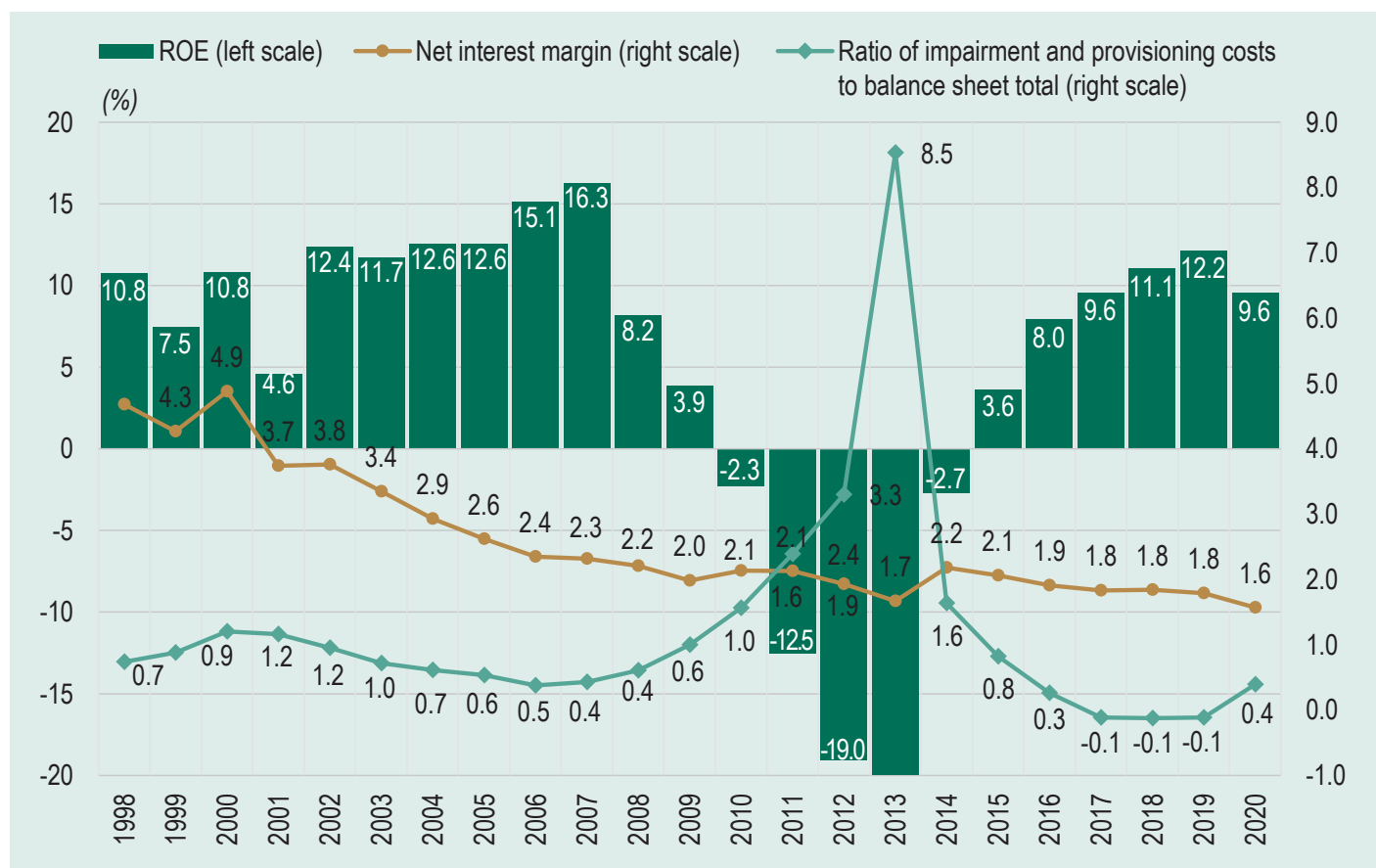
Source: Banka Slovenije

The banking system's pre-tax profit would have been more than 40% lower than in 2019 without the one-off effect of the merger of two banks.

The banks recorded a pre-tax profit of EUR 472 million in 2020, with an ROE of 9.6%.⁹ The relatively high profit at system level, which was down merely a fifth on the previous year, was primarily attributable to the effect of the merger of two banks, which brought a gain of EUR 202 million. Without this effect it would have been 43% lower, and down 54% on the previous year. Growth in net interest income turned negative again last year, and stood at -6.4% in December, largely as a result of the slowdown in growth in loans. Interest expenses increased, but accounted for just a small part of the overall decline in net interest. Interest expenses have fallen to record low levels in recent years, as a result of the sharp increase in sight deposits and the fall in interest rates. The increase of 26% in net non-interest income was driven by the aforementioned merger effect. Net fees and commission, the largest component of net non-interest income, was down in year-on-year terms from the outbreak of the epidemic to the end of the year (by 1.2%). Operating costs were comparable to the previous year (up 1.3%). After three years of net release of impairments and provisions, impairment and provisioning costs turned positive once again.

⁹ Data from closing accounts for 2020.

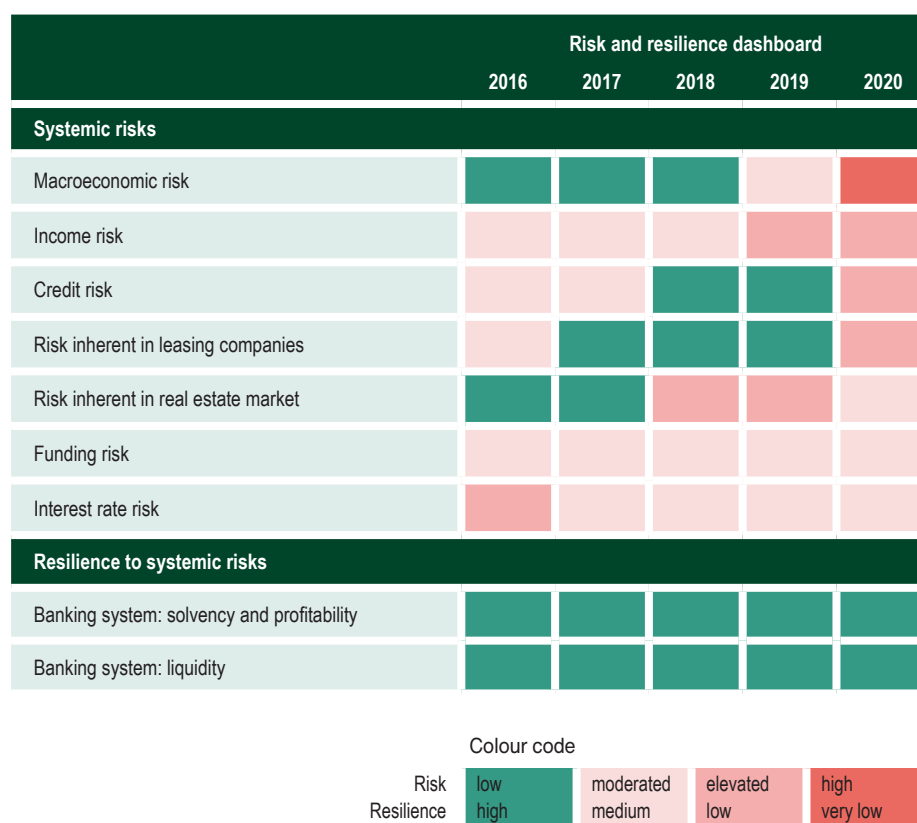
Figure 13: ROE, net interest margin on interest-bearing assets, and ratio of impairment and provisioning costs to balance sheet total



Note: The figure illustrates the actual pre-tax ROE in 2020 (9.6%), and the ROE excluding the one-off effect of the merger of two banks in the Slovenian banking system.

Source: Banka Slovenije

Our assessment is that the key systemic risks to financial stability increased in 2020, while the resilience of the banking system remained high (see Figure 14). In contrast to 2019, the risks inherent in the real estate market turned moderate, as real estate prices did not show an exaggerated response to the Covid-19 epidemic's adverse impact on the Slovenian economy. Real estate prices grew more moderately in 2020 than in previous years. The banking system's resilience to the risks inherent in the real estate market is consequently greater than during the last financial crisis.

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

Source: Banka Slovenije

Box 2: Banka Slovenije's analysis of the Covid-19 epidemic's impact on the banking system

In 2020 we conducted several analyses aimed at assessing the Covid-19 epidemic's impact on systemic risks to financial stability. The *Assessment of systemic risks and the resilience of the financial sector during the Covid-19 epidemic* was released in May 2020, and outlined our expectations with regard to the epidemic's future impact on the banking system. In late 2020, when the effects of the epidemic were more evident, we presented more analysis in *The banking system in the Covid-19 epidemic*.

This assessment of systemic risks and resilience included a long-term assessment of the epidemic's potential impact on the banking system, taking account of two GDP scenarios, albeit without any buffer effects from various economic policymakers. The economy contracts by 6% in 2020 under the milder scenario, and by 16% under the more severe scenario. Key risks and the resilience of the banking system in 2020 and 2021 were assessed on the basis of these two scenarios. Going into the crisis, the banking system's resilience to systemic risks was assessed as high, but we judged that there could be a deterioration in the liquidity position and the capital position as a result of the Covid-19 epidemic and the sheer magnitude of its consequences.

In the event of the realisation of the milder scenario without any anti-crisis measures, our assessment was that the banking system could record a small loss in 2020. We expected a slowdown in growth in household loans, while in corporate loans we forecast a decline in loans for investment purposes and an increase in liquidity loans. Given the limited time that measures are in place, there was a risk that the banks would face a major deterioration in portfolio quality unless additional measures were taken. We forecast that the crisis would not have a major impact on the liquidity of the banking system in 2020, but increased risks in the economy and in the banking system could gradually lead to downward pressure on capital adequacy. Under the more severe scenario, our assessment was that the banking system would end 2020 with a large loss, and the credit portfolio would suffer a major deterioration in quality.

Conservative assumptions were made in the May assessment of credit risk, and no account was taken of emergency measures (which had not been formulated at that time). Consequently the estimated impairments and provisions were relatively high, at around EUR 600 million.

The measures to alleviate the consequences of the Covid-19 epidemic taken by governments and central banks have made a significant contribution to maintaining the stability of the financial system. The simulations also confirmed that the total scope of the mitigation measures¹⁰ is large, and is enough to maintain or strengthen the banking system's credit capacity. We also highlighted that despite the elevated risks, the Slovenian banking system is in a better position than the banking systems of many other EU Member States.

The credit risk assessment made in late 2020 (the assessment was partly undertaken in the late summer) was able to a certain extent to take account of the emergency measures and moratoria, which meant that our assessments were considerably more favourable. Impairments and provisions were estimated at around EUR 290 million. The observed realisation of impairments and provisions in 2020 was around EUR 170 million. The gap between the estimate and the observed figure is attributable to the assumptions used, the complex *ad hoc* assessment of the emergency measures, limitations in data sources, the banks' flexibility in estimating credit risk under IFRS 9, the huge uncertainty, the complexity of IFRS 9 and one-off effects.

In *The banking system in the Covid-19 epidemic* we highlighted that the outbreak of the epidemic was the defining event of 2020, and also brought complex and as-yet unknown challenges at the global level, in addition to the health crisis. In the difficult situation brought by the epidemic, the economies of the euro area and of

¹⁰ The measures taken into account included the government guarantee for covering firms' liquidity needs, the macroprudential measure of restrictions on profit distributions by banks, and a package of supervisory measures related to relief for capital requirements, but no account was taken of the consequences of the macroeconomic shock, which reduce this capacity.

Slovenia faced a decline in activity. Monetary policy measures aimed to calm the financial markets and to provide sufficient liquidity to banks, and hence to businesses and households. Banka Slovenije also used macroprudential measures to help maintain financial stability. The government's emergency laws are also affecting banking: we highlighted that the level of moratoria on bank loans to corporates and households in Slovenia is among the highest in the EU.

Following the adoption of the anti-crisis measures, the banking system remained profitable, although its performance did worsen. Developments in NPEs were favourable. Our expectation for 2021 and, in particular, the following years was that the expiry of the moratoria and other emergency measures would bring a deterioration in the quality of credit portfolios, and would increase the pressure on bank profitability. In light of the effects of the Covid-19 epidemic, our forecasts stated in *The banking system in the Covid-19 epidemic* were that there could be a significant increase in the stock of NPEs and the NPE ratio by the end of 2022. It nevertheless appears that the banking sector will remain robust in capital and liquidity terms in 2021 and 2022, thanks to a solid starting position and all the measures taken.

Box 3: Climate risks

Climate risks are an increasingly important area for supervisors of the financial system and for central banks in general. They are defined as physical risks, which arise from the increased frequency and intensity of weather-related loss events, and transition risks, which arise from the costs of transitioning to the low-carbon economy. Climate risks have a systemic aspect, given their impact on a broad spectrum of stakeholders. They can impact the banking system mainly via credit, market and operational risk.

Banka Slovenije acknowledges the growing importance of climate risks and our representatives participate actively in the working groups of the relevant international institutions, for example within the European Systemic Risk Board and the European Banking Authority. A climate risk taskforce was established in 2020 within the Slovenian Financial Stability Board. In October 2020 we joined the Network for Greening the Financial System (NGFS).¹¹ Around a hundred institutions work together in the network, including central banks, other banking supervisors and international financial institutions. Involvement in the NGFS will help to promote a more comprehensive discussion of climate risks in the Slovenian banking system.

¹¹ Network for greening the financial system.

Climate risks currently represent a low-to-moderate risk to financial stability in Slovenia. Physical risks are currently assessed as low, though we note the potential gap in insurance coverage. In light of the share of exposure accounted for by the most climate-sensitive sectors, which ranges from 34% to 41% of the banking system's balance sheet total (depending on the definition of climate sensitivity¹²), transition risks are assessed as moderate.

Climate risks are addressed from a microprudential and macroprudential perspective, and also from the perspective of our own investments. Risk monitoring depends primarily on the definition of climate sensitivity, the availability of granular data, and the distinction between the risk profile of environmentally sustainable (green) and environmentally harmful (brown) exposures.

The most important element of the EU legislation in the area of sustainable financing is the Taxonomy Regulation¹³ (TR) adopted in June 2020, which introduces criteria for determining the environmental sustainability of individual activities and certain disclosure requirements related to sustainability. The Sustainable Financial Disclosure Regulation¹⁴ (SFDR) which entered into force in March 2021, prescribes disclosure requirements for certain providers of financial products and services. The disclosure requirements with regard to compliance with taxonomy, which apply to certain large enterprises covered by the Non-Financial Reporting Directive (NFRD),¹⁵ will become binding in 2022.

¹² According to the broader definition of climate sensitivity, the climate-sensitive segments are households, and non-financial corporations in sectors of manufacturing, transportation, electricity and construction. According to the narrower definition of climate sensitivity, the climate-sensitive segments are households, and the subsectors within the non-financial corporations sector that pollute most heavily.

¹³ Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, The Taxonomy Regulation defines an environmentally sustainable economic activity as one that contributes substantially to one or more of the six environmental objectives (climate change mitigation, climate change adaptation, sustainable use and protection of water resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems) and does not significantly harm any of the environmental objectives. The technical criteria for sustainability are scheduled to be defined by the end of 2021.

¹⁴ Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR).

¹⁵ Directive 2014/95/EU amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

In addition to the aforementioned, the gradual incorporation of elements of sustainability into banking legislation is also of crucial importance to banks. The CRD¹⁶ and the CRR¹⁷ already contain the extensions to update the three Basel pillars of banking supervision by accounting for ESG¹⁸ risks, within the EBA mandate.¹⁹

From an investment perspective, there is a discernible trend towards socially responsible investment, which accounts for ESG factors. The following questions are also of particular relevance to investors: to what extent are climate risks priced into financial instruments, and how much can investors contribute in the transition to a low-carbon economy? The answer to the first is linked to the high uncertainty of the impact of climate risks on corporate performance, which indicates the need for a more cautious approach. To answer the second question, investors can influence the carbon footprint of firms, as financing costs are one of their costs of doing business. It should also be borne in mind that with well-designed policies and consumer demand, the impact of government fiscal incentives (carbon taxes) and consumers on corporate behaviour can be greater than the impact of investor preferences.

A growing number of Eurosystem central banks, including Banka Slovenije, already implement various approaches to the socially responsible and sustainable management of their own portfolio assets. At Banka Slovenije we have already implemented several measures within our asset management that strive for socially responsible and sustainable investing, while ensuring the primary objective of asset management (strengthening capital over the medium term). The stock of assets held in green bonds²⁰ thus increased to EUR 101 million in 2020 (end of 2019: EUR 53 million). When investing in corporate bonds we follow the exclusion list of one of the world's largest pension funds, operated by Norges Bank Investment Management.²¹

¹⁶ Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

¹⁷ Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

¹⁸ ESG (environmental, social, governance) is a term used in European legislation as a synonym for sustainability factors.

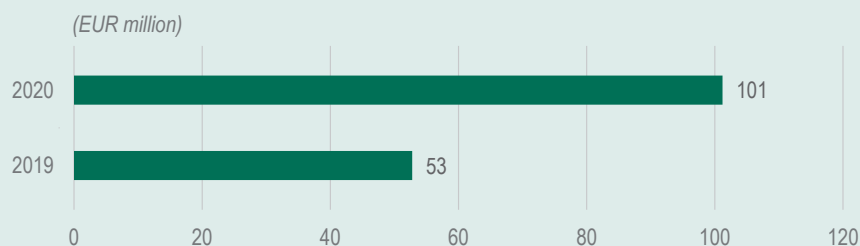
¹⁹ More details with regard to the legislation can be found on our website.

²⁰ Where the issuers generally earmark the proceeds for financing environmentally sustainable projects.

²¹ The list excludes firms in the tobacco and arms industries and firms engaged in coal mining and in electricity generation using thermal power stations. Firms involved in corruption and firms causing major environmental harm or breaching human rights and other fundamental ethical norms are also excluded.

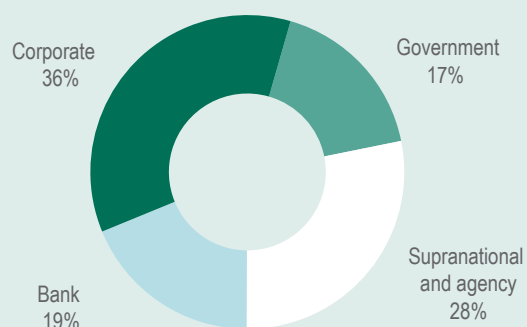
Over the course of the next two years, the central banks of the Eurosystem will begin measuring and reporting carbon footprint and other indicators of socially responsible and sustainable investing for their own portfolios of euro-denominated securities. By doing so, we aim to contribute to global efforts to improve reporting of the impact of climate change.

Figure 15: Holdings of green bonds at the end of 2019 and 2020



Source: Banka Slovenije

Figure 16: Breakdown of Banka Slovenije's holdings of green bonds as at 31 December 2020



Source: Banka Slovenije

3 IMPLEMENTATION OF BANKA SLOVENIJE'S TASKS



1994

Delovati je začela prva telefonska banka v Sloveniji. Komitenti so lahko prek stacionarnih telefonov preverjali informacije o bančni mreži in storitvah, naročali plačilo položnic in računov in pošiljanje čekovnih blanketov na dom, naročali vezavo depozitov.

The first telephone bank starts operation in Slovenia. Via landlines, customers could check up information on the bank network and services, fulfil payment orders and pay bills, get cheque books sent to them and order the placing of deposits.

3.1 BANKA SLOVENIJE'S MANDATE AND INSTITUTIONAL FRAMEWORK

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

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

- **We also perform certain other tasks 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 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 2020 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,²² the Statute of the ESCB and of the ECB,²³ and the Rules of Procedure of the Governing Council, the General Council and the Executive Board of the ECB.²⁴ 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 Mechanism²⁵ and the EBA.²⁶ 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.

²² Treaty on the European Union and the Treaty on the Functioning of the European Union: <https://www.ecb.europa.eu/ecb/legal/1341/1342/html/index.en.html>.

²³ Statute of the European System of Central Banks and of the European Central Bank: <https://www.ecb.europa.eu/ecb/legal/1341/1343/html/index.en.html>.

²⁴ Rules of Procedure of the Governing Council, the General Council and the Executive Board of the ECB: <https://www.ecb.europa.eu/ecb/legal/1001/1009/html/index.en.html>.

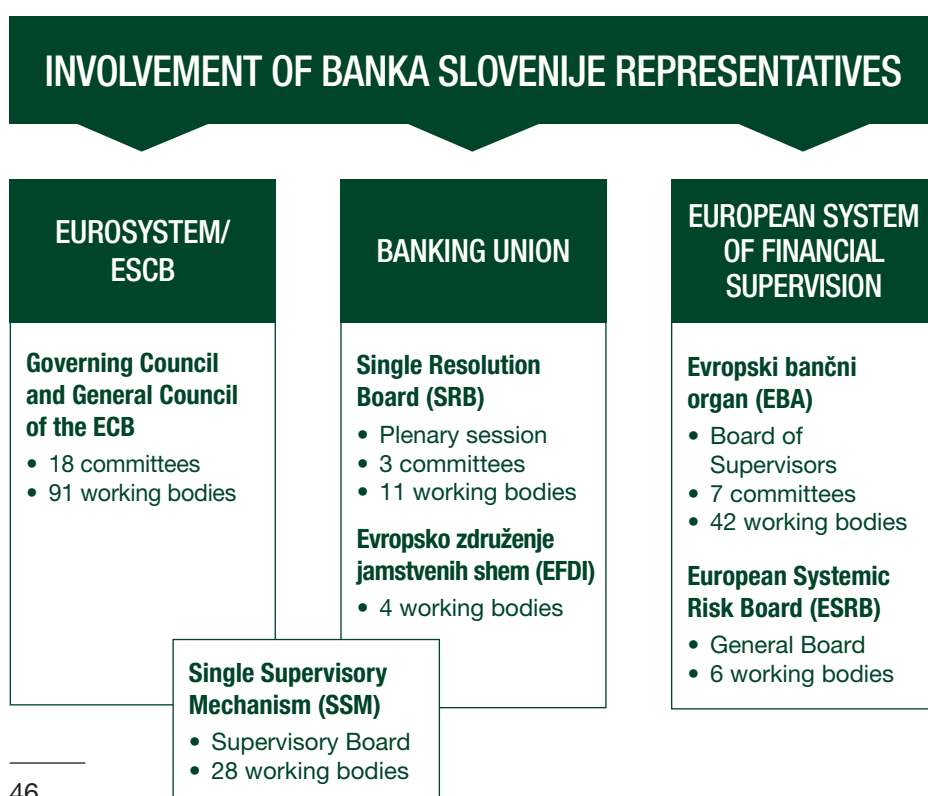
²⁵ For more on the Single Supervisory Mechanism, see <https://www.bankingsupervision.europa.eu/home/html/index.en.html>.

²⁶ For more on the European Banking Authority, see <http://www.eba.europa.eu/>.

- **In the area of macroprudential supervision**, we worked within the institutional framework of the ECB and the European Systemic Risk Board (ESRB), which is responsible for the macroprudential supervision of the financial system in the EU. The objective of the ESRB's work is preventing and mitigating systemic risks to financial stability in the EU, while its tasks include defining risks on the basis of which it may issue recommendations for remedial measures. The Governor of Banka Slovenije (by function) and one of the vice-governors are members of the General Board.
- **In the area of bank resolution, Banka Slovenije works within the framework of the Single Resolution Mechanism (SRM)**, which is responsible for drawing up resolution plans and analysing the resolvability of systemically important banks or groups, and for using the resolution fund. Our objective is to put in place a single European rulebook and standardised resolution processes, and to minimise the resolution costs and asset devaluation if a bank failure occurs. Like the SSM, the SRM operates at the pan-European national level by working with the national competent authorities, in this case the national resolution authorities. The centralised application of resolution powers has been assigned to the Single Resolution Board, whose membership includes a representative of national resolution authorities (one of the vice-governors in the case of Banka Slovenije), and to the national resolution authorities, where the rules on the establishment and operation of the SRM in Member States are applied directly.

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

Diagram 1: Institutional framework for the functioning of Banka Slovenije at the end of 2020



3.2 MONETARY POLICY

As stated previously, **under the aegis of the ECB we responded to the worsening financing conditions in the economic shock triggered by the Covid-19 pandemic by adopting a comprehensive package of monetary policy measures in 2020.** The response went hand-in-hand with the efforts of fiscal policymakers to alleviate the pandemic's impact on the income of households and businesses. A package of additional measures profoundly increased the accommodative monetary policy stance with the aim of neutralising the pandemic's adverse impact on the economy. Through these measures the Eurosystem continued to support favourable liquidity conditions and financing conditions for households, businesses and banks, and maintained the transmission of the monetary policy stance into the economy.

A new pandemic emergency purchase programme (PEPP) was introduced to mitigate the rise in yields and credit spreads and to alleviate the decline in liquidity in many financial market segments at the outbreak of the pandemic. Earlier we had expanded the envelope under the asset purchase programme (APP) by an additional EUR 120 billion until the end of 2020, while maintaining the regular net monthly purchases of EUR 20 billion under the APP over the whole year. The PEPP is a temporary measure, where purchases include all asset categories eligible under the existing APP. The PEPP has a dual objective, namely stabilising financial markets and supporting the monetary policy stance. For the purchases of public sector securities under the PEPP, the benchmark allocation across jurisdictions is the ECB capital key.²⁷ At the same time all purchases are conducted flexibly over time, across asset classes and between jurisdictions. The envelope was EUR 750 billion when the programme was introduced in March, with an initial horizon to the end of 2020.

The Eurosystem recalibrated the terms and conditions of the targeted longer-term refinancing operations (TLTROs-III) to keep lending rates favourable and to encourage lending to households and businesses. The following terms were improved in March and April 2020: the interest rate on the operation was reduced, the amount that can be borrowed was increased, and the performance threshold for bank lending to households and firms (excluding housing loans) was reduced.

Additional longer-term refinancing operations were also introduced, namely the bridge LTRO. The aim was to provide liquidity support to banks and to bridge liquidity needs at more favourable terms until the settlement of the TLTRO-III in June. A new series of seven pandemic emergency longer-term refinancing operations (PELTROs) was offered to banks at the same time, with the aim of providing liquidity support and ensuring the smooth functioning of money markets. The interest rate was higher than in the TLTRO-III, although in contrast to the TLTROs it did not depend on the volume of bank lending to households and firms, but it was also lower than in the main refinancing operations (MROs) and the three-

The strong monetary policy response to the pandemic was the key to maintaining favourable financing conditions in 2020.

²⁷ The ECB capital key reflects each euro area country's share of total GDP and total population in the euro area. The two criteria are given equal weighting. It is generally recalculated every five years. Banka Slovenije's key stands at 0.4815% as of 1 February 2020.

month longer-term refinancing operations (LTROs), where the rate was zero throughout the year.

To ensure that banks are able to participate in refinancing operations without hindrance, we temporarily eased the eligibility criteria for assets used as collateral for these operations (until September 2021).

These measures increased the amount of eligible collateral at the banks' disposal. They included an expansion in the use of bank loans, a reduction in collateral valuation haircuts, a rise in the concentration limit in the use of uncovered bank bonds, the possibility of using Greek government bonds, and a reduction in the rating threshold for certain securities. Securities that held an eligible rating from a rating agency on 7 April 2020 will continue to be eligible in case of downgrades of the security or the issuer/guarantor until a new lower eligibility threshold is set, with slightly higher haircuts applying.

In collaboration with the Fed we also increased the supply of liquidity to banks in US dollars.

The trigger was a deterioration in the financing conditions for US dollars on global financial markets. Additional weekly US dollar liquidity-providing operations with a maturity of 84 days were introduced, while the frequency of the existing operations with a maturity of seven days was temporarily increased from weekly to daily.

The PEPP was strengthened and extended in June 2020. Given the sharp downturn in the short-term outlook for economic growth and inflation, and the accompanying high level of uncertainty, the envelope was expanded by EUR 600 billion to a total of EUR 1,350 billion, and the horizon was extended until at least the end of June 2021, to ensure that the monetary policy stance was sufficiently accommodative and to ensure the smooth transmission of monetary policy.

In light of the second wave of the pandemic and the containment measures, which curtailed economic activity in the euro area, the instruments adopted in the first half of the year were modified in December 2020.

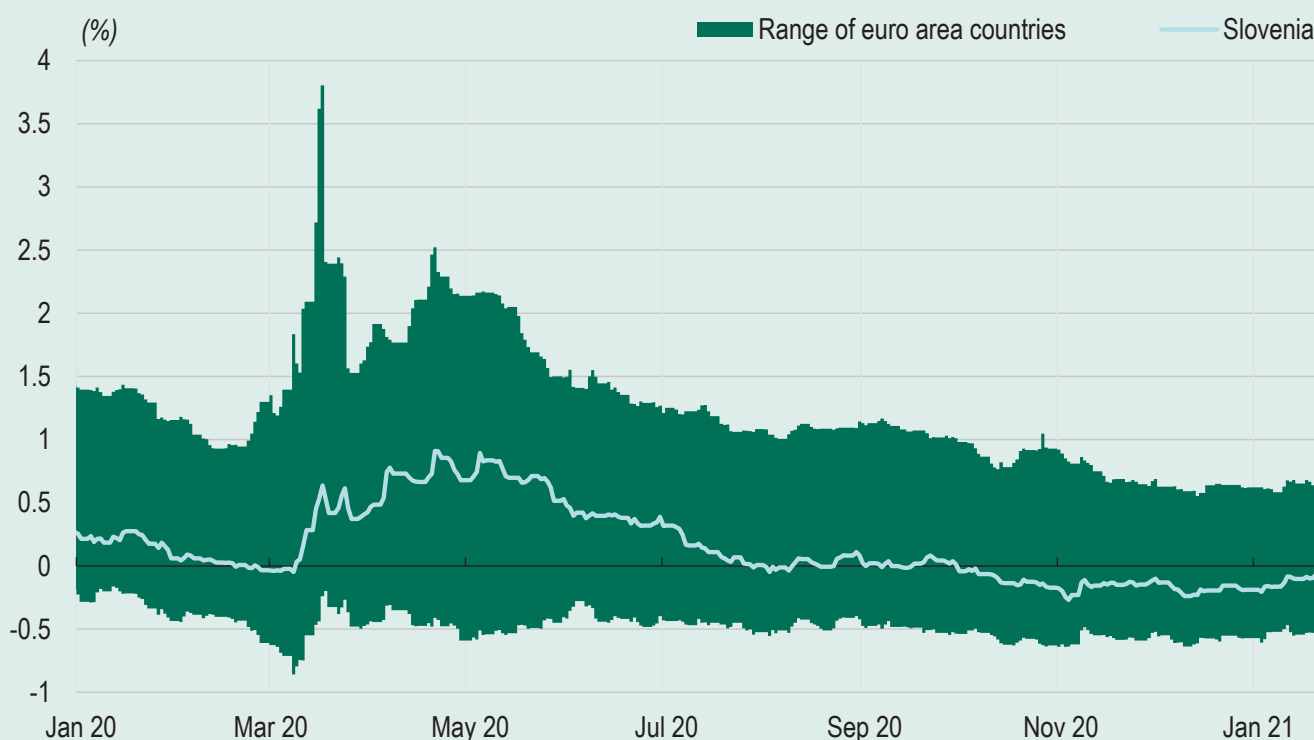
The envelope of the PEPP was further expanded by EUR 500 billion to a total of EUR 1,850 billion, and the horizon for net purchases was extended to at least the end of March 2022. The Governing Council of the ECB decided that there was no need to utilise the envelope in full, and that it could be additionally increased should the need arise. We also recalibrated the conditions of the TLTRO-III, by extending the period over which considerably more favourable terms will apply by twelve months, by additionally raising the amount that banks are allowed to borrow, and by introducing three additional operations. Four additional PELTROs will also be available in 2021. To ensure that banks were able to participate in the additional TLTRO-III and PELTROs, the measures to ease the collateral eligibility criteria were extended at least until the end of June 2022.

