BANKA SLOVENIJE

BANK OF SLOVENIA

EUROSYSTEM

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INTRODUCTION

Following the measures to stabilise the banking sector taken at the end of 2013, the main features of 2014 in Slovenia were an improvement in confidence throughout the economy, and favourable developments in almost all macroeconomic indicators. At 2.6%, GDP growth in Slovenia outperformed average euro area growth by 1.7 percentage points. The situation on the labour market improved in terms of employment and wages, while average inflation reached 0.4%, on a par with average inflation across the euro area. The government's fiscal position remained almost the same as in 2013 excluding one-off expenditure for banking sector recapitalisation, while the government's financing conditions improved significantly. Solid export performance was reflected in a large current account surplus reaching close to 6% of GDP. Further measures were implemented to strengthen the banking sector, and growth-supporting fiscal policy was enhanced.

* * *

GDP growth is still based on exports. Export dynamics outperformed that of foreign demand more than threefold, despite the relatively weak recovery in the euro area. This was attributable to gains in the cost and technological competitiveness of Slovenia's manufacturing sector, whose firms were present in an increasing number of markets. More effective use of EU funds entailed a large increase in investment in public infrastructure, which encouraged growth in the construction sector. Household consumption still stagnated, despite the improved situation on the labour market and low inflation. The low inflation was based primarily on falling energy prices, which supported a rise in real purchasing power.

ECB monetary policy remained expansionary in 2014 as a response to falling inflation and the weak economic outlook for the euro area. The Governing Council of the ECB – among other measures – lowered its key interest rate to 0.15% in June and to 0.05% in September, together with the introduction of targeted longer-term refinancing operations, and launched its third covered bond purchases programme in October and a new asset-backed securities purchase programme in November. In January 2015 the ECB announced the further expansion of its monetary policy by means of an extended asset purchase programme that added purchases of public sector securities to the aforementioned asset purchase programmes. These measures should ease financing conditions and consequently remove deflationary pressures, while stimulating economic activity in the euro area. These non-standard measures are yet to take effect in Slovenia. Credit growth remains negative in the amount of 10% for corporate loans. There was no full uptake of funds available within the TLTRO by the Slovenian banks, which have excess liquidity at their disposal. In addition, domestic interest rates have not responded to the cuts in monetary policy rates, the interest rate spread on new loans remaining at 2 percentage points higher than the euro area average. However, there is healthy demand for loans, which is forcing firms to look for alternative sources of financing. The dichotomy between credit supply and credit demand clearly points to an impaired transmission mechanism. The positive effects on the Slovenian economy via the non-standard monetary measures are thus expected to occur mostly via increased foreign demand and a fall in the euro.

Notwithstanding the solid performance in 2014, the economic recovery remains fragile and thus exposed to numerous risks. One of the main risks is a stall in the restructuring of the corporate sector. This could have an adverse impact on the ability of firms to foster investment and thus improve their long-term prospects. In addition, a slump in foreign demand could endanger otherwise solid economic performance. Progress in the recovery of foreign demand may be hindered by numerous geopolitical tensions, some of which are directly impacting Slovenia's main trading partners, such as Russia. One of the key determinants of economic growth this year and next year is likely to be public investment, partly co-financed by EU funds. Any significant decline in the ability to subscribe to this kind of co-financing may lead to falls in total investment, thereby endangering the recovery in domestic demand. The latter could also cause the further persistence and deepening of the structural unemployment problem, which is increasing in significance and may substantially impact the long-term potential of the economy.

On the positive side, there are many institutional changes being implemented and introduced that could contribute to improved financing conditions over the longer-term. The Bank of Slovenia is taking large steps towards increasing its efficiency and responsiveness in banking supervision and financial stability tasks, while simultaneously conducting new tasks within the Single Supervisory Mechanism. To successfully meet its increasing number of responsibilities, the Bank of Slovenia has undertaken a comprehensive reorganisation.

Ljubljana, April 2015

Boštjan Jazbec
Governor of the Bank of Slovenia

1 THE ECONOMIC ENVIRONMENT AND THE BANKING SYSTEM IN 2014[1]

1.1 Economic environment

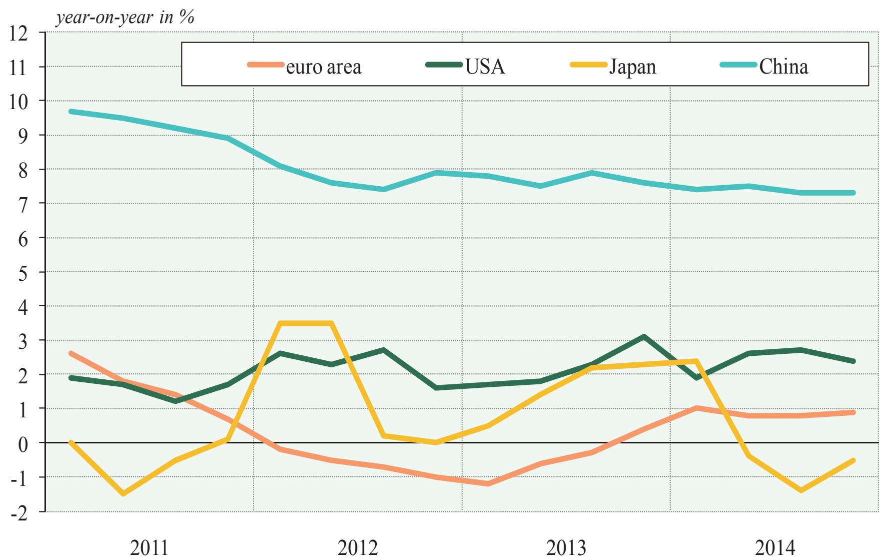
Global economic developments

Global economic growth stood at 3.3% in 2014 according to the IMF's initial estimates. This was unchanged from 2013. Growth was again highest in developing countries, albeit again lower than in the previous year. The volume of global trade grew by 3.1% in 2014, less than in 2013. GDP in the euro area increased by 0.9% in 2014, as economic activity strengthened slightly in the final quarter. The economic sentiment indicator and the consumer confidence indicator rose last year in the euro area. The averages of the two indicators over the year were above the long-term average, having fallen in 2012 and 2013 to levels well below the long-term average. Economic growth in the US stood at 2.4% in 2014, up slightly on 2013. Economic growth slowed in certain emerging countries. It stood at 7.4% in China in 2014 and, according to the IMF's initial estimates, 0.1% in Brazil and just 0.6% in Russia.

The situation on the labour market remained adverse, particularly in the euro area. The unemployment rate in the euro area remained high in 2014, although it declined from 11.8 at the beginning of the year to 11.3% in December. Alongside moderate fiscal consolidation, high unemployment constrained growth in private consumption. Household consumption in the US increased in line with the slight increase in consumer confidence and the improvement in the situation on the labour market. The unemployment rate in the US continued to fall in 2014, reaching 5.6% in December, the lowest figure in the last six years.

As in the previous year, the main factor in the fall in global inflation in 2014 was the sharp fall in US dollar prices of oil and other commodities. Inflation in the euro area averaged just 0.4% over the year, down 0.9 percentage points on the previous year. Alongside the fall in US dollar commodity

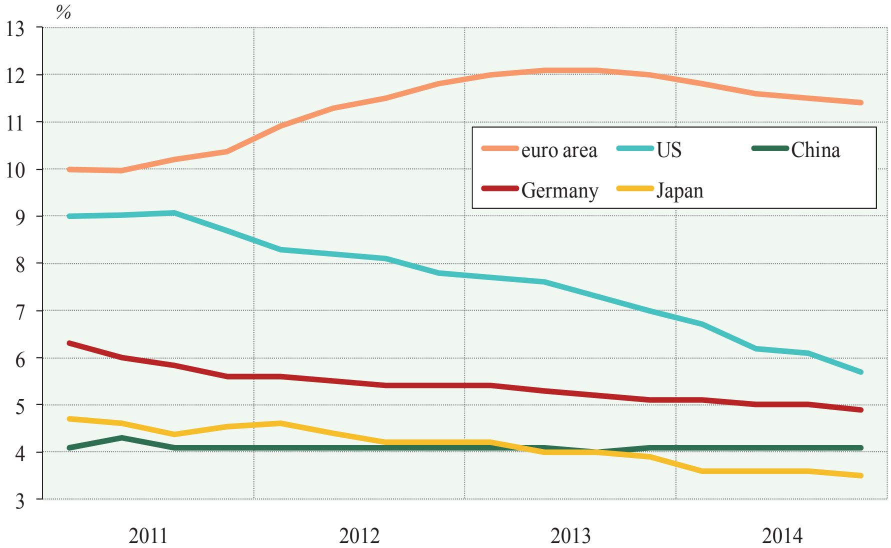
Figure 1: **GDP growth in selected major economies**



Note: Seasonally and working days adjusted data for the euro area, US and Japan.
Sources: Eurostat for the euro area, US and Japan, www.tradingeconomics.com for India, www.tradingeconomics.com and National Bureau of Statistics of China for China.

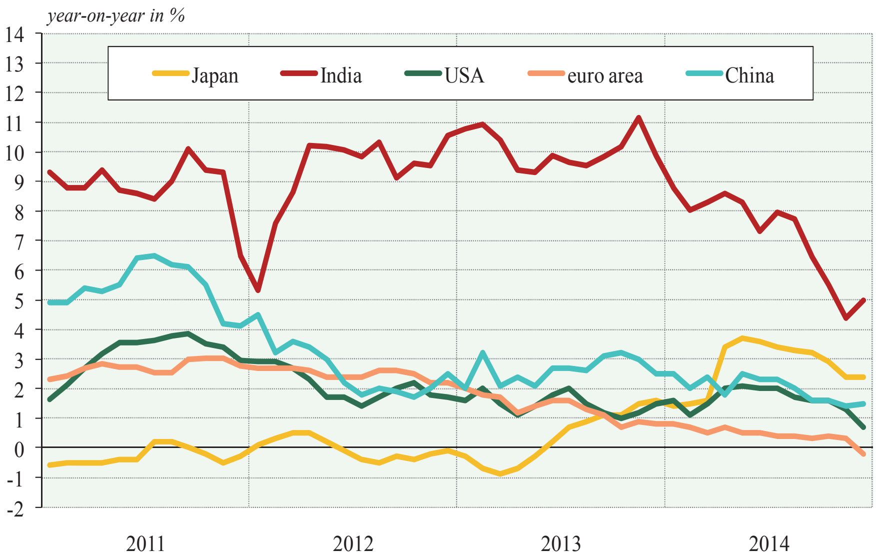
[1] A detailed illustration of macroeconomic developments and projections is given in the April 2015 Macroeconomic Developments and Projections (http://www.bsi.si/en/publications.asp?MapaId=70). Detailed analysis of the banking system is given in the May 2015 Financial Stability Review (http://www.bsi.si/en/publications.asp?MapaId=70).

Figure 2: **Unemployment rates in selected major economies**



Sources: Eurostat, www.tradingeconomics.com for China.

Figure 3: **International comparison of consumer price indices**

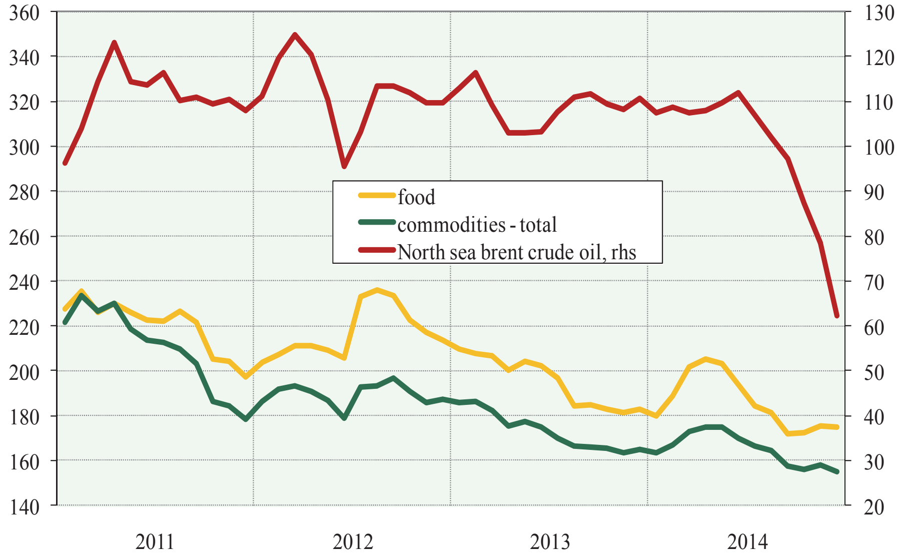


Source: ECB.

prices, another factor in the fall in inflation was persistently weak domestic demand. Core inflation in the euro area stood at 0.8% last year, a reflection of weak domestic inflationary pressures in connection with the adverse situation on the labour market. Inflation also remained low in the US, averaging 0.8% last year, down 0.7 percentage points on 2013. Prices in Japan rose in 2014. Annual inflation stood at 2.7%, a relatively high rate given the years of deflation problems, particularly in light of last year's fall in oil prices. Inflation stood at 2.0% in China and 7.2% in India in 2014, both rates down again on the previous year.

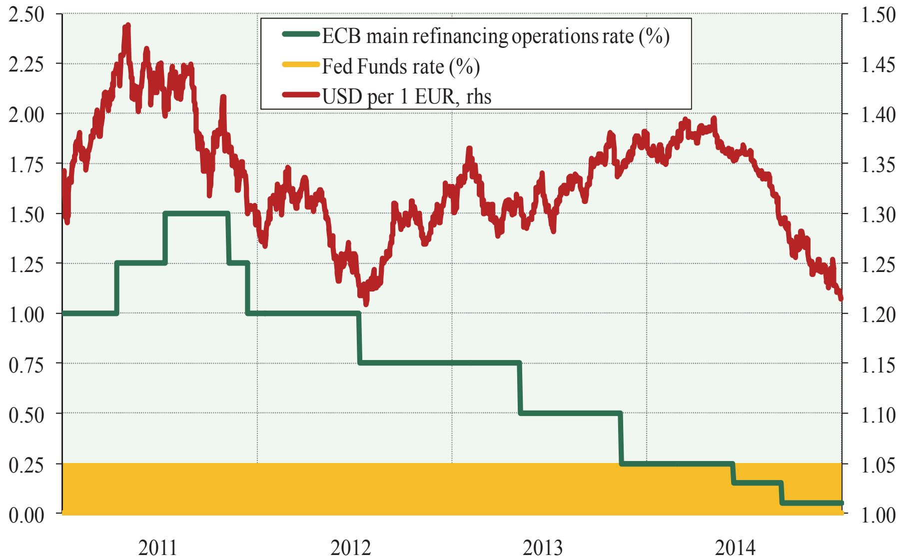
Commodity prices again fell significantly last year. The downward pressures on oil prices were primarily the result of increased production and reserves, the relatively low global economic growth and the low growth in demand. Oil production has grown particularly sharply in the US in recent years. Oil prices fell sharply in the second half of the year, particularly in the final quarter, reaching a long-time low in December. The price of a barrel of Brent crude averaged USD 98.9 last year, down 9.1% on 2013. US dollar prices of primary commodities fell again in 2014, by 4.7%, while food prices fell by the

Figure 4: **Global oil and primary commodity prices**



Note: Indices (2000 = 100); oil: price of Brent crude, USD per barrel.
Sources: The Economist, London; Bloomberg.

Figure 5: **Euro-US dollar exchange rate and key interest rates at the ECB and the Fed**



Sources: ECB, Fed.

same amount. The fall in food prices for the second consecutive year was attributable to an increase in global food production and supply.

Monetary policy at the central banks of the major advanced economies remained expansionary in 2014. The ECB made two further cuts in its key interest rate, to 0.15% in June and 0.05% in September. The cuts were attributable to the sharp fall in inflation, in the wake of relatively weak forecasts for economic growth. The ECB also announced and subsequently began implementing several non-standard measures[2] to revive economic growth and to raise inflation in accordance with price stability targets. The measures are not having a major impact, but without them the recovery would be significantly weaker. The non-standard measures are merely an encouragement for other economic policies, which

[2] A detailed description of the ECB's non-standard measures is given at http://www.ecb.europa.eu/press/pressconf/2014/html/is140605.en.html, http://www.ecb.europa.eu/press/pressconf/2014/html/is140904.en.html and http://www.ecb.europa.eu/press/pressconf/2014/html/is141204.en.html and in Section 2.1.2.

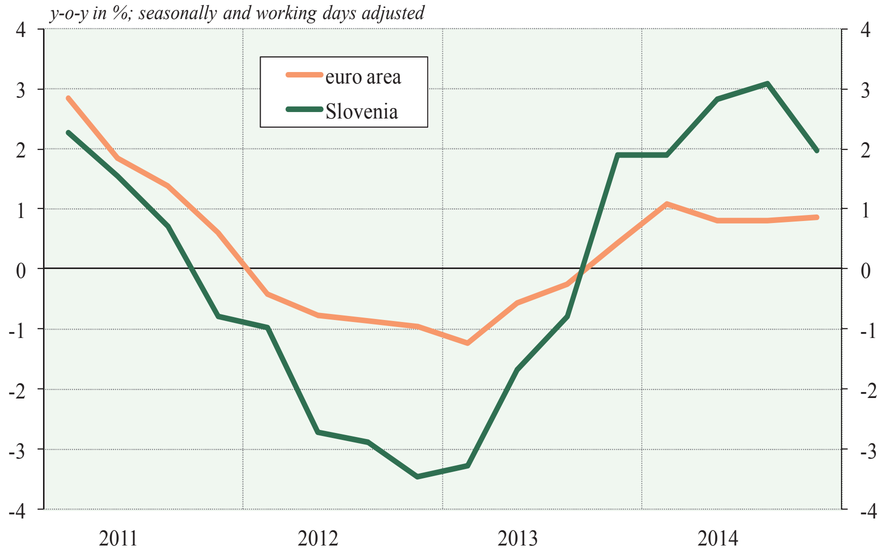
must play their role. Given the solid economic growth and the fall in unemployment, in October 2014 the Fed ended its QE purchases of long-term securities. Monetary policy in the US nevertheless remains expansionary, the key interest rate remaining in the interval between zero and 0.25%. The Bank of Japan continued its non-standard measures last year, and in October decided to increase its annual quota of securities purchases. The Bank of England's key interest rate has remained unchanged at 0.5% since March 2009, while the volume of non-standard stimulus measures remained unchanged compared with 2013.

The euro began falling sharply against the US dollar in the second half of last year. The euro began falling as a result of the abolition of non-standard measures by the Fed, while the ECB was adding to the expansionary nature of its monetary policy. The euro stood at just USD 1.23 at end of the year, down 9.6% on January 2014. The euro rose by 8.2% against the Japanese yen last year, but fell by 5.1% against the pound sterling. The pound rose sharply, primarily as a result of relatively high economic growth and other favourable macroeconomic data.

Economic developments in Slovenia

Despite a slowdown in the final quarter, growth was relatively high last year, and its structure was favourable from the perspective of export orientation. Growth in exports and thus in industrial production strongly out-performed growth in foreign demand, and the contribution made by net trade to annual GDP growth of 2.6% amounted to almost 2 percentage points. The favourable developments in exports were supported by improved cost- and technological competitiveness, and by geographical diversification of export markets. Growth in gross fixed capital formation approached 5%, entirely as a result of an increase in public investment, as investment in machinery and equipment declined. Public investment was the sole source of growth in construction, which was thus entirely dependent on central government and municipalities, which was reflected in quarterly declines in value-added in the sector in the wake of weaker public investment in the second half of the year. Final government consumption also declined, albeit by considerably less than in 2013. The negative contribution made to GDP growth by austerity measures also declined correspondingly: it was just 0.1 percentage points, compared with around 0.3 percentage points in 2013. Growth in private consumption was weak compared with the developments on the labour market, which were strongly associated with an increase in uncertain forms of employment. Aggregate activity in private-sector services declined at the end of the year, which was the main factor in the slowdown in quarterly GDP growth to the level of the euro area average.

Figure 6: **GDP growth in Slovenia and the euro area**



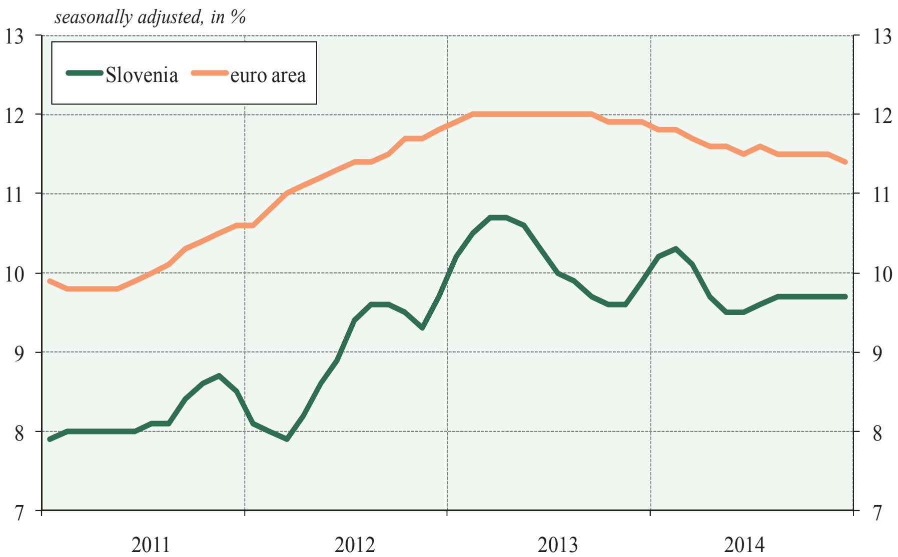
Source: Eurostat.

Total employment rose last year for the first time since the outbreak of the economic crisis. The increase was largely attributable to professional, scientific and technical activities and administrative and support service activities. Employment of agency workers has been classified under the latter, thereby clouding the actual picture of employment in individual sectors, industry and construction in particular. Employment in manufacturing began rising again in the second quarter of last year, primarily due to increased exports, the rate reaching 0.7% in the final quarter. After several years of decline, employment in wholesale and retail trade, transport, and accommodation and food service activities began rising in the middle of the year. The fall in employment in construction slowed sharply from more than 7% in 2013 to just under 1% last year. Employment rose slightly in mostly public services: it increased throughout the year in the health and education sectors, but fell by 0.5% in public administration and defence.

Although unemployment began falling in year-on-year terms in the middle of the year, the number of unemployed remains one of the main macroeconomic problems. The number of registered unemployed recorded its largest fall of the last six years to end the year at slightly over 119,000. The registered unemployment rate fell significantly, to 13%. The surveyed unemployment rate had also fallen by the end of the year, to 9.6%, below the euro area average. There was also an improvement in the breakdown of inflows into and outflows from unemployment, the number of outflows for reason of new hires increasing by almost 14%. In 2014, the number of long-term unemployed was up 8.1% in comparison to 2013, raising its share in total unemployment to a half. Indicators of demand for skilled workers in manufacturing have been unchanged for several years, and still suggest structural mismatches on the labour market. Wage developments were in line with economic growth, as wages have been increasing moderately for just over a year. The wage growth was primarily attributable to growth in wages in the private sector, but after five years there was also a small rise in wages in the public sector.

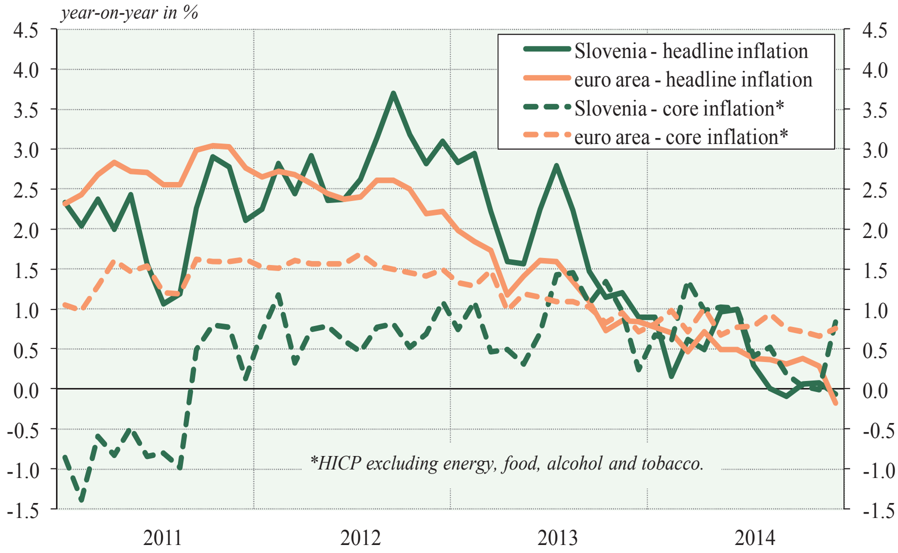
Inflation as measured by the HICP averaged 0.4% in 2014, down 1.6 percentage points on the previous year, and the same as the euro area average. All the components contributed to the fall. Year-on-year growth in food prices was notably down. Year-on-year growth in prices of unprocessed food slowed sharply: it was negative for most of 2014 owing to a base effect caused by high growth in prices of fruit and vegetables in 2013, while year-on-year growth in prices of processed food also declined. Energy prices fell last year, despite the euro's depreciation and the rise in excise duties on motor fuels, as a result of the sharp fall in oil prices on global markets, thereby making a negative contribution to headline inflation. The contribution made by services prices declined minimally, while the contribution made by prices of non-energy industrial goods remained almost unchanged from the previous year.

Figure 7: **Harmonised unemployment rate in Slovenia and the euro area**



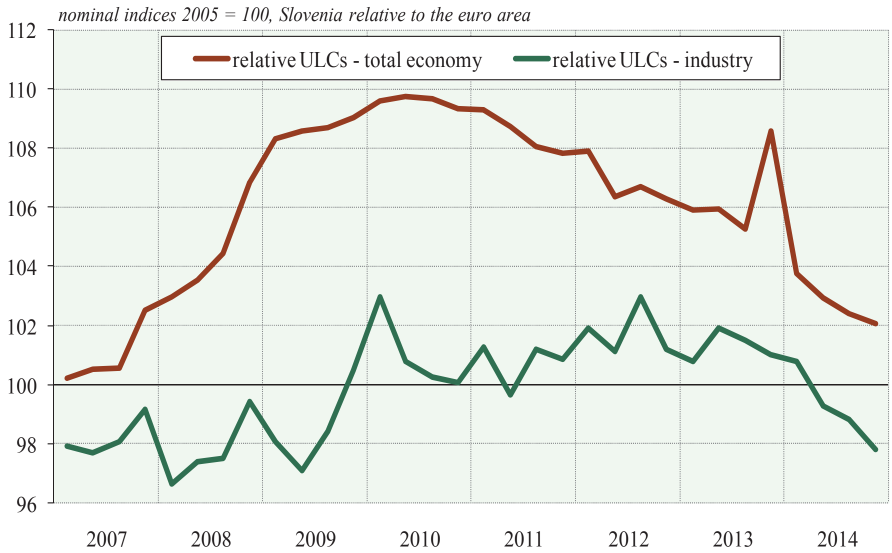
Source: Eurostat.

Figure 8: **Inflation in Slovenia and the euro area**



Source: Eurostat.

Figure 9: **Relative unit labour costs**

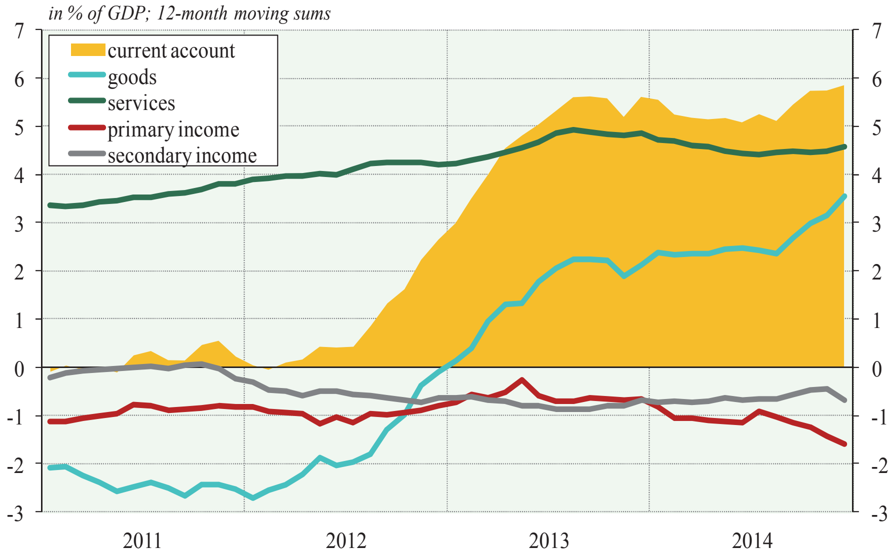


Note: In the case of Slovenia, the temporary increase in the ULC for the total economy in the last quarter of 2013 is due to the impact of the settlement of wage disparities in the general government sector in the amount of almost 200 mio EUR.
Sources: Eurostat, SORS, Bank of Slovenia calculations.

