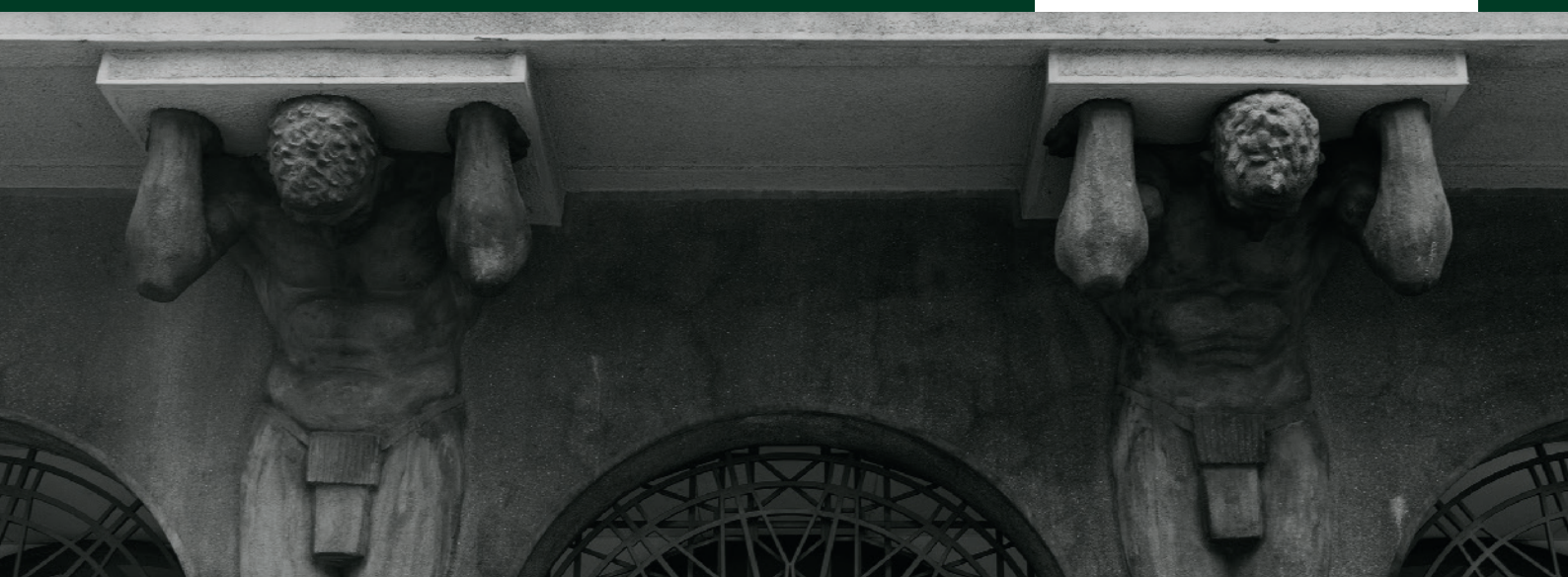


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BANK OF SLOVENIA
EUROSYSTEM



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Tel: +386 (1) 4719000

Fax: +386 (1) 2515516

Email: pr@bsi.si

<http://www.bsi.si>

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A WORD FROM THE GOVERNOR

Last year the Slovenian economy moved from recovery into rapid expansion. Economic growth in Slovenia was among the highest rates in the euro area, at 5%. It was significantly more sustainable than in the period of strongest overheating in 2007. The contribution to growth made by net trade was strongly positive, while growth in private-sector investment was mostly financed by the high corporate operating surplus, and not by debt as in the pre-crisis period.

The encouraging economic results and outlook are confirmation of the successful outcome of the bank recovery in 2013 and 2014. The recovery was the key to the reversal and stabilisation of the situation. There nevertheless remain certain risks in the Slovenian banking system, whose total assets increased by 2.4% last year to EUR 37.9 billion, while new risks are arising. The most significant is income risk, which is related to the low interest rate environment and the change in the behaviour of banks, firms and households since the crisis. Five years after the recovery there remains significant uncertainty surrounding the government ownership presence in the largest banks.

In the maintenance of financial stability, one of the Bank of Slovenia's key tasks, last year saw changes to a host of regulations on account of the implementation of the new IFRS 9. On the basis of questionnaires, thematic reviews and interviews with the banks, the Bank of Slovenia assesses that the changeover to accounting under the new standard will not have a material impact on the capital of the majority of the banks. Regulations in the area of credit risk were updated, and secondary legislation pursuant to the new Consumer Credit Act was adopted. The preparation of Basel III, the new standards for banking supervision, was completed at the BIS. The new package deepens the requirements of microprudential and macroprudential supervision of banks, introduces new standards for measuring and controlling risks in banking operations, and introduces new requirements with regard to ensuring and maintaining liquidity at banks. In the future Basel III will trigger numerous legislative changes in the European and domestic environments, with the aim of strengthening banks' capital soundness and liquidity, and increasing their resilience to any undesirable events.

The Bank of Slovenia is also endeavouring to achieve this aim, through the numerous priority tasks that it will carry out this year in various areas of work. To mention just a few: an assessment will be made of the stability of deposits in the Slovenian banking system, and models for monitoring and calibrating real estate macroprudential instruments will be developed. Major revision of the standard structure of the Bank of Slovenia's macroeconomic model is envisaged. Within this framework equation parameters will be re-estimated, and the model will be expanded with additional modules, which will allow for more detailed analysis of domestic economic activity. Innovations are promised in the area of payment services: the new instant payments service is expected to be offered in the Slovenian banking environment by the end of the year.

I am proud of everything that we have done together at the Bank of Slovenia over the last five years. To all my colleagues at the Bank of Slovenia, I thank you.

Boštjan Jazbec, Governor of the Bank of Slovenia




ABOUT THE BANK OF SLOVENIA

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

BANK OF SLOVENIA'S KEY A



MONETARY POLICY

The Bank of Slovenia pursues the Eurosystem's fundamental objective of maintaining price stability.



FINANCIAL STABILITY

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

1.7%

annual inflation in December 2017; inflation averaged 1.4% over 12 months

€447m

pre-tax profit generated in 2017 by the banking system, whose total assets amounted to EUR 37.9 billion

€3b

excess liquidity of the banking system at the end of 2017

5.99%

NPE ratio in the banking system at the end of 2017 (down from 8.49% at the end of 2016)

€1.1b

total borrowings by Slovenian banks in all four operations of the TLTRO-II between June 2016 and March 2017

4.8%

increase in the stock of loans to the non-banking sector as at December 2017 relative to December 2016

**3.2
tonnes**

gold in the Bank of Slovenia's reserves; gold and gold receivables amounted to EUR 111 million at the end of 2017

18.1%

total capital ratio of the banking system on a consolidated basis as at December 2017

443

EMPLOYEES

81.8%
with Level VII or
higher qualifications

€70.7M

SURPLUS OF INCOME
OVER EXPENSES
IN 2017

25%
proportion of the surplus*
that the Bank of Slovenia is
required by law to earmark
for the state budget

€57m
surplus of income over
expenses generated
by the Bank of Slovenia
in 2016

50

MILLION
TRANSACTIONS

executed by the Bank of
Slovenia in 2017 for its
198 clients

AREAS OF WORK AND TASKS



PAYMENTS AND INFRASTRUCTURE

The Bank of Slovenia is responsible for ensuring that payment systems and securities settlement systems function undisrupted.



BANKNOTES AND COINS

The Bank of Slovenia ensures that the Slovenian market is supplied with authentic and fit currency.

1,012,570
transactions

with a total value of EUR
397.95 billion were settled
in the TARGET2-Slovenija
payment system in 2017

SEPA
credit transfers

the Bank of Slovenia enabled
exchange with more than
4,100 payment service
providers across Europe

€16.8b

of transactions in securities
settled by Slovenian market
participants in T2S cash
accounts between February
and December 2017

8
systems

the Bank of Slovenia regularly
oversees the operation and
functioning of seven payment
systems and one securities
settlement system

currency in
circulation

By the end of 2017, a net
total of €5.61b of cash had
been issued into circulation
by the Bank of Slovenia since
the introduction of the euro

3,176

counterfeit euro banknotes
and 1,002 counterfeit euro
coins were withdrawn from
circulation in 2017

10th
anniversary

of the introduction of the
euro in Slovenia, marked by
the issue of a commemorative
2-euro coin

121.94
million

banknotes and coins
processed by the
Bank of Slovenia in 2017

1 INTRODUCTION

The images of famous Slovenes used in the introductions to sections of the Annual Report were used on tolar banknotes.

The 10th anniversary of the replacement of the tolar by the euro was celebrated last year.



1.1 TASKS OF THE BANK OF SLOVENIA

The Bank of Slovenia is the central bank of the Republic of Slovenia, and a member of the European System of Central Banks and the Eurosystem.¹

The Bank of Slovenia is under exclusive state ownership, with autonomy in terms of finances and governance; it independently disposes of its assets as a legal entity under public law.

In relations with national and European authorities, the Bank of Slovenia consistently upholds the Bank of Slovenia Act,² the provisions of the Treaty on European Union and the Treaty on the Functioning of the European Union,³ and the principle of independence, according to which it acts in the implementation of the tasks defined in the Statute of the ESCB and the ECB and the Bank of Slovenia Act.

Implementation of Eurosystem monetary policy

Since the introduction of the euro as the legal tender of Slovenia, the Bank of Slovenia has performed tasks in the area of monetary policy in accordance with the decisions of the Governing Council of the European Central Bank, of which the Governor of the Bank of Slovenia is a member. It works towards the joint strategic objectives as a member of the Eurosystem. It is responsible for the general liquidity of the banking system, and acts as the lender of last resort.

Banking supervision and ensuring financial stability

The Bank of Slovenia is the supervisory authority for banks, and since 4 November 2014 has been included in the Single Supervisory Mechanism (SSM)⁴ together with the ECB and other national central banks. The SSM is one of the three pillars of the banking union.⁵

Within the framework of the Eurosystem and the ESCB, the Bank of Slovenia co-designs, implements and oversees a system of prudential rules for safe and sound operations by banks and savings banks, and ensures financial stability through the regular monitoring and analysis of banks. The Bank of Slovenia also conducts supervision of certain other entities.⁶ Together with the Securities Market Agency (SMA) and the Insurance Supervision Agency (ISA), the Bank of Slovenia attends to macroprudential supervision and addresses identified risks by means of macroprudential instruments.

¹ ECB, ESCB in Eurosystem: <https://www.ecb.europa.eu/ecb/orga/escb/html/index.en.html>

² Bank of Slovenia Act: <http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO2988>

³ Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ%3AC%3A2016%3A202%3ATOC>

⁴ Single Supervisory Mechanism: <https://www.bankingsupervision.europa.eu/about/thessm/html/index.en.html>

⁵ Banking union: <https://www.bankingsupervision.europa.eu/about/bankingunion/html/index.en.html>

⁶ Institutions under supervision: <https://www.bsi.si/en/financial-stability/institutions-under-supervision>

Responsibility for deposit security and bank resolution

The deposit guarantee scheme in Slovenia is operated by the Bank of Slovenia in accordance with the Deposit Guarantee Scheme Act. Deposits at an individual bank are guaranteed up to the amount of EUR 100,000 (certain groups of depositors are excluded). The Bank of Slovenia manages a special deposit guarantee fund.

The Bank of Slovenia acts as the national bank resolution authority, and through it Slovenia is included in the banking union's central bank resolution authority, the Single Resolution Mechanism (SRM). The Bank of Slovenia operates the bank resolution fund in accordance with the Bank Resolution Authority and Fund Act.

Central Credit Register

The Bank of Slovenia manages the central national database of the debts of individuals deriving from credit operations (SISBON) and the debts of business entities and credit risks and other exposures taken up by lenders in operations with business entities (SISBOZ), which make up the Central Credit Register.

Functioning of payment and settlement systems

The Bank of Slovenia guides, manages, supports and supervises the functioning of payment and settlement systems in Slovenia, and oversees the security and efficiency of those systems.

Banknotes and coins

The Bank of Slovenia issues banknotes that are legal tender in Slovenia (coins are issued by the state), makes decisions regarding the release of banknotes and coins into circulation and their withdrawal from circulation, and supplies cash throughout Slovenia.

Management of foreign reserves and other assets

The Bank of Slovenia holds and manages the official foreign reserves, including part of the ECB's foreign reserves, and other assets. It participates in operations on the foreign exchange and financial markets.

Management of accounts and execution of payments for the state and the banks

The Bank of Slovenia manages accounts and executes payments for the Republic of Slovenia, government bodies and public entities, for domestic banks and foreign banks, and for foreign countries and foreign central banks, international organisations, EU institutions, other domestic and foreign financial institutions, and other participants in the financial market.

Statistics

The Bank of Slovenia records, collects, processes and discloses data and information, including monetary and financial statistics, international economic relations statistics and financial accounts statistics.

Information system

The Bank of Slovenia provides an information system for the unhindered performance of its tasks.

1.2 KEY REGULATIONS FOR THE FUNCTIONING OF THE BANK OF SLOVENIA⁷

Key laws for the functioning of the Bank of Slovenia:

- Constitutional Law Relating to the Fundamental Constitutional Charter on the Sovereignty and Independence of the Republic of Slovenia
(Official Gazette of the Republic of Slovenia, Nos. 1/91 [I], 45/94 [I] and 11/14 [revision])
- Bank of Slovenia Act
(Official Gazette of the Republic of Slovenia, Nos. 72/06 [official consolidated version], 59/11 and 55/17)
- Euro Introduction Act
(Official Gazette of the Republic of Slovenia, No. 114/06)
- Banking Act
(Official Gazette of the Republic of Slovenia, Nos. 25/15, 44/16 [ZRPPB], 77/16 [ZCKR] and 41/17)
- Macroprudential Supervision of the Financial System Act
(Official Gazette of the Republic of Slovenia, No. 100/13)
- Resolution and Compulsory Winding-Up of Banks Act
(Official Gazette of the Republic of Slovenia, Nos. 44/16 and 71/16 [constitutional court decision])
- Bank Resolution Authority and Fund Act
(Official Gazette of the Republic of Slovenia, Nos. 97/14, 91/15, 44/16 [ZRPPB] and 27/17)
- Government Measures to Strengthen the Stability of Banks Act
(Official Gazette of the Republic of Slovenia, Nos. 105/12, 63/13 [ZS-K], 23/14 [ZDIJZ-C], 104/15, 26/17 [ORZUKSB33] and 27/17 [revision])
- Deposit Guarantee Scheme Act
(Official Gazette of the Republic of Slovenia, No. 27/16)
- Central Credit Register Act
(Official Gazette of the Republic of Slovenia, No. 77/16)
- Financial Instruments Market Act
(Official Gazette of the Republic of Slovenia, Nos. 108/10 [official consolidated version], 78/11, 55/12, 105/12 [ZBan-1J], 63/13 [ZS-K], 30/16 and 9/17)
- Investment Funds and Management Companies Act
(Official Gazette of the Republic of Slovenia, Nos. 31/15, 81/15 and 77/16)
- Consumer Credit Act
(Official Gazette of the Republic of Slovenia, No. 77/16)
- Prevention of Money Laundering and Terrorist Financing Act
(Official Gazette of the Republic of Slovenia, No. 68/16)

⁷ The entire list of regulations is given on the Bank of Slovenia website under Regulation at <https://www.bsi.si/en/about-us/regulation>

- Financial Conglomerates Act
(Official Gazette of the Republic of Slovenia, Nos. 43/06, 87/11 and 56/13)
- Mortgage Bond and Municipal Bond Act
(Official Gazette of the Republic of Slovenia, Nos. 10/12 and 47/12)
- Payment Services and Systems Act
(Official Gazette of the Republic of Slovenia, Nos. 58/09, 34/10, 9/11, 32/12, 81/15, 47/16, and 7/18 [ZPlaSSIED])
- Payment Services, Electronic Money Issuance Services and Payment Systems Act
(Official Gazette of the Republic of Slovenia, Nos. 7/18 and 9/18 [revision])⁸
- Foreign Exchange Act
(Official Gazette of the Republic of Slovenia, Nos. 16/08, 85/09 and 109/12)
- Commemorative Coins Act
(Official Gazette of the Republic of Slovenia, No. 53/07)
- National Statistics Act
(Official Gazette of the Republic of Slovenia, Nos. 45/95 and 9/01)

Key EU regulations for the functioning of the Bank of Slovenia:

- Regulation (EU) No 575/2013
of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms
- Council Regulation (EU) No 1024/2013
of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions
- Regulation (EU) No 806/2014
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 and amending Regulation (EU) No 1093/2010 (OJ L 225 of 30 July 2014)
- Regulation (EU) No 648/2012
of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (OJ L 201 of 27 July 2012)
- Regulation (EU) No 2015/2365
of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012 (OJ L 337 of 23 December 2015, p 1)

⁸ Entered into force on 22 February 2018.

1.3 REALISATION OF PRIORITIES IN 2017

1.3.1 Banking supervision

Standing supervisory activities: the planned supervisory actions at banks in the significant institution category⁹ were realised in full for the three largest banks (NLB, NKBM, Abanka) or actually exceeded in certain instances on account of additional activities that could be carried out as a result of reinforcement of the Joint Supervisory Teams (JSTs) with extra ECB representatives.

The plan of supervisory actions in the segment of banks that are members of banking groups established in euro area countries and that constitute a significant banking group was not realised in full in the part relating to the review and assessment of recovery plans. The reason was that all the recovery plans were submitted by the banking groups simultaneously, but the timeframe in which the local JSTs were required to assess them was short (two to three weeks). Given this limitation, the JSTs review the recovery plans alternately while considering the bank's risk profile and changes in operations and the group. The recovery plan of each bank is thus reviewed at least once during the cycle of three years.

In all 57 of the total of 65 planned supervisory actions were realised at the less significant banks.¹⁰ Certain planned actions were not completed because of additional activities that could not have been entirely foreseen during the preparation of the plan (increased volume of activity in the oversight of recapitalisation activities and in the sale of majority holdings, multiple procedures for granting authorisations to include instruments with the attributes of subordinated debt in the calculation of the institution's capital, participation in the trial period of the application of ECB SREP¹¹ methodology to less significant banks, increased volume of documentation sent for commentary by the ECB).

Supervisory reviews at banks: 11 of the 13 planned reviews and inspections were realised in 2017, and two were deferred until 2018.

For more details, see Section 3.6 Banking supervision.

1.3.2 Effective implementation of macroprudential policy

In 2017 the Bank of Slovenia upgraded the model for conducting stress tests in the Slovenian banking system, improved the risk dashboard (the system of indicators for identifying and prioritising systemic risks), and developed an early warning system (EWS).

⁹ Criteria that must be met by banks that are designated as significant institutions: <https://www.bankingsupervision.europa.eu/banking/list/criteria/html/index.en.html>

¹⁰ This category comprises banks and savings banks that are not classed as significant institutions. The list can be found at <https://www.bsi.si/en/financial-stability/banking-system-supervision>

¹¹ The Supervisory Review and Evaluation Process (SREP) is one of the more important regular tasks within the framework of the supervision and monitoring of banks. The SREP is based on the review and evaluation of the business model, the risk management system, the level of individual risks, including the internal capital adequacy assessment process put in place by the bank, and liquidity.

The Bank of Slovenia also modified the methodology for identifying other systemically important institutions, and adopted a macroprudential recommendation in the area of liquidity and funding structure. It conducted quarterly reviews of the indicators used to determine the level of the countercyclical capital buffer, and reviewed the Slovenian banking system's significant exposures to third countries. Last year for the first time the Bank of Slovenia surveyed banks on the structure of new housing loans for the purpose of monitoring credit standards, and upholding the non-binding macroprudential recommendations for the residential real estate market.¹² The survey findings are summarised in the January 2018 Financial Stability Review.¹³ Because the recommendation was not adopted until September 2016, it will only be possible to review compliance with the recommendation by analysing the survey for 2017.

For more details, see Section 3.7 Macroprudential supervision and financial stability.

1.3.3 Implementation of IFRS 9

As part of the preparations for the introduction of the new IFRS 9, the Bank of Slovenia overhauled all of the relevant secondary legislation and guidelines in the areas of books of account, annual reports, credit risk management and reporting.

The new IFRS 9 also required changes in the reporting system for banks and savings banks, and these activities are continuing in 2018.

For more details, see Section 3.7.4 Project to introduce IFRS 9 and Section 3.2.1 Secondary legislation.

1.3.4 Licensing of consumer credit providers for real estate

Pursuant to the new Consumer Credit Act (the ZPotK-2),¹⁴ in 2017 the Bank of Slovenia became responsible for licensing two new types of entity in the area of consumer credit for real estate, namely providers of consumer credit in the form of finance leasing of real estate (who are under bank ownership of at least 20% or have total assets of more than EUR 50 million) and credit intermediaries for consumer credit for real estate. The aim of the new law is primarily to increase the level of consumer protection in the area of consumer lending for real estate via incentives for sustainable credit provision and taking.

Since the entry into force of the ZPotK-2 in March 2017, the Bank of Slovenia has received and processed two applications for authorisations to act as

¹² The recommended maximum of the ratio of the amount of a housing loan to the value of the real estate collateral (LTV) is 80%. The recommended maximum of the ratio of the borrower's annual debt servicing costs to annual income (DSTI ratio) is 50% for borrowers with monthly income less than or equal to EUR 1,700, and 50% for that portion of income up to EUR 1,700 inclusive and 67% for that portion of income exceeding EUR 1,700 for borrowers whose monthly income is greater than EUR 1,700. More at: <https://www.bsi.si/en/financial-stability/macprudential-supervision/macprudential-instruments/instruments-for-the-real-estate-market>

¹³ Financial Stability Review: <https://www.bsi.si/en/publications/financial-stability-review>

¹⁴ Link to the law: <http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7235>

a consumer credit intermediary for real estate. In one instance the authorisation was granted, while in the other the application was rejected.

In accordance with the ZPotK-2, the cross-border provision of consumer credit intermediation services for real estate is allowed, either directly or via a branch. The Bank of Slovenia received 14 notifications of the cross-border provision of services in Slovenia.

The Bank of Slovenia manages a register of credit intermediaries with a Bank of Slovenia authorisation¹⁵ and a register of credit intermediaries from other Member States who have notified the provision of services in Slovenia,¹⁶ and publishes them on its website.

1.3.5 Overhaul of key regulations

In the area of banking regulations, 2017 most notably saw a change in regulations owing to the implementation of the new IFRS 9, an overhaul of regulations in the area of credit risk, and the adoption of secondary legislation pursuant to the new Consumer Credit Act (the ZPotK-2).

For more details, see Section 6.2.1 Secondary legislation.

1.3.6 Prevention of money laundering and terrorist financing (AML/CFT)

A memorandum of understanding was signed between the Bank of Slovenia and the Office for Money Laundering Prevention (OMLP) in March 2017 to define their collaboration when conducting supervisory activities from the perspective of AML/CFT at entities under Bank of Slovenia supervision. Several actions have already been taken on this basis in connection with the establishment of supervisory practice in the area of virtual currencies within the framework of AML/CFT.

In the first quarter of 2018 the Bank of Slovenia issued a circular to the banks for the purpose of providing additional clarifications with regard to the operational implementation of the new legal requirements in the area of AML/CFT. Owing to the numerous other (extraordinary) activities in the area of AML/CFT, the planned update and issue of guidelines was also deferred until the first quarter of 2018.

The Bank of Slovenia's representative was the sole representative of the financial sector actively involved in activities as part of the Moneyval¹⁷ assessment, the comprehensive assessment of legislative compliance and the effectiveness of the implementation of measures in the area of AML/CFT, which was completed in June 2017. Two action plans to rectify deficiencies were drawn up on the basis of the recommendations issued, and were also

¹⁵ Register: <https://www.bsi.si/en/financial-stability/institutions-under-supervision/credit-intermediaries-for-real-estate/register-of-credit-intermediaries-with-authorisation-to-act-as-consumer-credit-intermediary-for-real-estate>

¹⁶ Register: <https://www.bsi.si/en/financial-stability/institutions-under-supervision/credit-intermediaries-for-real-estate/register-of-credit-intermediaries-of-member-states>

¹⁷ The assessment is conducted by the relevant committee of experts within the framework of the Council of Europe, whose purpose is determining whether Slovenia is consistently implementing the FATF recommendations in the area of AML/CFT.

approved by the government in December 2017. The Bank of Slovenia was involved in drawing up the plans.

For more details, see Section 3.7.5 Supervision of compliance and AML/CFT.

1.3.7 Upgrade of SISBON and new users integration

Two major upgrades of SISBON, the Data Exchange System on individuals indebtedness, were made in 2017. A new scheme for acquiring SISBON data for Other creditors was implemented in May in accordance with the Consumer Credit Act (the ZPotK-2), while an expanded scheme for reporting and disclosing data for SISBON Members in accordance with the Central Credit Register Act was implemented in early December.

With regard to the inclusion of new users in SISBON, all the requisite support for inclusion in the system was provided to new members and participating lenders throughout the year.

For more details, see Section 3.11 Central Credit Register.

1.3.8 Preparation of bank resolution plans

The Bank of Slovenia has drawn up resolution plans for all banks for which it is the competent authority,¹⁸ and also participated in updating the resolution plans of banks and banking groups drawn up by the Single Resolution Board.

For more details, see Section 3.9 Bank resolution.

1.3.9 Establishment of cash leg of TARGET2-Securities (T2S)

In February 2017 the Central Securities Clearing Corporation (KDD) and the Bank of Slovenia began using T2S as the Eurosystem's single technical platform for the settlement of securities transactions. Following the migration to T2S, all exchange-based and OTC transactions in securities by participants in the Slovenian market are executed exclusively in T2S, bringing an end to years of preparation by the Bank of Slovenia, KDD and other stakeholders in the Slovenian securities market.

For more details, see Section 3.5 Payment and settlement systems.

1.3.10 Computerisation of DSBS office operations

The first phase of the Documentation System of the Bank of Slovenia (DSBS) project, which computerised the entire process of preparing and holding meetings of the Governing Board of the Bank of Slovenia, was completed. The procurement and electronic liquidation of accounts and the management of sessions of the risk committee at bank level were also computerised.

¹⁸ The Single Resolution Board is responsible for the preparation of resolution plans for banks and banking groups that are under the direct supervision of the ECB, and for all banks that pursue cross-border activities.

2 ECONOMIC AND INSTITUTIONAL ENVIRONMENT

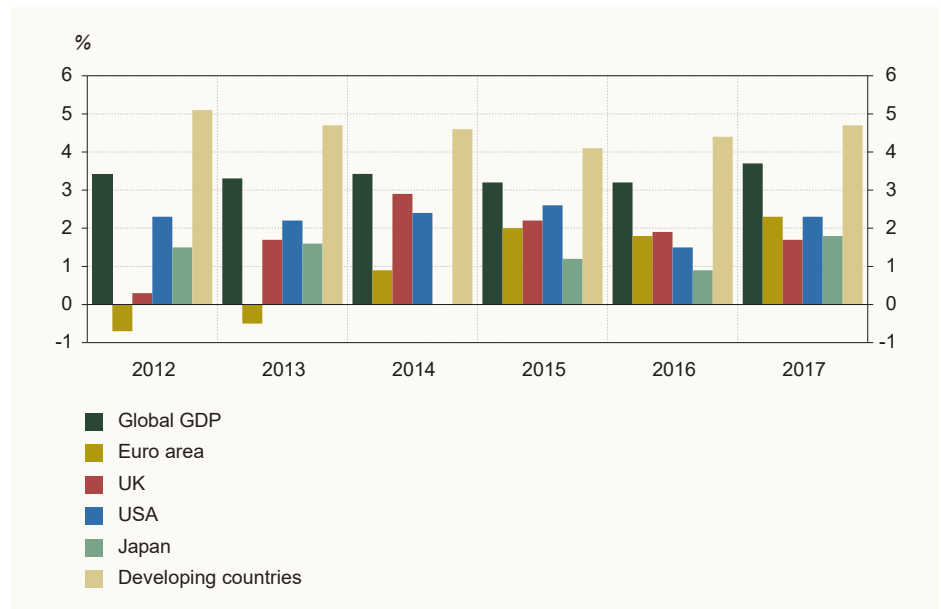


2.1 INTERNATIONAL SITUATION

Global economic growth strengthened in 2017.

Global economic growth strengthened in 2017. According to the IMF figures, growth stood at 3.7%, up 0.5 percentage points on 2016. This was attributable both to advanced economies and to developing countries. Among the advanced economies, economic growth strengthened in Japan, the US and the euro area, while growth in the UK was down slightly on the previous year. The highest economic growth in the BRIC countries continued to be recorded by China and India, while Russia and Brazil emerged from recession. Although the prevailing risks from the perspective of economic growth in 2017 were downside risks associated with political risks in certain European countries, with Brexit, and with the instability in the Middle East, growth in the euro area remained encouraging. According to the Eurostat figures, euro area GDP strengthened by 2.3% last year, 0.5 percentage points more than in the previous year. The economic sentiment was strongly above its long-term average. The favourable situation was also reflected on the labour market, as unemployment reached its lowest rate since 2008.

Figure 1: Global economic growth



Sources: Eurostat, IMF

The euro exchange rate and oil prices also strengthened.

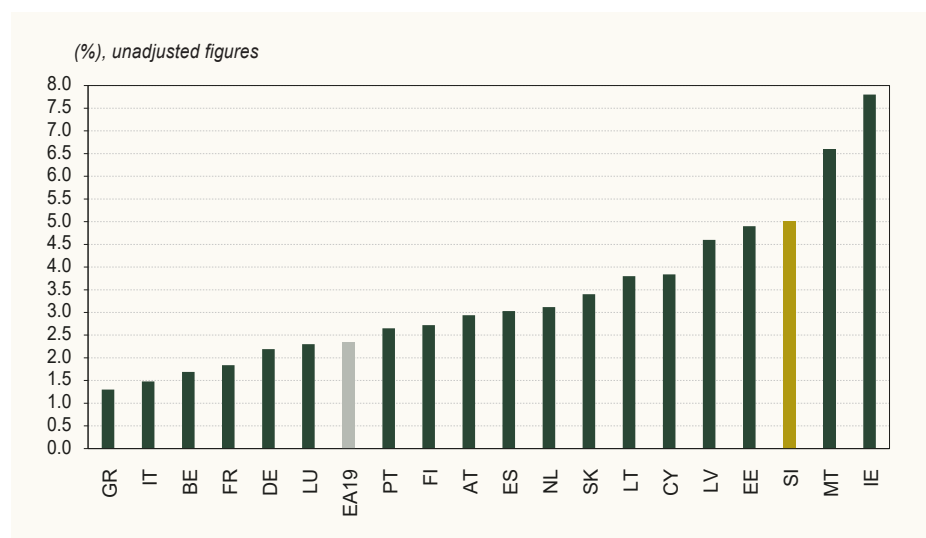
The euro exchange rate and oil prices also strengthened. The euro rose against the US dollar, despite the large differences in the monetary policies of the ECB and the Fed. The Fed raised its key interest rate several times during the year, while the ECB reduced its volume of securities purchases relative to 2016, but left its key interest rates unchanged. US dollar oil prices rose in 2017, but the effects of the rise on inflation in the euro area were partly mitigated by the rise in the euro. US dollar prices of other commodities also rose on global markets, while food prices fell.

2.2 SLOVENIAN ECONOMY

The Slovenian economy moved from the recovery phase to the rapid expansion phase last year. GDP growth recorded one of the highest rates in the euro area, reaching 5.0%, up 1.9 percentage points on 2016. At the end of the year real GDP was nevertheless up only 4.5% on its pre-crisis peak. The structure of growth last year differed from the period of strongest overheating in 2007: the contribution to growth made by net trade was strongly positive, while the sharp growth in private-sector investment was mostly financed by retained earnings in the corporate sector, and not via borrowing. Private consumption also strengthened, in line with the rapid growth in employment. It also began to be supported in the second half of the year by higher wage growth, which remained at levels that did not endanger external competitiveness, as growth in unit labour costs remained lower than the euro area average. Economic growth was also promoted by the government sector via increased expenditure, although within boundaries that allowed for a significant improvement in the fiscal position.

GDP growth recorded one of the highest rates in the euro area, reaching 5.0%, up 1.9 percentage points on 2016.

Figure 2: Economic growth in euro area countries in 2017



Sources: Eurostat, Bank of Slovenia calculations

Imbalances on the labour market increased in 2017 in the wake of high growth in employment. The workforce in employment increased by 3.5% last year, the highest rise since 2007. It was largely attributable to manufacturing and to administrative and support service activities, which includes staffing agency work. The employment growth was based on a rapid fall in unemployment, a rise in the labour force participation rate and increased hiring of foreign workers. The harmonised unemployment rate stood at 6.8%, 2.3 percentage points less than the average unemployment rate across the euro area. The increased employment growth nevertheless did not meet the demand for labour in the economy, as the proportion of firms facing a shortage of workers increased. Despite faster hiring in sectors with below-average pay, the shortage of workers has already begun to be reflected in moderate upward pressure on wages, although growth remained low compared with the pre-crisis period, at 2.7%.

The workforce in employment increased by 3.5% last year, the highest rise since 2007.

Headline inflation in Slovenia as measured by the HICP averaged 1.6% last year.

The structure of economic growth and the reduced burden of interest payments on the public debt were reflected last year in an increase in the current account surplus. It reached EUR 2.8 billion, or 6.4% of GDP. Given the strengthened climate in the euro area, the competitive export sector saw a nominal increase of 13.3% in exports of merchandise and services. Growth in imports was also up sharply on 2016, the components of domestic demand having strengthened, while the nominal value of imports was also raised by higher commodity prices on global markets. The trade surplus nevertheless increased by EUR 420 million to EUR 4.1 billion, or 9.5% of GDP. At the same time the deficit in income narrowed by EUR 245 million to less than EUR 1.4 billion, or 3.1% of GDP. The majority of the narrowing of the deficit was related to the restructuring of public debt in the context of improved sovereign borrowing terms on international financial markets, and to the purchase of government bonds within the framework of the implementation of ECB monetary policy.

The financial account shows high net financing of the rest of the world in 2017, while there was a significant decline in the net external debt. Slovenia was a net financier of the rest of the world in the amount of EUR 1.7 billion, EUR 0.5 billion more than in the previous year. The financial account surplus was primarily generated by investments in foreign securities. The net outflow from securities amounted to EUR 2.9 billion. By contrast direct investments recorded a net inflow in the amount of EUR 0.5 billion, while all other investments recorded a net inflow in the amount of EUR 0.7 billion. The most important items among other investments were the net outflow in loans in the amount of EUR 1.7 billion, where loans were repaid by all institutional sectors, and the net inflow of currency and deposits in the amount of EUR 2.7 billion. The net external debt stood at EUR 9.6 billion at the end of 2017, down EUR 2.1 billion on a year earlier. The government sector alone held a net debt against the rest of the world at the end of 2017, in the amount of EUR 17.5 billion, EUR 1 billion less than a year earlier.

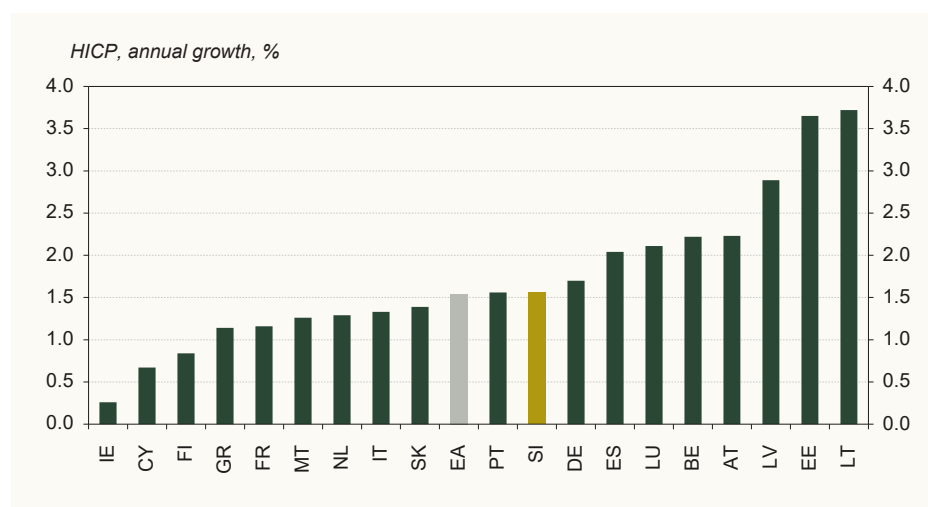
The general government position was balanced in 2017, a significant improvement on the government forecasts, which were predicting a deficit in the amount of 0.8% of GDP. The improvement in the position was attributable to the favourable economic situation, as there was a significant decline in the interest burden, while the government also retained certain austerity measures. Growth in general government expenditure was moderate at just 1.9%, significantly less than growth in general government revenues, which reached 6.5%. Last year the general government debt declined in relative terms for the second consecutive year. It amounted to 73.6% of GDP at the end of the year, thereby remaining below the EU average. The required yields on 10-year government bonds mostly fell during the year owing to the low interest rates encouraged by the ECB expansionary monetary policy, rapid economic growth and sovereign upgradings.

Current account surplus reached EUR 2.8 billion, or 6.4% of GDP.

Price developments underwent a reversal in 2017. Headline inflation in Slovenia as measured by the HICP averaged 1.6% last year, comparable to the average across the euro area, and 1.8 percentage points more than in the previous year. The reversal in the inflation dynamic was largely attributable to foreign factors, which brought a change in the structure of domestic inflation. The average contribution to domestic inflation made by energy prices

turned positive in 2017, and became the largest of any of the price categories. Having already been positive, the contributions made by food prices increased, largely as a result of weather factors and higher import prices. By contrast, the fall in prices of non-energy industrial goods deepened. The sustained fall in prices in this category remains the main factor in low domestic core inflation, and in the differences in structure between domestic inflation and inflation across the euro area. Core inflation in Slovenia was below the euro area average for the majority of the year, although its broadest metric, which excludes the influence of energy prices on inflation, overtook the comparable overall figure in the euro area towards the end of the year to average 1.1% over the year.

Figure 3: Inflation in euro area countries in 2017



Source: Eurostat

2.2.1 Banking system

At the end of 2017 there were 12 banks, three savings banks and three branches of foreign banks operating in Slovenia. The banks held a market share of 93% of the banking system¹⁹ in terms of total assets. There was one fewer bank compared with the previous year, the trend of a fall in the number of banking institutions in Slovenia seen over several years thereby continuing.