Box 4: Utilisation and effects of monetary policy measures to alleviate the impact of the epidemic in Slovenia

Of the measures put in place, the most relevant to Slovenia are the APP and the PEPP, within the framework of which Slovenian government bonds and SID banka bonds have been purchased, and the recalibration of the TLTRO-III.

Yields on Slovenian government bonds rose following the outbreak of the epidemic, as they did in other euro area countries (see Figure 17). Securities purchases by the Eurosystem, particularly under the PEPP, pushed down market yields on Slovenian government securities to the pre-epidemic level by the summer of 2020, and even below this by the end of the year. The measures helped to maintain favourable financing conditions, and prevented an excessive contraction in the Slovenian economy. Market yields on government securities affect the level of interest rates at which households and firms can borrow, including at banks. The securities purchases also reduced market yields on securities issued by the private sector in Slovenia, although the impact on the economy was smaller, as Slovenian firms rarely make use of this form of borrowing. Banka Slovenije's holdings amounted to EUR 10.5 billion under the APP and EUR 3.0 billion under the PEPP at the end of 2020.

Figure 17: Yields on 10-year euro area government bonds



Note: The range includes all euro area countries other than Cyprus, Estonia, Latvia, Luxembourg and Malta, where public debt has low liquidity.

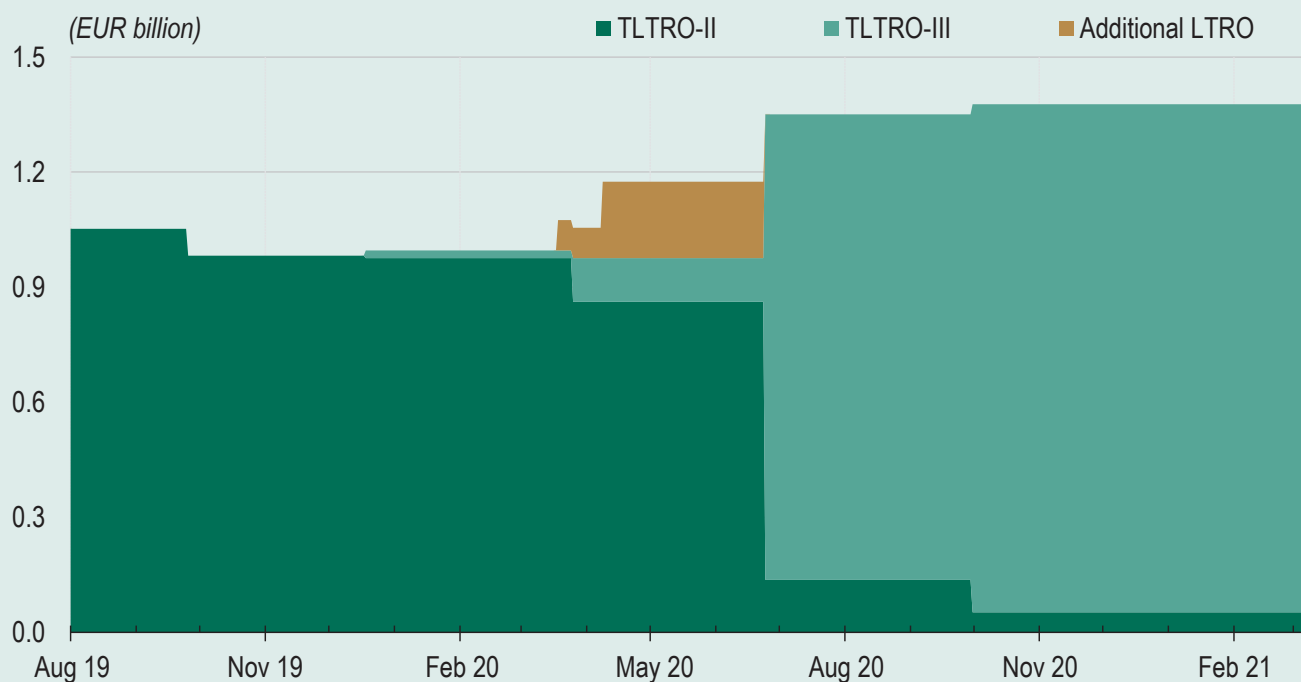
Source: Bloomberg

The favourable financing conditions for households and firms were also supported by better terms for the TLTRO-III. Total holdings in Slovenia under the TLTRO increased by EUR 382 million in 2020 to end the year at EUR 1,377 million. The majority of this was accessed via the TLTRO-III (EUR 1,325 million), to which the banks transferred liquidity from the maturing or prepaid TLTRO-II and the bridge LTROs introduced in March of last year (see Figure 18). The largest demand for the TLTRO-III came in the June operation, after the more favourable borrowing terms had been put in place. Slovenian banks' participation in the TLTRO-III was low compared with the euro area overall. They utilised 20% of their available funding, compared with the euro area average of 60%. The lower utilisation was attributable to the poorer prospects for achieving the lowest interest rate in the TLTRO-III (Slovenia's low growth in bank loans to households and non-financial corporations other than housing loans) and the liquidity surplus at banks in Slovenia, which was high and rising (see below). Compared with certain other euro area countries, banks in Slovenia were not facing a large increase in short-term lending following the outbreak of the epidemic in the form of drawdowns of credit lines.

As far as eligible collateral is concerned, Banka Slovenije acted preventively to expand the framework of additional bank loans by including bank loans to non-financial corporations backed by Slovenian government guarantee issued on the basis of the special government anti-crisis measure.²⁸ In their utilisation of the TLTRO-III the banks were not constrained by a lack of eligible collateral: free availability of the pool of eligible collateral at Banka Slovenije averaged 68% across the year.

The banks rarely participate in other euro area refinancing operations (MROs, LTROs, and additional operations offered in 2020). Certain banks did participate in the bridge LTROs in March, which were mostly switched to the TLTRO-III after maturing at the end of June. Slovenian banks showed a certain demand for US dollar borrowing for the first time since 2009.

²⁸ Act on Additional Liquidity to the Economy to Mitigate the Effects of the Covid-19 Epidemic (Official Gazette of the Republic of Slovenia, Nos. 61/20, 152/20 [ZZUOOP] and 175/20 [ZIUOPDVE]; the ZDLGPE).

Figure 18: Stock of monetary policy instruments in Slovenia

Source: Banka Slovenije

The excess liquidity in the Slovenian banking system²⁹ increased by EUR 2.7 billion in 2020, to end the year beyond EUR 6.7 billion. The reasons for the retention of excess liquidity in accounts at Banka Slovenije remained unchanged: 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 21 times their minimum reserve requirements in the eighth and final reserve maintenance period of 2020. The banks were almost fully utilising their exemption from negative remuneration of excess reserves in the amount of six times their minimum reserve requirements (the measure was introduced in late 2019, see text below). Utilisation exceeded 99% at all times.

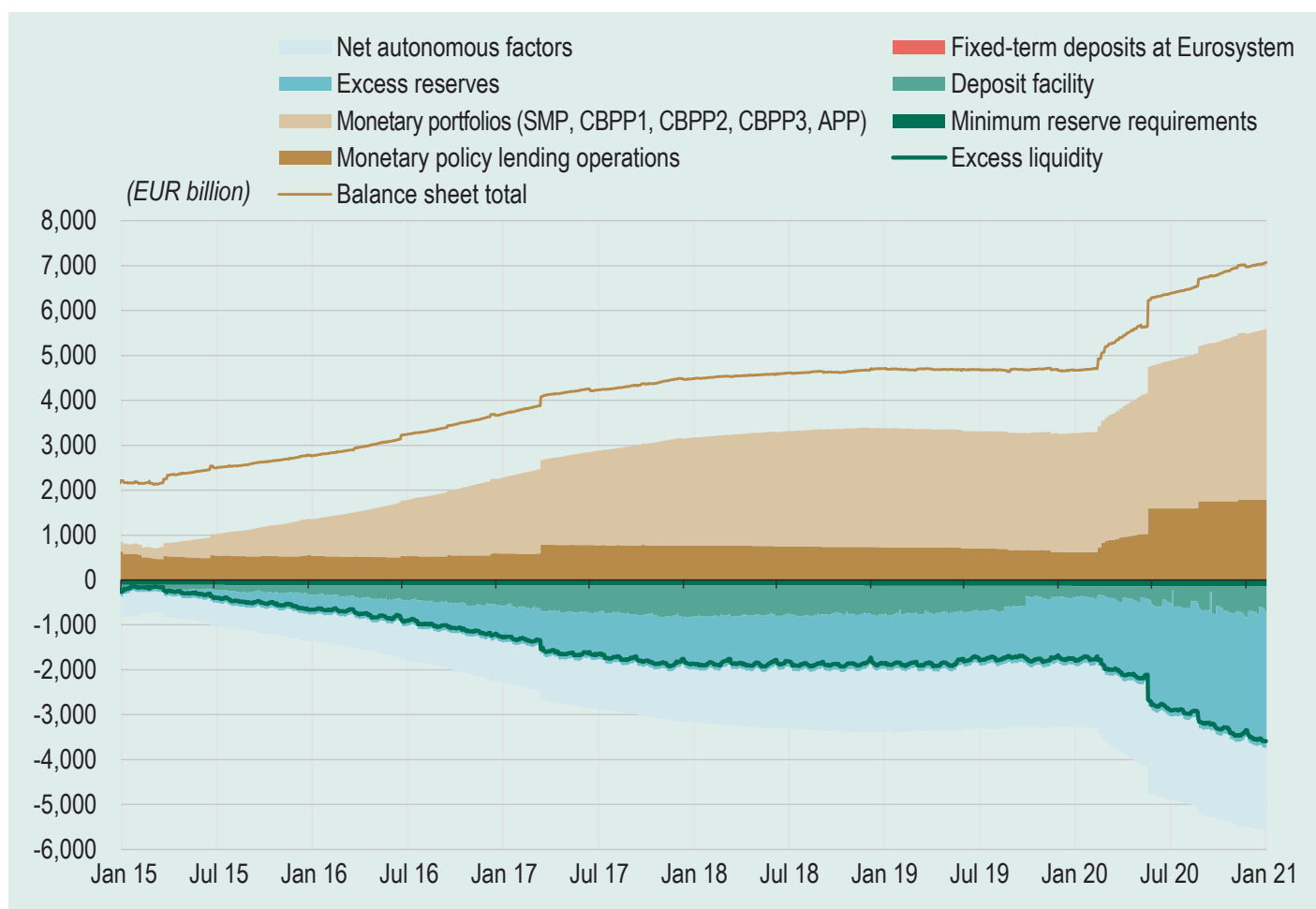
²⁹ The excess liquidity in Slovenia is equal to the excess reserves, given that the banks have not used the deposit facility for several years now. What constitutes excess liquidity is clarified in the footnote below.

3.2.1 Monetary policy implementation and the money market

The Eurosystem's balance sheet total passed EUR 7,000 billion as bank loans and securities purchases increased.

With interest rates remaining low and unchanged, the Eurosystem influenced the financing conditions via a comprehensive package of monetary policy measures, which resulted in an increase in its balance sheet total. After stagnating at around EUR 4,700 billion in 2019, it had passed EUR 7,000 billion by the end of 2020 (see Figure 19). The rapid growth in the balance sheet total began in March 2020, with monetary policy measures adopted in response to the outbreak of the Covid-19 pandemic, first with the expansion of the bridge LTROs, the expansion of the envelope of the APP, and the newly introduced PEPP. The last was expanded in June, and the first TLTRO-III was allotted, under improved terms because of the pandemic. Following the maturity of the bridge LTROs (EUR 389 billion), there has also been an expansion in the PELTROs since May 2020 (holdings amounted to EUR 27 billion at the end of the year).

Figure 19: Simplified Eurosystem consolidated balance sheet



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

Source: ECB

The TLTRO-III remained a significant source of funding for the euro area banking system. Borrowing in the fourth operation in June reached a new record of EUR 1,308 billion, in part because of liquidity switched from maturing bridge LTROs and the first TLTRO-II, and prepayments of the second TLTRO-II. Holdings under the TLTRO-II amounted to EUR 16 billion at the end of the year, while holdings under the TLTRO-III amounted to EUR 1,750 billion. Borrowing under the MROs and the 3-month LTROs was very low, and averaged EUR 1 billion and EUR 2 billion respectively over the year.

Purchases under the APP and the PEPP covered a broad set of securities related to the real sector in the euro area. The Eurosystem purchased debt securities of governments (including Greek sovereigns under the PEPP), agencies, supranational institutions, non-financial corporations, and covered and asset-backed securities. The PEPP also included non-financial corporations' commercial paper and short-term public sector securities. As part of the expansions described in the introduction, both programmes also saw the reinvestment of maturing principal. EUR 49 billion of principal from maturing securities of private-sector issuers and EUR 170 billion from public-sector issuers was reinvested in 2020. The commitment is to continue reinvesting the principal from maturing securities under the APP for an extended period of time past the date when the key ECB 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 2023. The holdings under the APP stood at EUR 2,908 billion at amortised cost at the end of the year (80% of which consisted of securities of public-sector issuers), while holdings under the PEPP amounted to EUR 753.7 billion.

Banka Slovenije continued to lend securities purchased under the APP and (a new feature) the PEPP to help maintain liquidity on the secondary and repo markets. Given the improving situation on the repo market, we adjusted the price of securities lending in November of last year, thereby making the Eurosystem lending programmes for counterparties more attractive, although Eurosystem securities lending remained set up in a way that would not drive out other lenders.

Bank demand for US dollar borrowing increased sharply after the outbreak of the pandemic, as US dollar borrowing on the financial markets became more difficult and more expensive for banks. The total holdings of 7-day and 84-day operations amounted to USD 145 billion at the time of peak uncertainty on the financial markets. The 84-day operation accounted for the vast majority. After the conditions for US dollar financing normalised, participation in the operations declined sharply in June. Holdings averaged EUR 40 billion over 2020 (compared with less than USD 1 billion in 2019).

Holdings at the end of 2020 amounted to EUR 2,908 billion under the APP and EUR 753.7 billion under the PEPP.

The excess liquidity of euro area banks exceeded EUR 3,400 billion.

Loans and securities purchases led to an increase in the banks' excess liquidity, and were transferred into an increase in net autonomous factors in the liability side of the Eurosystem balance sheet.³⁰ Excess liquidity increased from approximately EUR 1,680 billion to more than EUR 3,400 billion (see Figure 19). Its increase was slightly smaller than might otherwise have been the case because of an increase in net autonomous factors, most notably an increase in issued euro banknotes (particularly at the declaration of the pandemic in March) and balances in government accounts in the Eurosystem. This was the result of increased borrowing by governments and their increased need for liquidity reserves driven by the uncertainty surrounding fiscal inflows (taxes) and the increased outflows (fiscal measures during the pandemic).

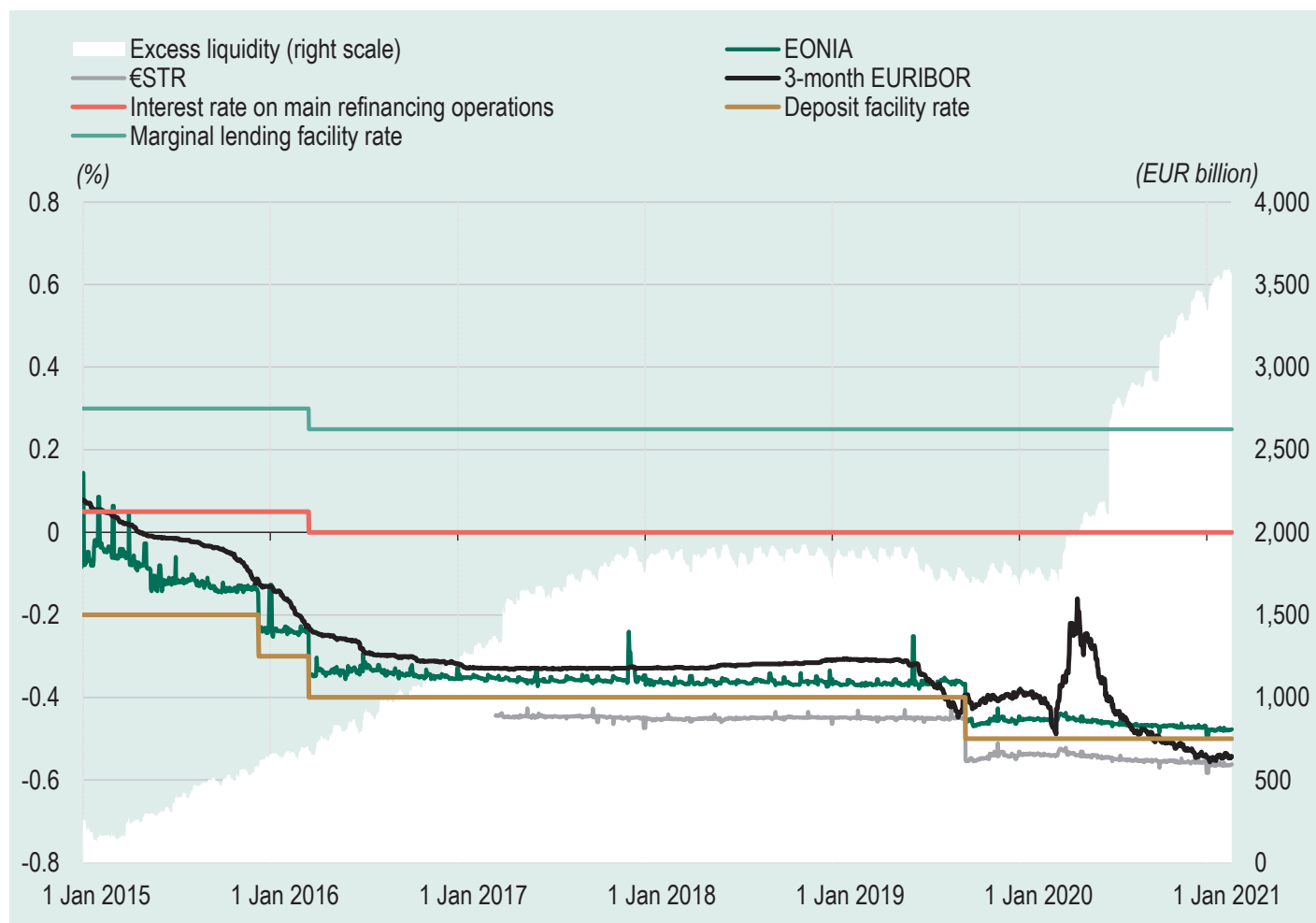
The banks' excess reserves approached EUR 2,900 billion at the end of the year, or 20 times their minimum reserve requirements. The two-tier remuneration of excess reserves in place since 30 October 2019 exempts excess reserves in the amount of six times the minimum reserve requirements from negative remuneration under the deposit facility rate, and again had no impact on the money market in 2020.

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

Interest rates on the euro area money market rose sharply following the outbreak of the pandemic to levels last seen in 2016 (see Figure 20). The economic downturn and the worsening outlook brought an increase in credit risk, while the withdrawal of certain participants from the market, investment funds and money-market funds for example, caused a decline in liquidity. Transaction volumes with maturities above one week declined to its lowest level to date. The EURIBOR was mostly based on other sources of interest rates, i.e. on modelling and expert judgments by banks in the panel, while actual transactions by banks in the panel accounted for a very small share of the computation of interest rates, of no more than 14%. The pressure on euro area money-market interest rates mainly began to ease after the expansion of the TLTRO-III, while the diminishing uncertainty also increased the volume of activity. Interest rates fell consistently until the end of the year, and fell below the deposit facility rate at all maturities.

³⁰ 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 Regulation of the ECB on the application of minimum reserves. Autonomous factors include issued banknotes, deposits by public-sector entities at the central bank and financial assets of the central bank that are not a consequence of the implementation of monetary policy (e.g. foreign reserves). An increase in autonomous factors on the asset side of the central bank balance sheet (e.g. the central bank's investment in securities) increases banks' liquidity, while an increase on the liability side (e.g. issued banknotes) reduces banks' liquidity.

Figure 20: Interest rates of the ECB, interbank money-market rates and excess liquidity in the euro area



Sources: Bloomberg, ECB

The €STR has proved to be a reliable interest rate during the pandemic.

Box 5: Progress on reforming benchmark interest rates for the euro

The €STR is now well-established as the new risk-free interest rate for euro overnight deposits on the euro area money market, and has proved to be a reliable interest rate during the pandemic. It rose by 2 basis points to -0.52% in March at the outbreak of the pandemic, before stabilising at approximately -0.56% towards the end of the year. As of 3 January 2022 it will finally replace the EONIA, which has been tied to the €STR since October 2019 (€STR plus a fixed spread of 8.5 basis points).

During the course of the year the €STR also replaced the EONIA as the discounting interest rate for clearing houses' euro operations, and also began to gradually replace it in derivatives operations. A complete changeover to the €STR is expected for new euro interest rate swaps in 2021. From the perspective of monetary policy, these operations are important in understanding market expectations for the evolution of interest rates.

Given the good representativeness of the €STR, it will have a key role should it prove necessary to find a replacement for the EURIBOR. The European Money Markets Institute, the administrator of the EURIBOR, has so far met the requirements under the benchmarks regulation.

The ECB announced that on 15 April 2021 it would begin publishing €STR compounded term rates. This would provide for fallbacks that can be used by parties to contracts as a replacement for the EUR LIBOR or the EURIBOR, when and if these benchmarks cease to exist. The benchmarks regulation requires supervised entities, including credit institutions, to define fallbacks for existing benchmark interest rates at the earliest possible juncture. The working group on euro risk-free rates held a public consultation in 2020 on €STR compounded term rates, and obtained support for its proposals in this area. The working group also consults regularly with market participants and end users, collects feedback from other public institutions and draws up recommendations with regard to the changeover to the euro risk-free benchmark rates. Its material is published on the ECB website.

3.2.2 Banka Slovenije as the lender of last resort³¹

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 2020.

³¹ 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.en.pdf?0cae72c9838301505831a640aa5305f.

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

3.3 BANKING SUPERVISION

The outbreak of the Covid-19 epidemic meant that our supervisory activities were tailored to and focused on supervising business continuity at banks and credit risk management.

The objective of our supervisory activities is identifying risks in all areas of the operations of banks and savings banks (credit risk, liquidity risk, operational risk, capital risk, interest rate risk, profitability risk, internal controls, corporate governance, reputation, AML, etc.) in timely fashion, and ensuring the stability of the banking system and the financial system through effective action. Banka Slovenije is a member of the Single Supervisory Mechanism, which is responsible for supervising significant banks (SIs) in the European banking union.³² In operational terms, this supervision is conducted via joint supervisory teams (JSTs).³³ 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 authorities³⁴ participate in the decision-making.

The supervision of banks and savings banks that do not meet the criteria for being classed as significant institutions, i.e. less significant institutions (LSIs),³⁵ is conducted by national supervisors, in accordance with national and EU legislation, having regard for the rules and methodology of the ECB and the SSM. National supervisors regularly submit supervisory data for less significant institutions to the ECB, and inform it of the material findings of their supervision. 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 list of significant banks and less significant banks in 2020. Abanka was removed from the list of significant banks, having merged with Nova Kreditna banka Maribor. SKB banka was reclassified as a less significant institution following its sale to a new owner,

³² According to the ECB criteria, significant institutions are banks (1) whose total assets amount to more than EUR 30 billion or more than 20% of GDP (except banks whose total assets are less than EUR 5 billion); (2) who are among the three largest banks in the country; (3) who have received funding from the European Stability Mechanism; (4) whose total assets amount to more than EUR 5 billion and who account for more than 20% of the assets/liabilities in more than one Member State. For more, see: <https://www.bankingsupervision.europa.eu/banking/list/criteria/html/index.en.html>.

³³ The JST for each bank consists of a coordinator from the ECB, and members from the national supervisory authority and the ECB.

³⁴ 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.

³⁵ Banks and savings banks are classed as less significant banks (LSIs).

while Addiko Bank was classed as a significant institution after the ECB took over its supervision of its parent bank.

Table 1: Significant banks and less significant banks (as at 31 December 2020)³⁶

| SIGNIFICANT BANKS (SIS) | SLESS SIGNIFICANT BANKS (LSIS) |
|-----------------------------------|--|
| NOVA LJUBLJANSKA BANKA, d.d. | GORENJSKA BANKA, d.d., Kranj |
| NOVA KREDITNA BANKA MARIBOR, d.d. | DEŽELNA BANKA SLOVENIJE, d.d. |
| ABANKA, d.d. | ADDIKO BANK, d.d. |
| UNICREDIT BANKA SLOVENIJA, d.d. | DELAVSKA HRANILNICA, d.d., Ljubljana |
| SKB BANKA, d.d., LJUBLJANA | HRANILNICA LON, d.d., Kranj |
| BANKA INTESA SANPAOLO, d.d. | PRIMORSKA HRANILNICA VIPAVA, d.d. |
| SBERBANK BANKA, d.d. | SID – Slovenska izvozna in razvojna banka* |
| BANKA SPARKASSE, d.d. | |

* Has special status as a bank specialising in promotion of exports and development. In accordance with the Slovene Export and Development Bank Act (the ZSIRB), supervision of SID banka is conducted by Banka Slovenije, the Insurance Supervision Agency and the Ministry of Finance within the framework of their powers.
Source: Banka Slovenije

Two branches of banks and banking groups of Member States (BKS Bank AG, bančna podružnica, and RCI Banque Societe Anonyme, bančna podružnica Ljubljana) were also operating in Slovenia at the end of the year.³⁷

3.3.1 Microprudential supervision

The supervision takes the form of ongoing supervision, and on-site inspections 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 to changes in the banking system. This is a risk-based approach, where supervisory activities are focused on the most material risks at each bank.

The main task of 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 that 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.

³⁶ The market shares in terms of total assets were 68.9% for the group of significant banks, and 26.9% for the less significant banks. The remainder is accounted for by the two branches.

³⁷ Branches of EEA Member States in Slovenia: <https://www.bsi.si/financna-stabilnost/subjekti-nadzora/kreditne-institucije-drzav-egp-v-sloveniji>.

We set the following supervisory priorities in 2020, which also formed the starting point for the supervision of Slovenia's banks:

- the ongoing clean-up of bank balance sheets, including monitoring of:
 - non-performing assets;
 - IRB approaches;
 - risks inherent in the trading and valuation of assets;
- the strengthening of future resilience and the assessment of:
 - loan approval criteria and exposure quality metrics;
 - capital and liquidity management, and improvements to the ICAAP and ILAAP at banks and their inclusion in the SREP;
 - business model viability;
 - IT and cyber risk;
 - internal governance with an emphasis on the actions of management bodies;
 - stress tests;
- other priorities: preparations for Brexit.

In light of the outbreak of the epidemic, the priority tasks in the supervision of significant banks and less significant banks alike were adjusted, and were refocused on monitoring and assessing the banks' ability to deal with the consequences of the epidemic. The stress tests were postponed until 2021. In light of the above, we took a pragmatic approach to carrying out our annual SREP activities, in line with EBA guidelines.³⁸ The process focused on the banks' ability to manage the challenges and risks to capital and liquidity inherent in the current crisis. We took the decision not to make any changes in general to quantitative capital requirements, unless the change was justified by exceptional circumstances affecting the bank in question. The qualitative recommendations issued to banks focused on internal governance (in particular internal control functions and data quality issues) and credit risk (mainly in connection with classification of loans and creation of impairments).

We responded to the outbreak of the Covid-19 epidemic with a broad palette of proposals in the area of credit risk. The purpose of supervisory initiatives and communiques is to ensure that banks have effective credit risk management practices, and sufficient operational capacity to ensure that credit risk is adequately assessed and classified on their balance sheets. Promptly identifying increased credit risk helps to mitigate the cliff effect that might arise when loan moratoria expire. Throughout the year we monitored the implementation of supervisory expectations with regard to credit risk.

³⁸ Guidelines on the pragmatic 2020 supervisory review and evaluation process in light of the COVID-19 crisis (EBA/GL/2020/10); https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Guidelines/2020/Guidelines%20on%20the%20pragmatic%202020%20SREP/897419/EBA-GL-2020-10%20Guidelines%20on%20the%20pragmatic%202020%20SREP.pdf.

We conducted a thematic review in the area of IFRS 9. The objective of the review 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. The review was conducted at three significant banks and one less significant bank. Deficiencies were identified in both areas, and measures were imposed on the banks that were subject to the review. In addition, we issued guidance to banks and savings banks in connection with improving the application of IFRS 9 to the calculation of expected credit losses.

A prudential inspection in the area of operational risk was conducted at one of the significant banks, with supervisors from another country participating as members of the inspection team.

Prudential inspections at banks were curtailed by the Covid-19 epidemic, and were conducted entirely off-site.

In accordance with Article 84 of the Banking Act, at the end of 2019 the banks again submitted updated recovery plans, which we reviewed and assessed in accordance with Article 197 of the Banking Act.

As part of our prudential supervision we also granted several different authorisations in connection with the inclusion of capital instruments in regulatory capital, the inclusion of negative goodwill under common equity, the acquisition of a qualifying holding, a bank merger, the use of IRB models and the application of the transitional provisions of IFRS 9.