Average core inflation in 2014 was down significantly on the previous year. Core inflation as measured by the HICP excluding energy, food, alcohol and tobacco fell by 0.2 percentage points to 0.6%. This was attributable to a decline in year-on-year growth in services prices as a result of the scaling-back of fiscal and administrative measures, while growth in prices of non-energy industrial goods also remains negative, primarily as a result of the cautious behaviour of domestic consumers and absence of price pressures from producers. The other two core inflation indicators fell even more sharply, on account of food prices. The HICP excluding energy and unprocessed food was down 0.5 percentage points at 0.9%, while the HICP excluding energy was down 1.3 percentage points at 0.7%. Average core inflation in Slovenia in 2014 was slightly below the euro area average.

The competitiveness of the Slovenian economy strengthened last year. Developments in unit labour costs in Slovenia were considerably more favourable last year than those in the euro area overall. From

Figure 10: **Components of the current account**



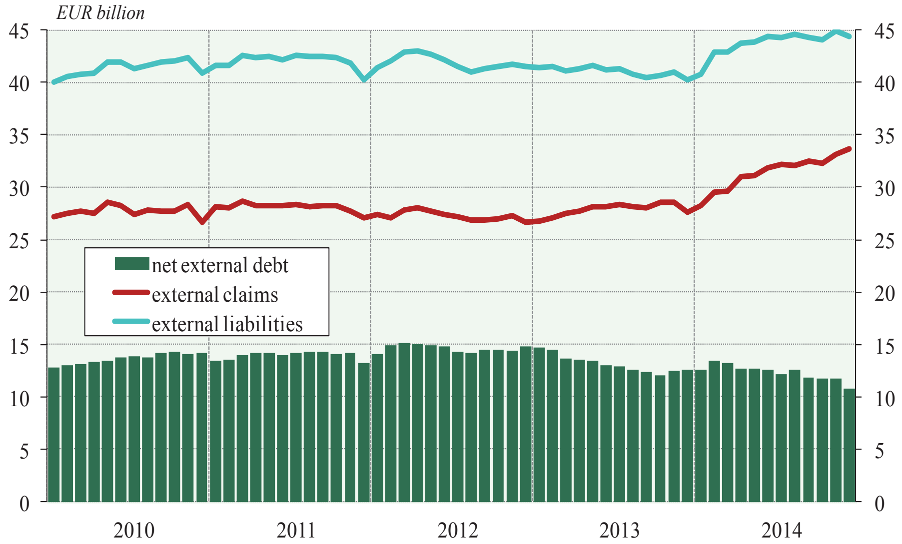
Source: Bank of Slovenia.

the perspective of cost competitiveness, the Slovenian economy as a whole does not deviate significantly from the euro area average. Industry had become more cost-competitive than the overall competition across the euro area by 2014. This was one of the factors in the background of the rapid growth in exports, which out-performed growth in foreign demand more than threefold in 2014. There were also favourable changes in the technology intensity of exports, as growth in high-tech products significantly out-performed the euro area average last year. An additional factor, while acknowledging the continuing prevalent position of the German market, was the geographical diversification of exports. Slovenian exporters are present in some 20 markets that account for at least 1% of total merchandise exports, while the proportion accounted for by the remainder is a high 15%. Price competitiveness also improved in the second half of last year, as a result of low domestic inflation and the fall in the euro.

The current account surplus approached 6% of GDP in 2014. This was attributable to the widening surplus in merchandise trade. In the wake of the gradual recovery in foreign demand, nominal growth in merchandise exports has been sharply strengthening since the second half of 2013, reaching close to 10% by the end of 2014. After three years of contraction, merchandise imports increased by 4.0% in 2014. The surplus of trade in services narrowed to 4.6% of GDP, primarily as a result of the narrowing of the surplus of trade in travel services and the widening of the deficit in trade in services other than transport and travel services. Growth in nominal exports of services slowed to 3.9%, as a result of the very low growth in exports of travel services. Imports of services increased by 7.2%, as a result of high growth in imports of transport and business services, most notably business and management consultancy services and services related to trade. The deficit in primary income widened by EUR 360 million in 2014 to EUR 600 million, or 1.6% of GDP. This was the result of a large increase in the deficit in capital income, from 2.5% of GDP in 2013 to 3.3% of GDP in 2014. This was attributable to a widening deficit in net FDI, and in particular to the increasing burden of interest payments on the public debt, which was raised by the resolution of the banking system. The deficit in secondary income remained unchanged last year at 0.7% of GDP. Government inflows and outflows, in which flows between the state budget and the EU budget are prevalent, were down more than 5% in year-on-year terms.

Slovenia was a net financer of the rest of the world in 2014 in the amount of EUR 3.4 billion, up a fifth on the previous year, and the largest figure to date. The largest net outflows were recorded by other investments, mostly on the asset side, and less so on the liability side. The sectors overall increased their claims from currency and deposits by EUR 6 billion, the private sector accounting for EUR 2.3 billion of this. In addition, foreign deposits at domestic banks declined by EUR 156 million, while the central bank's outflows amounted to EUR 1 billion. Loans and trade credits contributed an additional EUR 1.2 billion to the net outflows. The private sector made net repayments of liabilities to the rest of

Figure 11: **Slovenia's external debt**



Source: Bank of Slovenia.

the world in the amount of EUR 1.6 billion, of which the banks and other sectors accounted for approximately equal amounts, while the government sector recorded net borrowing of EUR 259 million. Claims declined by EUR 0.3 billion, mostly on account of the banking sector.

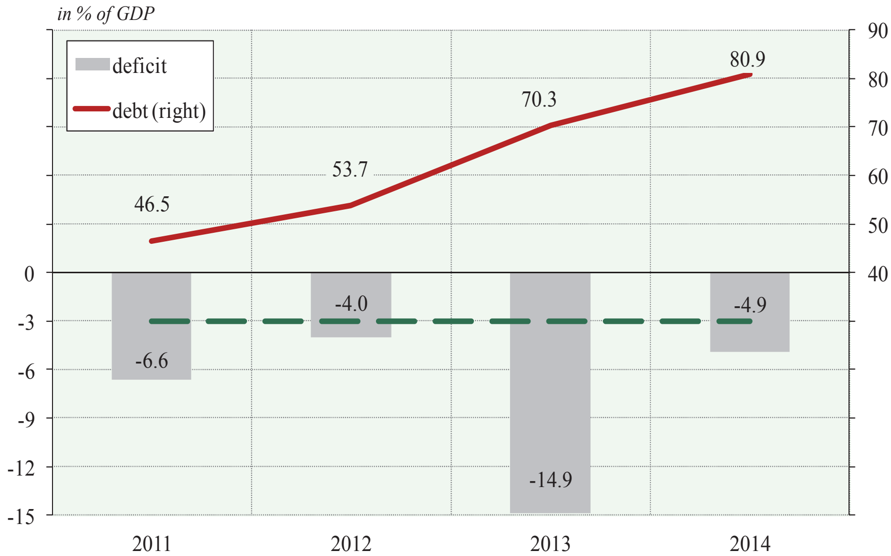
The largest net inflows in 2014 were recorded by net investments in securities, which were unchanged from 2013 in the amount of EUR 4 billion. The largest purchases of government bonds were made by non-residents, while Slovenian residents invested EUR 425 million in foreign securities.

There was a net inflow of EUR 1.1 billion in FDI in 2014. The analytical disclosure of FDI in terms of direction reveals a net increase of EUR 1.2 billion in inward FDI in 2014, the second-largest annual increase since 2002. It largely comprises non-residents' investments in the trade sector and the sale of certain firms on the government's privatisation list. Outward FDI was significantly lower: it increased by EUR 37 million in 2014. The previous year had seen a decline in inward and outward FDI, mostly as a result of losses and negative reinvested earnings.

Slovenia's net external debt stood at EUR 10.8 billion at the end of 2014, down EUR 1.8 billion or 14% over the year. The gross external debt increased by EUR 4.2 billion or 10% to EUR 44.4 billion, while gross external claims increased by EUR 6 billion or 22% to EUR 33.6 billion. The government sector is prevalent in the breakdown of the gross external debt, accounting for half of all liabilities (compared with 38% at the end of 2013, EUR 6.7 billion less than at the end of 2014), followed by other sectors with 26%, the banking sector with 15% and capital affiliates with 8%. Net borrowing increased in 2014, mostly in the government sector (EUR 5.6 billion) and in the corporate sector via direct equity links with non-residents (EUR 0.2 billion), while the remaining sectors made net repayments of debt (EUR 2.2 billion by the banking sector and EUR 1.9 billion by other sectors).

The general government deficit narrowed significantly in 2014, primarily as a result of the smaller scale of the measures to stabilise the banking system. It amounted to 4.9% of GDP, 10 percentage points less than in 2013. The measures to stabilise the banking system accounted for 0.9 percentage points of the deficit, compared with 10.1 percentage points in 2013. A one-off factor that widened the general government deficit in 2014 was the ruling by the European Court of Human Rights (ECHR) in connection with Ljubljanska banka savers in the amount of 0.7% of GDP, while the proceeds from the concession for the mobile telephony radio spectrum narrowed the deficit by 0.2% of GDP. After excluding the aforementioned measures to stabilise the banking system and other one-off factors, the general government deficit amounted to 3.5% of GDP, 0.7 GDP percentage points less than in the previous year

Figure 12: **General government deficit and debt according to ESA 2010**



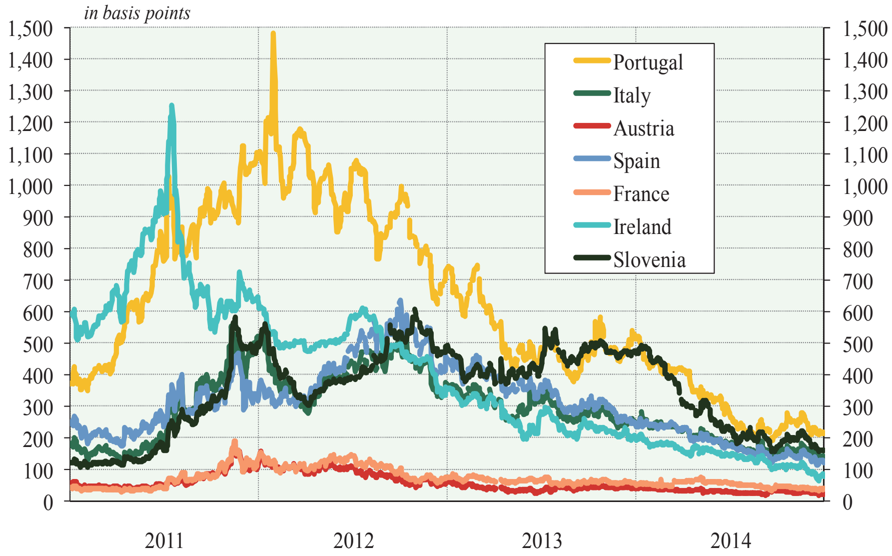
Source: SORS.

(after bank recapitalisations, payments to erased residents and payments for wage disparities have been excluded). Interest expenditure was higher than in the previous year, by 0.7% of GDP. The general government deficit in 2014 was thus significantly wider than forecast in the Stability Programme update of April 2014 (4.1% of GDP), primarily as a result of the ECHR ruling. The structural deficit in 2014 stood at 2.5% of GDP according to the European Commission's estimates of February 2015, 0.6 GDP percentage points more than in the previous year.

General government revenues were up as a result of the improved economic situation and rises in certain taxes, while expenditure was notable for high growth in interest and public investment. General government revenues increased by 2.9%. Alongside the improvement in the economic situation, this was attributable to the rise in VAT (in mid-2013), the rise in excise duties and rises in health insurance contributions for certain groups of policyholders. The overall effect of all the revenue-side measures is estimated at around 0.9% of GDP. Indirect taxes thus increased by 2.9% in 2014, while direct taxes increased by 1.1% and social security contributions by 1.0%. General government expenditure was down 14.2%, although expenditure actually increased by 2.0% if the bank recapitalisations and aforementioned one-off effects are excluded from both years. The main factor in the increase in expenditure was the sharp growth in government investment and in interest. Expenditure on intermediate consumption was up 0.7%, while employee compensation was down 0.5%. Expenditure on subsidies was down almost a sixth. Disbursements of European funds increased again.

The general government debt increased, partly as a result of the pre-financing of principal maturing in the coming years. The general government debt amounted to EUR 30,133 million or 80.9% of GDP at the end of 2014, up EUR 4,706 million on a year earlier. The increase in the debt was primarily attributable to the financing of the general government deficit, the pre-financing of principal maturing in the coming years and the issue of Bank Asset Management Company (BAMC) bonds. The major bond issues were in February, April and November. The two bonds issued in February were denominated in US dollars, while the currency risk was also hedged. The nominal value of the 5-year bond was USD 1.5 billion, while that of the 10-year bond was USD 2 billion. These bond issues were followed by 7-year and 3.5-year bonds in April and 7.5-year bonds in November, each with a nominal value of EUR 1 billion. Issues of certain existing bonds were expanded in the total amount of EUR 317 million in connection with the recapitalisation of Abanka and Banka Celje. The BAMC issued two bonds in the total amount of EUR 552 million as a result of the transfer of non-performing claims from Abanka and Banka Celje. The assistance to euro area countries in financial distress was also a factor in the increase in

Figure 13: **Spreads of long-term government bonds over the benchmark German bonds**



Note: Spread is calculated as a difference between yield of 10-year government bond and the yield of reference German bond on a daily basis and is used as a measure of country's credit risk. In the picture, SLOREP 01/21 is used after 11. January 2011.
Source: Bloomberg, Bank of Slovenia calculations.

debt, albeit to a lesser extent than in previous years: this debt amounted to 4.2% of GDP at the end of the year. The government also borrowed by issuing treasury bills of various maturities and by raising loans.

The stock of government guarantees changed over the year, on account of the measures to stabilise the banking system. It amounted to EUR 8,276 million at the end of the year, or 22.2% of GDP, up EUR 18 million on the end of 2013.. It first declined in the middle of the year as guarantees were called in connection with the resolution of the two banks undergoing orderly wind-down. The two banks have now gradually begun paying back the called guarantee to the government. The stock of guarantees rose towards the end of the year as a result of the issue of the two BAMC bonds. Loans raised by DARS d.d. and the collateral for EFSF bond issues earmarked for assisting euro area countries in financial distress still account for approximately half of the stock of guarantees. Guarantees constitute contingent liabilities for the government, which it must meet if the guarantee is called. Called guarantees amounted to EUR 432 million in 2014, while repayments to the government from called guarantees amounted to EUR 27 million. Both were primarily related to the aforementioned resolution of the two banks undergoing the orderly wind-down process.

The required yield on long-term Slovenian government bonds and the spread on long-term Slovenian government bonds over the benchmark German bonds fell last year. The fall was the result of the implementation of the measures to resolve the Slovenian banking system at the end of 2013 and the consequent restoration of the financial markets' confidence in Slovenia. The favourable developments in yields were also attributable to the ECB's expansionary monetary policy, which was reflected in a fall in the required yields of government bonds of other periphery countries. At the end of the year the required yield on 10-year Slovenian government bonds was 2.1%, while the premium over the benchmark long-term German government bond was around 150 basis points.

Slovenia's key fiscal challenge in 2015 remains the elimination of the excessive deficit. In mid-October 2014 Slovenia sent the European Commission its draft budget plan for 2015, which the latter assessed as being broadly in line with its commitments. The principal measures for 2015 concern wage restrictions, which have been agreed with the trade unions, a reduction in expenditures on goods and services and on subsidies, and a rise in certain levies (e.g. a rise in the tax on financial and insurance services, higher taxation of student work). The continuation of gradual, growth-friendly fiscal consolidation is also important from the perspective of the sustainability of the debt.

1.2 Banking system[3]

In the structure of the banking system, the banks have a dominant position. As at 31 December 2014 there were 17 banks operating in Slovenia (seven of which were direct subsidiaries of Eurosystem banks), three savings banks, and four branches of foreign (Eurosystem) banks. The banks have a market share of 95% of the banking system in terms of total assets. The number of credit institutions was up one (a branch) on a year earlier. The Bank of Slovenia received notifications from 13 new credit institutions last year, while four credit institutions revoked their notifications, taking the total number of credit institutions that had provided notification of cross-border activities in Slovenia to 327 by the end of the year.

The government recapitalised two more banks in October and December 2014 on the basis of a decision on state aid, which slightly changed the ownership structure of the banking system. The measures were similar to those taken in December 2013 to stabilise the banking system. In October 2014 the government additionally recapitalised Abanka via Slovenian government securities, and the bank transferred some of its non-performing claims to the Bank Asset Management Company (BAMC) in exchange for BAMC bonds. In December the government recapitalised Banka Celje via securities and cash, and the bank transferred some of its non-performing claims to the BAMC in exchange for BAMC bonds. The bank's subordinated liabilities were written-down before the recapitalisation.

Following the recapitalisations there was a further change in the ownership structure of the banking system in 2014. As at 31 December 2014 there were seven subsidiary banks and four branches under full foreign ownership, seven banks under full domestic ownership, and three banks under majority domestic ownership. There had been a significant change in the ownership structure of the banking system in 2013, the government recapitalising five banks on the basis of a decision on state aid, after covering losses via the interests of existing owners, thereby becoming the sole owner. The proportion of the banking system held by non-residents as measured by equity stood at 30.3%, while the proportion under

Table 1: **Ownership structure of the banking sector in terms of equity**

	31 Dec. 2011	31 Dec. 2012	31 Dec. 2013	31 Dec. 2014
Non-residents (more than 50% management rights)	30.1%	33.3%	31.6%	30.0%
Non-residents (less than 50% management rights)	9.1%	8.7%	0.4%	0.3%
Central government	22.7%	22.8%	60.1%	63.0%
Other domestic persons	38.1%	35.2%	8.0%	6.7%

Source: Bank of Slovenia.

Table 2: **Ownership structure of the banking sector in terms of total assets**

	31 Dec. 2011	31 Dec. 2012	31 Dec. 2013	31 Dec. 2014
Non-residents (more than 50% management rights)	28.2%	30.0%	31.9%	34.2%
Non-residents (less than 50% management rights)	9.9%	8.9%	0.5%	0.5%
Central government	24.2%	22.9%	54.9%	57.3%
Other domestic persons	37.7%	38.3%	12.6%	8.0%

Source: Bank of Slovenia.

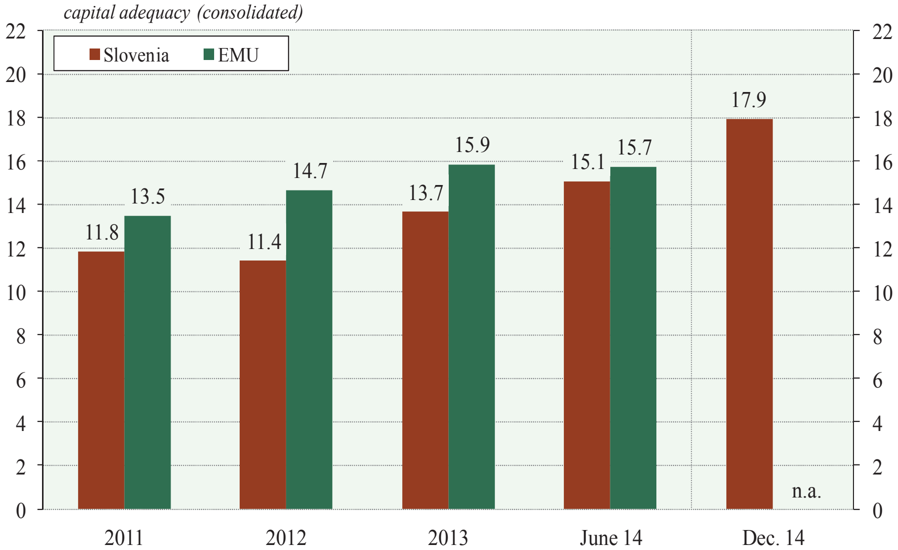
Table 3: **Comparison of average total assets and GDP**

in EUR million	2011	2012	2013	2014
Average total assets of banks and savings banks	50,439	48,465	44,634	39,746
GDP at current prices	36,868	36,006	36,144	37,246
Average total assets (as % of GDP)	136.8	134.6	123.5	106.7

Source: Bank of Slovenia.

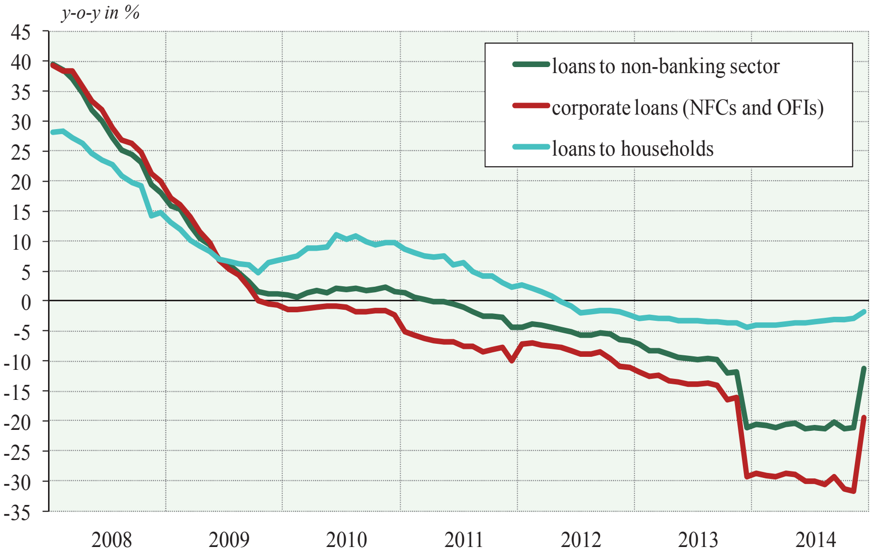
[3] Unaudited figures available on 5 March 2015 were used in this section.

Figure 14: **Capital adequacy at banks and comparison with the euro area**



Note: Without Probanka and Factor banka since 2014.
Source: Bank of Slovenia.

Figure 15: **Lending to the non-banking sector**

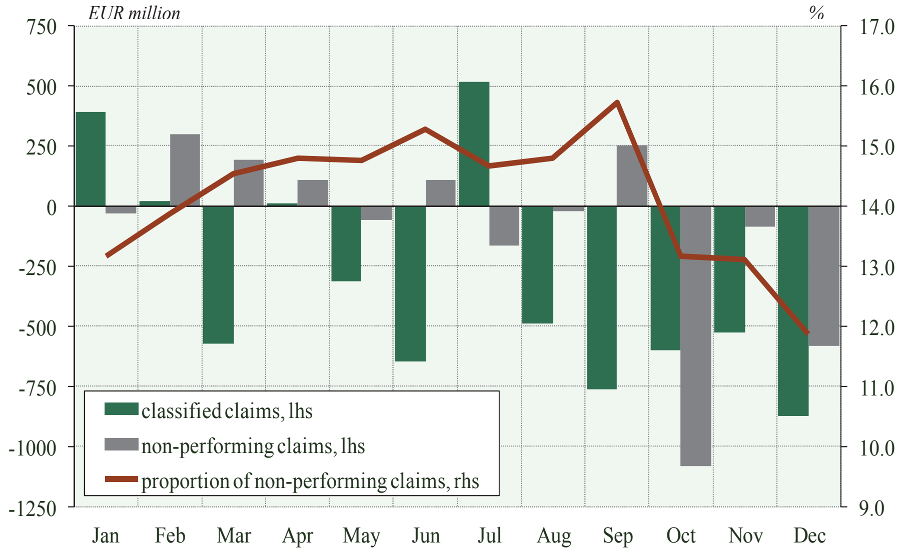


Source. Bank of Slovenia.

direct government ownership was 63%, and the proportion held by other domestic owners was 6.7%. The proportion of equity in the banking system held by the government increased by a further 3 percentage points in 2014, while the proportion held by non-residents declined by 1.6 percentage points and the proportion held by other domestic owners declined by 1.3 percentage points. The proportion of the banking system held by non-residents as measured by total assets as at 31 December 2014 was 4.4 percentage points higher than the figure as measured by equity, while the proportion held by other domestic persons (excluding the government sector) was 1.3 percentage points higher.

The banking system continued to contract in 2014. The banking system's total assets declined by EUR 1.6 billion last year to EUR 38.8 billion, down 3.9% on a year earlier. The main factors in last year's decline in the balance sheet total, which was significantly smaller than in the two previous years, were the contraction in lending activity on the asset side, and the decline in the banks' liabilities to the Eurosystem on the liability side. Last year saw the fifth consecutive annual decline in the banking

Figure 16: **Classified and non-performing claims in 2014**



Source: Bank of Slovenia.

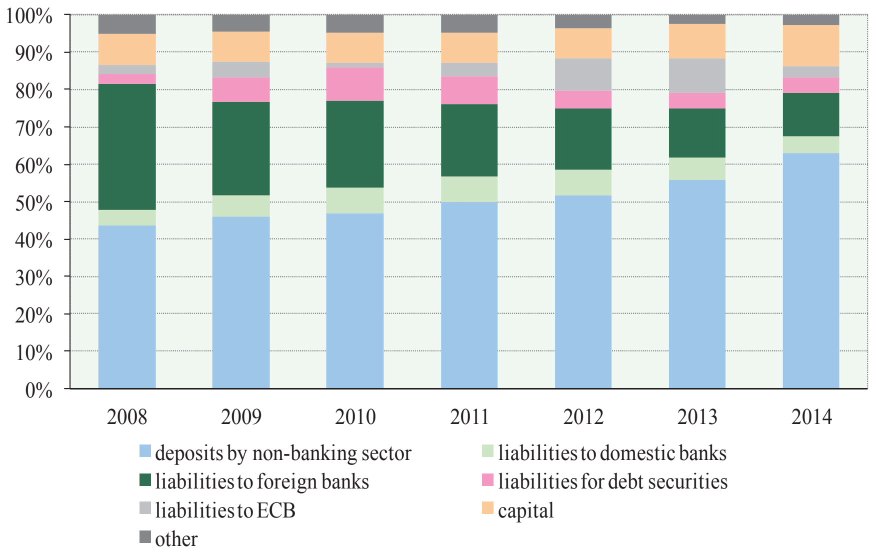
system's total assets, taking the total decline to EUR 13.3 billion. The contraction in total assets also brought a reduction in the ratio of the total assets of banks and savings banks to GDP to 107%.

The capital position of the Slovenian banking system improved further as bank recapitalisations continued in 2014. Overall capital adequacy on a consolidated basis increased to 17.9%. The proportion of own funds accounted for by Tier 1 capital had reached a high 95.8% by the end of the year. The banks are thus meeting their capital adequacy requirements with the highest-quality forms of capital, which is also the reason that the Tier 1 capital ratio is above the EU average. Despite the improvement in the macroeconomic situation, the maintenance and improvement of capital adequacy continues to rely primarily on a reduction in lending activity, an adjustment in the structure of risk-bearing investments, and the corresponding decline in capital requirements. The transfer of non-performing claims at the two banks to the BAMC was also a factor in the contraction in capital requirements and the corresponding improvement in capital adequacy in the final quarter of 2014. Better utilisation of existing capital and an ability to generate internal capital remain significant factors in a stable capital position in the future, particularly at banks where capital support from the owners is weak.

The contraction in bank lending activity slowed towards the end of the year. The year-on-year contraction in corporate loans stood at 20% at the end of 2014, or 13.7% excluding the effects of measures to stabilise the banking system. The main reasons for the contraction in loans on the demand side remain weak corporate creditworthiness and a reluctance to raise new loans. Survey figures (BLS) reveal that corporate demand for loans began to increase in 2014, after a long period of decline. The reasons for the increase in demand were the improvement in the economic situation and the favourable impact of the reductions in asset interest rates. On the loan supply side, the banks remain relatively conservative and are maintaining high credit standards in corporate lending, although last year they stopped tightening the standards further. Consumer loans to households continued to record negative growth, with a trend of improvement towards the end of the year, while growth in housing loans fluctuated around 1% in 2014.