The banking system's total assets amounted to EUR 37.9 billion at the end of 2017, up 2.4% or EUR 897 million on the end of 2016, the year-on-year rate of growth having turned positive late in the first quarter of 2017. On the funding side the increase in the balance sheet total was largely attributable to deposits by the non-banking sector, household deposits in particular, while the banks continued to pay down their liabilities on wholesale markets. On the investment side the increase was primarily attributable to loans to the non-banking sector, while the banks and savings banks maintained a large proportion of the most liquid assets and safe assets. The faster

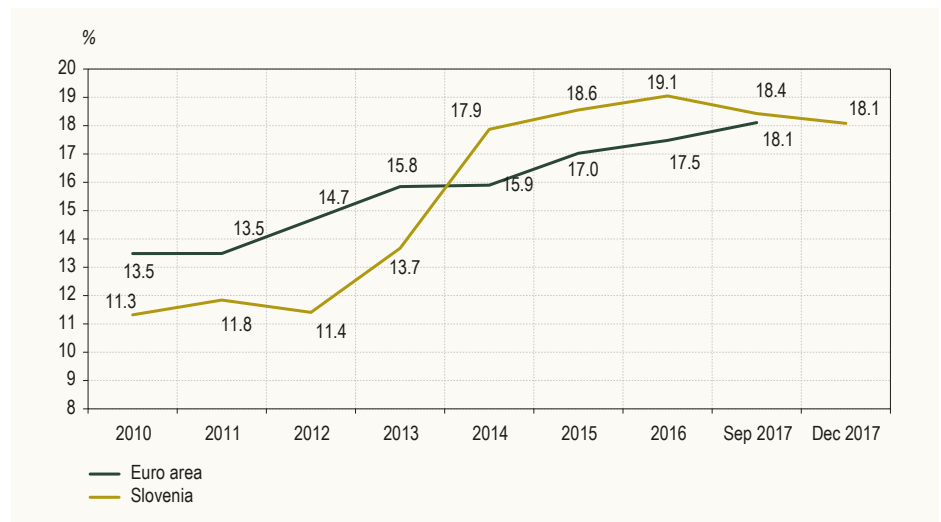
The banking system's total assets amounted to EUR 37.9 billion at the end of 2017, up 2.4% on the end of 2016.

¹⁹ The banking system comprises banks, savings banks and branches of foreign banks. A list of the institutions is given on the Bank of Slovenia website under Institutions under supervision at <https://www.bsi.si/en/financial-stability/institutions-under-supervision>.

growth in GDP meant that the ratio of the banking system's total assets to GDP declined in 2017, to below 87%.

The Slovenian banking system was well-capitalised in 2017, although there remained significant variation from institution to institution. The banking system's total capital ratio stood at 18.1% on a consolidated basis in December of last year, down 1 percentage point on the end of 2016. The decline in capital adequacy in the 2017 was the result of growth in capital requirements outpacing growth in regulatory capital. Capital requirements increased on account of the increase in lending activity to corporates and households. The banking system's regulatory capital increased primarily as a result of retained earnings, higher reserves and minor recapitalisations, albeit more slowly than the increase in capital requirements. The quality of the capital structure remained high. The small domestic banks and savings banks remained the weakest in capital terms in 2017.

Figure 4: Capital adequacy at banks and comparison with the euro area, consolidated figures, in percentages



Source: Bank of Slovenia, ECB Statistical Data Warehouse

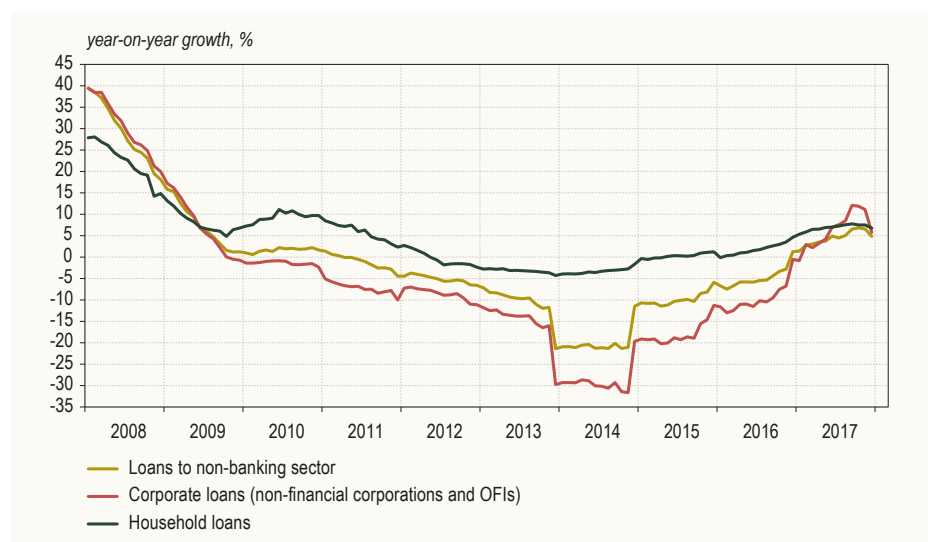
The stock of loans to the non-banking sector amounted to EUR 21.5 billion at the end of 2017, up 4.8% on the end of 2016.

The banking system recorded solid lending growth in 2017. Growth in loans to the non-banking sector turned positive in December 2016. The year-on-year rate of growth had increased to 4.8% by December of last year. The increase in lending activity was mainly attributable to faster growth in lending to households and corporates. Year-on-year growth in corporate loans gradually strengthened over the first eleven months of the year, which was partly attributable to a base effect,²⁰ then slowed to 2.2% in December. SMEs were primarily responsible for the growth in corporate loans. Growth in household loans gradually increased over the first three quarters of the year, before slowing to 6.8% in December. The increased growth in lending was primarily seen in consumer loans, as a result of increased demand from households on account of favourable lending terms and the good economic situation, the improvement in the situation on the labour market, and

²⁰ Credit institutions recorded a significant increase in corporate loans in late 2016, as a result of several large individual loans. Another factor in the increase in year-on-year growth was the declining pace of corporate lending that lasted until November 2016 inclusive.

increased consumer confidence. Year-on-year growth in housing loans remained stable over the year, reaching 4.8% in December. The solid growth in housing loans was the result of certain favourable factors, such as low interest rates, low household indebtedness and the revival of the real estate market.

Figure 5: Year-on-year growth in loans to the non-banking sector



Source: Bank of Slovenia

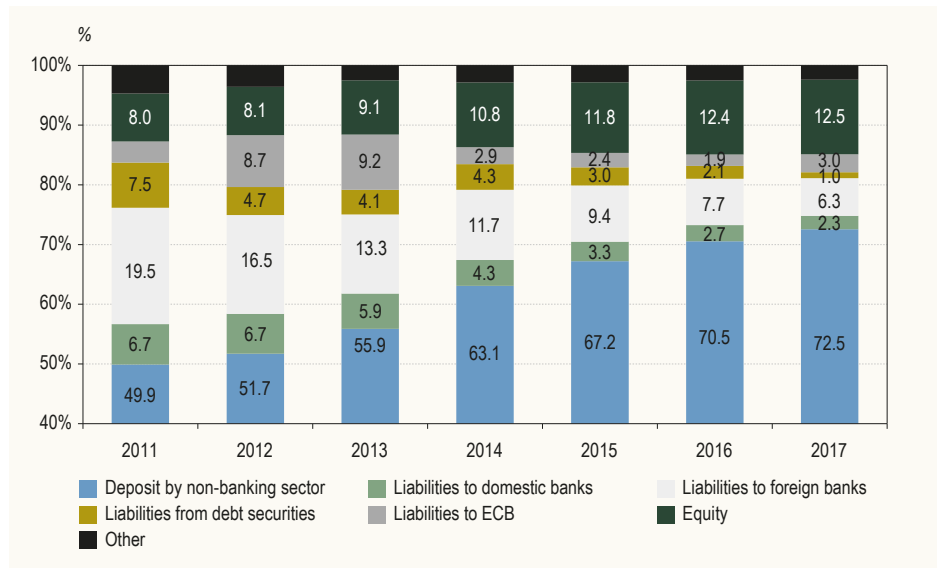
The quality of the banks' credit portfolio further improved in 2017. The NPE ratio declined from 8.5% at the end of 2016 to 6.0% at the end of 2017, a decline of EUR 2.5 billion in NPEs. The non-financial corporations sector remained the most heavily burdened by NPEs, with a stock of EUR 1.7 billion and an NPE ratio of 12.9%.

The banking system's liquidity position remained favourable: the stock of secondary market liquidity increased, the first-bucket liquidity ratio remained high, and the proportion of the pool of eligible collateral that is free also remained sufficient, which allows banks to access additional funding at the Eurosystem in the event of increased liquidity needs.

Deposits by the non-banking sector became the most important source of funding for Slovenian banks in 2017, although the increase in sight deposits saw average maturity continue to shorten. By December 2017, deposits by the non-banking sector accounted for 72.5% of the banking system's total funding. Household deposits remain the most important, their year-on-year growth reaching 5.6% in December. The lengthening maturities of loans and the simultaneous growth in sight deposits by the non-banking sector increased the maturity mismatch between investments and funding. This is introducing a certain degree of risk into the banking system's funding structure, as these deposits could prove to be unstable in the event of emergencies or major changes in interest rates. This is particularly the case of corporate sight deposits, which accounted for almost 12% of total liabilities in December of last year.

Deposits by the non-banking sector amounted to EUR 27.5 billion at the end of 2017, up 5.3% on the end of 2016.

Figure 6: Breakdown of bank funding, in percentages



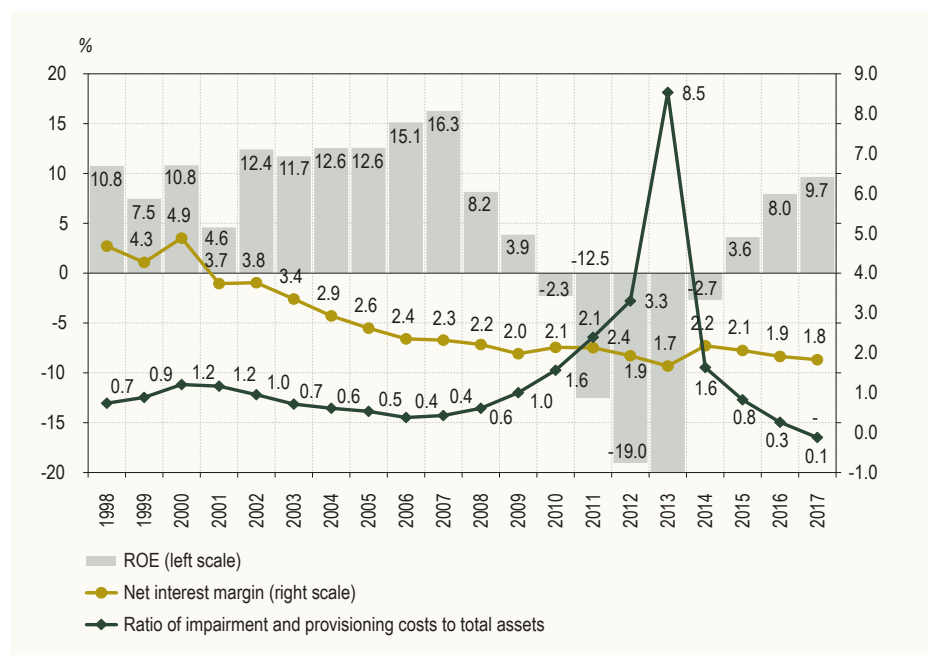
Source: Bank of Slovenia

The banking system generated a pre-tax profit of EUR 447 million in 2017.

The banking system generated a pre-tax profit of EUR 447 million in 2017.²¹ The decline in net interest income continued. There was a decline in both interest income and interest expenses, the year-on-year contraction in both slowing during the year. Net non-interest income declined last year, as certain beneficial one-off factors that were seen in the previous year were not present. Net fees and commission, which accounts for the largest proportion of non-interest income, increased last year. Net interest income accounted for 61% of the banks' gross income last year, comparable to the previous year. The improvement in the quality of the credit portfolio, which is most often the result of economic growth and the resolution of non-performing loans, had a favourable impact on impairments and provisioning, which recorded a net release overall in the banking system. After several years of decline, operating costs increased minimally in 2017.

²¹ Data from closing accounts for 2017.

Figure 7: ROE, net interest margin on interest-bearing assets, and ratio of impairment and provisioning costs to total assets



Source: Bank of Slovenia

3 IMPLEMENTATION OF THE BANK OF SLOVENIA'S TASKS



3.1 INSTITUTIONAL FRAMEWORK

The Bank of Slovenia is a member of the Eurosystem and the European System of Central Banks (ESCB), which are governed by the decision-making bodies of the ECB: the Governing Council and the Executive Board. The functioning of the two decision-making bodies is defined 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 ECB's Governing Council and Executive Board.²⁴ Decision-making by the Eurosystem and ESCB is centralised, while the implementation of decisions is decentralised via the national central banks, i.e. the members of the Eurosystem.

Decision-making within the Eurosystem and the ESCB is centralised, while the implementation of decisions is decentralised.

The Governing Council of the ECB comprises the members of the Executive Board²⁵ and the governors of the national central banks.²⁶ Voting on the Governing Council is organised through a system of rotating voting rights.²⁷

The Governor of the Bank of Slovenia attends the meetings of the Governing Council and participates in the decision-making process. The Governing Council meets every six weeks to make decisions on monetary policy.

The Supervisory Board,²⁸ which discusses, plans and carries out the ECB's banking supervision tasks, i.e. its tasks in the Single Supervisory Mechanism,²⁹ is answerable to the Governing Council. The Supervisory Board meets periodically. Representatives of national banking supervisors, among them the vice-governor of the Bank of Slovenia, sit on the Supervisory Board. The Supervisory Board proposes draft decisions to the Governing Council under the non-objection procedure.

There are a number of committees, task forces and other working bodies at ECB and ESCB level that participate in the preparation of the decisions made by the Governing Council, in which Bank of Slovenia staff and representatives participate. The committees are illustrated in Diagram 1.

The Eurosystem/ESCB committees assist the ECB's decision-making bodies, and contribute significantly to cooperation within the ESCB. They consist of representatives of the ECB and the national central banks of the Eurosystem, and other competent bodies, such as national supervisory authorities in the case of the Banking Supervision Committee. Each of the national central banks of Member States that have not yet joined the euro participates in ESCB committee meetings whenever a committee is dealing with matters that fall within the field of competence of the General Council of the ECB.

²² Treaty: <https://www.ecb.europa.eu/ecb/legal/1341/1342/html/index.en.html>

²³ Statute: <https://www.ecb.europa.eu/ecb/legal/1341/1343/html/index.en.html>

²⁴ Rules of procedure: <https://www.ecb.europa.eu/ecb/legal/1001/1009/html/index.en.html>

²⁵ Executive Board: <https://www.ecb.europa.eu/ecb/orga/decisions/eb/html/index.en.html>

²⁶ Governing Council: <https://www.ecb.europa.eu/ecb/orga/decisions/govc/html/index.en.html>

²⁷ Rotation of voting rights in the Governing Council: <https://www.ecb.europa.eu/ecb/orga/decisions/govc/html/votingrights.en.html>

²⁸ The SSM took over supervision of significant banks in Europe on 4 November 2014 (by 1 January 2018 there were 118 under its supervision): <https://www.bankingsupervision.europa.eu/banking/list/who/html/index.en.html>

²⁹ Supervisory Board: <https://www.ecb.europa.eu/ecb/orga/decisions/ssm/html/index.en.html>

Cooperation has strengthened from year to year, as is evident from the Table 1.

Table 1: Bank of Slovenia's participation at the ESCB and Eurosystem/SSM

TYPE OF PARTICIPATION	2015	2016	2017
1. Meetings of ESCB/ESRB committees and working groups	295	378	405
2. Teleconferences	589	1,207	1,518
3. Written procedures	6,277	8,142	10,519
4. Questionnaires/surveys	305	310	322
5. Technical assistance	10	35	44
6. Alternative forms of participation	125	176	275

Source: Bank of Slovenia

The Single Supervisory Mechanism (SSM) is one of the three pillars of the EU banking union,³⁰ created in response to the financial crisis with the aim of restoring and maintaining confidence in the European banking system. The banking union complements the economic and monetary union (EMU) and the single market by coordinating the responsibility for bank supervision, resolution and funding at the EU level, and ensuring a level playing field for banks across the euro area. Alongside the SSM, which has been in operation since 4 November 2014, the other two pillars of the banking union consists of the Single Resolution Mechanism (SRM), which has been in operation since 1 January 2015, and the European Deposit Insurance Scheme (EDIS), which is still being established.

The SMR's central body is the Single Resolution Board (SRB),³¹ which acts as an independent EU agency in Brussels, and in which Slovenia is a member via the Bank of Slovenia as the national resolution authority. The SRB is responsible for finding appropriate solutions for failing banks with the aim of minimising the impact on the real economy, the financial system and the public finances of Member States. To this end the SRB prepares and updates the resolution plans of systemically important banks and banking groups, implements resolution at individual systemically important banks and groups, where necessary, and decides on the use of the Single Resolution Fund (SRF). Slovenia's representative, the vice-governor of the Bank of Slovenia, participates as a permanent member of the SRB's plenary sessions. The Bank of Slovenia also participated in several committees of the SRB's working groups in 2017, as illustrated in Diagram 1.

³⁰ For more on the banking union, see https://ec.europa.eu/info/business-economy-euro/banking-and-finance/banking-union_en and <https://www.bankingsupervision.europa.eu/about/bankingunion/html/index.en.html>

³¹ More on the SRB: <https://srb.europa.eu/>

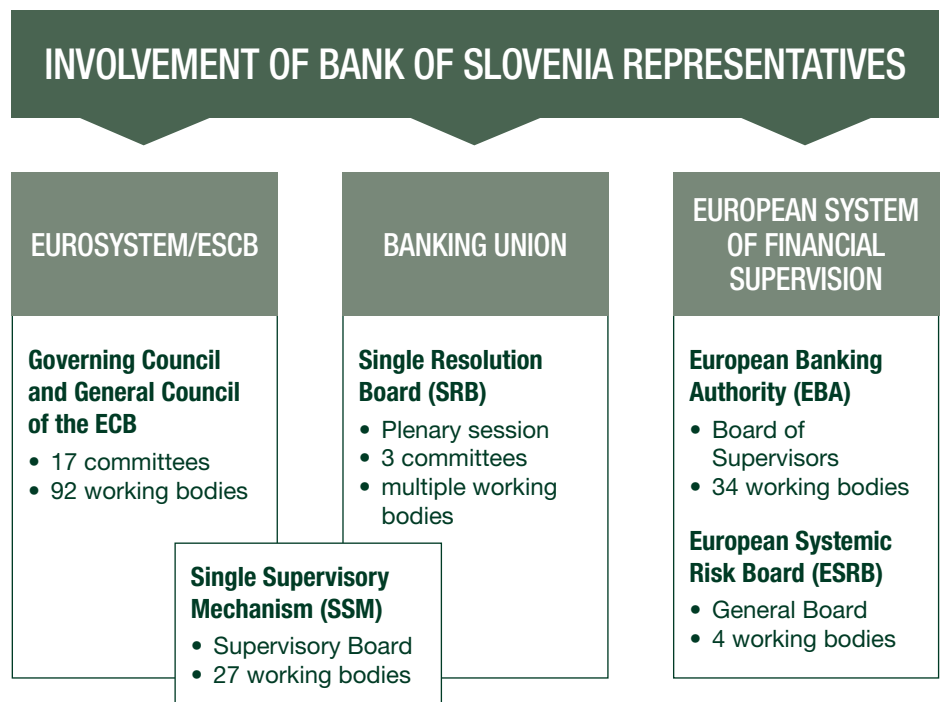
In the area of banking supervision and regulation, the Bank of Slovenia is involved in the two key bodies at European level. As seen previously, it has representatives on the ECB’s Supervisory Board and on the Board of Supervisors, the EBA’s principal decision-making body.³² The European Banking Authority (EBA) is an independent EU authority whose purpose is ensuring effective and consistent prudential regulation and supervision in the European banking sector.

The Board of Supervisors is responsible for all decisions in connection with EBA policy, such as adopting draft technical standards, guidelines, opinions and reports. The Board of Supervisors met seven times in 2017, conducted 213 written procedures and held two teleconferences. The Bank of Slovenia also has a presence on 34 EBA working groups.

Alongside two other supervisory authorities, the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), the EBA is part of the European System of Financial Supervision (ESFA), together with the European Systemic Risk Board (ESRB)³³ and the national supervisory authorities, including the Bank of Slovenia.

Collaboration with international institutions is presented in detail in Section 4.3.

Diagram 1: Institutional framework for the functioning of the Bank of Slovenia



Source: Bank of Slovenia

³² More on the EBA: <http://www.eba.europa.eu/>

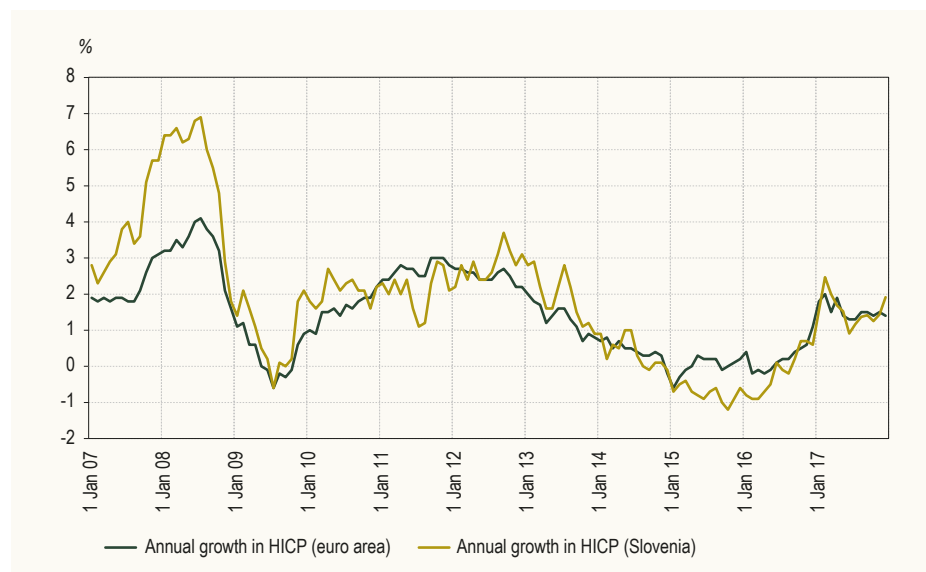
³³ More on the ESRB: <https://www.esrb.europa.eu/home/html/index.en.html>

3.2 IMPLEMENTATION OF EUROSYSTEM MONETARY POLICY

The Eurosystem monetary policy stance remained expansionary in 2017. The Eurosystem used the non-standard measures (asset purchase programmes [APP] and targeted longer-term refinancing operations [TLTRO-II]) to further increase the high excess liquidity, thereby holding down interest rates and bond yields. The headline (HICP) and core inflation indicators nevertheless remain low (Figure 8).

The Eurosystem monetary policy stance remained expansionary in 2017.

Figure 8: Inflation in Slovenia and the euro area



Source: Bloomberg

The measures adopted in December 2016 were therefore continued. These measures encompassed the maintenance of interest rates at an unchanged low level, further securities purchases, and the maintenance of forward guidance with regard to the level of key interest rates and asset purchase programmes. In June 2017 the Governing Council of the ECB made a slight adjustment to its commitment to maintain key interest rates, and in light of the robust pace of economic growth and the diminishing risks of deflation removed the reference to potential further cuts in its key interest rates.

The Eurosystem adjusted the package of non-standard monetary policy measures in October. Macroeconomic publications and survey data in the second half of 2017 indicated a further strengthening in economic growth, which reinforced the Governing Council's confidence in the gradual convergence on the inflation target, for which reason a decision was made to adjust the monetary policy measures after the end of 2017.

These measures include:

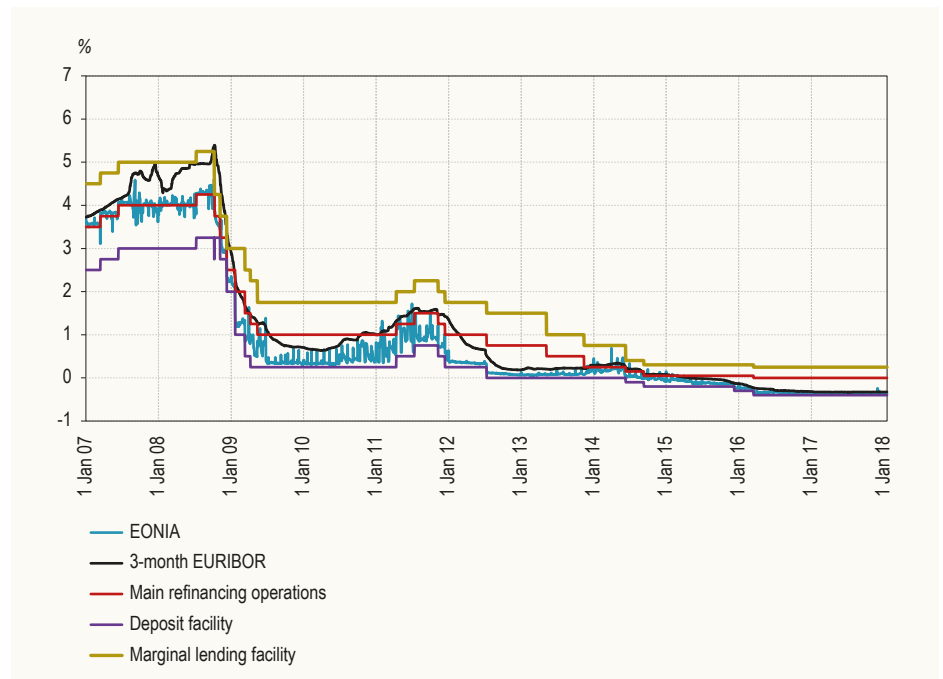
1. An adjustment to the monthly purchases within the framework of the Asset Purchase Programme (APP). The monthly average stood at EUR 80 billion between January and March 2017, and then EUR 60 billion between April and December 2017, and will be reduced to EUR 30 billion between January 2018 and September 2018 at least. The Governing

Council retained its commitment to increase the volume of purchases or extend the APP should the inflation outlook become less favourable, or should the financial situation become incompatible with further progress in reliably converging on the annual inflation target of close to but under 2% in the medium term.

2. The ongoing reinvestments of the principal payments from maturing securities purchased within the framework of the APP, during a period of net securities purchases (see previous point) and during an extended period after the completion of the net purchases, and in any case for as long as the Governing Council feels it to be necessary.
3. The extension of the fixed rate full allotment tender procedures for refinancing operations (weekly main refinancing operations and 3-month long-term refinancing operations), for as long as necessary or at least until the end of the last reserve maintenance period of 2019.

The Eurosystem's toolkit of non-standard measures adopted since 2008 is illustrated in Figure 10.

Figure 9: Interest rates of the ECB and the interbank money market



Sources: Bloomberg, ECB

Figure 10: Eurosystem's toolkit of non-standard monetary policy measures by phase of implementation

Non-standard measures	Phase* Year Quarter	Phase 1				Phase 2				Phase 3													
		2008		2009		2010		2011		2012		2013		2014		2015		2016		2017			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4		
Group 1 Extension of maturity of liquidity-providing operations at fixed rate full allotment	FRFA																						
	1M LTRO																						
	6M LTRO																						
	12M LTRO																						
	VLTRO																						
	TLTRO																						
Group 2 Currency swap arrangements	USD FX swap																						
	CHF FX swap																						
	USD operations																						
Group 3 Collateral requirements	Rating from A- to BBB-**																						
	Foreign currency collateral																						
	ACCs																						
Group 4 Negative deposit rate and forward guidance	Rating waivers for programme countries																						
	Negative deposit rate																						
Group 5 Securities purchase programmes	Forward guidance																						
	CBPP (1-3)																						
	SMP																						
	OMT***																						
	ABSPP																						
	PSPP																						
CSPP																							

* First phase: in response to the global financial crisis; second phase: in response to the euro area debt crisis and fragmentation; third phase: expansionary monetary policy aimed at meeting the price stability target. The green columns illustrate the use (e.g. via open market operations) and validity of non-standard measures in a specific quarter.

** Part of the standard framework of monetary policy instruments since 1 January 2011.

*** Possible use announced on 2 August 2012.

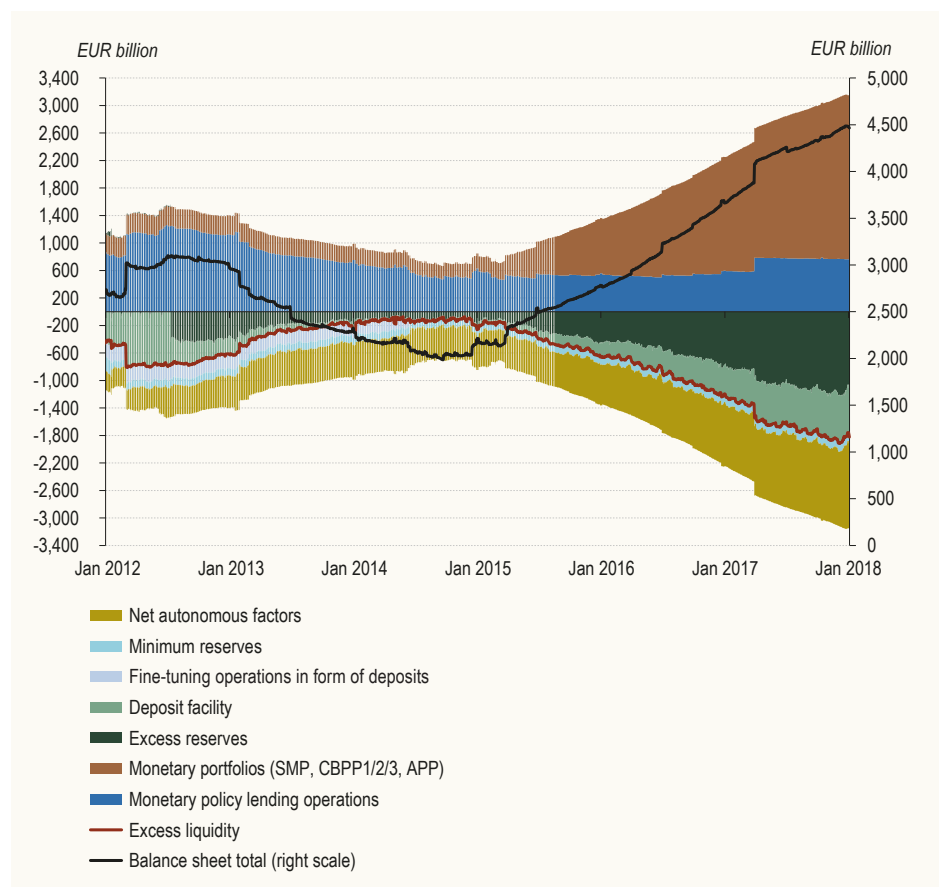
Sources: ECB, Bank of Slovenia

3.2.1 Excess liquidity, standing facilities, minimum reserves and money market

The APP purchases and the TLTRO-II brought an increase in the Eurosystem's balance sheet total towards EUR 4,500 billion, while the excess liquidity approached EUR 2,000 billion.

The APP purchases and the TLTRO-II brought an increase in the Eurosystem's balance sheet total towards EUR 4,500 billion, while the excess liquidity³⁴ approached EUR 2,000 billion (see Figure 11). The growth in excess liquidity was slowed slightly by growth in net autonomous factors, i.e. items in the balance sheet of the central bank that are not related to the implementation of monetary policy, but nevertheless affect bank liquidity.³⁵ Their growth was primarily attributable to the increase in deposits by non-bank customers of the Eurosystem, e.g. non-residents and the public sector of the euro area.

Figure 11: Simplified consolidated Eurosystem balance sheet (+ liquidity provision, - liquidity absorption; excess liquidity: the more negative, the larger the excess)



Source: ECB

³⁴ Excess liquidity is the liquidity that the banks hold in excess of their needs deriving from autonomous factors and the prescribed minimum reserve requirements. It is defined as the sum of the deposit facility and the banks' excess reserves. Excess reserves are the banks' account balances at the Eurosystem in excess of the minimum reserve requirements. Banks must hold the latter over the reserve maintenance period (which lasted six or seven weeks in 2017), on the basis of the Regulation of the ECB on the application of minimum reserves.

³⁵ Autonomous factors include issued banknotes, deposits by public sector entities at the central bank or 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. investments in securities) increases bank liquidity, while an increase on the liability side (e.g. issued banknotes) reduces bank liquidity.

The excess liquidity of banks³⁶ in Slovenia amounted to EUR 3 billion at the end of 2017. Owing to the high general liquidity, low interest rates that did not compensate for risk of lending to other banks on the money market, and the increase in the proportion of sight deposits by the non-bank sector, the banks retained a large proportion of their liquidity surpluses on accounts at the Bank of Slovenia. Excess reserves approached 12 times the calculated minimum reserve requirements at the end of 2017 (excess reserves across the euro area amounted to EUR 1,180 billion, or ten times the minimum reserve requirements).

Amid high excess liquidity and strong demand for high-quality securities to meet the regulatory requirements, interest rates in the euro area money market remained at low levels. Interest rates in the unsecured segment of the interbank money market fell further during the year, as a result of the high and growing excess liquidity. The EURIBOR were in negative territory for all maturities. The EONIA typically fluctuated around -0.36%, approximately 4 basis points above the interest rate on the deposit facility (see Figure 9). Interest rates in the secured (repo) market also fell. In addition to the high excess liquidity, the fall was attributable to increased demand for high-quality and liquid securities, which financial institutions need to meet regulatory requirements, and the decreased supply of such securities as a result of purchases under the APP. The Eurosystem tried to mitigate the latter by lending the securities that it purchased under the APP.

The excess liquidity of banks in Slovenia amounted to EUR 3 billion at the end of 2017.

Box 1: Reforms to euro benchmark interest rates

The most frequently used euro benchmark interest rates are the EURIBOR and the EONIA, which are provided by the European Money Markets Institute (EMMI). The EURIBOR (Euro Interbank Offered Rate) is an interest rate calculated on the basis of bids (quotes) for lending unsecured euro deposits between prime banks at maturities of up to one year (one week, two weeks, one month, two months, three months, six months, nine months and 12 months). The EONIA (Euro Overnight Index Average) is an overnight interest rate calculated on the basis of the unsecured interbank deposits in euros actually placed overnight, where the ECB acts as the calculation agent for the EMMI. In recent years there has been a sharp decline in the volume of transactions on the unsecured interbank money market, while fewer and fewer banks are voluntarily contributing data for their calculation. Owing to these two factors the reporting value of the interest rates is declining, as there exists a fear that they no longer reflect the actual market situation, which is reducing their usefulness not only for index-linking contracts, but also for monetary policy.

³⁶ When applied to Slovenia, the term “bank” in this section is a generic term that includes banks, savings banks and branches (the banking system).

The reforms guided by the EMMI follow the standards that were adopted in 2013 by the International Organisation of Securities Commissions (IOSCO) for determining financial benchmarks. These standards set out the governance structures for benchmark interest rates, and the methods for their determination. **Another objective of the reforms was to comply with the new EU regulation on benchmarks of 2016, which entered into force in January 2018. The regulation will improve the governance and control of the calculation of benchmarks, ensure greater quality in input data, prevent conflicts of interest and ensure the protection of consumers and investors.**

The reformed EURIBOR is set to be calculated on the basis of transactions, and no longer on the basis of bank quotes as now. The feasibility of this methodology was tested by the EMMI in the six months to February 2017, although it concluded in May that “in the current environment, a transition from the current quote-based to a fully transaction-based methodology via a seamless transition was not feasible”.³⁷ It therefore resolved to conduct a feasibility study of a hybrid model, which would be supported by transactions whenever available and rely on other market prices when necessary.

The EMMI completed the first phase of the review for the EONIA in April 2017, setting out a stand-alone governance framework in line with regulatory requirements. The second phase of the review began in the middle of the year, including data collection and analysis of the market to support any potential changes in the data input and/or the calculation methodology.

The EU regulation on benchmarks also introduced a security mechanism to ensure the short-term stability of groups of reporting banks for the EURIBOR and EONIA. In practice this means that their regulator, Belgium’s FSMA, can now stipulate that banks are required to contribute data for their calculation on a mandatory basis for up to two years (the data is currently contributed on a voluntary basis).

Although the ECB supports the EMMI’s reform endeavours, it has also prepared a backup solution: supplementing the EONIA with an additional interest rate if the reform of the EONIA is a failure. In so doing it is participating in the private-sector initiative for risk-free euro interest rates, which is examining the possibility of setting a replacement benchmark interest rate and switching from existing to new benchmarks.

³⁷ EMMI press release of 4 May 2017 announcing the completion of the feasibility study for this methodology.