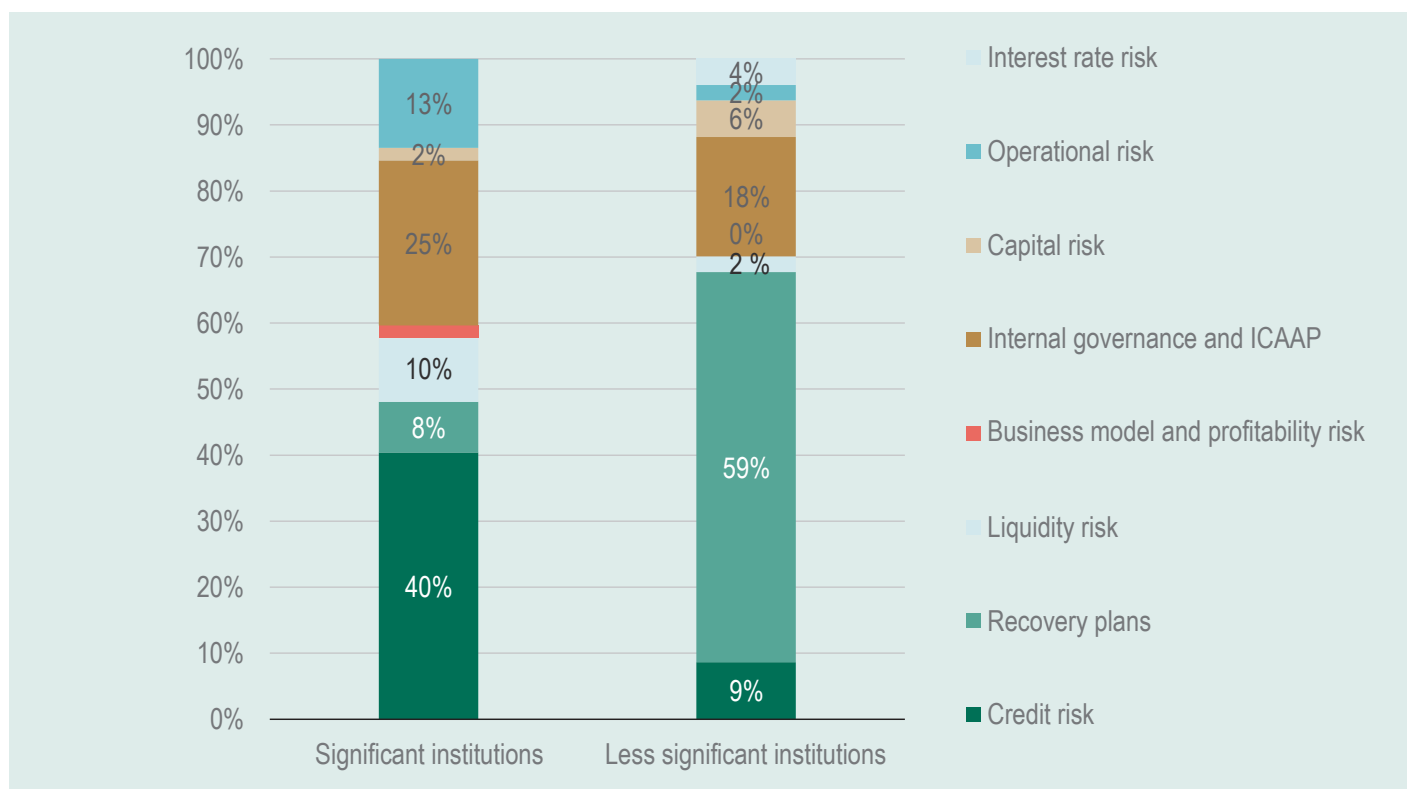
In the supervision of significant banks, there were 52 irregularities and deficiencies identified in their operations in 2020, of which the largest number related to credit risk, internal governance and operational risk (see Figure 21).

The majority of the findings have a low or medium impact on the financial position, the level of capital, internal governance, and risk management 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 2020 we conducted six on-site supervisory inspections at less significant banks in the areas of credit risk, operational risk, interest rate risk and liquidity risk. We also conducted follow-up inspections of the implementation of measures as part of our ongoing supervision.

In the supervision of less significant banks we identified 127 irregularities and deficiencies, most notably in the area of recovery plans, credit risk and capital risk, and internal governance. Certain identified irregularities were rectified in 2020, while the rectification of the others will be followed up in 2021. Banka Slovenije issued seven letters to less significant banks, in which Tier 1 capital and total capital requirements were set out.

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

Figure 21: Breaches identified at banks in 2020, by risk category

Source: Banka Slovenije

Table 2: Supervisory measures imposed on banks and savings banks in 2020

| TYPE OF MEASURE | NUMBER OF MEASURES IMPOSED AT SIGNIFICANT INSTITUTIONS | NUMBER OF MEASURES IMPOSED AT LESS SIGNIFICANT INSTITUTIONS |
|---|--|---|
| Decision with supervisory measures [1] | 0 | 0 |
| Follow-up letter with recommendations | 11 | 4 |
| Order on rectification of breaches [2] | 0 | 1 |
| Post-inspection letter [3] | 0 | 1 |
| Declaratory decision on rectification of breaches [4] | 0 | 3 |
| Decision to prohibit exercise of all rights attached to shares | 0 | 2 |
| Decision to initiate procedure to revoke authorisation to perform function on management body | 0 | 2 |

Source: Banka Slovenije

Supervisory measures are imposed on significant banks by the ECB. The most common forms of measure 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. No measures were imposed on significant banks in the form of a decision in 2020.

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-2, i.e. in the form of orders and decisions.

There are now two branches of foreign banks and banking groups of Member States operating in Slovenia (one from Austria and one from France). Supervision of their operations was conducted via regular reports, requests for additional clarification, and the monitoring of their liquidity positions. No measures were imposed on the branches in 2020.

3.3.2 Supervision of compliance and AML/CFT

In contrast to prudential supervision, **non-prudential supervision is exclusively the responsibility of Banka Slovenije**. The central focus of this supervision 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 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 2020 were conducted in connection with consumer lending in accordance with the 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 239 of the ZBan-2, 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 six direct inspections in 2020.

– Drafting of regulations

Banka Slovenije issued the Guidelines on AML/CFT joint supervisory teams in 2020, and also issued numerous opinions and clarifications with regard to the implementation of legal requirements and guidelines.

– International cooperation

Our international cooperation in 2020 saw us again step up our attention to AML/CFT issues, 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]). A comprehensive overhaul of EU arrangements in the area of AML/CFT is also underway.

– Other activities

Banka Slovenije actively participated in public discussions of the new ZPPDFT-1B and then the draft of the new ZPPDFT-2, was involved in the drafting of the new ZOUPAMO, and stepped up its activities in connection with the update of the National Risk Assessment for Money Laundering and Terrorist Financing. Last year also saw strengthened action under the aegis of the standing steering group for restrictive measures.

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.

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

3.3.3 Licensing and notification procedures

Banka Slovenije issues authorisations in accordance with the ZBan-2, 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-2 and the ZPlaSSIED.

In 2020 Banka Slovenije conducted 67 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, 43 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 2021.

In addition to granting authorisations, Banka Slovenije is also responsible for determining the suitability of members of bank supervisory boards. We conducted 37 fit and proper assessment procedures for members of bank supervisory boards in 2020. Of these, 19 ended with a positive assessment, while the remainder were halted, withdrawn, or remained unfinished at the end of the year and were deferred until 2020.

Banka Slovenije also issued 14 decisions to terminate authorisations in 2020: seven for the performance of the function of a member of a bank's management board, three 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 two for currency exchange services.

Banka Slovenije is also responsible for processing notifications under the ZBan-2, the ZPotK-2 and the ZPlaSSIED. In 2020 we received 165 notifications of the direct provision of services in Slovenia by banks of Member States, notifications of the cross-border provision of consumer credit intermediation services for real estate, and notifications of the provision of payment services in Slovenia by payment institutions of Member States, and the provision of electronic money issuance services and payment services by electronic money institutions of Member States. No bank established in Slovenia notified the direct provision of services in another Member State in 2020.

The ultimate objective of macroprudential policy is ensuring that the financial sector makes a lasting contribution to economic growth.

3.4 MACROPRUDENTIAL POLICY

Macroprudential policy is used to identify, monitor and assess systemic risks to financial stability with the aim of safeguarding the stability of the entire financial system.³⁹ The ultimate objective of macroprudential policy is ensuring that the financial sector makes a sustained contribution to economic growth. 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 using the tools for monitoring financial stability. Systemic risk is defined as the risk of disruptions in the financial system that could have serious adverse effects on the functioning of the financial system and the real economy. Banka Slovenije regularly publishes its assessment of systemic risks in the Financial Stability Review and in other publications.⁴⁰ It has developed a suite of indicators to monitor the evolution of systemic risks and to evaluate the attainment of individual intermediate macroprudential policy objectives.⁴¹ Those are:

- 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 if there is a risk that intermediate macroprudential policy objectives will not be attained, Banka Slovenije can opt to impose macroprudential measures. Their selection and calibration depend on the level and source

³⁹ Article 2 of the Macroprudential Supervision of the Financial System Act (Official Gazette of the Republic of Slovenia, No. 100/13).

⁴⁰ <https://www.bsi.si/en/publications/financial-stability-review>.

⁴¹ 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.

of risk, and follows the principles described in the Strategic Framework for Macroprudential Policy.⁴² 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. Macroprudential measures may have adverse cross-border effects, and can be the target of regulatory arbitrage. This makes cross-border cooperation important. The European Systemic Risk Board (ESRB) is involved in the coordination of macroprudential policy at the European level. It is responsible for issuing recommendations on the reciprocity of macroprudential measures, and may also issue recommendations and warnings to national authorities and European institutions.

Table 3: Banka Slovenije macroprudential measures in place at the end of 2020

| MACROPRUDENTIAL MEASURE | YEAR OF INTRODUCTION/CHANGE ⁴³ | TYPE OF MEASURE | INTERMEDIATE OBJECTIVE |
|---|---|-----------------|--|
| Macroprudential restrictions on profit distributions by banks | 2020/2021* | BINDING* | To strengthen the resilience of financial infrastructures |
| Macroprudential restrictions on profit distributions by leasing companies | 2020 | RECOMMENDATION | To strengthen the resilience of financial infrastructures |
| Macroprudential restrictions on household lending (LTV, DSTI and maturity caps) | 2016/2018/2019** 2020*** | BINDING | To mitigate and prevent excessive credit growth and excessive leverage |
| O-SII buffer | 2016 | BINDING | To limit the systemic impact of misaligned incentives with a view to reducing moral hazard |
| Countercyclical capital buffer (CCyB) | 2016 | BINDING | To mitigate and prevent excessive credit growth and excessive leverage |
| Limits on the pace of reduction in the LTD ratio for the non-banking sector (GLTDF) | 2014/2018**** | RECOMMENDATION | To mitigate and prevent excessive maturity mismatch and market illiquidity |
| Limits on deposit rates | 2012 | BINDING | To limit the systemic impact of misaligned incentives with a view to reducing moral hazard |

* 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 condition that they were profitable in the first quarter of 2021.

** 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.

Source: Banka Slovenije

⁴² More information is available on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macroprudential-supervision/strategic-framework-for-macroprudential-policy>.

⁴³ Cites the year when the measure entered into force.

Last year Banka Slovenije introduced one new binding macroprudential measure for the banking sector, and modified one of the existing measures. We also put in place a recommendation for leasing companies. There were five binding and two non-binding macroprudential measures in force at the end of the year.

Given the uncertainty surrounding the Covid-19 epidemic, we temporarily prohibited profit distributions by banks, and addressed a recommendation with the same content to leasing companies. In response to the Covid-19 epidemic and on the basis of a recommendation on profit distributions by financial corporations issued by Slovenia's Financial Stability Board on the 7 April 2020 (OFS/2020/1), Banka Slovenije adopted two macroprudential measures. On 8 April 2020 we adopted the Regulation on the macroprudential restriction on profit distribution by banks (Official Gazette of the Republic of Slovenia, Nos. 49/20 and 21/21),⁴⁴ which prohibited banks from paying dividends from their earnings in 2019 and 2020, making share buybacks, and paying variable remuneration to identified staff for one year. The macroprudential recommendation on the temporary restriction of profit distributions by leasing companies was adopted on 14 May.⁴⁵ It imposed the same restrictions for leasing companies as those facing banks, but it is in a non-binding form.

An adjustment was made to the Regulation on macroprudential restrictions on household lending⁴⁶ (Official Gazette of the Republic of Slovenia, Nos. 64/19 and 75/20) to mitigate the impact of the Covid-19 epidemic on the creditworthiness of individuals. The Covid-19 epidemic brought a temporary decline in income for some consumers. This decline is often not indicative of a change in the long-term creditworthiness of consumers, therefore Banka Slovenije decided to adjust the aforementioned regulation. The regulation now allows banks to exclude a temporary decline in consumer's income, for the period when the epidemic was officially declared, from the calculation of the consumer's creditworthiness, albeit only when the bank has at its disposal at least one figure for accounted and paid income that shows that the consumer's income is no longer being affected by the epidemic. The adjustment of the measure also applies to the epidemic declared in the autumn.

The GLTDF measure remained unchanged, and is still in the form of a recommendation.⁴⁷ The limit on deposit interest rates⁴⁸ also remains in force, but is not binding in practice. The abolition of daily reporting

⁴⁴ More information is available on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macprudential-supervision/macprudential-instruments/macprudential-restriction-on-banks-profit-distribution>.

⁴⁵ More information is available on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macprudential-supervision/macprudential-instruments/macprudential-restriction-on-leasing-companies-profit-distribution>.

⁴⁶ More information is available on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macprudential-supervision/macprudential-instruments/macprudential-restrictions-on-household-lending>.

⁴⁷ More information is available on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macprudential-supervision/macprudential-instruments/gltidf>.

⁴⁸ More information on the measure is available on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macprudential-supervision/macprudential-instruments/limits-on-deposit-rates>.

of liquidity ratios by banks had also been scheduled from 1 April 2020. In light of the uncertainty caused by the outbreak of the epidemic, and with the aim of maintaining access to high-frequency data to allow for the rapid identification of changes and for timely action, this reporting was extended. It was first extended until the end of 2020, and then until June 2021.

The countercyclical capital buffer rate⁴⁹ remained at zero in 2020. Banka Slovenije conducts a quarterly review of the need to modify the buffer rate applied to exposures of banks (including foreign banks) in Slovenia. The buffer rate has remained unchanged since its introduction on 1 January 2016.

Last year Banka Slovenije identified seven banks as being other systemically important institutions which are required to meet the O-SII buffer.⁵⁰ They were classed as systemically important because of their size, their interconnectedness with other financial institutions and the real economy, 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. The buffer rate is determined once a year with regard to the aforementioned attributes. If the buffer rate is changed, banks are granted a transitional period to build up the required buffer. In 2020 seven banks were identified as other systemically important institutions. The buffer rate for SID banka was cut by 25 basis points on 1 January 2021, while Banka Intesa Sanpaolo was required to meet the buffer rate of 25 basis points as of the same date. Owing to its merger with Abanka, Nova KBM will be required to meet a buffer rate of 0.5% as of 1 January 2022.

Table 4: O-SII buffer rates in 2020

| BANK | CAPITAL BUFFER RATE |
|----------------------------------|---------------------|
| NLB, d. d. | 1.00% |
| SID banka, d. d., Ljubljana | 0.50%* |
| Nova KBM, d. d. | 0.25%** |
| Abanka, d. d. | 0.25%*** |
| SKB, d. d. | 0.25% |
| Unicredit banka Slovenija, d. d. | 0.25% |
| Banka Intesa Sanpaolo, d. d. | 0.00%**** |

* SID banka is required to meet a buffer rate of 0.25% as of 1 January 2021.

** Owing to its merger with Abanka, Nova KBM will be required to meet a buffer rate of 0.5% as of 1 January 2022.

*** Abanka ceased trading as an independent entity on 1 September 2020.

**** Banka Intesa Sanpaolo is required to meet a buffer rate of 0.25% as of 1 January 2021.

Source: Banka Slovenije

⁴⁹ More information is available on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macprudential-supervision/macprudential-instruments/countercyclical-capital-buffer>.

⁵⁰ The methodology is explained in detail on the Banka Slovenije website at <https://www.bsi.si/en/financial-stability/macprudential-supervision/macprudential-instruments/capital-buffer-for-other-systemically-important-institutions-o-sii-buffer>.

Box 6: Analysis of the impact of the macroprudential restrictions on household lending

The macroprudential recommendation on household lending was modified into a binding measure by Banka Slovenije on 1 November 2019 via the Regulation on macroprudential restrictions on household lending (Official Gazette of the Republic of Slovenia, Nos. 64/19 and 75/20). The macroprudential restrictions on household lending have a cyclical component and a structural component. Their objective is to prevent excessive credit growth in consumer loans, and to introduce minimum credit standards for household loans. Both objectives were achieved. Growth in consumer loans is no longer excessive, and the credit standards for new loans were raised, which has been reflected in a lower level of deviations from the macroprudential restrictions. The epidemic was a major factor in the slowdown in consumer lending, as it reduced demand for consumer loans. The tightening of credit standards may also be attributed to the banks' reduced risk tolerance. Our finding is that the macroprudential restrictions are successfully distinguishing between higher-risk and lower-risk borrowers, as loan moratoria in connection with the epidemic are less common for loans that comply with the macroprudential restrictions. A summary of the analysis of the impact of the macroprudential measures is presented below. More information on the topic can be found in the April 2021 issue of the Financial Stability Review.⁵¹

Year-on-year growth in consumer loans averaged 11.3%⁵² before the introduction of the binding measure, but fell to 0.4%⁵³ afterwards. The slowdown in credit growth was partly attributable to the introduction of the binding macroprudential measures, but was also attributable to the impact of the Covid-19 epidemic, which reduced demand for consumer loans and prompted banks to tighten credit standards. The epidemic also had an impact on growth in consumer loans in other European countries. Growth in housing loans remained robust: it averaged 5.0%⁵⁴ before the introduction of the measures, and 4.8%⁵⁵ afterwards. The epidemic also most likely reduced growth in housing loans, as the real estate market was temporarily shut down by government ordinances, while the epidemic also had an impact on the behaviour of potential buyers of residential real estate.

Based on newly obtained granular data on moratoria and non-performing loans, we find that the minimum credit standards introduced by the macroprudential restrictions are distinguishing between higher-risk and lower-risk loans. Our finding is that loans that deviate from the measure capping DSTI are more likely to have

⁵¹ Pages 76 to 80; the report can be found on the following [link](#).

⁵² Average monthly credit growth between January and October 2019.

⁵³ Average monthly credit growth between November 2019 and December 2020.

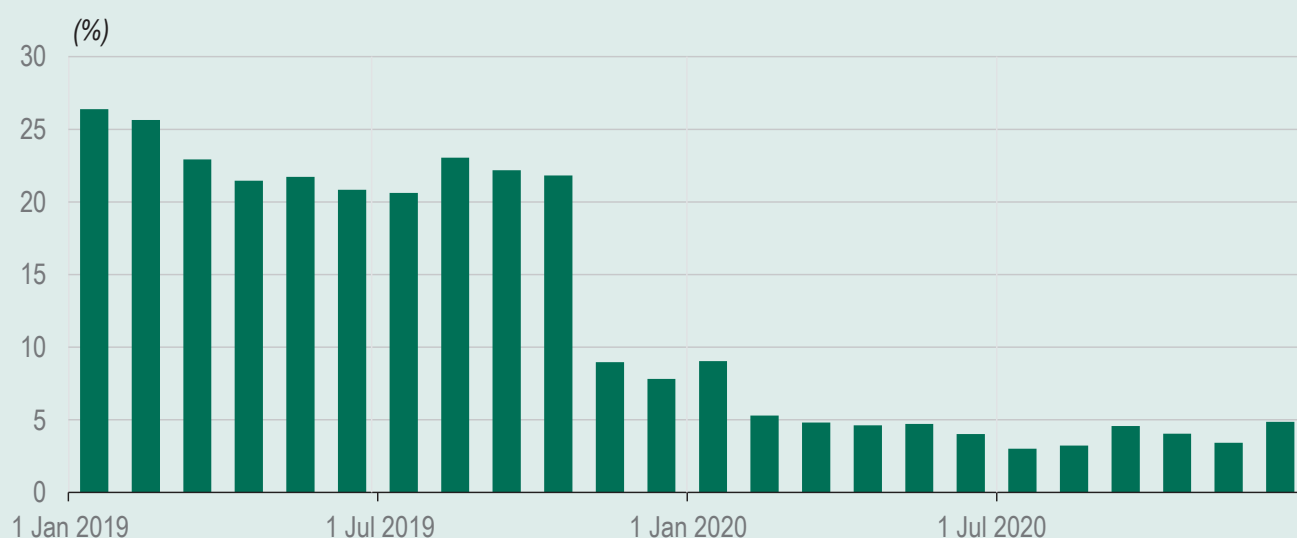
⁵⁴ Average monthly credit growth between January and October 2019.

⁵⁵ Average monthly credit growth between November 2019 and December 2020.

(had) an active moratorium and to have become non-performing. Consumer loans that deviate from the measure capping maturity are also more likely to have (had) an active moratorium. Compliance with the LTV recommendation has no impact on the frequency of moratoria and non-performing status. This is to be expected, given that the LTV recommendation reduces loss given default, rather than probability of default.

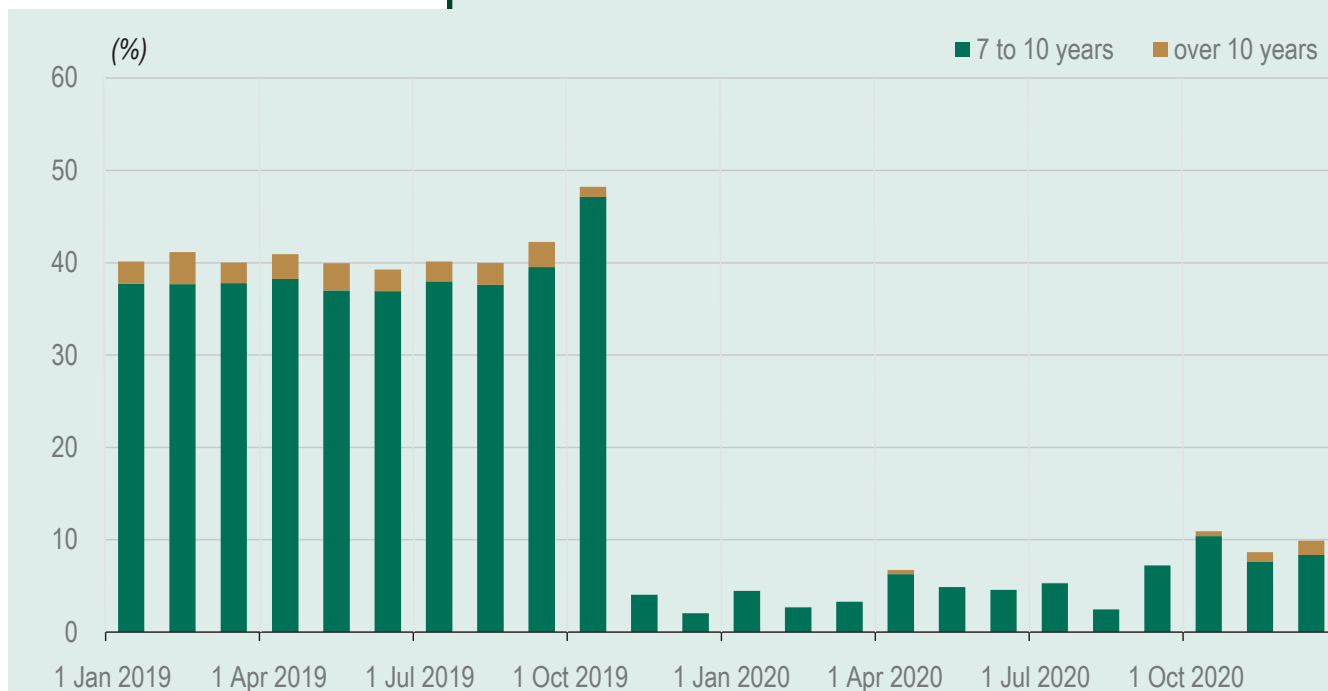
The data from regular reporting shows that overall the banking system is following the macroprudential restrictions. Deviations from the DSTI cap fell sharply after the adoption of the binding measures, and remained at a low level in 2020. The average maturity of consumer loans also fell from 6.7 years (October 2019) to 5.6 years (November 2019) after the adoption of the binding maturity cap. However the share of deviations from the maturity cap increased which is a consequence of the maturity cap being reduced from ten years to seven years. This trend continued in 2020, which can to a large extent be attributed to the more frequent use of allowed deviations.

Figure 22: Deviations from the DSTI cap for new household loans



Source: Banka Slovenije

Figure 23: Share of new consumer loans with maturities of seven to ten years, and more than ten years



Note: Before 1 November 2019 the highest allowed maturity was ten years, afterwards it was shortened to seven years.

Source: Banka Slovenije

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/EC⁵⁶ 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/EU⁵⁷ 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 applying resolution tools and exercising resolution powers. An important novelty within the framework came with Regulation (EU) No 806/2014⁵⁸ 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 guarantee is Directive 2014/49/EU⁵⁹ of 16 April 2014, which lays down rules and procedures relating to the establishment and the functioning of deposit guarantee schemes.

3.5.1 Bank resolution

Under the Resolution and Compulsory Winding Up of Banks Act⁶⁰ (the ZRPPB), we exercise the powers and perform tasks of the national resolution authority. The aforementioned act transposes Directive 2001/24/EC and Directive 2014/59/EU into Slovenian legislation. The ZRPPB regulates the competences of and procedures conducted by Banka Slovenije in exercising the powers and tasks of the bank resolution authority, bank resolution planning, the resolution procedure and powers regarding the application 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 continuity of critical functions, to avoid a serious adverse effect on financial stability, to protect public funds, to protect depositors with guaranteed deposits and investors with guaranteed claims, and to protect client funds and client assets. Regulation (EU) No 806/2014 established the Single Resolution Board (SRB).⁶¹ In accordance with ZRPPB and Regulation (EU) No 806/2014, Banka Slovenije exercises powers and performs tasks concerning resolution, except those powers and tasks for which the Single Resolution Board is responsible in accordance with Regulation (EU) No 806/2014.

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

⁵⁶ OJ L 125 of 5 May 2001, pp. 15-23, with amendments.

⁵⁷ OJ L 173 of 12 June 2014, pp. 190-348, with amendments.

⁵⁸ OJ L 225 of 30 July 2014, pp. 1-90, with amendments.

⁵⁹ OJ L 173 of 12 June 2014, pp. 149-178, with amendments.

⁶⁰ Official Gazette of the Republic of Slovenia, Nos. 44/16, 71/16 (constitutional court decision), 9/19 and 72/19 (ZPSVIKOB).

⁶¹ For more information on the Single Resolution Board, see Section 3.1 Banka Slovenije's mandate and institutional framework.

In 2020 Banka Slovenije focused primarily on drawing up and updating resolution plans, which set out the measures for resolution or compulsory winding-up that could be applied at banks should they fail.

Banka Slovenije independently draws up resolution plans for banks under its jurisdiction, and participates in the SRB's internal resolution teams in drawing up and updating the plans of international banking groups with a presence 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 other cross-border banking groups. In 2020 these were NLB, NKBM, UniCredit, Intesa Sanpaolo, Erste (group member from Slovenia is Sparkasse), Addiko and Sberbank. The drawing up of the resolution plans for banks under the competence of the SRB is carried out within internal resolution teams of national resolution authorities from countries where individual members of the banking group have a presence. Participation in internal resolution teams takes place in the form of document exchange, regular teleconferences and meetings. Banka Slovenije is responsible for drawing up resolution plans for banks that do not fall under the competence of the SRB. In 2020 these were Deželna banka Slovenije, Delavska hranilnica, Hranilnica Lon, Hranilnica Vipava, and Gorenjska banka which in 2021 came under the competence of the SRB. 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 competent resolution authority for the OTP group.

All resolution plans of banks in Slovenia were updated to ensure the use of current data. Upgrade of the resolution plans falling under the competence of the SRB was made in 2020, with a focus on defining in further detail the procedures in the event of the use of the bail-in tool, ensuring unhindered access to critical infrastructure of financial markets, procedures for ensuring operational continuity of a bank in resolution, and calculating MREL in accordance with the new MREL policy. The process of aligning the approaches to resolution planning for banks under the competence of the SRB with those for banks under the competence of national resolution authorities began in 2020. The resolution plans under Banka Slovenije's competence were upgraded with the calculation of MREL in accordance with the new MREL policy, and were presented to banks together with the requirements regarding 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 uses the SRF for the purpose of ensuring the efficient application of resolution tools and the exercise of resolution powers, in line with the resolution objectives and the principles governing resolution referred to in Regulation (EU) No 806/2014. The SRF is being built up in accordance with the rules on the transfer of contributions collected at national level to the SRF, as set out in the Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund.⁶² The target level of the SRF foresees reaching the available financial means of the fund in the amount

⁶² 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]).

of at least 1% of the amount 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 41.96 billion following the contributions made in 2020. The total amount of contributions to the SRF in 2020 was EUR 9,194 million, of which banks from Slovenia contributed EUR 9.0 million.⁶³

The financial means of the SRF have not been used to date.

Since the end of March 2015 Banka Slovenije manages a special bank resolution fund, which was established pursuant to the Bank Resolution Authority and Fund Act.⁶⁴ The fund is designed for financing the compulsory liquidation measures under the ZRPPB that can be imposed on banks by Banka Slovenije. The compulsory liquidation procedure is a procedure for winding up a bank as a legal entity, which is carried out by Banka Slovenije to close the bank's operations and settle its liabilities to creditors arising from contracts for providing the banking services, financial services and ancillary financial services that the bank provided on the basis of the authorisation to provide banking services under the law governing banking. The target level of the fund's assets is 2.3% of the sum of all covered deposits in Slovenia as at 30 September 2014, whereby assets in the amount of 1.3% of the sum of all covered guaranteed deposits were provided via the payment of founding contributions, while for 1% of the sum of all covered deposits banks hold liquid assets as collateral for the extraordinary cash contributions.