The quality of the banks' claims improved in 2014. The proportion of non-performing claims (claims more than 90 days in arrears) declined to 11.9% in 2014 following the transfers to the BAMC, while the coverage of non-performing claims by impairments and provisions increased to 61%. The stock of classified claims amounted to EUR 37.7 billion at the end of 2014, down EUR 3.9 billion on the end of the previous year, primarily as a result of the transfer of non-performing claims to the BAMC. Following the first transfer to the BAMC in December 2013, non-performing claims rose again over the first five months of the year, but then stabilised at 14.8% until September, when they increased again. The final

Figure 17: **Funding structure**



Source. Bank of Slovenia.

quarter of 2014 saw the transfer of non-performing claims from Abanka and Banka Celje to the BAMC, which reduced the proportion of non-performing claims by 2.5 percentage points in October to 13.2% and by a further 1.2 percentage points in December to 11.9% during the third transfer. However, even ignoring the effect of the transfer to the BAMC, the proportion of non-performing claims declined in the final quarter, which was primarily reflected in the corporate sector and the OFIs sector. With the transfer of non-performing claims to the BAMC, which primarily included large domestic enterprises, the proportion of clients with arrears of more than 90 days was concentrated at small and medium-sized enterprises (SMEs). Non-performing claims against SMEs accounted for 44.8% of total non-performing claims against corporates in December 2014, while that proportion stood at just 28.7% before the first transfer in December 2013 in the context of a higher stock. In the non-resident sector, which was not subject to transfer to the BAMC, growth in non-performing claims continued throughout the first ten months of the year, but the stock of non-performing claims declined in the final quarter. Households remain the lowest-risk part of the credit portfolio. Despite the transfer of non-performing claims to the BAMC, construction remains the sector with the largest proportion of non-performing claims, although the figure declined throughout the year. Non-performing claims also declined in the accommodation and food service activities sector and the transportation and storage sector last year. There was also a notable trend of decline in the proportion of non-performing claims in the wholesale and retail trade sector and the manufacturing sector, which were subject to transfer to the BAMC.

The banks continued to make debt repayments on the wholesale markets, albeit more slowly than in previous years, while their debt repayments to the Eurosystem were significantly more intensive. Slovenian banks paid down EUR 0.8 billion of debt to banks in the rest of the world in 2014, while the stock of net issued debt securities remained almost unchanged. The banks sharply reduced their liabilities to the Eurosystem in 2014. The stock was down EUR 2.9 billion, primarily as a result of the early repayment of funding obtained in the 3-year LTROs maturing in the first quarter of 2015. This reduced the proportion of Slovenian banks' funding accounted for by liabilities to the Eurosystem to 2.8%, a third of the 2013 figure, although the banks obtained new funding in the final quarter of 2014 in the Eurosystem's two TLTROs.

Deposits by the non-banking sector strengthened their position as Slovenian banks' most important source of funding. The stock increased by EUR 1.9 billion in 2014, which raised the proportion of total funding accounted for by deposits by the non-banking sector to 63%, as wholesale funding and the debt to the Eurosystem declined. Although all sectors other than non-residents recorded an increase in deposits, the most notable net increase was recorded by the household sector. Despite a halving of de-

Table 4: **Banking system's income statement**

	Amount (EUR million)				Growth rate (%)				Proportion of gross income (%)			
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
Net interest	1,018	886	708	832	-2.8	-12.9	-19.8	17.5	70.3	56.6	64.9	67.5
Net non-interest income	429	679	383	401	-3.3	58.3	-45.3	4.6	29.7	43.4	35.1	32.5
Gross income	1,447	1,566	1,091	1233	-3.0	8.2	-30.9	13.0	100.0	100.0	100.0	100.0
Operating costs	777	743	721	686	-0.3	-4.4	-3.1	-4.9	53.4	47.4	66.1	55.7
Labour costs	416	400	384	366	-1.0	-4.0	-3.9	-4.8	28.8	25.5	35.2	29.7
Net income	670	823	370	547	-5.9	22.8	-55.9	47.7	46.3	52.6	33.9	44.3
Net provisioning and inpairments	1,207	1,599	3,809	614	48.7	32.5	131.4	-83.9	83.4	102.2	349.1	49.8
Pre-tax profit	-537	-776	-3,439	-68	-442.4	-44.7	-342.9	98.0	-37.1	-49.6	-315.2	-5.5
Taxes	95	22	-147	-8	3,510.7	-76.4	-756.4	94.8	6.5	1.4	-13.4	-0.6
Net profit	-442	-754	-3,586	-75	-359.0	-70.6	-375.5	97.9	-30.5	-48.2	-328.6	-6.1

Source: Bank of Slovenia.

Table 5: **Bank performance indicators**

In %	2011	2012	2013	2014
ROA	-1.06	1.60	-7.70	-0.17
ROE	-12.54	19.04	-100.0	-1.71
Interest margin on interest-bearing assets	2.13	1.93	1.67	2.18
Interest margin on total assets	2.02	1.83	1.59	2.09
Non-interest margin	0.85	1.40	0.85	1.01
Gross income on average assets	2.87	3.23	2.44	3.10

Source: Bank of Slovenia.

posit rates, the increase in household deposits strongly exceeded the large withdrawals of household deposits from the banking system in 2013, which was attributable to various factors. First, the recovery of the banking system means that confidence is gradually being restored to Slovenian banks' operations. Second, as income stagnates, modest consumption and a fall in household investment are being reflected in an increased rate and amount of saving. Third, the increase in household deposits is also the product of households' proceeds from the privatisation of large firms. The proportion of total funding accounted for by household deposits had increased to 39% by the end of the year. A significant factor in determining whether Slovenian banks have a good long-term liquidity position will be their ability to maintain an appropriate, more-stable funding structure.

Slovenian banks' liquidity improved slightly further in 2014. This was reflected in a relatively high first-bucket liquidity ratio, in a high proportion of the unused pool of eligible collateral at the Eurosystem, and in a higher proportion of total assets accounted for by marketable secondary liquidity. The improvement in these liquidity indicators was attributable to a decline in net liabilities to the Eurosystem, the issue of treasury bills and Slovenian government bonds, and the securities received in the implementation of the measures for the recovery of two banks in the final quarter of 2014. Given their cautious behaviour and the lack of interest in taking up additional risks, the banks directed their excess liquidity more towards safer investments or the repayment of liabilities than towards an increase in lending activity. Poorer access to international financial markets and the non-functioning of the Slovenian interbank market are continuing to restrict Slovenian banks in their liquidity management.

The banking system recorded small loss in 2014. The banks were still exposed to a high level of income risk owing to the contraction in lending activity, the poor quality of the credit portfolio and low interest rates. Having remained in balance until the end of October, the banking system's pre-tax operating result moved into the red in November and December. The loss amounted to EUR 67.5 million at the end of the year. The banking system's gross income recorded a solid increase of 18%. As interest income declined by 11.5%, last year's growth in net interest income was attributable to the sharp decline of 37.5% in interest expenses, as a result of the sharp fall in deposit rates on deposits by the non-banking sector and the ongoing debt repayments to the rest of the world. The banks increased their stock of lower-risk but also less profitable investments, given their increased aversion to taking up risks. This includes the loss of some good clients, who are turning to the rest of the world in their search for financing. Growth in non-interest income was positive in 2014. Impairment and provisioning costs were down significantly on the previous year's high figure (caused by the AQR and stress tests). Impairment and provisioning costs in the banking system did not increase as sharply in the final quarter of last year as they did in previous years, but nevertheless accounted for a half of the disposal of the banks' gross income. The banks continued improving their cost-efficiency in 2014, and further reduced operating costs.

2 BANK OF SLOVENIA ACTIVITIES

2.1 Tasks in the scope of the ESCB

2.1.1 Institutional framework

The European Central Bank, the Eurosystem and the European System of Central Banks

With the introduction of the euro in Slovenia on 1 January 2007, the Bank of Slovenia became a part of the Eurosystem, which comprises the European Central Bank (ECB) and the national central banks (NCBs) of the euro area countries. Since the introduction of the euro in Slovenia, as a member of the Governing Council of the ECB, the Governor of the Bank of Slovenia has attended meetings of the aforementioned body, which normally take place twice a month. The Governing Council of the ECB comprises six members of the Executive Board of the ECB, and also the governors of the national central banks of the euro area countries. The responsibilities of the Governing Council include defining the monetary policy for the Eurosystem. Last year was the last time that Slovenia had the right to vote at all meetings of the Governing Council. With Lithuania having joined the Eurosystem, the voting system was changed in 2015 to a rotating system. The members of the Governing Council will be divided into two groups in terms of the size of the economy and the financial sector in the country that they represent. The five largest members of the Eurosystem will hold four voting rights between them, while the remaining central banks will hold eleven. Voting rights are rotated at monthly intervals in both groups. The Governor of the Bank of Slovenia is also a member of the General Council of the ECB, its third decision-making body, which meets four times a year. The General Council comprises the President and the Vice-President of the ECB and the governors of the national central banks of all EU Member States.

In 2014 Bank of Slovenia representatives attended sessions of committees and their working groups in the wider composition of the European System of Central Banks (ESCB) and in the narrower composition of the Eurosystem. The wider composition comprises the ECB and the national central banks of all EU Member States, while the narrower composition comprises the ECB and the national central banks of the euro area. The committees support the work of ECB decision-making bodies, which can request expert and technical advice from the committees.

The national central banks are the sole subscribers to and holders of the capital of the ECB. Pursuant to the Statute of the ESCB and ECB, the national central banks' shares in the ECB's capital key are weighted according to the respective Member States' shares of the total population and gross domestic product of the EU. The national central banks of the Member States that have introduced the euro have paid up their entire share of the ECB's capital, whereas the NCBs of EU Member States that have not introduced the euro have not paid up their entire share, but only a certain percentage of the amount that they would have to pay up had they introduced the euro.

The Bank of Slovenia's key for subscription to the ECB's capital is 0.3455% as of 1 January 2014. Until 31 December 2013 it had stood at 0.3270%, but the increase was the result of the adjustment to the key for subscription to the ECB's capital undertaken on the basis of GDP and total population every five years. The ECB's subscribed capital amounts to EUR 10,825 million.

2.1.2 Implementation of the Eurosystem's monetary policy

Although sentiment on the financial markets improved, the situation on the money market normalised further and the required yields on the majority of financial instruments declined, the economic situation in which the Eurosystem is pursuing its monetary policy deteriorated again in 2014. The economic recovery seen in 2013 came to a halt in the second quarter of 2014. In the second half of the year low and falling inflation rates began reducing the medium- and long-term inflation expectations. Growth in lending to the private sector remained negative in these circumstances, and credit terms remained tight in numerous euro area countries. The functioning of the monetary policy transmission mechanism was impaired in these circumstances.

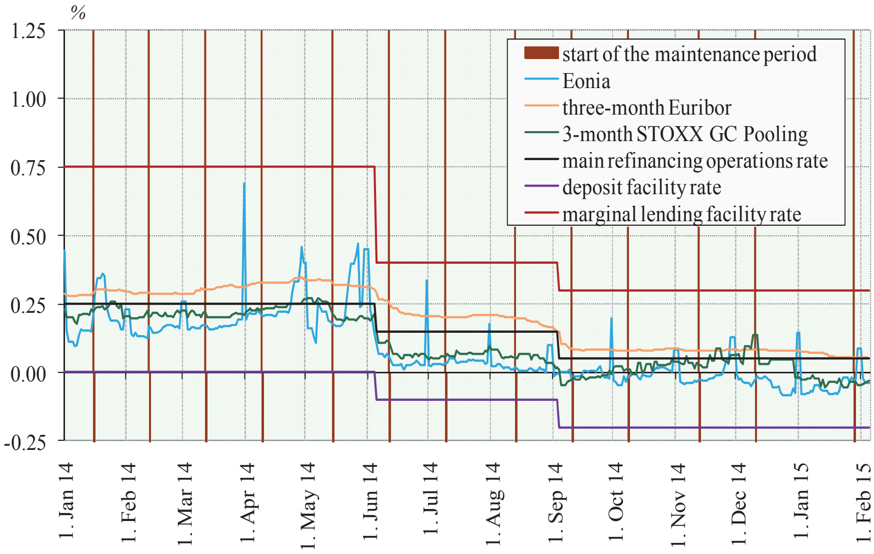
In consequence the Eurosystem adopted two packages of additional measures, thereby strengthening its expansionary monetary policy. In the first package, adopted in June 2014, the Governing Council of the ECB cut interest rates, introduced for the first time negative remuneration of excess reserves in accounts with the Eurosystem, extended the fixed rate full allotment policy until at least December 2016 and announced a series of eight targeted longer-term refinancing operations (TLTROs). At the same time it extended the temporary expansion of eligible collateral until September 2018. Furthermore, it ceased sterilising liquidity from the past SMP in the form of weekly fine-tuning operations and discontinued the LTRO with a maturity of one reserve maintenance period. In the second package, adopted in September 2014, the Governing Council further cut interest rates and announced two programmes of private-sector securities purchases, i.e. covered bonds and asset-backed securities. The Governing Council has throughout stressed that it is ready to take additional non-standard monetary policy measures should the risk of low inflation persist over the long term. With this further easing of monetary policy the Governing Council was trying to meet the ECB's primary objective of maintaining price stability, i.e. an inflation rate target of close to but under 2% over the medium term. It also aimed to enhance the functioning of the monetary policy transmission mechanism and to encourage lending to the non-banking sector, thereby contributing to the recovery of the European economy.

The new lending operations and outright securities purchases should restore the Eurosystem's balance sheet to its level of early 2012, which after the two 3-year LTROs was approximately EUR 3,000 billion. The measures also entailed a shift in the way in which monetary policy is administered, from providing liquidity to the banks at their initiative via the full allotment mechanism, to a more-active expansion of the Eurosystem's balance sheet and thus liquidity. These measures aim to have a positive impact in higher prices and increased economic activity, via the functioning of different channels of the transmission mechanism. The measures added to the expansionary stance of the Eurosystem's monetary policy. This increased the divergence between the stance of the Eurosystem's monetary policy and that of the Fed, which in 2014 gradually reduced and in October 2014 ended its securities purchases under the quantitative easing programme.

In 2014 the Governing Council cut interest rates twice to record lows, introduced a negative interest rate on the deposit facility and reduced the ECB's key interest rate to its effective floor. In June it cut the interest rate on main refinancing operations (the ECB's key interest rate) from 0.25% to 0.15%, the interest rate on the deposit facility by 10 basis points to -0.10%, and the interest rate on the marginal lending facility by 35 basis points to 0.40%. This re-established the symmetrical corridor around the key interest rate, i.e. the spread between the deposit facility rate and the marginal lending facility rate. The negative interest rate on the deposit facility additionally enhanced the forward guidance of the Governing Council's monetary policy,[4] while allowing for the maintenance of a corridor of specific breadth,

[4] The Governing Council of the ECB first announced its forward guidance of monetary policy in July 2013, when it stated that interest rates would remain at or below the current level for some time. The Governing Council has since restated the forward guidance on several occasions.

Figure 18: **Interest rates of the ECB and unsecured interbank money market**



Sources: ECB, Bloomberg.

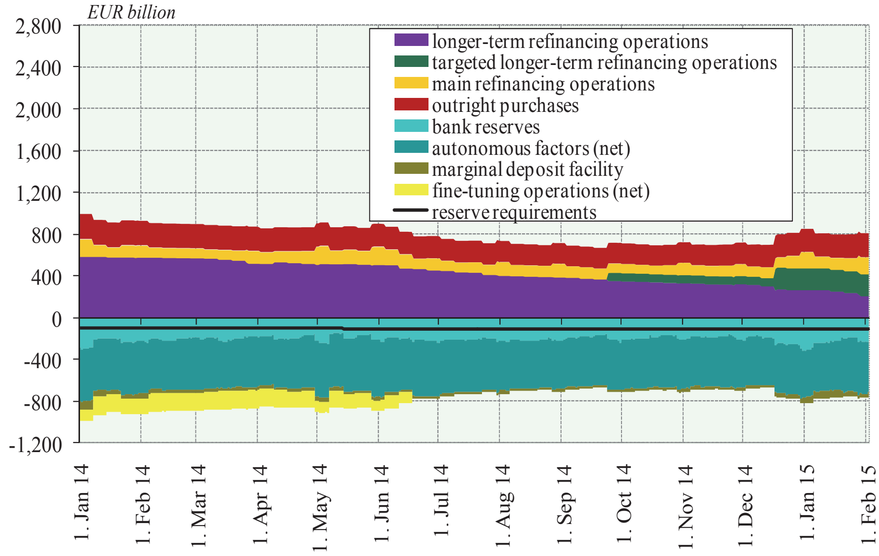
which maintained the initiative for interbank lending, thereby encouraging the functioning of the money market. To prevent the negative interest rate from being avoided by switching balances between various forms of overnight claims against euro area central banks, the Governing Council simultaneously introduced negative remuneration on excess reserves and other balances in accounts at central banks. In September it further cut interest rates by 10 basis points, to 0.05% for the key interest rate, to -0.20% for the deposit facility and to 0.30% for the marginal lending facility (Figure 18).

The banks' excess liquidity, i.e. excess reserves and the deposit facility, declined further in 2014, as the banks continued to make early repayments of 3-year LTROs. Excess liquidity fluctuated significantly over the year: it reached its seasonal high at the beginning and end of the year, and rose briefly after the adoption of the package of measures in June among which weekly fine-tuning operations in the form of fixed-term deposits were suspended. Excess liquidity averaged EUR 129 billion, significantly less than in the previous year (EUR 300 billion). The low excess liquidity was reflected in significant fluctuations in the EONIA and the repo rates at short maturities, particularly in the first half of the year before the adoption of additional stimulus measures. Alongside the low excess liquidity, the fluctuations in interest rates were attributable to the markets' expectations of the tightening of monetary policy by the Fed. The Governing Council responded to the rises and increased volatility in interest rates by suspending weekly fine-tuning operations. Despite the merely short-term increase in excess liquidity as a result of the suspension of the weekly fine-tuning operations, interest rates on the money market fell sharply in the second half of the year, entering negative territory. The volatility of short-term interest rates on the money market declined. This was attributable to the expectations of an increase in liquidity from newly adopted non-standard measures, and towards the end of the year to the markets' enhanced expectations that to achieve its desired balance sheet expansion the Eurosystem would have to begin purchasing government bonds, which in January 2015 the Governing Council indeed announced for March 2015.

Open market operations: main refinancing operations, longer-term refinancing operations and fine-tuning operations

The Eurosystem introduced several changes to open market operations in 2014. In addition to its injections of liquidity via main refinancing operations (MROs) and longer-term refinancing operations (LTROs) with maturities of three months, which form the standard framework of the Eurosystem's monetary policy, the Eurosystem introduced a series of TLTROs to enhance the functioning of the

Figure 19: **Eurosystem money supply (+) and demand (–)**



Source: ECB.

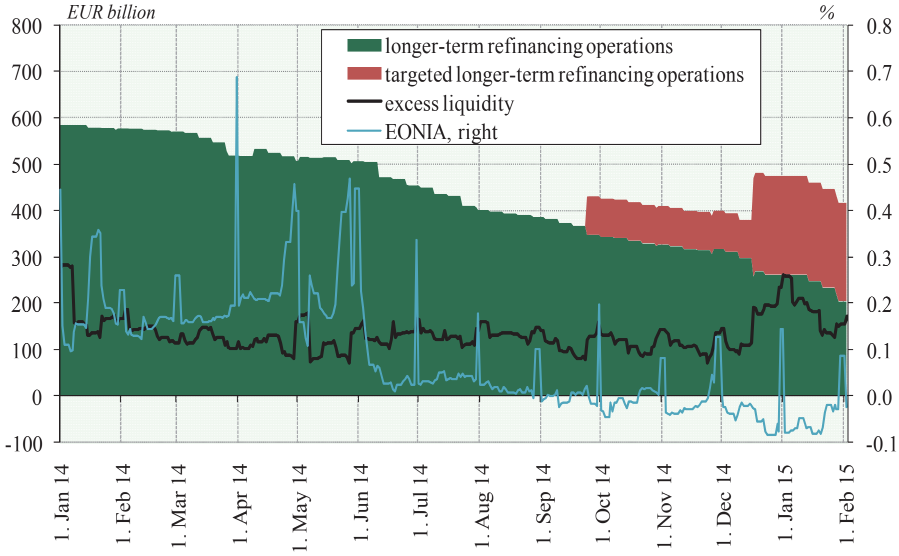
monetary policy transmission mechanism and to encourage lending activity. The TLTROs are loans to banks where the disbursement depends on the banks' lending to the private non-banking sector. By contrast, after its June meeting the Governing Council suspended the LTRO with a maturity of one reserve maintenance period and the weekly fine-tuning operations in the form of fixed-term deposits. The banks continued to make early repayments of the 3-year LTROs in 2014: EUR 890 billion of the total loans in the amount of EUR 1,019 billion had been repaid by the end of the year.

Liquidity providing open market operations have been executed via full allotment at a fixed interest rate since October 2008. In the context of full allotment, the banks themselves determine the level and maturity of allotted liquidity, which are adjusted to the desired liquidity and available collateral. The Governing Council has extended this policy several times, most recently in June 2014, when it was extended to at least December 2016. At the same time it extended the temporary expansion of eligible collateral until September 2018, i.e. the maturity of the TLTROs.

Main refinancing operations (MROs) are regular loans with a typical maturity of 1 week. They are the main instrument via which the Eurosystem signals its monetary policy stance. They are tendered weekly according to a calendar announced in advance. The Eurosystem executed 52 tenders in 2014, all with full allotment at a predetermined fixed interest rate equal to the ECB's key interest rate. Given the decline in excess liquidity on the market, the relative importance of the MROs in the banks' liquidity management increased again. The average allotted amount of MROs stood at EUR 110 billion in 2014, comparable to the previous year's figure of EUR 108 billion, but fluctuated within a wide range between EUR 82 billion (14 October) and EUR 174 billion (27 May). The average number of banks participating in the weekly tenders increased to 150, compared with 76 in 2013. Slovenian banks and savings banks (hereinafter: banks) did not participate in the MROs in 2014, with the exception of one bank, which borrowed EUR 1 million in March (the average borrowing in 2013 was EUR 49 million).

LTROs are tendered to banks on a monthly basis with a maturity of three months to provide additional longer-term refinancing. Under full allotment the loans are allotted at a fixed interest rate calculated as the average of the ECB's key interest rate over the duration of the operation (the indexed rate). The banks' participation in these operations increased in 2014, as some banks switched to the 3-month LTROs as the maturity of the 3-year LTROs approached. An average of 88 banks participated in the 3-month LTROs (compared with 46 in 2013), to whom an average of EUR 11 billion was allotted (compared with EUR 7 billion in 2013). After almost six years, the Eurosystem suspended the LTROs

Figure 20: **Stock of LTROs and TLTROs, excess liquidity in the euro area, and EONIA**

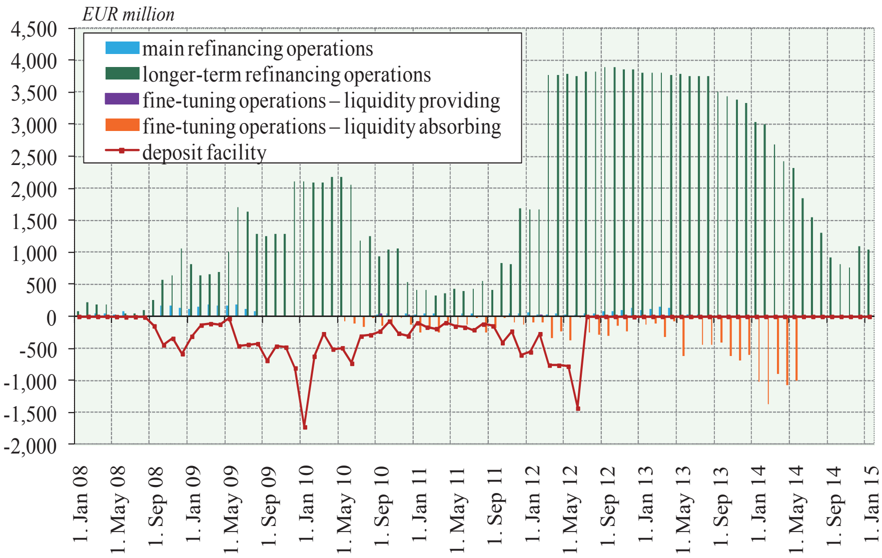


Source: Bloomberg.

with maturity equal to one reserve maintenance period in June. An average of 37 banks participated in these tenders in the first half of the year, and were allotted an average of EUR 15 billion.

For the third year, the 3-year LTROs approved in late 2011 and early 2012 were the most important source of bank funding. Because the banks continued making early repayments in 2014 (see Figure 20), the stock of these operations declined by EUR 334 billion to EUR 210 billion, an average of EUR 6.7 billion per week. The reasons cited by the banks for the early repayments include the improvement in access to market funding, increased stability in funding sources, a decline in liquidity buffers, and the ongoing deleveraging (balance sheet contraction) of banks and corporates. Slovenian banks sharply increased their early repayments after the asset quality review, stress tests and recapitalisations in late 2013, which improved their liquidity and capital positions and reduced their need for liquidity buffers. They repaid EUR 2,910 million of 3-year LTROs in 2014 (compared with EUR 520 million in 2013), thereby reducing the stock of these operations from EUR 3,297 million at the end of 2013 to EUR 387 million at the end of 2014. The operations mature on 29 January and 26 February 2015.

Figure 21: **Stock of Eurosystem monetary policy instruments, 2008 to 2014; Slovenian banks and savings banks (stock at month end)**



Source: ECB, Bloomberg.

The first two of the series of eight TLTROs were executed in September and December. A total of EUR 212 billion was allotted in the two operations. A total of 15 Slovenian banks participated in the two operations, i.e. the majority of institutions that had access to monetary policy loans, borrowing EUR 706 million. Details of the execution of the TLTRO are given in Box 1.

Box 1: **Targeted longer-term refinancing operations**

To enhance the functioning of monetary policy transmission and promote the financing of the non-financial sector, at its June meeting the Governing Council of the ECB announced a series of eight targeted longer-term refinancing operations (TLTROs). In contrast to other refinancing operations in which under the conditions of full allotment each bank's participation depends on their own needs for liquidity and available collateral, in the TLTRO the participation of each bank is related to its past and future lending to the private non-financial sector (eligible loans; housing loans to households are excluded). In the first two TLTROs in September and December 2014, the banks were able to borrow the initial amount of funding, i.e. initial allowance. For each bank this was equivalent to 7% of the stock of eligible loans as at 30 April 2014. In the subsequent TLTROs held every quarter between March 2015 and June 2016, the banks have the possibility of drawing down additional liquidity, but only if they have increased their net lending (new eligible loans minus loan repayments received) between May 2014 and the execution of the TLTRO in question compared with their net lending disclosed in the reference period (between May 2014 and April 2015). This also applies to banks whose net lending was negative in the reference period (the majority of Slovenian banks), if they reduce their net lending at a slower pace than in the reference period. Banks at which the difference between their net lending in the period between May 2014 and the individual TLTRO auction and their net lending in the reference period is positive can borrow three times the aforementioned difference. The lending data on the basis of which the aforementioned limits are calculated is regularly reported to the Eurosystem by participating banks. Data submissions are a prerequisite for participation in the TLTRO, and in general the TLTRO is accessible to all banks that are eligible counterparties for Eurosystem open market monetary policy operations. The data reporting procedures at the banks will be audited annually.

All TLTROs mature in September 2018. Banks whose lending does not increase in line with the benchmarks will have to repay the operations early in September 2016. The banks will also have the option of repaying any portion of the amount borrowed in each TLTRO 24 months after the operation in question at six-monthly intervals at their own discretion. The interest rate on the TLTRO is fixed for each operation, and in the first two TLTROs was equal to the interest rate on the MRO at the time of the announcement of the operation plus 10 basis points, i.e. 0.15%. With regard to the interest rates on subsequent TLTROs, the Governing Council of the ECB decided in January 2015 to abolish the 10 basis point spread.

With the TLTRO the Eurosystem aimed to encourage banks' lending to the private non-financial sector and to reduce lending rates, which would be facilitated by a low interest rate, a long maturity and stability of funding, and a correlation between the amount of borrowing from the Eurosystem and the amount of lending to the non-banking sector. Participation in the TLTRO could in particular help banks with high market funding costs to improve their competitive position on the market for lending to the non-financial sector.