3.2.2 Open market operations: main refinancing operations, longer-term refinancing operations

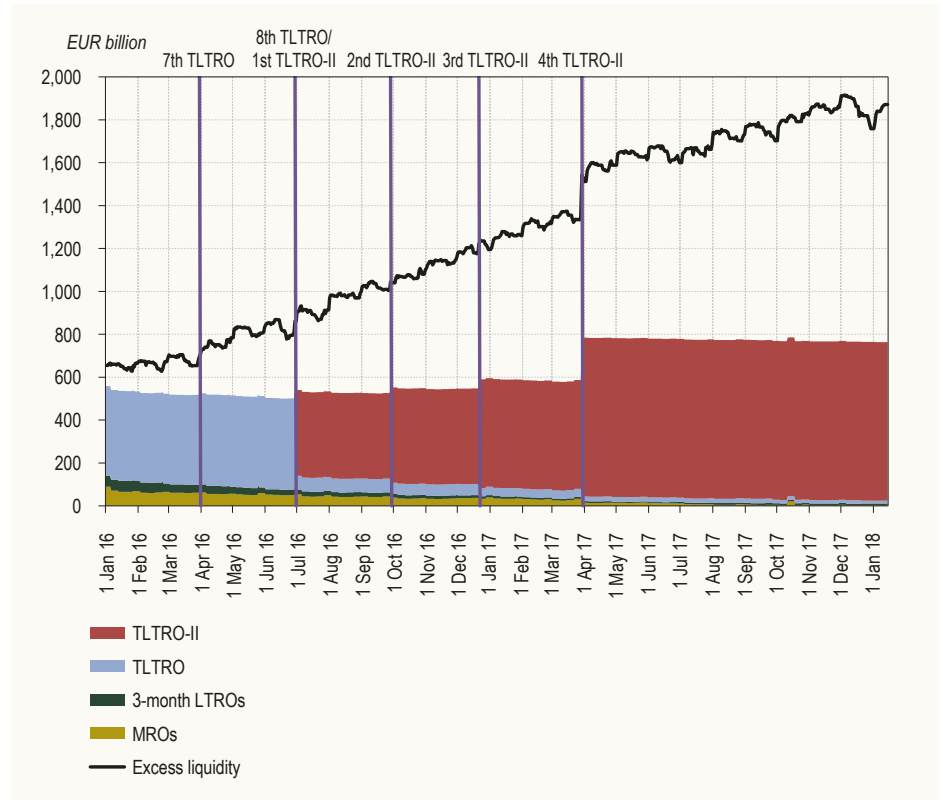
The ordinary refinancing operations, i.e. the weekly main refinancing operations (MROs) and the monthly long-term refinancing operations with a maturity of 3 months (LTROs), were less important in 2017, on account of the high supply of liquidity from other sources (see Figure 12). The Eurosystem continued to offer MROs and LTROs with full allotment at fixed interest rates, where banks themselves were able to set the amount of liquidity allotted in each operation in accordance with the desired liquidity and collateral availability. This approach has been used since October 2008, and will remain in place at least until the end of the last reserve maintenance period of 2019. The average allotted amount of the MROs was EUR 13 billion (compared with EUR 48 billion in 2016), while the average number of participating banks fell to 43, from 93 in 2016. Slovenian banks participated in 29 MROs in 2017 (compared with 36 in 2016), in which they borrowed an average of EUR 10 million (compared with EUR 15 million in 2016). An average of 26 banks across the euro area participated in the 3-month LTROs in 2017 (compared with 66 in 2016), while the allotted amount averaged EUR 3 billion (compared with EUR 7 billion in 2016). No Slovenian banks participated in the 3-month LTROs.

Banks borrowed EUR 233.5 billion in the fourth and final TLTRO-II in March 2017. This was the final operation in the second series of four targeted longer-term refinancing operations (TLTRO-II). The main attraction for banks was the very long maturity of the loans (four years), which allowed them to improve the maturity structure of their funding. The TLTROs, where the possibility of disbursement was tied to the bank's lending activity to households and corporates, were initiated by the Eurosystem in 2014. In the second series, the TLTRO-II, bank lending was additionally encouraged by a discount in the interest rate on borrowing from the Eurosystem if the bank had lent to households and corporates. The final loans increased liquidity by EUR 204 billion, as certain banks simultaneously repaid part of the MROs and made early repayments of amounts borrowed in the first series of TLTROs. The borrowings by banks across all four operations of the TLTRO-II between June 2016 and March 2017 amounted to EUR 740 billion, or 62% of the available lending.³⁸ Slovenian banks borrowed EUR 1.1 billion, or 32% of their borrowing potential, of which EUR 509 million was in March 2017. At the end of 2017 banks across the euro area still held borrowings of EUR 16 billion from the first series of TLTROs, of which Slovenian banks accounted for EUR 40 million.

Banks from Slovenia participated in 29 MROs in 2017, borrowing an average of EUR 10 million. They did not participate in LTROs.

The borrowings by banks from Slovenia across all four operations of the TLTRO-II between June 2016 and March 2017 amounted to EUR 1.1 billion.

³⁸ The borrowing potential amounted to a maximum of 30% of the bank's stock of corporate and household loans as at 31 January 2016, minus the funds borrowed in the first two TLTROs.

Figure 12: Stock of MROs, LTROs, the two TLTROs and excess liquidity in the euro area

Source: ECB

3.2.3 Securities purchase programmes

In April 2017 the Eurosystem reduced the monthly purchases under the asset purchase programme (APP), which includes purchases of public-sector and private-sector securities, from EUR 80 billion to EUR 60 billion, effective until December 2017.³⁹ Net purchases were made in parallel with the reinvestments of the principal payments from the principal of securities that had been purchased in the past as part of the programme and matured in the current year. The APP included: (1) the public sector purchase programme (PSPP); (2) the asset-backed securities purchase programme (ABSPP); (3) the third covered bond purchase programme (CBPP3); and (4) the corporate sector purchase programme (CSPP). The stock of purchases under the APP amounted to EUR 2,286.1 billion at the end of 2017.

³⁹ The monthly average will be EUR 30 billion between January 2018 and September 2018 at least.

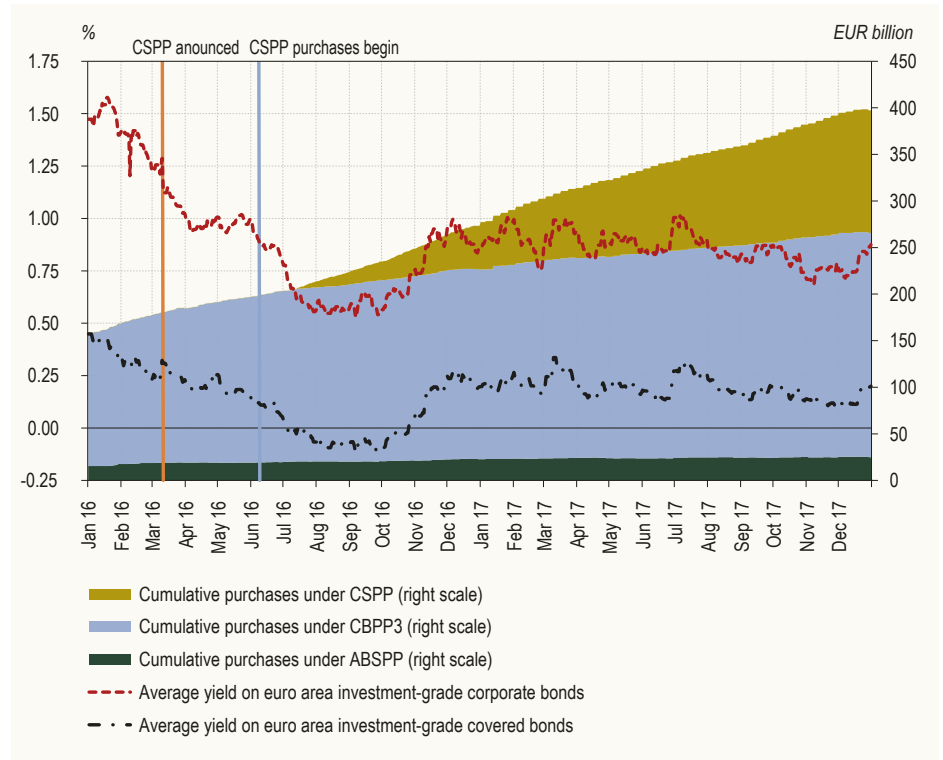
Under the PSPP the ECB has purchased public-sector bonds of all countries since March 2015, while the national central banks have primarily purchased bonds of own issuers and bonds of European institutions. The Bank of Slovenia has primarily purchased Slovenian government bonds, SID banka bonds and DARS bonds. In January 2017 the Eurosystem also began purchasing securities whose yield at the time of purchase was below the interest rate on the deposit facility, albeit only in the amount necessary to meet the target purchase volume. In addition the Eurosystem began purchasing public-sector securities whose residual maturity at the time of purchase was more than one year (previously: more than two years). The stock of purchases under the PSPP amounted to EUR 1,888.7 billion at the end of 2017, of which Slovenian issuers accounted for EUR 6,908 million.

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Under the ABSPP the Eurosystem purchases asset-backed bonds to encourage diversification of funding for banks and other institutions. Despite the Eurosystem presence in the market, issuance of asset-backed securities remained small in 2017, although its geographical diversity did increase. In addition, the ABSPP helped to hold down funding costs in the market. The stock of purchased asset-backed securities stood at EUR 25.0 billion at the end of 2017. Since 1 April 2017 six national central banks have made purchases on behalf of the Eurosystem, having taken over purchasing from the external managers who had previously acted as the Eurosystem's agents for asset-backed securities.

Under the CBPP3 the Eurosystem has purchased covered bonds since October 2014 to additionally strengthen monetary policy transmission, to ease corporate lending and to encourage other markets. The purchases are made by national central banks and the ECB. The stock of covered bond purchases stood at EUR 240.7 billion at the end of 2017. The covered bonds market saw a fall in spreads over government bonds in 2017 in the context of relatively low volatility. The falling spreads were the result of imbalances between supply and demand, and the announcement of the extension of the APP to September 2018 at least.

Through its corporate bond purchases under the CSPP, the Eurosystem had improved the financing conditions for small and medium-sized corporates on financing conditions in the corporate sector since March 2016. The CSPP significantly increased issuance and also investment in corporate bonds, the latter by strengthening private investors' demand for corporate bonds that are not eligible for the CSPP, for example because their ratings are too low. The programme improved access to corporate financing and reduced corporate bond spreads over government bond yields. This was additionally supported by the announcement of the extension of the APP to September 2018. The stock of CSPP purchases stood at EUR 131.6 billion at the end of 2017. Bonds were purchased by six national central banks on behalf of the Eurosystem, with the ECB coordinating the purchases. Slovenian bonds (Petrol d.d.) were purchased by the National Bank of Belgium.

Figure 13: Average yields on corporate and covered bonds, and cumulative stock of purchases under the ABSPP, CBPP3 and CSPP

Sources: Bloomberg, Bank of America Merrill Lynch Index Data⁴⁰

Because the APP resulted in the Eurosystem holding an increasing proportion of securities, it simultaneously lent them to maintain liquidity on the secondary and repo securities markets. To increase lending, the ECB and several national central banks, including the Bank of Slovenia, began accepting cash collateral for securities lending in 2017, in the maximum total amount of EUR 50 billion across the entire Eurosystem. Before this, all central banks accepted only other securities as collateral for securities lending. The Bank of Slovenia's securities lending was available for market participants through two channels: via Deutsche Bank as its agent, and within the framework of the automated Securities Lending and Borrowing programme of Euroclear Bank, the custodian bank.

⁴⁰ BofA Merrill Lynch Euro Covered Bond Index, BofA Merrill Lynch Euro Non-Financial Corporate Index.

3.2.4 US dollar lending

The banks' demand for 1-week US dollar lending remained low in 2017. The average response to weekly operations was USD 0.6 billion, with two or three banks participating in the individual operations on average. Slovenian banks have not participated in US dollar operations since 2009.

3.2.5 Collateral for monetary policy loans

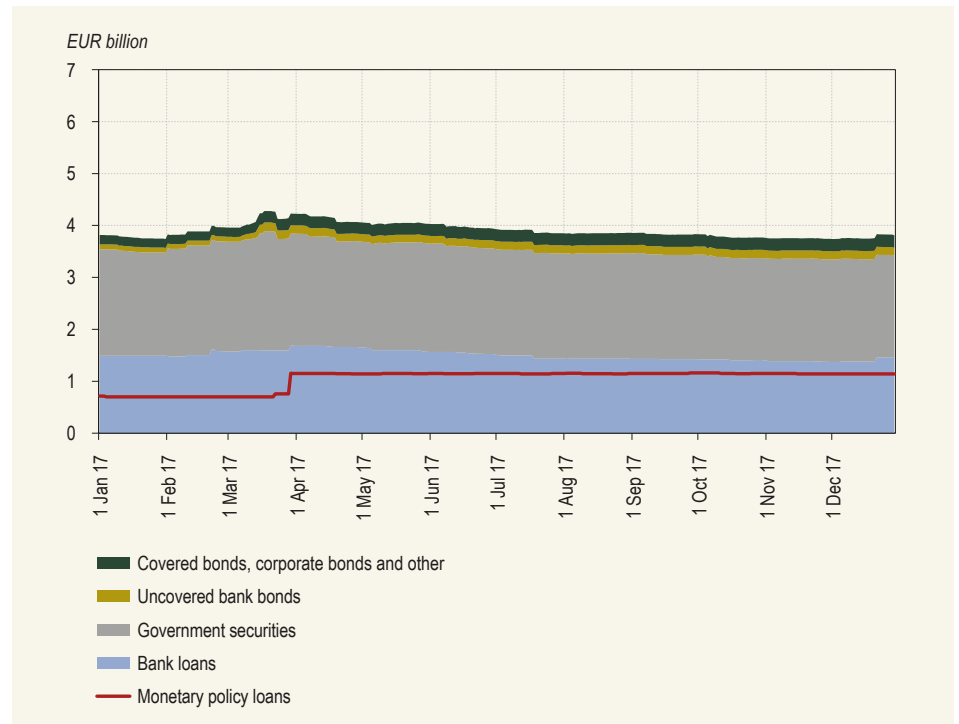
The Eurosystem made several changes to the collateral framework for monetary policy loans in 2017. In line with its announcement of 2016, new eligibility criteria for unsecured bank bonds were adopted in December 2017. Unsecured bank bonds that are subject to statutory, contractual or structural subordination and are currently eligible will become ineligible as collateral as of 1 January 2019 after the expiry of the transition period. On 1 July 2017 the Eurosystem implemented a requirement adopted previously whereby credit rating agencies must publish new issue reports and quarterly surveillance reports for rated covered bond programmes. The background to the requirement is the desire for enhancing transparency.

The level of eligible collateral at the Eurosystem maintained by banks was similar to a year earlier. Although certain securities eligible as collateral for monetary policy loans could be sold under the APP, this was not done to a greater extent. Eligible collateral declined by less than 1% over the course of the year, to EUR 1,647 billion at the end of 2017, and secured EUR 764 billion of loans in the MROs, LTROs, TLTRO-II and marginal lending facility.

There was only a slight change in the structure of eligible collateral at the Eurosystem level. Asset-backed securities accounted for the highest proportion of assets eligible as collateral (22%, up 3 percentage points from the end of 2016), followed by covered bonds (21%, down 2 percentage points), government securities (18%, down 4 percentage points) and bank loans (18%, up 1 percentage point).

The pool of eligible collateral at the Bank of Slovenia, in which the banks hold assets as collateral for monetary policy loans, amounted to EUR 3.8 billion at the end of 2017, unchanged from the previous year. As a result of the increase of the TLTRO-II, there was a decline in the proportion of the unused pool, i.e. the surplus of the banks' collateral in the pool over the Bank of Slovenia's loans to banks, from 80% to 70% (see Figure 14).

The pool of eligible collateral at the Bank of Slovenia amounted to EUR 3.8 billion at the end of the year.

Figure 14: Breakdown of pool of eligible collateral at the Bank of Slovenia by asset type, and stock of monetary policy loans to Slovenian banks

Source: Bank of Slovenia

3.2.6 Bank of Slovenia as the lender of last resort⁴¹

According to the Bank of Slovenia Act, one of the Bank of Slovenia's key objectives is to strive to ensure financial stability. Pursuant to point 14 of Article 12 of the aforementioned law, the Bank of Slovenia may act as a lender of last resort, i.e. in exchange for eligible collateral it lends to a solvent bank or savings bank in liquidity difficulties. The Bank of Slovenia did not approve any such loans in 2017, as there was no demand for them.

⁴¹ Banks in the euro area may obtain a loan from the central bank not solely via monetary policy operations, but also in exceptional circumstances via 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?f0cae72c9838301505831a640aa5305f

3.3 JOINT MANAGEMENT OF THE ECB'S FOREIGN RESERVES

The Bank of Slovenia also manages part of the ECB's foreign reserves. Upon the introduction of the euro on 1 January 2007, the Bank of Slovenia transferred a portion of its foreign reserves in US dollars and gold to the ECB (the transferred foreign reserves amounted to EUR 200.2 million as at 31 December 2017). The main purpose of the ECB's foreign reserves is to ensure adequate liquidity for operations on the currency market. All euro area central banks have contributed their shares to the ECB's foreign reserves, which they manage jointly with the ECB. Since 1 January 2007 the Bank of Slovenia and the Central Bank of Luxembourg have jointly managed their share of the ECB's foreign reserves. In addition to the foreign reserves transferred to the ECB, the Bank of Slovenia also holds a portion of its investments in foreign currency in case the ECB calls for additional foreign reserves, which is in accordance with Article 30 of the Protocol on the Statute of the ESCB and the ECB.

3.4 MANAGEMENT OF THE BANK OF SLOVENIA'S FINANCIAL INVESTMENTS

The Bank of Slovenia's financial assets that are not related to the implementation of Eurosystem monetary policy amounted to EUR 3.8 billion at the end of 2017, of which EUR 3.3 billion was denominated in euros, and the remainder in foreign currency. There was no significant change in the currency breakdown of the assets in 2017. The currency exposure is fully hedged, with the exception of the amount of the potential additional call-up of ECB foreign reserves. The Bank of Slovenia's financial assets encompass holdings of gold, and sovereign, supranational, agency, covered, bank and corporate debt with an internal rating of at least A-. There are restrictions on the composition of the assets with regard to the maximum potential aggregate exposure to an individual sector or issuer. The Bank of Slovenia may also lend individual securities from its portfolio of financial assets under certain conditions.⁴²

The Bank of Slovenia's financial assets amounted to EUR 3.8 billion at the end of 2017.

3.5 PAYMENT AND SETTLEMENT SYSTEMS

The Bank of Slovenia operates the TARGET2-Slovenija payment system and the national (Slovenian) cash leg of the TARGET2-Securities settlement platform, and performs the function of settlement agent and agent bank for (payment) systems within the framework of which credit transfers, direct debits and payments ordered by payment cards are executed. The Bank of Slovenia also attends to the smooth execution of payment services and electronic money issuance services by overseeing the functioning of payment and settlement systems and conducting supervision of non-bank entities.

⁴² See also 6.3.1 Investment Committee

A total of 1,012,570 transactions with a total value of EUR 397.95 billion were settled in the TARGET2-Slovenija payment system.

3.5.1 TARGET2

The TARGET2 payment system is a pan-European real-time gross settlement system for payments in euros, which functions on a single technological platform and is operated by the Eurosystem. It celebrated its tenth year of operation in November 2017, and is the largest payment system in Europe in terms of its share of the number and total value of payments settled, and also one of the largest in the world by the same measures. In the pursuit of continuous development in the area of payments and the further integration of market infrastructures, and with the aim of successfully addressing the challenges of the future, at the end of 2017 the Eurosystem decided to develop a new-generation system, which through the technical and functional consolidation of the existing TARGET2 payment system and the TARGET2-Securities securities settlement platform will provide participants with better, upgraded services, and in addition will reduce operating costs and provide for greater cyber resilience.

The TARGET2-Slovenija payment system, in which there were 18 participants at the end of 2017 (down one on the end of 2016), represents the Slovenian component of the pan-European TARGET2 payment system.

A total of 1,012,570 transactions with a total value of EUR 397.95 billion were settled in the TARGET2-Slovenija payment system in 2017, up 5.75% and down 3.94% on 2016 respectively. The rise in the number of settled transactions is the result of a rise in the number of cross-border payments. As in the previous year, the decline in the total value of transactions was attributable to a fall in the value of government deposits at participants (as a result of low and negative interest rates), and a fall in the value of liquidity transfers between participants in the TARGET2-Slovenija payment system under foreign ownership and their majority owners in the rest of the world.

3.5.2 TARGET2-Securities

In October 2017 the Eurosystem completed its project to put in place the pan-European TARGET2-Securities (T2S) platform for securities settlement in central bank money. After commencing operations in June 2015, by September 2017 the platform had carried out the integration of almost all of the originally envisaged euro area markets, with the exception of the Finnish market, which is expected to join in 2019. The Slovenian market began operating in T2S in February 2017.

Since the successful integration of the Slovenian market into T2S, the Bank of Slovenia has continued its active communication between the Eurosystem and market participants (Slovenian participants in T2S) with regard to the operational functioning and future development of T2S, and its support for further harmonisation of the Slovenian financial market with the European market in the area of post-trade (securities clearing and settlement, and collateral management).

Ordinary operations have proceeded smoothly since the migration to T2S. Between February and December 2017 Slovenian market participants (11 cash account holders with a total of 23 cash accounts managed by the Bank of Slovenia) settled approximately EUR 16.8 billion in T2S cash accounts for 97,410 transactions in securities.

Between February and December 2017 Slovenian market participants settled approximately EUR 16.8 billion in T2S cash accounts for 97,410 transactions in securities.

3.5.3 Retail payment infrastructure

As a direct participant in the STEP2-T pan-European payment system for SEPA credit transfers and SEPA direct debits, which is operated by EBA Clearing, in its role as agent bank the Bank of Slovenia allowed banks and savings banks in Slovenia to exchange SEPA credit transfers with more than 4,100 payment service providers and to exchange SEPA direct debits with more than 3,400 payment service providers across Europe in 2017.

The Bank of Slovenia acted as settlement agent for participants in five payment systems via which credit transfers, direct debits and payments ordered by payment cards are executed, and in so doing provided for the settlement of their money claims and liabilities deriving from their participation in these payment systems in risk-free central bank money in their accounts with it. Within the framework of this function, it also executed procedures for interbank settlement of orders deriving from pension payments.

Within the framework of the development of infrastructure for instant payments, i.e. payments that are continuously available (24/7/365) where the payer credits the payee's account immediately or almost immediately after submitting the payment order, the Bank of Slovenia was also involved in Eurosystem activities related to the establishment of pan-European infrastructure for making such payments.

3.5.4 Bank of Slovenia's oversight and supervision role in the area of payment and settlement systems and non-bank payment system providers

The Bank of Slovenia regularly monitors the operation and functioning of seven payment systems and one securities settlement system that operate under Slovenian law. In 2017 it completed an assessment of the Moneta payment system from the perspective of the Eurosystem oversight standards, conducted research into the cyber resilience of operators of payment and settlement systems, and in conjunction with the Securities Market Agency began the procedure for granting an authorisation to KDD to provide central securities depository services.

The Bank of Slovenia also monitors and oversees the operations of non-bank entities that provide payment services (payment institutions) and electronic money issuance services (electronic money institutions). It also conducted one direct inspection of an electronic money institution in 2017, and rejected one request for the granting of an authorisation to provide electronic money issuance services.

3.6 BANKNOTES AND COINS

By the end of 2017, a net total of EUR 5.61 billion of cash had been issued into circulation by the Bank of Slovenia since the introduction of the euro. This comprised EUR 5.53 billion in banknotes (287.29 million banknotes) and EUR 85.04 million in coins (298.71 million coins). In terms of quantity,

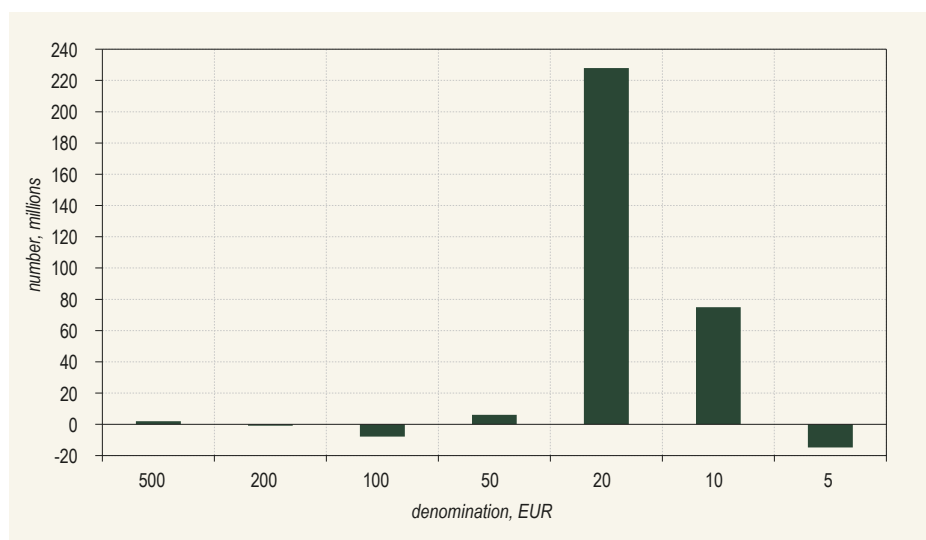
The Bank of Slovenia enabled banks and savings banks in Slovenia to exchange SEPA credit transfers with more than 4,100 payment service providers and to exchange SEPA direct debits with more than 3,400 payment service providers across Europe.

By the end of 2017, a net total of EUR 5.61 billion of cash had been issued into circulation by the Bank of Slovenia since the introduction of the euro.

the 20-euro note has the highest net issuance (227.99 million banknotes), followed by the 10-euro note (74.87 million banknotes), the 50-euro note (6.03 million banknotes) and the 500-euro note (1.92 million banknotes). In the case of all other denominations (200-euro, 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 the Bank of Slovenia). The coins with the highest net issuance in terms of quantity were the 1-cent (93.24 million coins) and 2-cent (63.06 million coins), while the lowest net issuance was recorded by the 50-cent (9.98 million coins). Euro cash was supplied to the market by the Bank of Slovenia from the central cash centre and through the Bank of Slovenia's banknote depots.

The new 50-euro note in the Europa series was issued into circulation on 4 April 2017 (following the 5-, 10- and 20-euro notes). Like the first three in the series, the 50-euro banknote also has enhanced security features.

Figure 15: Net issuance of euro banknotes in circulation in terms of number



Source: Bank of Slovenia

In 2017 the Bank of Slovenia released a commemorative coin into circulation to mark the 10th anniversary of the introduction of the euro in Slovenia, and a collector coin to mark the 100th anniversary of the May Declaration.

The Bank of Slovenia organised the issuance, distribution and storage of general circulation and occasional coins for the Republic of Slovenia on the basis of the Occasional Coins Act.⁴³ In 2017 the Bank of Slovenia issued a commemorative 2-euro coin into circulation to mark the 10th anniversary of the introduction of the euro in Slovenia⁴⁴ (1 million coins were minted), and collector coins to mark the 100th anniversary of the May Declaration⁴⁵ (1,000 gold, 2,000 silver and 90,500 bi-coloured 3-euro coins). For the collector market the Bank of Slovenia issued a collection of euro coins minted in 2017 in BU (brilliant uncirculated) and proof versions, and a 2-euro commemorative coin and 3-euro collector coin, both proof-quality. The numismatic products issued by the Republic of Slovenia and the Bank of Slovenia

⁴³ For more, see the Numismatics section of the Bank of Slovenia website: <https://www.bsi.si/en/banknotes-and-coins/numismatics/f>

⁴⁴ <https://www.bsi.si/en/banknotes-and-coins/numismatics/f/2017/4/10-obletnica-uedbe-eura-v-sloveniji-2017>

⁴⁵ <https://www.bsi.si/en/banknotes-and-coins/numismatics/f/2017/2/100-obletnica-majniske-deklaracije-2017>

are available at Bank of Slovenia counter and at selected branches of the Bank of Slovenia's two agents for numismatic products, Deželna banka Slovenije and NKBM.



Collector coin issued to mark the 100th anniversary of the May Declaration (left), and commemorative coin to mark the 10th anniversary of the introduction of the euro in Slovenia



Collection set of 2017 Slovenian euro coins

The total value of the tolar banknotes, coins and payment notes still in circulation at 31 December 2017 was EUR 41.29 million. This comprised 46.43 million tolar banknotes (worth SIT 7.35 billion or EUR 30.66 million), 443.42 million tolar coins (worth SIT 2.14 billion or EUR 8.95 million) and 20.91 million payment notes (worth SIT 403.17 million or EUR 1.68 million). Compared with the figures from the end of 2005, 58.99% of the tolar banknotes have been returned from circulation (96.56% of the total value of the tolar banknotes), while only 13.93% of the tolar coins have been returned (38.19% of the total value). Payment notes and tolar banknotes are exchangeable at Bank of Slovenia counters with no time limit, while the possibility of exchanging tolar coins ended on 3 January 2017 in accordance with the Adoption of the Euro Act.

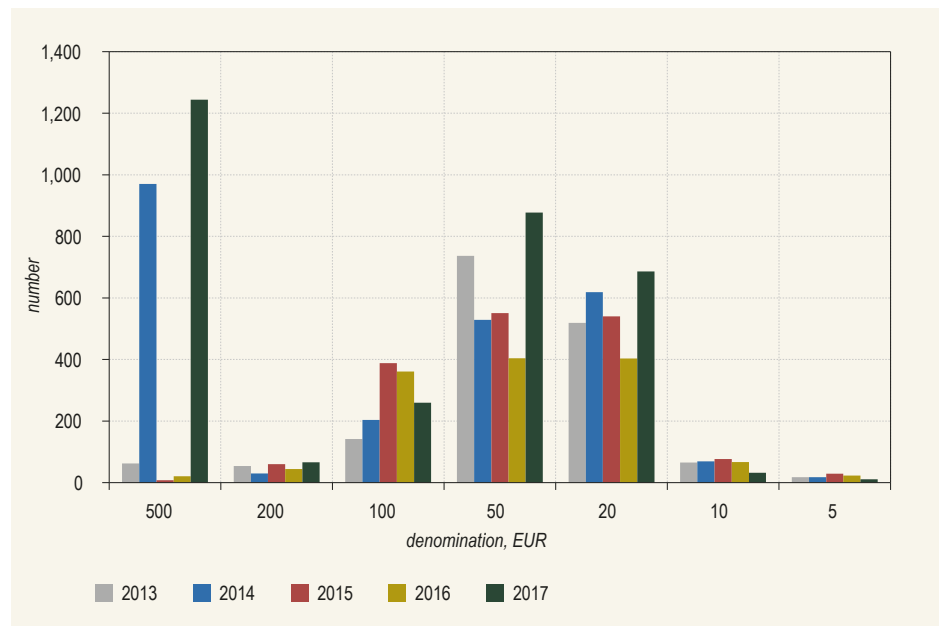
The total number of transactions via the counter of the Bank of Slovenia fell last year. A total of 881 treasury receipts and outlays of euro cash (compared with 2,810 in 2016) and 2,269 incoming and outgoing payments of cash for the needs of government bodies were made (2,453 in 2016), while there were 2,424 exchanges of tolar banknotes and coins (3,767 in 2016).

The total value of the tolar banknotes, coins and payment notes still in circulation at the end of 2017 was EUR 41.29 million.

The Bank of Slovenia cash processing unit sorted almost 121.94 million banknotes and coins, compared with 64.71 million in 2016. A total of 120.98 million banknotes and 0.95 million coins were sorted in 2017 (compared with 63.44 million banknotes and 1.27 million coins in 2016). A total of 15.63 million euro banknotes (compared with 10.12 million banknotes in 2016) were taken out of circulation and destroyed in order to maintain an appropriate quality of banknotes in circulation.

A total of 3,176 counterfeit euro banknotes and 1,002 counterfeit euro coins were withdrawn⁴⁶ from circulation in 2017, compared with 1,323 euro banknotes and 1,030 euro coins in 2016. Two individual cases meant that 500-euro notes accounted for the largest proportion of counterfeit banknotes in terms of quantity (39.2% of the total), while 2-euro coins accounted for largest proportion of counterfeit coins (65.5%). The Eurosystem figures in this area rank Slovenia among countries where a small number of counterfeits are withdrawn from circulation. Some 425 foreign currency counterfeits (Swiss francs, Croatian kuna, US dollars and pounds sterling) were withdrawn from circulation in 2017, compared with 80 counterfeits in 2016. The quality of foreign currency counterfeits has remained at approximately the same level.

Figure 16: Breakdown of counterfeit euro banknotes withdrawn from circulation, by denomination and year



Source: Bank of Slovenia

3.7 MICROPRUDENTIAL SUPERVISION

The objective of the Bank of Slovenia's 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, etc.) in timely fashion, and ensuring the stability of the banking system and the financial system through effective action.

The establishment of the SSM saw supervision of significant institutions (SIs) in the EU⁴⁶ transferred to the ECB in 2014, although this supervision is conducted in operational terms via joint supervisory teams (JSTs). The JST for each bank consists of a coordinator from the ECB, and members from the national supervisory authority and the ECB. The national supervisory authorities (the Bank of Slovenia in Slovenia's case) participate in all the supervisory activities, while the supervisory decisions with regard to these banks are made by the ECB.

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)⁴⁷, is conducted by national supervisors, i.e. the Bank of Slovenia in Slovenia's case, in accordance with the rules and methodology of the ECB and the SSM. National supervisors regularly submit supervisory data for less significant institutions to the ECB, and inform it of the material findings of their supervision. The national supervisory authorities may consult the ECB on the imposition of measures, but the final decision is their responsibility, other than in exceptional cases. The new arrangements allow the ECB to directly take over the 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 three banks in Slovenia classed as SIs under the direct supervision of the ECB in 2017, whose supervision is conducted via a JST: NLB d.d., NKBM d.d. and Abanka Vipava d.d. The SIs also included banks that are members of banking groups established in euro area countries and that constitute a significant banking group. Four banks and three savings banks were under the direct supervision of the Bank of Slovenia. Three branches of banks and banking groups of Member States were also operating in Slovenia at the end of the year.⁴⁸

The objective of the Bank of Slovenia's supervisory activities is identifying risks in all areas of the operations of banks and savings banks in timely fashion, and ensuring the stability of the banking system and the financial system through effective action.

⁴⁶ 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 a single Member State. For more, see: <https://www.bankingsupervision.europa.eu/banking/list/criteria/html/index.en.html>

⁴⁷ Banks and savings banks are classed as LSIs.

⁴⁸ Branches of EEA Member States in Slovenia: <https://www.bsi.si/en/financial-stability/institutions-under-supervision/eea-states-credit-institutions-in-slovenia>

Table 2: Significant banks and less significant banks (as at 28 February 2018)

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

* 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 the Bank of Slovenia, the Insurance Supervision Agency and the Ministry of Finance within the framework of their powers.

Source: Bank of Slovenia

3.7.1 Supervision of significant banks

In the area of credit risk, which is the most significant risk in the banking system, the following activities were carried out in 2017, alongside the ongoing supervision of banks:

One systemically important bank in Slovenia was newly included in the NPL Task Force, which was activated at all systemically important banks with an elevated level of non-performing claims within the framework of the SSM. The purpose was to obtain a horizontal overview of various practices in the management of non-performing claims, and to order the banks to take corrective measures in the event of deficiencies being identified. Within the framework of this oversight the ECB issued its Guidance on non-performing loans in March 2017. A supervisory letter was also issued to the bank for areas where its practices were found not to comply with the guidance, with recommendations for corrective measures. Improvements are required in the area of the strategy for managing and monitoring non-performing claims, restructuring of claims, creation of impairments, write-off policy, collateral valuation and remuneration policy. At the two Slovenian significant banks at which the first thematic review of non-performing claims had been conducted in 2016, the supervisory activities in 2017 in the area of non-performing claims focused on assessment of the strategy for managing non-performing claims and the establishment of the reporting framework for ongoing monitoring of the NPL ratio. The two banks were issued with supervisory letters containing recommendations to improve certain qualitative elements of the strategy for managing non-performing claims and operational plans to reduce non-performing claims.

The ECB defined preparations for the introduction of IFRS 9, the new accounting standard effective as of 1 January 2018, as one of its priority tasks of supervision in 2017. To this end a thematic review of banks' readiness for the introduction of IFRS 9 was conducted within the framework of the SSM. Three of Slovenia's significant banks participated in the review. The purpose of the review was to obtain assurance that the banks are ready for the introduction of IFRS 9, and to identify any deficiencies that could en-

danger a timely changeover to the new accounting standard. The review encompassed various areas, from the adequacy of project management, the classification of financial instruments into relevant categories, the preparation of models for calculating expected credit losses and their evaluation, all the way to quantitative assessment of the impact of the changeover to the new accounting standard. A supervisory letter with recommendations to speed up work on the project was issued to all three Slovenian banks.

The JSTs conducted a limited review of household lending at two of the significant banks. The aim was to learn of the bank's strategy and risk appetite, the loan approval terms, and the monitoring of credit risk in the area of household lending. The review processes had not been completed by the end of 2017.

A review of credit risk was conducted at five significant banks,⁴⁹ which encompassed a review of the internal rating system, the proper recognition and reporting of non-performing exposures, forborne exposures and cured exposures, the methodology for creating impairments, and individual credit files review. Two banks were issued with a supervisory letter with recommendations in the areas of internal bylaws, the validation and calibration of internal models, collateral management, and deficiencies in databases. Three reviews had not been completed by the end of 2017.

A thematic review of profitability drivers was conducted within the framework of the SSM in 2017 with the aim of assessing the sustainability of banks' business models and profitability. The JSTs conducted in-depth analysis and review of individual elements of profitability drivers, such as the bank's strategy, the sustainability of interest income and non-interest income, the evolution of operating costs and the model for setting the loan prices. The supervisory recommendations in relation to the individual bank were formulated on the basis of the findings of the review of the bank and the horizontal analysis within the framework of the SSM. Three Slovenian significant banks were subject to the thematic review of profitability drivers. Deficiencies were identified in the areas of individual components of loan pricing, the measurement of ex-post and ex-ante profitability, and the robustness and consistency of the business strategy. Supervisory recommendations in the form of supervisory letters will be addressed to the banks in 2018.

Activities in connection with the thematic review on risk governance and appetite, which the ECB conducted at all significant institutions in 2015, continued in 2017. The purpose of the review was to obtain a horizontal overview of various internal governance practices, and of risk governance and appetite, and to identify deficiencies and bring them to the attention of the banks. Letters with supervisory recommendations were addressed to the banks (including two Slovenian banks). The JSTs conducted follow-up reviews of the fulfilment of the supervisory recommendations in 2016 and 2017. At certain banks, including one Slovenian bank, an in-depth review was also conducted of how the supervisory board oversees bank control functions, together with a review of the limit system that the bank has put in place in the risk appetite framework. While the majority of the deficiencies set out in the supervisory letter had been rectified, new deficiencies were

To this end a thematic review of banks' readiness for the introduction of IFRS 9 was conducted at three Slovenian banks classed as SIs.

⁴⁹ At two banks the review had been begun in 2016 and was completed in 2017.

identified in the in-depth review in the area of bank control functions and in the limit system in the risk appetite framework. The bank was issued with a supervisory letter.

The JST conducted a limited review of operational risk at one of the significant banks. The aim was to conduct control of operational risk management policy and procedures, the adequacy of the operational risk management framework, the adequacy of the process of recording loss events and regulatory reporting, and control of information technology management. The procedure had not been completed by the end of 2017.

A review of the internal capital adequacy assessment process (ICAAP) was conducted at one significant bank in 2017. The review encompassed the organisation and structure of the ICAAP, the identification of risks, the valuation and integration of risks, analysis of risk-taking capacity, stress tests, capital allocation and the limit system. The procedure had not been completed by the end of 2017.

In 2017 one bank was issued with a decision on the use of an IRB model for the calculation of capital requirements for credit risk, including the conditions of use and the identified deficiencies. The decision was issued on the basis of reviews conducted at the bank in 2015 and 2016.