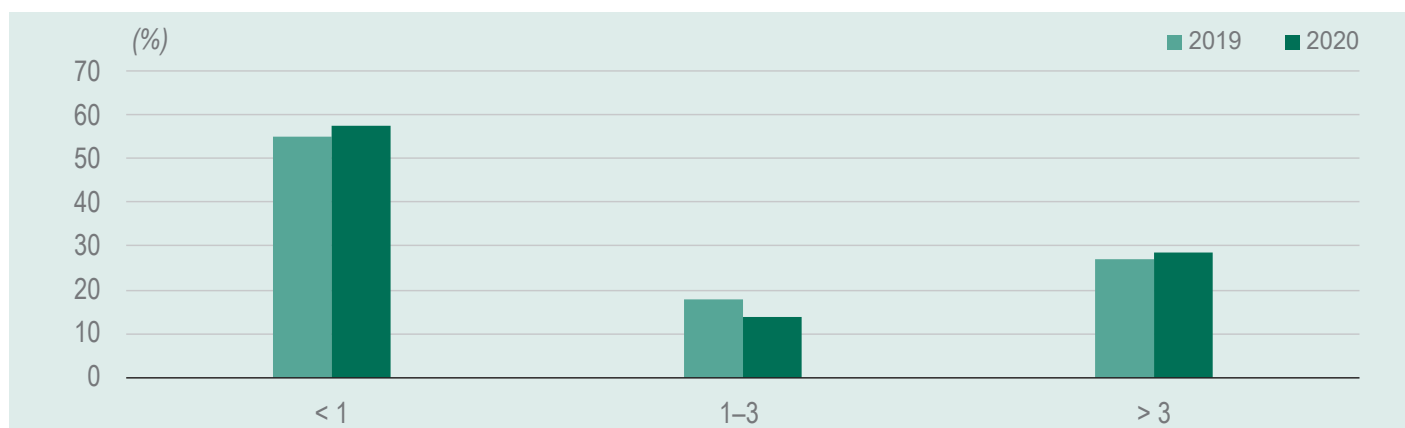
**Banka Slovenije
manages Slovenia's
bank resolution fund.**

To minimise the costs of active management, the assets of the bank resolution fund are managed by Banka Slovenije together with the assets of the deposit guarantee fund, within a joint fund (the resolution and deposit guarantee fund). The bank resolution fund and the deposit guarantee fund have a share of the joint fund that is proportional to their respective holdings within the pooled assets. Banks paid founding contributions to the bank resolution fund in the amount of EUR 191.1 million in March 2015.

The joint fund's assets are being invested in liquid government, regional, agency and corporate debt instruments, wherein investments are generally restricted to internal Banka Slovenije rating of at least A-. Because interest rates of the money market were negative also in 2020, instead of investing in short-term deposits, the assets of the joint fund were left 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. In addition, given the expectations of a general fall in market rates (and thus a rise in the value of investments), the joint fund maintained its interest rate exposure (modified duration) close to the maximum allowed level. The maturity breakdown is as follows: 58% of the joint fund's investments were in the bucket of up to 1 year, 14% in the bucket of 1 to 3 years, and 28% in the bucket of more than 3 years.

⁶³ A detailed breakdown of the contributions to the SRF by country is available at <https://srb.europa.eu/en/content/single-resolution-fund>.

⁶⁴ Official Gazette of the Republic of Slovenia, Nos. 97/14, 91/15, 44/16 [ZRPPB] and 27/17.

Figure 24: Maturity breakdown of joint fund's investments

Source: Banka Slovenije

The value of bank resolution fund's assets amounted to EUR 192.5 million at the end of 2020, while the value of the joint fund amounted to EUR 288.5 million. The bank resolution fund's operating result was a net profit of EUR 799,916.59 in 2020, while the joint fund recorded a net profit of EUR 1,225,460.11. The operation of the bank resolution fund is disclosed in more detail in its annual report.⁶⁵

The bank resolution fund will cease operating on 31 December 2024. Since the time of its establishment, the measures in connection with which the bank's resolution fund's assets would be used had not yet been applied.

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

3.5.2 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 Act⁶⁶ (the ZSJV). The aforementioned act transposes Directive 2014/49/EU into Slovenian legislation. Pursuant to ZSJV Banka Slovenije establishes and manages a deposit guarantee scheme which guarantees depositors' deposits in the event of the unavailability of deposits at a bank. The deposit guarantee is exercised via the repayment of guaranteed deposits or through other measures by which depositors' access to guaranteed deposits is preserved in the event of the bank's resolution or compulsory wind-up. Pursuant to the ZSJV, deposits at a bank or savings bank with the head office in Slovenia are guaranteed up to the amount of EUR 100,000. The deadline for repayment of guaranteed deposits in 2020 was 15 business days from the publication of Banka Slovenije's decision on the unavailability of deposits (it will be ten business days in a transitional period between 1 January 2021 and 31 December 2023, and seven business days as of 1 January 2024).

In 2020 Banka Slovenije continued its regular testing of the data on guaranteed 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 procedures in the event of the repayment of guaranteed

⁶⁵ The annual report of the bank resolution fund is published online (in Slovene) at <https://www.bsi.si/publikacije/letna-porocila/letna-porocila-skladov-za-resevanje-bank-in-jamstvo-vlog>.

⁶⁶ Official Gazette of the Republic of Slovenia, No. 27/16.

deposits. The collaboration with the Ministry of Finance also included the exchange of views with regard to the establishment of the European Deposit Insurance Scheme (EDIS).

Banka Slovenije has established the deposit guarantee fund as part of its management of the deposit guarantee scheme. The fund may be used for repayments of guaranteed deposits, and to finance resolution or compulsory wind-up measures by means of which depositors maintain access to guaranteed deposits. 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 amount of all guaranteed deposits in Slovenia. Should the fund's available assets not suffice for repayment of guaranteed 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 from its investments, borrowing on the market, and loans obtained from other sources in accordance with the ZSJV. The ZSJV envisages also the possibility of an emergency liquidity facility from Banka Slovenije and a short-term loan from the state, if the fund is unable to secure sufficient funds in due time from the aforementioned sources to meet its obligations.

The value of deposit guarantee fund's assets amounted to EUR 96.0 million at the end of 2020, after the banks contributed EUR 22.1 million to the fund during the year. The deposit guarantee fund's operating result was a net profit of EUR 419,443.54 in 2020. The operation of the deposit guarantee fund is disclosed in more detail in its annual report.⁶⁷ The assets of the deposit guarantee fund are managed by Banka Slovenije together with the assets of the bank resolution fund, within a joint fund (see Section 3.5.1).

Since the establishment of the deposit guarantee fund, there have been no cases of the unavailability of deposits or resolution or compulsory wind-up measures, and it's assets have therefore not been used to date.

Deposits at banks from European Economic Area (EEA) countries that provide banking services in Slovenia via a branch or directly are covered by the deposit guarantee scheme of the country in which the bank has its head office. The deposit guarantee scheme in Slovenia repays the guaranteed deposits held with a branch of a bank from the aforementioned country in Slovenia at the request of and on behalf of the deposit guarantee scheme of the aforementioned country. The deposit guarantee scheme of the aforementioned country provides funds in the amount of the coverage for the guaranteed deposits that shall be repaid in Slovenia, and all necessary information and instructions for repaying the guaranteed deposits of the branch.

Banka Slovenije is a signatory to the multilateral agreement of the European Forum of Deposit Insurers (EFDI), which regulates cooperation between deposit guarantee schemes.⁶⁸ Two branches of banks from EEA countries were able to provide financial services in Slovenia in 2020.

⁶⁷ The annual report of the deposit guarantee fund is published online (in Slovene) at <https://www.bsi.si/publikacije/letna-porocila/letna-porocila-skladov-za-resevanje-bank-in-jamstvo-vlog>.

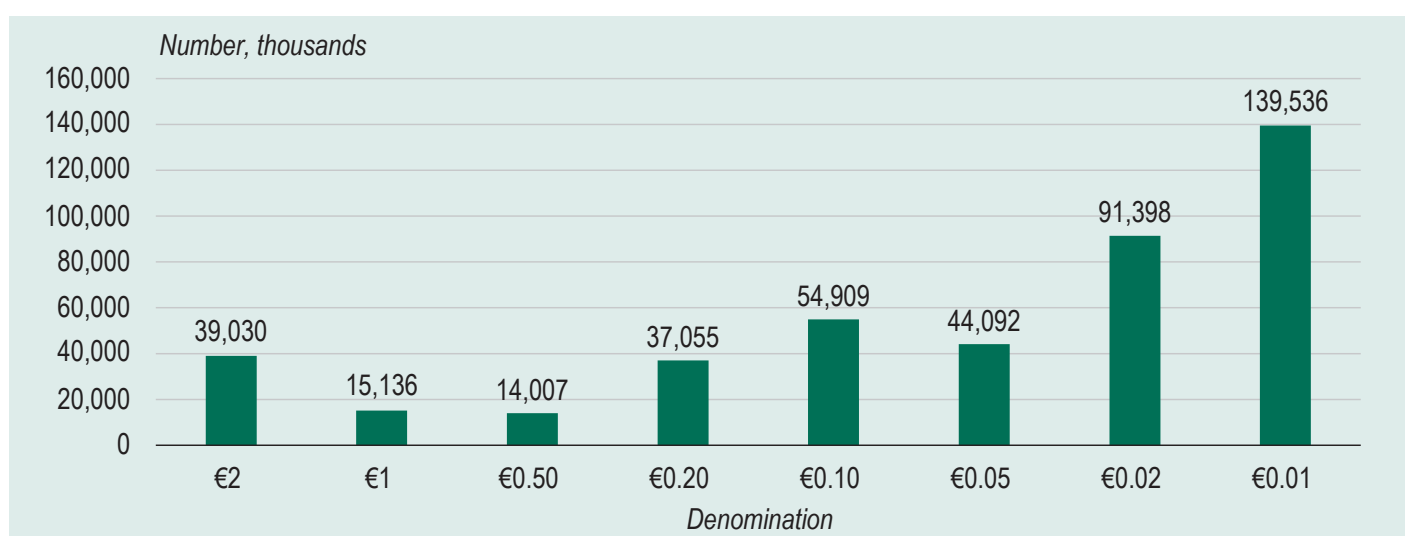
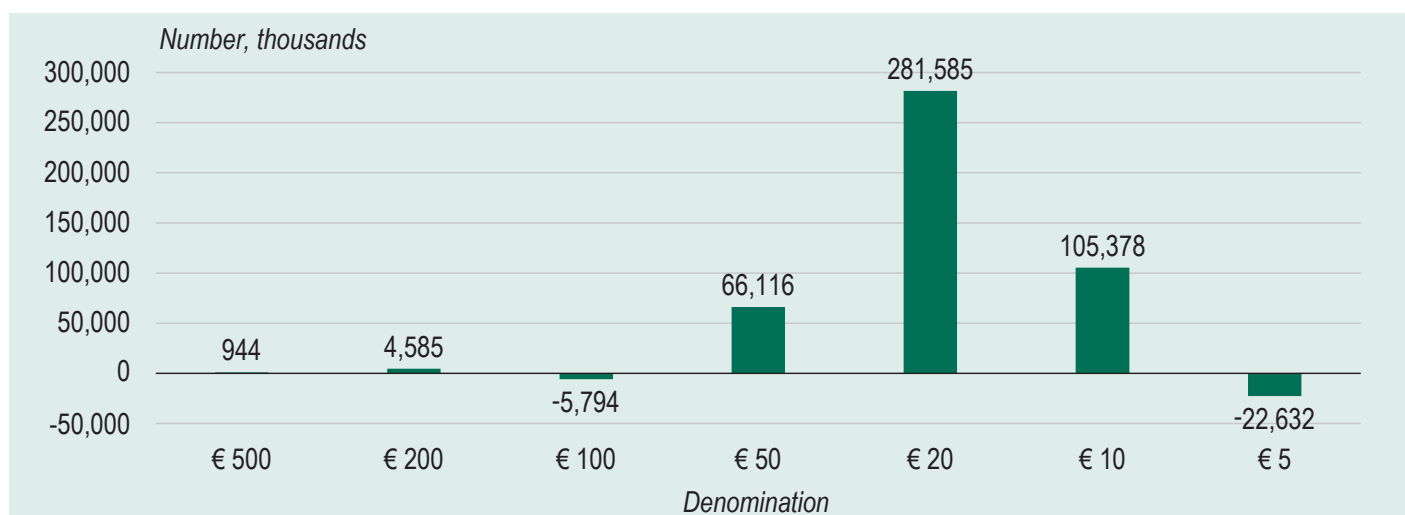
⁶⁸ For more information about the EFDI Home-Host Multilateral Agreement, see <https://www.efdi.eu/page/efdi-homehost-multilateral-agreements>.

3.6 BANKNOTES AND COINS

By the end of 2020, a total of EUR 10.8 billion of cash had been net issued into circulation by Banka Slovenije since the introduction of the euro.

Supplying cash to the market is one of Banka Slovenije's key tasks. By the end of 2020, a total of EUR 10.8 billion of cash had been net issued into circulation by Banka Slovenije since the introduction of the euro, of which banknotes accounted for EUR 10.7 billion (430.2 million banknotes) and coins for EUR 118.5 million (435.2 million coins). In terms of quantity, the 20-euro note has the highest net issuance (281.6 million banknotes), followed by the 10-euro note (105.4 million banknotes), the 50-euro note (66.1 million banknotes), the 200-euro note (4.6 million banknotes) and the 500-euro note (0.9 million banknotes). In the case of the other two denominations (100-euro and 5-euro), there has been negative net issuance since the introduction of the euro (the number of banknotes issued was lower than the number returned to us). The coins with the highest net issuance in terms of quantity were the 1-cent (139.5 million coins) and the 2-cent (91.4 million coins), while the lowest net issuance was recorded by the 50-cent (14.0 million coins). Euro cash was supplied to the market by Banka Slovenije from the central cash centre and through our banknote depots.

Figures 25 and 26: Net issued banknotes and coins by denomination, 31 December 2020



Source: Banka Slovenije

In collaboration with the other central banks of the Eurosystem and the ECB, Banka Slovenije helped draw up the Cash 2030 strategy, which was approved by the Governing Council of the ECB in September 2020. The main focus of the strategy is ensuring that cash remains a generally available, attractive, reliable and competitive payment instrument and store of value. We also set out five key strategic objectives to strengthen our role at Eurosystem level:

- ensuring the unhindered availability of cash to all citizens and businesses;
- supporting unhindered access to cash services for all citizens and businesses;
- ensuring that cash is generally accepted and is seen as essential for freedom of choice in how to pay;
- developing innovative and secure euro banknotes; and
- ensuring the safety and also the environmental sustainability of euro banknotes.

To ensure a robust cash cycle and efficient supply chain, it is crucial that banks fulfil their role in ensuring access to cash services for consumers in particular, and also for businesses, with appropriate geographical coverage and fee policies.

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.⁶⁹ Banka Slovenije issued a commemorative 2-euro coin into circulation to mark the 500th anniversary of the birth of Adam Bohorič⁷⁰ (1 million coins were minted), and collector coins to mark the 30th anniversary of the referendum on Slovenia's independence⁷¹ (500 gold, 1,000 silver and 48,250 bimetallic 3-euro coins). For the numismatic market we issued a collection of euro coins minted in 2020 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 counters and at selected branches of our two agents for collector products, Deželna banka Slovenije d.d. and Moro & Kunst d.o.o. (the latter has been our agent since 17 July 2020).

The ECB and the national central banks put in place a Eurosystem cash strategy in September 2020.

Banka Slovenije issued a commemorative 2-euro coin to mark the 500th anniversary of the birth of Adam Bohorič, and collector coins to mark the 30th anniversary of the referendum on Slovenia's independence.

⁶⁹ For more, see the Numismatics section of the Banka Slovenije website: <https://www.bsi.si/en/banknotes-and-coins/numismatics/f>.

⁷⁰ Error! Hyperlink reference not valid. <https://www.bsi.si/en/banknotes-and-coins/numismatics/f/2020/47/500-obletnica-rojstva-adama-bohorica-2020>.

⁷¹ <https://www.bsi.si/en/banknotes-and-coins/numismatics/f/2020/48/30-obletnica-plebiscita-o-samostojnosti-in-neodvisnosti-republike-slovenije-2020>.

Photograph 1: Collector coins issued to mark the 30th anniversary of the referendum on Slovenia's independence (gold coin, silver coin, 3-euro coin)



Photograph 2: Commemorative coin marking the 500th anniversary of the birth of Adam Bohorič



Photograph 3: Collection of 2020 Slovenian euro coins



The total value of the tolar banknotes and payment notes still in circulation at the end of 2020 was EUR 31.8 million.

A total of 577 exchanges of tolar banknotes and payment notes were made at Banka Slovenije in 2020 (2019: 1,201 exchanges). The total value of the tolar banknotes and payment notes still in circulation as at 31 December 2020 was EUR 31.8 million. This comprised 46.3 million tolar banknotes (worth SIT 7.2 billion or EUR 30.1 million), and 20.9 million payment notes (worth SIT 402.5 million or EUR 1.7 million). Compared with the figures from the end of 2005, 59.1% of the banknotes have been returned from circulation (96.6% of the total value of the tolar banknotes and payment notes). Payment notes and tolar banknotes are exchangeable at Banka Slovenije counters with no time limit, while the exchange of tolar coins ended on 3 January 2017 in accordance with the Adoption of the Euro Act.

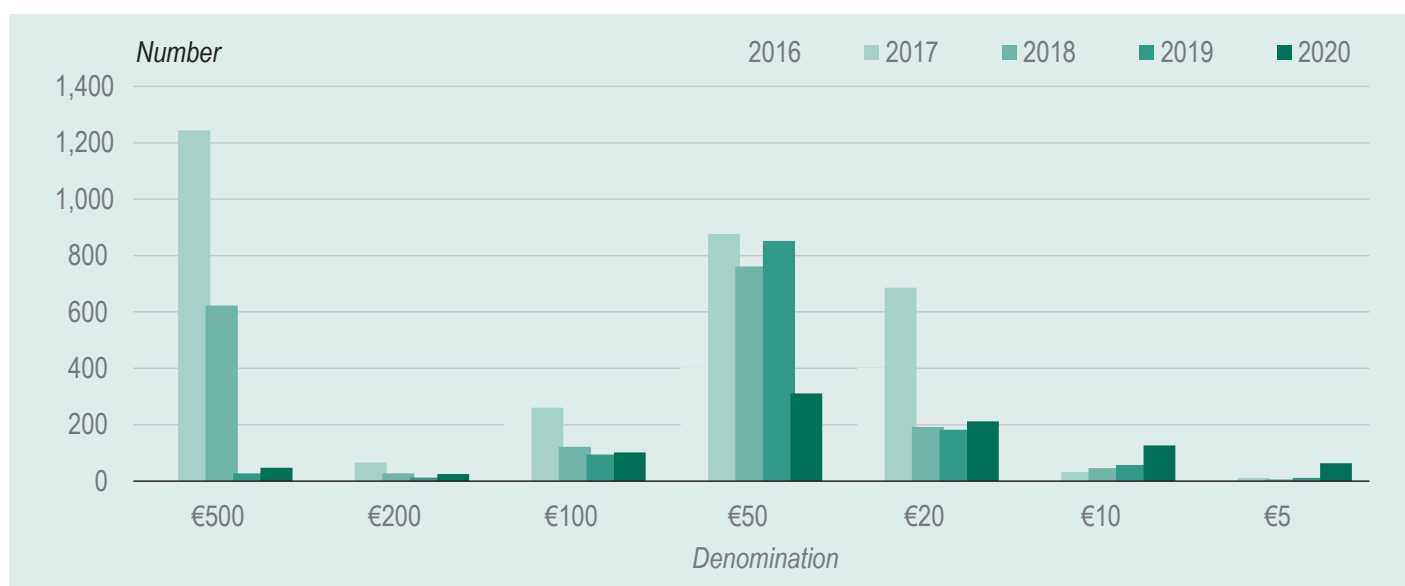
As part of the Eurosystem, we are aware of climate change and the fragility of the environment, for which reason all accredited manufacturers involved in the production chain for banknotes are required to meet the ISO 14001 requirements on environmental management and the OHSAS 18001 requirements on 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 2020 at our selected manufacturer was switched to the exclusive use of paper made from sustainably produced cotton (integrated organic production, fair trade), and we are working with other national central banks of the Eurosystem to extend the useful life of banknotes through the use of new materials. The longer banknotes can remain in circulation, the smaller their environmental impact is.

The cash processing unit sorted 124.8 million banknotes and coins in 2020, compared with 146.1 million in 2019. A total of 124.5 million banknotes and 0.3 million coins were sorted in 2020 (compared with 145.3 million banknotes and 0.8 million coins in 2019). A total of 17.6 million euro banknotes (compared with 22.4 million banknotes in 2019) were taken out of circulation and destroyed in order to maintain the general quality of banknotes in circulation. Last year's reduction in the quantities of processed banknotes and coins was directly attributable to the containment measures in connection with the Covid-19 epidemic. The closure of sales outlets meant that cash was slower to circulate, and less was returned to Banka Slovenije.⁷²

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 887 counterfeit euro banknotes and 2,622 counterfeit euro coins were withdrawn⁷³ from circulation in 2020, compared with 1,236 euro banknotes and 2,237 euro coins in 2019. The 50-euro banknote accounted for the largest proportion of counterfeit banknotes in terms of quantity (35% of the total), while 2-euro coins accounted for the largest proportion of counterfeit coins (82%). The Eurosystem figures in this area rank Slovenia among countries where a small number of counterfeits are withdrawn from circulation. Some 177 foreign currency counterfeits (US dollars, Swiss francs, Japanese yen, Hungarian forints, Bosnian convertible marks and Russian roubles) were discovered in 2020, compared with 21 counterfeits in 2019. The quality of foreign currency counterfeits has remained at approximately the same level.

⁷² We drew up two separate sets of analysis of payments at POSs in connection with the Covid-19 epidemic, which were published on the Banka Slovenije website (first analysis [June 2020]: <https://bankaslovenije.blob.core.windows.net/publication-files/analiza-ucinkov-ukrepov-zaradi-pandemije-covid-19-na-kartico-in-gotovinsko-poslovanje.pdf>; second analysis [January 2021]: http://bankaslovenije.blob.core.windows.net/publication-files/analiza_gotovinsko-in-kartico-poslovanje.pdf).

⁷³ 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 27: Breakdown of counterfeit euro banknotes withdrawn from circulation, by denomination

Source: Banka Slovenije

Banka Slovenije took appropriate preventive measures to ensure the smooth functioning of cash and payment systems during the first and second waves of the epidemic.

Box 7: Cash operations during the epidemic

The spread of Covid-19 and the comprehensive preventive measures to contain it were also reflected in the payment patterns of consumers at points of sale. After the official declaration of the end of the first wave of the epidemic, Banka Slovenije drew up analysis of the impact of the containment measures on cash and card operations⁷⁴ during the first wave (12 March to 31 May 2020). The analysis was repeated⁷⁵ in early 2021, and the patterns from the first wave of the epidemic were compared with those of the second wave (19 October to 31 December 2020) and the interim period between the two waves.

Demand for cash rose sharply, following the first declaration of the epidemic in Slovenia, particularly in terms of cash as a store of value. The largest increase in demand for cash during the aforementioned period was seen immediately after the epidemic was declared on 12 March 2020, when people rushed to the shops to buy essentials before the lockdown began. In contrast, in the second wave Banka Slovenije did not see a renewed rise in demand for cash for precautionary reasons; demand remained close to the level recorded before the declaration of the epidemic in the spring. The sole exception was during the December pre-holiday season, when we typically see increased demand for cash, which was accompanied by the temporary easing of certain containment measures. This was also a driver of increased demand for cash in

⁷⁴ <https://bankaslovenije.blob.core.windows.net/publication-files/analiza-ucinkov-ukrepov-zaradi-pandemije-covid-19-na-karticno-in-gotovinsko-poslovanje.pdf>.

⁷⁵ http://bankaslovenije.blob.core.windows.net/publication-files/analiza_gotovinsko-in-karticno-poslovanje.pdf.

the second wave of the epidemic (compared with demand in the interim). Average withdrawals at ATMs increased during both waves to just over EUR 150 (compared with just over EUR 130 in the interim, and less than EUR 120 before the first wave), as visits to ATMs declined in number (around 690,000 withdrawals per week in the first and second waves, 929,000 in the interim, and just over a million before the first wave).

The use of payment cards declined with parts of the economy shut down (677,000 transactions per day worth EUR 21.7 million in the interim, 474,000 per day worth EUR 16.8 million in the first wave, 544,000 per day worth EUR 18.5 million in the second wave). However, the stringent containment measures imposed in October did not result in such a sharp increase then fall in the number and value of card transactions as in the first wave. Similarly to demand for cash, this can be explained by the smaller scale of panic buying relative to the first wave, as people reacted more calmly after facing a similar situation in the recent past.

There was a change in the ratio of card payments at physical points of sale to card payments for online purchases in both the first and second waves of the epidemic. Our analysis indicated that following a sharp increase in the proportion of card payments for online purchases during the first wave (to 12% in terms of the number of transactions and 16% in terms of value), the proportion between the two waves returned to a level similar to that before the first wave (8% in terms of the number of transactions and 11% in terms of value). The increase in the proportion of card transactions for online purchases was even sharper in the second wave (to 14% in terms of the number of transactions and to 20% in terms of value).

Box 8: Eurosystem study

The ECB conducted a study on the payment attitudes of consumers in the euro area (SPACE⁷⁶) between March and December 2019, and attempted to compare the findings as far as possible with those of a study on the use of cash by households in the euro area (SUCH⁷⁷) conducted in 2016.

The study shows that cash remains the most frequently used payment instrument at points of sale (in shops, restaurants, kiosks, petrol stations, hotels, markets, etc.) and in payments between consumers at Eurosystem level and in Slovenia, and that it is increasingly being used as a store of value and for precautionary reasons. Consumers across the Eurosystem and in Slovenia executed 73% of their transactions using cash (in value terms 48% in the Eurosystem and 63% in Slovenia). The figures from 2016 were 79% (80% in Slovenia) and 54% in value terms (68% in Slovenia). The share of cash payments is therefore falling relatively slowly as the share of card payments increases, although separate analysis (IMPACT) revealed the Covid-19 epidemic to have accelerated the trend somewhat. What the actual impact of the epidemic will be is expected to be seen in two years, when a new study on the use of various payment instruments is conducted at Eurosystem level. Cash is kept at home or in deposit boxes by 34% of those surveyed, compared with 24% in 2016.

Card payments accounted for 24% of the number of payments in the Eurosystem in 2019 (41% in value terms), compared with 19% in 2016 (39% in value terms). While contactless payments accounted for just 6% of card payments in 2016, the figure had risen to 38% by 2019 (and 71% in Slovenia). The use of non-cash means of payment is particularly common in online shopping, where 49% of transactions were made with cards and 27% by electronic payment solutions (e.g. PayPal, Sofort, Afterpay); cash accounted for just 4%. Online shopping is also increasingly prevalent: 7% of all reported purchases were made online (17% in value terms).

Part of the survey of consumer preferences regarding means of payment revealed that this does not reflect the current situation identified by the study. Of those surveyed, 49% prefer to use cashless means of payment (48% in Slovenia), while just 27% prefer to pay with cash (24% in Slovenia). By contrast, the possibility of being able to pay with cash was assessed as (very) important by 55% of those surveyed (44% in Slovenia).

⁷⁶ [Study on the payment attitudes of consumers in the euro area \(europa.eu\)](https://www.europa.eu).

⁷⁷ [The use of cash by households in the euro area \(europa.eu\)](https://www.europa.eu).

3.7 PAYMENT AND SETTLEMENT SYSTEMS

Payment and settlement systems are a vital component of the financial system. By ensuring the reliable, safe and effective processing of financial transactions (i.e. the exchange, processing and settlement of payments and financial instruments), they make a significant contribution to the smooth functioning of financial markets, and thereby to general economic stability and efficiency.

Banka Slovenije operates the TARGET2-Slovenija payment system for large-value payments, manages the dedicated cash accounts in the TARGET2-Securities (T2S), the pan-European platform for the settlement of securities transactions, and in Target Instant Payment Settlement (TIPS), the pan-European infrastructure for instant payments in euros. We are also members of TARGET2-Slovenija and T2S. We grant access to pan-European retail payment systems for Slovenian credit institutions. As supervisors we oversee payment and settlement systems, and providers of payment services and electronic money issuance services. We also act as a catalyst of change and of 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 2020, a year dominated by the Covid-19 epidemic. This we succeeded in doing thanks to our established, well-drilled business continuity plan, which allowed for the immediate activation of technical and organisational solutions for working remotely.

3.7.1 Operation of payment and settlement systems

Banka Slovenije was managing settlement accounts in the TARGET2 payment system for large-value payments for 18 Slovenian market participants at the end of 2020 (one less than at the end of 2019), who during the course of the year settled a total of 975,423 transactions (down 5.0% on 2019) with a total value of EUR 473.68 billion (up 28.8% on 2019). We managed 25 cash accounts for settling securities transactions on the T2S platform (two more than at the end of 2019) for 11 Slovenian market participants (one less than at the end of 2019), who settled 99,664 transactions over the course of the year (up 43.2% on 2019) in the total amount of EUR 21.98 billion (up 46.7% on 2019). As of December 2020, when the first Slovenian banks joined the system, we managed one cash account in TIPS for the settlement of instant payments for each bank, via which 134 transactions in the amount of EUR 370.57 thousand were settled.

The remaining Slovenian credit institutions are expected to join TIPS in 2021.

In the cross-border retail payments segment, we enabled credit institutions in Slovenia to exchange SEPA credit transfers with almost 4,000 payment service providers and to exchange SEPA direct debits with almost 3,200 payment service providers across the EU.

Slovenian participants settled 975,423 transactions worth EUR 473.68 billion in TARGET2-Slovenija last year, 99,664 transactions worth EUR 21.98 billion in cash accounts in T2S, and 134 transactions worth EUR 370.57 thousand in cash accounts in TIPS.

In 2020 we also took part in the continuing development of 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, which will be completed with the migration of TARGET2 participants to the new technical platform. Because the Eurosystem took the decision to postpone migration to the new technical platform by one year (from November 2021 to November 2022), Banka Slovenije has adjusted its action plan. We are closely monitoring the actions taken by Slovenian participants in TARGET2 to adapt, and are providing the requisite expert support in this process.

3.7.2 Supervision of payment and settlement systems, and payment service providers

As part of its oversight of payments under the Payment Services, Electronic Money Issuance Services and Payment Systems Act, Banka Slovenije supervises payment systems, credit institutions, payment institutions and electronic money institutions. In accordance with Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories we also conduct supervision of the central securities depository and its securities settlement system. **The objective of Banka Slovenije's supervisory activities is identifying risks in all areas of the operations of supervised entities in timely fashion, and taking effective action to ensure the security and reliability of their operations.**

In 2020 we granted two authorisations to amend the rules of a payment system, and registered a provider of account information services.

Activities in connection with an inspection at one operator of a payment system that were begun in late 2019 were completed last year, and two authorisations to amend the rules of a payment system were granted. One provider of account information services was registered. In light of the changes brought by the digitalisation of payments and new regulatory requirements in this area, we continued to strengthen our supervision of and supervisory dialogue with payment service providers, and conducted inspections at two credit institutions in the area of the provision of payment services.

In conjunction with the Securities Market Agency, which is responsible for supervising the central securities depository alongside Banka Slovenije, in 2020 we began the process of inspecting the central securities depository with regard to the requirements under Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories.