Participation in September's TLTRO was significantly lower than expected. Loans in the total amount of EUR 83 billion were made to 255 banks; the markets had expected the borrowing to range between EUR 100 billion and EUR 300 billion. In the December operation loans in the total amount of EUR 130 billion were made to 206 banks, which was again significantly less than the EUR 170 billion that the markets had expected. Banks thus raised loans of EUR 212 billion in all, equivalent to 53% of the estimated initial allowance of EUR 385 billion. Taking account of the early repayments of the 3-year LTROs and the declining participation in weekly MROs and 3-month LTROs in the same week, the net effects were an increase of EUR 47.9 billion in liquidity in the first TLTRO, and an increase of EUR 95.3 billion in the second. Since June 2014, when the series of TLTROs was announced, early repayments of 3-year LTROs have amounted to EUR 208 billion, an indication that banks mostly replaced 3-year LTROs with TLTROs. However, participation in the two TLTROs extended the average maturity of loans disbursed by the Eurosystem from approximately four months in August to a year and a half in December. Slovenian banks participated in the two TLTROs: they borrowed EUR 75 million in the first, and EUR 631 million in the second. They thus borrowed 71% of the estimated initial allowance.

After its June meeting the Governing Council suspended the weekly fine-tuning operations in the form of fixed-term deposits. The Eurosystem used these operations to sterilise the liquidity arising from securities purchases in the SMPs of 2010 and 2011. There were 23 operations in 2014 in which the Eurosystem offered deposits in the amount equivalent to the non-matured purchased securities at that time. The amount declined from EUR 179 billion to EUR 162.5 billion in 2014 (at its peak the Eurosystem held EUR 219.5 billion of bonds of euro area countries from the SMP). In the operations banks bid on the interest rate, and the bid (maximum) rate was equal to the ECB's key interest rate. In the last nine tenders the Eurosystem failed to fully sterilise the amount offered. Alongside lower excess liquidity, another reason for the lower placement in fixed-term deposits was the rise in interest rates on the interbank market, which increased the opportunity costs of participating in the tenders. Despite a rise in the number of banks in tenders (an average of 144 banks participated, compared with 100 in 2013), the total bid amount on average failed to reach the Eurosystem's offered amount: the ratio was 0.98, compared with 1.3 in 2013. The marginal interest rate was therefore higher, and has remained at the level of the ECB's key interest rate as of mid-April. By contrast, owing to their large excess liquidity Slovenian banks participated in all the tenders for fixed-term deposits, the total amount of their bids significantly increasing relative to the previous year. They bid EUR 1.14 billion on average (compared with EUR 457 million in 2013), and succeeded in placing an average of EUR 1.1 billion (compared with EUR 371 million in 2013). Given their relatively small size, Slovenian banks would have likely found it more difficult to achieve comparable interest rates in placing excess liquidity on the interbank market.

Other open market operations: CBPP3 and ABSPP

After carrying out two covered bond purchase programmes in 2009 and 2011, the Governing Council of the ECB announced a new covered bond purchase programme (CBPP3) in September 2014, and also an asset-backed securities purchase programme (ABSPP). The objective of the two programmes is to enhance the transmission of monetary policy and to ease the funding conditions of credit institutions, thereby restoring inflation to close to its target of 2%.

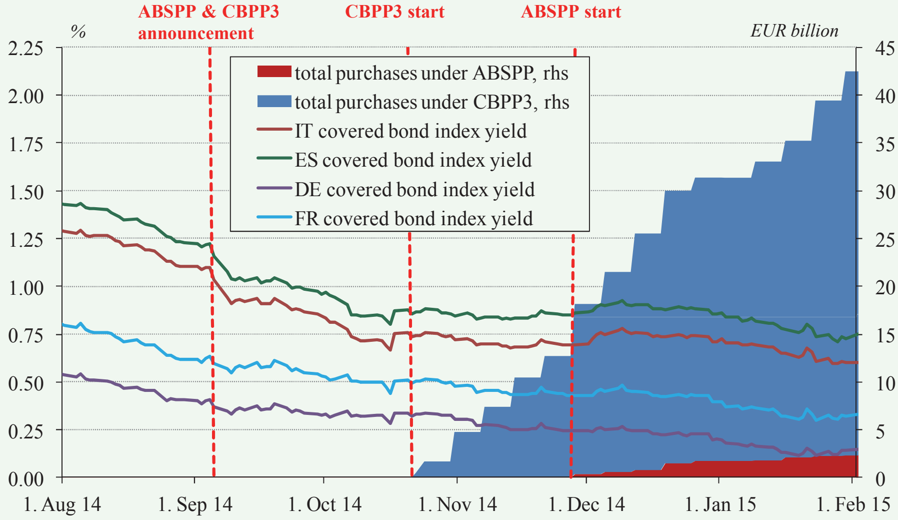
Box 2: **Covered bond purchase programme (CBPP3) and asset-backed securities purchase programme (ABSPP)**

The CBPP3 began on 20 October 2014, and will last for at least two years. In contrast to the CBPP1 and the CBPP2 of 2009 and 2011, the exact time of the end of the programme and amount of purchases have not been determined in advance. Securities are purchased on a decentralised basis by NCBs and the ECB. By contrast, the ABSPP, which began on 21 November 2014, is initially being implemented via four external asset managers, while subsequently a changeover is envisaged in the implementation of the programme to decentralised purchases by Eurosystem central banks. In both cases the securities are purchased on the primary and secondary markets.

In the CBPP3 the Eurosystem purchases covered bonds that meet the eligibility criteria, namely (i) they are denominated in euros, (ii) they are issued and settled in the euro area, (iii) they are eligible collateral for monetary policy operations, (iv) the total amount of purchases of a single covered bond issue in the CBPP1, CBPP2 and CBPP3 and other investments of Eurosystem central banks does not exceed 70% of the issue, (v) they comply with the CRD and the CRR, and (vi) they are rated BBB- or higher, with the exception of covered bonds issued in Greece or Cyprus, where a minimum asset rating at the level of the maximum achievable covered bond rating for the jurisdiction is required. Purchases of a single issue of Greek or Cypriot covered bonds are consequently limited to a maximum of 30% of the issue. In addition, covered bonds of this type have to meet certain other conditions.

Asset-backed securities purchased by the Eurosystem within the framework of the ABSPP also have to meet eligibility criteria, namely (i) they are eligible collateral for monetary policy operations, (ii) they are issued and settled in the euro area, and the issuer is established in the euro area, (iii) at least 90% of the obligors of the assets that generate cash flows of the securities in question are entities of the private non-financial sector

Figure: **Market yields of bond indices and cumulative purchases within CBPP3 and ABSPP**



Note: Market yields of covered bonds with an average maturity of 4 to 5 years, calculated on the basis of the indices provided by BofA Merril Lynch.
Source: Bloomberg.

or natural persons, and at least 95% of the obligors are residents of the euro area, (iv) at least 95% of the assets that generate cash flows of the securities in question are denominated in euros, while at least 95% of the assets are located in the euro area, (v) the amount of purchases of a single issue is limited to 70% of the issue, and (vi) the securities have at least two ratings by eligible external rating agencies where the second-best is BBB- or higher, with the exception of securities whose obligors are residents of Greece or Cyprus. No lower rating limit is prescribed for the latter, but all other eligibility criteria and additional risk management measures must be met; purchases of a single issue of such securities are limited to 30% of the issue. Retained issues are also eligible for purchase, provided that an external independent investor invests in part of the issue.

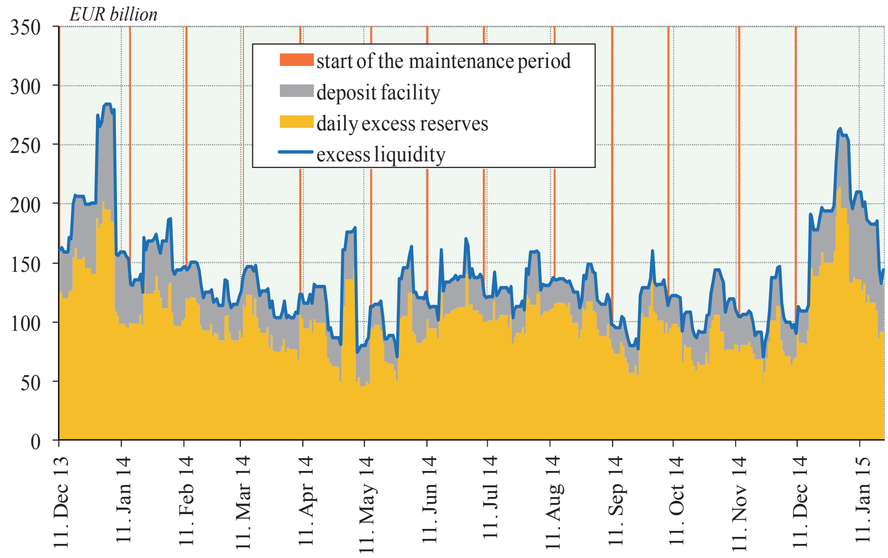
The Eurosystem purchased EUR 29.6 billion of covered bonds within the framework of the CBPP3 between 20 October and 31 December 2014. The majority of the purchases were made on the secondary market (82%), where liquidity was relatively good. The remaining 18% were made on the primary market, where the programme gave slight impetus to covered bond issues in the final quarter of 2014. Market yields on covered bonds, most notably Spanish and Italian bonds, fell after the announcement of the programme in September. During the actual execution of purchases market yields remained more or less unchanged, partly owing to lower market liquidity at end of the year (see figure).

EUR 1.7 billion of asset-backed securities were purchased within the framework of the ABSPP between 21 November and 31 December 2014. The quantity of purchases in 2014 was limited, because purchases only began late in the year, when activity on the primary market traditionally slows.

Standing facilities and minimum reserves

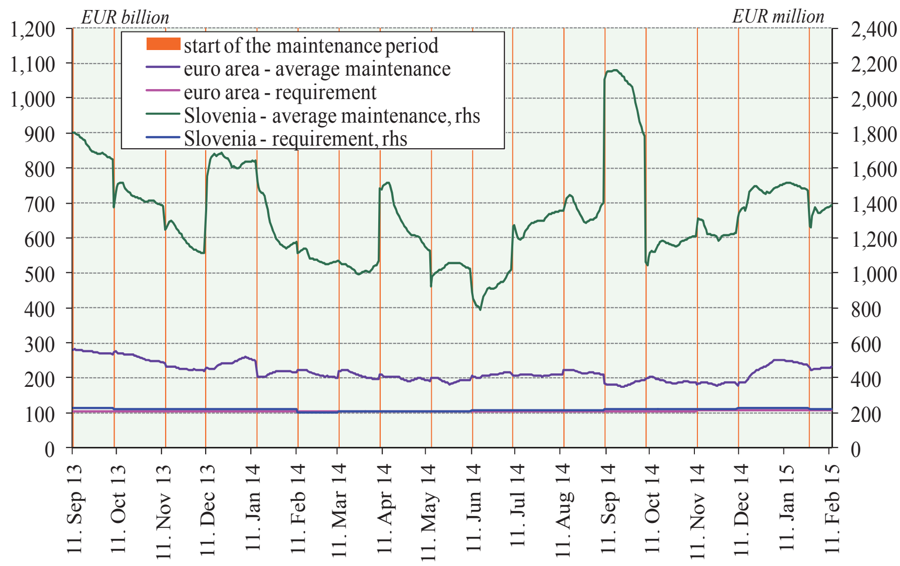
Banks' excess reserves and the recourse to the deposit facility in the euro area remained high in 2014, despite June's introduction of their negative remuneration. Banks in the euro area maintained the majority of their excess liquidity (see the introduction to this section) in current accounts in the form of excess reserves also in 2014, while placing a smaller part in the deposit facility (see Figure 22). Although the returns on the two have been equal since the introduction of a zero interest rate for the deposit facility in June 2012, banks in certain countries were still using the deposit facility because of the regulatory treatment of the deposit facility compared with excess reserves, e.g. the inclusion of the former but not the latter when meeting the prescribed liquidity ratios. The deposit facility declined from just under EUR 100 billion at the beginning of the year to just over EUR 40 billion at the end of the year, fluctuating between EUR 14 billion and EUR 60 billion in the interim. It averaged EUR 31 billion

Figure 22: **Excess liquidity of banks in the euro area**



Source: ECB.

Figure 23: **Minimum reserve requirements and maintenance**



Sources: ECB, Bank of Slovenia.

over the year, down EUR 69 billion compared to 2013. Slovenian banks did not use the deposit facility in 2014.

The use of the marginal lending facility in the euro area declined for the second consecutive year. The average recourse to the marginal lending facility equalled EUR 0.2 billion in 2014, compared with an average of EUR 0.5 billion in 2013. The largest daily recourse in 2014 amounted to EUR 5 billion, down slightly compared to EUR 7 billion in 2013. With the exception of one recourse, Slovenian banks did not use marginal lending facility in 2014.

Upon unchanged reserve ratio at 1%, the average reserve requirements in the euro area over the 12 maintenance periods in 2014 remained unchanged compared to the 12 maintenance periods in 2013 , but declined in Slovenia. The average reserve requirements in the euro area stood at EUR 105 billion. In Slovenia they declined from EUR 219 million to EUR 215 million (which was nevertheless higher than the average of periods in 2012 at EUR 209 million).

The banks' excess reserves were smaller in 2014 than in the previous year both across the euro area and in Slovenia, where they remained substantially higher than elsewhere in the euro area relative to the reserve requirements (Figure 23). The average excess reserves in the euro area over the 12 maintenance periods stood at EUR 98 billion, down EUR 102 billion compared to 2013. This entailed a decline from approximately 200% of the reserve requirements in 2013 to approximately 100% of the reserve requirements in 2014. Slovenian banks maintained the majority of their excess liquidity in current accounts at the Bank of Slovenia, i.e. in an environment of overall excess liquidity, negative interest rates on the money market in the second half of the year and low returns on securities with an appropriately high credit rating, they only partly invested them on the market. The average daily excess reserves in Slovenia over the 12 maintenance periods in 2014 stood at EUR 1,029 million, down EUR 215 million compared to 2013. The excess reserves in current accounts averaged approximately 480% of the reserve requirements (compared with approximately 570% in 2013).

US dollar lending

The Eurosystem continued its weekly US dollar operations with maturity of 7-day in 2014, but suspended its 3-month US dollar operations in May. The stock of borrowing was very limited, as the situation with regard to the funding of euro area banks in US dollars improved further in 2014. In consequence only four tenders for US dollar funding with a maturity of 3 months were held in 2014, at which an average of USD 100 million was allotted. There were 50 US dollar refinancing operations with a maturity of 7 days, but only one counterparty participated in ten tenders. Slovenian banks have not participated in US dollar refinancing operations since the end of 2009. US dollar refinancing operations were executed on the basis of eligible collateral denominated in euro, at a pre-determined fixed interest rate with full allotment.

Collateral for monetary policy loans

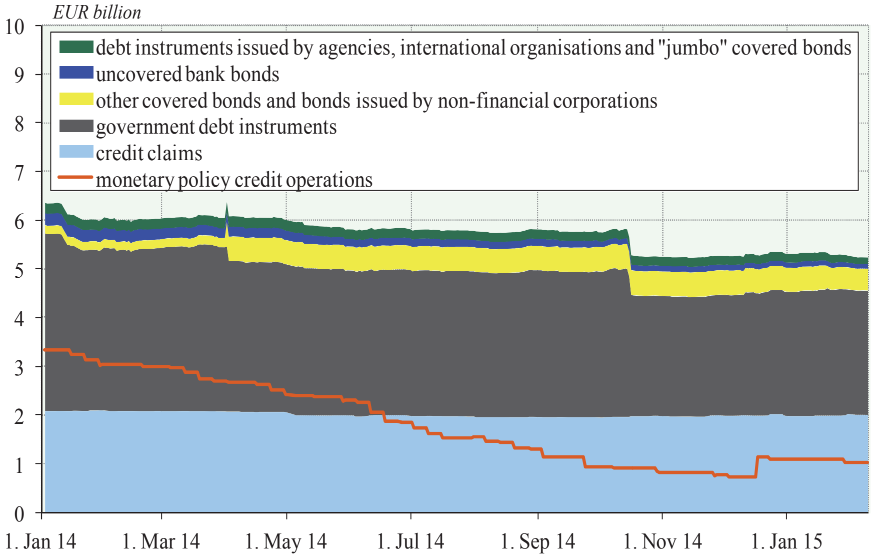
All loans provided to banks within the Eurosystem monetary policy framework are based on eligible collateral. The Eurosystem accepts a wide range of financial assets as collateral, although they must all satisfy the eligibility criteria. Eligible assets comprises marketable assets (debt securities on the single list published on the ECB website) and non-marketable financial assets (primarily bank loans).

The financial assets pledged as collateral by banks are valued daily by the Eurosystem. Securities are valued at current market prices or at theoretical prices, while loans are valued at the principal outstanding amounts. Risk control measures are used for both types of collateral to protect against the risk of financial loss: a haircut is applied to the value of financial assets, the size of which depends in principle on the asset's credit rating, asset class, type of interest rate and residual maturity. The Eurosystem may also use other measures to protect against losses.

Early repayments of the 3-year LTROs reduced the banks' need for eligible assets in 2014. In line with the announcement of additional long-term loans, in June 2014 the Governing Council of the ECB extended the temporary expansion of the list of financial assets (assets that would otherwise not satisfy all the eligibility criteria) during the period of the financial crisis until September 2018. The financial assets temporarily eligible as collateral include additional eligible bank loans and additional asset-backed securities, securities that otherwise meet the eligibility criteria but are denominated in US dollars, pounds sterling or Japanese yen, that are issued in the euro area, and whose issuer is from the European Economic Area, and certain short-term debt instruments.

The pool of eligible assets at the Eurosystem averaged EUR 1,953 billion in 2014, down 17% on the previous year's average. The decline was primarily the result of the reduced drawdown of monetary policy loans. Government securities account for the highest proportion of assets (24%), followed by

Figure 24: **Breakdown of pool of collateral at the Bank of Slovenia by asset type and amount of drawn monetary policy loans**



Source: Bank of Slovenia.

bank loans (24%), covered bank bonds (23%) and asset-backed securities (20%). The figures for the pool of eligible assets and used collateral aggregated across the euro area are released on a quarterly basis on the ECB's website.

Collateral in the Bank of Slovenia credit operations

On the list of eligible assets around EUR 22 billion of securities of Slovenian issuers were listed in 2014, of which government securities accounted for the vast majority (88%). There were 41 securities on the list as at the end of the year, which alongside Slovenian government bonds and treasury bills included four BAMC bonds, one bond of Slovenski državni holding (both with a government guarantee) and two Petrol corporate bonds.

The pool of eligible assets at the Bank of Slovenia, into which Slovenian banks transfer their assets as collateral for monetary policy loans, averaged EUR 5.8 billion over 2014. This was down 3% on the previous year. The largest reduction made by the banks was in government securities, primarily in the final quarter. The reduction in the pool over the year was less than reduction in the stock of drawn-down monetary policy loans, as a result of the early repayment of the 3-year LTROs. The portion of the unused pool, i.e. the surplus of the banks' pool of collateral over the Bank of Slovenia's loans to banks, thus increased to average 69% over the year (compared with 36% in 2013).

2.1.3 Bank of Slovenia as the lender of last resort

Article 4 of the Bank of Slovenia Act states that one of the Bank of Slovenia's objectives is to strive to ensure financial stability. On the basis of point 14 of Article 12 of the aforementioned law, the Bank of Slovenia may therefore act as a lender of last resort, i.e. in exchange for adequate collateral it lends to a solvent bank or savings bank in liquidity difficulties. The use of the emergency liquidity assistance, which the Bank of Slovenia approved for the first time in September 2013, ended at the end of June 2014. Its daily use averaged EUR 306 million between January and June 2014, EUR 78 million less than the daily average between September and December 2013.

2.1.4 Payment and settlement systems

Payment and settlement systems are a vital component of the broader financial system, as by ensuring the reliable, safe, effective and timely settlement of financial transactions they make a significant contribution to the smooth functioning of financial markets, and thereby to general economic stability and efficiency. In light of the above, the smooth, safe and efficient functioning of payment and settlement systems is in the interest of the central bank (in meeting the primary objective of price stability and in ensuring financial stability). The Bank of Slovenia therefore undertakes this mission in various roles: it operates the TARGET2-Slovenija payment system, it oversees the security and efficiency of payment and settlement systems, and it supervises the operations of payment service providers and operators of market infrastructure. Also of importance is its role as a catalyst and a promoter or guide of the activities of market participants, with the aim of promoting development in the area of payments and the settlement of transactions in financial instruments. Irrespective of the role in which the Bank of Slovenia is acting, its objective is to ensure transparent functioning and the clarity of its fundamental guidelines for all stakeholders in the payment services market and settlement system participants.

TARGET2

The Bank of Slovenia operates the TARGET2-Slovenija payment system for high-value and urgent payments in euros that allows prompt settlement of individual payments. TARGET2-Slovenija represents the local component of the pan-European TARGET2 payment system, which functions on a single shared technical platform and is operated by the Eurosystem.

The development of the functionality of the TARGET2 payment system continued in 2014 within the framework of Eurosystem activities. The single shared technical platform was upgraded with new functionality, which enables the transfer of liquidity between TARGET2 and TARGET2-Securities (T2S). Prior to the implementation of the new functionalities in a production environment, the Bank of Slovenia conducted mandatory testing in conjunction with TARGET2-Slovenija payment system participants. The Bank of Slovenia also participated in preparations for the next system upgrade, which will be carried out in 2015. Created back in 2012, the contingency network for central banks' access to the TARGET2 payment system was comprehensively tested in 2014 and was made ready for use in the event of the outage of the SWIFT primary network.

In 2014 comprehensive preparations were also made at the Bank of Slovenia for the initial use of the TARGET2 module which enables processing of standing facilities and intraday credit. This will ensure greater integration and harmonisation at the Eurosystem level, and also rationalization of the Bank of Slovenia's business processes.

TARGET2-Securities

In 2014 the Eurosystem continued its project to develop the pan-European T2S platform for securities settlement in central bank money, which will be completed in February 2017. There was intensive activity in the development, acceptance and testing of the platform. Internal acceptance testing was completed by the central banks of France, Italy, Germany and Spain as the providers of the platform, as was acceptance testing by the Eurosystem as the contracting authority, while October saw the start of the testing of central banks and central securities depositories as users of T2S. As part of the Eurosystem, the Bank of Slovenia participated in full in all the project activities. In the national environment it guided activities in cooperation with the KDD for the migration of domestic market participants to T2S.

The Bank of Slovenia is comprehensively monitoring the adaptation of the Slovenian environment to T2S. The Bank of Slovenia continued with heading the National T2S User Group in 2014, and a group for monitoring and coordinating activities for the migration of the Slovenian environment to T2S, which was established in January. The key activities of both working bodies were related to the monitoring and, where needed, steering the process of adapting the Slovenian environment to T2S, and the identification and elimination of legal or other barriers.

The Bank of Slovenia specifically manages and guides activities in connection with its own inclusion and the inclusion of market participants in T2S. The Bank of Slovenia thus defined changes to its own business processes, set up the technical infrastructure for accessing T2S, defined the operating procedures, discussed (future) changes to the legal basis, and began testing and preparations for the migration to T2S. A migration timetable was prepared together with market participants. Market participants plan to migrate to T2S by no later than the deadline for the migration of KDD (February 2017) with intention to maintain existing business and technical set-up for the settlement of securities transactions to the greatest possible extent.

Single Euro Payments Area (SEPA)

After 12 years of work and effort to ensure integration in the area of credit transfers and direct debits in euros, the implementation of the Single Euro Payments Area (SEPA) for the two payment instruments was successfully completed in August 2014. The implementation of harmonised credit transfers and direct debits and the introduction of common standards met the primary objective of the establishment of the SEPA for the aforementioned payment instruments: allowing payments to be made and received with the use of a single account and a single set of basic payment instruments, under the same basic terms, with the same rights and obligations within the entire SEPA. The distinction between credit transfers and direct debits within a country and cross-border payments has been eliminated, for which reason all payments will be treated as domestic payments. The establishment of the SEPA, which is also a vital step in completing the introduction of the euro as a single currency for non-cash payments, also ensures effective competition between payment service providers, and the conditions for the development of new pan-European products and services, and innovations in the area of payment.

As part of the Eurosystem, the Bank of Slovenia has monitored and supported the creation of the SEPA since the very beginning. In this role it coordinates and guides the activities of the Slovenian banking sector in the implementation of the SEPA's objectives, pursuing the objectives of security and efficiency in payments in so doing. The key to performing this role is dialogue with other stakeholders in the payment services market, which the Bank of Slovenia also ensures via the National Payments Council (NPC), established in 2013. The Bank of Slovenia organised two NPC meetings in 2014, where representatives of the supply and demand sides of the payment services market meet to coordinate their interests, set their priorities and resolve any misunderstandings. The Bank of Slovenia and other public authorities, on the other hand, express their views within the NPC and guide the functioning of the payment services market. The Bank of Slovenia additionally ensures dialogue with stakeholders in the payment services market through the participation of its representatives in the SEPA project bodies established under the aegis of the Bank Association of Slovenia. Bank of Slovenia representatives again actively participated in such bodies in 2014 in the role of observers at meetings and in the formulation of positions, on the basis of which the Bank of Slovenia monitors and directs the activities of the Slovenian banking community in accordance with the policy of the Eurosystem.

Operation of SEPA infrastructure and implementation of the settlement agent function

The Bank of Slovenia provides a link between the systems operated by Bankart d.o.o. for the execution of SEPA credit transfers and SEPA direct debits and the pan-European payment systems for these two payment instruments operated by EBA Clearing. As a direct participant in pan-European payment systems, in 2014 the Bank of Slovenia enabled banks and savings banks in Slovenia (as indirect participants) to exchange SEPA credit transfers with more than 4,500 payment service providers and to exchange SEPA direct debits with more than 3,800 payment service providers across Europe. By providing this link the Bank of Slovenia enables Slovenian banks and savings banks to meet the reachability requirement for cross-border SEPA credit transfers and SEPA direct debits, which derives from *Regulation (EU) No 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009*.

The Bank of Slovenia provided the settlement agent function for seven retail payment systems in 2014. Providing this function means that the Bank of Slovenia settles the cash claims and liabilities of participants in these payment systems deriving from their participation in these payment systems in risk-free central bank money in the accounts that participants in these payment systems hold at the Bank of Slovenia.

Payment and settlement systems oversight

The Bank of Slovenia issues authorisations to participants in payment systems and their operators, and conducts oversight of the functioning of payment systems, of which there are currently eight. It issued four authorisations for amendments to payment system rules in 2014, and issued supervisory measures within the framework of one on-site inspections of the functioning and operation of a payment system. Payment systems oversight activities also include analysis of regular and ad-hoc reports by payment system operators. The Bank of Slovenia was also active in the implementation of oversight at the Eurosystem level. It participated in the oversight of payment systems and other arrangements in this area (payment instruments/schemes, external service providers, correspondent banking), in the overhaul of the legal and methodological frameworks for payment systems and payment instruments oversight, and in the establishment and implementation of common security standards for retail payments.

As part of the oversight of securities settlement systems, an assessment of the KDD's compliance with the Eurosystem's oversight standards was conducted in March 2014, and on this basis the KDD was issued recommendations for improving the functioning of the securities settlement system. The Bank of Slovenia closely monitored the implementation of the issued recommendations in 2014 and also monitored all significant changes in the functioning of the KDD In line with framework of legal consultations with the SMA, the Bank of Slovenia issued one opinion relating to amendments to the KDD's Operations rules.

The Bank of Slovenia prepared a user assessment of the eligibility of the securities settlement system operated by the KDD, which confirmed that it was eligible for use in the collateralisation of Eurosystem credit operations. With the identical goal, the Bank of Slovenia prepared several user assessments of the cross-border links of the securities settlement system operated by the KDD with foreign securities settlement systems operated by the central securities depositories LuxCSD, Clearstream Banking Luxembourg, Clearstream Banking Frankfurt and Euroclear Bank.

Supervision of payment institutions, electronic money institutions and currency exchange offices

The Bank of Slovenia issues authorisations to payment institutions and electronic money institutions, and supervises their operations. The Bank of Slovenia's powers in this area are set out by the ZPlaSS, which also assigns it the role of the misdemeanours authority in connection with the provision of payment services and the issuance of electronic money. In addition to regular monitoring of all payment institutions with a Bank of Slovenia authorisation from the perspective of their operations, their actual provision of payment services and the deficiencies identified in practice, the Bank of Slovenia also conducted on-site inspections of the operations of two payment institutions in 2014. Although it did not receive any requests in 2014 for the issue of an authorisation to issue electronic money as an electronic money institution, the Bank of Slovenia carefully monitored developments in the market and business models that could entail the issuance of electronic money.

The Bank of Slovenia publishes and updates a register of payment institutions and electronic money institutions on its website as a centralised database of such entities. The Bank of Slovenia also administers lists of payment institutions and electronic money institutions from the countries of the European Economic Area that may provide payment services and electronic money issuance services in Slovenia via a branch, via an agent or distributor, or directly, and that have provided the appropriate notification for such business activities. The Bank of Slovenia received 38 new notifications relating to payment institutions in 2014 (taking the total to 214 by the end of the year), and 12 notifications relating to electronic money institutions (taking the total to 50 by the end of the year).