The JSTs also conducted a review of disclosures under Regulation (EU) No 575/2013, i.e. disclosures providing comprehensive information about the bank's risk level,⁵⁰ at five significant banks. The banks' disclosures are in general improving and becoming higher in quality, although there remain certain deficiencies that partly derive from the new regulatory requirements and greater expectations on the part of the supervisor. Deficiencies were identified in disclosures relating to risk management objectives and policy, the calculation of leverage, and exposure to counterparty risk. The banks were required to rectify the deficiencies in disclosures for the 2017 financial year.

The banks again submitted updated recovery plans at the end of 2016, which the JSTs reviewed and evaluated in 2017. Non-material⁵¹ deficiencies were identified, and three banks were issued with supervisory letters containing 70 recommendations.

Members of JSTs participated in the formulation of 24 assessments of the suitability of members of governing bodies confirmed and adopted at ECB level in 2017. They also participated in the granting of authorisations for a qualifying holding: one such authorisation was issued in 2017. One of the systemically important banks was issued with an decision regarding the classification of capital instruments as common equity tier 1 instrument. One of the systemically important banks was issued with an authorisation to pay dividends.

⁵⁰ Disclosures under Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:0001:0337:en:PDF>

⁵¹ The term is used by the ECB. The bank is required to rectify the identified non-material deficiencies by the next regular submission of the recovery plan, i.e. in one year's time (in the event of the identification of material deficiencies, the bank would be required to rectify the errors and resubmit the recovery plan on the basis of a decision by the ECB).

3.7.1.1 Irregularities identified and measures at significant banks

In the supervision of significant banks, there were 295 irregularities identified in their operations in 2017, of which the largest number related to credit risk management, the content of the recovery plan, the internal capital adequacy assessment process (ICAAP) and corporate governance. The findings are given in the table below. Certain identified irregularities were rectified in 2017, while the rectification of the others will be monitored in 2018.

Table 3: Irregularities identified

AREA	NUMBER OF IRREGULARITIES/ DEFICIENCIES IDENTIFIED	KEY FINDINGS
Corporate governance process and ICAAP	38	<ul style="list-style-type: none"> • inappropriate composition of supervisory board and deficient knowledge on the part of supervisory board members • deficient risk management framework and risk appetite • deficient knowledge in key control functions • deficiencies in ICAAP* • deficient limit system (setting and monitoring of limits)
Credit risk and early warning system (EWS)	185	<ul style="list-style-type: none"> • deficiencies in regulation of bylaws • inadequate validation and calibration of internal models • inadequate designation of restructured, non-performing and cured exposures • inadequate level of created impairments • inadequate database for calculation of LGD and PD** • inadequate collateral management • inadequate early warning system • deficiency in strategy for managing NPLs and operational plans to reduce NPLs • inadequate mechanisms of independent oversight of management of NPLs • deficiency in implementation of IFRS 9
Recovery plans	70	<ul style="list-style-type: none"> • deficient summary of key elements of recovery plan • deficiencies in description of recovery plan management • deficient indicators in recovery plan • deficiencies in description of recovery plan options • deficiencies in adverse scenarios • deficiencies in preparatory measures
Operational risk	1	<ul style="list-style-type: none"> • deficient operational risk management framework
Interest rate risk in the banking book	1	<ul style="list-style-type: none"> • deficient framework for management of interest rate risk in the banking book

* ICAAP: internal capital adequacy assessment process;

** LGD: loss given default, PD: probability of default

Source: Bank of Slovenia

Table 4: Supervisory measures imposed on significant banks

TYPE OF MEASURE	NUMBER OF MEASURES IMPOSED
Decision with supervisory measures issued	4
Supervisory letter issued	15

Source: Bank of Slovenia

3.7.2 Supervision of less significant banks⁵²

Within the framework of the SREP, in 2017 the Bank of Slovenia assessed individual risks and the adequacy of the control environment for managing the individual risks, and set out individual requirements for the maintenance of capital adequacy at individual less significant banks. There was particularly detailed monitoring of the banks that failed to fully meet the capital adequacy requirements determined in the SREP, or whose capital adequacy was very close to the SREP requirements. These banks had to submit plans to meet and maintain the required capital adequacy. The Bank of Slovenia imposed a capital increase measure on one less significant bank in 2017.

Seven supervisory reviews were conducted at less significant banks in 2017, in the areas of credit risk, liquidity risk, interest rate risk, strategic risk, operational risk, profitability risk, the business model and corporate governance. Three of the reviews related to follow-up for the purpose of reviewing that the irregularities and deficiencies identified in previous supervisory review of the bank have been rectified adequately and fully. One of the follow-up reviews had not been completed by the end of 2017.

3.7.2.1 Irregularities identified and measures imposed at less significant banks

There were 258 irregularities and deficiencies identified in the supervision of less significant banks in 2017. The largest numbers of them related to the content of recovery plans, corporate governance and credit risk. Certain identified irregularities were rectified in 2017, while the rectification of the others will be monitored by the Bank of Slovenia in 2018.

⁵² Banks and savings banks are classed as less significant banks (LSIs). The term “bank” in the context of less significant banks also includes savings banks.

Table 5: Irregularities identified

AREA	NUMBER OF IRREGULARITIES/ DEFICIENCIES IDENTIFIED	DESCRIPTION OF KEY IRREGULARITIES
Corporate governance	33	<ul style="list-style-type: none"> • inadequate decision-making process • deficiencies in strategic planning process • functioning of management body without rules of procedure and failure to ensure audit trail of decisions • inadequate composition of supervisory board and its committees • unclear minutes of sessions of supervisory board and its committees
Operational risk	11	<ul style="list-style-type: none"> • failure to control operational risk • failure to perform regular tasks on time
Credit risk	22	<ul style="list-style-type: none"> • use of internal collateral guidelines that fail to comply with applicable regulations • used of outdated credit risk management policy • improper procedure for valuation of residential real estate for purpose of calculating capital requirements
Liquidity risk	18	<ul style="list-style-type: none"> • failure to ensure effective liquidity risk management processes • failure to ensure timely reporting • incomplete monitoring of liquidity risk exposure • deficient or absent procedures for early warning of liquidity shortfalls • uncritical self-assessment of internal liquidity adequacy assessment process
Interest rate risk	13	<ul style="list-style-type: none"> • failure to perform regular tasks on time owing to lack of adequate support for interest rate risk • change in methodology for measurement of interest rate sensitivity without approval of management body • incomplete measurement, monitoring and management of exposure to interest rate risk
Capital risk	18	<ul style="list-style-type: none"> • deficient capital risk monitoring processes • inadequate capital adequacy • failure to comply with requirements on disclosures in connection with capital
Business model and profitability risk, strategic risk, reputation risk, internal controls	24	<ul style="list-style-type: none"> • failure to formulate and adopt business strategy • failure to formulate and adopt risk take-up and management strategy • deficiencies in provision of internal auditing • deficiencies in compliance function • deficiencies in internal governance arrangements and internal control mechanisms
Recovery plans	119	<ul style="list-style-type: none"> • deficient explanations of assumptions and arguments for setting of thresholds on indicators • deficient explanations of selected recovery methods and their impact • insufficiently strict adverse scenarios

Source: Bank of Slovenia

Table 6: Supervisory measures imposed on less significant banks

TYPE OF MEASURE	NUMBER OF MEASURES IMPOSED
Order on the rectification of breaches	2
Order on the rectification of breaches with additional measures	1
Decision to initiate procedure to revoke authorisation to perform the function of a member of a bank's management body	1
Post-inspection letter	2
Declaratory decision on rectification of breaches	2

Source: Bank of Slovenia

Supervision of the operations of the three branches of foreign banks and banking groups of Member States (two from Austria and one from France) present in the Slovenian banking market was conducted by the Bank of Slovenia via regular reports, requests for additional clarification, and the monitoring of the liquidity positions of the branches. **No measures were imposed on the branches in 2017.**

3.7.3 Stress tests

The EBA did not conduct EU-wide stress tests in 2017, in line with its approach and timetable. The SSM therefore decided to focus on interest rate risk in the banking book (IRRBB)⁵³ in 2017 for the purposes of SREP stress tests. The Bank of Slovenia modelled its stress tests exercise on the basis of ECB methodology, and included less significant banks (LSIs) and subsidiary banks under majority foreign ownership in the stress tests. Consequently the Bank of Slovenia opted in March 2017 for micro top-down stress tests with a complementary IRRBB questionnaire, in light of the deadlines for implementation, the possibility of obtaining and conducting controls on data, the workload on the banks, the current relevance of the scenarios, horizontal comparability and the value-added.

The Bank of Slovenia's micro top-down stress tests were primarily based on banks' regular supervisory reports and on an approach that to the greatest possible extent reflected the ECB SSM methodology for IRRBB stress tests in 2017. The approach enabled partial horizontal comparability of Slovenia's three systemically important banks (NLB, NKBM and Abanka), and the other less significant banks (LSIs). The Bank of Slovenia's approach allowed for the inclusion of individual calculations and attributes of Slovenia's less important banks on the basis of a special questionnaire aimed at examining the implementation of IRRBB at individual institutions.

⁵³ Interest rate risk in the banking book is based on the calculation of the impact of a change in the interest rate curve on the *economic value of equity* (EVE) and on *net interest income* (NII) at an individual bank. The calculation methodology takes account of the attributes of the individual bank's interest-sensitive products (contractual attributes and attributes deriving from client behaviour models). EVE and NII are the basic metrics for calculating interest rate risk in the banking book.

The results of the Bank of Slovenia's IRRBB stress tests were largely similar to the ECB's stress test results for the entire SSM. Interest rate risk is present, but is manageable at the system level. Banks and savings banks had relatively closed interest sensitive positions on the cut-off date, which they additionally closed by allocating the stable portion of sight deposits. **The results of the stress tests reveal a positive impact (i.e. an increase) in the banks' interest income in the event of a rise in interest rates over the next three years.**

3.7.4 Project to introduce IFRS 9

International Financial Reporting Standard 9 Financial instruments, which has been effective in the banking sector since 1 January 2018 in the accounting of financial instruments, intervenes in all key areas of the operations of banks and savings banks (hereinafter: banks): risk management, back-office, accounting and reporting. Consequently intensive preparations for the initial application of IFRS 9 were also made by the Bank of Slovenia in 2017 within the framework of the IFRS 9 project, which was created for this purpose in late 2016.

Within the framework of the IFRS 9 project, in 2017 all of the relevant secondary legislation and guidelines in the areas of books of account, annual reports, credit risk management and reporting were overhauled. More on the changes brought by the aforementioned secondary legislation, is given in Section 6.2.1.1 *Secondary legislation*.

In the phase of the creation of secondary legislation the Bank of Slovenia consulted the banks, the Bank Association of Slovenia, the audit firms that audit banks, and also, in connection with the write-off of claims from the perspective of taxation under the Corporate Income Tax Act (the ZDPO-2), the Ministry of Finance.

The Bank of Slovenia closely monitored and participated in activities to amend European legislation and guidelines (at the level of the European Commission, the EBA and the ECB), and monitored the changes in the ZDPO-2 that arose as a result of the changeover to accounting in accordance with IFRS 9. Within the framework of European legislation it was also necessary to define a transition period and the methodology for taking account of the effects of the changeover to IFRS 9 on bank capital during the transition period and the disclosure of the impact on capital adequacy and leverage. It was also necessary to change the requirements according to the technical standards for supervisory reporting set out by Commission Implementing Regulation (EU) No 680/2014.

Within the framework of these activities the Bank of Slovenia issued the Regulation on the application of the Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (Official Gazette of the Republic of Slovenia, No. 66/17),⁵⁴ the aforementioned guidelines having been published on the EBA website. Together with the Bank of Slovenia guidelines in connection with the use of an expected credit loss model and the application of valuation rules for certain accounting items, the aforementioned guidelines provide support in the implementation of IFRS 9 in the area of the assessment of expected credit losses and additional requirements with regard to credit risk management.

The new IFRS 9 also required considerable changes in the reporting system for banks.⁵⁵ It was necessary to revise the environment for receiving data (including input controls), and enquiries for the purpose of internal and external reporting. These activities are continuing in 2018.

The Bank of Slovenia also devoted particular attention in 2017 to monitoring the banks' preparations for the initial application of IFRS 9.

As in 2016, the Bank of Slovenia called on banks to complete the questionnaire, which should provide for a preliminary assessment of the impact of IFRS 9 on banks' financial statements and capital. On the basis of these questionnaires, thematic inspections and interviews with the banks, the Bank of Slovenia assesses that the changeover to accounting under the new standard will not have a material impact on the capital of the majority of the banks.

The banks will disclose the actual impact on capital as a result of the changeover to accounting in accordance with IFRS 9 in their annual reports for the 2017 financial year.

During the changeover to IFRS 9, an impact is expected from the reclassification and measurement of financial assets, from the creation of value adjustments and provisions for credit losses and, at certain banks, from hedge accounting. In accordance with the guidance that they received from the Bank of Slovenia at the end of the financial year, and the ESMA position of 27 October 2017, the banks will disclose the actual impact on capital as a result of the changeover to accounting in accordance with IFRS 9 in their annual reports for the 2017 financial year.

The activities for the initial application of IFRS 9 also included a one-day technical assistance programme for central bank colleagues from Montenegro and Macedonia.

3.7.5 Supervision of compliance and AML/CFT

The majority of the supervisory activities carried out in 2017 in the area of compliance were related to the area of prevention of money laundering and terrorist financing (hereinafter: AML/CFT). These activities included three direct inspections of AML/CFT at banks and savings banks, of which two were follow-up reviews to verify whether the bank or savings bank had

⁵⁴ Regulation (in Slovene): <https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2017-01-3104?sop=2017-01-3104>

⁵⁵ The reporting consists of two parts: (1) from data on an individual basis obtained on the basis of reporting in accordance with the updated Guidelines for implementing the Regulation on reporting by MFIs, and (2) from data on an individual and consolidated basis obtained on the basis of reporting in accordance with the amended technical standards for supervisory reporting set out in Commission Implementing Regulation (EU) No 680/2014.

rectified the deficiencies or breaches identified in previous reviews, and one was a comprehensive review.

In addition to the direct inspections, the following activities were also carried out in 2017:

- **Signing of a memorandum of understanding between the Bank of Slovenia and the Office for Money Laundering Prevention (OMLP)**

The MoU was signed in early 2017 at the initiation of the Bank of Slovenia, and provides an appropriate basis for coordinated action in the implementation of supervisory activities in the area of AML/CFT. The entry into force of the ZPPDFT-1 assigned new powers to the OMLP to conduct inspection-based supervision of all entities subject to obligations under the law, including instances where a primary supervisor already exists. To avoid the risk of duplication of supervision and imposed measures, the MoU provides a detailed definition of mutual cooperation in the implementation of supervisory activities at banks from the perspective of AML/CFT.

- **Completion of the Moneyval⁵⁶ assessment**

A comprehensive Moneyval assessment was carried out in 2016 and 2017, the purpose of which was to examine the degree to which Slovenia complies with the international recommendations of the Financial Action Task Force (FATF), which constitute the globally established standard in the area of AML/CFT. The aforementioned assessment is the fifth to be conducted and, in accordance with the prescribed methodology, which precisely sets out the assessment procedure, had two main objectives on this occasion:

- determining the national legislation's compliance with the FATF recommendations (technical compliance);
- determining the adequacy of the implementation of the prescribed measures in practice (effectiveness).

The final *mutual evaluation report*, together with its *executive summary*, was adopted at the plenary session held in June 2017, and is published in the Moneyval section of the website.⁵⁷ From the perspective of the Bank of Slovenia and the supervised entities for which it has supervisory competence,⁵⁸ it is mainly the findings with regard to the implementation of preventive measures and the recommendation for conducting supervisory activities⁵⁹ that are important. Two separate action plans were drawn up at the level of the country as a whole on the basis of the findings: an

⁵⁶ Slovenia is a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval), which periodically evaluates legislative compliance and the effectiveness of the implementation of measures in its member-states.

⁵⁷ Anti-money laundering and counter-terrorist financing measures Slovenia, Fifth Round Mutual Evaluation Report, June 2017: <https://rm.coe.int/moneyval-moneyval-2017-2-5th-round-mutual-evaluation-of-slovenia/16807358f8>

⁵⁸ In accordance with the ZPPDFT-1, the Bank of Slovenia is responsible for conducting supervision in the area of AML/CFT at banks, savings banks, payment institutions, electronic money institutions, currency exchange operators, and entities involved in virtual currencies.

⁵⁹ See the aforementioned report, including p 104.

action plan to improve the technical compliance of the AML/CFT system in Slovenia, and an action plan to improve the effectiveness of the AML/CFT system in Slovenia.

The two action plans were approved by the Slovenian government⁶⁰ in December 2017, and Slovenia is required to report on the progress at Moneyval's plenary session in December 2018.

• **Activities related to establishment of supervision of entities involved in virtual currencies**

In connection with the supervision of the virtual currencies,⁶¹ by way of introduction it is necessary to explain that virtual currencies are not systemically regulated and are consequently not subject to supervision, with the exception of the area of AML/CFT. The anonymity in the use of virtual currencies entails a high risk of potential abuse for the purposes of money laundering or terrorist financing, for which reason an agreement was reached at EU level that the entities involved should be listed among those required to carry out the measures prescribed in the area of AML/CFT. Although no EU directive has yet been adopted in this connection, the existing Slovenian legislation (the ZPPDFT-1) includes entities involved in virtual currencies among those supervised by the Bank of Slovenia. Several meetings with the OMLP and other competent supervisory authorities were organised on this basis in 2017 for the purpose of exchanging opinions in the establishment of adequate supervisory practices in the aforementioned area.

The Bank of Slovenia and the OMLP conducted joint supervision of currency exchange operators on site in 2017, and participated in the drafting of guidelines to ensure the uniform implementation of the ZPPDFT-1 at currency exchange operators.

The tasks planned for 2017 by the Bank of Slovenia in the area of AML/CFT also included updating the guidelines to the banking sector for the implementation of the requirements under the ZPPDFT-1, and the documentation of internal procedures for conducting supervisory activities in accordance with the risk-based supervision guidelines of European supervisory authorities. Owing to extraordinary activities⁶² in the second half of 2017, the two tasks will be completed in 2018.

⁶⁰ Reports of the government meeting (in Slovene): http://www.vlada.si/fileadmin/dokumenti/si/Sporocila_za_javnost/2017/12/sev1161.pdf and http://www.mf.gov.si/si/medijsko_sredisce/novica/3365/

⁶¹ The term virtual currency is in widespread use, but according to an opinion of the European Central Bank, "virtual currencies do not qualify as currencies from a Union perspective". The ECB further states that "given that virtual currencies are not in fact currencies, it would be more accurate to regard them as a means of exchange, rather than as a means of payment".

⁶² The extraordinary activities that occurred in the second half of 2017 were related to cases that were raised in the media, namely Farrokh Ltd (NLB) and the Italian typology (NKBM). Appropriate activities were carried out in this connection at the request of various investigatory groups.

3.8 MACROPRUDENTIAL SUPERVISION AND FINANCIAL STABILITY

The purpose of macroprudential supervision is to prevent and mitigate systemic risks to financial stability by increasing the resilience of the financial system and by mitigating financial cycles. The strategic framework of macroprudential policy, which provides the basis for the administration of macroprudential policy through the use of instruments directly under Bank of Slovenia control, consists of the Guidelines for the macroprudential policy of the Bank of Slovenia,⁶³ which were published in early 2015, and the document entitled Macroprudential policy for the banking sector,⁶⁴ which builds on these guidelines. The strategic documents were updated on 10 January 2017.⁶⁵

Box 2: Risks in the banking system

The Bank of Slovenia regularly assesses the level of risks in the banking system, and their expected direction of development. There was no significant change in risks in the financial sector in 2017. **Income risk** remains among the most significant risks, as a result of the persistence of the low interest rate environment. Generating income in this environment was a major challenge for the banks, which adjusted by making further changes to their business models. The banks' EBIT was positive in the years of 2015 to 2017, with a trend of increase. The improvement in the operating result in 2017 was attributable to the net release of impairments and provisions as a result of the intensive resolution of non-performing claims at banks and the improved economic situation. The period of several years of declining lending activity at the banks came to an end in 2017, which was reflected in a slower decline in the banking system's net interest income. **Refinancing risk** was again one of the most significant risks in the banking system last year. There was a further improvement in funding stability as a result of the diminishing dependence on funding on the wholesale markets, but the further shortening of funding maturities and the increased maturity mismatch between investments and funding had an adverse impact. **Liquidity** at the banks was favourable, and secondary liquidity strengthened further. **Credit risk** declined further last year as a result of the improved financial position of firms and households, and an increase in the banks' activities in resolving non-performing claims. **Solvency risk** remained low, as capital adequacy remained at a solid level despite a gradual decline.

⁶³ The intermediate objectives of macroprudential policy are described in detail in the [Guidelines for the macroprudential policy of the Bank of Slovenia](#).

⁶⁴ The document entitled [Macroprudential policy for the banking sector: strategic framework](#) is an upgrade of the Macroprudential policy guidelines.

⁶⁵ <https://www.bsi.si/en/financial-stability/macroprudential-supervision/macroprudential-policy-strategy>

There remained significant differences between the banks in 2017, and the small domestic banks and savings banks are still the weakest in capital terms. The rapid growth in prices on the **real estate market** demanded careful monitoring of the potential increase in excessive risks that in the event of major price reversals could endanger the stability of the banking system and the financial system.

The Bank of Slovenia uses five packages of macroprudential instruments.

To meet individual intermediate objectives⁶⁶ of macroprudential policy, on the basis of an assessment of risks in the financial system the Bank of Slovenia uses the instruments defined by the Capital Requirements Regulation⁶⁷ and the Banking Act (the ZBan-2),⁶⁸ and other instruments in accordance with Slovenian legislation.

The Bank of Slovenia uses five packages of macroprudential instruments (see Table 7).⁶⁹ The purpose of the **countercyclical capital buffer** instrument is to protect the banking system against potential losses when these are related to an increase in risks in the system as a result of excessive growth in lending. The Bank of Slovenia reviews the indicators used in determining the countercyclical capital buffer on a quarterly basis, and publishes them online. In light of indicators of imbalances in the banking system originating in excessive corporate lending, and on the basis of an expert assessment, the capital buffer rate has remained unchanged at zero since its introduction.⁷⁰

In accordance with the ZBan-2 the Bank of Slovenia conducts an annual review of the fulfilment of criteria for defining a bank as an **O-SII** and the buffer rate for the identified banks. NLB d.d., SID banka d.d. Ljubljana, Nova KBM d.d., UniCredit banka Slovenija d.d., Abanka d.d., Sberbank banka d.d. and SKB d.d. were all defined as O-SIIs in 2017. Banka Intesa Sanpaolo d.d. is no longer defined as an O-SII since its reassessment in 2017. Only at one of the identified banks was the buffer rate modified (reduced). The banks are required to meet the capital buffer, which stands at 1.00% for NLB d.d. and 0.25% for the other O-SIIs, as of 1 January 2019.⁷¹

The **GLTDF** macroprudential instrument, which defines minimum requirements for the 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, was introduced in June 2014 to mitigate and prevent excessive maturity mismatch and illiquidity. Initially the measure directed banks that were raising deposits but reducing lending to the non-banking sector (i.e. failing to meet the GLTDF requirements) to raise

⁶⁶ The intermediate objectives of macroprudential policy are described in detail in the [Guidelines for the macroprudential policy of the Bank of Slovenia](#)

⁶⁷ [Regulation \(EU\) No 575/2013 \(CRR\)](#)

⁶⁸ [Official Gazette of the Republic of Slovenia, Nos. 25/15, 44/16 \[ZRPPB\], 77/16 \[ZCKR\] and 41/17](#)

⁶⁹ Details can be found online at <https://www.bsi.si/en/financial-stability/macroprudential-supervision/macroprudential-instruments>.

⁷⁰ <https://www.bsi.si/en/financial-stability/macroprudential-supervision/macroprudential-instruments/countercyclical-capital-buffer>

⁷¹ Capital buffer for other systemically important banks: <https://www.bsi.si/en/financial-stability/macroprudential-supervision/macroprudential-instruments/capital-buffer-for-other-systemically-important-institutions-o-sii-buffer>

their liquidity ratio. Given its evident positive impact (the LTD ratio for the non-banking sector has stabilised, while the proportion of stable funding increased, and systemic liquidity risk is lower than at the introduction of the instrument), the measure has never been tightened. On the basis of an assessment of the liquidity ratio, i.e. the ratio of the sum of financial assets and the sum of funding with regard to residual maturity, and the GLTDF instrument, and the favourable developments in key indicators such as the stabilisation of the LTD ratio, in December 2017 the Governing Board adopted a regulation on the conversion of the minimum requirements (lowest recommended values) with regard to the liquidity ratio and GLTDF into a non-binding macroprudential recommendation, which entered into force on 1 January 2018.

It is recommended for a bank with a positive (annual) increase in deposits by the non-banking sector that the (annual) GLTDF at the end of the quarter be zero or positive.⁷² At the same time the recommendation is to maintain a first-bucket liquidity ratio (the ratio of financial assets to funding with residual maturity of up to 30 days) of at least 1, while the second-bucket liquidity ratio (the ratio of financial assets to funding with residual maturity of up to 180 days) is merely of an informative nature. Through the maintenance of these instruments in the form of recommendations, the Bank of Slovenia is communicating to credit institutions that they are required to monitor the stability of funding, to diligently manage liquidity risk and to gradually transform the released liquid assets. At the request of the Bank of Slovenia, a bank that fails to attain the recommended minimum value for the first-bucket liquidity ratio must provide relevant explanations for the failure, and must cite other measures by which it limits liquidity risk. The retention of this measure will limit the banking system's exposure to liquidity risk, thereby helping to attain one of the intermediate objectives of macroprudential policy,⁷³ namely mitigating and preventing excessive maturity mismatch and illiquidity. The banks are required to report the liquidity ratio to the Bank of Slovenia on a daily basis, which allows the Bank of Slovenia to regularly monitor the liquidity situation in the Slovenian banking system.

Two macroprudential instruments for the real estate market⁷⁴ entered into force in 2017: the recommended maximum level of the **LTV** ratio, and the recommended maximum level of the **DSTI** (debt service-to-income) ratio. The aim of these instruments is to prevent excessive credit growth and excessive leverage. The recommended maximum LTV stands at 80%. The recommended maximum of the DSTI ratio is 50% for borrowers with monthly income less than or equal to EUR 1,700, and 50% for that portion of income up to EUR 1,700 inclusive and 67% for that portion of income exceeding EUR 1,700 for borrowers whose monthly income is greater than EUR 1,700.

⁷² GLTDF: <https://www.bsi.si/en/financial-stability/macroprudential-supervision/macroprudential-instruments/gltdf>

⁷³ The intermediate objectives of macroprudential policy are described in detail in the [Guidelines for the macroprudential policy of the Bank of Slovenia](#)

⁷⁴ Instruments for the residential real estate market: <https://www.bsi.si/en/financial-stability/macroprudential-supervision/macroprudential-instruments/instruments-for-the-real-estate-market>

The type and scope of the instruments were defined so that during introduction they did not encroach significantly on the banks' current lending activity and business policies, as the situation on the Slovenian real estate market is stabilising and does not currently pose any direct risk to financial stability. Housing loans represent a segment of lending activity that could face relatively high exposure to systemic risks at the start of a new financial cycle. The instruments described below are thus required as a preventive measure.

Table 7: Macprudential instruments used by the Bank of Slovenia

MACROPRUDENTIAL INSTRUMENT	YEAR OF INTRODUCTION	OBJECTIVE
Limits on deposit rates ⁽⁷⁶⁾	2012	<ul style="list-style-type: none"> • limiting income risk for banks in connection with an excessive rise in interest rates on deposits by the non-banking sector • encouraging caution in the management of levels of liability interest rates, which should have a positive impact on lending rates
GLTDF	2014	<ul style="list-style-type: none"> • slowing the pace of reduction in the LTD ratio for the non-banking sector • contributing to the stabilisation of funding structure • reducing systemic liquidity risk
Countercyclical capital buffer	2016	<ul style="list-style-type: none"> • increasing the banking system's resilience to shocks • curbing the expansive phase of the credit cycle
O-SII buffer	2016	<ul style="list-style-type: none"> • increasing the resilience of O-SIIs, and consequently the entire banking system, to shocks
Instruments for the residential real estate market (LTV and DSTI)	2016	<ul style="list-style-type: none"> • preventing excessive credit growth and excessive leverage

Notes:

- GLTDF: gross loans to deposits flows, a limit on the pace of reduction in the LTD ratio for the non-banking sector
- O-SIIs: other systemically important institutions
- LTV: recommended maximum ratio of the amount of a housing loan to the value of the real estate pledged as loan collateral
- DSTIL recommended maximum ratio of the annual costs of debt servicing to a borrower's annual income when a loan agreement is concluded

Source: Bank of Slovenia

⁷⁵ In the low interest rate environment the instrument is not placing any limits on banks.

3.9 BANK RESOLUTION

Under the Resolution and Compulsory Winding Up of Banks Act⁷⁶ (the ZRPPB), which entered into force on 25 June 2016, the Bank of Slovenia acquired the role of the national resolution authority.

In 2017 the Bank of Slovenia put in place resolution plans for all banks and savings banks (hereinafter: banks) whose resolution is its responsibility. At the same time it participated in updating the plans of the banking groups with members in Slovenia via internal groups within the framework of the Single Resolution Board (SRB),⁷⁷ the central authority of the Single Resolution Mechanism in the European banking union. The approach to drawing up the resolution plans is coordinated at the level of the SRB and is standardised for all banks.

The Bank of Slovenia is responsible for drawing up the resolution plans for all banks that do not fall under the competence of the SRB, namely Gorenjska banka, Deželna banka Slovenije, Delavska hranilnica, Hranilnica Lon and Hranilnica Vipava.

The SRB is responsible for drawing up resolution plans for banks and banking groups that are under the direct supervision of the ECB, and for all banks that pursue cross-border activities. These banks are NLB, NKBM, Abanka, Société Générale (whose subsidiary in Slovenia is SKB), UniCredit, Intesa Sanpaolo, Erste (whose subsidiary in Slovenia is Sparkasse), Addiko and Sberbank. The Bank of Slovenia helps to draw up resolution plans for all banks and banking groups under the competence of the SRB in the parts relating to the bank or part of the banking group in Slovenia. The preparation of the resolution plans for banks under the competence of the SRB proceeds in the form of international working groups of all the national resolution authorities of countries where individual members of the banking group have a presence. The international working groups collaborate via document exchange, regular teleconferences and periodic meetings.

3.9.1 Single Resolution Fund

Banks, credit institutions and certain investment firms from the 19 countries of the banking union, including Slovenia, pay into the Single Resolution Fund (SRF). The SRF was established in accordance with Regulation (EU) No 806/2014, and is owned by the SRB, the central bank resolution authority in the EU banking union, which also manages the fund. The SRB only uses the SRF for the purposes of ensuring the efficient application of resolution tools and the exercise of resolution powers, in line with the objectives of resolution and the principles governing resolution.

The SRF is being built up in accordance with the rules for pooling contributions collected at national level, as set out in the Agreement on the transfer and mutualisation of contributions to the Single Resolution Fund.

In 2017 the Bank of Slovenia put in place resolution plans for all banks and savings banks whose resolution is its responsibility.

The total contributions to the SRF amounted to EUR 7,161.8 million in 2017, of which Slovenian banks contributed EUR 9.3 million.

⁷⁶ Official Gazette of the Republic of Slovenia, Nos. 44/16 and 71/16 [constitutional court decision].

⁷⁷ For more about the SRB, see Section 3.1 Institutional framework.

The target level of the SRF is available financial assets in the amount of at least 1% of covered deposits of all credit institutions authorised in all participating Member States, by the end of the original period of eight years from 1 January 2016.

The total contributions amounted to EUR 7,161.8 million in 2017, of which Slovenian banks contributed EUR 9.3 million.⁷⁸ The total size of the SRF had reached EUR 17.4 billion following the contributions made in 2017, while the target is at least 1% of covered deposits in countries of the banking union, which will be reached by the end of 2023.

3.9.2 Bank Resolution Fund at the Bank of Slovenia

Since the end of March 2015 the Bank of Slovenia has managed the Bank Resolution Fund, which was established pursuant to the Bank Resolution Authority and Fund Act (the ZOSRB).⁷⁹ The fund's assets are earmarked for financing measures of compulsory winding-up that can be imposed on banks by the Bank of Slovenia. The banks paid assets totalling EUR 191.07 million into the resolution fund in March 2015 (1.3% of total covered deposits).

The value of the bank resolution fund at the Bank of Slovenia amounted to EUR 191 million at the end of 2017.

The Governing Board of the Bank of Slovenia set out the fund's investment policy⁸⁰ to ensure that it is secure, is low-risk and has high asset liquidity. Consequently the following are eligible investments for the fund: (i) euro area bonds or short-term securities of central or regional governments, agencies, supranational institutions and non-financial corporations whose second-best rating may be no lower than A-, or BBB- in the case of a sovereign debt obligor; (ii) bank balances at foreign commercial banks or the Bank of Slovenia; and (iii) bank deposits maturing in a maximum of 14 days. The debt of banks established in Slovenia and of foreign banking groups including subsidiary banks established in Slovenia, and the debt of the Republic of Slovenia are not eligible investments for the Bank Resolution Fund.

The conditions for the management of the assets of the Bank Resolution Fund were relatively unfavourable in 2017, as in 2016. Interest rates on the money market again fell slightly, reaching new record lows. The fund therefore reduced its placements in short-term deposits, and left the money in an account at the Bank of Slovenia, where the interest rate was also negative (the deposit facility rate), albeit higher than the interest rates on the money market. In addition, given the expectations of a general rise in market returns (and thus a fall in the value of assets), the fund reduced the proportion of investments in bonds of regional government and agencies, and increased the balance in the account at the Bank of Slovenia, thereby slightly reducing the fund's interest rate exposure (modified duration).

⁷⁸ A detailed breakdown of the contributions to the SRF by country is available at <https://srb.europa.eu/en/content/single-resolution-fund>

⁷⁹ <http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7059>

⁸⁰ The Regulation on the investment policy and management fees of the bank resolution fund is published online (in Slovene) at <http://www.bsi.si/library/includes/datoteka.asp?DatotekaId=7057>.

The value of the fund amounted to EUR 191 million at the end of 2017. The fund's operating result was a net loss of EUR 239,472 in 2017. Its performance is disclosed in detail in its annual report.⁸¹

By law, the fund will cease operating on 31 December 2024.

3.10 DEPOSIT GUARANTEE SCHEME

The Deposit Guarantee Scheme Act (the ZSJV)⁸² stipulates that the Bank of Slovenia shall establish and operate a deposit guarantee scheme to guarantee a depositor's deposits in the event of the unavailability of deposits at a bank by means of the payment of coverage of guaranteed deposits to depositors, or through other measures by which depositors' access to guaranteed deposits is maintained in the event of the bank's compulsory wind-up.

The scheme put in place provides for payouts of guaranteed deposits to commence within seven business days in the event of the unavailability of deposits at an individual bank (the deadline is binding after 2023, before which the deadline period is gradually reduced). A similar payout procedure is undertaken in the event of the payout of guaranteed deposits in the wake of the bankruptcy of an investment firm.

In 2017 the Bank of Slovenia continued its periodic testing of the capture of data on guaranteed deposits at the level of the individual client at all banks in Slovenia. A plan for testing the deposit guarantee scheme in accordance with EBA guidelines was drawn up. In the event of the bankruptcy of a bank branch, the Bank of Slovenia is responsible for coordinating the payout of guaranteed deposits. In 2017 the Bank of Slovenia acceded to the multi-lateral agreement of the European Forum of Deposit Insurers, which sets out cross-border cooperation between deposit guarantee schemes. There are three bank branches operating in Slovenia. Two are covered by Austria's guarantee scheme Einlagensicherung der Banken und Bankiers GmbH, with which the Bank of Slovenia established additional cooperation in 2017 for the purpose of testing the operational execution of the payout of the guaranteed deposits of a bank branch.

The requisite funds for the payout of guaranteed deposits are provided from several sources. The banks in Slovenia pay contributions into the deposit guarantee fund. Their contributions amounted to EUR 17 million in 2017. The fund's assets amounted to EUR 33 million at the end of 2017, and it will reach its full size in the amount of 0.8% of total deposits covered by guarantee at banks in Slovenia in 2024. Should the deposit guarantee fund's assets not suffice for the needs of the actual payout of guaranteed deposits, the fund may undertake additional borrowing, and the Bank of Slovenia may instruct the banks to make an additional extraordinary contribution to the fund; as a last resort funds may be provided by the government in the form of a short-term loan.

The banks' contributions to the deposit guarantee fund amounted to EUR 17 million in 2017.

⁸¹ The annual report is published online (in Slovene) at <https://www.bsi.si/publikacije/letna-porocila/letno-porocilo-sklada-za-resevanje-bank>.

⁸² Deposit Guarantee Scheme Act (Official Gazette of the Republic of Slovenia, No. 27/16): <http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7428>

The funds for the payout of the guaranteed deposits of bank branches are provided by the guarantee schemes in which the banks are included.

The assets of the deposit guarantee fund are invested by the Bank of Slovenia. The deposit guarantee fund's investment policy, which in accordance with the ZSJV was determined by the Governing Board of the Bank of Slovenia,⁸³ sets out the diversification of investments with a low level of risk, and provides for the appropriate availability of the fund's investments for the needs of the payout of guaranteed deposits. Given the low returns on investments in eligible deposits and securities, and the relatively high costs of managing a still-low stock of assets should an active management policy be pursued, the Governing Board concluded for 2017 that the fund's assets should remain in the account at the Bank of Slovenia, where they are remunerated at the interest rate of the deposit facility. The fund's operating result was a net loss of EUR 113,439 in 2017. Its performance is disclosed in detail in its annual report.⁸⁴

⁸³ The Regulation on the investment policy and management fees of the deposit guarantee fund is published online (in Slovene) at <https://www.bsi.si/library/includes/datoteka.asp?DatotekaId=7812>.

⁸⁴ The annual report of the deposit guarantee scheme is published online (in Slovene) at <https://www.bsi.si/publikacije/letna-porocila/letno-porocilo-sklada-za-jamstvo-vlog>.

3.11 CENTRAL CREDIT REGISTER

The Central Credit Register is the central national database of the debts of individuals deriving from credit operations and the debts of business entities and credit risks and other exposures taken up by lenders in operations with business entities. It achieved full functionality on 3 January 2017, when the system for exchanging information on the debts of business entities and credit risks and other exposures taken up by lenders in operations with business entities (SISBIZ) was put in place alongside the previously functioning system for exchanging information on the debts of individuals deriving from credit operations (SISBON).