3.7.3 Guiding and encouraging the actions of market participants

Relying on our systemic outlook, our knowledge, our analytical capacity and our reputation, we were able to actively guide and encourage the actions of stakeholders in the payments and securities markets in 2020. Here the key is that Banka Slovenije does not represent any competition to market participants. In this role on the payments and securities market,

we focus on objectives that service providers and users in these markets cannot attain alone, or that require the alignment of private and public interests. Because action of this type is typically undertaken in the absence of regulatory requirements, we rely primarily on moral conviction, which demands the ability to put pressure on market participants at the right time to encourage them to take the necessary actions.

In 2020 our activities focused on encouraging stakeholders' activities with the aim of improving competition and speeding up the development of the payments market, ensuring harmonisation with pan-European (and global) practices and standards in the area of financial collateral management, promoting the cyber resilience of market infrastructures for payments and securities, and the regulatory treatment of cryptoassets, and informing the general public of new developments in the area of payment services with an emphasis on open banking. In this respect we guided the activities of stakeholders on three working bodies, namely the National Payments Council, the National Group of Stakeholders 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 also provide clarifications in connection with regulatory requirements falling under our jurisdiction to market entities whose financial solutions are based on advanced technologies. In 2020 the fintech innovation hub mainly addressed innovative business models for issuance and service provision in connection with cryptoassets, and payment service provision. 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 with associations representing market stakeholders via various fintech-related events.

Box 9: Digital euro

Although cash remains the most important means of payment, digital payments are increasingly being used by European consumers.⁷⁸ The most important factors encouraging the digitalisation of payments are changes in consumer behaviour, most notably the rise of online shopping, and consumers' increased expectations with regard to the efficiency of means of payment. Banka Slovenije's assessment is that further innovations in the area of payments will continue to reduce the use of cash, while there are risks that the large tech firms, whose business models are based on identifying and exploiting users' personal data, will become the largest payment service providers. At the same time there is a chance that mass use will begin of means of payment whose issuers and service providers most often operate outside the existing legal frameworks of banking and finance. Banka Slovenije is therefore involved in the drafting of common European legislation to regulate the area of digital finance.

⁷⁸ <https://www.ecb.europa.eu/press/pr/stats/paysec/html/ecb.pis2019~71119b94d1.en.html>

In the Eurosystem we began making intensive preparations in 2020 for the possibility of issuing a digital euro, which will grant end users access to adjusted central bank money in digital form. According to the *Report on a digital euro*⁷⁹ issued in October 2020, a digital euro would speed up the digitalisation of the European economy and would help maintain European sovereignty, while at the same time it would prevent the realisation of risks in connection with the declining use of cash. The current expectations are that supervised financial intermediaries would be involved in the distribution and the provision of services in connection with the digital euro, while issuing the digital euro and building the basic infrastructure would be the responsibility of the Eurosystem. The proposed division of roles would grant the public simple access to the digital euro, while competition between financial intermediaries could drive the creation of advanced, secure, cost-effective and user-friendly payment solutions with a common basis, namely the digital euro.

Banka Slovenije is aware that the issuance of a digital euro could have a significant impact on society as a whole, which is why we invited members of the profession and the general public to participate in the Eurosystem's public discussion with regard to the expected attributes of the digital euro held between October 2020 and January 2021. We aim to ensure that a digital euro that complements and coexists with cash serves the needs of its users, meets the technological expectations, and is supported with the right legislative foundation. The final decision on the potential issuance of a digital euro is expected to be taken by the Eurosystem in the next few years.

Banka Slovenije's representatives are fully involved in the Eurosystem's activities, and are bringing their expertise to bear in influencing the decisions on the digital euro. At the same time we are keeping the public in Slovenia fully informed about the Eurosystem's progress towards a digital euro. The main presentations on the digital euro in 2020 were for professional audiences, but in 2021 there will be a number of media-supported events.

⁷⁹ <https://www.ecb.europa.eu/euro/html/digitaleuro-report.en.html>

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 2020). 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.

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 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.

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.

3.9 MANAGEMENT OF BANKA SLOVENIJE'S FINANCIAL ASSETS

Banka Slovenije's financial assets amounted to EUR 4 billion at the end of 2020.

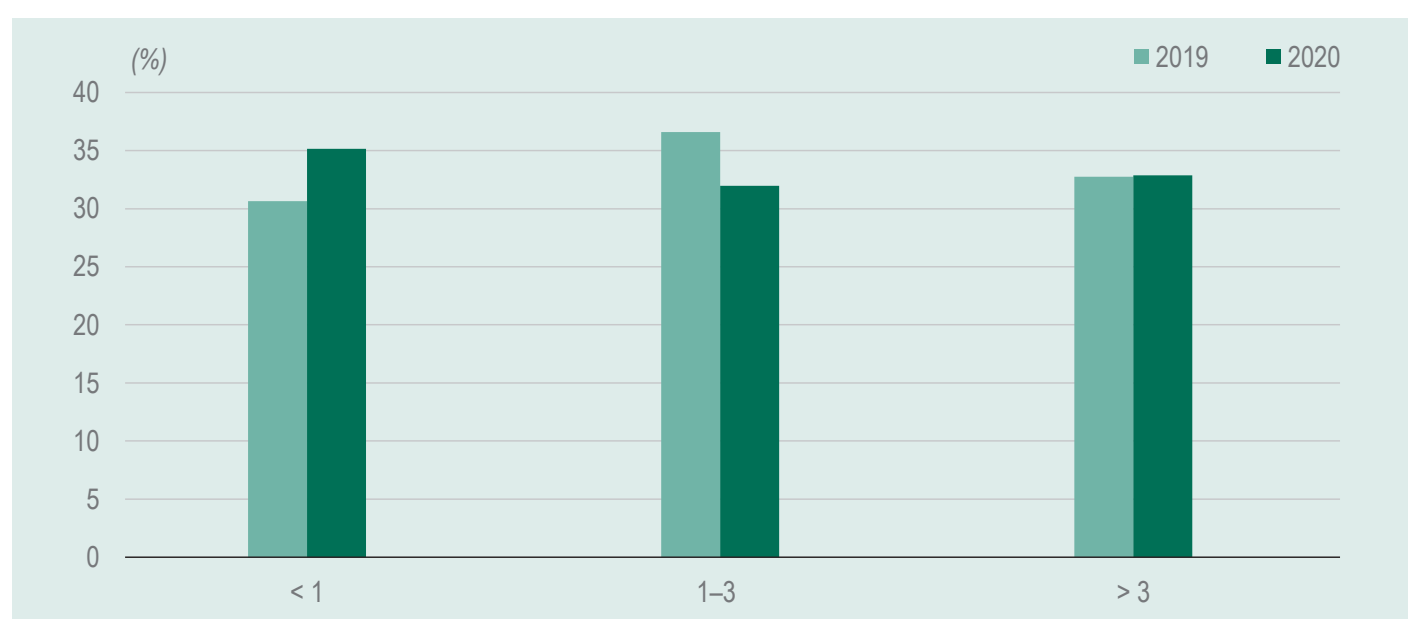
Banka Slovenije manages its own portfolio of financial assets, with the aim of strengthening its capital over the medium term, thereby helping to ensure its financial independence in performing its central banking tasks. Banka Slovenije's financial assets that are not related to the implementation of Eurosystem monetary policy amounted to EUR 4 billion at the end of 2020 (up EUR 0.1 billion on the end of 2019), of which EUR 3.3 billion was denominated in euros, and the remainder in foreign currencies.

The asset breakdown is determined on the basis of the strategic asset allocation, which is updated once a year, having regard for all limits, 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, covered, bank and corporate debt. In addition, with the aim of diversifying risks and attaining higher potential long-term returns we began investing a small portion of our financial assets in exchange-traded funds (ETFs), which match the movements of a global 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 sovereign issuer or per individual group of connected clients, 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.

There was no significant change in the currency breakdown of Banka Slovenije's portfolio of financial assets in 2020. There was a slight increase in the share of unhedged foreign reserves as the stock of currency swaps used to hedge currency exposure declined. We also intend to increase the share of unhedged foreign reserves in 2021 and 2022. The maturity breakdown of Banka Slovenije's financial assets is as follows: 35% in the bucket of up to 1 year, 32% in the bucket of 1 to 3 years, and the remainder in the bucket of more than 3 years (including holdings of equity ETFs, which have no determinate maturity). There was an increase in the proportion of Banka Slovenije's financial assets with a higher credit rating in 2020: approximately 47% of the assets were rated AAA, 22% were rated AA, and the remainder were rated below AA (including holdings of equity ETFs, which are unrated).

Figure 28: Maturity breakdown of Banka Slovenije's financial assets



Source: Banka Slovenije

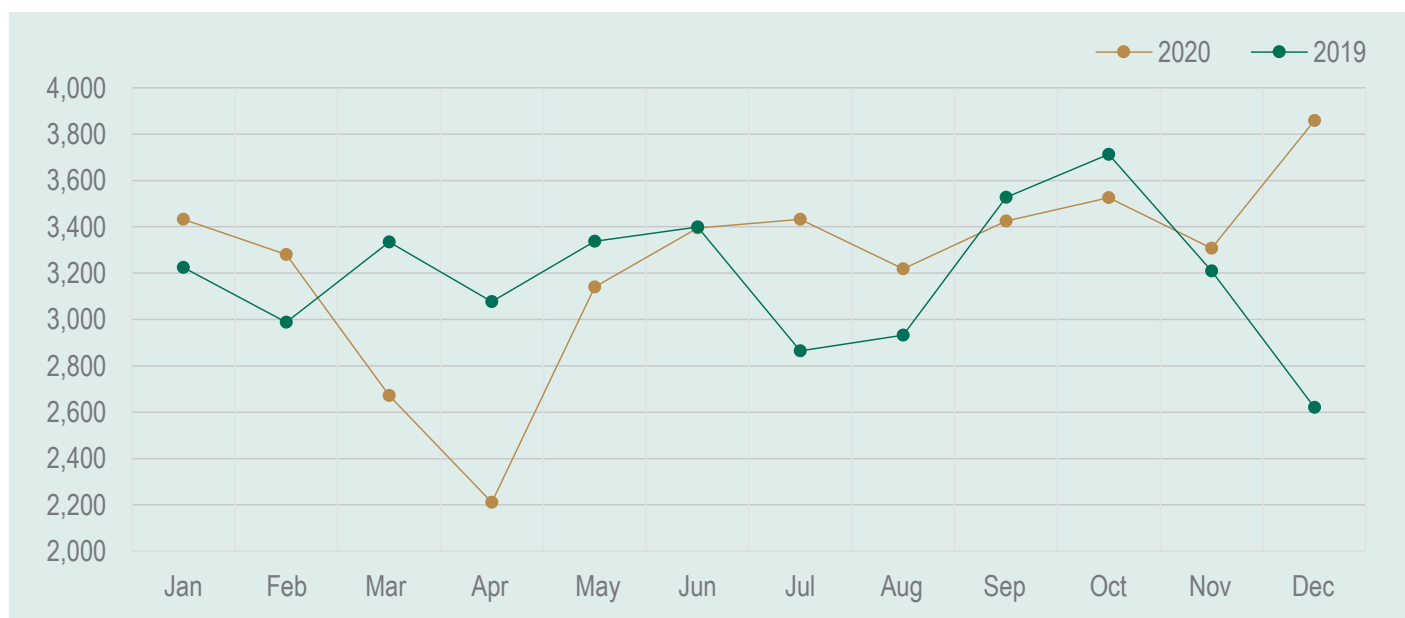
3.10 CENTRAL CREDIT REGISTER

Individuals now have the ability to view the data held on their debts in the SISBON system via the Moj SISBON mobile app.

The Central Credit Register is the central national database of the debts of individuals (SISBON) and business entities (SISBIZ), which by 31 December 2020 had processed data on the credit operations of 1,586,488 individuals and 87,539 business entities. At the end of 2020 there were 61 different creditors that had access to SISBON, of whom 38 were members (entities referred to in Article 15 of the Central Credit Register Act⁸⁰), 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 31 creditors, all with system member status, that had access to data in the SISBIZ system.

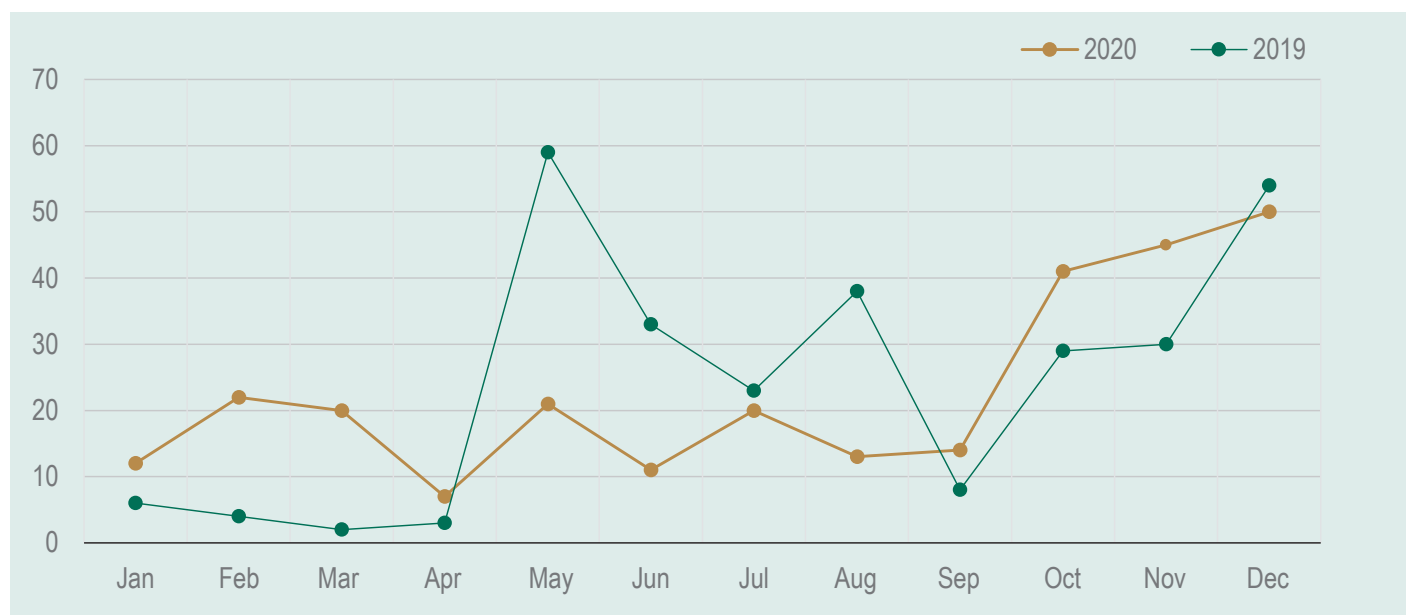
Banka Slovenije was able to ensure that the information exchange system functioned smoothly for system members and for included creditors, in line with the relevant legislation, while ensuring that individuals and business entities whose data is in the system were able to exercise their statutory rights with regard to their own data. Individuals were offered a new way to view their own data quickly and easily, to see what information is held about them in the SISBON system, via the Moj SISBON mobile app, and the option of an electronic transcript of their own data via a secure dedicated website. Individuals viewed their own data 37,898 times in total in 2020, of which 33,423 were via the Moj SISBON mobile app or online app, and 4,475 were orders for printed or electronic transcripts. Business entities viewed their own data 276 times, via the Moj SISBIZ online app.

Figure 29: Number of individual data subjects' viewings of their own data



Source: Banka Slovenije

⁸⁰ Central Credit Register Act (Official Gazette of the Republic of Slovenia, No. 77/16): <http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7517>.

Figure 30: Number of business entities' viewings of their own data

Source: Banka Slovenije

In 2020 the main focus in the management of the information exchange system was again on the security of the system, and on ensuring that the data processed in the system is up-to-date and complete. A complete overhaul of the system was made in October 2020 to ensure that the data in the SISBIZ system is more up-to-date and complete, in line with the regulations governing the functioning of the system. The system now includes data on the debts of business entities with other lenders in Slovenia, in addition to those at banks and savings banks. In parallel with the overhaul of the system, a regulatory requirement also began to apply, which means that lenders (SISBIZ members) are now required to submit data to the system immediately. For the purpose of ensuring greater security in the data administered in the information exchange system, audits of ten members of the SISBON system and nine members of the SISBIZ system were conducted by Banka Slovenije in 2020, within the framework of which over a hundred recommendations were made. Three additional audits of new SISBON members and 17 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.

A total of 826 complaints were submitted by individuals in 2020 in connection with the accuracy of the data in the SISBON system (down 18.9% on the previous year), equivalent to 0.05% of all people whose data is administered in the system. Of these, 26.3% were upheld, a decrease of 2.8 percentage points relative to the previous year. The nature of the complaints is unchanged from previous years: more than 90% of complaints still pertain to the non-reporting or erroneous reporting of the closure of a transaction by system members.

3.11 PAYMENT SERVICES FOR BANKA SLOVENIJE CLIENTS

Banka Slovenije enables its clients to execute credit transfers, including instant payments, and direct debits. A total of more than 51 million transactions were executed in 2020.

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, the Health Insurance Institute and the Pension and Disability Insurance Institute (included in the single treasury account system) 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.

In addition to the single treasury accounts, we also manage purpose-specific current accounts of the government and other budget spending units, and provide payment bank services for the Ministry of Finance and manage a cash account for it in the TARGET2-Securities system. KDD also holds accounts at Banka Slovenije: the guarantee fund account, the fiduciary account for custody services, and the current account for own resources. Foreign financial institutions and EU institutions are also Banka Slovenije clients.

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 had 193 clients at the end of 2020, who held 201 accounts between them. This was less than at the end of 2019, four municipalities having closed their single treasury accounts after they transferred payments to the government's single treasury account system. Banka Slovenije executed more than 51 million transactions, of which 94% were credit transfers, including instant payments, while the remainder were direct debits.

The number of transactions was down just over 1% on 2019, as a result of a fall in the number of inward transactions, while total transaction value rose by just under 10%. The vast majority of transactions were processed automatically. Manual transactions are continuing to decline, and accounted for less than 1% of the total number.

The fully automatic transactions include instant payments, which are executed 24 hours a day, every day of the year, and are received in the payee's account just a few seconds after the payment is ordered by the payer. We take the role of recipient bank for domestic instant payments, and have been providing these services to clients since April 2020. This is helping to establish domestic instant payments, and is improving the user experience, as it allows payers who are customers of other banks in Slovenia to settle their liabilities to the government on a 24/7/365 basis. Further development of instant payments is anticipated in 2021. Joining TIPS will also enable clients to receive cross-border instant payments.

3.12 STATISTICS

All regular tasks on monetary and financial statistics, external statistics, national financial accounts statistics and other statistics, including publication and the comprehensive provision of statistics to users, **were carried out successfully by Banka Slovenije in 2020, despite the epidemic.** The only major disruptions were the postponement of the audit of external statistics, because of the late submission of annual accounts to AJPES, and the household finance and consumption survey.

3.12.1 Statistics of financial institutions and markets

Two updates to the guidelines on reporting by monetary financial institutions were issued. The amendments issued in June related to the introduction of new fields for the purpose of monitoring borrowers' liquidity difficulties caused by the Covid-19 epidemic in Slovenia. October's amendments related to a change in reporting on the attributes of new household loans, where a report on moratoria and non-performing loans at the end of each quarter was added. All of the changes were agreed in advance and coordinated at Banka Slovenije, and then with the banks and the Bank Association of Slovenia.

In pension fund statistics the previous data collection was replaced with more itemised financial data from pension funds under the Regulation on statistical reporting requirements for pension funds (ECB/2018/2). This began with the reporting of the assets of pension funds in February 2020 for the reference period of Q3 of 2019, and was later updated with the data for the liabilities of pension funds and the number of pension scheme members.

Given the need to include reporting for alternative investment funds in the investment fund statistics, the relevant discussions were held with the SMA.

After several years of preparations and coordination, the Regulation amending Regulation (EU) No 1409/2013 on payments statistics (ECB/2013/43) (ECB/2020/59) was adopted in December 2020, and introduces extensive additional data requirements. Banka Slovenije briefed reporting entities regularly about the process, and at the end of 2020 began preparations for the updated reporting.

Having been put in place in 2019, the reporting of data on payment frauds proceeded well for both input and output data. The additional data requirements were also updated, and will first be reflected in the report for the second half of 2020.

3.12.2 External statistics

In September Banka Slovenije published a revision of its statistics on the balance of payments, the international investment position and the external debt for the period since 2009, with a three-month delay. The difficulties faced by economic entities during the Covid-19 epidemic meant that annual reports were submitted late to AJPES, which caused a delay in the reporting and processing of data for external statistics at Banka Slovenije. The majority of the revisions had no significant impact on the current and financial account positions, but relate more to reallocations within items.

Detailed data from the two-year series (2017 and 2018) of international tax exchange on the assets of individuals held at foreign financial institutions was available for the first time at the FARS. This allowed for the partial reclassification of types of household assets in the rest of the world. It was also possible to add greater detail to the definition of the previously overstated stock of deposits at financial institutions in the rest of the world, and to reclassify the difference as other assets of the sector. This is a neutral change for the net international investment position, with a reduction in currency and deposits and an increase in other assets.

During the revision we used data on the allocation of investments in foreign securities from the ESCB's centralised securities database for the first time, and stopped using the previous central bank sources. The main impact of this change was a reallocation between investments in foreign equities (shares in firms other than investment funds) and investments in foreign investment funds.

The Covid-19 epidemic made it more difficult to calculate items in connection with travel services. Travel was among the worst-hit sectors of foreign trade, because of border closures. The scheduled surveys of foreign travellers and their spending were not conducted, and the survey of travel by the domestic population yielded highly unreliable data in these circumstances. Banka Slovenije therefore worked intensively with central banks in the Eurosystem, through conferences of analysts and the bilateral exchange of current data.

3.12.3 Financial accounts statistics

The Covid-19 epidemic also had an impact on data collection and the compilation of the financial accounts, but did not prevent high-quality accounts from being prepared on time, and submitted to the ECB and Eurostat.

A revision to the financial accounts data for 2019 was made, with the purpose 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.

Additional data collection with regard to individual measures to alleviate the economic and social impact of the epidemic was introduced as part of our work within Eurostat and the ECB. Banka Slovenije participated in the EDP statistics working group working on the preparation of methodological instructions for booking of measures, and in the pilot project of reporting measures to Eurostat and the ECB.

3.12.4 Other statistics and activities

After several years of preparations and coordination, Slovenia joined the Statistical Data Dissemination Standard (SDDS) Plus in early February 2020. This is the highest tier of statistical reporting set out by the IMF. It covers the data of real sector, the fiscal sector, the financial sector and the rest of the world sector. The changeover from the previous SDDS, under which Banka Slovenije has provided data for more than 20 years in conjunction with the Ministry of Finance and the SORS, to the higher standard run in good collaboration with the two aforementioned institutions, under our coordination.

Banka Slovenije has modernised its Data Series pages, which allow users to independently download their own data transcripts. Our updated data series feature new organisation of the time series, a modernised user interface, the option to save enquiries, the option to draw graphs, and the option of downloading longer time series.

Banka Slovenije again conducted a survey on the access to finance of enterprises in conjunction with SID banka. Questions about the epidemic's impact on firms were added. The survey provides an overview of the availability of external financing at firms.

We also made all preparations for surveying (programming the questionnaire, testing the questionnaire, training surveyors, etc.) **as part of the ESCB household finance and consumption survey, which is conducted every three years.** The Covid-19 caused that only some of the surveying fieldwork (approximately 40%) could be conducted. It will be completed as soon as circumstances allow.

4 BANKA SLOVENIJE COOPERATION WITH OTHER INSTITUTIONS AND EXPERT GROUPS



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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 Board⁸¹ (FSB) again discussed systemic risks in 2020, and was briefed on supervisors' macroprudential measures and actions taken to meet the ESRB's recommendations. A recommendation on the restriction of profit distributions by financial corporations (OFS/2020/1)⁸² was issued with the aim of ensuring that the financial system retains the highest level of capital to withstand potential losses, and to further ensure the stable supply of financial services to households and businesses. Other subjects discussed in connection with Banka Slovenije's work included the establishment of simplified obligations for recovery plans under the ZBan-2, adjustments to the macroprudential restrictions on household lending, and AML/CFT activities in 2019 and 2020. An FSB climate risk taskforce was also established.

In 2020 the FSB's fintech and cyber security taskforce discussed the impact of fintech on banking and cooperation with the fintech industry, quantum computing, AI, blockchain technology, distributed ledgers, central bank digital currencies and the digital euro, the creation of the conceptual model of systemic cyber risk, and analysis of various scenarios of cyberattacks on the financial system.

Banka Slovenije representatives took part in meetings of the **Committee for Cooperation between Supervisory Authorities** (Banka Slovenije, Ministry of Finance, Securities Market Agency, Insurance Supervision Agency) in 2020. The meetings discussed the following:

- legislative innovations in the financial realm;
- the financial sector's response to the spread of Covid-19 and the measures put in place by supervisory authorities to alleviate the impact of the epidemic;
- joint inspections and major individual inspections by supervisory authorities at supervised entities;
- major decisions and discussions by the EBA's Board of Supervisors, the SSM, the ESMA and the EIOPA; and
- other subjects of relevance to supervisory authorities.

⁸¹ [Financial Stability Board \(bsi.si\)](https://bsi.si).

⁸² The text can be found online (in Slovene) [here](#).

At Banka Slovenije's proposal, updated agreements were signed in December on cooperation with the Securities Market Agency and the Insurance Supervision Agency.

As part of its mission, the **National Payments Council**⁸³ (NPC) was briefed in 2020 on the European Commission's new strategy for retail payments and on the Eurosystem's activities in connection with the potential issuance of a digital euro. The issue of the grey economy was also debated in two meetings. In the context of links between the grey economy and various means of payment, and on the basis of examples of best practice in the fight against the grey economy abroad, the NPC is planning to put forward concrete proposals to the competent institutions.

The NPC is also monitoring developments in the digitalisation of payments, and accordingly on 4 March 2020 Banka Slovenije, which chairs the NPC, organised a public panel discussion⁸⁴ on various aspects of the development of open banking and unresolved issues.

As part of the European Commission's tender of technical support for structural reforms in EU Member States, in autumn 2020 we submitted an application for EU funding for a project to analyse the payments market in Slovenia, which is a priority and will form the basis for the NPC's actions in the future. We received word from the European Commission on 26 December 2020 that funding had been approved for the project. The project is scheduled to begin in mid-2021, and is expected to be completed by the end of 2022.

In 2020 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.

Last year the **Economic and Financial Committee** (EFC) discussed economic and financial developments, the response to the crisis, issues relating to the banking union and capital markets union, non-performing loans and the international role of the euro.

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 2020 in connection with the excessive deficit procedure, the quality of the indicators for the macroeconomic imbalances procedure, the exchange of confidential information, a harmonised European auditing policy, the asymmetry of foreign investment, LEIs 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 the ESRB has issued a total

As part of its programme of structural reforms, the European Commission approved funding for analysis of the payments market in Slovenia.

⁸³ [National Payments Council \(bsi.si\)](https://bsi.si)

⁸⁴ [Panel discussion on open banking \(bsi.si\)](https://bsi.si)

of 17 recommendations via which European macroprudential policy is to be implemented at national level. The ESRB recommendations addressed to national macroprudential authorities that are still in the process of being implemented relate to the closure of real estate data gaps (Recommendation ESRB/2016/14, amended by Recommendation ESRB/2019/3), to the exchange and collection of information on branches of credit institutions having their head office in another Member State or in a third country (Recommendation ESRB/2019/18), to monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the Covid-19 pandemic (Recommendation ESRB/2020/8), and to restriction of distributions during the Covid-19 pandemic (Recommendation ESRB/2020/7, amended by Recommendation ESRB/2020/15). Some of the already implemented ESRB recommendations require periodic reporting on the measures taken to limit or prevent the build-up of systemic risks. An example is the ESRB recommendation on recognising and setting countercyclical buffer rates for exposures to third countries (Recommendation ESRB/2015/1). The recommendation on liquidity and leverage risks in investment funds (Recommendation ESRB/2017/6) was issued by the ESRB to European institutions, and is still undergoing implementation. The effectiveness of macroprudential policy also depends on limiting the potential adverse cross-border effects of the spillover of national measures, for which reason Banka Slovenije representatives work closely with the macroprudential authorities of other Member States.

In recent years Banka Slovenije has received European Commission **technical assistance** under the aegis of the programme to support structural reforms in EU Member States. Work to assist the creation of an effective data management system thus continued in 2020. Banka Slovenije staff take part in programmes of technical assistance to other central banks and supervisory institutions. In 2020 they provided assistance to the central bank of Serbia in the area of accounting, and to the central bank of North Macedonia in the area of compliance with European ethical standards and principles.

Work continued in 2020 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 because of the epidemic, and some activities were postponed until the next year.

Banka Slovenije and the IMF entered into a new loan agreement.

Banka Slovenije is also responsible for representing Slovenia in certain other international institutions.⁸⁵ **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 SDR 586.5 million⁸⁶ at the

⁸⁵ [International institutions \(bsi.si\)](https://bsi.si/en/international-institutions).

⁸⁶ Special drawing rights (SDRs) are a unit of account whose value is based on a basket of five currencies (US dollar, euro, renminbi, Japanese yen and pound sterling).

end of 2020, or 0.12% of the total IMF quota. A Banka Slovenije delegation participated in the annual and spring meetings of the IMF and the World Bank in 2020, which were held virtually. 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 epidemic, and measures to alleviate its impact on the global economy. Within the framework of Banka Slovenije's participation in the IMF's financial arrangements, a bilateral loan agreement between Banka Slovenije and the IMF was entered into in 2020, and is in force until the end of 2023, with the option of a one-year extension subject to our approval.

Slovenia also participated in financial transactions under the FTP in 2020. Slovenia's reserve tranche position at the IMF increased relative to 2019 to stand at SDR 145 million at the end of December 2020. Slovenia was called on twice to contribute funds in 2020, in the total amount of SDR 35 million.

Despite planning, no IMF Article IV consultations took place in 2020. The Covid-19 epidemic meant that IMF representatives only held short video meetings with representatives of Banka Slovenije, the Ministry of Finance and the banking sector, for briefings on the situation in the financial sector and the measures put in place at national level to alleviate the impact of the epidemic.

The IMF played an important part in the global financial system's response to the crisis. Since the outbreak of the epidemic it has succeeded in providing prompt financial support for the countries hit hardest by the economic and health crisis, using special crisis instruments. Its activities also focused on debt relief for the most vulnerable countries, and the provision of conditional financing to the countries than needed it.

The Governor of Banka Slovenije attends meetings of central bank governors of members of the Bank for International Settlements (BIS), 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, and in 2020 the focus was on policies for the use of personal data in finance, online risk in finance, and the use of big data. A Banka Slovenije representative also attended the regular meeting of the BIS Working Party on Monetary Policy in Central and Eastern Europe in 2020. 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 2020.