The Bank of Slovenia is also responsible for issuing authorisations to provide currency exchange services, and for supervising the operations of non-banking entities that provide currency exchange services (currency exchange offices). The Bank of Slovenia also publishes on its website a list of currency exchange offices with Bank of Slovenia authorisation to provide currency exchange services, including the associated points of exchange. The Bank of Slovenia issued authorisations to provide currency exchange services to three currency exchange offices in 2014, while one currency exchange office had its authorisation terminated for reason of a change of legal status. The Bank of Slovenia also conducted on-site inspections of all currency exchange offices with the Bank of Slovenia authorisation. There were a total of 24 currency exchange offices with 34 points of exchange in Slovenia at the end of 2014.

2.1.5 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 main purpose of the ECB's foreign reserves is to ensure adequate liquidity for interventions on the currency market. All euro area national central banks have contributed their shares to the ECB's foreign reserves, which they manage jointly with the ECB. Since 1 January 2007 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.

2.1.6 Cash operations

By the end of 2014, a net total of EUR 2.58 billion of cash had been issued into circulation by the Bank of Slovenia since the introduction of the euro. This comprised EUR 2.53 billion in banknotes[5] (180.77 million banknotes) and EUR 57.61 million in coins (197.18 million coins). In terms of quantity, the 20-euro note net issuance was the highest (180.36 million banknotes), followed by the 10-euro note (43.49 million banknotes) and the 500-euro note (1.94 million banknotes). In the case of all other denominations (200-euro, 100-euro, 50-euro and 5-euro), there has been a 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 that were net issued most heavily in terms of quantity were the 1-cent (51.77 million coins) and 2-cent (43.07 million coins), while the lowest net issuance was recorded by

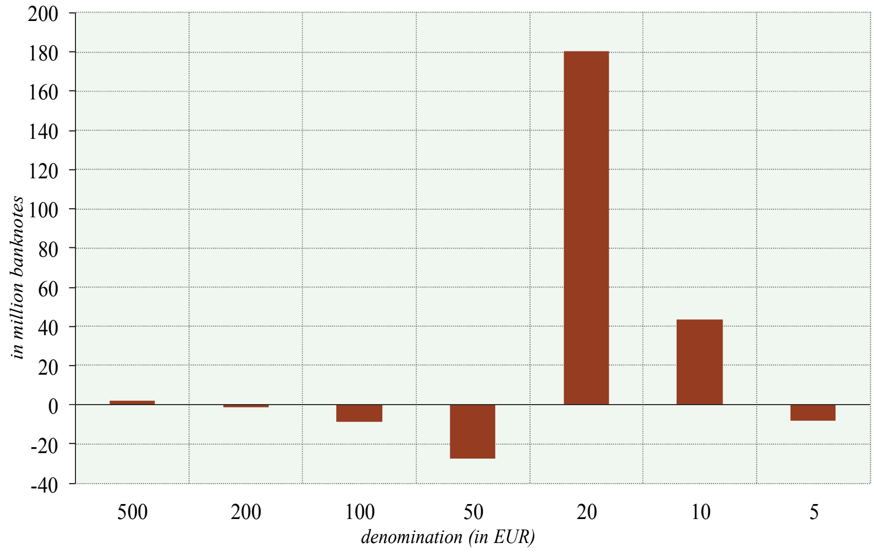
[5] Figure 25 illustrates the breakdown of euro banknotes in circulation in terms of quantity, while Figure 26 illustrates the breakdown in terms of value.

the 1-euro (7.01 million coins). Euro cash was supplied through the Bank of Slovenia's banknote depots at five commercial banks, whose operations were coordinated by the Bank of Slovenia on a daily basis.

The Bank of Slovenia organised the issuance, distribution and storage of general circulation and commemorative coins for the Republic of Slovenia. As of November 2014 the Bank of Slovenia issued into circulation one million 2-euro commemorative coins to mark the 600th anniversary of the coronation of Barbara of Celje, and issued collector coins marking the 200th anniversary of the birth of the photographer Janez Puhar (1,500 gold, 2,000 silver and 150,000 bi-coloured 3-euro coins) for circulation and sale. For the collector market the Bank of Slovenia also issued a collection of euro coins minted in 2014 in ordinary and proof versions, and a 2-euro commemorative coin and 3-euro collector coin, both proof-quality.

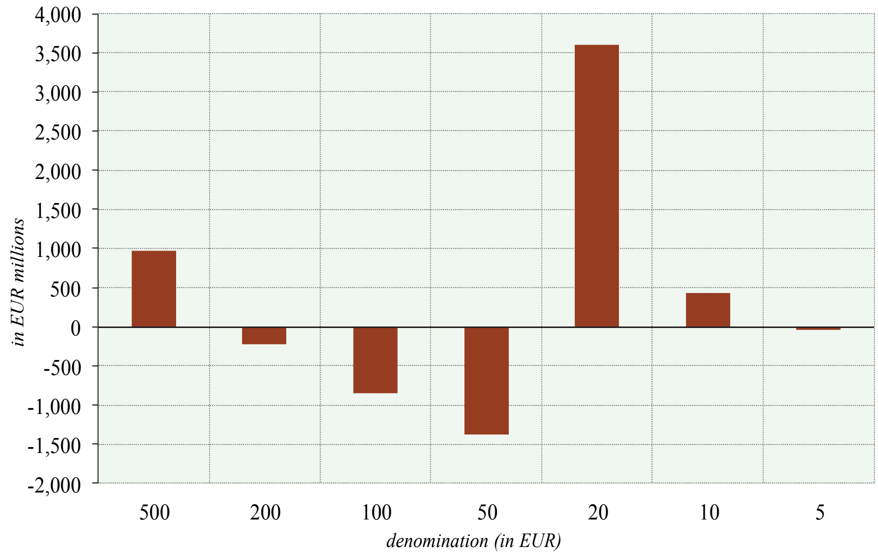
The total value of the tolar banknotes, coins and payment notes still in circulation as at 31 December 2014 was EUR 42.12 million. This comprised 46.61 million tolar banknotes (worth SIT 7.53 billion or EUR 31.44 million), 444.38 million tolar coins (worth SIT 2.16 billion or EUR 9.00 million) and

Figure 25: **Net issuance of euro banknotes in terms of number**



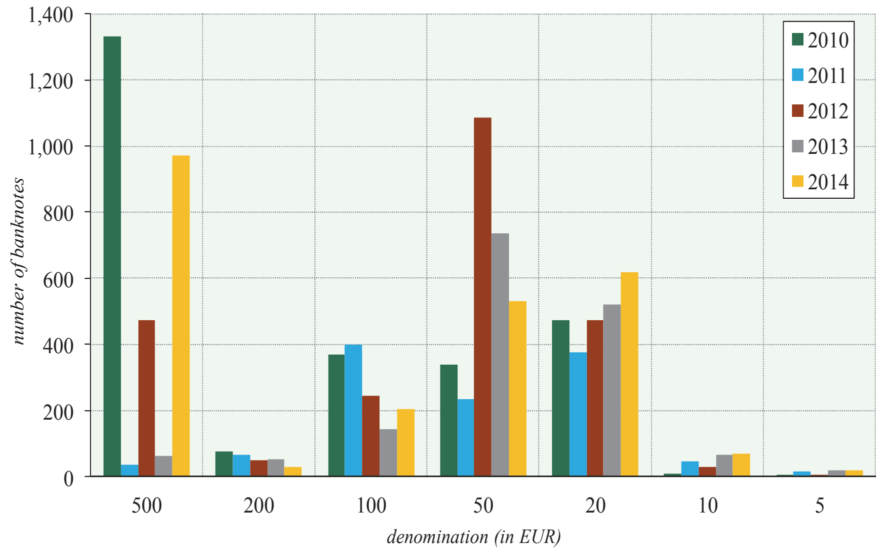
Source: Bank of Slovenia.

Figure 26: **Net issuance of euro banknotes in terms of value**



Source: Bank of Slovenia.

Figure 27: **Counterfeit euro banknotes withdrawn from circulation in Slovenia**



Source: Bank of Slovenia.

20.92 million payment notes (worth SIT 403.74 million or EUR 1.68 million). Compared with circulation at the end of 2005, 58.83% of the tolar banknotes have been returned from circulation (96.48% of the total value of the tolar banknotes), while 13.74% of the tolar coins have been returned (37.85% of the total value of the tolar coins). The payment notes and tolar banknotes are exchangeable at Bank of Slovenia counters with no time limit, while coins can be exchanged by 31 December 2016.

The number of transactions via the counters of the Bank of Slovenia fell again last year. A total of 2,408 counter receipts and outlays of euro cash (2013: 2,567) and 2,615 incoming and outgoing payments of cash for the needs of government bodies were made in 2014 (2013: 3,031), while there were 2,339 exchanges of tolar banknotes and coins (2013: 2,684).

The Bank of Slovenia cash processing unit sorted 30.26 million banknotes and coins, compared with 29.68 million in 2013. A total of 29.67 million banknotes and 587,450 coins were sorted in 2014 (compared with 29.52 million banknotes and 163,201 coins in 2013). A total of 10.31 million banknotes were taken out of circulation and destroyed in order to maintain high quality of banknotes in circulation (compared with 12.72 million banknotes in 2013).

The expert committee for testing, verifying and setting up machines to handle euro banknotes and coins, which is composed of employees of the Bank of Slovenia and the Ministry of the Interior, conducted eight monitoring tests in 2014 in accordance with its mandate. In them it examined the adequacy and accuracy of banknote handling machines (nine in all) and coin processing machines (three in all). All the tests were passed (in one case the test had to be repeated for technical reasons).

According to the figures of the National Analysis Centre (NAC) and the Coin National Analysis Centre (CNAC), 2,439 counterfeit euro banknotes[6] and 1,181 counterfeit euro coins were withdrawn from circulation in 2014, compared with 1,597 banknotes and 1,307 coins in 2013. Owing to a single large case (943 banknotes), 500-euro notes accounted for the largest proportion of counterfeit banknotes in terms of quantity (39.8%), while 2-euro coins accounted for largest proportion of counterfeit coins (55.4%). The Eurosystem figures in this area rank Slovenia in the lower half of countries in terms of the number of counterfeits found. Some 340 foreign currency counterfeits (US dollars, pounds sterling and Australian dollars) were found in 2014, compared with 65 counterfeits in 2013. The quality of foreign currency counterfeits has remained at approximately the same level.

[6] Figure 27 illustrates the breakdown of counterfeit euro banknotes in terms of quantity.

Under Regulation (EC) No 1338/2001, the NAC and CNAC are responsible for issuing expert opinions on the authenticity of euro banknotes and coins respectively. They operate under the aegis of the National Forensic Laboratory at the Ministry of the Interior. Supervision of the activities of the aforementioned centres in connection with the work of the Counterfeit Monitoring System at the ECB is carried out at the Bank of Slovenia by the National Counterfeit Centre (NCC). The NCC is actively involved in a system of data and information exchange on counterfeiting with the ECB's Counterfeit Analysis Centre (CAC), other national counterfeit centres, and the European technical and scientific centre for the analysis of euro coins.

2.1.7 Statistical system

All tasks in monetary and financial statistics, external statistics, the statistics of the national financial accounts and other statistics for which the Bank of Slovenia is responsible were carried out successfully in 2014. Statistics were provided to users, and were primarily released online.

The ESA 2010, the new European system of accounts, was introduced in all Bank of Slovenia statistics at the beginning of 2014, and other methodological changes and software updates were prepared during the year with regard to their introduction in individual statistics. The SDMX_ML standard was introduced in the transmission of data to international institutions. In light of the introduction of the new methodological standards, the Bank of Slovenia bulletin was updated, and its publication was shifted to the end of the month for the current month.

Monetary and financial statistics

There was plenty of work in the second half of 2014 in particular on the preparation and testing of changes to methodology and software under amended ECB regulations with regard to MFI balance sheet and interest rate statistics and investment fund statistics, and guidelines on monetary and financial statistics.

As part of the efforts to introduce reporting by insurance corporations, the Regulation on statistical reporting requirements for insurance corporations was adopted in December, according to which reporting will be required by the first quarter of 2016.

In 2014 the Securities Market Agency, with which the Bank of Slovenia cooperates on reporting by investment funds, suggested and drew up similar multi-purpose reporting by mutual pension funds, in which the Bank of Slovenia will participate for its own purposes.

Under the aegis of the ESCB, activities continued on the creation of the RIAD (the Register of Institutions and Assets Database), which is accessible to all members of the ESCB. The use of the register is expanding from the statistical realm to the Single Supervisory Mechanism.

Within the framework of the efforts to establish a harmonised multi-purpose collection of detailed credit data in euro area countries, work on the definition of the attributes for reporting continued in the ESCB in 2014. A draft regulation was drawn up, and is expected to be adopted in June 2015. At the same time the Bank of Slovenia continued its preparations for establishing a multi-purpose single credit register. Apart from the attributes and certain aspects that will have to wait for the adoption of the ECB regulation, there has been discussion of the functionality of the register, the technical requirements and the legal, organisational and financial aspects. There have also been discussions with the banks about the appropriate incorporation of the Sisbon system.

External Statistics

The Bank of Slovenia undertook the revision of its statistics on the balance of payments, the international investment position and the external debt according to the BPM6 manual and the ESA 2010. During the revision of the data for balance of payments, the international investment position and the external debt, a recalculation was made for the data series back to 1994 according to the BPM6 and ESA 2010 methodology. In the assessment of imports and exports of travel services, complications with public tenders and a failure in the maintenance of traffic counters led to a partial loss of data on border crossings in 2014.

The purpose of introducing the new IMF methodology is to keep abreast of international changes related to globalisation and of financial and technological innovations (derivatives, securitisation, index-linked bonds, special-purpose entities, multinationals, etc.). There is a major focus on the international investment position statistics that are significant to the vulnerability analysis of individual countries. The category of FDI has been significantly revised (disclosure on a gross asset and liability basis, permanent debt between financial intermediaries reclassified as other investments, claims and liabilities between companies in a group reclassified as direct investment). The gross external debt is derived from the international investment position, but does not include equities or derivatives.

Under the BPM6, the current account is divided into goods, services, primary income and secondary income. The financial account and the net international investment position under the BPM6 differ from the calculation under the BPM5 only in terms of an additional item, “insurance, pension and standardised guarantee schemes”, although there are more changes in structure.

Under an agreement with the Bank Association of Slovenia, new reporting of payments with the rest of the world in accordance with Regulation (EU) No 924/2009 was introduced in May 2014. Because the new reporting is based on data in payment orders, it does not require additional data processing at banks, but it allows the Bank of Slovenia to keep a range of transactions with the rest of the world, irrespective of amount, as a valuable data source for monitoring the quality of balance of payments figures.

November 2014 saw the publication of Direct Investment 2013, with detailed data on the origin of inward FDI in Slovenia and their integration into the Slovenian economy. Direct investments can be disclosed in two ways under the new standards. The asset/liability principle, where assets and liabilities are separate (irrespective of the direction of investment), is applied in statistics relating to the balance of payments and the international investment position. The directional principle is still applied to direct investment statistics being used for analytical purposes (investments are divided into outward investments by residents and inward investments by non-residents). The changeover to the new methodology and the difference between the two disclosures of direct investment are described in detail. The directional principle is applied in the analysis and detailed itemisation of the data. Data and brief analysis of Slovenian outward investment and foreign affiliates statistics (FATS) are also published.

Financial accounts statistics

Quarterly financial accounts data was submitted to the ECB in accordance with Guidelines ECB/2005/13 and ECB/2013/24 in 2014. Quarterly financial accounts data for the government sector was submitted to the ECB and Eurostat in accordance with Regulation (EC) No 501/2004 and Regulation (EU) No 549/2013, while annual financial accounts data was submitted to Eurostat in accordance with Council Regulation (EC) No 2223/96 and Council Regulation (EC) No 549/2013.

The publication Financial Accounts of Slovenia 2008-2013 was released in June 2014, and alongside tables of financial accounts and the compilation methodology it also contained analysis of financial accounts data in individual sectors and a comparison with the euro area.

Annual and quarterly financial accounts data and financial accounts data series (according to the ESA 95 and the ESA 2010) and quarterly information from the Financial Accounts of Slovenia were published on the Bank of Slovenia website in 2014.

In October the Bank of Slovenia released its first financial accounts data under the ESA 2010 for the period from 2001 to the second quarter of 2014.

Other statistics and activities

Under the aegis of the ESCB, the Bank of Slovenia prepares and participates in securities statistics within the framework of the Centralised Securities Database (CSDB) and the Securities Holding Statistics (SHS).

In addition, for the needs of the ECB it draws up general economic data and, on the basis of national accounts figures, public finance statistics and data on state aid to financial institutions during the economic and financial crisis. It also cooperates with the SORS and the Ministry of Finance in this area in a methodological working group.

The real estate statistics in 2014 included a calculation of an index of prices of private and commercial real estate, a calculation of other real estate market indicators, an assessment of generalised real estate market prices, regression models of market prices from generalised real estate prices for apartments and houses, an assessment of real estate mortgage valuations, and an application for reviewing real estate transaction prices.

A survey of household financing and spending was begun with a public tender to select the survey provider at the beginning of the year. Coordination of the questionnaire and other material was followed by two training sessions for surveyors. Surveying in the field was undertaken between September and December, with interim checks of whether work was progressing according to plan and was up to standard. Coordination of the form of the final database also took place in the second half of the year.

The Bank of Slovenia again conducted a survey of corporate access to financing in 2014. The Bank of Slovenia survey gives a view of the availability of external financing from the corporate perspective.

Apart from the aforementioned work with the ESCB, international statistical cooperation in 2014 also encompassed the BIS, Eurostat, the IMF, the OECD and the World Bank. While taking care as normal of the SDSS standard for the publication of IMF figures, the Bank of Slovenia prepared for the changeover to the expanded SDDS Plus version. The Bank of Slovenia also provided technical assistance for statisticians from the National Bank of Macedonia in 2014.

At the national level the Bank of Slovenia continued its successful statistics cooperation with the SORS, the Ministry of Finance, AJPES, the SMA and the ISA in 2014.

2.1.8 Information system

As a member of the ESCB, the Bank of Slovenia is connected to the ESCB's information system. Article 55 of the Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, No. 72/06 [official consolidated version]) stipulates that as of the day that Slovenia joined the European Union, the Bank of

Slovenia is to cooperate with the ECB in accordance with the Statute of the ESCB and of the ECB in respect of the recording, collection, processing and disclosure of data and information relevant to the performance of its functions.

The Bank of Slovenia is technically linked to the ECB/ESCB information system via complex infrastructure. The link includes the ESCB's physical network infrastructure system,[7] the ESCB's application network infrastructure system,[8] the ESCB's system for the secure exchange of e-mail[9] and a teleconferencing system. The infrastructure equipment is situated at primary and backup locations at the Bank of Slovenia.

The link to the ECB is provided using the ESCB physical network infrastructure system. It is a high-availability secure private network that links the individual NCBs with the ECB. The ECB is responsible for the system administration of this network, including equipment installed on-site at the NCBs.

The ESCB's application network infrastructure system forms part of the infrastructure used to link the NCBs with the ECB. It comprises several special-purpose servers, firewalls, network switches, etc. All equipment is duplicated to ensure a high level of availability. It is also a part of the Bank of Slovenia's backup computer centre, and thus ensures a constant link to the ECB, even in the event of a complete failure of the Bank of Slovenia's primary computer centre. All of the equipment of this network that is located at Bank of Slovenia sites falls under its administrative domain.

All of this infrastructure is designed to support the implementation of the ESCB's business processes. All changes to these business processes and introductions of new business processes require an appropriate adjustment in the infrastructure. The infrastructure equipment must be upgraded regularly with regard to technological advances, increases in the quantity of data and the increased requirements of commercial users. The upgrade of the ESCB-Net environment and the EXDI[10] system having been completed in 2013, an upgrade to CoreNet3was carried out in 2014, and an upgraded teleconferencing system was also implemented. Throughout the year the Bank of Slovenia carried out regular maintenance work on the ESCB-Net and EXDI systems. It was involved in the transfer of ESCB application software into the production environment.

In functional terms the Bank of Slovenia is connected to the ESCB via business applications used by the departments of the Bank of Slovenia. A number of applications via which data is exchanged between the NCBs and the ECB and ESCB run on the aforementioned infrastructure.

Activities continued within the ESCB in 2014 to provide application support for the implementation of measures approved by the Governing Council of the ECB. The Bank of Slovenia thus had to adapt and provide application support, particularly in support of the eligibility criteria of financial assets, and the exchange of various statistics in terms of content and in terms of technological solutions owing to changes of format.

The introduction of the Single Supervisory Mechanism (SSM) also required adaptations to the information system. From a technological standpoint, it was necessary to integrate the new requirements into the existing environment, while solutions had to be operationally effective and flexible, and synergies with existing solutions and infrastructure had to be exploited. Like everything else, the requirements relating to the SSM also had an impact on the information systems of the NCBs and supervisory institutions. As a result of the introduction of the SSM, the Bank of Slovenia participated in the integration of the competent national authorities into the ESCB's secure email system (the SEE) and put in place an encrypted connection with it.

[7] Core Network.
[8] ESCB-Net.
[9] ESCBMail.
[10] ESCB XML Data Interchange.

The security of the ESCB information system is also very important. The Bank of Slovenia participated in two major interconnected projects in the area of information security. The migration of ESCB applications to the infrastructure for the centralised management of user accounts and access rights within the framework of the IAM (Identity and Access Management) project continued in 2014. The Secure ESCB Email (SEE) project continued, its aim being to increase the security of content exchanged in the ESCB email system by using an encryption mechanism and electronic signature that is based on digital certificates recognised at the ESCB level. In 2014 the ECB recognised, at ESCB level, digital certificates issued by the registered certification authority at the Bank of Slovenia. This allows the Bank of Slovenia to use its own digital certificates in ESCB systems.

2.2 Banking supervision

2.2.1 Banking supervision within the framework of the SSM

Fundamental changes were made to banking supervision in 2014, both from the perspective of content and the implementation of activities, and from the perspective of organisation and human resources, as a consequence of internal audits and findings, and the introduction of the Single Supervisory Mechanism (SSM) under the aegis of the ECB. The SSM Regulation adopted on 3 November 2013 gave the ECB a mandate to put in place a functioning single supervisory mechanism within one year as the first of three pillars of the European Banking Union established as a European policy response (June 2012) to the crisis, with the aim of better preventing and overcoming difficulties in the banking system and consequently in the entire economic system. The mission of the SSM is primarily to restore confidence in European banks and over the long term to build a sound and stable banking system based on standard rules and methodology and a common culture of prudential supervision. The ECB is responsible for the implementation of the SSM in conjunction with all the national banking supervisory authorities in the euro area.

Upon the establishment of the SSM certain supervisory powers were transferred from the national level to the European level. The SSM Regulation transfers certain powers directly to the ECB, which is responsible for deciding on the issue or withdrawal of authorisations to provide banking services or to acquire qualifying holdings, the misdemeanours system, etc. All European banks were classed according to certain criteria either as systemically important (significant) banks (123 banks and banking groups in total), or as less significant banks whose turnover is smaller and more regionally focused. The powers and methods of supervision differ between the two categories. Supervision of significant banks is the direct responsibility of the ECB. A major role in conducting supervision at the operational level at the significant banks belongs to the Joint Supervisory Team (JST) of ECB coordinators and representatives of the national supervisor. The national supervisory authority participates directly in all supervisory activities at significant institutions, but does not take decisions at the national level. Supervision at less significant banks is conducted in accordance with the SSM rules and methodology, supervisory data is also regularly submitted to the ECB for less significant banks, briefings are given of the supervisory findings of the national supervisor, consultations can be held on the issue of measures with a material impact on a bank, but the final decision rests with the national supervisory authorities, unless it is a case of violations in which the measure of the withdrawal of the authorisation to provide banking services or the replacement of the bank's senior management is imposed. The SSM rules allow these banks to be transferred into direct supervision by the ECB at the proposal of the national supervisor or the ECB in the event of the possible occurrence of a systemic crisis or a failure to conduct adequate supervision at the national level.

The ECB required a comprehensive assessment of the bank's financial position to be conducted at all significant banks. Before taking over the supervision of significant banks the ECB wanted to obtain a clear picture in particular of the quality of the investments and the adequacy of capital coverage in the event of a deterioration in business conditions at each significant bank or banking group. To ensure that standard procedures were applied in the comprehensive assessment at all significant banks in the euro area, a detailed standard methodology for asset review and valuation was drawn up and stress tests were centrally formulated for each country with regard to the various macroeconomic circumstances. The huge project of conducting a simultaneous comprehensive assessment of all 130 selected significant banks began in early 2014, under central management at the level of the ECB and in close collaboration with the national banking supervisors. The entire project consisted of three parts: an asset quality review, stress tests, and the determination of risk-based capital requirements in light of the results of the two preceding phases of the assessment. The results of the comprehensive assessment were simultaneously published for all the banks at the end of October, just before the SSM entered into force on 4 November 2014.

More than half of the Slovenian banking system is under the direct supervision of the ECB. According to the criterion of the three largest banks in terms of total assets as at 30 September 2013, three largest Slovenian banks (NLB, NKBM and SID banka) were classed as significant and were therefore included in direct supervision by the ECB, and underwent the comprehensive assessment in 2014. In light of SID banka's special business model as a development and export bank, and its special status under the capital directive with regard to prudential rules, in July 2014 the ECB took the decision to complete the comprehensive assessment at the bank but then to remove it from the group of significant banks. At the same time it took the decision to include UniCredit Banka Slovenija as the third Slovenian bank in the SSM, and in the future the bank will be under the ECB's direct supervision on a solo basis. The bank will therefore be included in the group of euro area banks at which a comprehensive assessment will be undertaken in 2015. In addition to these three banks, there are five other Slovenian banks that are members of banking groups established in euro area countries that are also classed as significant. These banks were included in the comprehensive assessment on a consolidated basis within the framework of their corresponding parent banks in 2014. The other ten Slovenian banks are classed as less significant, and their supervision remains the responsibility of the Bank of Slovenia.

Credit risk is by far the most significant risk at European banks, for which reason a thorough and wide-ranging asset quality review was the central part of the entire activity. The review covered:

- a review of the adequacy of internal policies and processes in the area of credit operations;
- a review of exposure to individual clients in selected risk portfolios with collateral valuation and an assessment of impairments;
- a review of the appropriateness of the calculation of collective impairments and an assessment of the appropriateness of the level of impairments of selected risk portfolios;
- a calculation of the requisite impairments for the portfolio as a whole based on the assessment of impairments derived from the sample of corporate clients.

According to the methodology, the shortfall determined in impairments reduces the initial level of capital before the stress tests are conducted. The stress tests are used to determine the viability of a bank and the solidity of its balance sheet in stress scenarios. A baseline scenario and an adverse scenario were envisaged, and the resilience of the balance sheet was determined for the three-year period from 2014 to 2016. Credit institutions had to meet a common equity Tier 1 capital ratio of at least 8% under the baseline scenario, and at least 5.5% under the adverse scenario.

The final result of the comprehensive assessment of a bank is expressed as a capital surplus or shortfall with regard to the prescribed threshold of capital adequacy and the risks that the bank holds on its balance sheet. Slovenian banks (NLB, NKBM and SID banka) were also reviewed as part of the ECB's comprehensive assessment. After the review of credit risk had been conducted, additional impairments were primarily required for claims against highly indebted corporates, affiliates and restructured corporates. Under the baseline scenario, all three Slovenian banks met the required level of capital, and together disclosed a total capital surplus of EUR 755 million. Two banks (NLB and NKBM) would disclose a total capital shortfall of EUR 65 million at the end of 2016 under the adverse scenario, while SID banka would disclose a capital surplus even under the adverse scenario. After taking the restructuring measures at the end of 2013 at the two banks with a small capital shortfall, the effects of the restructuring improved profitability in 2014 to the extent that the identified capital shortfalls were covered by retained earnings.

The Banking Supervision Department was involved in the comprehensive assessment of the three largest Slovenian banks throughout the year. The Bank of Slovenia organised its work in the execution of this extensive task on a project basis, where its main role was in coordinating all the participants, guiding the banks and clarifying the methodology, conducting quality controls, drawing up reports and submitting data to the ECB. A total 1,318 loans and 4,046 collateral items were included in the assessment, and had to be reviewed and valued. The Bank of Slovenia engaged external auditors for direct reviews of numerous loans and collateral items. A total of 5,757 man-days were spent on the project over the first ten months of the year, of which the Bank of Slovenia accounted for 35% or 2,017 man-days, while external providers accounted for 3,740 man-days.