At the end of 2017 the SISBON system included 24 members (and an additional 20 in the process of joining), and 22 lenders who access the data on a limited basis, while the SISBIZ system had 17 members. Data on 1,490,683 individuals and 114,221 business entities is administered in the information exchange system.

During the year in which the Central Credit Register has been functioning, there has been continual execution of all activities to provide unimpeded infrastructural, application-related and substantive support to the members of the data exchange system, participating lenders and the individuals and business entities about whom information is administered. Within this framework, two major upgrades have been made to the SISBON system owing to legal requirements. A new scheme for viewing SISBON data for participating lenders was implemented in early May in accordance with the Consumer Credit Act, while an expanded scheme for reporting and disclosing data for members of SISBON in accordance with the Central Credit Register Act was implemented in early December.

For the purpose of ensuring greater security and confidentiality in the data administered in the data exchange system, ordinary audits of seven existing members of the SISBON system were conducted in 2017, within the framework of which 31 recommendations were issued. Six further audits of members were conducted for the purpose of determining that the conditions had been met for transfer to the SISBON production environment, together with an audit of the data processing contractor.

Within the framework of enquiry procedures for individuals' and business entities' own data administered in the data exchange system, a total 4,079 data print-outs were sent to individuals, up 6% on the previous year, while 26,790 individuals (up 14% on the previous year) and 250 business entities submitted online requests for their own data.

Thanks to systematic measures to ensure that the data in the SISBON system is accurate, the number of complaints by individuals was down 19.3% on 2016. There were 876 complaints in 2017, equivalent to 0.06% of all of the individuals about whom data is administered in the system, of which 44.6% of the complaints were found to be justified. The majority of the justified complaints derive from the non-reporting or erroneous reporting of the closure of a transaction by members of the system.

Data on the debts of 1,490,683 individuals and 114,221 business entities is managed in the information exchange system.

The Bank of Slovenia executed 50 million transactions for its 198 clients in 2017, mostly credit transfers.

3.12 PAYMENT SERVICES FOR BANK OF SLOVENIA CLIENTS

The Bank of Slovenia administers the government's single treasury account and the single municipal treasury accounts. These accounts are opened in various currencies. The accounts of direct and indirect spending units of the state budget and municipal budgets, the Health Insurance Institute and the Pension and Disability Insurance Institute (included in the single treasury account system as set out in the Public Finances Act) were opened as sub-accounts of the government or municipal treasury accounts. The sub-accounts are administered by the Public Payments Administration, to which direct and indirect spending units of the state budget and municipal budgets submit payment orders and from which they receive the full set of feedback about payments transacted.

In addition to the single treasury accounts, the Bank of Slovenia also manages purpose-specific current accounts of the government and other budget spending units, and provides payment bank services for the Ministry of Finance and manages a cash account for it in the TARGET2-Securities securities settlement system.

KDD also has accounts opened at the Bank of Slovenia: the guarantee fund account, the fiduciary account for custody services, and the current account for own resources. Among other clients of the Bank of Slovenia are the Bank Asset Management Company, which repays loans and issues securities via an account opened at the Bank of Slovenia, foreign financial institutions and EU institutions.

In 2017 the Bank of Slovenia conducted a total of 50 million transactions for its 198 clients, who have a total of 207 accounts opened with it. Of these transactions, 94% were credit transfers, while the remainder were direct debits. The majority of the transactions were processed automatically; the number of manual transactions is falling.

3.13 STATISTICS

All regular tasks in connection with monetary and financial statistics, external statistics, national financial accounts statistics and other statistics, including publication and the comprehensive provision of statistics to direct users, were carried out successfully by the Bank of Slovenia in 2017. Some major changes and developments deserve to be highlighted.

Given the introduction of the new IFRS 9 in 2018, amended Guidelines for implementing the Regulation on reporting by monetary financial institutions (MFIs) were published in December 2017, and testing of the modified application for receiving reports was conducted.

The Bank of Slovenia will collect data inside the integrated system for MFIs' reporting to the Bank of Slovenia for the new ESCB database of detailed information on individual bank loans in the euro area, the analytical credit datasets (AnaCredit).⁸⁵ Because a large portion of the required data on loan operations is already collected in existing reporting, the data will be used for a new purpose, which will reduce the development costs for the banks and the Bank of Slovenia. A draft of the changes and new requirements of the guidelines on reporting by MFIs was sent in the second half of 2017 for comments by those covered by reporters.

A review of the quality of data input in the Register of Institutions and Affiliates Database (RIAD) was conducted in 2017, together with a clean-up of data for the purpose of data migration to a new version of the software. A migration plan for the data transfer from the current version to a single data dictionary (SDD) was drawn up. This was followed in the second half of the year by an exercise to identify AnaCredit counterparties (domestic and foreign business entities) in the RIAD test environment.

After the exclusion of two associated firms, the statistical sample for reporting by leasing companies consisted of 29 firms at the end of 2017. New potential reporting entities were identified in 2017 via firms' leasing activities and annual reports, and were notified of their inclusion in the sample. Three new firms will thus be included in the sample in 2018.

The Guidelines for implementing the Regulation on the compulsory reporting of transactions with the rest of the world were updated in 2017. The Bank of Slovenia thereby slightly eased the burden on reporting entities by combining three separate reports into a single report, while a threshold for reporting was also introduced for 2018 for reports on direct investments. At the same time the reporting application was upgraded: reporting in two modules (KRD and BST) was transferred to the new online application in August 2017, to be followed by the final reporting module (SN) in 2018.

A revision of data on the balance of payments and the international investment position for 2012 to 2016 was carried out in June 2017. The revisions made mostly acted to reduce the current account surplus, most notably in 2016, when it was revised down from EUR 2.7 billion to EUR 2.1 billion, or 6.8% of GDP to 5.3% of GDP. A detailed explanation of the balance of

⁸⁵ For more on AnaCredit, see: <https://www.ecb.europa.eu/explainers/tell-me-more/html/anacredit.en.html>

payments revision was published in June edition of the Economic and Financial Developments.

In accordance with Regulation (EU) No 549/2013, annual financial accounts data for the 1995 to 2001 period was compiled and submitted to Eurostat in 2017, after Slovenia had been temporarily exempted from submission by a derogation.

There was intensive cooperation with the Statistical Office of the Republic of Slovenia and with the Ministry of Finance in resolving methodological issues in the area of the government sector's financial accounts. Representatives of the Bank of Slovenia also participated in Eurostat's regular methodology-related visit to Slovenia in June 2017.

The data of securities issuers held in the ESCB's Centralised Securities Database (CSDB) was linked with the RIAD, which will be used as the fundamental hub between various ESCB databases, such as AnaCredit, the CSDB and the Securities Holding Statistics (SHSDB). In the area of data on securities holdings for the SHSDB, preparations have begun for the collection of data from Slovenian banking groups under the direct supervision of the ECB/SSM, which will begin in November 2018.

On the basis of the national accounts statistics the Bank of Slovenia compiles annual government sector statistics and data on state aid to financial institutions during the economic and financial crisis. The Bank of Slovenia also participates in the preparation of the EDP report on the general government deficit and debt, particularly the section with data on state aid to financial institutions.

The Bank of Slovenia again conducted a survey of corporate access to financing in 2017, in conjunction with SID banka. The Bank of Slovenia survey provides an overview of the availability of external financing to firms. The results of the analysis for 2016 were published on the Bank of Slovenia website,⁸⁶ and were presented in the Economic and Financial Developments publication and in Bančni Vestnik.

The Bank of Slovenia has joined the Open Data Portal Slovenia⁸⁷ with its data time series. In 2017 a concept for releasing data on the Bank of Slovenia website was derived and a publishing program was selected.

In collaboration with an external partner, surveys were conducted in the field in 2017 as part of the ESCB's household finance and consumption survey (HFCS). The data collection process was slightly delayed out (a number of other surveys in Slovenia, the complexity of the questionnaire, a lack of surveyors), but it was nevertheless completed within the framework of ECB's deadline.

⁸⁶ Survey of access to financial resources for non-financial corporations (in Slovene): <https://www.bsi.si/publikacije/rezultati-anket/raziskava-o-dostopnosti-financnih-virov-za-podjetja>

⁸⁷ Open Data Portal Slovenia: <https://podatki.gov.si/>

3.14 BANK OF SLOVENIA INFORMATION SYSTEM

The Bank of Slovenia information system was upgraded in 2017 with a software application that allows for improved efficiency in the bank's front-office work. Upgrades were made to 40 of the 70 applications developed in-house. Particular attention was required by the implementation of the EU's new data protection regulation, the GDPR,⁸⁸ and the adaptations to the new IFRS 9.

There was also a good deal of attention focused on the security of the information system. The advancement of technology is very rapid in this area, given the likelihood of attacks on information systems and the increased awareness. In addition to regular tasks such as monitoring, governance and rapid response in the area of security, the main task was developing new functionalities. Activities to introduce an information system for managing identities and access rights continued in 2017. Action was also undertaken to put in place hardware/software for the advanced detection of threats and the tracking of access to the databases. To increase the security of the information system, a system was installed to manage and monitor the use of connection devices, applying the rules for the individual types of connection device.

The Bank of Slovenia put a backup computer centre in place several years ago, and in 2017 began putting in place an extra computer location for data backup.

The Bank of Slovenia website (www.bsi.si) was overhauled in 2017.

⁸⁸ GDPR Portal: <https://www.eugdpr.org/>

3.15 CONFERENCES, SEMINARS AND WORKSHOPS

In keeping with its strategic objective of increasing its reputation and level of public trust, the Bank of Slovenia also organises a variety of domestic and international events, conferences, seminars and workshops. Some of the most noteworthy international events are listed below.

In February Slovenia celebrated the 10th anniversary of its introduction of the euro. The Bank of Slovenia organised a gala event to mark the occasion.

In February Slovenia celebrated the 10th anniversary of its introduction of the euro. The Bank of Slovenia organised a gala event to mark the occasion, where President Borut Pahor was the honorary speaker. Alongside the president, another guest speaker was Mario Draghi, president of the ECB, while an address was also given by Boštjan Jazbec, the Governor of the Bank of Slovenia. In their speeches all three highlighted the importance of the single currency and the urgency of continuing to make the right reforms to strengthen the role of the euro at the level of individual countries and the euro area as a whole.

In March the Bank of Slovenia was visited by Jens Weidmann, president of the Bundesbank, who gave a fascinating presentation for guests and Bank of Slovenia staff on developments in the euro area, with an emphasis on the challenges that need to be heeded in the ongoing evolution and optimal functioning of the monetary union.

The third European Central Banking Network conference, entitled Evaluating the Effectiveness of Macroprudential Policies, was organised by the Bank of Slovenia in September 2017. Researchers from 18 European central banks presented their analysis at the conference. The basic purpose of the conference was to compare the various experiences of different countries with regard to the effectiveness of macroprudential policies, to identify similarities and differences between them, and to elucidate the main useful lessons from the analysis presented.

In late September the Bank of Slovenia organised a meeting of the ESCB's statistics committee, which like the ESCB's other committees assists the ECB's decision-making bodies with its expertise, and contributes significantly to cooperation within the ESCB. Since the introduction of the SSM, the committee has also addressed the reporting of supervisory data alongside traditional central banking statistics such as monetary statistics, international economic relations figures and financial accounts data. The committee meets four times a year, but this was the first time that the meeting had been held in Slovenia. In addition to its regular work, a specially themed part of the meeting addressed cooperation with the banking industry in providing data.

In November a conference entitled Joint investment Conference "Unlocking the investment potential", was organised by the Bank of Slovenia in conjunction with the European Investment Bank (EIB) and the European Commission representation in Slovenia. The conference dealt with subjects related to investment and its financing, an investment plan for Europe, the possibility of its financing by means of EFSI guarantees, and the investment environment in Slovenia. The conference also hosted a discussion of alternative sources of financing, the promotion of equity investments, and improvements to the capital market in Slovenia.

3.16 TECHNICAL ASSISTANCE

Bank of Slovenia experts are also involved in programmes of technical assistance to other central banks and supervisory institutions. The Bank of Slovenia provided bilateral and multilateral (i.e. in conjunction with other institutions) assistance to central banks of Albania, Montenegro, Finland, Croatia, Kosovo, Macedonia and the Netherlands in 2017. The assistance was provided by the Bank of Slovenia in the following areas: banking supervision, banking regulations, bank resolution, cash operations, information technology, documentation systems, monetary policy, and payment and settlement systems. Seven study visits, two expert missions and two workshops were organised within the framework of this assistance. Bank of Slovenia experts also expanded their knowledge in the form of workshops and seminars held at the Centre for Excellence in Finance (CEF), at the International Center for Promotion of Enterprises (ICPE), and within the framework of the European Supervisor Education Initiative (ESE).

The Bank of Slovenia successfully completed two projects within the framework of European Commission technical assistance (programme to support structural reforms) in 2017. The Bank of Slovenia issued the Handbook for Effective Management and Workout of MSME NPLs⁸⁹ on 14 March 2017. The handbook was created on the basis of cooperation between the Bank of Slovenia and the World Bank, and includes practical guidance for banks in all areas of the management of non-performing claims against MSMEs, from the creation of a system and early warning indicators for NPLs to guidance for drawing up restructuring plans, negotiations with the debtor and practical examples of solutions. In the second project the Bank of Slovenia developed software for analysing banks' business models, in cooperation with an external contractor. The tool provides for the simulation of transactions and monitoring of key performance indicators at an individual bank for three years in advance. The Bank of Slovenia will use the tool in its regular banking supervision. The project within the framework of technical assistance was completed in November 2017.

Work also continued in the area of the development of the risk appetite framework in banks, which is proceeding under the aegis of European Commission technical assistance in cooperation with the EBRD. The purpose of the aforementioned assistance is to draw up risk appetite guidelines for banks, developing the Bank of Slovenia's corresponding supervisory methodology for reviewing the framework at banks, and providing training on the issue for banks and supervisors. The realisation of a bank's risk appetite is based on the consistent take-up of risks in business operations, and the effective management of the bank's risks. To this end the guidelines will contain numerous practical examples and suggestions for strengthening the link between the bank's governance arrangements, risk management and performance. The project will be completed in 2018.

The Bank of Slovenia issued the Handbook for Effective Management and Workout of MSME NPLs in March 2017, which was created on the basis of cooperation between the Bank of Slovenia and the World Bank.

⁸⁹ Handbook (in Slovene): <https://www.bsi.si/publikacije/druga-publikacije/prirocnik-za-upravljanje-nedonosnih-terjatev-msme>

Four original research papers were issued in 2017 in the Bank of Slovenia Working Papers, and Surveys and Analyses.

3.17 PUBLICATIONS

Four research papers⁹⁰ were released in 2017 within the framework of the Bank of Slovenia's two collections aimed at research and analysis (Bank of Slovenia Working Papers, and Surveys and Analyses).

The key periodical publications issued by the Bank of Slovenia in 2017 included the Financial Stability Review, which analyses systemic risks in the financial system every six months, the Macroeconomic Projections for Slovenia, which is issued in June and December every year and provides forecasts of macroeconomic developments for the next three years, the Monthly briefing on bank performance, which gives a monthly summary of the current situation in the banking system, and the Bank of Slovenia Bulletin, the core statistical publication that contains data from the in-house production of statistics (financial institutions, international economic relations, and financial accounts), all of which complement the basic macroeconomic statistics produced by the Statistical Office and the Ministry of Finance.

The full list of publications can be found on the Bank of Slovenia website.⁹¹ All of the publications are accessible solely in electronic form.

⁹⁰ Bank of Slovenia Working Papers (in Slovene): <https://www.bsi.si/publikacije/raziskave-in-analize/delovni-zvezki-banke-slovenije>; Surveys and Analysis (in Slovene): <https://www.bsi.si/publikacije/raziskave-in-analize/prikazi-in-analize>

⁹¹ Available on the Bank of Slovenia website in the Publications section (<https://www.bsi.si/en/publications>)

3.18 MEDIA AND OTHER COMMUNICATIONS

The Bank of Slovenia received and responded to a total of more than 350 media enquiries in 2017. In substantive terms the largest number of enquiries related to supervisory activities and measures, money laundering, Swiss franc loans, cryptocurrencies, changes in card payment surcharging, banking operations, non-performing exposures, trends and risks in the financial system.

The Bank of Slovenia responded to erroneous or misleading media stories⁹² with 17 rebuttals and clarifications in 2017.

In addition to media questions, the Bank of Slovenia received and responded to more than 780 questions from the general public, individuals and businesses alike, in 2017. The questions concerned all areas of the Bank of Slovenia's work, although the conversion of foreign currencies into euros and numismatics were the most common subjects.

The Bank of Slovenia endeavours to communicate with all segments of the public in a transparent, substantive and effective manner.

⁹² Answers and corrections are published on the Bank of Slovenia website in the Media section (<https://www.bsi.si/en/media>)

3.19 EDUCATION AND TRAINING

Together with the ECB and 11 other central banks of the Eurosystem, the Bank of Slovenia helped to organise the Generation Euro competition for the sixth consecutive year in 2017. The competition is in three rounds, and is aimed at encouraging students in senior years at secondary school to study economics and finance, and to learn about the role, duties and actions of the ECB and the Eurosystem. The winning team in 2016/17 was from the St Stanislaus Institute, a traditional grammar school in Ljubljana. A total of 34 teams from 19 secondary schools participated in the first round in the 2017/18 school year.



Winning team from the St Stanislaus Institute

The Bank of Slovenia works with secondary schools and universities in providing mandatory work experience to students. A total of seven school students and 11 university students, including three from abroad, took work experience placements with the Bank of Slovenia in 2017. The Bank of Slovenia sponsors eight students.

The Bank of Slovenia awarded prizes in 2017 to five students from Slovenian universities for the best master's and doctoral theses in the area of finance.⁹³

The Bank of Slovenia began holding its Education Day events in 2017. They are aimed at raising financial literacy among the general public, in particular those of primary and secondary school age, and pensioners. Education Days were attended by more than 850 visitors in 2017, mostly primary and secondary school students. These groups were initially provided with information about the role, tasks and importance of the central bank, and were then able to choose between lectures about seven areas (for the time being) of the Bank of Slovenia's activities.⁹⁴

Education Days at the Bank of Slovenia were attended by more than 850 visitors in 2017.

⁹³ More at: <https://www.bsi.si/en/media/1144/podelitev-nagrada-banke-slovenije>

⁹⁴ For more on the subjects and for applications: <https://www.bsi.si/en/about-us/education-day>

3.20 BANK OF SLOVENIA LIBRARY

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

The library allows internal and external users to borrow books for home, to borrow materials via interlibrary loans, and to search for materials across various databases.⁹⁵

The Bank of Slovenia library is based in new premises in the renovated lobby of the Bank of Slovenia building.

In 2017 the Bank of Slovenia released a book by Dr Ivan Turk on the types and forms of ordinary paper money that has been in circulation in the Slovene lands over the last 150 years. The book was distributed to all general libraries in Slovenia.

⁹⁵ More at: <https://www.bsi.si/en/about-us/library>

4 BANK OF SLOVENIA'S COOPERATION WITH OTHER INSTITUTIONS



4.1 COOPERATION WITH INSTITUTIONS IN SLOVENIA

4.1.1 Financial Stability Board

The Financial Stability Board (FSB) is a national macroprudential authority that formulates macroprudential policy and implements it in conjunction with supervisors of the financial system. The purpose of the FSB is to help protect the entire financial system, including strengthening its resilience and reducing the build-up of systemic risks, thereby ensuring that the financial sector is able to make a sustained contribution to economic growth. The FSB is chaired by the Governor of the Bank of Slovenia. Its secretariat is organised at the Bank of Slovenia.

The FSB met in four ordinary sessions in 2017, on the basis of the Macroprudential Supervision of the Financial System Act. The FSB reports on its work to the National Assembly of the Republic of Slovenia. At its sessions the FSB identified, monitored and assessed risks in the Slovenian financial system in accordance with law. There was no significant change in risks in 2017, and they did not significantly endanger financial stability. In the banking part of the financial system, income risk remains among the most significant risks, on account of the low interest rate environment and the adaptation of business models. The more significant risks are also related to funding, as the growing maturity mismatch between investments and funding could see risks increase sharply in the event of shocks in the financial sector and the real sector. There is rapid growth in prices on the real estate market, which could endanger the stability of the banking system and the financial system.

Alongside the risks reported on by the Bank of Slovenia, the SMA and the ISA, the FSB began monitoring risks in connection with new phenomena, such as virtual currencies.

Alongside the risks reported on by the Bank of Slovenia, the Securities Market Agency (SMA) and the Insurance Supervision Agency (ISA), the FSB began monitoring risks in connection with new phenomena, such as virtual currencies. In October 2017 it issued a warning with regard to purchasing, storing and investing in virtual currencies. It emphasised in the warning that virtual currencies are a form of unregulated digital representation of value that is neither issued nor backed by a central bank or a public authority. Furthermore, stakeholders in virtual currency schemes that facilitate the purchase, storage and trading of virtual currencies in Slovenia are not systemically regulated and supervised. The aforementioned warning was issued on their websites by all three supervisory institutions included in the FSB.

The FSB also discussed the newly issued recommendations by the European Systemic Risk Board (ESRB), and the measures adopted by national supervisors on the basis of recommendations issued previously by the ESRB. In 2017 the ESRB issued a recommendation addressing systemic risks related to liquidity and leverage at investment funds. The investment funds sector has expanded sharply over the last ten years in the EU and at the global level, and the expectation is that its role in financial intermediation in the EU will continue to increase. In 2017 the Bank of Slovenia also reported to the FSB on measures taken on the basis of the ESRB recommendation on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2).

4.1.2 Office for Money Laundering Prevention

In the area of AML, the Bank of Slovenia again carried out several activities in 2017 in conjunction with the Office for Money Laundering Prevention (OMLP). A memorandum of understanding was signed between the Bank of Slovenia and the OMLP early in the year to define their collaboration when conducting supervisory activities from the perspective of AML/CFT at banks and other entities under Bank of Slovenia supervision. Joint activities were also conducted in the area of virtual currencies. For more, see Section 3.6.5.

4.1.3 Committee for Cooperation between Supervisory Authorities

The committee for cooperation between supervisory authorities (the Bank of Slovenia, the SMA and the ISA) met at four ordinary sessions in 2017, to discuss new developments with the Ministry of Finance in connection with financial legislation and activities related to the meetings of the Financial Stability Board, to define joint activities and joint on-site inspections, to exchange information on the functioning of the board of supervisors at EU level, and to discuss other subjects of mutual interest.

4.1.4 National Payments Council

The Bank of Slovenia again chaired the National Payments Council (NPC) in 2017. This platform provides for consultation and dialogue on content related to payment services and payments in general between stakeholders in the payments market in Slovenia. With the aim of ensuring the ongoing balanced, sustainable development of the payments market in Slovenia, the NPC involves representatives of public bodies, organisations representing the interests of payment service providers and users, and payment infrastructures. The Bank of Slovenia chairs the NPC, provides logistical support for its work, and in its role as catalyst promotes and guides the activities of stakeholders represented on the NPC, in line with the Eurosystem policy and the objective of ensuring an integrated, competitive, effective and secure market in payment services, thereby contributing to economic efficiency and general financial stability.

In 2017 the NPC discussed the most relevant issues in the area of payments, including in connection with fintech, the impact of fintech on the payments market in Slovenia, instant payments and the related establishment of clearing and settlement infrastructures. The members of the NPC met three times⁹⁶ in 2017, and recognised the need for a more in-depth discussion of the most pressing subjects, in light of the pace of development in the area of payments in general and the growing importance of efficient means of payment to the economy and to society as a whole. The NPC established three working groups to this end in 2017. The first addresses issues related to the transposition of the Revised Payment Service Directive (PSD2) into national law, the second addresses issues related to payment security and

The NPC established three working groups in 2017 for addressing the most pressing issues in the area of payments.

⁹⁶ NPC materials: <https://www.bsi.si/en/payments-and-infrastructure/national-payments-council/documentation/gradiva-sej-nacionalnega-sveta-za-placila>

means of ensuring the highest level of user trust in payment services in Slovenia, and the third aims to consolidate the views of the stakeholders represented on the NPC with regard to key aspects of the development of the payments market in Slovenia and to determining the NPC's future work, thereby ensuring the successful realisation of its objectives. The NPC also issued two e-bulletins⁹⁷ in 2017 with the latest news in the area of payments in Slovenia and the EU.

4.1.5 Bank Association of Slovenia

A large part of the cooperation related to the formulation of the Bank of Slovenia guidelines for putting in place the risk appetite framework.

Close cooperation with the Bank Association of Slovenia (BAS) continued at all levels in 2017, most notably through support for the BAS's various expert committees, and regular participation in various technical workshops and expert conferences organised by the BAS for control, support and managerial functions at banks.

A large part of the cooperation related to the BAS's involvement in the formulation of the Bank of Slovenia guidelines for putting in place the risk appetite framework. This is an extensive project financed by the European Commission, and led by the EBRD, in conjunction with the consultants of choice, London's Neston Advisors. Numerous banks allowed the project group to view their practices and internal documents of the risk appetite framework, which was the key to the formulation of a report on the development of this area in the Slovenian banking industry.

At the BAS level the Bank of Slovenia also encouraged Slovenian banks to participate in the EBA consultation process with regard to the new guidelines on internal governance and the assessment of the suitability of members of the management body. In so doing the Bank of Slovenia held a workshop in relation to the drafts of the two sets of guidelines, and led the process of producing the banks' commentaries on the guidelines.

In the area of banking supervision, the Bank of Slovenia also participated, via papers and discussions, in all of the BAS's most important conferences for banks, of which 14 were aimed at the most senior staff and management. The Bank of Slovenia's contributions addressed the most pressing subjects in the areas of risk management, fintech and the digitalisation of banks, key changes to banking regulations, assessment of interest rate risk, bank resolution and deposit guarantees, assessment and management of strategic risk, the roles and responsibilities of members of the supervisory boards of banks and savings banks, new accounting standards, and major aspects of the work of internal audit departments, risk management departments and compliance departments.

⁹⁷ NPC e-bulletins: <https://www.bsi.si/en/payments-and-infrastructure/national-payments-council/e-news>

In numerous discussions with representatives of the banks, at these conferences the Bank of Slovenia responded directly to a number of issues and questions raised by the banks, defining its position regarding the issues raised.

The Bank of Slovenia also regularly participated in meetings of the treasury committee organised under the aegis of the BAS, where bank treasurers were briefed on the current development of domestic and European regulations in the area of liquidity, and presented with a comparison of information on the liquidity position that the banks reported in their liquidity reports, where particular attention was focused on areas where major discrepancies between reporting by EU banks and by banks operating in Slovenia were identified. The Bank of Slovenia also gave treasurers details of its expectations with regard to these areas, and the areas for which it had received a large number of questions, and encouraged them to actively raise substantive questions for the purpose of improving the understanding of regulations in the area of liquidity.

4.2 COOPERATION INSIDE THE EU

Representatives of the Bank of Slovenia participated in informal meetings of the ECOFIN (the EU's council of economics and finance ministers and central bank governors) in 2017. The first meeting in 2017 was held in April in Malta, where discussions included the future of the economic and monetary union, the issue of non-performing loans, the promotion of private-sector investment in north Africa and elsewhere, and international taxation issues. The second meeting was held in September in Tallinn, and discussed the deepening of the economic and monetary union, the capital markets union from the perspective of technological innovations and financial regulations.

In 2017 Bank of Slovenia representatives again attended meetings of committees, working groups and other bodies that are active within the institutions of the EU with a focus on financial and monetary matters. These include meetings of the Economic and Financial Committee (EFC) and its subcommittees, meetings of the Committee on Monetary, Financial and Balance of Payments Statistics, the European Statistical Forum and other working groups from the relevant areas that are active within the European Commission and the Council of the EU. The EFC discussed the economic and financial situation in the EU, economic governance, the banking union, the deepening of the economic and monetary union, the capital markets union, financial stability in the EU, the European system of financial supervision, the issue of non-performing loans, and issues related to the IMF. Representatives of the ESCB's work with the European Statistical System (consisting of the Eurostat and the national statistical offices) in the European Statistical Forum and the Committee for monetary, financial and balance of payments statistics with its sub-groups. The joint discussions in 2017 included progress in the implementation of the memorandum of understanding with regard to indicators for the macroeconomic imbalance procedure, and also cooperation on the joint thematic group on direct investment, on indicators of commercial real estate prices, and on statistics on income, consumption and assets. In addition there was further dialogue on globalisation, on activities with regard to the excessive deficit procedure, on the legal entity identifier (LEI) and business registers, and on quality assurance in statistics for indicators in connection with macroeconomic imbalances.

In November 2017 representatives of the European Commission and the ECB met with representatives of the Bank of Slovenia within the framework of the European Semester (the annual cycle of economic policy coordination). The agenda included an in-depth review of the economic situation in Slovenia and the fulfilment of specific recommendations in accordance with the procedure for preventing and correcting macroeconomic imbalances. The European Commission presented the findings of the in-depth review in February 2017, and concluded that there are macroeconomic imbalances in Slovenia. The vulnerabilities that need to be addressed are weaknesses in the banking sector, corporate indebtedness and fiscal risks. In July 2017 the Council of the EU adopted specific recommendations for Slovenia within the framework of the 2017 European Semester. The recommendations cover the areas of public finances, the pension and healthcare system, the labour market, access to financing, corporate governance at government-owned firms, and the improvement of the business environment.

4.3 COOPERATION WITH INTERNATIONAL INSTITUTIONS

4.3.1 International Monetary Fund

The Bank of Slovenia is responsible for Slovenia's cooperation within the IMF, and the Governor of the Bank of Slovenia is a member of the IMF Board of Governors. Slovenia's quota at the IMF stood at SDR 586.5 million at the end of 2017, or 0.12% of the total IMF quota. The Bank of Slovenia delegation attended the Spring and Annual meetings of the IMF and the World Bank in 2017. The main topics of the meetings were current developments in the global economy and on international financial markets, the outlook and the potential policy responses.

Within the framework of the Bank of Slovenia's participation in the IMF's financial arrangements, a new bilateral agreement with the IMF entered into force on 15 March 2017 and actually represents the renewal of the commitments from the previous agreement concluded in October 2013.

Slovenia participated in financial transactions under the Financial Transaction Plan (FTP) in 2017. Slovenia's reserve tranche position at the IMF declined during 2017 as a result of funds received from the IMF in accordance with the projected transfers under the FTP, and ended the year at SDR 86.6 million. Slovenia received seven repayments in the total amount of SDR 33.96 million in 2017.

An IMF Article IV mission took place in Slovenia in March 2017, and IMF representatives conducted a staff visit to Slovenia in late November and early December. During the March mission IMF representatives were briefed on the macroeconomic situation and conditions in the financial sector, issues in the management of public finances, and the institutional and legal framework for administering economic policy. Later in the year, under the mission chief for Slovenia, Nikolay Gueorguiev, IMF representatives made another staff visit to Slovenia in order to get acquainted with the latest situation in the economy.

4.3.2 Bank for International Settlements

The Governor of the Bank of Slovenia attends meetings of central bank governors of BIS members, which are held every two months. The meetings discuss developments in the global economy and on the financial markets. The governors' meetings are also an opportunity to exchange views on various central banking issues, in 2017 most notably on global value chains, central bank profitability, the role of the US dollar in the global financial system, the responsibilities of central banks, central bank reporting to parliament, the central banking challenges presented by big data, and key areas of research for the BIS and central banks. The Bank of Slovenia is a shareholder in the BIS, and a representative of the Governing Board of the Bank of Slovenia attended the annual general meeting of the BIS in Basel in June 2017.

The Governor of the Bank of Slovenia is a member of the eight-person Central Bank Governance Group, which operates under the aegis of the BIS.

Since September 2016 the Governor of the Bank of Slovenia has been a member of the Central Bank Governance Group,⁹⁸ which operates under the aegis of the BIS. The group was established in response to the increasing interest in issues related to the governance of central banks as public institutions. It focuses on the institutional and organisational setting in which central banks pursue monetary and financial policies. Members of the group, which has been chaired by Veerathai Santiprabhob, the Governor of the Bank of Thailand, since November 2017, met on the margins of the bimonthly meetings of BIS governors. In 2017, alongside the Governor of the Bank of Slovenia, the group consisted of Janet Yellen, (now former) chair of the Fed, Zhou Xiaochuan, governor of the People's Bank of China, Yves Mersch, a member of the ECB's Executive Board, and the governors of several other major central banks.

⁹⁸ Central Bank Governance Forum: <https://www.bis.org/cbgov/index.htm>

4.3.3 Organisation for Economic Co-operation and Development

The Bank of Slovenia representatives attended meetings of committees and working groups of the OECD. They participated in meetings of the Committee on Financial Markets, the Working Group on International Investment Statistics, the Working Party on Financial Statistics, and the Working Party on International Trade in Goods and Services Statistics, and in the informal steering group of the Working Party on SMEs and Entrepreneurship Financing.

The Bank of Slovenia maintained regular contacts with multilateral and private international financial institutions, as well as with rating agencies.

5 BANK OF SLOVENIA'S REPORTING TO THE NATIONAL ASSEMBLY



The Bank of Slovenia reports on its work to the National Assembly of the Republic of Slovenia.

In accordance with Article 33 of the Bank of Slovenia Act, the representative of the National Assembly's committee on finance and monetary policy and the minister responsible for finance are regularly invited to meetings of the Governing Board of the Bank of Slovenia, 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 committee on finance and monetary policy attended three times in 2017, while the finance minister attended twice.

Another integral part of the Bank of Slovenia's reporting to the National Assembly is the Bank of Slovenia's 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 the Bank of Slovenia. 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 the Bank of Slovenia 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.

Bank of Slovenia representatives attended nine sessions of National Assembly committees and commissions in 2017, where they gave clarifications and answers to deputies' questions to the commission for public finance control (five sessions), the committee on finance and monetary policy (three sessions) and the justice committee (one session). Representatives of the Bank of Slovenia also attended four sessions of organs and working bodies of the National Council last year.

The Bank of Slovenia has submitted more than 82,000 pages of documents to the National Assembly's two commissions of inquiry in connection with the identification of breaches at banks.

The Bank of Slovenia has submitted a total of 77,976 pages of documents to the Commission of Inquiry for identifying abuses in the Slovenian banking system and determining the causes and parties responsible for the second recovery of the banking system in independent Slovenia (for details, see Table 8).

The Bank of Slovenia has submitted more than 82,000 pages of documents to the National Assembly's two commissions of inquiry in connection with the identification of breaches at banks.

Table 8: Number of pages of documentation submitted to the Commission of Inquiry for identifying abuses in the Slovenian banking system and determining the causes and parties responsible for the second recovery of the banking system in independent Slovenia

	DELIVERY DATE	DELIVERED TO	NO. OF PAGES OF DOCUMENTS DELIVERED
1	4 Aug 2015	National Assembly	15,544
2	28 Sep 2015	National Assembly	7,662
3	22 Oct 2015	National Assembly	364
4	22 Jan 2016	National Assembly	5,862
5	21 Mar 2016	National Assembly	128
6	5 Apr 2016	National Assembly	2,284
7	27 May 2016	National Assembly	452
8	24 Jun 2016	National Assembly	76
9	19 Jul 2016	via court	2,667
10	19 Sep 2016	National Assembly	1
11	28 Oct 2016	National Assembly	29,090
12	12 Jan 2017	National Assembly	8,890
13	30 Mar 2017	National Assembly	1,808
14	14 Jul 2017	National Assembly	2,060
15	1 Sep 2017	National Assembly	198
16	6 Sep 2017	National Assembly	890
TOTAL			77,976

Source: Bank of Slovenia

The Bank of Slovenia has submitted a total of 4,400 pages of documentation to the National Assembly's Commission of Inquiry to investigate alleged money laundering and terrorist financing, nuclear proliferation, and financing of foreign intelligence and security services' activities abroad at Nova Ljubljanska banka d.d. and alleged money laundering at Nova KBM d.d.

Table 9: Number of pages of documentation submitted to the National Assembly's Commission of Inquiry to investigate alleged money laundering and terrorist financing, nuclear proliferation, and financing of foreign intelligence and security services' activities abroad at Nova Ljubljanska banka d.d. and alleged money laundering at Nova KBM d.d.

	DELIVERY DATE	DELIVERED TO	NO. OF PAGES OF DOCUMENTS DELIVERED
1	5 Oct 2017	National Assembly	1,738
2	29 Nov 2017	National Assembly	1,906
3	11 Dec 2017	National Assembly	62
4	19 Jan 2018	National Assembly	694
TOTAL			4,400

Source: Bank of Slovenia

6 WORK OF THE GOVERNING BOARD OF THE BANK OF SLOVENIA



6.1 DECISION-MAKING BODIES

The Bank of Slovenia's decision-making bodies are the Governor, and the Governing Board of the Bank of Slovenia.

The Bank of Slovenia's decision-making bodies are the Governor, and the Governing Board of the Bank of Slovenia. The Governing Board comprises five members: the Governor and four vice-governors. The Governor is the president of the Governing Board.⁹⁹

The Governor of the Bank of Slovenia directs the Bank of Slovenia's business, organises its work and acts as its statutory representative. He/she executes the decisions of the Governing Board of the Bank of Slovenia, and issues individual and general bylaws of the Bank of Slovenia that are not the responsibility of the Governing Board. He/she may also issue guidelines for implementing regulations of the Governing Board.

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

The members of the Governing Board of the Bank of Slovenia are independent in performing their duties pursuant to 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 refer to such bodies for guidance or instructions. Since the introduction of the euro on 1 January 2007 the members of the Governing Board of the Bank of Slovenia have observed the Statute of the ESCB and ECB in performing their duties.

The composition of the Governing Board changed in 2017. In December 2016 the National Assembly appointed Jožef Bradeško, whose term of office began on 1 March 2017, as vice-governor in place of Dr Mejra Festić.

⁹⁹ Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, Nos. [72/06](#) [official consolidated version], [59/11](#) and [55/17](#)).



Pictured (left to right): Primož Dolenc, Irena Vodopivec Jean, Boštjan Jazbec, Jožef Bradeško, Marko Bošnjak.