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.

The OECD issued its Economic Review of Slovenia in 2020, in which Banka Slovenije representatives also participated.

4.2 COOPERATION WITH DOMESTIC INSTITUTIONS

Banka Slovenije again worked with the **Ministry of Finance** in 2020 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.⁸⁷

In the adoption of legislation at EU level, we worked with the Ministry of Finance on the negotiations in connection with legislation adopted in response to the Covid-19 epidemic.⁸⁸ We were involved in the formulation of positions with regard to the next steps in the completion of the banking union, non-performing loans, and sustainability legislation. We also monitored activities in connection with the drafting of the legislative proposal for transposing Basel III into EU legislation, which represents the completion of the post-crisis reforms to prudential banking regulation.

We coordinated with the Ministry of Finance in formulating positions on the potential overhaul of the directive on settlement finality in payment and securities settlement systems and the directive on financial collateral arrangements. We also worked together on numerous proposals for delegated and implementing acts in support of primary European legislation in the areas of banking and non-bank payment service providers, and in other areas of relevance to Banka Slovenije.

At the level of the ESCB, we are involved in adopting the opinions of the ECB with regard to proposed EU acts and draft regulations submitted by the competent national authorities for consultation. An opinion of this type may also be submitted by the ECB even when it has not been directly and explicitly requested.

Banka Slovenije 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. Intensive cooperation between Banka Slovenije and the OMLP also continued within the framework of the drafting of the Act Amending the Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-1B), which transposed the 5AMLD⁸⁹ into Slovenian law, and the new Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-2). There was also intensive collaboration on

⁸⁷ 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).

⁸⁸ The CRR Quick Fix, and the recovery package for the capital markets.

⁸⁹ Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU.

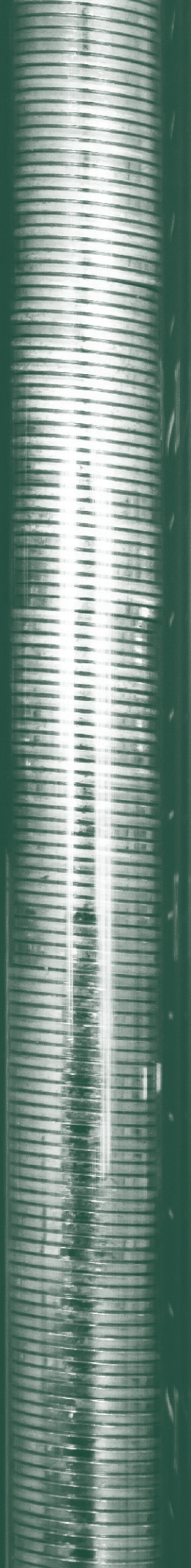
activities in connection with progress reporting within the framework of Slovenia's assessment by Council of Europe's Moneyval, and the update of the National Risk Assessment for Money Laundering and Terrorist Financing. To this end, meetings were held with the OMLP and the banks involved in the project.

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

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

Banka Slovenije's collaboration with the **Bank Association of Slovenia** (BAS) continued in 2020. 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 the emergency legislation adopted during the Covid-19 epidemic. We also cooperated with the BAS when informing banks of new developments in legislation, and of major consultations in connection with regulatory products adopted at EBA level.

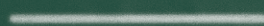
5 BANKA SLOVENIJE'S REPORTING TO THE NATIONAL ASSEMBLY



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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 2020 Banka Slovenije representatives reported to the National Assembly's finance committee during the presentation of Banka Slovenije's 2019 annual report and the Financial Stability Board's annual report. Banka Slovenije representatives also attended six sessions of National Assembly committees and commissions, where they gave clarifications and answers to deputies' questions to the finance committee (on three occasions), and to the commission for public finance control and the committee on the interior, public administration and local self-government (once each). We also attended meetings of the National Council's commission for economy, trade, tourism and finance on two occasions. Under Article 33 of the Bank of Slovenia Act, the representative of the National Assembly's finance 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 did not attend in 2020, while the finance minister attended on three occasions.

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, which stipulates that the accounts of the ECB and national central banks are audited by independent external auditors recommended by the Governing Council of the ECB and approved by the Governing Board of Banka Slovenije. The auditors are authorised to inspect all the accounts and books of account of the ECB and the national central banks, and to obtain complete information about their operations. The Governing Board of Banka Slovenije selects and proposes a candidate to go forward to the final selection procedure following the prior collection of tenders at least six months before the expiry of the contract signed with the previous auditor.



1 tolar / tolar
Potočna postrv / River trout
(*Salmo trutta fario*)

Sladkovodna riba iz družine postrvi. Živi v Sloveniji, v izvirnih predelih alpskih voda in globljih plasteh Bohinjskega jezera.

A freshwater fish in the salmon family. Lives in Slovenia, in the upper ranges of Alpine waters and in the depths of Lake Bohnj.

2 tolarja / tolar
Kmečka lastovka / Barn swallow
(*Hirundo rustica*)

Ena najbolj poznanih in tudi najbolj pričakovanih ptic pri nas, saj se z vrnitvijo lastovk s prezimovališč v Afriki v naše kraje vme tudi pomlad.

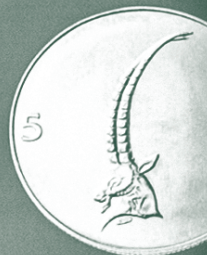
One of the best-known and most eagerly awaited bird species in Slovenia, as its return from its winter habitat in Africa marks the start of spring.



5 tolarjev / tolar
Alpski kozorog / Alpine ibex
(*Capra ibex*)

Kozi sorodna visokogorska žival. V Sloveniji je bil iztrebljen v 17. stoletju, vendar so ga leta 1902 priselili nazaj. Živi v Julijskih in Kamniških Alpah ter Karavankah.

A mountain-dwelling wild goat. Extirpated from Slovenia in the seventeenth century, it was reintroduced in 1902. It lives in the Julian Alps, the Kamnik Alps and the Karavanke.



10 tolarjev / tolar
Konj / Horse
(*Equus*)

Velik lihoprsti kopitar in ena izmed sedmih sodobnih vrst rodu *Equus*. Avtohtone slovenske pasme konj so lipicanec, posavski konj in slovenski hladnokrvni konj.

An odd-toed ungulate, and one of seven species in the *Equus* genus. Slovenia's native breeds are the Lipizzaner, the Posavec and the Slovenian Coldblood.

20 tolarjev / tolar
Storklja / Stork
(*Ciconia ciconia*)

Velik, dolgonog, dolgovrat močvirnik z dolgim krepkim kljunom iz družine *Ciconiidae*. Je neuraden simbol Prekmurja.

A large, long-legged, long-necked wading bird with a long, stout bill from the *Ciconiidae* family. It is the unofficial symbol of the Slovenian region of Prekmurje.



50 tolarjev / tolar
Bik / Bull
(*Bos taurus*)

Boškarin, znan tudi kot Istrsko govedo, je avtohtona istrska dolgoroga pasma domačega goveda.

The Boškarin bull, a longhorn breed native to Istria.

Ali ste vedeli?
Napis *Taurus taurus* je napačno. Znanstveno ime bika, upodobljenega na zadnji strani kovanca, je v resnici *Bos taurus*.

Did you know?
The Latin inscription *Taurus taurus* is incorrect. The scientific name of the bull shown on the reverse of the coin is in fact *Bos taurus*.



100 tolarjev / tolar
Rihard Jakopič
(1869–1943)

Pionir slovenskega impresionističnega slikarstva. Med njegovimi pomembnejšimi deli, ki jih hrani Narodna galerija v Ljubljani, izstopata Zeleni pajčolan in Križanke.

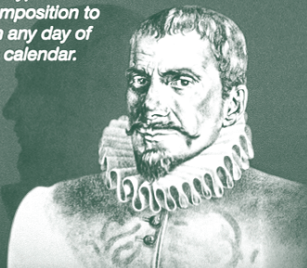
Pioneer of Slovenian impressionism. His major works displayed at the National Gallery in Ljubljana include The Green Veil and Križanke.



200 tolarjev / tolar
Jakob Petelin Gallus
(1550–1591)

Poznorenesančni slovenski skladatelj. Najbolj znan po zbirki 374 motetov. Gre za večglasno vokalno glasbeno obliko za petje, v vsakem dnevu cerkvenega leta.

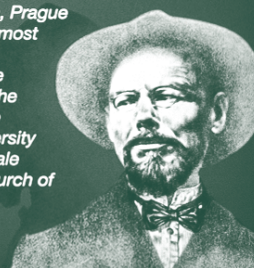
Late-Renaissance Slovenian composer. He is best known for his collection of motets, a polyphonic vocal musical composition to be sung on any day of the church calendar.



500 tolarjev / tolar
Jože Plečnik
(1872–1957)

Slovenski arhitekt. Njegovo arhitekturo najdemo na Dunaju, v Pragi in Ljubljani. Najpomembnejši opus arhitekture v Ljubljani tvorijo: Tromostovje, arkade z mestno tržnico in ribarnico, stavba NUK, mestno pokopališče Žale ter cerkev na Barju.

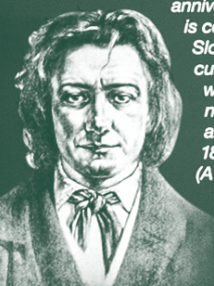
Slovenian architect. His work can be found in Vienna, Prague and Ljubljana. His most important designs in Ljubljana include the Triple Bridge, the market arcade, the National and University Library building, Žale Cemetery, and Church of St Michael in the Barje region.



1000 tolarjev / tolar
France Prešeren
(1800–1849)

Slovenski pesnik. Obletnico njegove smrti praznujemo kot osrednji državni kulturni praznik. Del njegove pesmi Zdravljica, ki je nastala leta 1844, je besedilo državne himne Republike Slovenije.

Slovenian poet. The anniversary of his death is celebrated as Slovenia's main cultural holiday. The words to Slovenia's national anthem are taken from his 1844 poem Zdravljica (A Toast).



5000 tolarjev / tolar
Ivana Kobilca
(1891–1926)

Slovenska slikarka. Danes velja za najpomembnejšo slovensko slikarko, njeno zbirko hrani Narodna galerija. Štejemo jo h generaciji slovenskih realistov. Njena najpomembnejša dela so Kofetarica, Poletje, Pariška branjevka, avtoportret s pastelom.

Slovenian painter. Now considered Slovenia's most prominent female painter, there is a collection of her work in the National Gallery. She was part of a generation of Slovenian realists, and her most important works include The Coffee Drinker, Summer, Paris Woman Selling Vegetables, and Self-Portrait with Palette.



10000 tolarjev / tolar
Ivan Cankar
(1876–1918)

Slovenski pisatelj, esejist, dramatik in pesnik. Spada med štiri predstavnike slovenske moderne. Njegova najpomembnejša dela so Za narodov blagor, Hlapci, Na Klancu, Hiša Marije pomočnice in pesniška zbirka Erotika.

Slovenia author, essayist, playwright and poet. He is considered one of the four greats of modernism in Slovene literature. His most important works include For the Welfare of the Nation, Serfs, On the Hill, The Ward of Mary Help of Christians, and Erotika, a collection of poetry.



SLOVENIJE

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

6.1 DECISION-MAKING BODIES

According to the Bank of Slovenia Act, Banka Slovenije's decision-making bodies are the Governor and the Governing Board of Banka Slovenije. The Governing Board comprises five members: the Governor and four vice-governors. The Governor is the president of the Governing Board.⁹⁰ The Governor of Banka Slovenije acts as its statutory representative, directs its business, organises its work, executes the decisions of the Governing Board, and issues individual and general bylaws of Banka Slovenije that are not the responsibility of the Governing Board. The Governor may also issue guidelines for implementing resolutions by the Governing Board.

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

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

As at 31 December 2020, 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.

One vice-governor position was vacant at the end of 2020 following the resignation of one member of the Governing Board.

6.2 WORK OF THE GOVERNING BOARD OF BANKA SLOVENIJE IN 2020

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.

⁹⁰ Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, Nos. [72/06](#) [official consolidated version], [59/11](#) and [55/17](#)).

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

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

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

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

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

The members of the Governing Board convened at 19 ordinary meetings and 17 correspondence sessions in 2020. The Governing Board discussed a total of 496 agenda items in 2020, most often in the area of banking supervision and licensing, as is the case every year, followed by the areas of economic and monetary policy, financial stability and statistics, payment and settlement systems, and cash operations.

6.3 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.

6.3.1 Media and other public communications

In 2020 we fielded and answered a total of more than 800 questions from journalists, and issued 68 press releases, 83 Banka Slovenije publications and four ECB publications. Banka Slovenije representatives took part in seven major interviews, issued four statements for TV and radio, and organised three press conferences, three informal meetings for journalists, a public statement and two briefings for journalists. We also organised three panel discussions involving representatives of the profession and the media.

In 2020 all areas of communications were dominated by the epidemic, which was also reflected in the questions addressed to us by journalists. There were frequent questions about measures in connection with the epidemic, in particular the loan moratorium, the economic impact of the crisis, and our forecasts. In the second half of the year there was also a good deal of reporting about the European Commission's legal action against Slovenia and Banka Slovenije's conduct in connection with the bank recovery and resolution process. The media were also interested in economic forecasts, bank performance, and the real estate situation.

The media published a total of 2,700 stories in connection with Banka Slovenije in 2020, approximately 225 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 27% of all media stories on Banka Slovenije in 2020, while TV and radio were responsible for the remaining 9%.

In addition to media questions, in 2020 Banka Slovenije received and responded to more than 1,320 questions from the general public, individuals and businesses alike. The questions related to the interpretation of the anti-coronavirus laws, where customers of commercial banks in particular had questions about the loan moratorium, while the end of the year saw huge interest in the purchase of the 2020 coin collections, which went on sale on 23 December. As usual we also answered a large number of questions in connection with exchanging foreign currencies at Banka Slovenije counters, replacing damaged banknotes, and cashing cheques.

6.3.2 Publications

Last year was more than usually busy for Banka Slovenije in terms of publications. All its key publications were issued:

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

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

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.

The following statistical reports were also issued: the Bulletin, the Monthly report on bank performance, the Financial accounts and Direct Investment.

The epidemic resulted in the release of four additional publications in 2020, which analysed the epidemic's impact on the Slovenian economy, the banking system, cash operations and card operations.

There was also a higher-than-usual number of research papers as part of the Banka Slovenije Working Papers and Discussion Papers. Some 14 research papers were published in the two collections, including the Report on climate risks in Slovenia 2020, which demonstrates once again that the fight against climate change is a subject of growing importance to the ESCB.

6.3.3 Education and training

Banka Slovenije organised the Generation Euro competition for the ninth consecutive year in 2020, 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 epidemic meant that last year's third round was held virtually, but all the finalists nevertheless showed a high level of knowledge and innovation, despite the circumstances. The winning team in 2019/20 was NE!, from the St Stanislaus Institute, a traditional grammar school in Ljubljana.

As we have done every year, in 2020 we again awarded prizes for the best master's and doctoral theses in the areas of economics, banking, insurance, finance and financial law. We awarded prizes for five final dissertations.

The epidemic also impacted education programmes last year. There were fewer of the seminars that we organise in conjunction with the University of Ljubljana's School of Economics and Business. There was also a notable fall in attendance at our education days. We hosted students from primary schools, secondary schools and universities in January and February, before switching to online education programmes in the autumn, and fundamentally overhauling certain content. Last year our education days attracted about 500 participants in total.

6.3.4 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. Like all of its counterparts, the Banka Slovenije library faced certain major challenges for the first time in 2020. It was closed to external borrowing between March and December. 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. With the exception of actual book lending, almost all of our activities in 2020 were moved onto the library's intranet page. This is only available to Banka Slovenije staff, i.e. internal users. Banka Slovenije published 191 e-books, and forwarded 230 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 32 print versions of books and 135 serial publications (financial journals and foreign dailies specialising in economics and finance). Banka Slovenije staff borrowed 166 books on interlibrary loans. Subscriptions were renewed for 21 different databases used by staff members in their work.

6.3.5 Mala galerija Banke Slovenije

Like all cultural institutions, the Mala galerija was deeply affected by the Covid-19 epidemic last year, and had to be closed to visitors several times. We nevertheless succeeded in realising the majority of the scheduled programme. Of the eight exhibitions planned, seven went ahead under the programme: six of these were held in 2020, while the final exhibition was postponed until January 2021. During the periods when the gallery space was open, the exhibitions were well-attended considering the epidemic situation: approximately 1,500 visitors came in all.

While the space was closed, access to the gallery's content was maintained by promoting online access, particularly on social media, for which specially tailored content was produced to make content available to those unable to visit because of containment measures. We therefore created regular video content, video openings and video guides and presentations, where the aim was to provide as much comprehensive and detailed information about the exhibitions as possible.

Photograph 4: Exhibition Studies for Maturity**Box 10: Banka Slovenije museum**

The Banka Slovenije museum was established in 2020, and is designed to help all generations learn about the work of Banka Slovenije and its place in the Eurosystem. One section of the museum is dedicated to exhibits of the coins and banknotes used by Slovenia since independence, while another section showcases Banka Slovenije's key tasks. Visitors can learn, in instructive but fun ways, how Banka Slovenije 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. Alongside traditional exhibits, the museum also features instructive games, interactive material, and audiovisual content. The opening of the Banka Slovenije museum is planned for spring 2021.

Photograph 5: Exhibits in the Banka Slovenije museum

6.4 RISK MANAGEMENT

Risk management is monitored and overseen on the basis of a structured systemic approach 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. 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, as described by the overall risk management framework. The functioning of the system ensures the identification of risks that could endanger the realisation of our strategic and other objectives. The risk management framework defines the main strategic elements of the risk management system, and represents the starting point for subordinate bylaws, policies, methodologies and guidance for managing the identified types of risk.

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

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



Source: Overall risk management framework at Banka Slovenije

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

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

The risk management department is connected to two Banka Slovenije committees holding risk management powers: the risk committee and the investment committee. The risk committee met eight times last year to discuss 33 agenda items, mainly in the areas of operational risk and information security. The investment committee met 15 times to discuss 120 agenda items, mainly in connection with the management of Banka Slovenije's financial assets.

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

6.5 AUDIT COMMITTEE

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

The Audit Committee met 11 times in 2020, discussing 79 agenda items, including 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 2019. Although Banka Slovenije is not subject to the requirements of Regulation (EU) No 537/2014 and Directive 2014/56/EU (which apply to audits of public-interest entities), after conducting the closing audit the external auditor revised the audit report in 2020 (as in 2018 and 2019) in accordance with Article 11 of the aforementioned regulation, which prescribes mandatory elements for an additional report to the Audit Committee.⁹¹

In 2020 the Audit Committee was also briefed on Banka Slovenije's activities in connection with the Court of Audit of the Republic of Slovenia, the findings of the audit report on Banka Slovenije's performance in 2017 and 2018, and proposals by Banka Slovenije staff with regard to the implementation of the Court of Audit's recommendations.

The Audit Committee was also briefed on reports on the work of the Internal Audit Department and a report on an internal quality assessment of the work of the Internal Audit Department, issued opinions with regard to all audit engagements, followed up the implementation of internal audit recommendations, and discussed the procurement documents for the selection of the external auditor for the period from 2021 to 2023, and the reports of the whistleblowing commission at Banka Slovenije.

6.6 BANKA SLOVENIJE'S PERFORMANCE IN 2020

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

⁹¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0537>.

6.6.1 Balance sheet developments in 2020

The balance sheet total stood at EUR 26.0 billion as at 31 December 2020, up EUR 7.2 billion on the end of 2019. On the asset side, there were increases of EUR 3.5 billion in net purchases of securities for the implementation of monetary policy, and EUR 0.4 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 10.5 billion).

On the liability side, there were increases in current account balances of banks (by EUR 2.7 billion), euro deposits by the government sector and other clients (by EUR 2.2 billion) and banknotes in circulation (by EUR 0.6 billion). There was an increase of EUR 1.5 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 3.3 billion).

6.6.2 Financial performance in 2020

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 150.1 million in 2020, up EUR 10.4 million on the previous year, 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 19.2 million. Banka Slovenije marks its positions to market at the end of the year, disclosing the negative revaluation effects as an expense. These expenses amounted to EUR 19.0 million in 2020, 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 50.9 million. Net fees and commission (EUR 12.7 million), income from participating interests (EUR 12.2 million), the net result from the combination of Eurosystem monetary income (minus EUR 4.5 million) and other income (EUR 2.1 million) amounted to EUR 22.5 million in 2020. Operating costs amounted to EUR 40.9 million in 2020. Banka Slovenije thus generated a surplus of income over expenses in the amount of EUR 81.0 million. The distribution of the surplus will be carried out in line with the applicable legislation.

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

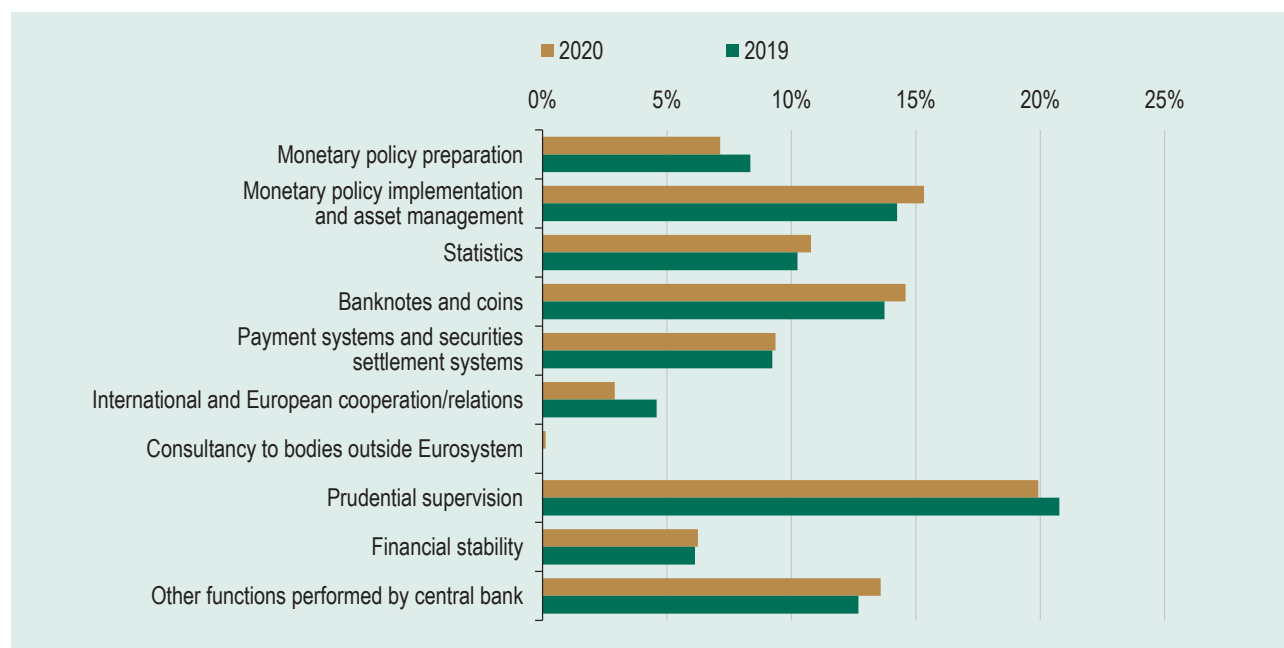
| YEAR | SURPLUS | STATUTORY CONTRIBUTIONS TO STATE BUDGET | CONTRIBUTION TO STATE BUDGET |
|---------------|---------|---|------------------------------|
| 2016 | 57.3 | 14.3 | 43.0 |
| 2017 | 70.7 | 17.7 | 17.7 |
| 2018 | 63.4 | 15.9 | 15.9 |
| 2019 | 180.7 | 45.2 | 45.2 |
| 2020 | 81.0 | 20.2 | 20.2 |
| Skupaj | | | 141.9 |

Source: Banka Slovenije

6.6.3 Operating costs

Banka Slovenije's operating costs are the result of the implementation of its tasks set out by law. Figure 31 illustrates the percentage allocation of costs by task. In addition to direct costs, these include the imputed indirect costs of support functions (information technology, accounting, legal services and similar internal services).

Operating costs amounted to EUR 40.9 million in 2020, up EUR 1.0 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, and amounted to EUR 27.4 million in 2020 (compared with EUR 26.2 million in 2019). The increase was the result of a rise in the basic wage in accordance with the agreement on the indexation of the basic wage for the 2019 to 2020 period, the introduction of organisational changes, and changes in staff qualifications structure caused by turnover and promotions. Banknote printing costs, amortisation and depreciation of non-current assets and other costs amounted to EUR 13.5 million, down EUR 0.2 million on 2019.

Figure 31: Itemisation of costs by individual task

Source: Banka Slovenije

Table 6: Year-end balance sheet, 2016 to 2020, EUR million

| ASSETS | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---------------|---------------|---------------|---------------|---------------|
| 1. Gold and gold receivables | 112 | 111 | 115 | 138 | 158 |
| 2. Claims on non-euro-area residents denominated in foreign currency | 591 | 630 | 699 | 763 | 911 |
| 3. Claims on euro area residents denominated in foreign currency | 260 | 152 | 94 | 37 | 33 |
| 4. Claims on non-euro-area residents denominated in euro | 1,217 | 1,199 | 1,224 | 1,365 | 1,209 |
| 5. Lending to euro area credit institutions related to monetary policy operations denominated in euro | 714 | 1,142 | 1,102 | 995 | 1,377 |
| 6. Other claims on euro area credit institutions denominated in euro | 201 | 2 | 0 | 0 | 0 |
| 7. Securities of euro area residents denominated in euro | 8,274 | 10,656 | 11,290 | 11,355 | 14,888 |
| 8. General government debt denominated in euro | – | – | – | – | – |
| 9. Intra-Eurosystem claims | 956 | 282 | 1,564 | 3,748 | 7,024 |
| 10. Items in course of settlement | – | – | – | – | – |
| 11. Other assets | 340 | 325 | 342 | 412 | 396 |
| Total assets | 12,666 | 14,498 | 16,429 | 18,815 | 25,995 |
| LIABILITIES | 2016 | 2017 | 2018 | 2019 | 2020 |
| 1. Banknotes in circulation | 5,085 | 5,286 | 5,559 | 5,740 | 6,355 |
| 2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro | 2,249 | 2,939 | 3,391 | 4,348 | 7,097 |
| 3. Other liabilities to credit institutions denominated in euro | 3 | – | – | – | 17 |
| 4. Debt certificates issued | – | – | – | – | – |
| 5. Liabilities to other euro area residents denominated in euro | 2,018 | 2,531 | 3,780 | 3,416 | 5,735 |
| 6. Liabilities to non-euro-area residents denominated in euro | 20 | 73 | 63 | 134 | 34 |
| 7. Liabilities to euro area residents denominated in foreign currency | 78 | 56 | 5 | 6 | 6 |
| 8. Liabilities to non-euro-area residents denominated in foreign currency | – | – | – | – | – |
| 9. Counterpart of special drawing rights allocated by the IMF | 275 | 256 | 262 | 266 | 254 |
| 10. Intra-Eurosystem liabilities | 1,223 | 1,646 | 1,502 | 2,815 | 4,333 |
| 11. Items in course of settlement | – | 1 | – | – | – |
| 12. Other liabilities | 147 | 113 | 137 | 145 | 109 |
| 13. Provisions | 457 | 515 | 594 | 573 | 622 |
| 14. Revaluation accounts | 151 | 94 | 103 | 163 | 189 |
| 15. Capital and reserves | 903 | 917 | 970 | 1,027 | 1,163 |
| 16. Surplus of income over expenses for the current year | 57 | 71 | 63 | 181 | 81 |
| Total liabilities | 12,666 | 14,498 | 16,429 | 18,815 | 25,995 |

Source: Banka Slovenije

Table 7: Profit and loss account, 2016 to 2020, EUR million

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|------|------|------|------|------|
| 1. Net interest income | 78 | 105 | 133 | 140 | 150 |
| 2. Net result of financial operations, write-downs and risk provisions | -22 | -38 | -84 | 31 | -51 |
| 3. Net income from fees and commissions | 6 | 8 | 10 | 11 | 13 |
| 4. Other income | 29 | 33 | 42 | 39 | 10 |
| 5. Operating costs | -33 | -38 | -38 | -40 | -41 |
| Surplus of income over expenses for the current year | 57 | 71 | 63 | 181 | 81 |

Source: Banka Slovenije

6.6.4 Human resources

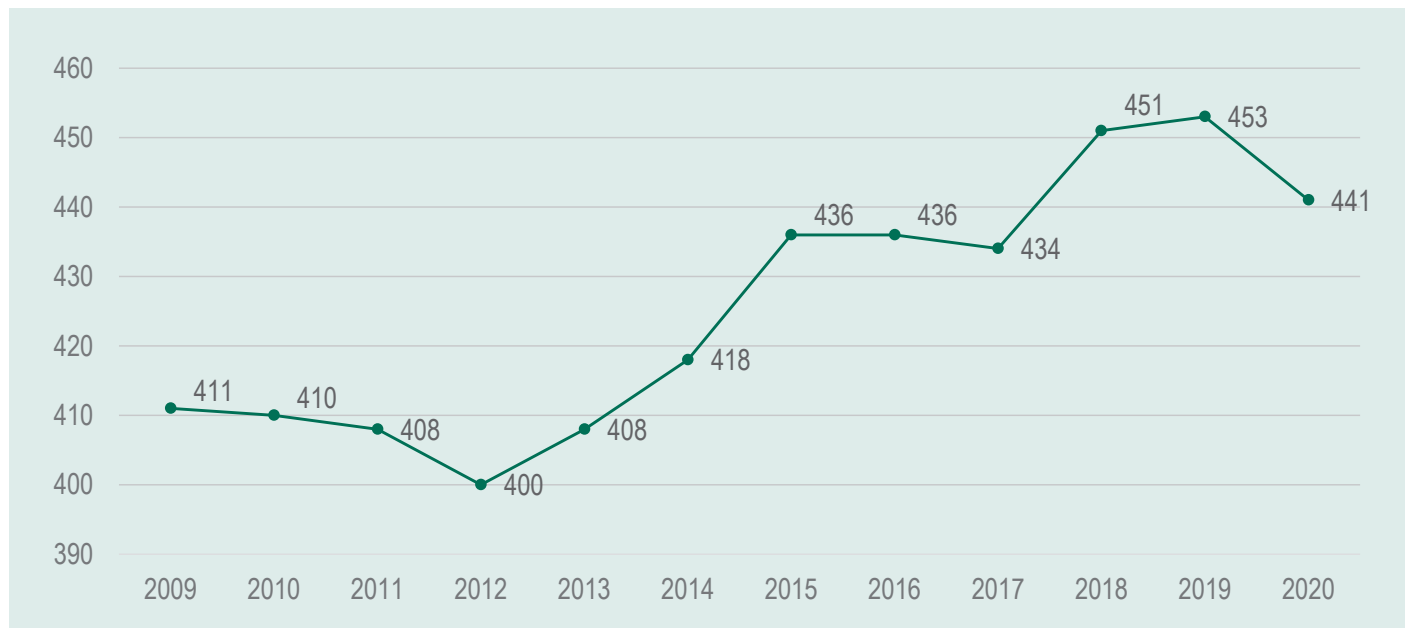
In the exercise of its public powers and tasks, staff at Banka Slovenije endeavour to uphold the highest standards of ethical conduct, in line with the common guidelines and values established within the framework of the ESCB and the ECB. Upholding these standards is an essential prerequisite for building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

We continued to introduce new approaches and changes at the strategic and operational levels in 2020 in the area of HR and organisation. The epidemic meant that the majority of staff were working from home from March, but this had no impact on Banka Slovenije's performance. Most work moved back to the office over the summer months, but staff were again mostly working from home again after the second wave of the epidemic hit in the autumn.