The switch of staff from national supervision to work at the ECB within the framework of the SSM further reduced the human resources available for carrying out other supervisory duties last year. The ECB recruited almost a thousand people in the establishment of unified banking supervision. It is essential for the successful establishment of the system and its continuing good performance that the staff are properly qualified and have the requisite knowledge to conduct supervision, for which reason the primary natural resource from which to recruit people was the ranks of experienced national banking supervisors. Almost three-quarters of the new staff in the SSM come from other areas at the ECB and from the national supervisory authorities. Five examiners and one analyst moved from the Bank of Slovenia to the ECB.

Ordinary annual reviews and risk and capital assessments at all the banks were conducted in parallel with the activities of the comprehensive assessment of significant banks. The assessment took account of events, developments and results until mid-2014, and the results of the stress tests conducted at all the banks under the standard methodology and scenario of the European Banking Authority (EBA). After the implementation and results of the comprehensive assessment, the significant banks were subject to a follow-up review and risk and capital assessment in conjunction with or under the aegis of the SSM, and on this basis capital plans were drawn up to meet the requisite capital levels for significant banks determined in the comprehensive assessment process and the SREP. Overall inherent risk at system level in 2014 was down slightly on the previous assessment at the end of 2012, primarily as a result of a decline in liquidity risk and reputation risk. Strategic risk had the worst risk assessment in the banking system, followed by credit risk and profitability risk. Profitability risk increased most in the period since the previous assessment at the end of 2012, primarily as a result of the risk of losses that might be incurred by certain banks that have not yet created sufficient impairment for their claims. Irrespective of the restructuring of the banking system (the recapitalisation at the end of 2013, the transfer of banks' non-performing claims to the BAMC) and the positive outlook for economic growth, credit risk remains the most significant risk in the banking system with regard to the proportion of capital required for coverage. The actual assessment of credit risk remains at a similar level to the previous review and assessment of risk and capital. The key reason for the unchanged assessment is corporate overleveraging, primarily because operational restructuring has been too slow, and consequently so have changes to corporate balance sheets. There are no significant differences in the control environment, as the assessment of the control environment is strongly dependent on the actual findings in reviews at banks, which were very limited in scope owing to other activities in 2014. The supervisory assessment of risk-based capital requirements declined from EUR 4.24 billion to EUR 3.70 billion, primarily as a result of the contraction in lending activity and the reclassification of investments as lower risks. The capital adequacy situation across the banking system also improved as a result of the recapitalisation of five Slovenian banks at the end of 2013: the banking system's overall capital adequacy stood at 13.7%, up approximately 2.3 percentage points on the end of 2012. The capital surplus over the capital requirements amounted to EUR 357 million across the system.

The Bank of Slovenia conducted 27 different inspections and reviews in 2014, within the framework of which 30 different areas at 14 banks were examined. The following areas were examined:

- 13 reviews in the area of credit risk at 11 banks, encompassing a thorough review of credit risk at the three largest banks as part of the comprehensive assessment during the activities to transfer the supervision of significant banks to the ECB, a review of procedures and credit files of eligible collateral for loans at the ECB within the framework of ordinary monetary operations at six banks, and four regular reviews of credit risk at three banks;
- a review in the area of liquidity risk was conducted at two banks;
- two reviews in the area of operational risk, one of which was related to changes in the advanced measurement approach to measuring and managing operational risk at the bank;
- six procedures were opened in the area of governance at five banks, of which one relates to the governance of the group, while the others relate to procedures against members of the management boards. In these procedures a caution was imposed on two management board members, in one case the management board member resigned from his position before the procedure was completed, and at two banks members of a special administration had their terms of office extended;
- the area of strategic governance was reviewed at two banks;
- the area of money laundering and terrorist financing was reviewed at two banks;
- reviews were conducted at two banks of the monitoring of the compliance of the restructuring programme with a European Commission decision on state aid;
- a review of the determination of the bank's liquidation value was conducted at one bank in cooperation with external auditors.

At two banks where a procedure to close down the banks was initiated and a special administration was appointed in 2013, in accordance with legislation the Bank of Slovenia takes the role of the supervisory board and the general meeting. In this role it actively monitors the procedure to wind down the banks, which in accordance with a European Commission decision must cease trading by the end of 2016.

Under the influence of and in response to changes in the environment, major changes in internal organisation and HR in the conduct of supervision were carried out in 2014. There were new organisational arrangements in supervision, primarily as a result of the introduction of the SSM at all significant banks in the euro area, in parallel with a complete reorganisation of the Bank of Slovenia. During a broader reorganisation at the level of the entire institution, the Banking Supervision Department was renamed the Supervision Division in November 2014, and placed under the leadership of an executive director. The Supervision Division consists of two departments, the Banking Supervision Department (BSD) and the Systemic Supervision and Regulation Department (SSRD).

The BSD consists of four sections, of which three function within the framework of the SSM. These sections are responsible for significant banks, for less significant banks and for horizontal supervision. The fourth section, which is not included in the SSM and whose duties instead remain exclusively under the power of the Bank of Slovenia, is active in the area of compliance with legislation and regulations. There are currently nine employees at the section for the supervision of significant banks, who within the framework of JSTs[11] work directly with the ECB with responsibility for the supervision of eight Slovenian banks. There are six employees at the section for the supervision of less significant banks,

[11] Joint Supervisory Team.

who are responsible for supervising the other ten Slovenian banks. The horizontal supervision section employs 16 supervisors, who work on the planning and execution of supervisory reviews at banks, conduct analysis of individual risks (e.g. credit risk, market risks) and the SREP methodology, introduce best supervisory practices, and apply and develop the Bank of Slovenia internal credit assessment system (ICAS). The compliance section has three employees, who are responsible for reviewing the banks' compliance with legislation and regulations relating to money laundering, consumer protection, financial fraud, market abuse and insider trading.

The SSRD has staff who work on the development of prudential banking regulations (11 employees), the establishment and maintenance of the supervisory reporting framework and accounting (nine employees), the issue of authorisations (two employees) and supervisory methodologies and analysis (two employees). Currently the regulations section also includes the bank resolution function (one employee), which in the future will become an independent organisational unit reporting directly to the Governing Board of the Bank of Slovenia. The prudential banking regulations section covers a variety of tasks in its work. One of the most important is actively participating in the drafting of banking legislation, having consistent regard for the development of EU banking legislation. Close cooperation with staff responsible for Slovenian banking legislation is also important because of the Bank of Slovenia's active involvement in defining the content of laws being amended, and the timely planning of the content of the corresponding secondary legislation. In addition to its involvement in domestic legislation, it is also important that the prudential banking regulations section participates actively in the development of banking legislation and regulations at the level of the European Commission and the EBA, as these regulations represent the majority of all the requirements that the banks are now required to meet. In-depth knowledge of these regulations is also extremely important for providing effective support to banks and the other sections of the Banking Supervision Department.

After the organisational and process changes made in the second half of 2014, further changes in supervision will be required, which will be set out by the SSM. The largest changes are currently in progress or in implementation in the following areas:

- participation in procedures to assess the capital and liquidity adequacy of significant banks in Slovenia and subsidiaries of cross-border banking groups in Slovenia, and the adoption of the Joint Risk Assessment and Decision (JRAD);
- continual monitoring of banks for reason of the daily submission of information;
- coordination in the selection of banks for review, the scope of reviews and the composition of teams;
- the envisaged communication with banks.

Close monitoring of the implementation of strategic/business plans and related activities to raise capital and maintain capital adequacy, particularly at the banks with capital weaknesses. This includes continual monitoring and supervision of:

- bank restructuring plans within the framework of European Commission measures in relation to state aid,
- the effects of agreed corporate restructuring,
- the bank restructuring procedures via the transfer of non-performing claims to the BAMC;
- ownership consolidation in the banking system;
- from the perspective of market discipline, the focus in reviews will be on prevention of money laundering and terrorist financing.

2.2.2 Other activities in the area of banking supervision

Changes to secondary legislation in the area of banking supervision

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 and amending Regulation (EU) No 648/2012 (the CRR), which entails a significant step towards enforcement of a European single rulebook, began to be applied by Member States on 1 January 2014. For its practical implementation the Bank of Slovenia issued a regulation in January setting out the manner and scope of the exercise of options, discretions and other duties conferred on the competent supervisory authority by the EU regulation. These are primarily discretions that set out the way in which banks' capital is calculated during the transition period (to full enforcement of the new rules), capital requirements for various types of risk, and the treatment of certain other prudential requirements from the EU regulation.

Other changes to secondary legislation were the Bank of Slovenia's response to practical findings in supervision. January saw the issue of a new Regulation on the documentation for demonstrating the fulfilment of conditions to perform the function of a member of the management board of a bank or savings bank, which updated the questionnaire used as one of the bases for assessing the reputation and experience of candidates for membership of the management board or supervisory board of a bank or savings bank within the framework of the licensing of board members. A new Regulation on the amounts of annual fees for supervision and fees for decisions on requests for the granting of authorisations was published in February, changing the amounts of individual fees and the ratios between individual fees paid by the banks in connection with the granting of various authorisations. The banks wishing to acquire authorisations will thus contribute more to covering the costs of issuing the authorisations. The amount of other supervisory costs to be covered by all the banks via an annual fee will therefore be smaller.

In 2014 the Bank of Slovenia continued its activities to encourage banks to act faster in writing off non-performing financial assets and to take a more active approach to the forbearance of such assets and the redemption of collateral. As part of these activities the Regulation on the assessment of credit risk losses of banks and savings banks was amended in February. The regulation set out a definition of forborne financial assets to accord with the definition given by the technical standards for supervisory reporting, the types of forbearance that can be carried out by the banks, and the accounting framework for the two basic categories of financial assets created as a result of individual types of forbearance. Requirements were also prescribed for the classification of forborne financial assets into rating categories and in terms of their documentation or recording in books of account. In connection with write-offs a framework was put in place for the faster derecognition of non-performing financial assets from the statement of financial position when the bank judges that a financial asset will no longer be repaid or the conditions for derecognition under the IFRS have been met. A bank can make an assessment of the write-off of financial assets from a loan agreement or an exercised off-balance-sheet contingency when the following conditions have been met:

- for an unsecured financial asset, if the debtor is more than one year in arrears with repayment;
- for a financial asset secured by real estate collateral, if the debtor is more than four years in arrears with repayment;
- for an unsecured financial asset, if the debtor is undergoing bankruptcy proceedings.

In March the new Guidelines on implementing the Regulation on the assessment of credit risk losses by banks and savings banks updated the requirements with regard to the reporting of classified financial assets. It involves the reporting of individual transactions or counterparties to financial assets (the code for the counterparty and the number of days in arrears at the level of the individual transaction) and the reporting of forborne financial assets (type of forbearance, date of initial forbearance, date of last forbearance).

Within the framework of the Bank of Slovenia's efforts to speed up the restructuring of corporates that are over-leveraged yet have good prospects, the regulatory framework was upgraded with the aim of contributing to the practical implementation of Slovenian debt restructuring principles in the real economy. A novel/amendment of Regulation on risk management and the implementation of the internal capital adequacy assessment process for banks and savings banks was published in April 2014, which emphasised significant elements that have to be taken into account in the financial restructuring of corporates with a large number of creditors. The risk management process at the banks also has to include an assessment of whether a collective approach to corporate resolution is reasonable, as a coordinated approach can minimise the losses of all creditors. A bank not opting to participate in a collective agreement with regard to the approach taken to a corporate in financial difficulty would have to refrain from actions that weaken the position of the other creditor banks in relation to the debtor, in accordance with best practice. A bank opting to participate is committed to upholding certain principles (participation in the appointment of a coordinator to head negotiations between the banks and the corporate, active involvement of the representatives of all the banks in the entire restructuring procedure, approval of a moratorium on the debtor's liabilities with the aim of obtaining all the requisite information for deciding on restructuring, a refusal to participate in the restructuring only if not assured of equal treatment of comparable creditors or if not assured of higher repayment than under bankruptcy).

Other changes to secondary legislation in 2014 were aimed at harmonising with the requirements of EBA guidelines or derived from the requirements of domestic legislation. The Regulation on eligible assets and documentation for the granting of an authorisation to increase the share capital of banks and savings banks via a non-cash contribution was published in October 2014 to operationalise the novel ZBan-1J, which in December 2012 introduced the option of the recapitalisation of a bank or savings bank via a non-cash contribution. The regulation sets out the types and criteria of eligible assets for the recapitalisation of a bank via a non-cash contribution, and defines the documentation that the bank must enclose in the request for an authorisation. Debt securities of central governments and central banks of Member States that meet the criteria for eligible collateral for Eurosystem claims and allow the bank the final, free and permanent disposal of the assets are classed as eligible assets for this purpose. Amendments to the Regulation on the books of account and annual reports of banks and savings banks, and to the guidelines for its implementation were adopted in December. The purpose of the amendments was the harmonisation of the scheme of financial statements intended for publication or for inclusion in the annual report with the FINREP section of the Implementing technical standards for supervisory reporting. The banks took account of the amended regulation and guidelines when compiling their annual reports for the 2014 financial year.

Licensing

The Bank of Slovenia issued 13 authorisations in 2014, mostly authorisations to hold office as a member of the management board of a bank. In its role of supervisor of the banking system the Bank of Slovenia is competent and responsible for conducting comprehensive oversight at banks, part of which is the granting of authorisations for various banking operations. Oversight begins at each credit institution or bank with the issue of the requisite legally prescribed authorisations to pursue banking activities (financial services), to hold significant (qualifying) holdings in banks and to hold office as a member of the management board of a bank.

In 2014 the Bank of Slovenia conducted 16 procedures, and issued 11 authorisations to hold office as a member of a bank's management board, one authorisation to provide financial services and one authorisation for a demerger. Two requests for authorisations were rejected, and in one case the procedure to issue the authorisation was suspended. The number of authorisations issued in 2014 was down three on the 16 issued in 2013, of which five were authorisations to provide financial services and five were authorisations to hold office as a member of the management board.

In 2014 the Bank of Slovenia issued cautions to two members of a bank's management board, and initiated two procedures to revoke the authorisation to hold office as a member of a bank's management board that resulted in a resignation. In the event of violations of the ZBan-1 or a failure to meet the conditions for holding office as a member of the management board of a bank, the Bank of Slovenia can issue a caution to the management board member in question, can conditionally suspend the authorisation, or can revoke the authorisation to hold office. The Bank of Slovenia initiated a procedure to revoke an authorisation in two cases in 2014 that ended with the resignation of the president and another member of the management board of a bank, and imposed a caution in two cases, having initiated procedure to revoke an authorisation to hold office as the president of a bank's management board in one case that ended in resignation and having pronounced a caution in two cases in 2013. The Bank of Slovenia also appointed a special administration at two banks in 2013, thereby dismissing the entire management boards of the two banks.

In 2014 the Bank of Slovenia did not disqualify anyone from holding office as a member of a bank's supervisory board. In addition to issuing authorisations in connection with the provision of services, the management bodies, the holders of qualifying holdings of banks and changes of status, the Bank of Slovenia is also responsible for determining whether a bank's supervisory board is fit and adequate, and for disqualifying a person from holding office on a supervisory board in the event of a failure to meet the conditions or a violation of regulations. The Bank of Slovenia did not impose any disqualifications on members of a bank's supervisory board in 2014. Two supervisory board members had left their positions at two banks on the basis of Bank of Slovenia action in 2013.

One authorisation to acquire a qualifying holding was issued in 2014. A qualifying holding in this case means a qualifying holding in the voting rights or capital of a financial institution established in the Republic of Slovenia or another Member State, or a financial corporation established in a third country. As of the end of 2012 banks have been required to obtain an authorisation from the Bank of Slovenia before the acquisition of a qualifying holding. In 2013 three banks submitted requests for an authorisation to acquire a qualifying holding, which were refused.

The Bank of Slovenia received 13 notifications in 2014 of the direct provision of services in Slovenia by banks of Member States. Pursuant to Directive 2013/36/EU (previously: Directive 2006/48/EC) and Annex I (List of activities subject to mutual recognition), a bank of a Member State that is entitled

Table 6: **Authorisations issued**

Authorisation/Licence	2014	2013
Authorisation to acquire a Qualifying Holdings	0	2
Authorisation to perform Financial Services	1	5
Authorisation to issue Municipal Bonds and Mortgage Bonds	0	1
Authorisation to perform the Activities of Cover Register Administrator	0	2
Authorisation to perform the Function of a Management Board Member	11	5
Authorisation for Merger of a Company with a Bank	0	1
Authorisation for split-off of property	1	0

Source: Bank of Slovenia.

Table 7: **Bank of Slovenia measures against management board members**

Measure	2014	2013
Procedure for withdrawal of authorisation to perform the function of a member of the bank's management board	2	1
Admonisment to a member of the bank's management board	2	2
Conditional withdrawal of authorisation to perform the function of a member of the bank's management board	0	0
Discharging of bank's management board	0	2

Source: Bank of Slovenia.

to provide banking services and other (mutually recognised) financial services in its home country may also provide these services in Slovenia. It may provide them via a branch (*in the case of permanent pursuit of business activities*) or directly (*in the case of occasional provision of services without elements of permanent presence in Slovenia*) without an authorisation from the Bank of Slovenia, which must be provided with a written notification by the relevant supervisory authority in the home country. The Bank of Slovenia received 13 notifications in 2014 of the direct provision of services in Slovenia by banks of Member States. In 2013 the Bank of Slovenia had received 16 notifications of the direct provision of services by banks of Member States in Slovenia, and one notification of the provision of services via a branch. A list of banks of EU Member States that may pursue their business activities in Slovenia is published on the Bank of Slovenia website.

The establishment of the SSM changed the Bank of Slovenia's powers in connection with making licensing decisions. The SSM, which is one of the pillars of the banking union, took full effect for banks in the euro area on 4 November 2014, when the ECB assumed powers and responsibilities for conducting banking supervision, one year after the entry into force of the Regulation No 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions. Although the power and responsibility for the supervision of all credit institutions in the euro area lies formally with the ECB, the decentralised supervision system means that the Bank of Slovenia still executes its existing duties (and certain others). There have been significant changes to the Bank of Slovenia's decision-making powers in the supervision of banks and savings banks and in connection with licensing in this context. There have consequently been changes to the procedures for making decisions on:

- the issue of an authorisation to provide banking services;
- the revocation of an authorisation to provide banking services;
- the issue of an authorisation to acquire a qualifying holding in a bank;
- the issue of an authorisation to hold office as a member of a bank's management board at a significant financial institution;
- notifications of the cross-border provision of banking services.

The ECB is responsible for issuing and revoking the authorisation to provide banking services. The ECB is also responsible for issuing the authorisation to acquire a qualifying holding in a bank. The fitness and qualifications of a candidate for the position of a member of the management board of a bank that has the status of a significant institution, and the fitness and qualifications of members of the supervisory board of such a bank are assessed by the ECB. A bank established in Slovenia that has the status of a significant institution and wishes to establish a branch or provide cross-border services in another Member State must notify the ECB, which exercises the power of the domestic supervisor.

Different arrangements apply to banks of third countries. Banks of third countries may only provide banking and other (mutually recognised) financial services in Slovenia via a branch, where the authorisation of the Bank of Slovenia is required for the establishment of a branch. When granting such authorisation, the Bank of Slovenia may request that a bank of a third country deposit a specific sum of cash or other eligible collateral in Slovenia, or provide other appropriate collateral as a guarantee for the settlement of liabilities from transactions concluded in Slovenia. There are no branches of a bank of a third country established in Slovenia at present.

European Banking Authority (EBA)

The EBA is an independent EU supervisory authority whose purpose is to ensure effective and consistent prudential regulation and supervision across credit institutions. Its overall objectives are to maintain the long-term stability and effectiveness of the financial system in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector. The EBA is part of the European System of Financial Supervision (ESFS), which consists of three supervisory authorities: the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA). The EBA is answerable to the European Parliament, the Council of the European Union and the European Commission.

The fundamental duties of the EBA set out in Regulation (EU) No 1093/2010 establishing a European Banking Authority include regulation, supervision of credit institutions and consumer protection. In 2014 the EBA's basic objective in the area of regulatory policy was again the continuing development of a single rulebook in banking, to help create a level playing field for credit institutions in the EU and to help improve the quality of banking regulations and the functioning of the single market. The regulatory work of the EBA mostly focused on work in connection with the legislative package of the CRD IV/CRR,[12] in particular with regard to credit risk and market risk, liquidity and leverage, and the bank recovery and resolution framework. The EBA's supervisory activity related to the identification, analysis and discussion of key risks in the EU banking sector, and to the monitoring of banks' capital levels and capital plans. The EBA focused a significant part of its activity on strengthening protection for consumers of banking services and encouraging transparency, clarity and justice in the market for consumer financial products and services on the single market. In 2014 the EBA also assumed the presidency of the Joint Committee of the European Supervisory Authorities (the EBA, the ESMA and the EIOPA). Under its presidency the Joint Committee has focused in particular on consumer protection, inter-sectoral risk analysis and assessment of analysis of interactions between the Solvency II directive, the CRD IV/CRR, and the legislative framework for bank recovery and rescue. The Joint Committee continued its work on the preparation of legislation in certain key areas such as financial conglomerates and prevention of money laundering.

The EBA also plays an important role in promoting the convergence of supervisory practices aimed at establishing the standardised implementation of banking rules in all Member States. Banks in the EU are subject to prudential rules that need to be applied in as standardised a manner as possible to ensure a level playing field for banks operating on the internal market. These rules include a range of binding technical standards, and the various guidelines and recommendations that have a basis in European banking legislation. The EBA drafts binding technical standards for submission to and approval by the European Commission, and EBA guidelines and recommendations that directly aim at the convergence of supervisory practices and the establishment of standards of good banking practice.

Owing to the extraordinary size and complexity of these standards and rules, the Bank of Slovenia is intensively involved in the work of the EBA via inclusion in its numerous committees and working groups. The Bank of Slovenia can thus also contribute to the development of the single rulebook for banking, and can actively monitor the development of regulations forming part of EU law. This is also important for the Bank of Slovenia because it has to apply the rules in supervisory reviews, and use them as the basis for its supervisory measures.

In addition to the Board of Supervisors and four standing committees, there are 55 different subcommittees that function under the aegis of the EBA. These include various working groups, networks of experts and committees that are active within the framework of inter-sectoral cooperation between the three European supervisory authorities. The Bank of Slovenia was a member of four boards and 27 committees, sub-committees and working groups in 2014.

[12] Directive 2013/36/EU (CRD IV) and Regulation (EU) No 575/2013 (CRR) transpose the content of Basel III into EU banking legislation.

Other Bank of Slovenia measures in the area of forbearance of banks' non-performing exposures and the Slovenian economy's emergence from crisis

The experience of resolving the financial and economic crisis showed the close connection between the banking (financial) sector and the real sector in Slovenia. Corporate restructuring and the consequent restructuring of the economy as a whole are proceeding slowly, which given the experience of past crises (Debt and deleveraging: The global credit bubble and its economic consequences, McKinsey, 2010) is to be expected. A significant number of the aforementioned changes in the supervisory function are the result of the Bank of Slovenia's systematic project-based approach to monitoring banks in the processes of corporate deleveraging and restructuring. The bank recovery in late 2013 was merely a necessary, not sufficient, condition for emergence from the major double-dip crisis that hit the Slovenian economy between late 2008 and mid-2013. In conjunction with the banks and other stakeholders, the Bank of Slovenia succeeded in creating the conditions for functioning in the adverse circumstances.

Restructuring is dependent on two groups of stakeholders. The first group are those creating the institutional and legal framework (the Bank of Slovenia, the ministries and other national and European institutions, interest associations, etc.), while the second consists of those actually carrying out the restructuring (banks, firms, investors, owners, the BAMC, etc.). Owners often have a dual role, as in Slovenia the government has a relatively strong ownership presence in the financial and non-financial sectors. The process can only be a success if all stakeholders play an active part, and are aware of their powers and responsibilities.

The Bank of Slovenia embarked on its active role in restructuring in late 2012, when on the basis of balance sheet analysis it identified the firms for which restructuring would be economically justified. In so doing it aimed to speed up activity for the restructuring of over-leveraged firms that nevertheless had good long-term prospects, irrespective of sector. In October 2013 the Bank of Slovenia began direct communications with the real sector to improve awareness of the problems of restructuring processes and other problems in the economy. On the basis of the information obtained, the Bank of Slovenia adjusted the legislative framework for banking services, thereby helping to improve processes at banks. In addition, on the basis of this information it improved its own processes and supervisory procedures, and drew up a large number of proposals and initiatives for changes in legislation that do not fall directly under its competence, forwarding them to the legislator.

In early 2014, in conjunction with the Bank Association of Slovenia, the Bank of Slovenia drafted the Slovenian principles for the financial restructuring of debt in the economy, which significantly sped up restructuring processes and improved their effectiveness, soundness and transparency. As stated above, the essential elements of the principles were incorporated in secondary legislation, for which reason the Bank of Slovenia supervised the implementation of secondary legislation by directly participating in meetings between banks, firms, owners and other creditors.

The Bank Asset Management Company was established in March 2013, but was only able to intensify its activities after the transfer of the first claims late in the year. The Bank of Slovenia gave significant assistance to the BAMC in understanding the structure of the claims portfolio, understanding the legal and institutional framework, and putting an information system in place.

The Bank of Slovenia also conducted substantive analysis of restructuring agreements, on which the banks have been obliged to report since May 2013 under secondary legislation. It found that in certain cases the banks failed to assess the feasibility and effectiveness of the chosen restructuring method, that in monitoring the implementation of restructuring plans the banks were too slow to respond to firms' difficulties and too slow to take action, and that the majority of agreements are merely based on financial restructuring, and do not include operational and ownership restructuring. Accordingly, in its future activities the Bank of Slovenia will focus on eliminating the aforementioned deficiencies.

- **Activities conducted by the Bank of Slovenia last year:**

- With regard to measures for the management of credit risk at banks, it amended the secondary legislation that committed banks to collecting and storing key data on credit risk. This allows banks to design models for assessing probability of default and loss given default. The Bank of Slovenia also made improvements to the credit register, which in addition to customer exposures now allows for the monitoring of credit exposure at the level of the individual transaction.
- To increase the effectiveness of restructuring processes, the Bank of Slovenia encouraged the creation of the Slovenian principles for the financial restructuring of debts in the real sector and actively participated in their creation under the aegis of the Bank Association of Slovenia.
- In late 2014 the Bank of Slovenia issued guidelines for creating impairments and provisions for exposures to restructured customers, which regulate the gradual release of impairments and provisions for exposures to restructured firms once clearly defined conditions have been met. The guidelines were coordinated before publication with the Slovenian Institute of Auditors and with audit firms.
- Among the more important achievements of the Bank of Slovenia's actions to date is the establishment of direct, regular communications between the Bank of Slovenia and selected representatives of the corporate sector for the identification of financial difficulties and needs in relations with banks.

In addition, last year the Bank of Slovenia organised a large number of international conferences and workshops to speed up restructuring processes.

- **Results of the corporate deleveraging and restructuring process**

Since May 2013 the banks have reported to the Bank of Slovenia on progress in restructuring the 40 firms and groups with which restructuring agreements have been signed. The classified claims in the reported cases amounted to EUR 1.68 billion in February 2015, although the amount from the end of November 2013 of EUR 2.7 billion is of greater significance, a significant portion of the claims having been transferred to the BAMC in the interim. These firms employed more than 28,000 people at the end of 2013, and generated more than EUR 4.4 billion of revenue in 2013. Currently there are three major restructuring processes underway, which are expected to be completed by mid-2015. The classified claims in the aforementioned groups amounted to EUR 527.4 million in February 2015.

The banks and the BAMC also used instruments such as subordinated loans, debt-to-equity conversion and write-off of claims in the restructuring process. These instruments are vital in many cases for fundamental restructuring that is sustainable in the long term. The total value of the used instruments is EUR 305 million.

- **Bank of Slovenia activities planned in 2015:**

The Bank of Slovenia is planning two groups of activities in 2015 in the area of the forbearance of banks' non-performing exposures: (1) it will undertake activities that are part of its regular supervisory powers and (2) in parallel with other stakeholders (in particular the ministries and interest associations) in the country it will within the scope of its powers participate in other activities that will directly or indirectly speed up the corporate restructuring process and make it more effective.