The members of the Governing Board of the Bank of Slovenia as at 31 December 2017 were:

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

Box 3: Conferences attended by members of the Governing Board in 2017 (selected)

Boštjan Jazbec, Governor

- Conference on Tackling Europe's non-performing loans crisis: restructuring debt, reviving growth at Bruegel, Brussels (February 2017)
- Challenges to Monetary and Fiscal Policy in Emerging Market Economies - 2nd Annual Central Bank Governors' Roundtable, Columbia University, New York (April 2017)
- 7th Conference on Institutional Quality and Sustainable Economic Convergence in Central, Eastern and South-Eastern European (CESEE) Countries, ECB, Frankfurt (October 2017)

Primož Dolenc, vice-governor and deputy-governor

- Slovenian Banking Sector - Current Development, ACI Slovenia (Financial Markets Association): 25th annual general meeting, Kranjska Gora (June 2017)
- Prerequisites for Designing Macprudential Toolkit, Center for Excellence in Finance (CEF) Workshop, Ljubljana (November 2017)
- Introductory address at the European Supervisor Education Initiative workshop: Banks' Business Model Analysis (ESE BBMA), Ljubljana (November 2017)

Irena Vodopivec Jean, vice-governor

- 37th Meeting of the Central Banks Governors' Club of Central Asia, Black Sea Region and Balkan Countries: Recent Economic and Financial Developments in Slovenia, Central Bank of the Republic of Turkey, Belek, Antalya (April 2017)
- IFRS 9 conference: key challenges for accountants and risk managers; Latest interpretations of the standard by auditors and Bank of Slovenia and tax treatment (roundtable), BAS, Ljubljana (March 2017)
- Bank conference: What banks' new business models mean in relation to clients (roundtable), BAS, Ljubljana (June 2017)

Marko Bošnjak, vice-governor

- Roundtable at 5 pm at Val 202 radio, on the subject of monetary policy in 2017/18 and interest rates (March 2017)
- Expert meeting of members of bank supervisory boards, and lecture on the subject of the ethics, morals and personal integrity of members of the supervisory board, BAS, Ljubljana (March 2017)
- Bank conference, lecture on MREL: Minimum requirements for own funds and eligible liabilities, BAS, Ljubljana (June 2017)

Jožef Bradeško, vice-governor.

- Regional Financial Stability in a New Global Environment, Summit Bečići (June 2017)
- Financial Cycles and Investment Policy from the international issue of Bančni Vestnik, Days of Slovenian Bankers, Brdo (November 2017)

6.2 WORK OF THE GOVERNING BOARD OF THE BANK OF SLOVENIA IN 2017

The members of the Governing Board convened at 23 meetings and eight correspondence sessions in 2017.

The Governing Board discussed a total of 422 agenda items in 2017, mostly in the area of banking supervision, in the areas of economic and monetary policy, financial stability and statistics, and in the areas of payment and settlement systems, and cash operations. Information about the agenda items of meetings of the Governing Board is presented in greater detail in Table 10.

The Governing Board discussed economic developments on eight occasions in 2017.

The representative of the National Assembly committee responsible for finance and monetary policy and the minister responsible for finance were invited¹⁰⁰ to all meetings of the Governing Board. As stated in *Section 5 Bank of Slovenia's Reporting to the National Assembly*, the chair of the committee on finance and monetary policy attended three times in 2017, while the finance minister attended twice.

Table 10: Detailed information about meetings of the Governing Board of the Bank of Slovenia in 2016 and 2017

	TOTAL NUMBER OF AGENDA ITEMS		NUMBER OF ITEMS IN AREA OF Economic and monetary policy, financial stability and statistics		NUMBER OF ITEMS IN AREA OF Banking supervision		NUMBER OF ITEMS IN AREA OF Payment and settlement systems, and cash operations		OTHER	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Ordinary meetings	292	413	50	76	117	160	35	48	90	86
Correspondence sessions	27	9	6	0	8	2	2	1	11	6

Source: Bank of Slovenia

¹⁰⁰ Article 33 of the Bank of Slovenia Act stipulates that the representative of the National Assembly committee responsible for finance and monetary policy and the minister responsible for finance are entitled to attend meetings of the Governing Board of the Bank of Slovenia, although they do not have the right to vote.

6.2.1 Secondary legislation

The main developments in banking regulations in 2017 were the changes in regulations brought by the implementation of the new IFRS 9, an overhaul of regulations in the area of credit risk, and the adoption of a package of secondary legislation on the basis of the new Consumer Credit Act (the ZPotK-2). The content of the individual regulations drawn up within the framework of these activities is summarised below.

Change in regulations owing to implementation of IFRS 9

As of 1 January 2018 IFRS 9 has brought significant changes in the accounting of financial instruments (classification, measurement, creation of value adjustments and provisions for credit losses, and hedge accounting). In light of the above it was necessary to amend all secondary legislation issued by the Bank of Slovenia that concerns accounting, reporting or disclosures in connection with financial instruments in banks' financial statements or annual reports.

REGULATION ON THE BOOKS OF ACCOUNT AND ANNUAL REPORTS OF BANKS AND SAVINGS BANKS (OFFICIAL GAZETTE OF THE REPUBLIC OF SLOVENIA, NO. 69/2017)	The regulation brings changes with regard to (1) the content of the general ledger as it relates to the keeping of books of account, (2) the prescribed templates for banks' financial statements and consolidated financial statements, (3) the content of disclosures in banks' annual reports and consolidated annual reports, including new performance indicators in connection with non-performing exposures and liquidity, and (4) the content of reporting of financial information on an individual basis.
GUIDELINES FOR COMPILING THE STATEMENT OF FINANCIAL POSITION, INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME, AND CALCULATING THE PERFORMANCE INDICATORS OF BANKS AND SAVINGS BANKS OF 5 DECEMBER 2017 (PUBLISHED ON THE BANK OF SLOVENIA WEBSITE)	The guidelines newly set out the methodology for compiling the statement of financial position, the income statement and the statement of comprehensive income, and for calculating performance indicators for the purpose of inclusion in the annual report.
GUIDELINES FOR IMPLEMENTING THE REGULATION ON REPORTING BY MONETARY FINANCIAL INSTITUTIONS OF 5 DECEMBER 2017 (PUBLISHED ON THE BANK OF SLOVENIA WEBSITE)	The guidelines newly set out the content and methodology of the report of interest-bearing book items (BS1S report), which includes financial information in connection with the financial statements and detailed information from contracts on transactions concluded with clients at the level of the individual transaction and/or client, according to the situation at the end of each month. They also introduce an ad hoc BS1S report, with an opening balance as at 1 January 2018 in accordance with IFRS 9, which the banks were required to submit to the Bank of Slovenia in accordance with the guidelines by no later than 5 March 2018, i.e. after the first regular monthly reporting for January 2018.
REGULATION AMENDING THE REGULATION ON REPORTING BY BRANCHES OF MEMBER-STATE BANKS (OFFICIAL GAZETTE OF THE REPUBLIC OF SLOVENIA, NO. 72/17)	The regulation brings changes relating to reporting under the Guidelines for implementing the Regulation on reporting by monetary financial institutions of 5 December 2017, and reporting under the Regulation on macroprudential monitoring of liquidity and funding structure (Official Gazette of the Republic of Slovenia, No. 72/17).
GUIDELINES RELATING TO THE USE OF AN EXPECTED CREDIT LOSS MODEL AND THE APPLICATION OF VALUATION RULES FOR CERTAIN ACCOUNTING ITEMS OF 5 DECEMBER 2017 (PUBLISHED ON THE BANK OF SLOVENIA WEBSITE)	The guidelines constitute the Bank of Slovenia's supervisory expectations with regard to the treatment of certain specific areas in connection with the assessment of credit risk and the treatment of non-performing exposures that are not defined in detail in the IFRS. The guidelines relate to (1) the classification of exposures into grades for the purpose of credit loss assessment, (2) the assessment of credit losses for the purpose of creating value adjustments and provisions, (3) the treatment of exposures and loan agreements during a change in repayment terms, and (4) the treatment of real estate and movable property acquired in the repayment of an exposure.

Source: Bank of Slovenia

Overhaul of regulations in the area of credit risk

In the overhaul of regulations in the area of credit risk, the starting point was the applicable regulatory framework (Bank of Slovenia, EU, EBA and ECB documents) and the Basel standards for credit risk management, whereby account was taken of the changes envisaged in the area of the assessment of credit risk losses as a result of the changeover to IFRS 9 and the desire to optimise and streamline regulations.

<p>REGULATION ON CREDIT RISK MANAGEMENT AT BANKS AND SAVINGS BANKS (OFFICIAL GAZETTE OF THE REPUBLIC OF SLOVENIA, NO 68/17).</p>	<p>The regulation defines the minimum requirements for credit risk management, and in the treatment of individual matters tracks the processes of credit risk take-up and management at banks. It replaces the old Regulation on the assessment of credit risk losses of banks and savings banks, and additionally includes certain content that was previously regulated in Appendix 1 of the internal governance regulation. The regulation thus sets out the requirements with regard to loan approval, credit risk monitoring, classification of debtors and exposures into rating grades, management of credit protection, creation of value adjustments and provisions, early warning systems, treatments of problem exposures, management of data and credit documentation, and credit risk reporting.</p>
<p>REGULATION AMENDING THE REGULATION ON INTERNAL GOVERNANCE ARRANGEMENTS, THE MANAGEMENT BODY AND THE INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS FOR BANKS AND SAVINGS BANKS (OFFICIAL GAZETTE OF THE REPUBLIC OF SLOVENIA, NO. 68/17)</p>	<p>The internal governance regulation is the umbrella document in the area of risk management, whose updated Appendix 1 (Credit risk) newly sets out the fundamental principles to be applied by banks in putting in place a suitable environment for credit risk management, which relate to the strategy and policy for credit risk take-up and management.</p>
<p>REGULATION AMENDING THE REGULATION ON THE REPORTING OF INDIVIDUAL FACTS AND CIRCUMSTANCES OF BANKS AND SAVINGS BANKS (OFFICIAL GAZETTE OF THE REPUBLIC OF SLOVENIA, NO. 68/17)</p>	<p>Alongside certain other redactions and revisions, the regulation on the reporting of individual facts now sets out the new arrangements for banks to inform the Bank of Slovenia of corporate restructuring (the PRESTR form), which have not undergone any substantive change.</p>

Source: Bank of Slovenia

Regulations on the basis of the ZPotK-2

<p>REGULATION ON THE REPORTING OF EFFECTIVE INTEREST RATES OF BANKS AND SAVINGS BANKS IN ACCORDANCE WITH THE CONSUMER CREDIT ACT (OFFICIAL GAZETTE OF THE REPUBLIC OF SLOVENIA, NO. 47/17)</p>	<p>The regulation sets out the scope, method and deadlines of reporting by banks and savings banks on the effective interest rates of consumer credit pursuant to the ZPotK-2. They report the average effective interest rates from credit agreements concluded in the previous semi-annual reporting period (1 January to 30 June, and 1 July to 31 December), itemised by maturity and amount of consumer credit. The reporting is used as the basis for the publication of average effective interest rates by the Bank of Slovenia twice a year in the Official Gazette of the Republic of Slovenia.</p>
<p>REGULATION ON THE CONDITIONS FOR CONSUMER CREDIT INTERMEDIATION APPLYING TO BANK CREDIT INTERMEDIARIES (OFFICIAL GAZETTE OF THE REPUBLIC OF SLOVENIA, NOS. 9/17 AND 26/17)</p>	<p>The regulation sets out the conditions that must be met by a bank credit intermediary for consumer credit intermediation, and the requirement for bank credit intermediaries and banks to keep records of transactions concluded via intermediation. Banks must also publish a list of credit intermediaries on their websites.</p>
<p>REGULATION ON THE CONDITIONS FOR CONSUMER CREDIT INTERMEDIATION FOR REAL ESTATE OR THE PROVISION OF ADVISORY SERVICES IN CONNECTION WITH SUCH CREDIT (OFFICIAL GAZETTE OF THE REPUBLIC OF SLOVENIA, NO. 9/17)</p>	<p>The regulation sets out the conditions that must be met by a credit intermediary for consumer credit intermediation for real estate or the provision of advisory services in connection with such credit, and the documentation and data that must be submitted to the Bank of Slovenia in the application for obtaining or renewing an authorisation to provide the aforementioned services. The same requirements with regard to keeping records and publishing a list of credit intermediaries on the website that apply in connection with ordinary consumer credit also apply in connection with consumer credit for real estate.</p>
<p>REGULATION ON THE CONDITIONS FOR THE PROVISION OF SERVICES OF CONSUMER CREDIT FOR REAL ESTATE (OFFICIAL GAZETTE OF THE REPUBLIC OF SLOVENIA, NO. 9/17)</p>	<p>The regulation sets out the conditions that must be met in the provision of consumer credit services for real estate, by both real estate leasing providers and banks. The regulation prescribes the documentation and data that must be submitted to the Bank of Slovenia in the application for obtaining an authorisation to provide the aforementioned services. The regulation also sets out the content and use of the Bank of Slovenia sticker that serves a real estate leasing provider as proof of having obtained an authorisation. It also defines the requirements with regard to record-keeping, the publication of a list of credit intermediaries on the website, and annual reporting to the Bank of Slovenia.</p>

Source: Bank of Slovenia

Other changes to regulations that provide the basis for conducting supervision of banks and savings banks derive from practical findings in the exercise of supervision, or are related to regulatory activities conducted within the framework of the EBA or the SSM under the aegis of the ECB. The content of the aforementioned regulations is summarised in brief below.

<p>REGULATION AMENDING THE REGULATION ON THE CALCULATION OF AN INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER RATE FOR BANKS AND SAVINGS BANKS (OFFICIAL GAZETTE OF THE REPUBLIC OF SLOVENIA, NO. 9/17)</p>	<p>The amendment relates to the abolition of the PKB form for reporting the institution-specific countercyclical capital buffer rate, which was replaced by reporting under the implementing technical standards (ITS) on supervisory reporting. Under the most recent update of the ITS (Commission Implementing Regulation (EU) 2016/1702 of 18 August 2016 amending Implementing Regulation (EU) No 680/2014 as regards templates and instructions), a new template C 09.04 was added. It includes all information included in the PKB form, and additional information that the bank uses in the calculation of the institution-specific countercyclical capital buffer rate.</p>
<p>REGULATION ON THE DOCUMENTATION FOR DEMONSTRATING FULFILMENT OF THE CONDITIONS FOR APPOINTMENT AS A MEMBER OF THE MANAGEMENT BODY OF A BANK OR SAVINGS BANK (OFFICIAL GAZETTE OF THE REPUBLIC OF SLOVENIA, NO. 33/17)</p>	<p>The regulation required an update to transpose the ECB's fit and proper questionnaire into national legislation, as of 30 June 2017. The questionnaire was drawn up by the ECB together with the Guide to fit and proper assessments in order to strengthen the assessment of the suitability of members of the management bodies of banks. The ECB questionnaire provides for the collection and processing of all the information required for assessment under the relevant criteria, namely basic information about the bank and the candidate, information on the function to which the completed questionnaire relates, and subsequently all information necessary for assessing whether the candidate has the right reputation, knowledge, skills and experience to perform his/her tasks, and whether he/she will be able to commit sufficient time, and information with regard to potential conflicts of interest, collective suitability and reputation.</p>
<p>REGULATION ON THE MINIMUM SCOPE AND CONTENT OF THE ADDITIONAL AUDIT AND THE ADDITIONAL AUDITOR'S REPORT OF COMPLIANCE WITH RISK MANAGEMENT RULES AT BANKS AND SAVINGS BANKS (OFFICIAL GAZETTE OF THE REPUBLIC OF SLOVENIA, NO. 72/17)</p>	<p>The regulation defines the primary area of audit as a review of the adequacy of risk management in connection with a general qualitative review of the strategy and policies of risk take-up and the procedures for assessing the bank's risk exposure, while, compared with the previous regulation, excluding certain areas of the additional audit that are no longer substantively relevant or where no deficiencies have been identified to date by audit firms across the entire banking system. Certain new content has also been introduced, where it is a matter of a direct link between accounting standards and credit risk management (review of a sample of the largest performing forborne credit exposures under probation, justification of the reversal of value adjustments or provisions for credit losses, adequacy of the valuation of real estate and movable property acquired as repayment of an exposure).</p>
<p>REGULATION AMENDING THE REGULATION ON ANNUAL FEES FOR SUPERVISION AND FEES IN CONNECTION WITH DECISION-MAKING PROCEDURES OF THE BANK OF SLOVENIA (OFFICIAL GAZETTE OF THE REPUBLIC OF SLOVENIA, NO. 72/17)</p>	<p>The amendments to the regulation relate to the expansion of the basis for determining and consequently paying fees in individual Bank of Slovenia decision-making procedures, thereby following the general guidance that a fee should be charged for processing individual requests by individual applicants (banks, members of management bodies, governing bodies, etc.), while all other supervisory activities should be subject to an annual fee.</p>
<p>REGULATION ON THE DEPOSIT GUARANTEE SCHEME (OFFICIAL GAZETTE OF THE REPUBLIC OF SLOVENIA, NOS. 49/16 AND 27/17)</p>	<p>Additions were made to Appendix III (Methodology for calculating bank contributions to the deposit guarantee fund) and Appendix IV (Data on deposits and guaranteed deposits by depositor, including data for their identification upon payment of guaranteed deposits)</p>

Source: Bank of Slovenia

Regulations on the application of guidelines issued by the EBA and European supervisory authorities (ESAs)¹⁰¹

The Bank of Slovenia also participates in the activities of the EBA within the scope of its competences. With the aim of putting in place consistent, effective and efficient supervisory practices and ensuring the harmonised application of European legislation in all EU Member States, the EBA issues guidelines and recommendations addressed to competent supervisory authorities and banks. It is the duty of supervisory authorities and banks to endeavour to uphold these guidelines and recommendations to the greatest possible extent. The guidelines and recommendations relate to the areas of banking supervision, bank recovery and early intervention, AML/CFT, payment services and systems, consumer protection and financial innovations. Pursuant to the ZBan-2 the Bank of Slovenia also decides on the application of individual guidelines or recommendations issued by other European supervisory authorities (ESMA, EIOPA) in the form of regulations on the application of guidelines or recommendations. The Bank of Slovenia issued several regulations on the application of guidelines in 2017:

- Regulation on the application of the Guidelines on implicit support for securitisation transactions (Official Gazette of the Republic of Slovenia, No. 2/17)
- Regulation amending the Regulation on the application of the Recommendations on the equivalence of confidentiality regimes (Official Gazette of the Republic of Slovenia, No. 2/17)
- Regulation on the application of the Guidelines on corrections to modified duration for debt instruments under the second subparagraph of Article 340(3) of Regulation (EU) 575/2013 (Official Gazette of the Republic of Slovenia, No. 4/17)
- Regulation on the application of the Guidelines on remuneration policies and practices related to the sale and provision of retail banking products and services (Official Gazette of the Republic of Slovenia, No. 12/17)
- Regulation on the application of the EBA Guidelines on creditworthiness assessment (Official Gazette of the Republic of Slovenia, No. 12/17)
- Regulation on the application of the EBA Guidelines on arrears and foreclosure (Official Gazette of the Republic of Slovenia, No. 12/17)
- Regulation on the application of the Guidelines on the characteristics of a risk-based approach to anti-money laundering and terrorist financing supervision, and the steps to be taken when conducting supervision on a risk-sensitive basis (Official Gazette of the Republic of Slovenia, No. 26/17)
- Regulation on the application of the Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector (Official Gazette of the Republic of Slovenia, No. 34/17)

¹⁰¹ European System of Financial Supervision: <https://www.bankingsupervision.europa.eu/about/esfs/html/index.en.html> and https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/european-system-financial-supervision_en

- Regulation on the application of the Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013 (Official Gazette of the Republic of Slovenia, No. 42/17)
- Regulation on the application of the Final Guidelines on the treatment of shareholders in bail-in or the write-down and conversion of capital instruments (Official Gazette of the Republic of Slovenia, No. 48/17)
- Regulation on the application of the Final Guidelines concerning the interrelationship between the BRRD sequence of write-down and conversion and CRR/CRD (Official Gazette of the Republic of Slovenia, No. 48/17)
- Regulation on the application of the Guidelines on the minimum list of services or facilities that are necessary to enable a recipient to operate a business transferred to it under Article 65(5) of Directive 2014/59/EU (Official Gazette of the Republic of Slovenia, No. 48/17)
- Regulation on the application of the Guidelines on factual circumstances amounting to a material threat to financial stability and on the elements related to the effectiveness of the sale of business tool under Article 39(4) of Directive 2014/59/EU (Official Gazette of the Republic of Slovenia, No. 48/17)
- Regulation on the application of the Guidelines on the determination of when the liquidation of assets or liabilities under normal insolvency proceedings could have an adverse effect on one or more financial markets under Article 42(14) of Directive 2014/59/EU (Official Gazette of the Republic of Slovenia, No. 48/17)
- Regulation on the application of the Guidelines on the specification of measures to reduce or remove impediments to resolvability and the circumstances in which each measure may be applied under Directive 2014/59/EU (Official Gazette of the Republic of Slovenia, No. 48/17)
- Regulation on the application of the Guidelines on the interpretation of the different circumstances when an institution shall be considered as failing or likely to fail under Article 32(6) of Directive 2014/59/EU (Official Gazette of the Republic of Slovenia, No. 48/17)
- Regulation on the application of the Final Guidelines on the rate of conversion of debt to equity in bail-in (Official Gazette of the Republic of Slovenia, No. 48/17)
- Regulation on the holders of qualifying holdings in banks and savings banks (Official Gazette of the Republic of Slovenia, No. 50/17)
- Regulation on the application of the Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (Official Gazette of the Republic of Slovenia, No. 50/17)
- Regulation amending the Regulation on the application of the Recommendations on the equivalence of confidentiality regimes (Official Gazette of the Republic of Slovenia, No. 59/17)

- Regulation on the application of the Guidelines on ICT Risk Assessment under the Supervisory Review and Evaluation process (SREP) (Official Gazette of the Republic of Slovenia, No. 66/17)
- Regulation on the application of the Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (Official Gazette of the Republic of Slovenia, No. 66/17)
- Regulation on the holders of qualifying holdings in banks and savings banks,¹⁰² which sets out in detail certain content of the Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector, which were issued by the European supervisory authorities (within the framework of the ESMA)

6.2.2 Licensing

In 2017 there were 17 procedures to grant authorisations to banks and savings banks for performing the function of a member of the management board, for providing services, for qualifying holdings, and for mergers and demergers (pursuant to the ZBan-2). Of the ten authorisations granted,¹⁰³ (two for qualifying holdings, seven for members of the management board, and one for services), eight were granted by the ECB. Since the establishment of the Single Supervisory Mechanism, the ECB has been responsible for granting authorisations to provide banking services and authorisations to acquire a qualifying holding for all banks. With regard to other authorisations for banks and savings banks, the responsibility is shared (the ECB is responsible for significant banks, and the Bank of Slovenia for less significant banks).¹⁰⁴ In one case the procedure for granting the authorisation (for a member of the management board) was suspended, while six procedures have continued in 2018.

In 2017 the Bank of Slovenia conducted eight new procedures for granting authorisations pursuant to the ZPlaSS¹⁰⁵ (five for the acquisition of a qualifying holding at an electronic money institution, and two for providing electronic money issuance services as an electronic money institution) and pursuant to the ZDP2 (one for currency exchange operations as a currency exchange operator). It granted one authorisation (for currency exchange operations), refused three requests for authorisations,¹⁰⁶ and rejected three requests (two for the acquisition of a qualifying holding at an electronic money institution, and one for providing electronic money issuance services as an electronic money institution), while four procedures were not completed in 2017 and have continued in 2018, as illustrated in Table 11.

¹⁰² <https://www.bsi.si/en/financial-stability/regulation/seznam-predpisov/licenciranje>

¹⁰³ Authorisations granted to banks and savings banks are published on the Bank of Slovenia website at <https://www.bsi.si/en/financial-stability/banking-system-supervision/supervisory-disclosure/information-on-authorisations-granted>

¹⁰⁴ For more details on the two categories of banks, see Section 3.6 Banking supervision.

¹⁰⁵ More at: <https://www.bsi.si/en/financial-stability/payments-and-infrastructure-supervision/supervision-of-electronic-money-institutions/bank-of-slovenia-authorisations>

¹⁰⁶ All procedures in connection with the three requests that were refused (two for the acquisition of a qualifying holding, and one for providing electronic money issuance services as an electronic money institution) were begun in 2016 and completed in 2017.

In accordance with the new Consumer Credit Act (the ZPotK-2), the Bank of Slovenia is also responsible for granting authorisations to leasing companies for consumer credit for real estate and to credit intermediaries for the intermediation of consumer credit for real estate. **Since the entry into force of the ZPotK-2 in March 2017, the Bank of Slovenia has received and processed two applications for authorisations to act as consumer credit intermediary for real estate.** In one instance the authorisation was granted, while in the other the application was refused.

Table 11: Authorisations in 2017

GRANTING OF AUTHORISATIONS	NUMBER OF PROCEDURES		NUMBER OF AUTHORISATIONS GRANTED		NUMBER OF REQUESTS FOR AUTHORISATION REFUSED/ REJECTED		SUSPENDED PROCEDURES		INCOMPLETE PROCEDURES
	2016	2017	2016	2017	2016	2017	2016	2017	2017
Qualifying holding	7	3	5	2	0	0	1	0	1
- banks / savings banks	2	5	0	0	0	2/2	0	0	3
- electronic money institutions									
Member of management board of bank / savings bank	20	11	14	7	1	0	2	1	3
Banking and financial services	5	3	3	1	0	0	1	0	2
Mergers and demergers									
- banks / savings banks	2	0	2	0	0	0	0	0	0
- payment institutions, electronic money institutions	1	0	1	0	0	0	0	0	0
Provision of payment services (payment institutions)	2	0	2	0	0	0	0	0	0
Provision of electronic money issuance services (electronic money institutions)	1	2	0	0	0	1/1	0	0	1
Provision of currency exchange operations (currency exchange operators)	1	1	1	1	0	0/0	0	0	0
Consumer credit intermediation for real estate	/	2	/	1	/	0/1	/	0	0
Total	41	27	28	12	1	7	4	1	10

Source: Bank of Slovenia

In addition to granting authorisations, the Bank of Slovenia is also responsible for determining the suitability of members of bank supervisory boards. The Bank of Slovenia conducted 51 procedures for assessing the suitability of members of bank supervisory boards in 2017. The Bank of Slovenia completed 15 procedures and 20 ECB procedures with a positive assessment, while five procedures were suspended (owing to the withdrawal of applications), and 11 procedures continued into 2018.

Table 12: Assessment of suitability and fitness of members of supervisory boards in 2017

ASSESSMENT OF SUPERVISORY BOARD MEMBERS	NUMBER OF PROCEDURES		NUMBER OF POSITIVE ASSESSMENTS		SUSPENDED PROCEDURES		INCOMPLETE PROCEDURES
	2016	2017	2016	2017	2016	2017	2017
For significant banks	26	32	9	20	3	2	10
For less significant banks and savings banks	22	19	3	15	7	3	1
Total	48	51	12	25	10	5	11

Source: Bank of Slovenia

Within the framework of supervisory measures in the area of licensing, the Governing Board of the Bank of Slovenia issued one order instructing a shareholder to dispose of shares in 2017.¹⁰⁷

The Bank of Slovenia also issued seven decisions to terminate authorisations in 2017: the largest number (six in all) related to the performance of the function of a member of a bank's management board, and one related to the provision of financial services, while the ECB issued one notification of the termination of an authorisation to provide banking services.

The Bank of Slovenia granted two authorisations to banks classed as less significant institutions for the classification of a capital instrument as an instrument of common equity Tier 1 capital, six authorisations for the inclusion of a capital instrument in additional capital, and one authorisation for the inclusion of profit during the year in capital. It also issued two decisions to reduce capital.

In addition, the Bank of Slovenia issued decisions to two currency exchange operators in 2017 revoking their authorisations to provide currency exchange operations.

The Bank of Slovenia received 30 notifications in 2017 of the direct provision of services in Slovenia by Member State banks (up from 18 in 2016). A list of EU Member State banks that may pursue business activities in Slovenia is published on the Bank of Slovenia website.¹⁰⁸ Two banks established in Slovenia notified the direct provision of services in two other Member States in 2017, the same as in 2016.

¹⁰⁷ The measures imposed are disclosed on the Bank of Slovenia website at <https://www.bsi.si/en/financial-stability/banking-system-supervision/supervisory-disclosure/publication-of-administrative-penalties>

¹⁰⁸ List of EU Member State banks entitled to provide mutually recognised financial services in Slovenia: <https://www.bsi.si/en/financial-stability/institutions-under-supervision/eea-states-credit-institutions-in-slovenia>

In 2017 the Bank of Slovenia received 50 notifications of the direct provision of payment services in Slovenia by payment institutions of Member States (down from 55 in 2016) and 44 notifications of the provision of electronic money issuance services and payment services by electronic money institutions of Member States (up from 18 in 2016). A list of payment institutions of Member States that may provide payment services directly in Slovenia, and a register of electronic money institutions of Member States that may provide electronic money issuance services and payment services are published on the Bank of Slovenia website.¹⁰⁹

In accordance with the ZPotK-2, the cross-border provision of consumer credit intermediation services for real estate is allowed, either directly or via a branch. The Bank of Slovenia received 14 notifications of the cross-border provision of services in Slovenia.

The Bank of Slovenia manages a register of credit intermediaries with a Bank of Slovenia authorisation¹¹⁰ and a register of credit intermediaries from other Member States who have notified the provision of services in Slovenia,¹¹¹ and publishes them on its website.

¹⁰⁹ List of payment institutions: <https://www.bsi.si/en/financial-stability/institutions-under-supervision/payment-institutions>; register of electronic money institutions: <https://www.bsi.si/en/financial-stability/institutions-under-supervision/electronic-money-institutions>

¹¹⁰ Register: <https://www.bsi.si/en/financial-stability/institutions-under-supervision/credit-intermediaries-for-real-estate/register-of-credit-intermediaries-with-authorisation-to-act-as-consumer-credit-intermediary-for-real-estate>

¹¹¹ Register of credit intermediaries of Member States: <https://www.bsi.si/en/financial-stability/institutions-under-supervision/credit-intermediaries-for-real-estate/register-of-credit-intermediaries-of-member-states>

6.3 WORKING BODIES

The Bank of Slovenia had 28 different working bodies in 2017, comprising commissions, committees and task forces. They include:

- Investment Committee (president: Jožef Bradeško)
- Risk Committee (president: Marko Bošnjak)
- Monetary Policy Committee (president: Jožef Bradeško)
- Supervision Committee (president: Dr Primož Dolenc)
- Audit Committee (president: Prof Marko Hočevar)
- Commission of the Governing Board of the Bank of Slovenia for Research Work (president: Dr Primož Dolenc)
- Project Work Commission (president: Irena Vodopivec Jean until November 2017, Branko Babič thereafter)
- Licensing Commission (president: Marko Bošnjak)
- Commission of the Governing Board of the Bank of Slovenia for the Preparation of Opinions on the Qualifications of Individuals to Hold Office (president: Marko Bošnjak)
- Ad Hoc Resolution Task Force (president: Peter Kupljen)

The work of these selected working bodies is presented in detail below.

6.3.1 Investment Committee

The Bank of Slovenia's own financial assets (investments that are not related to the implementation of Eurosystem monetary policy) are managed at the strategic, tactical and operational levels. The Governing Board represents the strategic level of management and decision-making, such as approval of the annual strategic asset allocation. The Investment Committee represents the intermediate level of asset management while the operational level is conducted by the Banking Operations department. In line with the demarcation described, the Investment Committee draws up the proposal for the annual strategic asset allocation, monitors the asset management performance on a monthly basis, discusses current investment topics and provides further guidance to operational level, manages benchmark portfolios and, on the basis of framework guidance issued by the Governing Board, adopts asset management criteria to set out the investment space and to limit exposure to interest rate, credit and currency risk. The Investment Committee reports on its work to the Governing Board on a quarterly basis.

6.3.2 Risk Committee

The Risk Committee was established on 7 March 2017, in part to take over the matters previously handled by the Operational Risk Committee. The committee consists of six members: two vice-governors, three executive directors and the head of business development. The committee represents a form of collaboration between the departments and the decision-making bodies in the area of risk management, which aims at supporting the performance of the duties of Bank of Slovenia bodies in the area of risk as defined by law. The committee provides for comprehensive discussion of

issues in the area of risk management at the Bank of Slovenia, assesses strategic and other long-term aspects in connection with risk management, provides a platform for the exchange of opinions and information in the area of risk between various departments, and discusses proposals received from the departments and the initiatives of committee members relating to the area of risk management at the Bank of Slovenia. The committee met in six sessions in 2017. The subjects that it addressed and discussed included the overhaul of the overall risk management framework at the Bank of Slovenia, cyber security, control of strategic risk, financial risk and operational risks, business continuity plans and exercises, reputation risk, legal risk, compliance risk, reports of incidents and loss events, and it also proposed numerous improvements in the area of risk management at the Bank of Slovenia. These included:

- suggested improvements in the management of the register of incidents and loss events,
- the standardisation and demarcation of responsibilities for the implementation of the overall risk management framework,
- updates to the corporate communications plan for 2018 with the aim of improving the Bank of Slovenia's reputation.

The Risk Committee also drew up its plan of work for 2018, which will be based on the committee's standard issues set out by its resolution of establishment, and the updated overall risk management framework at the Bank of Slovenia.

6.3.3 Monetary Policy Committee

The committee assists and advises Bank of Slovenia bodies in performing its tasks defined by law in the area of the determination of monetary policy by the Governing Council of the ECB and in performing tasks in accordance with the decisions of the ESCB's decision-making bodies. In its sessions the committee undertakes in-depth comprehensive discussions of the consequences of Eurosystem monetary policy for the macroeconomic situation in Slovenia and the situation on the financial markets, and in particular:

- ensures the comprehensive discussion of all content related to the area of monetary policy at the Bank of Slovenia;
- assesses strategic and other long-term aspects in connection with monetary policy;
- attends to the exchange of opinions and the discussion of proposals by various departments relating to the area of monetary policy;
- commits to written positions in relation to material for decision-making by the bank's bodies in connection with monetary policy.

The committee meets once a month in general, or as necessary.

6.3.4 Supervision Committee

The committee was established on 7 March 2017 by a resolution by the Governor, and represents a form of collaboration between the departments and the decision-making bodies for the purpose of supporting the performance of the duties of Bank of Slovenia bodies in the area of the supervision of banks, savings banks and other entities as defined by the law governing banking. The objectives pursued by the committee align with the Bank of Slovenia's strategy in the area of microprudential and macroprudential supervision and resolution. The committee consists of four people: two members of the Governing Board and two executive directors.

The committee's key tasks and powers are: (i) preparing the annual programme of work, which is approved by the Governor, (ii) ensuring the comprehensive discussion of content in connection with supervision at the Bank of Slovenia, (iii) assessing strategic and other long-term aspects of supervision, (iv) attending to the exchange of opinions and information in the area of supervision between various departments at the Bank of Slovenia, particularly in instances when a key role can be played by horizontal cooperation between departments and sections, (v) providing written opinions on materials for decision-making and discussion by bodies drawn up by staff, and providing guidance on medium- and long-term priorities that can make a concrete contribution to annual financial and HR planning.

The Supervision Committee met in 10 ordinary and two extraordinary sessions in 2017, discussing 43 different themes in a variety of areas such as stress tests, financial stability, the SREP, the MREL, regulations, digitalisation and cyber risk. The Supervision Committee also drew up the expert basis for the Bank of Slovenia's meeting with CEOs of banks and savings banks organised on 21 December 2017, in which participants discussed current issues in the banking system.

6.3.5 Audit Committee

The Audit Committee's mission is to improve governance at the Bank of Slovenia by means of additional audit oversight alongside internal and external auditing.

In 2017 the Governing Board adopted new rules of procedure for the Audit Committee, which entered into force on 1 September. Under the new rules of procedure, the Audit Committee consists of the deputy-governor, one other representative of the Governing Board and two external experts. It 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,
- the performance of auditing tasks at the Bank of Slovenia, and
- compliance with laws, regulations and codes of ethics.

The Audit Committee met 11 times in 2017, discussing 63 agenda items. They included the external auditor's report on the audited financial statements, and the method of the preliminary auditing of the Bank of Slovenia.

It followed up the implementation of internal audit recommendations, was briefed on the follow-up methodology for recommendations, internal audit reports, and the internal assessment of its actions, and provided an opinion with regard to the selection of the new director of the Internal Audit Department. It was also briefed on areas of the Bank of Slovenia's financial operations, security management in the information system, supervision, business processes, and the treatment of incidents at the Bank of Slovenia, discussed changes to its rules of procedure, and proposed certain changes to risk management at the Bank of Slovenia.

Although the Bank of Slovenia 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, the external auditor revised the audit report in accordance with Article 11 of Regulation (EU) No 537/2014 and presented it to the Audit Committee.

6.3.6 Commission of the Governing Board of the Bank of Slovenia for Research Work

The commission's tasks include promoting the development of research work by Bank of Slovenia staff by means of secondment and the financing of specialist and other postgraduate studies inside and outside Slovenia in line with the development and HR plans of the departments, encouraging the development of research activities and skill development on the part of Bank of Slovenia staff via the financing of research, conferences, seminars, consultancies and lectures at the Bank of Slovenia by external experts from inside and outside Slovenia, and encouraging students of Slovenian universities in producing high-quality dissertations and theses for master's degrees and doctorates in the areas of economics, banking, insurance, finance and financial law with prizes for the best dissertations and theses.

Via the commission the Bank of Slovenia seconded one staff member to doctoral studies in 2017. The commission approved the publication of three papers in Bank of Slovenia Working Papers¹¹² and one in Surveys and Analyses.¹¹³ The Bank of Slovenia prize for the best master's degree dissertations and doctoral theses was awarded to five recipients in 2017.¹¹⁴

¹¹² Surveys and Analyses (in Slovene): <https://www.bsi.si/publikacije/raziskave-in-analize/prikazi-in-analize>

¹¹³ Bank of Slovenia Working Papers (in Slovene): <https://www.bsi.si/publikacije/raziskave-in-analize/delovni-zvezki-banke-slovenije>

¹¹⁴ Prizes: <https://www.bsi.si/en/about-us/bank-of-slovenia-prizes>

6.3.7 Project Work Commission

The Project Work Commission ensures that project work procedures and the corresponding documents are correct and complete, and sets priority projects and development tasks. It monitors the implementation of projects and development tasks compared with the planned timeframe, the quality of execution and the projected human and financial resources, and draws attention to any anomalies. To improve the procedures of the project management business process, the commission analyses the need for changes in the area of project work and draws attention to substantive issues.