We advertised 22 vacancies, to which a total of 526 candidates applied. We hired a total of 15 new staff. The greatest demand was in the areas of law, supervision, IT and analytics. Seven staff members retired in 2020, while 16 opted to continue their careers outside Banka Slovenije and the ESCB, and six decided in favour of gaining work experience at the ECB for a shorter or longer period. There are 40 staff members at Banka Slovenije who have been with us since the bank was founded, who like the bank will celebrate their 30th year of work this year. The average age of staff members at Banka Slovenije was 45 last year. The actual figure reached 45 years and three months at the end of the year, having risen by six months over the course of the year. We are still one of the rare central banks in Europe that employs more women (53% of the total) than men. Our education and training programme also adapted quickly to the new circumstances. At the outbreak of the epidemic we moved our training programmes into a virtual environment with an interactive option. Thanks to the virtual programmes, no decline in take-up was evident. In addition to the planned training programmes, we also organised workshops on the subject of remote working and management.

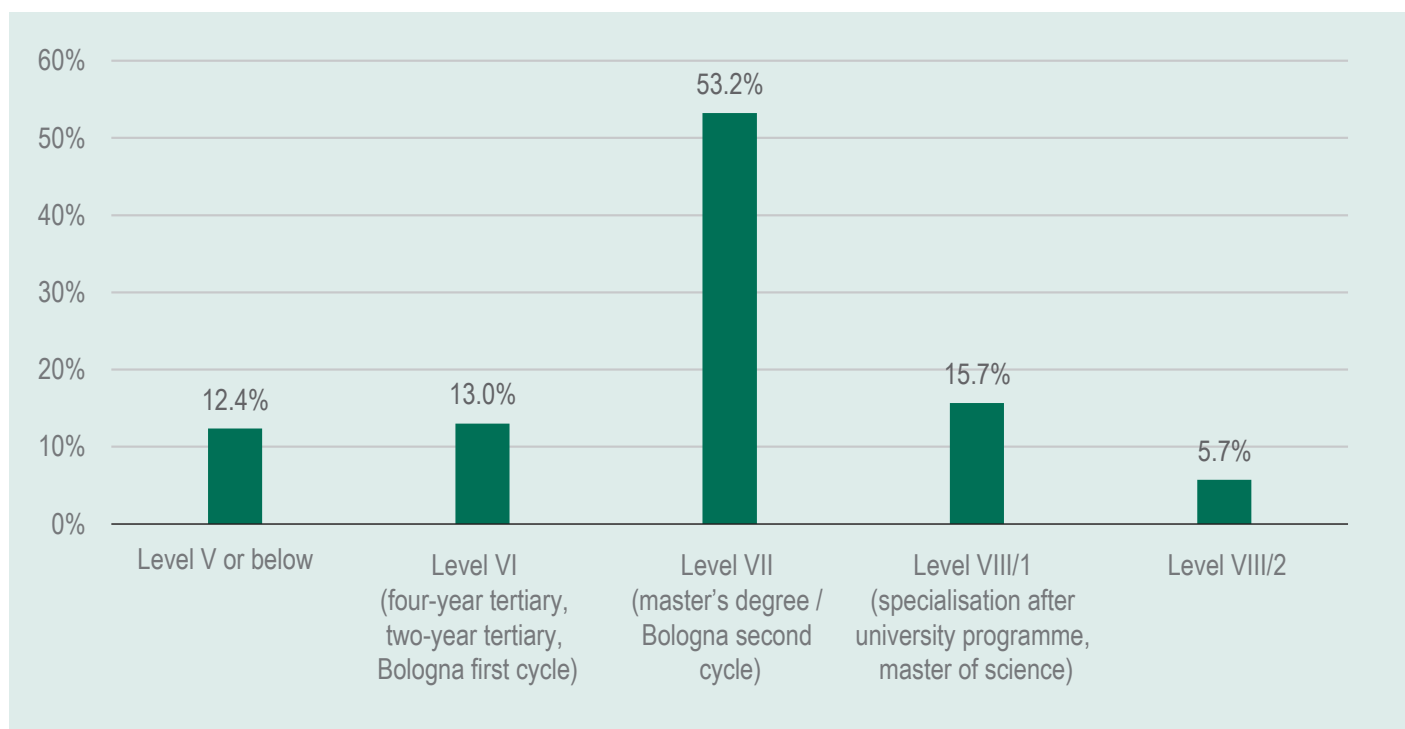
Banka Slovenije had an effective headcount of 441 as at 31 December 2020.⁹²

Figure 32: Effective headcount at Banka Slovenije, 31 December 2020



Source: Banka Slovenije

Figure 33: Breakdown of staff qualifications, 31 December 2020



Source: Banka Slovenije

⁹² The effective headcount includes all those who were present in the workplace on the reporting date (including all those who on the reporting date were taking annual leave or short-term sick leave of up to 30 working days).

6.7 COURT PROCEEDINGS

Banka Slovenije was involved in seven pending administrative proceedings at the end of 2020. It was an accessory participant in three disputes against a decision by the Information Commissioner, and the plaintiff in one challenge to the Information Commissioner's decisions. In three cases Banka Slovenije is the defendant in connection with issued decisions.

Banka Slovenije was involved in 121 pending litigation proceedings at the end of 2020, either as the defendant or co-defendant, or as an accessory participant. With two exceptions, they 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.

Three court cases were pending at the end of 2020 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 three cases pending before the Constitutional Court of the Republic of Slovenia as at 31 December 2020.

7 BANKA SLOVENIJE FINANCIAL STATEMENTS FOR 2020



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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 that period. The financial statements are adopted by the Governing Board of Banka Slovenije. In preparing those 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank of Slovenia will continue in business.

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

INDEPENDENT AUDITOR'S REPORT

To the Governing Board of Banka Slovenije

Opinion

We have audited the financial statements of Banka Slovenije, which comprise the statement of financial position as at 31 December 2020, the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;




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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Banka Slovenije's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

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

Ljubljana, 19 March 2021


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

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

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 the 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 the tasks in accordance with the Treaty establishing the European Community and in accordance with the Statute of the ESCB and the ECB¹.

Accounting policies

Introduction of euro

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

Accounting principles and standards

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)³ (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 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, harmonized by Community law, with generally accepted international financial reporting standards valid in 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, as well as the recognition of income, shall be carried out prudently. In the context of the Accounting Guideline, this implies that unrealised positive revaluation effects are not recognised as income in the profit and loss account, but are transferred directly to a revaluation account;
- Post-balance-sheet events: assets and liabilities shall be adjusted to take into account events that occur between the end of financial year and the date on which the annual accounts are approved by the Governing Board, if they materially affect the fair presentation of assets or liabilities at the balance sheet date;

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

² The term 'ESCB (European System of Central Banks)' refers to the twenty-seven National Central Banks (NCBs) of the member states of the European Union on 31 December 2020 plus the European Central Bank (ECB). The term 'Eurosystem' refers to the nineteen NCBs of the member states participating in the Monetary Union, plus the ECB on the same date.

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

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

Recognition of assets and liabilities

An asset or liability is only recognised in the balance sheet when it is probable that any associated future economic benefit will flow to or from Banka Slovenije, and 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 definition of alternative economic approach in the Accounting Guideline, transactions in financial assets and liabilities are reflected during the year in the accounts on the date on which they were settled.

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

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

Conversion of foreign currencies

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

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

Gold and gold receivables

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

Securities held for monetary policy purposes

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

Other securities

Marketable securities (other than debt securities held for monetary policy purposes and those classified as held-to-maturity) and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. Options embedded in securities are not separated for valuation purposes. For the year ending 31 December 2020, mid-market prices on 31 December 2020 were used.

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

Marketable investment funds are valued at market prices on a net basis and not on the basis of the underlying assets provided that they meet certain predetermined criteria in relation to the level of influence of 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 marketable investment funds.

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

Tangible fixed assets

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

| | 2020 | 2019 |
|-----------------------|------------|------------|
| 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 5 years; the last revaluation was performed in year 2019). This revaluation method gives a more appropriate and accurate view to the reader of the financial statements.

Leases

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

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 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, ECB's income on euro banknotes in circulation, ECB's (net) income arising from securities held for monetary policy purposes and the ECB's profit/loss.

Banknotes in circulation

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

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

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

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

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

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

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

Intra-ESCB balances / Intra-Eurosystem balances

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

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

Intra-Eurosystem claims arising from Banka Slovenije's participating interest in the ECB are reported under 'Participating interest in ECB'. In particular this balance sheet item 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 value¹⁰ resulting from all previous ECB's capital key adjustments, and (iii) contributions in accordance with Article 48.2 of the Statute of the ESCB and the ECB with respect to central banks of Member States whose derogations have been abrogated.

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

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

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

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

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.

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).

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 Council¹¹. It is distributed in full unless it is higher than the ECB's net profit for the year, and subject to any decisions by the Governing Council to make transfers to the provision for financial risks. The Governing Council may also decide to reduce the amount of the income on euro banknotes in circulation to be distributed in January by the amount of the costs incurred by the ECB in connection with the issue and handling of euro banknotes.

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

Provisions

Provisions are recognised when 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 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. With the amendment of the Accounting Guideline at the end of 2019¹², which extends the area of provisioning to all financial risks, Banka Slovenije created also provisions for equity risks for the first time in 2019. The relevant amount of provisions for all such financial risks is determined annually on the basis of Value-at-Risk (VaR) or Expected Shortfall (ES) method. VaR is defined as the maximum loss of portfolio with a given diversification at a given confidence level (99%) and for a given holding period (one year). ES is defined as the expected portfolio loss in the same period selected taking into account only the losses equal or greater to VaR figure at the same confidence level and the unchanged investment structure. Banka Slovenije also creates provisions based on the calculation of interest sensitivity gap. This risk arises from the growing imbalances between the short-term liabilities and long-term investments as a result of the implementation of the Eurosystem monetary policy operations.

Income recognition

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

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

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

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

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

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

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

Cost of transactions

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

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

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

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

Off-balance-sheet instruments

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

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

Post-balance-sheet events

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

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 effect deriving from exchange rate and price changes is allocated in its entirety to the revaluation accounts and is not included in the net profit available for distribution. Revaluation accounts may only be used to cover a shortfall deriving from unrealised negative valuation effects as a result of exchange rate and price movements.

A net loss of 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 Ernst & Young, d. o. o., Ljubljana, who were appointed as the external auditor of Banka Slovenije for the financial years 2018 to 2020.

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.

Balance Sheet as at 31 December 2020 and 31 December 2019

| ASSETS (thousands of euro) | | Note number | 31 December 2020 | 31 December 2019 |
|-------------------------------|---|----------------|---------------------|---------------------|
| 1 | Gold and gold receivables | 1 | 157,809 | 138,410 |
| 2 | Claims on non-euro area residents denominated in foreign currency | 2 | 910,796 | 763,343 |
| 2.1 | Receivables from the IMF | | 405,446 | 381,447 |
| 2.2 | Balances with banks and security investments, external loans and other external assets | | 505,350 | 381,896 |
| 3 | Claims on euro area residents denominated in foreign currency | 3 | 32,661 | 37,472 |
| 4 | Claims on non-euro area residents denominated in euro | 4 | 1,208,805 | 1,364,617 |
| 4.1 | Balances with banks, security investments and loans | | 1,208,805 | 1,364,617 |
| 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 | 1,376,650 | 995,140 |
| 5.1 | Main refinancing operations | | - | - |
| 5.2 | Longer-term refinancing operations | | 1,376,650 | 995,140 |
| 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 | 201 | 295 |
| 7 | Securities of euro area residents denominated in euro | 7 | 14,888,332 | 11,355,207 |
| 7.1 | Securities held for monetary policy purposes | | 13,584,056 | 10,072,207 |
| 7.2 | Other securities | | 1,304,276 | 1,282,999 |
| 8 | General government debt denominated in euro | | - | - |
| 9 | Intra-Eurosystem claims | 8 | 7,023,857 | 3,748,243 |
| 9.1 | Participating interest in ECB | | 78,192 | 78,563 |
| 9.2 | Claims equivalent to the transfer of foreign reserves | | 194,257 | 194,773 |
| 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) | | 6,751,407 | 3,474,907 |
| 10 | Items in the course of settlement | | - | - |
| 11 | Other assets | 9 | 395,767 | 411,967 |
| 11.1 | Coins of euro area | | 1,109 | 1,570 |
| 11.2 | Tangible and intangible fixed assets | | 54,952 | 54,898 |
| 11.3 | Other financial assets | | 50,757 | 52,157 |
| 11.4 | Off-balance sheet instruments revaluation differences | | 6,514 | 8,724 |
| 11.5 | Accruals and prepaid expenditure | | 173,308 | 158,088 |
| 11.6 | Sundry | | 109,127 | 136,531 |
| 12 | Loss for the year | | - | - |
| Total assets | | | 25,994,878 | 18,814,695 |

* Only an ECB balance sheet item

| LIABILITIES (thousands of euro) | Note number | 31 December 2020 | 31 December 2019 |
|---|------------------------|-----------------------------|-----------------------------|
| 1 Banknotes in circulation | 10 | 6,354,888 | 5,739,774 |
| 2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro | 11 | 7,096,987 | 4,347,882 |
| 2.1 Current accounts (covering the minimum reserve system) | | 7,096,987 | 4,347,882 |
| 2.2 Deposit facility | | - | - |
| 2.3 Fixed-term deposits | | - | - |
| 2.4 Fine-tuning reverse operations | | - | - |
| 2.5 Deposits related to margin calls | | - | - |
| 3 Other liabilities to euro area credit institutions denominated in euro | 12 | 16,593 | - |
| 4 Debt certificates issued | | - | - |
| 5 Liabilities to other euro area residents denominated in euro | 13 | 5,734,585 | 3,416,359 |
| 5.1 General government | | 5,407,423 | 3,120,214 |
| 5.2 Other liabilities | | 327,161 | 296,145 |
| 6 Liabilities to non-euro area residents denominated in euro | 14 | 34,352 | 134,050 |
| 7 Liabilities to euro area residents denominated in foreign currency | 15 | 5,933 | 6,169 |
| 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 | 254,438 | 266,376 |
| 10 Intra-Eurosystem liabilities | 17 | 4,332,905 | 2,815,245 |
| 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 | | 4,332,905 | 2,815,245 |
| 10.4 Other liabilities within the Eurosystem (net) | | - | - |
| 11 Items in the course of settlement | | - | - |
| 12 Other liabilities | 18 | 109,374 | 144,779 |
| 12.1 Off-balance sheet instruments revaluation differences | | 1,862 | 18,607 |
| 12.2 Accruals and income collected in advance | | 18,395 | 25,664 |
| 12.3 Sundry | | 89,117 | 100,508 |
| 13 Provisions | 19 | 621,646 | 573,037 |
| 14 Revaluation accounts | 20 | 189,335 | 162,984 |
| 15 Capital and reserves | 21 | 1,162,870 | 1,027,339 |
| 15.1 Capital | | 8,346 | 8,346 |
| 15.2 Reserves | | 1,154,525 | 1,018,994 |
| 16 Profit for the year | | 80,972 | 180,699 |
| Total liabilities | | 25,994,878 | 18,814,695 |

* Only an ECB balance sheet item

Profit and Loss Account for the year ended 31 December 2020 and 2019

| (thousands of euro) | Note number | 2020 | 2019 |
|--|-------------|----------------|----------------|
| 1.1 Interest income | | 163,035 | 154,010 |
| 1.2 Interest expense | | -12,929 | -14,301 |
| 1 Net interest income | 25 | 150,106 | 139,710 |
| 2.1 Realised gains/losses arising from financial operations | | 19,166 | 11,014 |
| 2.2 Write-downs on financial assets and positions | | -18,964 | -1,429 |
| 2.3 Transfer to/from provisions for financial and other risks | | -50,908 | 21,005 |
| 2 Net result of financial operations, write-downs and risk provisions | 26 | -50,705 | 30,590 |
| 3.1 Fees and commissions income | | 15,408 | 14,072 |
| 3.2 Fees and commissions expense | | -2,700 | -3,260 |
| 3 Net income from fees and commissions | 27 | 12,708 | 10,813 |
| 4 Income from equity shares and participating interests | 28 | 12,206 | 9,932 |
| 5 Net result of pooling of monetary income | 29 | -4,542 | 27,158 |
| 6 Other income | 30 | 2,121 | 2,407 |
| Total net income | | 121,894 | 220,608 |
| 7.1 Staff costs | | -27,421 | -26,193 |
| 7.2 Administrative expenses | | -7,485 | -7,958 |
| 7.3 Depreciation of tangible and intangible fixed assets | | -3,233 | -2,859 |
| 7.4 Banknote production services | | -1,762 | -1,731 |
| 7.5 Other expenses | | -1,020 | -1,168 |
| 7 Total operating expenses | 31 | -40,921 | -39,910 |
| 8 Profit for the year | 32 | 80,972 | 180,699 |

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 2 March 2021 and these audited financial statements were approved by the Governing Board on 30 March 2021 and were signed on its behalf by:

Boštjan Vasle, M. Sc.
President of the Governing Board and
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 stock of gold held at Banka Slovenije, Banka Slovenije's gold holdings consist of gold in the foreign bank accounts. In the annual accounts, gold is valued on the basis of the euro price per fine ounce (ozf) derived from the quotation in USD established at the London fixing on 31 December 2020. This price, communicated by the ECB, amounts to EUR 1,543.884 per ounce of fine gold compared to EUR 1,354.104 on 31 December 2019. Unrealised positive valuation effects of EUR 108.5 million were disclosed under the liability balance sheet item 'Revaluation accounts'.

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

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

This item includes holdings of SDRs allocated by the IMF and the foreign currency claims on non-euro area residents included in the 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 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).

All claims in the balance sheet are shown on the basis of the market rate of SDR 1 = EUR 1.1786 (31 December 2019: SDR 1 = EUR 1.2339) 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 below the average cost and negative valuation effects were therefore recognised in accordance with the accounting rules as expense in the profit and loss account.

| | 31 December 2020 | | 31 December 2019 | | Change | |
|----------------------------|------------------|----------------|------------------|----------------|---------------|---------------|
| | 000 SDR | 000 EUR | 000 SDR | 000 EUR | 000 SDR | 000 EUR |
| Quota | 586,500 | 691,249 | 586,500 | 723,682 | - | -32,433 |
| less IMF holdings of euro | -441,539 | -520,398 | -476,539 | -588,001 | 35,000 | 67,604 |
| Reserve tranche at the IMF | 144,961 | 170,851 | 109,961 | 135,681 | 35,000 | 35,170 |
| SDR Holdings | 199,045 | 234,595 | 199,178 | 245,766 | -133 | -11,171 |
| Total | 344,006 | 405,446 | 309,139 | 381,447 | 34,867 | 23,999 |

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 on 31 December 2020.

Breakdown of foreign currency assets by type of investment:

| | 31 December 2020 | 31 December 2019 | Change |
|-----------------------------|------------------|------------------|----------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Sight deposits | 627 | 634 | -8 |
| Time deposits | 6,285 | 17,922 | -11,637 |
| Debt securities | 372,427 | 320,288 | 52,139 |
| Marketable investment funds | 126,011 | 43,052 | 82,959 |
| Total | 505,350 | 381,896 | 123,454 |

Breakdown of foreign currency assets by currency:

| | 31 December 2020 | 31 December 2019 | Change |
|------------------|------------------|------------------|----------------|
| | 000 EUR | 000 EUR | 000 EUR |
| USD | 505,043 | 381,602 | 123,441 |
| Other currencies | 306 | 294 | 12 |
| Total | 505,350 | 381,896 | 123,454 |

Breakdown of debt securities according to their residual maturity:

| | 31 December 2020 | 31 December 2019 | Change |
|----------------------|------------------|------------------|---------------|
| | 000 EUR | 000 EUR | 000 EUR |
| ≤ 1 year | 41,460 | - | 41,460 |
| >1 year and ≤5 years | 201,785 | 205,049 | -3,263 |
| > 5 years | 129,182 | 115,239 | 13,943 |
| Total | 372,427 | 320,288 | 52,139 |

3. Claims on euro area residents denominated in foreign currency

The foreign currency assets held with euro area residents are invested in sight deposits, time deposits and debt securities in foreign currencies. 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 2020.

Breakdown of foreign currency assets by type of investment:

| | 31 December 2020 | 31 December 2019 | Change |
|--------------------|------------------|------------------|---------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Sight deposits | 8 | 9 | -1 |
| Time deposits | - | 5,875 | -5,875 |
| Reverse operations | 7,986 | - | 7,986 |
| Debt securities | 24,667 | 31,588 | -6,921 |
| Total | 32,661 | 37,472 | -4,811 |

Breakdown of foreign currency assets by currency:

| | 31 December 2020 | 31 December 2019 | Change |
|--------------|------------------|------------------|---------------|
| | 000 EUR | 000 EUR | 000 EUR |
| USD | 32,661 | 37,472 | -4,811 |
| Total | 32,661 | 37,472 | -4,811 |

Breakdown of debt securities according to their residual maturity:

| | 31 December 2020 | 31 December 2019 | Change |
|----------------------|------------------|------------------|---------------|
| | 000 EUR | 000 EUR | 000 EUR |
| ≤ 1 year | - | - | - |
| >1 year and ≤5 years | 22,000 | 28,851 | -6,851 |
| > 5 years | 2,667 | 2,737 | -70 |
| Total | 24,667 | 31,588 | -6,921 |

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 2020 | 31 December 2019 | Change |
|-----------------|------------------|------------------|-----------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Sight deposits | 0 | 0 | 0 |
| Debt securities | 1,208,805 | 1,364,617 | -155,811 |
| Total | 1,208,805 | 1,364,617 | -155,811 |

Breakdown of debt securities according to their residual maturity:

| | 31 December 2020 | 31 December 2019 | Change |
|----------------------|------------------|------------------|-----------------|
| | 000 EUR | 000 EUR | 000 EUR |
| ≤ 1 year | 239,235 | 236,078 | 3,157 |
| >1 year and ≤5 years | 895,957 | 1,072,707 | -176,750 |
| >5 years | 73,613 | 55,831 | 17,782 |
| Total | 1,208,805 | 1,364,617 | -155,811 |

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 1,793,194 million (2019: EUR 624,232 million), of which Banka Slovenije holds EUR 1,377 million (2019: EUR 995 million). In accordance with Article 32.4 of the Statute of the ESCB and the ECB, losses from monetary policy operations, if they were to materialise, are shared, by decision of the Governing Council, in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares (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 2020 operations were conducted with maturities 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). These operations have a four-year maturity, with a possibility of repayment after two years. Additionally, in 2019 the Governing Council introduced a new series of seven¹³ quarterly targeted longer-term refinancing operations (TLTRO-III). These operations have a three-year maturity. From September 2021, repayment is possible one year after the settlement of each operation. 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

¹³ On 10 December 2020 the Governing Council added three further operations to this series, which will be conducted between June and December 2021.

¹⁴ On 30 April 2020, the Governing Council decided that the special interest period would be between 24 June 2020 and 23 June 2021. On 10 December 2020, the Governing Council decided to extend this period by twelve months, to 23 June 2022.

for the period between 24 June 2020 and 23 June 2022 – referred to as the special interest rate period and additional special interest rate period – 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%. Given that the actual interest rates will only be known at the maturity of each operation and that a reliable estimate is not possible until that time, the deposit facility rate minus 50 basis points, with a ceiling of -1% is used for calculating the TLTRO-III interest over the special interest period, and, the deposit facility rate is used for calculating the TLTRO-III interest over the rest of the life of an operation, as this was deemed a prudent approach.

Additionally, on 30 April 2020 the Governing Council decided to conduct a new series of seven additional longer-term refinancing operations which mature 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. 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 PELTRO¹⁵.

| | 31 December 2020 | 31 December 2019 | Change |
|------------------------------------|------------------|------------------|----------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Longer-term refinancing operations | 1,376,650 | 995,140 | 381,510 |
| Total | 1,376,650 | 995,140 | 381,510 |

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

This item, amounting to EUR 0.2 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 2020 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)¹⁶, the securities markets programme (SMP)¹⁷, the public sector purchase programme (PSPP)¹⁸ and the pandemic emergency purchase programme (PEPP)¹⁹.

¹⁵ On 10 December 2020, the Governing Council also decided to offer four additional pandemic emergency longer-term refinancing operations in 2021.

¹⁶ Decision of the European Central Bank of 15 October 2014 on the implementation of the third covered bond purchase programme (ECB/2014/40), OJ L 335, 22.11.2014, p. 22-24, as amended.

¹⁷ Decision of the European Central Bank of 14 May 2010 establishing a securities markets programme (ECB/2010/5), OJ L 124, 20.05.2010, p. 8-9.

¹⁸ Decision of the European Central Bank of 4 March 2015 establishing a public sector purchase programme (ECB/2015/10), OJ L 121, 14.05.2015, p. 20-24, as amended.

¹⁹ 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, p. 1-4, as amended.

The securities markets programme was terminated on 6 September 2012.

In 2020 the Eurosystem continued its net purchases under the asset purchase programme (APP)²⁰ at a monthly pace of EUR 20 billion on average. In March 2020 a temporary envelope of additional net asset purchases of EUR 120 billion was added until the end of the year. The Governing Council expects net purchases to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. The Governing Council also intends to continue the reinvestments for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Additionally, in March 2020 the Eurosystem launched a temporary pandemic emergency purchase programme (PEPP)²¹, with an envelope of EUR 750 billion, to ease the overall monetary policy stance and to counter the severe risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus pandemic. Purchases include all the asset categories eligible under the APP and were initially foreseen until the end of 2020. In June 2020 the Governing Council increased the envelope for the PEPP by EUR 600 billion, and in December 2020 by an additional EUR 500 billion, bringing it to a total of EUR 1,850 billion. The horizon for net purchases was also extended to at least the end of March 2022 and in any case, until the Governing Council judges that the coronavirus crisis phase is over. Furthermore, the Governing Council intends to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2023. 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).

The amortised cost of the securities held by Banka Slovenije, as well as 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 2020 | | 31 December 2019 | | Change | |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|------------------|------------------|
| | Amortised cost | Market value | Amortised cost | Market value | Amortised cost | Market value |
| | 000 EUR | 000 EUR | 000 EUR | 000 EUR | 000 EUR | 000 EUR |
| First covered bond purchase programme | - | - | 15,999 | 16,090 | -15,999 | -16,090 |
| Third covered bond purchase programme | 671,858 | 695,654 | 803,796 | 825,286 | -131,938 | -129,633 |
| Securities market programme | 64,928 | 66,482 | 79,702 | 85,088 | -14,774 | -18,606 |
| Public sector purchase programme | 9,827,217 | 11,071,883 | 9,172,710 | 9,980,363 | 654,507 | 1,091,520 |
| Pandemic emergency purchase programme | 3,020,053 | 3,097,680 | - | - | 3,020,053 | 3,097,680 |
| Total | 13,584,056 | 14,931,699 | 10,072,207 | 10,906,827 | 3,511,849 | 4,024,871 |

²⁰ 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>

²¹ 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>.

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.

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

| | 31 December 2020 | 31 December 2019 | Change |
|----------------------|-------------------|-------------------|------------------|
| | 000 EUR | 000 EUR | 000 EUR |
| ≤ 1 year | 1,179,979 | 491,917 | 688,062 |
| >1 year and ≤5 years | 3,107,214 | 2,573,079 | 534,136 |
| > 5 years | 9,296,863 | 7,007,211 | 2,289,651 |
| Total | 13,584,056 | 10,072,207 | 3,511,849 |

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 NCBs' holding of CBPP, SMP, ABSPP, PSPP, CSPP and PEPP securities amounts to EUR 3,694,642 million (2019: EUR 2,632,025 million), of which Banka Slovenije holds EUR 13,584 million (2019: EUR 10,072 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 as well as 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 2020 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 2020 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.

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 2020 | 31 December 2019 | Change |
|---|------------------|------------------|---------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Marketable securities other than those held to maturity | 1,282,599 | 1,255,770 | 26,829 |
| Held-to-maturity securities | 21,676 | 27,229 | -5,553 |
| Total | 1,304,276 | 1,282,999 | 21,277 |

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

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 2020 | 31 December 2019 | Change |
|----------------------|------------------|------------------|---------------|
| | 000 EUR | 000 EUR | 000 EUR |
| ≤ 1 year | 199,798 | 106,331 | 93,467 |
| >1 year and ≤5 years | 796,944 | 888,250 | -91,305 |
| > 5 years | 307,533 | 288,418 | 19,115 |
| Total | 1,304,276 | 1,282,999 | 21,277 |

8. Intra-Eurosystem claims

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

Pursuant to Article 28 of the Statute of the ESCB and the ECB, the ESCB national central banks are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with the Article 29 of the Statute of the ESCB and the ECB and are subject to adjustment every five years or whenever there is a change in composition of the ESCB national central banks.

As a result of the departure of the United Kingdom from the European Union on 3 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 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 will be required to pay up in full their increased subscriptions to the ECB capital following Bank of England's withdrawal from the ESCB in two annual instalments²⁴. As a result, Banka Slovenije will be required to pay EUR 2.9 million in 2021 and EUR 2.9 million in 2022.