The Bank of Slovenia will devote most attention to supervisory activities, through which it aims to encourage better management of non-performing exposures. These notably include:

- **Preparation of individual plans to reduce non-performing exposures.** Given that a high proportion of non-performing exposures at the banks has for some time been one of the direct consequences of the economic crisis, reducing them to a sustainable level at the earliest opportunity is vital. The Bank of Slovenia is planning to resolve this issue within the framework of monitoring individual plans to reduce non-performing exposures drawn up by the individual banks.
- **Optimisation of restructuring processes at the banks.** The proper organisation of the processes is a prerequisite for the effective management of the processes of restructuring a bank's non-performing exposures. The Bank of Slovenia's objective in 2015 is to eliminate collective and individual deficiencies in the organisation of the restructuring processes at the banks, and to apply standardised best practice in the organisation of the restructuring processes.
- **Creation of EWSs for monitoring exposures** A review and analysis of the EWSs used by the banks for customer monitoring revealed major differences in the approach and sophistication of the systems of individual banks. In light of the importance of the EWS as a preventive tool, the Bank of Slovenia will issue guidelines on the minimum requirements for the creation of an EWS on the basis of best banking practice and the results of the analysis.
- **Overhaul of reporting to the Bank of Slovenia on progress in restructuring.** To reduce the reporting workload on the banks and to improve the quality and usefulness of existing reports on progress in restructuring, the Bank of Slovenia will overhaul the reporting methods used to date.
- **Establishment of guidelines for fundamental restructuring that is sustainable in the long term.** The financial restructuring of a large number of firms that are over-leveraged yet have good long-term prospects has stabilised the situation to a considerable extent. Now the need is for operational and ownership restructuring, for firms to be able to invest more significantly in their development and in expanding turnover. Given that a large number of stakeholders are involved in these processes, the guidelines will help to make the process faster and more effective.

The Bank of Slovenia's other activities and initiatives encompass participating in the work of the central coordinating commission for restructuring, which is headed by a representative of the Ministry of Finance, and also consists of representatives of the Ministry of Justice and the Ministry of the Economy. Under the aegis of the coordinating commission, a master restructuring plan will

Table 8: **Situation with regard to restructuring processes**

	Banks as agent	BAMC as agent	Number of employees as of 31. Dec 2013	Revenues in 2013, in EUR million	Restructured classified claims, in EUR thousand	
					30. Nov 2013	28. Feb 2015
Number of received master restructuring agreements up to 31. Dec 2014	38	2	28,434	4,393	2,699,841	1,681,012
Number of major group companies in restructuring	2	1	7,086	1,240	703,791	527,406
Total	40	3	35,520	5,634	3,403,632	2,208,418

Source: Bank of Slovenia.

Table 9: **Use of other restructuring instruments in reported restructuring agreements**

in EUR million	Subordinated loan	Debt to equity swap	Write-offs	Total
	10.4	246.2	48.4	305

Source: Bank of Slovenia.

be created for Slovenia, and will feature the following activities: the coordination of stakeholders within the framework of corporate deleveraging and restructuring procedures, the establishment of appropriate monitoring, improvements in the understanding of restructuring processes, and the resolution of systemic problems in the area of restructuring. At the initiative of the Bank of Slovenia, activities will also be initiated in 2015 for the establishment and work of a special-purpose vehicle for managing the banks' non-performing claims. The aforementioned legal entity will be established by banks and private investors with an interest in its creation. Analysis of the possibility and necessity of restructuring for SMEs will be conducted under the aegis of the Bank of Slovenia, while the Bank of Slovenia will also propose the establishment of the infrastructure for resolving liquidity issues at SMEs. The establishment of reporting on the BAMC's portfolio is also one of the more important activities scheduled in 2015.

2.2.3 Guarantee scheme and bank recovery and resolution measures

Deposit guarantee scheme for banks

Under the Banking Act (ZBan-1), the deposit guarantee scheme for banks and savings banks in Slovenia covers deposits of private individuals, micro and small legal entities, individuals pursuing registered business activities and sole traders of up to EUR 100,000 at an individual bank or savings bank. In the event of the bankruptcy of one of the banks or savings banks, the Bank of Slovenia would activate the procedures for the payout of guaranteed deposits within 20 business days (exceptionally 30 business days). Under the ZBan-1, the funds necessary for the payout of guaranteed deposits must be provided by banks and savings banks that are members of the deposit guarantee scheme, with the government temporarily providing the funds only in exceptional cases. This means that the deposits of banks from other EU Member States that operate in Slovenia via branches or directly are protected in the bank's home country, up to EUR 100,000. Even in 2013 the Bank of Slovenia was focusing on improving the mechanism for the payout of guaranteed deposits in the event of the bankruptcy of one of the banks or savings banks.

In the area of the deposit guarantee scheme, in 2014 the Bank of Slovenia was involved in drafting the legal and other changes required for transposing the new Directive 2014/49/EU on the deposit guarantee scheme into Slovenian law, in close conjunction with the Ministry of Finance and the Bank Association of Slovenia. The Bank of Slovenia will continue its activities in 2015 in the drafting of legislation, secondary legislation and the other requisite changes for the full transposition of the new directive, and will press on with its activities to prepare banks and savings banks for the timely and accurate reporting of information about guaranteed deposits, which is one of the key elements in the functioning of the deposit guarantee scheme. These activities will allow for significant adjustments to the deposit guarantee scheme, which will comply with the new EU directive, and will strengthen public awareness of the existence and functioning of deposit guarantee schemes, thereby ensuring greater security for depositors, and increasing their confidence in the banking system.

Crisis management framework

In 2014 the Bank of Slovenia again imposed an extraordinary measure to ensure the survival of problematic banks. It was again evident last year that without state aid in the form of recapitalisation certain banks would not survive. Arrangements were therefore enacted in Slovenia via the ZBan-1L in 2013 allowing the Bank of Slovenia to carry out a bank recovery procedure in the event of a bank's insolvency employing measures that are similar in effect to the composition proceedings carried out in the event of the insolvency of a non-financial corporation. These arrangements allow the Bank of Slovenia to carry out the compulsory write-off of the shares of existing shareholders and the write-off or conversion into shares of the subordinated claims of the bank's creditors, i.e. those claims that in the event of the bank's bankruptcy would only be repaid after all of the bank's deposits and other ordinary claims of the bank's creditors have been repaid. As in the cases of the extraordinary measures that it imposed on NLB d.d., NKBM d.d., Abanka Vipa d.d., Probanka d.d. and Factor banka d.d. in December 2013, the Bank of Slovenia imposed extraordinary measures in the case of Banka Celje in December 2014 with the aim of recapitalising to the requisite level of capital adequacy. At the same time it published rulings on extraordinary measures on its website for public interest reasons.

The Bank of Slovenia was involved in drafting the new Bank Resolution Authority and Fund Act (Official Gazette of the Republic of Slovenia, No. 97/14; the ZOSRB), under which it was designated the national resolution authority, with full powers to impose resolution measures in the form of extraordinary measures as regulated by the ZBan-1, and to establish and manage a resolution fund, whose financing and functioning are regulated by the ZOSRB. The ZOSRB imposes several obligations on the Bank of Slovenia, which it is to meet by the legally stipulated deadlines, the most notable of which is the establishment of the bank resolution fund by the end of March 2015. The Bank of Slovenia embarked on activities to appropriately adjust bylaws and procedures in connection with the accounting of the fund, the reporting of the fund, the management of the fund's investments, the procedures for making payments into and out of the fund, the introduction of the fund's investment policy, supervision of the banks' obligations with regard to paying up the founding contributions and the liquid assets for the emergency financing of bank resolution in the event of the fund's assets being insufficient in a particular case. Under the ZOSRB the Bank of Slovenia must also ensure the internal organisational separation of the resolution function from the supervisory function. In November 2014 the Bank of Slovenia therefore embarked on activities to gradually tailor the processes and procedures required for taking over the powers of the national resolution authority, having regard for the required separation of the resolution function from the supervisory function, with the aim of preventing a conflict of interests between the two functions, as required *mutatis mutandis* by Directive 2014/59/EU on bank recovery and resolution (the BRRD).

Owing to the delay in transposition in 2014, in 2015 Slovenia's crisis management framework will have to be completely adjusted to the future single rulebook prescribed by the new European directive on the recovery and resolution of credit institutions and investment firms (the BRRD) and the future EU regulation on the Single Resolution Mechanism (SRM). The crisis management framework, most notably bank resolution, will set out the requisite measures, procedures and authorisations by means of which bank resolution will be undertaken in a manner that prevents financial instability, at the lowest possible cost to the government. The Bank of Slovenia therefore began preparations for the changeover to the Single Resolution Mechanism regulated by Regulation (EU) No 806/2014. As of 1 January 2016 the Single Resolution Board will thus make decisions for significant banks, in line with Regulation (EU) No 806/2014 and in conjunction with the ECB, on the fulfilment of conditions for resolution and on the resolution scheme for the bank or banking group. In the event of resolution being initiated, the Bank of Slovenia in its capacity of national resolution authority will carry out the resolution procedure in accordance with the instructions received from the Single Resolution Board, having regard for the bylaws and operational framework of the SRM. In the case of less significant banks, if the use of the Single Resolution Fund is not envisaged, the Bank of Slovenia will decide independently on the fulfilment of all conditions for resolution and on the method of bank resolution. Finally, the crisis management framework will also be in need of upgrade from the perspective of addressing systemic risks that could cause a systemic crisis at the national or cross-border level; such situations do not necessarily require the resolution of individual banks. These activities will continue in 2015.

2.3 Ensuring financial stability

Concern for financial stability is one of the Bank of Slovenia's fundamental duties. Within the framework of this duty the Bank of Slovenia monitors and analyses the risk exposure of groups of financial institutions of the same type, the transfer of risk between these groups, and the transfer of risk to other sectors of the national economy and back to the financial system. Tools for identifying systemic risks and vulnerabilities in the banking system are being developed to support these processes in accordance with international practice.

Risks in the banking system declined significantly in 2014, credit risk and solvency risk in particular. After the bank recapitalisations and the transfer of a major portion of the portfolios of two banks to the BAMC in late 2013, the Slovenian banking system entered 2014 with less credit risk and improved capital adequacy compared with previous years. The ongoing resolution of non-performing claims through additional transfers to the BAMC and the processes embarked on for their forbearance brought an end to the increase in non-performing claims last year. Positive trends were prevalent in certain economic sectors for the majority of 2014. The proportion of non-performing claims remains large, which is partly attributable to the continuing contraction in lending activity. The risk of a further deterioration in the banks' credit portfolio therefore remains high. The low quality of claims against non-residents, which are not included in resolution via transfers to the BAMC and are particularly dependent on economic development in the countries of the western Balkans, is particularly notable. The activities in the area of corporate restructuring and the measures adopted to further reduce non-performing claims at the

Table 10: **Overview of risks in the Slovenian banking system**

Systemic risk	Risk assessment for H1 2014	Risk assessment for H2 2014	Trend of change in risk	Comment
Macroeconomic risk			↓	Better-than-expected economic recovery, primarily on account of exports in the content of increased foreign demand; high level of investment in the infrastructure; improving conditions on the labour market despite persistently high unemployment.
Credit risk			→	Continuing decline in the proportion of non-performing claims; low quality of the credit portfolio of non-residents; contraction in lending.
Refinancing risk			↓	Slower but still rapid decline in the LTD ratio; large portion of liabilities from LTROs repaid; high liquidity ratios and proportion of the pool of eligible collateral that is free; sufficient liquidity, but structural funding remains unstable.
Contagion risk and large exposure			→	Contagion risk has declined in the recent period, both in terms of size and in terms of the number of possible transmissions of contagion. The fall was the result of a decline in net classified claims between banks. Exposure to the government and sovereign ratings.
Solvency risk			→	Government-funded recapitalisation of banks at the end of 2013. Urgent need for owners with strong capital backing.
Income risk			↑	Contraction in balance sheets and persistently high impairment costs; environment of negative or very low interest rates, increased corporate financing in the rest of the world and on the capital markets; the increase in lower-risk and less profitable investments is the result of increased aversion to take up credit risk.

Colour coding:
High risk ... ... Low risk

Source: Bank of Slovenia.

banks could significantly contribute to credit risk management and an improvement in the quality of bank investments. The Bank of Slovenia's December guidelines for the creation of impairments and provisions for claims against firms with which a restructuring agreement has been signed were adopted with the aim of speeding up corporate restructuring and getting the banks more actively involved in these processes.

Given the magnitude of the credit risk, the likelihood of the additional creation of impairments and provisions and the consequent increase in income risk at the banks remains large. Income risk is on the rise despite an improvement in performance and a higher net interest margin. Additional pressure on the banks' income risk is being created by the environment of low interest rates and the question of whether the banks will be able to generate sufficient income in such an environment to cover their operating costs and impairment costs, and to lend to corporates given their relatively high leveraging. The effect of cuts in reference interest rates have primarily passed through into the banks' deposit rates, while lending rates on new loans are being reduced very slowly. The maintenance of a large spread over average interest rates across the euro area is encouraging creditworthy customers to switch to financing in the rest of the world, and could cause the long-term loss of this source of income for the banks. The policy of aversion to the take-up of credit risk is redirecting the banks towards lower-risk, less-profitable investments. The proportion of the banks' total assets accounted for by securities had risen to 24% by October 2014. The banks' increased preference for government bonds is additionally increasing income risk because of potential sovereign downgradings and the potential renewed loss of confidence on the international financial markets with regard to the more vulnerable countries of the euro area.

Refinancing risk declined in 2014 in the wake of intensive debt repayments to the rest of the world. Many of the banks, particularly those under majority domestic ownership, have already repaid the majority of the debt raised on the wholesale markets. The restoration of confidence in the domestic banks has seen household deposits returning to the banking system. This positive development was particularly evident at the large domestic banks, which in 2013 had undergone the largest loss of confidence from savers and decline in household deposits, and then enjoyed the largest increase in the same in 2014. Given the slight increase in household consumption, the fall in deposit rates and the renewed rise in household demand for alternative investments, together with projected moderate wage growth, suggest that future growth in deposits will be modest. ECB policy indicates that its financing will continue to represent a sufficient source of liquidity, although the banks' perceptions with regard to the adequacy of creditworthy demand and the stability of other funding does not yet allow for this funding to be directed into loans to the real sector.

With the strengthening of economic growth and the improvement in the situation on the labour market, the macroeconomic circumstances in Slovenia are improving and the macroeconomic risks to the banks are diminishing. There nevertheless remains a risk of lower-than-expected GDP growth on account of the uncertain economic recovery in certain euro area countries and the potential worsening of geopolitical tensions in Ukraine and the Middle East. Domestic economic growth remains primarily based on foreign demand, which could lose momentum, given the uncertainty of the economic recovery in key trading partners. A slower economic recovery could slow the process of corporate restructuring and reduce corporate deleveraging, which would entail a significant impediment to the recovery of credit growth and consequently to the main risks in the banking system.

The Bank of Slovenia is developing its own *Risk Overview* as a tool for identifying key systemic risks. The overview focuses primarily on the banking system, and on the basis of quantitative indicators provides information on systemic risks and vulnerabilities in the banking system. The risk levels for each risk are shown in Table 10.

2.3.1 Macro-prudential supervision and other measures in the area of financial stability

The adoption of the Macro-Prudential Supervision of the Financial System Act (the ZMbNFS) in late 2013 created the legal basis for the implementation of macro-prudential supervision in Slovenia. The ZMbNFS enacts Recommendation ESRB/2011/3 of 22 December 2011 on the macro-prudential mandate of national authorities.

The Financial Stability Committee (FSC) was established in 2014 pursuant to the ZMbNFS. The FSC formulates macro-prudential policy in conjunction with three independent national authorities responsible for the supervision of relevant institutions in their respective parts of the financial system: the Bank of Slovenia, the Securities Market Agency and the Insurance Supervision Agency. The eight-person FSC consists of two representatives from each of the supervisory authorities, and two representatives from the Ministry of Finance who do not have voting rights. The purpose of the FSC is to help protect the stability of the entire financial system, including the strengthening of its resilience and the reduction of accumulated systemic risks, thereby ensuring that the financial sector is able to make a sustainable contribution to economic growth.

The FSC formulates macro-prudential policy by issuing guidelines to the supervisory authorities. The guidelines are issued in cases when the need to prevent or reduce systemic risk has been identified, or when it is assessed that the warnings and recommendations of the ESRB need to be implemented. The guidelines are aimed at the supervisory authorities responsible for the area with the identified disruption. In implementing macro-prudential policy the supervisory authorities are responsible for the macro-prudential supervision of financial corporations, which are supervised pursuant to the sectoral laws governing their respective areas.

In accordance with Recommendation ESRB/2011/3, the ZMbNFS confers the lead role on the FSC on the Bank of Slovenia. The lead role entails the Governor of the Bank of Slovenia being appointed the president of the FSC with the power to convene and chair ordinary sessions, and the Bank of Slovenia being given the power to provide the FSC's support staff. The latter provides analytical, administrative and logistical support to the FSC in the exercise of its duties. The FSC held three ordinary sessions in 2014, which took place on Bank of Slovenia premises.

Guidelines for macro-prudential policy were drawn up in 2014 for the purpose of putting in place an operational framework for macro-prudential policy and the macro-prudential supervision of the banking system. The guidelines were adopted and published in early 2015. They define the ultimate objective and intermediate objectives of macro-prudential policy, the instruments for which the Bank of Slovenia will have a legal basis to be able to use them, and the principles that the Bank of Slovenia will uphold within the framework of the decision-making process. The guidelines establish links between indicators and other tools for identifying systemic risks and the intermediate objectives, and between the intermediate objectives and the macro-prudential policy instruments that allow the intermediate objectives to be met. The ultimate objective of macro-prudential policy is to contribute to safeguarding the stability of the entire financial system, including strengthening the resilience of the financial system and preventing and reducing the build-up of systemic risks, thereby ensuring the financial sector's sustainable contribution to economic growth. The interim objectives of the Bank of Slovenia's macro-prudential policy in the area of the macro-prudential supervision of the banking system are:

- mitigating and preventing excessive credit growth and excessive leverage;
- mitigating and preventing excessive mismatching in maturity structure and illiquidity;
- limiting the concentration of direct and indirect exposures;
- limiting the systemic impact of misaligned incentives with a view to reducing moral hazard;
- strengthening the resilience of financial infrastructures.

The Bank of Slovenia uses two macro-prudential instruments. Cap on deposit interest rates were introduced back in 2012, and GLTDF, reducing the pace of decline in loan-to-deposit ratio, was introduced in 2014.

GLTDF is the ratio of the annual change in the gross stock of loans to the non-banking sector (before impairments) to the annual change in the stock of deposits by the non-banking sector. The instrument gives a bank the option of either meeting the GLTDF requirements, which limits the pace of the reduction in the LTD ratio for the non-banking sector, or increasing liquidity buffers. The instrument thus contributes to meeting the interim objective of mitigating and preventing excessive mismatching in maturity structure and illiquidity. The banks first had to comply with the requirements of the regulation at the end of June 2014. Six banks failed to meet the minimum requirements at the end of June, falling to five at the end of September. Five banks had to meet the first corrective measure, i.e. more stringent requirements for GLTDF on quarterly basis, in the third quarter. Two of the banks met the requirements, while three banks had to meet the second corrective measure as of November 2014, i.e. the first-bucket liquidity ratio excluding the pledged amount of the pool of eligible collateral. All three banks met the aforementioned ratio as at the end of September.

The decline in the loan-to-deposit ratio (the LTD ratio) slowed, and developments in GLTDF were also more stable. The LTD ratio for the banking system overall stood at 98% at the end of December 2014, down 20 percentage points on December 2013. Last year's decline in the LTD ratio for the banking system was 90% of the previous year's decline; the corresponding figure at the banks under majority foreign ownership was 63%. The aforementioned effects are also attributable to other factors: the ECB's non-standard measures (TLTRO), the bank recovery and resolution process, and the economic recovery.

2.4 Other tasks

2.4.1 Payment services for Bank of Slovenia clients

The Bank of Slovenia administers accounts and provides payment services for clients. SEPA payment services account for the majority of payment services (99.6%) in terms of number of transactions. SEPA credit transfers accounted for 93.7% of SEPA payment services, and SEPA direct debits for 6.3%.

Administration of budget spending unit accounts

The Bank of Slovenia administers the government's single treasury account and 191 municipal single treasury accounts,[13] open 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 2014 there were EUR 146.6 billion of inflows and EUR 144.2 billion of outflows processed through the government's single treasury account, and EUR 39.1 billion of inflows and EUR 39.1 billion of outflows processed through the municipal single treasury accounts. In addition to the single treasury accounts, the Bank of Slovenia also administers 19 special-purpose accounts for the government and other budget spending units.

[13] A municipality can have a single treasury account open at the Bank of Slovenia, or can transact via sub-accounts within the framework of the government's single treasury account.

Administration of accounts for the CSCC and its members

The Bank of Slovenia administers a guarantee fund cash account and a fiduciary account for the custodian services of the Central Securities Clearing Corporation (CSCC). In addition, the Bank of Slovenia also administers the accounts of CSCC members via which cash settlements are made for securities transactions. At the end of 2014 there were 14 CSCC members, namely nine commercial banks and five investment firms, with open transaction accounts for customer funds and clearing accounts at the Bank of Slovenia. EUR 3.6 billion of inflows and EUR 3.5 billion of outflows were processed through the accounts of the CSCC and its members in 2014.

Administration of accounts for other domestic institutions

As of 2014 the Bank of Slovenia has administered an account for the BAMC, via which payments of loans and issued securities are executed. EUR 42 million of inflows and the same amount of outflows were processed through the account in 2014.

Administration of accounts for foreign financial institutions and EU institutions

The Bank of Slovenia also administers accounts for foreign financial institutions and EU institutions. EUR 1.2 billion in inflows and the same amount of outflows were processed through these accounts in 2014.

2.4.2 Risk management at the Bank of Slovenia

Risk management is an administrative process that includes the planning, organisation, management and control of resources in a cost-efficient manner with the aim of maintaining risks within permitted limits and limits acceptable to the Bank of Slovenia. All Bank of Slovenia employees are included in the risk management process. Risk management at the Bank of Slovenia complies with ECB/ESCB guidelines and methodologies, and also takes account of the principles and guidelines of the ISO 31000 standard as appropriate.

The Bank of Slovenia's risk management system has a clear organisational structure, and predefined competences and powers. Control over the functioning of the system ensures that the key risks to which the Bank of Slovenia is exposed are identified, assessed and managed in a timely manner.

The risk management framework and policy are set out by the Governing Board of the Bank of Slovenia, which is directly responsible for strategic risks and reputation risks. The Crisis Management Group and the Liquidity Committee work in the area of risks associated with financial stability, while the management of financial risks is carried out via the Investment Committee.

The management of operational risks is guided and supervised by the Operational Risk Committee. It is responsible for managing risks in the areas of business continuity and operational risks, and for ensuring information and physical-technical security.

The Bank of Slovenia has made significant progress in operational risk management in recent years. An operational risk management policy has been defined and adopted, and a functioning *operational risk management system* has been put in place.

2.4.3 Management of the Bank of Slovenia's financial investments

The value of the Bank of Slovenia's financial investments stood at EUR 3,764.0 million as at 31 December 2014, of which EUR 3,320.4 million comprised investments denominated in euros. The remaining EUR 443.6 million was denominated in currencies with the status of international monetary reserves. The Bank of Slovenia's claims arising from the exercise of monetary policy, claims from the provision of loans of last resort and claims within the Eurosystem are not classed as financial investments.

The management of the Bank of Slovenia's financial investments is carried out at three levels:

- *Strategic level:* The Governing Board of the Bank of Slovenia sets out the management targets and prescribes the Guidelines for managing the Bank of Slovenia's financial investments, which define the strategic parameters for managing financial investments and financial risks.
- *Tactical level:* The Investment Committee approves the strategic asset allocation for the period of one year and the benchmark portfolios. The Investment Committee further prescribes the Criteria for managing the Bank of Slovenia's financial investments, which set out the investment universe and limit exposure to individual types of risk.
- *Operational level:* The management process at operational level is carried out by the front-office and back-office staff and by the risk management unit.

The current credit risk criteria allow investments in financial instruments carrying sovereign and bank risk issued by institutions with an internal Bank of Slovenia rating of at least A- in general. Investments in the government and banking sectors are limited by the prescribed maximum allowable aggregate exposure to an individual sector and are limited to a list of eligible issuers, whereby there is also an upper exposure limit per individual sovereign issuer or per individual banking group. The upper exposure limit depends on the entity's internal Bank of Slovenia rating.

The market risk criteria limit the maximum interest rate, credit and currency exposure of the Bank of Slovenia's financial investments and prescribe target currency structure of investments. The Bank of Slovenia hedges all its currency exposure, with the exception of the amount of potential additional call-up of ECB foreign reserves. The criteria for managing the Bank of Slovenia's investments also set out the terms for securities lending and other activities.

The Bank of Slovenia's investment policy must comply with Article 123 of the Treaty on the Functioning of the European Union, which prohibits the monetary financing of public sector institutions. The prohibited forms of financing include placements of deposits and purchases of primary-issue debt securities, commercial papers and certificates of deposit when the obligor is a public sector institution. Purchases of EU public sector financial instruments on the primary market is prohibited, while investments are permitted on the secondary market within the framework of monthly and quarterly limits for each issuer home country. The management of the Bank of Slovenia's financial investments was carried out in line with the described criteria in 2014.

Part of the Bank of Slovenia's financial investments can be defined in accordance with the IMF's definition of international monetary reserves. These include foreign currency cash and foreign exchange holdings in the rest of the world, investment-grade securities of foreign issuers in foreign currency, monetary gold, holdings of SDRs and the reserve tranche position at the IMF. Since adopting the euro on 1 January 2007, in its statistical treatment of international monetary reserves the Republic of Slovenia has applied the provision applying in all other euro area countries: in addition to monetary gold, the reserve tranche position and SDRs, only the portion of foreign currency reserves that is not denominated in euros and that is placed outside the euro area is also classified as international monetary reserves. The Bank of Slovenia's international monetary reserves amounted to EUR 835.0 million as at

31 December 2014, of which holdings at the IMF amounted to EUR 391.5 million. More detailed information on the structure of the international monetary reserves as at 31 December 2014 is given in the section on the financial statements.

2.3.4 International cooperation

European Union

Representatives of the Bank of Slovenia participated in informal sessions of the ECOFIN, and in sessions of the General Board of the European Systemic Risk Board (ESRB) in 2014. The General Board of the ESRB takes the decisions necessary to ensure the performance of the tasks entrusted to the ESRB. The ESRB is responsible for the macro-prudential oversight of the financial system of the EU as a whole, and for monitoring and assessing risks to its stability. The Bank of Slovenia representative also attended the meetings of the Advisory Technical Committee, which operates under the aegis of the ESRB. Bank of Slovenia representatives attended meetings of the Board of Supervisors and meetings of the committees and working groups of the European Banking Authority (EBA).

In 2014 Bank of Slovenia representatives again attended sessions 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 sessions of the Economic and Financial Committee (EFC) and its subcommittees, meetings of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) and other working groups from the relevant areas that are active within the European Commission and the Council of the EU.

In January and October 2014 representatives of the European Commission and the ECB met 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.

International Monetary Fund

The Bank of Slovenia is responsible for Slovenia's cooperation with the IMF, and the Governor of the Bank of Slovenia is a member of the IMF Board of Governors. Slovenia's quota remained unchanged at SDR 275 million, or 0.14% of the voting power at the IMF. In accordance with Resolution 66-2 on the reform of quotas and governance, which the Board of Governors approved in December 2010, quotas will be doubled from the current SDR 238.4 billion to SDR 476.8 billion as part of the 14th general review of quotas. The aforementioned increase was not made in 2014, as the resolution as passed requires an amendment to the IMF's Articles of Agreement, which requires ratification by at least three-fifths of members representing at least 85% of the total voting power.

Within the framework of the Bank of Slovenia's participation in the IMF's financial arrangements, in 2014 Slovenia received four early repayments from Greece in the total amount of SDR 15.7 million on the basis of the bilateral loan agreement of 2010. The bilateral loan agreement signed in October 2013 for two years, was extended by one year in 2014 until October 2016 on the basis of consultations with the Bank of Slovenia. The agreement can be extended for one further year, subject to the Bank of Slovenia's consent (the agreement would thus have been extended to its maximum total term of validity of four years).

Slovenia again contributed to the financing of IMF loans under the Financial Transaction Plan (FTP) in 2014. It contributed funds in the total amount of SDR 4 million for lending to Portugal, Cyprus and Tunisia. Slovenia's reserve tranche position at the IMF increased again relative to 2013 to stand at SDR 103.7 million at the end of December 2014.