The following projects were completed in 2017:

- **Expansion of the AVTO project:** the purpose of the project was putting in place a warehousing operation for the new cash centre, maintaining a link with the sorting system and the SAP, and continuing depot operations and direct withdrawals and deposits of banknotes.
- **Upgrade of the ICAS:** a project to provide banks with the widest range of resources for assessing debtors in relation to eligible collateral for Eurosystem operations.
- **Establishment of the function of change management and management of services in the cash leg of TARGET2-Securities:** the project put in place the function of the operator of the national cash leg of the TARGET2-Securities system in a controlled fashion.
- **Restructuring phase III:** the purpose of the project was primarily to define the Bank of Slovenia's role as the coordinator of all stakeholders in the restructuring process and the upgrade of internal processes at the Bank of Slovenia and at banks, which entails putting in place the right supervisory and regulatory infrastructure to encourage and effectively monitor processes of restructuring non-performing exposures in the banking system.

The new development tasks and new projects that will begin in 2018 are as follows:

- **Computerisation of business processes at the Cash Department:** the cash treasury and numismatic operations lack adequate computer support, and the key objectives of the development task are automating and upgrading work procedures.
- **Automation of processes at the Financial Stability and Macprudential Policy Department:** the purpose of the development task is automating business processes for individual business lines (banking operations, liquidity ladder, capital markets, leasing companies, insurance corporations, real estate market, financial accounts and corporate performance, credit risk, capital adequacy, contagion risk analysis, risk dashboard and stress tests).
- **Adaptation of the TARGET2-Slovenija payment system for consolidation of T2/T2S:** the purpose of the Eurosystem project is the technical consolidation of the existing TARGET2 system and the T2S platform, with the aim of reducing the maintenance costs of the two platforms, increasing the security of the systems, and making it possible to develop additional services of real-time gross settlement, which would allow system participants to use the infrastructure in simpler and more advanced ways.
- **Time management:** the purpose of the project is to replace the existing software and to update the process of recording, monitoring and reporting work hours. Procedures and controls in connection with the accounting of pay with regard to recorded staff presence in the workplace will also be automated.

6.3.8 Licensing Commission

The Licensing Commission is responsible for preparing opinions in connection with procedures in which the Governing Board makes decisions on the basis of the principal laws in particular sectors (most notably the ZBan-2, the ZPlaSS, the ZHKO-1 and the ZPotK-2). The commission consists of permanent (two vice-governors and two heads of department) and non-permanent members (depending on the area, the executive director of the division or head of department).

6.3.9 Commission of the Governing Board of the Bank of Slovenia for the Preparation of Opinions on the Qualifications of Individuals to Hold Office

According to the law governing banking, the commission consists of a president (a vice-governor), and five other members. The commission's responsibilities relate to providing opinions on the suitability of candidates for the functions of (a) a member of the management board of a bank or savings bank, (b) an executive director at a bank in a single-tier governance system, (c) the managing director of a branch of a foreign bank, (d) the liquidator of a bank or savings bank, (e) a member of the supervisory board of a bank, (f) a non-executive director of a bank in a single-tier governance system, (g) the trustee of a cover register, and (h) a similar function or key function.

6.3.10 Ad Hoc Resolution Task Force

The task force is responsible for activities in connection with the preparation and execution of resolution procedures at a particular bank, savings bank or banking group, in particular (a) preparing updated resolution plans, (b) executing and coordinating valuation procedures in resolution procedures with external contractors (following regulatory technical standards), (c) drafting proposals of resolution measures in accordance with bylaws and following the procedural manual for each measure in accordance with the legislative framework, (d) preparing the execution of resolution measures and procedures in accordance with the general handbook and following the procedural manual for each measure in accordance with the legislative framework, (e) participating in the activities of the government and carrying out activities within the framework of the Single Resolution Mechanism in relation to the EBA, the European Commission, the ECB and other institutions, and (f) conducting simulations of resolution procedures. Members of the task force are appointed by the Governor, at the proposal of the relevant directors. The task force performs its tasks in accordance with the resolutions and the instructions of the Governing Board.

6.4 REPORT ON THE PERFORMANCE OF THE BANK OF SLOVENIA IN 2017

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

6.4.1 Balance sheet developments in 2017

Total assets amounted to EUR 14.5 billion as at 31 December 2017, up EUR 1.8 billion on the end of 2016.

Total assets amounted to EUR 14.5 billion as at 31 December 2017, up EUR 1.8 billion on the end of 2016. The main factor in the increase on the asset side was net purchases of securities for the implementation of monetary policy, in the amount of EUR 2.4 billion. An increase of EUR 0.4 billion was also recorded in longer-term refinancing operations, which relates to the second series of targeted longer-term refinancing operations (TLTRO-II) announced in 2016. With these monetary policy instruments the Bank of Slovenia contributed to the implementation of the objectives of the Eurosystem, which is endeavouring to encourage economic activity, to maintain financial stability and to meet the inflation target. There was a decline of EUR 0.7 billion in claims against the Eurosystem from adjustments in euro banknotes, taking the overall position in 2017 into liabilities. The adjustments represent the difference between the value of banknotes belonging to the Bank of Slovenia as the legal issuer of 0.45% of all banknotes in circulation in the Eurosystem, and the value of banknotes actually placed into circulation by the Bank of Slovenia.

On the liability side there were increases in current account balances of banks (by EUR 0.7 billion), euro deposits by the government sector and other clients (by EUR 0.6 billion) and banknotes in circulation (by EUR 0.2 billion). The aforementioned developments brought a change in the Bank of Slovenia's position against the ECB from cross-border transactions with other national central banks and the ECB via the TARGET2 system (by EUR 0.2 billion). The liabilities from the banknotes adjustment amounted to EUR 0.2 billion.

6.4.2 Financial result in 2017

The main source of the Bank of Slovenia's income is interest on monetary policy instruments and portfolios, and on its own investments in securities. Net interest income amounted to EUR 105.1 million in 2017, up EUR 27.1 million on the previous year. This was mainly attributable to an increase in the stock of monetary policy portfolios, and negative interest rates on deposits by credit institutions, the government sector and other clients.

The net gain realised on the sale of securities and foreign exchange positions amounted to EUR 21.4 million. The Bank of Slovenia marks its positions to market at the end of the year, disclosing the negative revaluation effects as an expense. These expenses amounted to EUR 2.4 million in 2017, and were the result of market prices of securities and exchange rates at the end of 2017 being lower than the average price of the positions. To preserve the real value of assets the Bank of Slovenia created provisions in the amount of EUR 56.8 million for covering expenses from currency risk, interest rate risk, credit risk, price risk and other risks. The need for additional provisions is primarily attributable to the increase in the stock of investments, and the correspondingly greater risk exposure.

Net fees and commission (EUR 8.3 million), income from participating interests (EUR 6.5 million), the net result from the combination of Eurosystem monetary income (EUR 23.5 million) and other income (EUR 2.5 million) amounted to EUR 40.8 million in 2017.

Operating costs amounted to EUR 37.5 million in 2017. The Bank of Slovenia thus generated a surplus of income over expenses in the amount of EUR 70.7 million. The surplus will be distributed in accordance with Articles 50 and 50a of the Bank of Slovenia Act.

The Bank of Slovenia generated a surplus of income over expenses in the amount of EUR 70.7 million.

Table 13: Bank of Slovenia's contributions to Slovenia's state budget over the last five years, EUR million

YEAR	SURPLUS	STATUTORY CONTRIBUTIONS TO STATE BUDGET	CONTRIBUTION TO STATE BUDGET
2013	50.4	12.6	46.8
2014	74.8	18.7	60.0
2015	54.0	13.5	40.5
2016	57.3	14.3	43.0
2017	70.7	17.7	17.7
Total	307.2	76.8	207.9

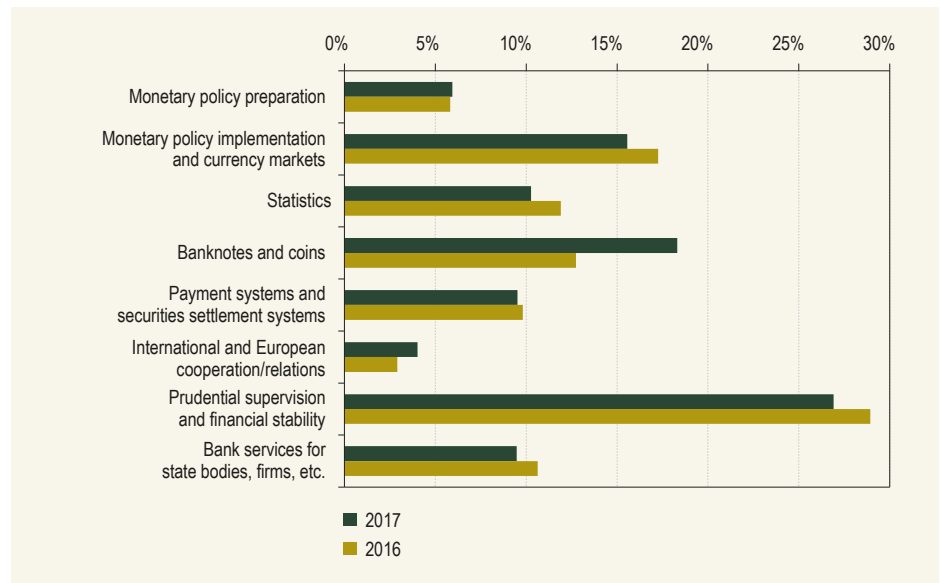
Source: Bank of Slovenia

6.4.3 Operating costs

The Bank of Slovenia's operating costs are the result of the implementation of its tasks set out by law. Figure 17 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 37.5 million in 2017, up EUR 4.4 million on the previous year.

Figure 17: Itemisation of costs by individual task



Source: Bank of Slovenia

Labour costs make up the majority (61%) of the Bank of Slovenia'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 22.8 million (up from EUR 22.2 million in 2016). 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 2017 to 2018 period, and on the convergence of the basic wage at the Bank of Slovenia with the minimum wage in Slovenia, the introduction of organisational changes, and changes in staff qualifications structure caused by turnover and promotions. These effects were partly compensated for by a decline in the average headcount calculated from hours worked, and a decline in the number of work hours relative to the previous year.

Banknote printing costs, amortisation and depreciation of non-current assets and other costs amounted to EUR 14.7 million, up EUR 3.8 million on 2016. The majority of the increase (EUR 2.6 million) relates to an increase in banknote printing costs, which was the result of a delivery of banknotes not being made in 2016.

Table 14: Year-end balance sheet, 2013 to 2017, EUR million

ASSETS	2013	2014	2015	2016	2017
1. Gold and gold receivables	89	101	100	112	111
2. Claims on non-euro-area residents denominated in foreign currency	578	734	685	591	630
3. Claims on euro area residents denominated in foreign currency	209	139	220	260	152
4. Claims on non-euro-area residents denominated in euro	784	1,022	1,059	1,217	1,199
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	3,337	1,098	901	714	1,142
6. Other claims on euro area credit institutions denominated in euro	379	230	51	201	2
7. Securities of euro area residents denominated in euro	2,995	2,552	4,999	8,274	10,656
8. General government debt denominated in euro	-	-	-	-	-
9. Intra-Eurosystem claims	2,216	4,774	1,948	956	282
10. Items in course of settlement	-	-	-	-	-
11. Other assets	226	204	291	340	325
Total assets	10,813	10,854	10,254	12,666	14,498
LIABILITIES	2013	2014	2015	2016	2017
1. Banknotes in circulation	4,136	4,615	4,892	5,085	5,286
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	2,068	1,434	1,627	2,249	2,939
3. Other liabilities to credit institutions denominated in euro	14	8	4	3	-
4. Debt certificates issued	-	-	-	-	-
5. Liabilities to other euro area residents denominated in euro	1,756	2,847	1,743	2,018	2,531
6. Liabilities to non-euro-area residents denominated in euro	15	10	16	20	73
7. Liabilities to euro area residents denominated in foreign currency	73	94	60	78	56
8. Liabilities to non-euro-area residents denominated in foreign currency	-	-	-	-	-
9. Counterpart of special drawing rights allocated by the IMF	241	257	275	275	256
10. Intra-Eurosystem liabilities	1,024	-	-	1,223	1,646
11. Items in course of settlement	-	-	-	-	1
12. Other liabilities	96	114	155	147	113
13. Provisions	402	409	423	457	515
14. Revaluation accounts	69	116	122	151	94
15. Capital and reserves	866	874	882	903	917
16. Surplus of income over expenses for the current year	50	75	54	57	71
Total liabilities	10,813	10,854	10,254	12,666	14,498

Source: Bank of Slovenia

Table 15: Profit and loss account, 2013 to 2017, EUR million

	2013	2014	2015	2016	2017
1. Net interest income	127	69	58	78	105
2. Net result of financial operations, write-downs and risk provisions	-53	11	-0	-22	-38
3. Net income from fees and commissions	3	4	3	6	8
4. Other income	23	22	23	29	33
5. Operating costs	-50	-31	-31	-33	-38
Surplus of income over expenses for the current year	50	75	54	57	71

Source: Bank of Slovenia

6.4.4 Risk management

The Bank of Slovenia has put in place a comprehensive risk management framework, thereby ensuring that all significant risks that it takes up within the framework of its operations and the risks that it manages are recognized, systematically assessed, comprehensively managed and monitored in timely fashion within the framework of ordinary activities. In doing so the Bank of Slovenia monitors the categories of strategic, financial and operational risks.

The risk management system has a clear organisational structure, put in place at multiple levels:

- **strategic level:** within the framework of the governance process the Governing Board of the Bank of Slovenia approves the overall risk management framework, oversees its effectiveness, approves the risk tolerance framework and monitors the functioning of lower organisational levels;
- **control level:** at the control level risks are managed by committees responsible for individual risk categories, who within the framework of their powers and duties approve the area-specific risk management policy and monitor the compliance and effectiveness of the implementation of the area-specific policies, the effectiveness of the system of internal controls at the operational level, and the compliance of risk reporting inside the Bank of Slovenia;
- **operational level:** each organisational unit is responsible for operational risk management within the framework of the business processes that it carries out. This includes the treatment and reporting of risks in accordance with the area-specific policies and the risk tolerance framework, and the introduction of corrective measures to eliminate deficiencies identified in risk management or the governance of internal control systems;
- **internal audit level:** the internal audit department, which reports directly to the Governor, and gives independent assurances of the suitability and effectiveness of the governance process, risk management processes and internal control systems, and assurances of compliance. In ensuring that the Bank of Slovenia's financial

statements are faultless and that the internal audit function is effective, the Governing Board is advised by the Audit Committee, which also provides opinions to assist it;

- **external audit level:** the independent external auditor audits the Bank of Slovenia's annual financial statements as required by the Statute of the ESCB and of the ECB (Article 27.1) and the Bank of Slovenia Act. For the purposes of auditing the external auditor has access to all bylaws, accounts and information about transactions at the Bank of Slovenia. The auditor's report is an integral part of the Bank of Slovenia's financial statements.

6.4.4.1 Strategic risk

Strategic risk is the risk of generating loss and a failure to achieve strategic objectives as a result of incorrect business decisions by the bank, a failure to implement the decisions taken and insufficient responsiveness to changes in the business environment by the bank.

Strategic risk is managed by the Governing Board, which approves the Bank of Slovenia's strategic objectives and the strategy for attaining these objectives, and oversees the implementation of the strategy.

6.4.4.2 Financial risks

The Bank of Slovenia is exposed to financial risks inherent in its own funds portfolio and its monetary policy loans and portfolios.

The Bank of Slovenia manages the risks inherent in its own funds portfolio by means of its appropriate investment policy, which is largely set out by the Regulation on the method of management of the financial assets of the Bank of Slovenia and the Criteria for managing the financial assets of the Bank of Slovenia. The aforementioned documents define the level of acceptable risks, and introduce the strategic asset allocation, which sets the asset class target weights, as the central guidance of investment policy. The strategic asset allocation is updated on a yearly basis, having regard for all limits, by optimising the expected return while keeping risk at acceptable level. For the purposes of early identification of increased risk, the Bank of Slovenia follows market developments and various market indicators, monitors announcements published by rating agencies and follows regulatory changes on a daily basis, and has put in place a reporting process and preparations for risk mitigation measures.

The Bank of Slovenia jointly manages the risks inherent in monetary policy operations within the framework of the Eurosystem. Proposals of financial risk management policies are mostly drawn up by the Risk Management Committee, generally in close conjunction with the Market Operations Committee (both of which the Bank of Slovenia participates in), and are approved by the Governing Council of the ECB. The Bank of Slovenia additionally monitors the exposure of monetary policy loans and portfolios to various risk factors. Bank of Slovenia staff also prepare regular reports for the Governing Board on the Bank of Slovenia's exposures and financial risks stemming from the overall perspective including its own funds portfolio and monetary policy loans and portfolios together.

6.4.4.3 Operational risk

Operational risk is the risk of generating loss resulting from developments in connection with inadequate or failed internal processes, people and systems or from external events or factors. Operational risk management is guided and overseen at the control level by the Risk Committee.

As part of ordinary operational risk management, an assessment was made of the criticality of all of the Bank of Slovenia's business processes from the perspective of impact on business objectives, reputation and financial assets. Operational risks were identified and assessed for the most critical business processes, and the causes and potential reasons for their realisation were analysed. Risk management plans were formulated for the risks that exceed the acceptable level, and activities to mitigate, accept, avoid or transfer existing risks were envisaged. To ensure business continuity the Bank of Slovenia has put in place a backup centre to provide technological support for business processes and a backup location that allows for the most time-critical business processes to continue uninterrupted.

A secure, reliable information system is of vital importance to the undisrupted and effective execution of the Bank of Slovenia's business processes. The Bank of Slovenia therefore regularly monitors and employs advanced technological solutions to ensure a high level of data protection. The Bank of Slovenia holds certification of the compliance of its information security management system with the requirements of the ISO 27001 information security standard.

6.4.4.4 Reputation risk

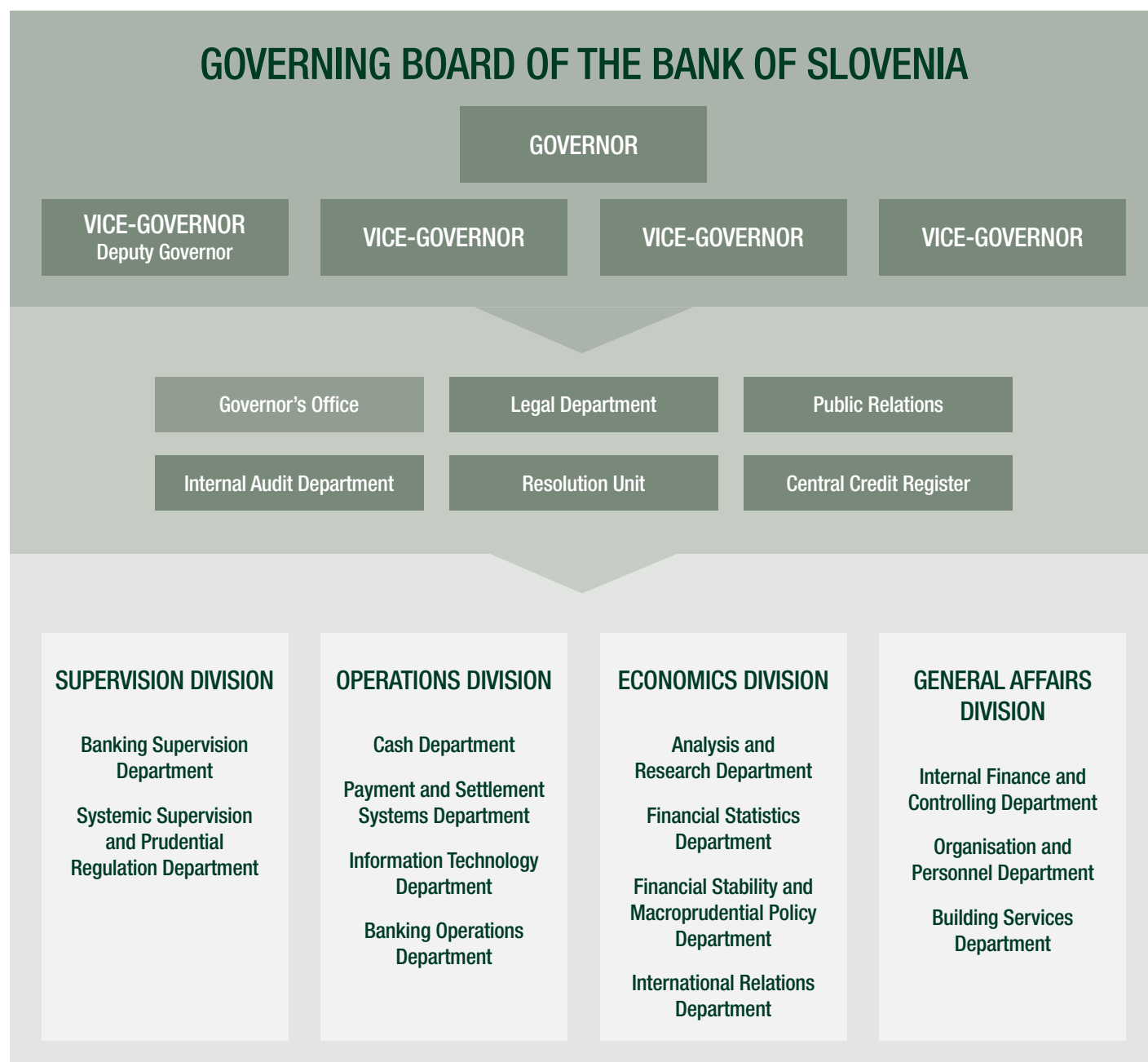
The comprehensive risk management system is aimed at identifying, assessing and controlling risks, with the objective of preventing an adverse impact on financial assets, on the realisation of business objectives and on reputation.

A decline in the Bank of Slovenia's reputation among the public and among external institutions could indirectly cause an increase in legal disputes, financial loss and a decline in the public's confidence in the institution, thereby reducing its effectiveness in performing its tasks.

The Bank of Slovenia's reputation does not depend solely on internal risk management factors, but has recently, particularly since the bank recovery process carried out in 2013 and 2014, been strongly dependent on opinions expressed by various interest groups, particularly in the media. The functioning of the media space means that it is difficult for the Bank of Slovenia to refute these opinions effectively. The Bank of Slovenia issued rebuttals and answers on 17 occasions in 2017 in response to erroneous or false information about the Bank of Slovenia in the media (down from 20 occasions in 2016).

6.4.5 Organisational structure

Diagram 2: Organisational structure of the Bank of Slovenia, 31 December 2017



Source: Bank of Slovenia

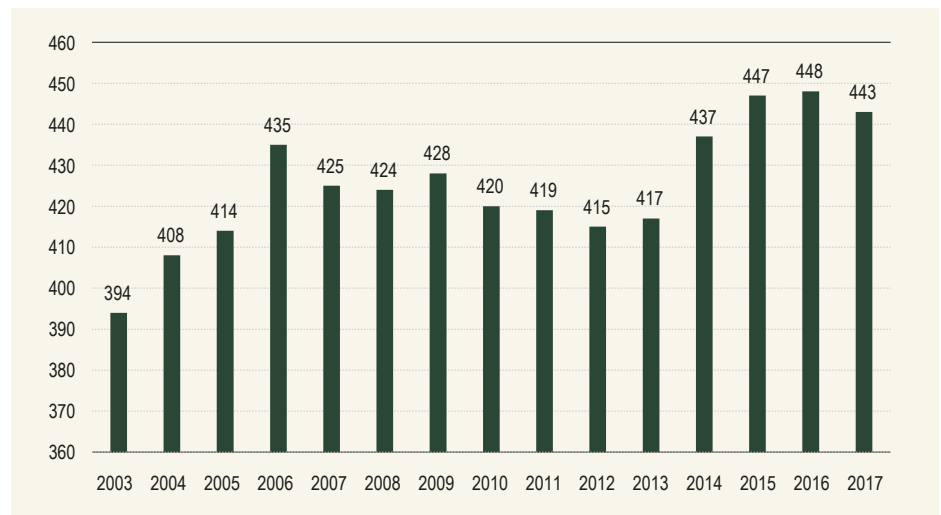
6.4.6 Human resources

In its HR development the Bank of Slovenia follows the Strategy of the Bank of Slovenia for 2015-2020, which defines effective and efficient functioning and operations as one of the fundamental objectives, with flexible organisation and highly motivated staff. The Bank of Slovenia employs various HR approaches and tools to attain this strategic objective.

In 2017 the Bank of Slovenia computerised the procedure for the monthly assessment of on-the-job performance, introduced half-yearly reviews of individual staff members' personal work goals, updated the job descriptions catalogue and the content of the employment contract, introduced a programme for improving on-the-job performance, and completed the introductory phase of the computerisation of annual interviews. Throughout the year it attended to the development and training of staff, and staff mobility within the ECB system. It continued to carry out measures within the framework of its Family-Friendly Enterprise certification, and again received recognition from MojeDelo.com as the most reputable employer in the sector of banking, accounting and finance. The Bank of Slovenia attends to liaison with educational institutions and career centres, provides opportunities for work experience for school and university students, and also provides grants and sponsorships (for more, see the section on education and training).

The Bank of Slovenia had a headcount of 443 as at 31 December 2017. The headcount was down 5 on the previous year.

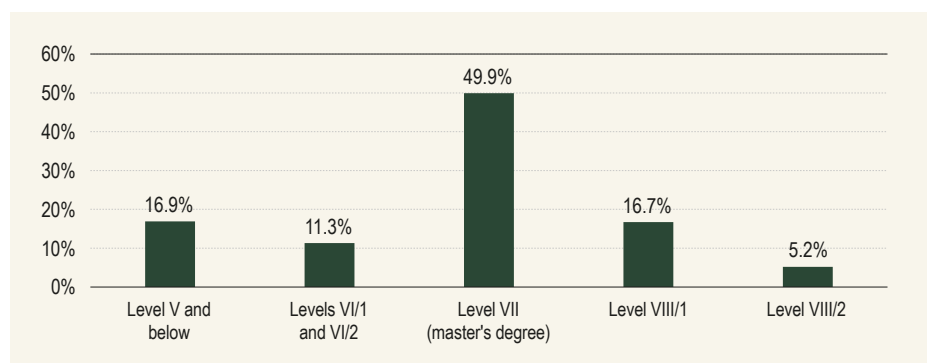
Figure 18: Headcount at the Bank of Slovenia at year end



Source: Bank of Slovenia

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

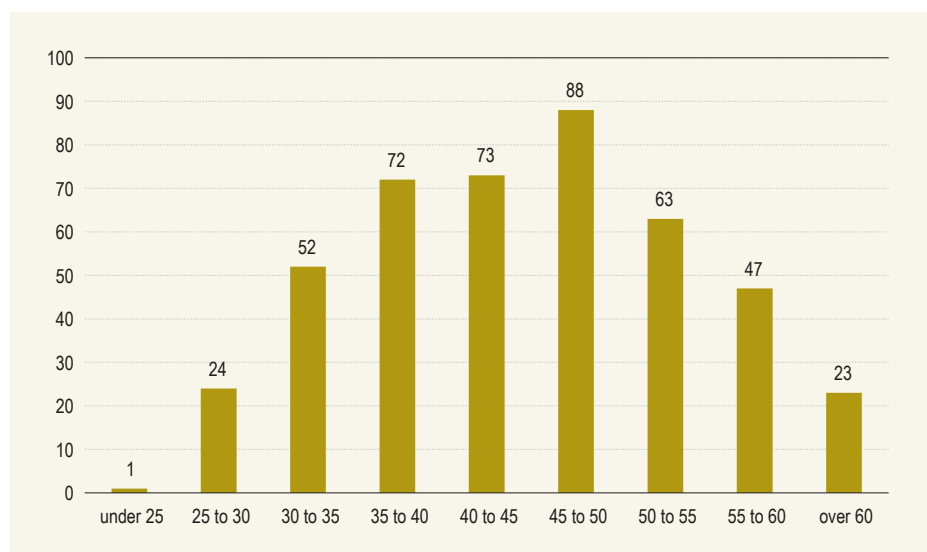
Figure 19: Breakdown of staff qualifications at the Bank of Slovenia, 31 December 2017



Source: Bank of Slovenia

The average age of employees of the Bank of Slovenia was 44 years and 9 months at the end of 2017, having risen by 4 months over the course of the year.

Figure 20: Breakdown of age of staff at the Bank of Slovenia, 31 December 2017



Source: Bank of Slovenia

6.5 COURT PROCEEDINGS

Court proceedings in 2017 again primarily related to the extraordinary measures implemented by the Bank of Slovenia in the banking system in 2013 and 2014, which included the extinction of subordinated claims against banks that were resolved through state aid. The administrative disputes against the decisions issued on extraordinary measures have ended (with one exception) with a decision to refuse the lawsuit, while the civil proceedings against the Bank of Slovenia have predominantly been stayed in accordance with Constitutional Court decision U-I-295/13-260 of 19 October 2016. They will resume after the adoption of the appropriate legal basis to provide for effective judicial protection for holders of subordinated claims that were extinguished on the basis of the aforementioned extraordinary measures of the Bank of Slovenia. The Constitutional Court instructed the legislator to rectify the unconstitutionality within six months of the constitutional ruling being issued.

On 28 February 2018 the Bank of Slovenia had a total of 17 administrative disputes pending, of which only one dispute related to the extraordinary measures. In four disputes the Bank of Slovenia is the defendant as the issuer of other administrative decisions, in seven instances the Bank of Slovenia is the plaintiff, and in six instances the Bank of Slovenia is an accessory participant. Of the 127 pending civil disputes related to extraordinary measures, 109 have been stayed by a court order, while in seven the Bank of Slovenia appears as an accessory participant. One labour dispute was also concluded in 2017.

In 2017 the Bank of Slovenia filed one constitutional appeal and a motion to assess the constitutionality of the Criminal Procedure Act (the ZKP) in connection with an order for investigation of electronic devices, and one request to assess the constitutionality of the Bank of Slovenia Act in connection with the powers of the Court of Audit. There were thus a total of five pending proceedings before the Constitutional Court, including the constitutional appeals and motions to assess the constitutionality of the ZKP filed in 2016.

ABBREVIATIONS

ABSPP

Asset-Backed Securities Purchase Programme

AML/CFT

Anti money laundering / combating the financing of terrorism

AnaCredit

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

APP

Asset Purchase Programme

BAMC

Bank Asset Management Company

BAS

Bank Association of Slovenia

BIS

Bank for International Settlements

BoS

Bank of Slovenia

CBPP3

Third Covered Bond Purchase Programme

CEF

Centre for Excellence in Finance

CSDB

Centralised Securities Database

CSPP

Corporate Sector Purchase Programme

DSBS

Documentary System of the Bank of Slovenia

DSTI

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

EBA

European Banking Authority

EBRD

European Bank for Reconstruction and Development

ECB

European Central Bank

ECBN

European Central Banking Network

ECOFIN

Economic and Financial Affairs Council Configuration

EDIS

European Deposit Insurance Scheme

EDP reporting

Reporting to Eurostat and the European Commission on excessive general government deficit and debt

EFC

Economic and Financial Committee

EFSI

European Fund for Strategic Investments

EIB

European Investment Bank

EIOPA

European Insurance and Occupational Pensions Authority

EMMI

European Money Markets Institute

EMU

Economic and Monetary Union

ESAs

European Supervisory Authorities

ESCB

European System of Central Banks

ESE

European Supervisor Education Initiative

ESMA

European Securities and Markets Authority

ESRB

European Systemic Risk Board

EWS

Early warning system

FATF recommendations

Financial Action Task Force Recommendations

Fed

Federal Reserve System of the United States

FSB

Financial Stability Board

FTP

Financial Transaction Plan

GDPR

General Data Protection Regulation

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

ICAS BS

Internal credit assessment system of the Bank of Slovenia

ICPE

International Center for Promotion of Enterprises

IFRS 9

International Financial Reporting Standard 9

IMF

International Monetary Fund

IOSCO

International Organisation of Securities Commissions

IRB

Internal rating based approach

IRRBB

Interest rate risk in the banking book

ISA

Insurance Supervision Agency

JST

Joint Supervisory Team

KDD

Central Securities Clearing Corporation

LSIs

Less significant institutions

LTRO

Long-term refinancing operation

LTV

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

MFIs

Monetary financial institutions

MOC

Market Operations Committee

MREL

Minimum requirements for own funds and eligible liabilities

MRO

Main refinancing operation

MSMEs

Micro, small and medium-size enterprises

NA

National Assembly

NPC

National Payments Council

NPEs

Non-performing exposures

NPLs

Non-performing loans

OECD

Organisation for Economic Co-operation and Development

OGRS

Official Gazette of the Republic of Slovenia

OMLP

Office for Money Laundering Prevention

O-SIIs

Other systemically important institutions

PSPP

Public Sector Purchase Programme

RIAD

Register of Institutions and Affiliates Database

RMC

Risk Management Committee

RTGS

Real-Time Gross Settlement

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 individual indebtedness from credit operations

SMA

Securities Market Agency

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

TARGET2

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

TARGET2-Securities (T2S)

Eurosystem single technical platform for the settlement of securities transactions

TLTRO and TLTRO-II

Targeted Longer-Term Refinancing Operations

7 BANK OF SLOVENIA'S FINANCIAL STATEMENTS FOR 2017



**Financial statements
of the Bank of Slovenia
for the Year 2017**

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

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

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

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

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the Bank of Slovenia

Opinion

We have audited the financial statements of Bank of Slovenia, which comprise the balance sheet as at December 31 2017, 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 present fairly, in all material respects, the financial position of the Bank of Slovenia as at 31 December 2017 and its financial performance for the year then ended in accordance with the Guideline of the European Central Bank of 3rd November 2016 on the Legal Framework for Accounting and Financial reporting in the European system of the Central Banks (ECB/2016/34) and articles of Law on Bank of Slovenia, applicable for financial reporting.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank of Slovenia in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the 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 the Bank of Slovenia and audit committee for the financial statements

The Governing Board is responsible for the preparation and fair presentation of the financial statements in accordance with the Guideline of the European Central Bank of 3rd November 2016 on the Legal Framework for Accounting and Financial reporting in the European system of the Central Banks (ECB/2016/34) and articles of Law on Bank of Slovenia, applicable for financial reporting, and for such internal control as the Governing Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Audit committee assists Governing Board with monitoring of preparation of the financial statements.

In preparing the financial statements, Governing Board is responsible for assessing the Bank of Slovenia 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 ISA 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 judgment and maintain professional skepticism throughout the audit. We also:

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

- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank of Slovenia internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Governing Board;
- ▶ conclude on the appropriateness of the Governing Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank of Slovenia'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 of Slovenia 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 the Bank of Slovenia 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, 22.3.2018



Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

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



Primož Kovačič
Certified auditor

Constitution

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

Accounting policies

Introduction of euro

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

Accounting principles and standards

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

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

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

Basic principles

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

The following fundamental accounting principles have been applied:

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

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

² The term 'ESCB (European System of Central Banks)' refers to the twenty-eight National Central Banks (NCBs) of the member states of the European Union on 31 December 2017 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.

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

Recognition of assets and liabilities

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

Economic approach

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

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

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

Conversion of foreign currencies

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

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

Gold and gold receivables

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

Securities held for monetary policy purposes

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

Other securities

Marketable securities (other than securities held for monetary policy purposes and those classified as held-to-maturity) and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. For the year ending 31 December 2017, mid-market prices on 29 December 2017 were used.

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

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

Tangible fixed assets

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

	2017	2016
Buildings	1,3 – 1,8%	1,3 – 1,8%
Hardware and software	20 – 33%	20 – 33%
Other equipment	10 – 25%	10 – 25%

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

Properties located in Austria are included in the Bank of Slovenia's fixed assets. They are carried at fair value and are not depreciated. The fair value is demonstrated as half of the appraised value, obtained by an external certificated valuer (the Bank of Slovenia revalues these properties once every 5 years; the last revaluation was performed in year 2014). This revaluation method represents the deviation from generally accepted accounting principles and follows the prudence concept.

ESCB capital key

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

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

Banknotes in circulation

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

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

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation also gives rise to remunerated⁶ intra-Eurosystem balances. These claims or liabilities are disclosed under the sub-item 'Intra

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, amended by the Decision of the European Central Bank of 21 June 2013 (ECB/2013/16), OJ L 187, 06.07.2013, p. 13-14, Decision of the European Central Bank of 29 August 2013 (ECB/2013/27), OJ L 16, 21.01.2014, p. 51-52 and Decision of the European Central Bank of 27 November 2014 (ECB/2014/49), OJ L 50, 21.02.2015, p. 42-43.

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

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

Eurosystem: Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem' (see 'Intra-ESCB balances/Intra-Eurosystem balances' in the notes on accounting policies).

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

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

Intra-ESCB balances / Intra-Eurosystem balances

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

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

Intra-Eurosystem claims arising from the Bank of Slovenia's participating interest in the ECB are reported under 'Participating interest in ECB'.

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

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

ECB profit distribution

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, as well as the income arising from the securities held under (a) the securities markets programme (SMP), (b) the third covered bond purchase programme (CBPP3), (c) the asset-backed securities purchase programme (ABSPP) and (d) the public sector purchase programme (PSPP) is due to the euro area NCBs in the financial year in which it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year by means of an interim distribution of profit¹⁰. 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 foreign exchange rate, interest rate, credit and gold price risks. The Governing Council may also decide to reduce the amount of the income on euro

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

¹⁰ 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.

banknotes in circulation to be distributed in January by the amount of the costs incurred by the ECB in connection with the issue and handling of euro banknotes.

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

Provisions

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

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

Income recognition

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

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

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

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

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

Cost of transactions

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

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

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

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

Off-balance-sheet instruments

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

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

Post-balance-sheet events

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

Cash flow statement

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

Taxation

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

Appropriations

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

A net loss of the Bank of Slovenia is covered from general reserves. In case that the net loss arises 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 Revizija, poslovno svetovanje, d. o. o., Ljubljana, who were appointed as the external auditor of the Bank of Slovenia for the financial years 2015 to 2017.