²⁴ This will lead to an increase in the ECB's paid-up capital from EUR 7,659 million to EUR 8,270 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 2020 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 | 276,290,917 | 3.6432 |
| Deutsche Bundesbank | 21.4394 | 2,320,816,566 | 1,999,160,135 | 26.3615 |
| Eesti Pank | 0.2291 | 24,800,091 | 21,362,892 | 0.2817 |
| Central Bank and Financial Services Authority of Ireland | 1.3772 | 149,081,997 | 128,419,794 | 1.6934 |
| Bank of Greece | 2.0117 | 217,766,667 | 187,585,028 | 2.4735 |
| Banco de España | 9.6981 | 1,049,820,011 | 904,318,913 | 11.9246 |
| Banque de France | 16.6108 | 1,798,120,274 | 1,548,907,580 | 20.4243 |
| Banca d'Italia | 13.8165 | 1,495,637,102 | 1,288,347,435 | 16.9885 |
| Central Bank of Cyprus | 0.1750 | 18,943,762 | 16,318,228 | 0.2152 |
| Latvijas Banka | 0.3169 | 34,304,447 | 29,549,980 | 0.3897 |
| Lietuvos bankas | 0.4707 | 50,953,308 | 43,891,372 | 0.5788 |
| Banque centrale du Luxembourg | 0.2679 | 29,000,194 | 24,980,876 | 0.3294 |
| Central Bank of Malta/Bank Ċentrali ta' Malta | 0.0853 | 9,233,731 | 7,953,971 | 0.1049 |
| De Nederlandsche Bank | 4.7662 | 515,941,487 | 444,433,941 | 5.8604 |
| Oesterreichische Nationalbank | 2.3804 | 257,678,468 | 221,965,204 | 2.9269 |
| Banco de Portugal | 1.9035 | 206,054,010 | 177,495,700 | 2.3405 |
| Banka Slovenije | 0.3916 | 42,390,728 | 36,515,533 | 0.4815 |
| Národná banka Slovenska | 0.9314 | 100,824,116 | 86,850,273 | 1.1452 |
| Suomen Pankki-Finlands Bank | 1.4939 | 161,714,781 | 139,301,721 | 1.8369 |
| Total euro-area NCBs | 81.3286 | 8,803,826,700 | 7,583,649,493 | 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 | 7,659,443,757 | |

In accordance with the Article 48.2 of the Statute of the ESCB and the ECB and the legal acts adopted by the Governing Council of the ECB, 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 the year 2007. The payment was made in two parts. As a result of a difference between the euro equivalent of foreign reserve assets to be transferred to the ECB at current exchange rates and the claim of 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 a change in the ECB's capital key on 1 January 2009, 1 July 2013 and 1 January 2014, the additional contributions were made to the ECB's net equity by Banka Slovenije on 9 March 2009, 12 July 2013 and 21 February 2014. As a result of the ECB's capital key change 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 2020 |
|---|-------------------------|
| | 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.

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

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 2020 | 31 December 2019 | Change |
|--|------------------|------------------|------------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Due from the ECB in respect of TARGET2 balances | 6,750,320 | 3,441,193 | 3,309,127 |
| Due to/from the ECB in respect of monetary income | -4,980 | 26,806 | -31,786 |
| Due from the ECB in respect of the ECB interim profit distribution | 6,068 | 6,908 | -840 |
| Total | 6,751,407 | 3,474,907 | 3,276,501 |

The year-end net transfers via TARGET2 had a debit balance of EUR 6,750.3 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 5.0 million at year-end (see 'Net result of pooling of monetary income' in the notes to the profit and loss account).

Concerning 2020, following a decision by the Governing Council, the amount due to euro area NCBs with respect to the ECB's interim profit distribution was EUR 1,260 million (see 'ECB profit distribution' in accounting policies). The related amount due to Banka Slovenije as at 31 December 2020 was EUR 6.1 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, are shown in sub-item 11.1 'Coins of euro area' in the amount of EUR 1.1 million.

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

| | Land and buildings | Computers & equipment | Total |
|----------------------------|--------------------|-----------------------|---------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Cost or valuation | | | |
| At 31 December 2019 | 49,393 | 29,416 | 78,808 |
| Reclassifications | 96 | -96 | - |
| Additions | 578 | 2,891 | 3,469 |
| Disposals | 40 | 897 | 938 |
| At 31 December 2020 | 50,026 | 31,313 | 81,339 |
| Depreciation | | | |
| At 31 December 2019 | 1,674 | 22,237 | 23,911 |
| Reclassifications | - | - | - |
| Disposals | 8 | 897 | 905 |
| Charge for the year | 400 | 2,981 | 3,381 |
| At 31 December 2020 | 2,066 | 24,321 | 26,387 |
| Net book value | | | |
| At 31 December 2019 | 47,719 | 7,178 | 54,898 |
| At 31 December 2020 | 47,960 | 6,992 | 54,952 |

As at 31 December 2020 an amount of EUR 21.9 million related to investment properties in Austria is included in land and buildings (2019: EUR 21.9 million). Furthermore, from 2019 onwards, Banka Slovenije recognizes long-term leases as a right-of-use asset among fixed assets.

Sub-item 11.3 'Other financial assets' amounting to EUR 50.8 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 6.5 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' amounting to EUR 173.3 million contains the accrued income identified at 31 December 2020. This consists mainly of interest income which is due in the subsequent financial year.

Sub-item 11.6 'Sundry' amounting to EUR 109.1 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 2020, the total value of banknotes in circulation within the Eurosystem increased by 11.0%. According to the allocation key, Banka Slovenije had euro banknotes in circulation worth EUR 6,354.9 million at the end of the year compared with EUR 5,739.8 million at the end of 2019. The value of the euro banknotes actually issued by Banka Slovenije in 2020 increased by 24.9% from EUR 8,555.0 million to EUR 10,687.8 million. As this was more than the allocated amount, the difference of EUR 4,332.9 million (compared to EUR 2,815.2 million at the end of 2019) is shown under liability sub-item 10.3 'Net liabilities related to the allocation of euro banknotes within the Eurosystem'.

| | 31 December 2020 | 31 December 2019 | Change |
|---|------------------|------------------|----------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Total value of euro banknotes put into circulation by Banka Slovenije | 10,687,793 | 8,555,019 | 2,132,774 |
| Liability resulting from the ECB's share of euro banknotes in circulation | -552,578 | -499,288 | -53,290 |
| Liability according to Banka Slovenije's weighting in the ECB's capital key | -3,780,327 | -2,315,956 | -1,464,371 |
| Total banknotes in circulation | 6,354,888 | 5,739,774 | 615,114 |

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

| | 31 December 2020 | 31 December 2019 | Change |
|--|-------------------|------------------|------------------|
| | 000 EUR | 000 EUR | 000 EUR |
| EUR 5 | -113,159 | -101,344 | -11,815 |
| EUR 10 | 1,053,778 | 973,714 | 80,064 |
| EUR 20 | 5,631,707 | 5,314,371 | 317,335 |
| EUR 50 | 3,305,796 | 2,089,547 | 1,216,249 |
| EUR 100 | -579,420 | -710,378 | 130,957 |
| EUR 200 | 916,966 | 344,059 | 572,906 |
| EUR 500 | 472,126 | 645,049 | -172,923 |
| Total value of euro banknotes put into circulation by Banka Slovenije | 10,687,793 | 8,555,019 | 2,132,774 |

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. Banks' minimum reserve balances have been remunerated since January 1, 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 are 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 the 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 requirements²⁵. The non-exempt tier of excess liquidity holdings continues to be remunerated at the lower of either zero percent or the deposit facility rate.

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

| | 31 December 2020 | 31 December 2019 | Change |
|--|------------------|------------------|------------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Current accounts (covering the minimum reserve system) | 7,096,987 | 4,347,882 | 2,749,105 |
| Total | 7,096,987 | 4,347,882 | 2,749,105 |

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 16.6 million contains cash received as collateral in connection with the APP securities lending.

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, by resolution fund and by deposit guarantee fund.

| | 31 December 2020 | 31 December 2019 | Change |
|---|------------------|------------------|------------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Government sight deposits and special funds | 5,080,390 | 2,872,507 | 2,207,884 |
| Other public sector deposits | 327,033 | 247,707 | 79,326 |
| Total | 5,407,423 | 3,120,214 | 2,287,209 |

Sub-item 5.2 'Other liabilities' amounting to EUR 327.2 million includes accounts of Central Securities Clearing Corporation and Bankart.

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

Balance sheet item 'Liabilities to non-euro area residents denominated in euro' amounting to EUR 34.4 million contains cash received as collateral in connection with the APP securities lending as well as euro balances of international and supranational organisations. The IMF account No. 2 is also included in this balance sheet item.

15. Liabilities to euro area residents denominated in foreign currency

This item amounting to EUR 5.9 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 254.4 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 2020, the liability is shown in the balance sheet on the basis of the market rate of SDR 1 = EUR 1.1786 (31 December 2019: SDR 1 = EUR 1.2339) calculated by the ECB at the end of the year for all central banks participating in the Eurosystem. The decrease in the amount of this liability in 2020 is solely due to valuation effects, i.e. the depreciation of the SDR against the euro.

17. Intra-Eurosystem liabilities

Sub-item 10.3 'Net liabilities related to the allocation of euro banknotes within the Eurosystem' amounting to EUR 4,333 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 2019 (EUR 1,518 million) was due to the increase in banknotes put into circulation by Banka Slovenije in 2020 (which represents an increase of 24.9%), as well as the rise in banknotes in circulation in the Eurosystem as a whole (increase of 11.0% compared to 2019). The remuneration of these liabilities is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for the main refinancing operations.

18. Other liabilities

Sub-item 12.1 'Off-balance sheet instruments revaluation differences' amounting to EUR 1.9 million includes the negative revaluation effects arising from the forward legs of foreign currency swaps, which are recorded on off-balance-sheet account, and the valuation results of foreign exchange spot transactions agreed in 2020 which are to be settled in the subsequent year.

Sub-item 12.2 'Accruals and income collected in advance' amounting to EUR 18.4 million contains the accrued interest and other expenses identified at 31 December 2020, 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 89.1 million consists mainly of fiduciary liabilities and non-returned tolar banknotes.

19. Provisions

| | 31 December 2020 | 31 December 2019 | Change |
|---|------------------|------------------|---------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Provisions for employees and for known risks | 14,846 | 18,999 | -4,153 |
| Provisions for general risks | 606,800 | 553,600 | 53,200 |
| Provisions in respect of monetary policy operations | - | 439 | -439 |
| Total | 621,646 | 573,037 | 48,608 |

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'.

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. The latter consider 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 2020.

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 as well as losses from credit events can be created. In 2020, 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).

Provisions in respect of monetary policy operations

With respect to the provisions initially established in 2018 and adjusted in 2019 by all the national central banks of participating Member States with regard to credit risks in monetary policy operations, an amount of EUR 64 million was used to cover the loss realised after the sale in 2020 of the impaired securities held by one of the Eurosystem NCBs under the CSPP. Out of this amount, EUR 0.3 million were covered by the provision established in 2019 by Banka Slovenije.

The residual amount of the provisions established by the national central banks of participating Member States after the coverage of the realised loss resulted in a cumulative unused balance of EUR 26 million which is reflected in the profit and loss accounts of the national central banks of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in 2018. For Banka Slovenije, this amount was EUR 0.1 million.

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 41.1 million arose from the valuation of EUR denominated portfolio (2019: EUR 34.1 million) and EUR 39.8 million from the valuation of USD denominated assets (2019: EUR 16.1 million).

In the case of foreign currency positions, positive valuation effects are negligible at the end of 2020 (2019: EUR 19.3 million from the valuation of USD position and EUR 4.4 million from the valuation of SDR position). The average acquisition cost of foreign currencies at the end of 2020 was USD 1.1786 for EUR and EUR 1.1978 for SDR (2019: USD 1.2110 for EUR and EUR 1.1972 for SDR), while the market rate was USD 1.2271 for EUR and EUR 1.1786 for SDR (2019: USD 1.1234 for EUR and EUR 1.2339 for SDR).

In the case of gold the acquisition cost was EUR 482.700 per fine ounce of gold at the end of 2020 (2019: EUR 482.696), compared to the market price at the end of 2020, which was EUR 1,543.884 per fine ounce of gold (2019: EUR 1,354.104). Market value of gold position exceeded its acquisition price and resulted in a positive valuation effects amounting to EUR 108.5 million (2019: EUR 89.1 million).

| | 31 December 2020 | 31 December 2019 | Change |
|--|------------------|------------------|---------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Price effect | 80,827 | 50,230 | 30,597 |
| - securities in foreign currencies (asset items 2 and 3) | 39,756 | 16,109 | 23,647 |
| - securities in euro (asset items 4 and 7) | 41,071 | 34,120 | 6,950 |
| Exchange rate effect | 38 | 23,683 | -23,645 |
| Gold valuation effect | 108,470 | 89,071 | 19,398 |
| Total | 189,335 | 162,984 | 26,351 |

21. Capital and reserves

In accordance with the 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 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 2020 | 31 December 2019 | Change |
|---|------------------|------------------|----------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Initial capital of Banka Slovenije | 8,346 | 8,346 | - |
| General reserves | 938,535 | 803,011 | 135,524 |
| Special reserves for foreign exchange differences | 174,214 | 174,214 | - |
| Special reserves for price risk (gold) | 19,736 | 19,736 | - |
| Valorisation reserves | 22,040 | 22,033 | 7 |
| Total | 1,162,870 | 1,027,339 | 135,531 |

Notes to the off-balance-sheet items

22. Foreign currency swaps

As at 31 December 2020, the forward foreign currency position arising from EUR/foreign currency swap transactions amounts net to EUR 105.0 million (2019: EUR 136.6 million), of which forward liabilities amount to EUR 150.3 million and forward claims to EUR 45.2 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 2020 | | 31 December 2019 | | Change | |
|----------------------------|------------------|----------------|------------------|----------------|----------------|----------------|
| | 000 USD | 000 EUR | 000 USD | 000 EUR | 000 USD | 000 EUR |
| Forward liabilities in USD | 184,400 | 150,273 | 289,000 | 257,255 | -104,600 | -106,982 |
| Forward claims in USD | 55,500 | 45,229 | 135,500 | 120,616 | -80,000 | -75,387 |
| Total | 128,900 | 105,044 | 153,500 | 136,639 | -24,600 | -31,594 |

In addition, off-balance sheet items include forward liabilities to the ECB outstanding as at 31 December 2020 amounting to EUR 8.0 million, which arose in connection with the short-term USD liquidity-providing programme (the standing reciprocal currency arrangement with the Federal Reserve) (see 'Claims on euro area residents denominated in foreign currency' in the notes to the balance sheet).

23. Securities lending

As at 31 December 2020, securities with a market value of EUR 67.3 million (31 December 2019: EUR 174.1 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 2020:

- 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 528.7 million as at 31 December 2020 (31 December 2019: EUR 553.4 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 910.0 million (31 December 2019: 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 request the euro area NCBs to transfer under Article 30.1 of the Statute of the ESCB and of the ECB (31 December 2019: EUR 168.1 million);
- a future liability of EUR 5.9 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 2019: EUR 6.0 million);
- contingent claim arising from the credit lines as an instrument of intraday liquidity provision, amounting to EUR 320.0 million, granted based on eligible collateral and by means of overdraft on participants' settlement accounts (31 December 2019: EUR 700.0 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.

| | 2020 | 2019 | Change |
|---|----------------|----------------|---------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Gold | 1 | 95 | -95 |
| Current accounts and deposits | 266 | 1,269 | -1,004 |
| - in foreign currency | 266 | 1,269 | -1,004 |
| Securities | 117,482 | 121,572 | -4,090 |
| - in foreign currency | 7,689 | 9,016 | -1,327 |
| - in euro | 109,793 | 112,556 | -2,763 |
| IMF | 755 | 3,665 | -2,911 |
| Foreign currency swaps | 730 | 2,441 | -1,712 |
| Other interest income | 44 | 28 | 16 |
| Negative interest | 43,758 | 24,939 | 18,819 |
| - current accounts of credit institutions | 16,422 | 11,824 | 4,597 |
| - government and other clients' accounts and deposits | 27,336 | 13,115 | 14,221 |
| Total | 163,035 | 154,010 | 9,024 |

Interest expense

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

| | 2020 | 2019 | Change |
|--------------------------------------|---------------|---------------|---------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Current accounts and deposits | 1 | 1 | 0 |
| - in foreign currency | 1 | 1 | 0 |
| IMF | 472 | 2,339 | -1,867 |
| Foreign currency swaps | 2,935 | 7,331 | -4,396 |
| Negative interest | 9,520 | 4,630 | 4,891 |
| - longer-term refinancing operations | 9,114 | 4,239 | 4,875 |
| - sight and fixed-term deposits | 406 | 391 | 15 |
| Total | 12,929 | 14,301 | -1,372 |

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

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

Write-downs of financial assets and positions reflect the decline in market prices of balance sheet items as at 31 December 2020 below the average cost of the respective currencies or securities. The valuation loss in 2020 occurred mainly on USD and SDR currency positions (2019: euro denominated securities).

In 2020 provisions for employees and for known risks arising from on-balance sheet positions were decreased in the amount of EUR 0.9 million. Remaining provisions for risks arising from off-balance sheet positions were released in the amount of EUR 1.1 million due to the sale of off-balance sheet positions. In accordance with the decision of the Governing Board of Banka Slovenije, provisions were released in the amount of EUR 0.3 million due to potential costs in relation to possible legal and audit procedures initiated against Banka Slovenije.

Transfer to provisions for general risks in the amount of EUR 53.2 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).

| | 2020 | 2019 | Change |
|--|----------------|---------------|----------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Realised gains/losses arising from financial operations | | | |
| Gold | 0 | 0 | 0 |
| Currency position | 3,966 | 6,648 | -2,683 |
| Securities | 15,201 | 4,366 | 10,835 |
| Total | 19,166 | 11,014 | 8,152 |
| Write-downs on financial assets and positions | | | |
| Currency position | -18,811 | -91 | -18,719 |
| Securities | -153 | -1,338 | 1,185 |
| Total | -18,964 | -1,429 | -17,534 |
| Transfer to/from provisions for financial and other risks | | | |
| Provisions for employees and for known risks | 2,292 | -395 | 2,687 |
| Provisions for general risks | -53,200 | 21,400 | -74,600 |
| Total | -50,908 | 21,005 | -71,913 |
| Total | -50,705 | 30,590 | -81,295 |

27. Net income from fees and commissions

Net income from fees and commissions amounts to EUR 12.7 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 12.2 million represents the income received from Banka Slovenije's participation in the ECB, as well as from investments in marketable 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 6.1 million (2019: EUR 6.9 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 2020, amounting to an expense of EUR 5.0 million compared to the income of EUR 26.8 million in the previous year. This item also contains Banka Slovenije's share of the realised loss in relation to the sale in 2020 of the securities held by an NCB of the Eurosystem in its CSPP portfolio as well as the release of the provision established in 2019 against losses in monetary policy operations portfolio (see 'Provisions' in the notes to the balance sheet).

The net expense shown in this item amounted to EUR 4.5 million in comparison to the net income of EUR 27.2 million in 2019.

| | 2020 | 2019 | Change |
|---|---------------|---------------|----------------|
| | 000 EUR | 000 EUR | 000 EUR |
| Net monetary income pooled by Banka Slovenije | 25,505 | 27,674 | -2,169 |
| Net monetary income allocated to Banka Slovenije | 20,827 | 54,559 | -33,732 |
| Monetary income reallocation for the year | -4,678 | 26,884 | -31,563 |
| Adjustments of monetary income reallocation for previous years | -302 | -78 | -224 |
| Provisions in respect of monetary policy operations | 439 | 352 | 87 |
| Total | -4,542 | 27,158 | -31,699 |

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 the earmarkable assets held against its liability base.

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

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

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

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 euro (recast) (ECB/2016/36), OJ L 347, 20.12.2016, p. 26-36, as amended.

25.5 million and reallocated to Banka Slovenije amounting to EUR 20.8 million is the net result arising from the pooling of monetary income.

30. Other income

Other income amounting to EUR 2.1 million includes income from non-bank services like rental income, reimbursements, sales of fixed assets, numismatics and other income.

31. Operating expenses

Staff costs

Staff costs amounting to EUR 27.4 million include salaries and other staff costs together with the related taxes and contributions.

Banka Slovenije employed 453 employees as at 31 December 2020 (31 December 2019: 467 employees). The average number of employees, based on the number of hours worked, stood at 441 employees (2019: 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 (2019: EUR 0.7 million).

In 2020 the remuneration of the Governing board members of Banka Slovenije was of EUR 0.8 million (2019: EUR 0.8 million).

Administrative expenses

This item amounting to EUR 7.5 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 3.2 million is performed according to the adopted depreciation rates.

Banknote production services

Expenses for banknotes production services amounting to EUR 1.8 million include mainly the expenses related to the production and transportation. The additional quantity of banknotes to be printed is determined on the basis of assessed needs for banknotes in circulation and for the maintenance of adequate volume of stock in the Eurosystem, distributed to individual NCB according to its capital key and denomination structure.

Other expenses

Other expenses amounting to EUR 1.0 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 81.0 million (2019: EUR 180.7 million). Appropriation of the financial result will be performed in accordance with the applicable legislation.

SECONDARY LEGISLATION

Macroprudential supervision

1. Regulation amending the Regulation on macroprudential restrictions on household lending
Official Gazette of the Republic of Slovenia, No. 75/20 of 22 May 2020.
2. Regulation on the macroprudential restriction on profit distribution by banks
Official Gazette of the Republic of Slovenia, No. 49/20 of 10 April 2020.
3. Regulation on macroprudential monitoring of funding structure
Official Gazette of the Republic of Slovenia, No. 10/20 of 21 February 2020.

On the day that the aforementioned regulation enters into force, the Regulation on macroprudential monitoring of liquidity and funding structure (Official Gazette of the Republic of Slovenia, No. 72/17) and the Guidelines for implementing the Regulation on macroprudential monitoring of liquidity and funding structure (Official Gazette of the Republic of Slovenia, No. 80/17) cease to be in force.

Prudential supervision of banks and savings banks

4. Regulation amending the Regulation on reporting by branches of Member State banks
Official Gazette of the Republic of Slovenia, No. 189/20 of 15 December 2020.
5. Regulation amending the Regulation on the application of the Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis
Official Gazette of the Republic of Slovenia, No. 189/20 of 15 December 2020.
6. Regulation amending the Regulation on the books of account and annual reports of banks and savings banks
Official Gazette of the Republic of Slovenia, No. 164/20 of 13 November 2020.
7. Regulation on the application of the Guidelines on the treatment of structural FX under Article 352(2) of Regulation (EU) No 575/2013 (CRR)
Official Gazette of the Republic of Slovenia, No. 152/20 of 23 October 2020.
8. Regulation on the application of the Guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of LGDs
Official Gazette of the Republic of Slovenia, No. 152/20 of 23 October 2020.
9. Regulation amending the Regulation on reporting by monetary financial institutions
Official Gazette of the Republic of Slovenia, No. 140/20 of 9 October 2020.

10. Regulation on the application of the Guidelines amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR 'quick fix' in response to the COVID-19 pandemic (EBA/GL/2020/12)
Official Gazette of the Republic of Slovenia, No. 140/20 of 9 October 2020.
11. Regulation on the application of the Guidelines on supervisory reporting and disclosure requirements in compliance with the CRR 'quick fix' in response to the COVID-19 pandemic (EBA/GL/2020/11)
Official Gazette of the Republic of Slovenia, No. 140/20 of 9 October 2020.
12. Regulation amending the Regulation on the exercise of options and discretions under European Union law
Official Gazette of the Republic of Slovenia, No. 126/20 of 22 September 2020.
13. Regulation on the application of the Guidelines on the pragmatic 2020 supervisory review and evaluation process in light of the COVID-19 crisis
Official Gazette of the Republic of Slovenia, No. 123/20 of 18 September 2020.
14. Regulation on the application of the Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07)
Official Gazette of the Republic of Slovenia, No. 104/20 of 24 July 2020.
15. Regulation on the application of the Guidelines on loan origination and monitoring
Official Gazette of the Republic of Slovenia, No. 104/20 of 24 July 2020.
16. Regulation on the application of the Guidelines on the determination of the weighted average maturity of the tranche in accordance with point (a) of Article 257(1) of Regulation (EU) No 575/2013
Official Gazette of the Republic of Slovenia, No. 104/20 of 24 July 2020.
17. Regulation amending the Regulation on the application of the Recommendations on the equivalence of confidentiality regimes
Official Gazette of the Republic of Slovenia, No. 101/20 of 17 July 2020.
18. Regulation on reporting by branches of Member State banks
Official Gazette of the Republic of Slovenia, No. 97/20 of 10 July 2020.
19. Notification of the application of Articles 3 and 4 of the Regulation amending the Regulation on the books of account and annual reports of banks and savings banks
Official Gazette of the Republic of Slovenia, No. 78/20 of 29 May 2020.
20. Regulation on the application of the Joint guidelines on cooperation and information exchange for the purpose of Directive (EU) 2015/849 between competent authorities supervising credit and financial institutions
Official Gazette of the Republic of Slovenia, No. 78/20 of 29 May 2020.
21. Regulation on the application of the Guidelines on harmonised definitions and templates for funding plans of credit institutions under Recommendation A4 of ESRB/2012/2
Official Gazette of the Republic of Slovenia, No. 78/20 of 29 May 2020.
22. Regulation on the application of the Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis
Official Gazette of the Republic of Slovenia, No. 78/20 of 29 May 2020.
23. Regulation repealing the Regulation on the application of the Guidelines on the application of simplified obligations under Article 4(5) of Directive 2014/59/EU
Official Gazette of the Republic of Slovenia, No. 68/20 of 14 May 2020.

24. Regulation amending the Regulation on the deferral and termination of reporting requirements for banks, savings banks, branches of Member State banks, payment institutions, electronic money institutions, currency exchange operators and other obliged entities
Official Gazette of the Republic of Slovenia, No. 58/20 of 24 April 2020.
25. Regulation on the application of the Guidelines on ICT and security risk management
Official Gazette of the Republic of Slovenia, No. 52/20 of 15 April 2020.
26. Regulation on the deferral and termination of reporting requirements for banks, savings banks, branches of Member State banks, payment institutions, electronic money institutions, currency exchange operators and other obliged entities
Official Gazette of the Republic of Slovenia, No. 49/20 of 10 April 2020.

Payment services

27. 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. 182/20 of 10 December 2020.
28. Regulation amending the Regulation on the features of the basic payment account, and the method for calculating the appropriate fee for providing a basic payment account
Official Gazette of the Republic of Slovenia, No. 60/20 of 29 April 2020.
29. Regulation amending the Regulation on the application of the Guidelines on reporting requirements for fraud data under Article 96(6) PSD2
Official Gazette of the Republic of Slovenia, No. 40/20 of 31 March 2020.

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

30. Regulation amending the Regulation on the content of data and information in the central credit register and the system for the exchange of information on the indebtedness of business entities reported by reporting units referred to in points 3 to 5 of the second paragraph of Article 6 of the ZCKR
Official Gazette of the Republic of Slovenia, No. 81/20 of 1 June 2020.
31. Regulation amending the Regulation on the content of data and information in the central credit register and the system for the exchange of information on the indebtedness of business entities reported by reporting units referred to in points 1 to 2 of the second paragraph of Article 6 of the ZCKR and by SID banka
Official Gazette of the Republic of Slovenia, No. 81/20 of 1 June 2020.
32. Amendment to the Rules of the system for the exchange of information on the indebtedness of business entities (SISBIZ)
Official Gazette of the Republic of Slovenia, No. 81/20 of 1 June 2020.

Bank resolution and deposit guarantee scheme

33. Regulation amending the Regulation on the deposit guarantee scheme
Official Gazette of the Republic of Slovenia, No. 139/20 of 9 October 2020.

Consumer protection

34. Average effective interest rates on consumer credit agreements entered into by banks and savings banks between 1 January and 30 June 2020
Official Gazette of the Republic of Slovenia, No. 108/20 of 7 August 2020.
35. Average effective interest rates on consumer credit agreements entered into by banks and savings banks between 1 July and 31 December 2019
Official Gazette of the Republic of Slovenia, No. 8/20 of 7 February 2020.

Cash operations

36. Regulation on the issuance of collector coins for sale and circulation to mark the 30th anniversary of the referendum on the independence of the Republic of Slovenia
Official Gazette of the Republic of Slovenia, No. 189/20 of 15 December 2020.
37. Regulation setting selling prices of collector coins
Official Gazette of the Republic of Slovenia, No. 49/20 of 10 April 2020.

Banka Slovenije services

38. Regulation amending the regulation on the tariff for charging fees for Banka Slovenije services
Official Gazette of the Republic of Slovenia, No. 191/20 of 18 December 2020.
39. 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. 173/20 of 27 November 2020.
40. Regulation on the establishment and management of an assets register
Official Gazette of the Republic of Slovenia, No. 152/20 of 23 October 2020.

Bylaws

41. Rulebook amending the Rulebook on the rights, obligations and responsibilities of members of the Governing Board of Banka Slovenije and of employees with special authorisations at Banka Slovenije
Official Gazette of the Republic of Slovenia, No. 191/20 of 18 December 2020.

LIST OF ABBREVIATIONS

€STR

Euro short-term rate

AJPES

Agency of the Republic of Slovenia for Public Legal Records and Related Services

AML/CTF

Anti-money laundering and countering the financing of terrorism

APP

Asset Purchase Programme

BAS

Bank Association of Slovenia

BIS

Bank for International Settlements

CET1

Common equity Tier 1 capital ratio

CSDB

Centralised Securities Database

DSTI

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

EA

Euro area

EBA

European Banking Authority

ECB

European Central Bank

EDIS

European Deposit Insurance Scheme

EEA

European Economic Area

EFC

Economic and Financial Committee

EFDI

European Forum of Deposit Insurers

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

FARS

Financial Administration of the Republic of Slovenia

Fed

Federal Reserve System of the United States

FSB

Financial Stability Board

FTP

Financial Transaction Plan

GDP

Gross domestic product

GLTDF

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

HICP

Harmonised Index of Consumer Prices

ICAAP

Internal Capital Adequacy Assessment Process

IFRS 16

International Financial Reporting Standard 16

ILAAP

Internal Liquidity Adequacy Assessment Process

IMF

International Monetary Fund

JST

Joint Supervisory Team

KDD

Central Securities Clearing Corporation

LSIs

Less significant institutions

LTROs

Longer-term refinancing operations

LTV

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

MREL

Minimum requirements for own funds and eligible liabilities

MROs

Main refinancing operations

NPC

National Payments Council

NPEs

Non-performing exposures

NPLs

Non-performing loans

O-SIIs

Other systemically important institutions

OECD

Organisation for Economic Co-operation and Development

OMLP

Office for Money Laundering Prevention

PELTRO

Pandemic emergency longer-term refinancing operations

PEPP

Pandemic emergency purchase programme

PSPP

Public sector purchase programme

ROE

Return on equity

SDR

Special drawing rights

SEPA

Single Euro Payments Area

SIIs

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

SMA

Securities Market Agency

SORS

Statistical Office of the Republic of Slovenia

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

TARGET2

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

TARGET2-Securities (T2S)

Eurosystem single technical platform for the settlement of securities transactions

TIPS

TARGET Instant Payment Settlement

TLPT

Threat-led penetration testing

TLTRO, TLTRO-II and TLTRO-III

Targeted longer-term refinancing operations