Balance Sheet as at 31 December 2017

ASSETS (thousands of euro)	Note number	31 December 2017	31 December 2016
1 Gold and gold receivables	1	110,584	112,364
2 Claims on non-euro area residents denominated in foreign currency	2	629,664	591,479
2.1 Receivables from the IMF		337,790	360,840
2.2 Balances with banks and security investments, external loans and other external assets		291,874	230,639
3 Claims on euro area residents denominated in foreign currency	3	152,099	260,150
4 Claims on non-euro area residents denominated in euro	4	1,198,580	1,216,697
4.1 Balances with banks, security investments and loans		1,198,580	1,216,697
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	1,141,600	714,000
5.1 Main refinancing operations		-	15,000
5.2 Longer-term refinancing operations		1,141,600	699,000
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	1,616	201,346
7 Securities of euro area residents denominated in euro	7	10,656,457	8,273,907
7.1 Securities held for monetary policy purposes		9,250,019	6,469,414
7.2 Other securities		1,406,439	1,804,493
8 General government debt denominated in euro		-	-
9 Intra-Eurosystem claims	8	282,420	955,777
9.1 Participating interest in ECB		82,199	82,199
9.2 Claims equivalent to the transfer of foreign reserves		200,221	200,221
9.3 Claims related to promissory notes backing the issuance of ECB debt certificates*		-	-
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem		-	673,357
9.5 Other claims within the Eurosystem (net)		-	-
10 Items in course of settlement		-	-
11 Other assets	9	325,184	340,205
11.1 Coins of euro area		2,397	467
11.2 Tangible and intangible fixed assets		37,009	37,386
11.3 Other financial assets		50,963	53,168
11.4 Off-balance sheet instruments revaluation differences		116	4,102
11.5 Accruals and prepaid expenses		169,061	146,807
11.6 Sundry		65,639	98,277
12 Loss for the year		-	-
Total assets		14,498,204	12,665,925

* Only an ECB balance sheet item

LIABILITIES (thousands of euro)	Note number	31 December 2017	31 December 2016
1 Banknotes in circulation	10	5,285,783	5,084,865
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	11	2,938,810	2,249,251
2.1 Current accounts (covering the minimum reserve system)		2,938,810	2,249,251
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	-	3,159
4 Debt certificates issued		-	-
5 Liabilities to other euro area residents denominated in euro	13	2,531,394	2,017,679
5.1 General government		2,520,551	1,948,770
5.2 Other liabilities		10,844	68,909
6 Liabilities to non-euro area residents denominated in euro	14	72,884	19,538
7 Liabilities to euro area residents denominated in foreign currency	15	56,486	77,801
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	256,381	275,163
10 Intra-Eurosystem liabilities	17	1,646,259	1,223,142
10.1 Liabilities equivalent to the transfer of foreign reserves*		-	-
10.2 Liabilities related to promissory notes backing the issuance of ECB debt certificates		-	-
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem		241,384	-
10.4 Other liabilities within the Eurosystem (net)		1,404,874	1,223,142
11 Items in course of settlement	18	1,165	-
12 Other liabilities	19	112,829	146,797
12.1 Off-balance sheet instruments revaluation differences		10,194	36,178
12.2 Accruals and income collected in advance		16,489	12,971
12.3 Sundry		86,146	97,647
13 Provisions	20	514,592	457,167
14 Revaluation accounts	21	93,729	151,224
15 Capital and reserves	22	917,172	902,811
15.1 Capital		8,346	8,346
15.2 Reserves		908,827	894,465
16 Profit for the year		70,719	57,329
Total liabilities		14,498,204	12,665,925

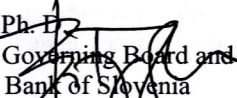
* Only an ECB balance sheet item

Profit and Loss Account for the year ended 31 December 2017 and 2016

(thousands of euro)	Note number	2017	2016
1.1 Interest income		114,368	81,300
1.2 Interest expense		-9,245	-3,283
1 Net interest income	26	105,123	78,017
2.1 Realised gains/losses arising from financial operations		21,434	12,694
2.2 Write-downs on financial assets and positions		-2,364	-1,209
2.3 Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks and other operational risks		-56,796	-33,920
2 Net result of financial operations, write-downs and risk provisions	27	-37,726	-22,434
3.1 Fee and commission income		11,172	8,563
3.2 Fee and commission expense		-2,845	-2,482
3 Net income from fees and commissions	28	8,327	6,080
4 Income from equity shares and participating interests	29	6,477	6,446
5 Net result of pooling of monetary income	30	23,499	19,805
6 Other income	31	2,546	2,512
Total net income		108,247	90,426
7.1 Staff costs		-22,780	-22,164
7.2 Administrative expenses		-7,653	-7,248
7.3 Depreciation of tangible and intangible fixed assets		-2,289	-1,694
7.4 Banknote production services		-3,743	-1,108
7.5 Other expenses		-1,063	-883
7 Total operating expenses	32	-37,527	-33,098
8 Profit for the year	33	70,719	57,329

The notes on pages 14 to 34 form an integral part of the financial statements.

The unaudited financial statements were approved by the Governing Board on 27 February 2018 and these audited financial statements were approved by the Governing Board on 28 March 2018 and were signed on its behalf by:

Boštjan Jazbec, Ph. D.

 President of the Governing Board and
 Governor of the Bank of Slovenia

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

Notes to the balance sheet

1. Gold and gold receivables

With the exception of gold stocks held at the Bank of Slovenia, the Bank of Slovenia's gold holdings consist of deposits with foreign banks. In the annual accounts, gold was valued on the basis of the euro price per fine ounce (ozf) derived from the quotation in USD established at the London fixing on 29 December 2017. This price, communicated by the ECB, amounts to EUR 1,081.881 per ounce of fine gold compared to EUR 1,098.046 on 30 December 2016. Unrealised positive valuation effects of EUR 61.2 million were disclosed under the liability balance sheet item 'Revaluation accounts'.

	000 EUR	Fine troy ounces
Balance as at 31 December 2015	99,591	102,330
Revaluation of gold stock as at end of 2016	12,773	-
Balance as at 31 December 2016	112,364	102,330
Underdelivery of gold in 2017 (gold deposit transactions)	-56	-116
Revaluation of gold stock as at end of 2017	-1,724	-
Balance as at 31 December 2017	110,584	102,214

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

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

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

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

All claims are shown in the balance sheet on the basis of the market rate of SDR 1 = EUR 1.1876 (31 December 2016: SDR 1 = EUR 1.2746) 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 under 'Write-downs on financial assets and positions' in the profit and loss account.

	31 December 2017		31 December 2016		Change	
	000 SDR	000 EUR	000 SDR	000 EUR	000 SDR	000 EUR
Quota	586,500	696,527	586,500	747,553	-	-51,026
less IMF holdings of euro	-499,888	-593,667	-465,932	-593,877	-33,956	210
Reserve tranche in the IMF	86,612	102,861	120,568	153,676	-33,956	-50,815
SDR Holdings	197,818	234,929	162,533	207,164	35,286	27,765
Total	284,431	337,790	283,100	360,840	1,330	-23,050

The sub-item 2.2 'Balances with banks and security investments, external loans and other external assets' includes the foreign currency assets held with non-euro area residents (including international and supranational organisations). Foreign currency assets are shown under this sub-item at their euro equivalent as calculated on the basis of the market exchange rates on 31 December 2017.

Breakdown of foreign currency assets by type of investment:

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
Sight deposits	1,075	1,481	-407
Time deposits	12,507	39,655	-27,147
Securities	278,292	189,503	88,788
Total	291,874	230,639	61,235

Breakdown of foreign currency assets by currency:

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
USD	291,593	230,177	61,416
Other currencies	281	462	-181
Total	291,874	230,639	61,235

Breakdown of securities according to their residual maturity:

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	-	26,397	-26,397
>1 year and ≤5 years	124,704	127,094	-2,390
> 5 years	153,588	36,012	117,576
Total	278,292	189,503	88,788

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 securities in foreign currencies. Foreign currency assets are shown at their euro equivalent as calculated on the basis of market exchange rates on 31 December 2017.

Breakdown of foreign currency assets by type of investment:

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
Sight deposits	36	78	-43
Time deposits	17,510	31,211	-13,701
Securities	134,554	228,860	-94,307
Total	152,099	260,150	-108,051

Breakdown of foreign currency assets by currency:

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
USD	152,099	260,150	-108,051
Total	152,099	260,150	-108,051

Breakdown of securities according to their residual maturity:

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	77,068	68,831	8,237
>1 year and ≤5 years	48,240	160,030	-111,790
> 5 years	9,246	-	9,246
Total	134,554	228,860	-94,307

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 and time deposits and securities.

Breakdown of euro denominated assets by type of investment:

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
Sight deposits	0	0	-
Time deposits	-	113,900	-113,900
Securities	1,198,580	1,102,797	95,783
Total	1,198,580	1,216,697	-18,117

Breakdown of securities according to their residual maturity:

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	153,990	259,221	-105,231
>1 year and ≤5 years	1,038,811	820,809	218,002
>5 years	5,779	22,767	-16,988
Total	1,198,580	1,102,797	95,783

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

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

The total Eurosystem holding of monetary policy assets amounts to EUR 764,310 million (2016: EUR 595,873 million), of which the Bank of Slovenia holds EUR 1,142 million (2016: EUR 714 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 in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

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

Main refinancing operations are executed through liquidity providing reverse transactions with a frequency and a maturity of normally one week, on the basis of standard tenders. Since October 2008, these operations were conducted at fixed rate and full allotment tender procedures. These operations play a key role in achieving the aims of steering interest rate, managing market liquidity and signalling the monetary policy stance.

Longer-term refinancing operations aim to provide counterparties with additional longer-term refinancing. In 2017, operations were conducted with maturities of 3 and 48 months. These operations were conducted as fixed rate tender with full allotment. Additionally, in 2016 the Governing Council introduced a new series of four targeted longer-term refinancing operations (TLTRO II) conducted on full allotment basis. These operations have a four-year maturity, with a possibility of repayment after two years. The applicable interest rate for TLTRO II operations depends on the individual lending benchmark of the respective counterparty between the date of allotment and January 2018. The actual rate will be set in 2018 and will be between the MRO rate and the deposit facility rate at the time of the allotment. Given that the actual rate is only known in 2018 and a reliable estimate is not possible at this juncture, the deposit facility rate has been used for calculating the TLTRO II interest for 2017, as this is deemed a prudent approach.

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
Main refinancing operations	-	15,000	-15,000
Longer term refinancing operations	1,141,600	699,000	442,600
Total	1,141,600	714,000	427,600

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

This item comprises claims on credit institutions which do not relate to monetary policy operations. Funds are invested in sight and time deposits.

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
Sight deposits	1,616	1,756	-140
Time deposits	-	199,590	-199,590
Total	1,616	201,346	-199,730

7. Securities of euro area residents denominated in euro

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

The sub-item 7.1 'Securities held for monetary policy purposes' contains securities acquired by the Bank of Slovenia within the scope of the two covered bonds purchase programmes (CBPP)¹¹, the securities markets programme (SMP)¹² and the public sector purchase programme (PSPP)¹³.

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

In 2017 the Eurosystem continued its securities purchases under the expanded asset purchase programme (APP)¹⁴, which includes the third covered bond purchase programme (CBPP3), the asset-backed security

¹¹ Decision of the European Central Bank of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), OJ L 175, 04.07.2009, p. 18-19, 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, Decision of the European Central Bank of 11 January 2017 amending Decision ECB/2014/40 on the implementation of the third covered bond purchase programme (ECB/2017/2), OJ L 16, 20.1.2017, p. 53-54, Decision of the European Central Bank of 18 May 2017 amending Decision ECB/2014/40 on the implementation of the third covered bond purchase programme (ECB/2017/14), OJ L 190, 21.7.2017, p. 22-23 and Decision of the European Central Bank of 20 November 2017 amending Decision ECB/2014/40 on the implementation of the third covered bond purchase programme (ECB/2017/37), OJ L 312, 28.11.2017, p. 92.

¹² 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.

¹³ 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.

purchase programme (ABSPP)¹⁵, the PSPP and the corporate sector purchase programme (CSPP)¹⁶. The monthly pace of combined net APP purchases by the NCBs and the ECB was €80 billion on average until March 2017 and €60 billion from March 2017 until the end of the year. Based on the Governing Council decision taken in October 2017, these purchases are intended to continue at a monthly pace of €30 billion from January to September 2018 or beyond, if necessary, and, in any case, until the Governing Council sees a sustained adjustment in the path of inflation that is consistent with its inflation aim. The net purchases will be made alongside reinvestments of the principal payments from maturing securities purchased under the APP.

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

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

	31 December 2017		31 December 2016		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	28,008	29,586	28,052	30,675	-43	-1,090
Third covered bond purchase programme	938,414	950,639	967,161	970,948	-28,746	-20,309
Securities market programme	160,487	179,581	219,003	243,923	-58,516	-64,341
Public sector purchase programme	8,123,109	8,387,413	5,255,199	5,401,575	2,867,910	2,985,837
Skupaj	9,250,019	9,547,219	6,469,414	6,647,122	2,780,605	2,900,097

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

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	429,773	356,770	73,003
>1 year and ≤5 years	2,584,542	2,095,352	489,190
> 5 years	6,235,703	4,017,291	2,218,412
Total	9,250,019	6,469,414	2,780,605

¹⁴ 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>

¹⁵ Decision of the European Central Bank of 19 November 2014 on the implementation of the asset-backed securities purchase programme (ECB/2014/45), OJ L 1, 06.01.2015, p. 4-7.

¹⁶ Decision of the European Central Bank of 1 June 2016 establishing a corporate sector purchase programme (ECB/2016/16), OJ L 157, 15.06.2016, p. 28-32.

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

The Governing Council assesses on a regular basis the financial risks associated with the securities held under these programmes. Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year-end and are approved by the Governing Council.

The total Eurosystem NCB's holding of CBPP, SMP, ABSPP, PSPP and CSPP securities amounts to EUR 2,386,012 million (2016: EUR 1,653,995 million), of which the Bank of Slovenia holds EUR 9,250 million (2016: EUR 6,469 million). In accordance with Article 32.4 of the Statute of the ESCB and the ECB, losses from holdings of SMP, CBPP3, ABSPP and CSPP securities and PSPP securities issued by an international organisation or a multilateral development bank, if they were to materialise, are shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

In the context of the impairment test conducted as at the end of 2017 on securities purchased under the CBPP, SMP, ABSPP and PSPP, the Governing Council identified two impairment indicators, related to the holdings of ABSPP and CBPP securities. The Governing Council considered that the identified impairment indicators had not affected the estimated future cash flows. No impairment losses were therefore recorded at the year-end on the Bank of Slovenia's holdings of securities under the ABSPP and CBPP. Furthermore, no impairment losses were recorded in respect of the other securities purchased under CBPP, SMP, ABSPP and PSPP.

As a result of an impairment test conducted on the CSPP portfolio, it was concluded that the holding of one security is impaired. In accordance with the principle of prudence, the Governing Council has deemed appropriate to establish a provision against losses in monetary policy operations (see 'Provisions' in the notes to the balance sheet). The affected security was sold in January 2018.

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 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
Marketable securities other than those held to maturity	1,378,707	1,776,502	-397,795
Held-to-maturity securities	27,732	27,991	-260
Total	1,406,439	1,804,493	-398,054

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

Breakdown of other securities according to their residual maturity:

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	315,441	295,322	20,119
>1 year and ≤5 years	823,144	1,153,592	-330,448
> 5 years	267,854	355,580	-87,725
Total	1,406,439	1,804,493	-398,054

8. Intra-Eurosystem claims

Sub-item 9.1 shows the Bank of Slovenia's participating interest in 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.

The subscribed and paid up capital of the 28 European central banks in the capital of the ECB on 31 December 2017 is as follows:

	Capital key	Subscribed capital	Of which fully paid up	Eurosystem key
	%	EUR	EUR	%
Nationale Bank van België/ Banque Nationale de Belgique	2.4778	268,222,025	268,222,025	3.5200
Deutsche Bundesbank	17.9973	1,948,208,997	1,948,208,997	25.5674
Eesti Pank	0.1928	20,870,614	20,870,614	0.2739
Central Bank and Financial Services Authority of Ireland	1.1607	125,645,857	125,645,857	1.6489
Bank of Greece	2.0332	220,094,044	220,094,044	2.8884
Banco de España	8.8409	957,028,050	957,028,050	12.5596
Banque de France	14.1792	1,534,899,402	1,534,899,402	20.1433
Banca d'Italia	12.3108	1,332,644,970	1,332,644,970	17.4890
Central Bank of Cyprus	0.1513	16,378,236	16,378,236	0.2149
Latvijas Banka	0.2821	30,537,345	30,537,345	0.4008
Lietuvos bankas	0.4132	44,728,929	44,728,929	0.5870
Banque centrale du Luxembourg	0.2030	21,974,764	21,974,764	0.2884
Central Bank of Malta/Bank Ċentrali ta' Malta	0.0648	7,014,605	7,014,605	0.0921
De Nederlandsche Bank	4.0035	433,379,158	433,379,158	5.6875
Oesterreichische Nationalbank	1.9631	212,505,714	212,505,714	2.7888
Banco de Portugal	1.7434	188,723,173	188,723,173	2.4767
Banka Slovenije	0.3455	37,400,399	37,400,399	0.4908
Národná banka Slovenska	0.7725	83,623,180	83,623,180	1.0974
Suomen Pankki-Finlands Bank	1.2564	136,005,389	136,005,389	1.7849
Total euro-area NCBs	70.3915	7,619,884,851	7,619,884,851	100.0000
Bulgarian National Bank	0.8590	92,986,811	3,487,005	
Česká národní banka	1.6075	174,011,989	6,525,450	
Danmarks Nationalbank	1.4873	161,000,330	6,037,512	
Hrvatska narodna banka	0.6023	65,199,018	2,444,963	
Magyar Nemzeti Bank	1.3798	149,363,448	5,601,129	
Narodowy Bank Polski	5.1230	554,565,112	20,796,192	
Banca Națională a României	2.6024	281,709,984	10,564,124	
Sveriges Riksbank	2.2729	246,041,586	9,226,559	
Bank of England	13.6743	1,480,243,942	55,509,148	
Total non-euro area NCBs	29.6085	3,205,122,218	120,192,083	
Total euro area and non-euro area NCBs	100.0000	10,825,007,070	7,740,076,935	

In accordance with the Article 49.2 of the Statute of the ESCB and the ECB and the legal acts adopted by the Governing Council of the ECB, the Bank of Slovenia also made a contribution of EUR 36.7 million to the ECB's foreign exchange, gold and security price revaluation accounts and to the ECB's provision for foreign exchange

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

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

	<u>31.12.2017</u>
	<u>000 EUR</u>
Contribution to revaluation accounts	
- paid on 3 January 2007	7,647
- paid on 12 March 2007	18,105
Contribution to provisions	
- paid on 12 march 2007	10,947
Contribution paid on 9 March 2009	2,700
Contribution paid on 12 July 2013	50
Contribution paid on 21 February 2014	5,350
Total	44,799

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

Sub-item 9.4 'Net claims related to the allocation of euro banknotes within the Eurosystem' consists of the claims and liabilities of the Bank of Slovenia vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem (see 'Banknotes in circulation' and 'Intra-ESCB balances/Intra-Eurosystem balances' in the notes on accounting policies)¹⁸. The change in balances from the net claim at the end of 2016 (EUR 673.4 million) to the net liability at the end of 2017 (EUR 241.4 million) was due to increase in banknotes put into circulation by the Bank of Slovenia in 2017 (increase of 25.3% compared to 2016), as well as the rise in banknotes in circulation in the Eurosystem as a whole (increase of 4.0% compared to 2016). The remuneration of this claim is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

9. Other assets

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

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

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

	Land and buildings	Computers & equipment	Total
	000 EUR	000 EUR	000 EUR
Cost or valuation			
At 31 December 2016	31,160	25,450	56,610
Additions	256	1,745	2,001
Disposals	86	320	406
At 31 December 2017	31,330	26,876	58,206
Depreciation			
At 31 December 2016	844	18,380	19,224
Disposals	30	318	348
Charge for the year	240	2,082	2,321
At 31 December 2017	1,053	20,143	21,197
Net book value			
At 31 December 2016	30,316	7,070	37,386
At 31 December 2017	30,277	6,732	37,009

As at 31 December 2017 an amount of EUR 12.4 million related to investment properties in Austria is included in land and buildings (2016: EUR 12.4 million).

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

Sub-item 11.4 'Off-balance sheet instruments revaluation differences' includes the valuation result of foreign exchange spot transactions agreed in 2017 which are to be settled in the subsequent year.

Sub-item 11.5 'Accruals and prepaid expenses' contains the accrued income identified at 31 December 2017. This consists mainly of interest income which is due in the subsequent financial year.

Sub-item 11.6 'Sundry' consists of fiduciary and other assets.

10. Banknotes in circulation

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

During 2017, the total value of banknotes in circulation within the Eurosystem increased by 4.0%. According to the allocation key, the Bank of Slovenia had euro banknotes in circulation worth EUR 5,285.8 million at the end of the year (compared with EUR 5,084.9 million at the end of 2016). The value of euro banknotes actually issued by the Bank of Slovenia in 2017 increased by 25.3% from EUR 4,411.5 million to EUR 5,527.2 million. As this was more than the allocated amount, the difference of EUR 241.4 million is shown under liability sub-item 10.3 'Net liabilities related to the allocation of euro banknotes within the Eurosystem' (2016: the difference of EUR 673.4 million was shown under asset sub-item 9.4 'Net claims related to the allocation of euro banknotes within the Eurosystem').

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
Total value of euro banknotes put into circulation by the Bank of Slovenia	5,527,167	4,411,508	1,115,659
Liability resulting from the ECBs share of euro banknotes in circulation	-459,695	-442,221	-17,473
Claim according to the Bank of Slovenia's weighting in the ECB's capital key	218,310	1,115,578	-897,268
Total banknotes in circulation	5,285,783	5,084,865	200,918

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

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
EUR 5	-73,911	-60,766	-13,145
EUR 10	748,732	645,077	103,656
EUR 20	4,559,857	4,234,682	325,175
EUR 50	301,488	-356,148	657,637
EUR 100	-778,767	-846,347	67,579
EUR 200	-192,064	-226,889	34,826
EUR 500	961,832	1,021,901	-60,069
Total value of euro banknotes put into circulation by the Bank of Slovenia	5,527,167	4,411,508	1,115,659

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 with NCBs that are required to hold minimum reserves. The average balance on the banks' accounts during the maintenance period are, up to the amount of calculated minimum reserves, remunerated at the average marginal interest rate of the main refinancing operations in the maintenance period. 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.

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
Current accounts (covering the minimum reserve system)	2,938,810	2,249,251	689,559
Total	2,938,810	2,249,251	689,559

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

This balance sheet item contains other credit institutions' accounts unrelated to the monetary policy operations.

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 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
Government sight deposits and special funds	2,269,592	1,870,371	399,221
Other public sector deposits	250,959	78,399	172,560
Total	2,520,551	1,948,770	571,781

Sub-item 5.2 'Other liabilities' includes stock exchange market customers' accounts and accounts of Central Securities Clearing Corporation. In 2016, this item includes also the balances held by resolution fund, which was reclassified to the central government sector in April 2017.

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

Balance sheet item 'Liabilities to non-euro area residents denominated in euro' contains euro balances of international and supranational organisations as well as cash received as collateral in connection with the APP securities lending. 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 contains the foreign currency sight and fixed-term deposits of central government and its special funds.

16. Counterpart of special drawing rights allocated by the IMF

This item represents the liability of the Bank of Slovenia towards the IMF which corresponds to the allocation of SDRs to the Republic of Slovenia as a result of its membership in the IMF. At the end of 2017, the liability is shown in the balance sheet on the basis of the market rate of SDR 1 = EUR 1.1876 (31 December 2016: SDR 1 = EUR 1.2746) 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 2017 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' consists of the claims and liabilities of the Bank of Slovenia vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem (see 'Banknotes in circulation' and 'Intra-ESCB balances/Intra-Eurosystem balances' in the notes on accounting policies and 'Intra-Eurosystem claims' in the notes to the balance sheet).

Sub-item 10.4 'Other liabilities within the Eurosystem (net)' represents the sum of three components, of which the total balance is recorded either on the asset or liability side: 1) the position of the Bank of Slovenia vis-à-vis the ECB in respect of the transfers issued and received through TARGET2 by the ESCB national central banks, including the ECB; 2) the position vis-à-vis the ECB in respect of pooling and allocation of monetary income within the Eurosystem pending settlement; and 3) the Bank of Slovenia's position vis-à-vis the ECB in respect of any amounts receivable or payable, including the amount due to the Bank of Slovenia from the ECB in respect of the ECB's interim profit distribution.

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
Due to the ECB in respect of TARGET2 balances	1,433,560	1,247,690	185,870
Due to the ECB in respect of monetary income	-23,837	-19,805	-4,032
Due to the ECB in respect of the ECB interim profit distribution	-4,848	-4,743	-106
Total	1,404,874	1,223,142	181,732

The year-end net transfers via TARGET2 had a credit balance of EUR 1,433.6 million. The remuneration of this position is calculated daily at the latest available (marginal) interest rate used by the Eurosystem in its tenders for the main refinancing operations.

The second component, i.e. the position vis-à-vis the ECB in respect of the annual pooling and allocation of monetary income within the Eurosystem NCBs, had a debit balance of EUR 23.8 million at year-end (see 'Net result of pooling of monetary income' in the notes to the profit and loss account).

In 2017, 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 988 million (see 'ECB profit distribution' in accounting policies). The related amount due to the Bank of Slovenia as at 31 December 2017 was EUR 4.8 million (see 'Income from equity shares and participating interests' in the profit and loss account).

18. Items in course of settlement

These liabilities comprise transactions that were not yet settled as at the end of the financial year (2017: EUR 1.2 million; 2016: no unsettled transactions).

19. Other liabilities

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

Sub-item 12.2 'Accruals and income collected in advance' contains the accrued expenses identified at 31 December 2017. This consists mainly of interest expenditure which is due in the new financial year or later but was incurred in the financial year just ended.

Sub-item 12.3 'Sundry' consists mainly of fiduciary liabilities and non-returned tolar banknotes.

20. Provisions

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
Provisions for employees and for known risks	15,854	13,867	1,987
Provisions for general risks	498,400	443,300	55,100
Provisions in respect of monetary policy operations	338	-	338
Skupaj	514,592	457,167	57,425

Provisions for employees and for known risks

Provisions for post-employment benefits include provisions for severance pay and long-service awards and are calculated in accordance with IAS 19 – Employee benefits. The latter consider the stipulations of the Bank of Slovenia's collective agreement, expected future salary increases, employee turnover and a rate to discount future obligations. Provisions are calculated based on actuarial assumptions as at 31 December 2017.

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

With regard to potential liabilities arising from administrative disputes relating to emergency measures in the banking system in the years 2013/2014, a special law is being prepared, which will enable the enforcement of any damage to the holders of subordinated debt. The Bank of Slovenia has not created any provisions for this purpose at the end of 2017.

Provisions for general risks

Taking into account the Bank of Slovenia's exposure to interest rate risk, exchange rate risk, price and credit risks, general provisions for losses and credit events arising from these risks could be created. In 2017, the total exposure to these risks increased significantly due to APP 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

As a result of the impairment test conducted on its CSPP portfolio, the Governing Council has deemed it appropriate to establish a provision totalling EUR 69 million against losses in monetary policy operations, in relation to a security held by an NCB of the Eurosystem. The size of this provision has been calculated taking into account the information regarding the security sale in January 2018. This is in line with the framework for accounting and financial reporting in the ESCB for post balance sheet events.

In accordance with Article 32.4 of the ESCB Statute, this provision is funded by all the NCBs of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in 2017. As a result, a provision for EUR 0.3 million equivalent to 0.4908% of the total provision was created.

21. Revaluation accounts

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

In the case of valuation of securities, positive valuation effects of EUR 18.0 million arose from the valuation of EUR denominated portfolio (2016: EUR 29.5 million) and EUR 1.0 million from the valuation of USD denominated assets (2016: EUR 1.1 million).

In the case of foreign currency positions, positive valuation effects of EUR 13.3 million arose from the valuation of USD position and EUR 0.2 million from the valuation of CHF position (2016: EUR 49.6 million from the valuation of USD position and EUR 8.1 million from the valuation of SDR position). The average acquisition cost of foreign currencies at the end of 2017 was USD 1.2751 for EUR and EUR 1.1974 for SDR (2016: USD 1.3076 for EUR and EUR 1.1872 for SDR), while the market rate was USD 1.1993 for EUR and EUR 1.1876 for SDR (2016: USD 1.0541 for EUR and EUR 1.2746 for SDR).

In the case of gold the acquisition cost is EUR 482.688 per fine ounce of gold at the end of 2017 (2016: EUR 482.688), compared to the market price at the end of 2017, which was EUR 1,081.881 per fine ounce of gold (2016: EUR 1,098.046). Market value of gold position exceeded its acquisition price and resulted in a positive valuation effects amounting to EUR 61.2 million (2016: EUR 63.0 million).

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
Price effect	18,975	30,556	-11,581
- securities in foreign currencies (asset items 2 and 3)	996	1,059	-63
- securities in euro (asset items 4 and 7)	17,979	29,497	-11,518
Exchange rate effect	13,508	57,698	-44,190
Gold valuation effect	61,246	62,970	-1,724
Total	93,729	151,224	-57,495

22. Capital and reserves

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

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

The composition of reserves is the following:

	31 December 2017	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
Initial capital of the Bank of Slovenia	8,346	8,346	-
General reserves	702,387	688,034	14,354
Special reserves for foreign exchange differences	174,214	174,214	-
Special reserves – price risk (gold)	19,736	19,736	-
Valorisation reserves	12,490	12,482	8
Total reserves	917,172	902,811	14,362

Notes to the off-balance-sheet items

23. Foreign currency swaps

As at 31 December 2017, the forward foreign currency position arising from EUR/USD swap transactions amounted to EUR 171.3 million (2016: EUR 186.6 million).

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

	31 December 2017		31 December 2016		Change	
	000 USD	000 EUR	000 USD	000 EUR	000 USD	000 EUR
Forward liabilities in USD	205,500	171,350	196,700	186,605	8,800	-15,255
Skupaj	205,500	171,350	196,700	186,605	8,800	-15,255

24. Securities lending

As at 31 December 2017, securities with a market value of EUR 266,4 million (31 December 2016: EUR 359,5 million) were lent under automated security lending contracts with the agents. The collateral received was reinvested into reverse repo transactions, asset backed securities or deposited with the Bank of Slovenia.

25. Other off-balance-sheet items

The following other financial claims and liabilities of the Bank of Slovenia were stated off-balance-sheet as at 31 December 2017:

- obligation under the IMF's statutes to provide currency on demand in exchange for SDRs up to three times the amount that the Bank of Slovenia received gratuitously from the IMF, which was equivalent to EUR 534,2 million as at 31 December 2017 (31 December 2016: EUR 618.3 million);

- obligation under the Loan Agreement between the Bank of Slovenia and the IMF to lend to the IMF an SDR denominated amount up to the equivalent of EUR 910.0 million (31 December 2016: EUR 910.0 million);

- a contingent liability of EUR 172.8 million, equivalent to the Bank of Slovenia's share of the maximum of EUR 50 billion reserve assets that the ECB may request the euro area NCBs to transfer under Article 30.1 of the Statute of the ESCB and of the ECB (31 December 2016: EUR 172.8 million);

- contingent claim arising from the credit lines as an instrument of intraday liquidity provision, amounting to EUR 600,0 million, granted based on eligible collateral and by means of overdraft on participant's settlement accounts (31 December 2016: EUR 600,0 million).

Notes to the profit and loss account

26. Net interest income

Interest income

Interest income consists of interest income from foreign reserve assets and euro-denominated portfolio and interest income from euro denominated claims and liabilities. Euro denominated claims include monetary policy instruments, foreign reserve assets transferred to the ECB, net claim arising from the allocation of banknotes within the Eurosystem and TARGET2 balances. Negative interest expense generated by liabilities related to credit institutions and government accounts and deposits is also disclosed under interest income. Positive and negative interest accrued on the current accounts of credit institutions are disclosed in the net amount.

	2017	2016	Change
	000 EUR	000 EUR	000 EUR
Gold	176	402	-227
Current accounts and deposits	474	534	-60
- in foreign currency	474	527	-53
- in euro	0	7	-7
Securities	89,239	64,749	24,490
- in foreign currency	8,283	5,312	2,971
- in euro	80,956	59,437	21,519
IMF	1,747	302	1,445
Monetary policy operations	0	1	0
- main refinancing operation	-	1	-1
- other refinancing operations	0	-	0
Intra Eurosystem claims	-	164	-164
- claims arising from the transfer of foreign reserves to the ECB	-	18	-18
- net claims related to the allocation of banknotes within the Eurosystem	-	140	-140
- TARGET2 balances	-	6	-6
Other interest income	25	15	11
Negative interest expense	22,706	15,133	7,574
- current accounts of credit institutions	10,153	8,027	2,126
- government and other clients accounts and deposits	12,554	7,106	5,448
Total	114,368	81,300	33,069

Interest expense

Interest expense arises from the liabilities in the form of government accounts and deposits, from the liabilities to IMF, TARGET2 balances and the interest expense related to foreign currency swaps. Interest expenses also include negative interest on sight deposits and fixed-term deposits abroad and negative interest on longer-term refinancing operations. Positive and negative interest accrued on the longer-term refinancing operations are disclosed in the net amount.

	2017	2016	Change
	000 EUR	000 EUR	000 EUR
Current accounts and deposits	464	255	209
- in foreign currency	464	255	209
IMF	1,218	201	1,017
Intra Eurosystem liabilities	-	29	-29
- TARGET2 balances	-	29	-29
Foreign currency swaps	3,494	2,290	1,204
Negative interest income	4,069	507	3,562
- longer-term refinancing operations	3,908	265	3,643
- sight and fixed-term deposits abroad	161	242	-81
Total	9,245	3,283	5,963

27. 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 2017 below the average cost of the respective currencies or securities. The valuation losses in 2017 mostly occurred on EUR and USD denominated securities as well as on SDR currency position.

In 2017 provisions for known risks arising from on-balance sheet positions were created in the amount of EUR 2.8 million. Provisions for risks arising from off-balance sheet positions were released in the amount of EUR 1.1 million.

Transfer to provisions for general risks in the amount of EUR 55.1 million represents the net amount of additional provisions, created for potential losses from interest rate, price, exchange rate and credit risks and interest rate sensitivity gap (see 'Provisions' in the notes to the balance sheet).

	2017	2016	Change
	000 EUR	000 EUR	000 EUR
Realised gains/losses arising from financial operations			
Gold	83	0	83
Currency position	8,609	6,582	2,028
Securities	12,741	6,112	6,629
Total	21,434	12,694	8,740
Write-downs on financial assets and positions			
Currency position	-924	-70	-854
Securities	-1,440	-1,138	-302
Total	-2,364	-1,209	-1,155
Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks and other operational risks			
Provisions for known risks	-1,696	-820	-877
Provisions for general risks	-55,100	-33,100	-22,000
Total	-56,796	-33,920	-22,877
Total	-37,726	-22,434	-15,292

28. Net income from fees and commissions

Fees and commissions receivable mainly arise from payment and settlement services, supervisory and regulatory functions, managing the Central Credit Register, management of the funds, processing of cash and from securities lending transactions.

29. Income from equity shares and participating interests

This item represents the dividends received on the Bank of Slovenia's shares in the international financial institutions and the ECB.

Also included under this caption is the amount due to the Bank of Slovenia with respect to the ECB's interim profit distribution totalling EUR 4.8 million (2016: EUR 4.7 million) (see 'ECB profit distribution' in the notes on accounting policies).

30. Net result of pooling of monetary income

This item contains the net result of pooling of monetary income for 2017, amounting to an income of EUR 23.8 million compared to the income of EUR 19.8 million in the previous year, together with the Bank of Slovenia's share of the provisioning against risks in monetary policy operations of the Eurosystem amounting to an expense of EUR 0.3 million. The net income shown in this item amounted to EUR 23.5 million in comparison to the net income of EUR 19.8 million in 2016.

	2017	2016	Change
	000 EUR	000 EUR	000 EUR
Net monetary income pooled by the Bank of Slovenia	29,103	28,823	280
Net monetary income allocated to the Bank of Slovenia	52,955	48,630	4,325
Monetary income reallocation for the year	23,852	19,807	4,045
Adjustments of monetary income reallocation for previous years	-15	-2	-13
Provisions in respect of monetary policy operations	-338	-	-338
Total	23,499	19,805	3,694

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

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

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

The monetary income pooled by the Eurosystem is allocated among the NCBs according to the subscribed ECB capital key. The pooling and reallocation of monetary income to NCBs leads to certain net reallocation effects. One reason is that the yields earned on certain earmarkable assets and the interest expense paid on certain liability base items may differ to a varying degree among the Eurosystem NCBs. In addition, usually each Eurosystem NCB's share of earmarkable assets and in the liability base deviates from its share in the subscribed capital of the ECB. The difference between the monetary income pooled by the Bank of Slovenia amounting to EUR 29.1 million and reallocated to the Bank of Slovenia amounting to EUR 53.0 million is the net result arising from the calculation of monetary income.

This item also contains the Bank of Slovenia's share in the provision against losses in monetary policy operations, which was established in relation to a security held by an NCB of the Eurosystem in its CSPP portfolio (see 'Provisions' in the notes to the balance sheet).

31. Other income

Other income includes income from non-bank services like rental income, sales of fixed assets, numismatics and other income.

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

32. Operating expenses

Staff costs

Staff costs include salaries and other staff costs together with the related taxes and contributions.

The Bank of Slovenia employed 443 employees as at 31 December 2017 (31 December 2016: 448 employees). The average number of employees, calculated from the number of hours worked, stood at 427 employees (2016: 434 employees).

In accordance with the contract between the Bank of Slovenia and the Trade union from March 2002, the Bank of Slovenia's employees have been included into Voluntary supplementary pension insurance, which is defined as a contribution plan. Staff costs include contribution of the Bank of Slovenia for Voluntary supplementary pension insurance of EUR 0.7 million (2016: EUR 0.6 million).

In 2017 the remuneration of the Governing board members of the Bank of Slovenia was of EUR 0.7 million (2016: EUR 0.7 million).

Administrative expenses

This item 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, renting expenses, 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 is performed according to the adopted depreciation rates.

Banknote production services

Expenses for banknotes production services 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 consist mainly of contributions, subscriptions, taxes and other operating expenses of the Bank of Slovenia.

33. Profit for the year

According to the Accounting Guideline, to which the unrealised negative valuation effects shall be covered from the current financial result, whilst the unrealised positive valuation effects are transferred directly to revaluation accounts, the Bank of Slovenia shows the profit amounted to EUR 70.7 million (2016: EUR 57.3 million). Appropriation of the financial result will be performed in accordance with the Article 50 and Article 50.a of the Bank of Slovenia Act.