IMF representatives made two visits to Slovenia as part of the Article IV consultations in 2014. The substantive continuation of the autumn consultations took place between 4 and 6 February, and the visit was led by Daria Zakharova. During their visit the IMF representatives were briefed on the situation in the economy, restructuring processes, the functioning of the financial sector and the banking system, and the challenges of the future. Under the aegis of the new head of the mission for Slovenia, Delia Velculescu, IMF representatives also held their annual consultations with Slovenia under Article IV of the IMF Articles of Agreement between 2 and 12 December 2014. The members of the mission met representatives of the Bank of Slovenia, the Slovenian government, the National Assembly, the BAMC, the banking sector and unions, who presented the macroeconomic situation and the Slovenian government's economic policy guidelines in the upcoming period. The IMF representative with legal expertise met separately with all the stakeholders connected with the drafting and application of new insolvency legislation, while other IMF representatives organised two more workshops on the theme of structural reforms for increasing investment and the effectiveness of the pension, healthcare and education systems. In accordance with the IMF practice, the final report of the IMF mission under Article IV of the Statute was concluded by the IMF's Executive Board on 13 February 2015.

The Bank of Slovenia and the IMF organised a high level regional seminar on Reinvigorating Credit Growth in Central, Eastern, and Southern European Economies. In addition to representatives of the Bank of Slovenia and the IMF, the seminar was attended by the governors and other senior representatives of the central banks of countries from the aforementioned regions, as well as representatives of international financial institutions and respected academics from foreign universities.

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, most notably global demographic changes, the profitability of central banks, increased capital requirements, deflation and virtual currencies in 2014. The Bank of Slovenia is a shareholder in the BIS, and its representative participated in the annual general meeting of the BIS in Basel.

Organisation for Economic Cooperation and Development

Bank of Slovenia representatives attended sessions of committees and working groups of the OECD. They participated in meetings of the Economic Policy Committee, the Committee on Financial Markets, the Working Group on International Investment Statistics, the Working Party on Financial Statistics and the Working Party on National Accounts, and in the informal steering committee of the Working Party on SMEs and Entrepreneurship. In 2014 a Bank of Slovenia representative participated in meetings of the OECD's permanent interdepartmental working group. Bank of Slovenia representatives participated in the meetings in the framework of the Economic Survey for Slovenia in July 2014.

Technical assistance

Bank of Slovenia experts are also involved in programmes of technical assistance to other central banks. In 2014 the Bank of Slovenia provided bilateral assistance, participated in the ESCB/Eurosystem programmes and provided assistance via TAIEX to eight central banks from the following countries: Macedonia, Albania, Kosovo, Montenegro, Serbia, Croatia, Moldova and Austria.

The Bank of Slovenia participated in ESCB/Eurosystem programmes aimed at central banks in the western Balkans in 2014. It participated in programmes for the central banks of Albania, Kosovo and Montenegro. The aim of the programmes was to strengthen macroeconomic and financial stability in the region, by providing assistance to the central banks of candidate countries and potential candidate countries in their convergence with the EU. The Bank of Slovenia worked with the aforementioned central banks in the areas of internal audit and accounting.

In addition to technical assistance under the aegis of the ESCB/Eurosystem, the Bank of Slovenia also provided technical assistance via TAIEX, which falls under the aegis of the European Commission. The Bank of Slovenia provided technical support to three central banks within the framework of TAIEX, namely those of Macedonia, Albania and Moldova.

The Bank of Slovenia also received technical assistance in 2014. It was provided by international institutions (the IMF, the EBRD and the ESM), three central banks and other institutions.

3 ORGANISATIONAL STRUCTURE OF THE BANK OF SLOVENIA

Governing Board of the Bank of Slovenia

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

The Governing Board comprises five members: the Governor and four vice-governors. The Governor acts as the president of the Governing Board. The Governor may authorise one of the vice-governors to be his/her deputy.

As at 31 December 2014, the make-up of the Governing Board was as follows:

- Dr Boštjan Jazbec, Governor;
- Dr Janez Fabijan, Vice-Governor and Deputy Governor;
- Darko Bohnec, Vice-Governor;
- Dr Mejra Festić, Vice-Governor;
- Stanislava Zadravec Caprirolo, Vice-Governor.

Organisational structure of the Bank of Slovenia

The Bank of Slovenia is the central bank of the Republic of Slovenia, and as part of the Eurosystem is responsible for formulating and implementing the decisions of the Governing Council of the ECB. It is committed to the joint strategic objectives of the Eurosystem, and draws up its own fundamental objectives within this framework.

The Bank of Slovenia is committed to good governance and to performing the tasks entrusted to it effectively and efficiently in a spirit of cooperation and teamwork.

The following frameworks and guidelines are taken into account and pursued with regard to internal organisation:

- rational, sound and efficient operations;
- technological-functional integration of parts;
- effective management, coordination, planning and supervision of the implementation of work;
- use of advanced methods and working means, and systematic introduction of new work technology;
- mutual cooperation and cooperation with other organisations and institutions;
- responsibility for timely and high-quality work.

In line with the adopted Bank of Slovenia strategy for 2015–2020 and with the aim of meeting the objectives of more effective measures and fulfilment of tasks, the Bank of Slovenia is organised into four divisions:

- Analysis Division,
- Operations Division,
- Supervision Division, and
- General Affairs Division.

The aims of the divisional organisation are to enhance cooperation between the divisions and other organisational units, and to simplify communications and the functioning of the Bank of Slovenia.

The divisional organisation allows for the effective and efficient functioning and operation of the Bank of Slovenia, with the aim of meeting the joint objectives of the Eurosystem (maintaining price stability for the common good). Together they protect financial stability and strengthen European financial integration. Work between departments is coordinated within the individual division. The divisions are coordinated by the secretary-general, the executive directors and the chief economist.

Commissions, committees and working bodies of the Bank of Slovenia

The Bank of Slovenia had 35 different working bodies as at 31 December 2014: 21 commissions, six committees and eight working groups.

The most important working bodies are:

- Operational Risk Committee (president: Darko Bohnec);
- Audit Committee (president: Dr Dušan Zbašnik);
- Investment Committee (president: Ernest Ermenc);
- Commission of the Governing Board of the Bank of Slovenia for the Preparation of Opinions on the Qualifications of Individuals to Hold Office (president: Darko Bohnec);
- Licensing Commission (president: Stanislava Zadravec Caprirolo);
- Commission of the Governing Board of the Bank of Slovenia for Research Work (president: Dr Mejra Festić);
- Liquidity Commission (president: Tomaž Košak);
- Violations Commission (president: Jasna Iskra);

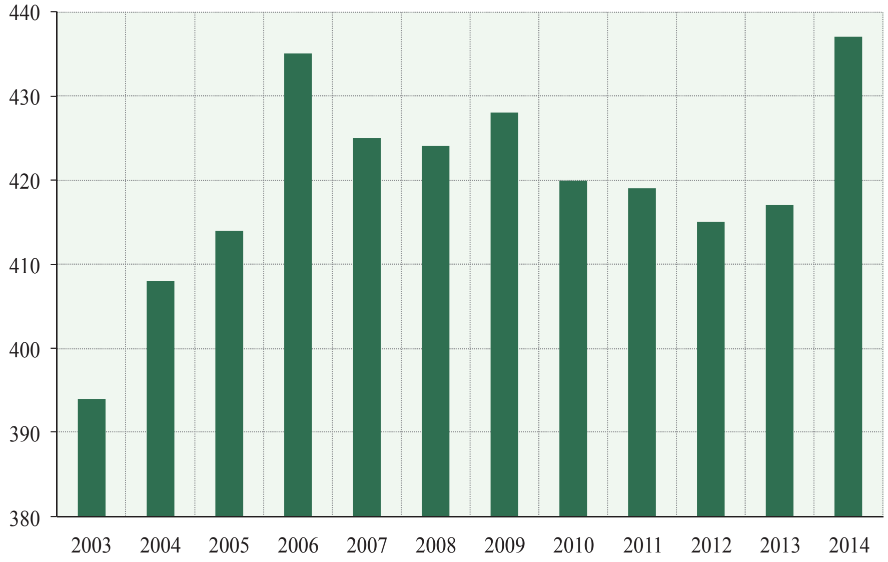
- Crisis Management Task Force (president: Stanislava Zadravec Caprirolo);
- Project Work Committee (president: Dr Janez Fabijan).

Employees

The Bank of Slovenia had a headcount of 437 as at 31 December 2014.

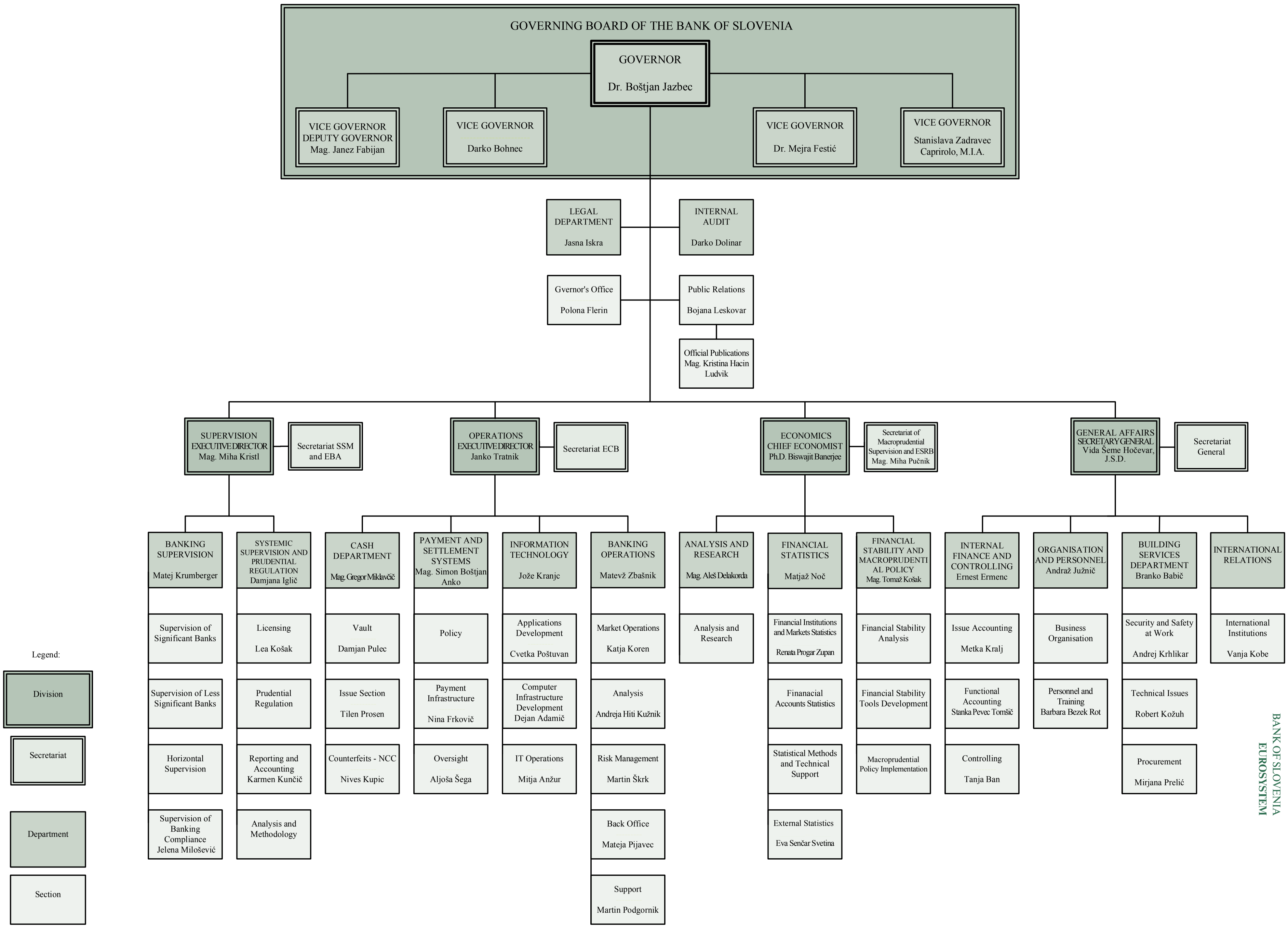
The average age of employees of the Bank of Slovenia was 43 years and 5 months in 2014. Some 78.5% of the employees held qualifications of higher than Level V.

Figure 28: **Headcount at the Bank of Slovenia at year end**



Source: Bank of Slovenia.

ORGANISATIONAL STRUCTURE OF THE BANK OF SLOVENIA AS AT 31 DECEMBER 2014



4 FINANCIAL STATEMENTS

Financial statements of the Bank of Slovenia for 2014

Statement of responsibilities of the Governing Board

The Law on the Bank of Slovenia (the Bank) and the Statutes of the Bank require the Governing Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and the surplus or deficit of the Bank for that period. In preparing those financial statements the Governing Board 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 will continue in business.

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

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the Bank of Slovenia

Report on the Financial Statements

We have audited the accompanying financial statements of Bank of Slovenia (the 'Bank'), which comprise the balance sheet as at 31 December 2014 and the income statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Responsibility for the Financial Statements

The Governing Board is responsible for the preparation and fair presentation of these financial statements in accordance with the Guideline of the European Central Bank of 11th November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2010/20) and articles of Law on Bank of Slovenia that are applicable for financial reporting. The Governing Board is also responsible for the level of internal control required in its opinion to prepare financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of Bank of Slovenia as of 31 December 2014 are prepared, in all material respects, in accordance with the Guideline of the European Central Bank of 11th November 2010 on the Legal Framework for Accounting and Financial reporting in the European System of Central Banks (ECB/2010/20) and articles of Law on Bank of Slovenia, applicable for financial reporting.

DELOITTE REVIZIJA d.o.o.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Yuri Sidorovich
Certified Auditor
President of the board

Ljubljana, 16 March 2015

For signature please refer to the original Slovenian version.

FOR TRANSALTION ONLY – SLOVENE ORIGINAL PREVAILS

Constitution

The Bank of Slovenia (the Bank) was constituted by the Law on the Bank of Slovenia dated 25 June 1991. The Bank is a legal entity, governed by public law, which independently disposes of its own property. The Bank is wholly owned by the state and is autonomous as regards its finances and administration. The Bank is supervised by Parliament. The Bank shall take care of the stability of domestic prices and of general liquidity of the financial system. According to the Bank of Slovenia Act (Official Gazette of the Republic of Slovenia No. 58/02, No. 72/06 and No. 59/11), from the day of introduction of the euro, the Bank 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 ECB[1].

Accounting policies

Introduction of euro
Republic of Slovenia introduced the euro as a new legal tender on the 1 January 2007. The Bank became part of the Eurosystem and took over joint responsibility for monetary policy and for exercising the common strategic goals of the European System of Central Banks (ESCB)[2].

Accounting principles and standards
The Bank applies the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2010/20)[3] (Accounting Guideline) as the legal basis for the accounting and reporting. According to the Bank of Slovenia Act and according to the Statute of the ESCB and the ECB, this legal framework was adopted by the Governing Board of the Bank 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 operations, which follow accounting principles, harmonized by Community law and 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

[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 'European System of Central Banks (ESCB)' refers to the twenty-eight National Central Banks (NCBs) of the member states of the European Union on 31 December 2014 plus the European Central Bank (ECB). The term 'Eurosystem' refers to the eighteen NCBs of the member states participating in the Monetary Union, plus the ECB on the same date.

[3] OJ L 35, 09.02.2011, p. 31-68. The Accounting guideline is amended by the Guideline of the European Central Bank of 21 December 2011 (ECB/2011/27), OJ L19, 24.01.2012, p. 37-50, Guideline of the European Central Bank of 10 December 2012 (ECB/2012/29), OJ L356, 22.12.2012, p. 94-108, and by the Guideline of the European Central Bank of 15 December 2014 (ECB/2014/54).

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;
- 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 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, substantially all of the associated risks and rewards have been transferred to the Bank, 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 basis of 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 valuation is accounted for on a basis of the price in euro 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
The Governing Council decided in 2014 that the securities held for monetary policy purposes shall be accounted for at amortised cost (subject to impairment), regardless of the holding intention. The new valuation approach did not result in any adjustment of the comparable numbers given that these securities were already valued accordingly.

Securities held for other than monetary policy purposes
Marketable securities (other than those classified as held-to-maturity) are valued at the market prices prevailing at the balance sheet date, on a security-by-security basis.

Marketable securities classified as held-to-maturity, non-marketable securities and illiquid equity shares are valued at amortised cost and are subject to impairment.

Securities lending transactions under automated security lending contracts are concluded as part of the management of Bank's own assets. Securities lent by the Bank are collateralised. Income arising from lending operations is included in the Profit and Loss account. Automated security 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 in 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:

	2014	2013
Buildings	1.3 – 1.8 %	1.3 – 1.8 %
Computers	20 – 33 %	20 – 33 %
Other equipment	10 – 25 %	10 – 25 %

Gains and losses on disposal of fixed assets are determined as the difference between 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 Bank's fixed assets. They are carried at fair value and are not depreciated. The fair value is demonstrated as half of appraisal value, obtained by an external certificated valuer (the Bank 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. In its prudent concept it reduces the volatility of the financial statements.

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

The Eurosystem key is an individual NCB's share of the total key held by Eurosystem members and is used as the basis for allocation of monetary income, banknotes in circulation, 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 eighteen euro area NCBs[4], which together comprise the Eurosystem, issue euro banknotes[5]. The total value of euro banknotes in circulation is allocated on the last working day of each month in accordance with the banknote allocation key[6].

[4] Central bank of Lithuania has only participated in the Eurosystem since 1st January 2015.

[5] 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.

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

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% has been allocated to NCBs according to their weightings in the capital key of the ECB. The share of banknotes allocated to the Bank is disclosed under the balance sheet 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 remunerated intra-Eurosystem balances. These claims or liabilities[7] are disclosed under the sub-item '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 year[8] until five years following the cash changeover year the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted (smoothing mechanism) 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 period[9] and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments are reduced in annual stages until the first day of sixth year after the cash changeover year when income on banknotes is 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 Národná banka Slovenska (in 2009), Eesti Pank (in 2011) and Latvijas Banka (in 2014) and will terminate at the end of 2014, 2016 and 2019, respectively.

The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under 'Net interest income (expenditure)' in the Profit and Loss account.

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 securities purchased under the securities markets programme, the asset-backed securities purchase programme and the third covered bond purchase programme shall be due in full to the NCBs in the same financial year it accrues. Unless otherwise decided by the Governing Council, the ECB shall distribute this income in January of the following year in the form of an interim distribution of profit[10]. It is distributed in full unless the ECB's net profit for the year is less than its combined income earned on euro banknotes in circulation and the aforementioned asset purchase programmes, 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 charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against income earned on euro banknotes in circulation.

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

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[7] Decision of the European Central Bank of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast) (ECB/2010/23), OJ L 35, 09.02.2011, p. 17-25, amended by the Decision of the European Central Bank of 3 November 2011 (ECB/2011/18), OJ L 319, 02.12.2011, p. 116, Decision of the European Central Bank of 5 June 2014 (ECB/2014/24), OJ L 117, 07.06.2014, p. 168 and Decision of the European Central Bank of 15 December 2014 (ECB/2014/56), OJ L 53, 25.02.2015, p. 21-23.

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

[9] 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 Bank of Slovenia this is the period from July 2004 to June 2006.

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

Provisions
Provisions for legal claims are recognised when the Bank has a present legal or constructive 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 Bank of Slovenia Act, after introduction of the euro as the Republic of Slovenia's currency, the Governing Board of the Bank 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, together with the unrealised exchange rate differences, securities' valuation effects and gold valuation effects, they exceed 20% of established net income. With the amendment of the Accounting Guideline, which entered into force as at the end of 2012, the legal background for the creation of provisions for credit risks is given. The relevant amount of provision 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 of that portfolio at a certain level of probability (99%) and for a given holding period (one year). ES at a given confidence level is defined as an expected portfolio loss taken into account only the losses equal or greater to VaR figure at the same confidence level. The provision will be used to fund future unrealised losses not covered by the revaluation accounts.

Intra-ESCB balances / Intra-Eurosystem balances
Intra-Eurosystem balances result from cross-border payments in the EU that are settled in central bank money in euro. They are primarily settled in TARGET2[11] 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 vis-a-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro (interim ECB profit distribution, monetary income results), are presented as a single net amount 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 Bank'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 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 net single asset under 'Net claims related to the allocation of euro banknotes within the Eurosystem' (see 'Banknotes in circulation' in the Accounting policies).

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 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 liabilities 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

[11] Trans-European Automated Real-time Gross settlement Express Transfer system 2

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 on purchased securities are calculated and presented as part of interest income and are amortised over the remaining life of the security 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 Bank'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 accounts or 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.

On 1 January 2015, Lithuania adopted euro as a new legal tender and paid up its capital share to the ECB in full. As a result, the Bank's share in the fully paid-up capital of the ECB decreased from 0.4937% to 0.4908% on 1 January 2015.

Cash flow statement
Taking account of the Bank's role as a central bank, the publication of 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 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 income deriving from exchange rate and price changes is allocated in its entirety to the revaluation accounts and it is not included in a 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 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 Deloitte revizija d.o.o., Ljubljana, who was appointed as the external auditor of the Bank for the financial years 2012 to 2014.

Balance Sheet as at 31 December 2014

ASSETS (thousands of euro)		31 December 2014	31 December 2013
1	**Gold and gold receivables**	**101,082**	**89,156**
2	**Claims on non-euro area residents denominated in foreign currency**	**734,027**	**578,169**
	2.1 Receivables from the IMF	391,517	368,745
	2.2 Balances with banks and security investments, external loans and other external assets	342,509	209,424
3	**Claims on euro area residents denominated in foreign currency**	**138,553**	**208,530**
4	**Claims on non-euro area residents denominated in euro**	**1,022,064**	**783,955**
	4.1 Balances with banks, security investments and loans	1,022,064	783,955
	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**	**1,098,380**	**3,337,000**
	5.1 Main refinancing operation	-	-
	5.2 Longer-term refinancing operations	1,098,380	3,337,000
	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**	**230,272**	**378,800**
7	**Securities of euro area residents denominated in euro**	**2,551,839**	**2,995,476**
	7.1 Securities held for monetary policy purposes	677,302	726,721
	7.2 Other securities	1,874,538	2,268,755
8	**General government debt denominated in euro**	**-**	**-**
9	**Intra-Eurosystem claims**	**4,773,764**	**2,215,530**
	9.1 Participating interest in ECB	82,199	74,847
	9.2 Claims equivalent to the transfer of foreign reserves	200,221	189,500
	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	2,087,724	1,951,183
	9.5 Other claims within the Eurosystem (net)	2,403,619	-
10	**Items in course of settlement**	**-**	**-**
11	**Other assets**	**204,260**	**225,940**
	11.1 Coins of euro area	2,435	2,543
	11.2 Tangible and intangible fixed assets	29,726	22,558
	11.3 Other financial assets	51,058	49,171
	11.4 Off-balance sheet instruments revaluation differences	811	164
	11.5 Accruals and prepaid expenses	54,204	101,134
	11.6 Sundry	66,026	50,370
12	**Loss for the year**	**-**	**-**
Total assets		**10,854,241**	**10,812,554**

* Only an ECB balance sheet item

LIABILITIES (thousands of euro)	31 December 2014	31 December 2013
1 Banknotes in circulation	**4,615,083**	**4,135,500**
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	**1,434,063**	**2,068,276**
2.1 Current accounts (covering the minimum reserve system)	1,434,063	1,463,776
2.2 Deposit facility	-	-
2.3 Fixed-term deposits	-	604,500
2.4 Fine-tuning reverse operations	-	-
2.5 Deposits related to margin calls	-	-
3 Other liabilities to euro area credit institutions denominated in euro	**7,997**	**14,159**
4 Debt certificates issued	**-**	**-**
5 Liabilities to other euro area residents denominated in euro	**2,847,451**	**1,755,768**
5.1 General government	2,718,258	1,713,820
5.2 Other liabilities	129,192	41,948
6 Liabilities to non-euro area residents denominated in euro	**10,227**	**14,881**
7 Liabilities to euro area residents denominated in foreign currency	**93,919**	**73,323**
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	**257,417**	**241,421**
10 Intra-Eurosystem liabilities	**-**	**1,024,450**
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	-	-
10.4 Other liabilities within the Eurosystem (net)		1,024,450
11 Items in course of settlement	**-**	**-**
12 Other liabilities	**113,828**	**96,387**
12.1 Off-balance sheet instruments revaluation differences	21,213	822
12.2 Accruals and income collected in advance	6,946	14,790
12.3 Sundry	85,669	80,775
13 Provisions	**408,525**	**402,376**
14 Revaluation accounts	**116,458**	**69,141**
15 Capital and reserves	**874,492**	**866,484**
15.1 Capital	8,346	8,346
15.2 Reserves	866,146	858,138
16 Profit for the year	**74,782**	**50,390**
Total liabilities	**10,854,241**	**10,812,554**

* Only an ECB balance sheet item

Profit and Loss Account for the year ended 31 December 2014

thousands of euro	2014	2013
1.1 Interest income	73,822	152,511
1.2 Interest expense	-4,976	-25,645
1 Net interest income (expenditure)	**68,846**	**126,866**
2.1 Realised gains/losses arising from financial operations	17,521	24,284
2.2 Write-downs on financial assets and positions	-482	-3,297
2.3 Transfer to/from provisions for foreign exchange risks, price risks and other operational risks	-6,149	-73,718
2 Net result of financial operations, write-downs and risk provisions	**10,890**	**-52,730**
3.1 Fee and commission income	5,610	5,370
3.2 Fee and commission expense	-2,019	-2,158
3 Net fee and commission income	**3,591**	**3,212**
4 Income from equity shares and participating interests	4,777	8,939
5 Net result arising from allocation of monetary income	13,619	9,136
6 Other operating income	3,793	5,218
Total net income	**105,515**	**100,641**
7.1 Staff costs	-19,153	-18,206
7.2 Administrative expenses	-6,315	-6,092
7.3 Depreciation of tangible and intangible fixed assets	-1,560	-1,557
7.4 Banknote production services	-2,534	-1,649
7.5 Other expenses	-1,172	-22,747
7 Total operating expenses	**-30,733**	**-50,251**
8 Profit (Loss) for the year	**74,782**	**50,390**

The notes on pages 15 to 35 form an integral part of the financial statements.

The unaudited financial statements were approved by the Governing Board on 24 February 2015 and these audited financial statements were approved by the Governing Board on 24 March 2015 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

Assets

1. Gold and gold receivables

With the exception of gold stocks held in the Bank, the Bank's gold holdings consist of deposits with foreign banks. In the annual accounts gold has been valued on the basis of the euro price per fine ounce (ozf) derived from the quotation in USD established at the London fixing on 31 December 2014. This price, notified by the ECB, amounts to EUR 987.769 per ounce of fine gold compared with EUR 871.220 on 31 December 2013. Unrealised positive valuation effects of EUR 51.7 million (of which EUR 8.8 million from year 2007, EUR 5.5 million from year 2008, EUR 14.8 million from year 2009, EUR 29.6 million from year 2010, EUR 16.5 million from year 2011, EUR 4.5 million from year 2012, EUR -39.9 million from year 2013 and EUR 11.9 million from year 2014) were disclosed under the liability balance sheet item 'Revaluation accounts'.

	000 EUR	Fine troy ounces
Balance as at 31 December 2012	129,062	102,334
Revaluation of gold stock as at end of 2013	-39,906	-
Balance as at 31 December 2013	89,156	102,334
Revaluation of gold stock as at end of 2014	11,927	-
Balance as at 31 December 2014	101,082	102,334

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

This item includes holdings of Special Drawing Rights (SDRs) allocated by the International Monetary Fund (IMF) and foreign currency claims on non-euro area residents included in the Bank'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 Slovenian's quota in the IMF and the IMF's holdings of EUR with the Bank. The tranche is usually used for the purpose of financing the balance of payments deficit in the member countries.

Loans to the IMF are based on the loan agreement between the Bank and IMF, dated 1 September 2010. Borrowed funds give IMF the possibility to ensure timeliness and effective assistance to the member countries in case of balance of payments difficulties.

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 sum of exchange rates of four currencies (USD, GBP, JPY and EUR).

All claims are shown in the balance sheet on the basis of the market rate of SDR 1 = EUR 1.1924 (31 December 2013: SDR 1 = EUR 1.1183) 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 SDR was above the average cost and positive valuation effects were therefore recognised in accordance with the accounting rules in the liability balance sheet item 'Revaluation accounts'.

	31 December 2014		31 December 2013	
	000 SDR	**000 EUR**	**000 SDR**	**000 EUR**
Quota	275,000	327,910	275,000	307,533
Less IMF holdings of EUR	-171,350	-204,318	-175,350	-196,094
Reserve tranche in the IMF	103,650	123,592	99,650	111,439
Loan to the IMF	17,680	21,082	33,380	37,329
SDR Holdings	207,014	246,843	196,707	219,977
Total	328,344	391,517	329,737	368,745

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 market exchange rates on 31 December 2014.

Breakdown of foreign currency assets by type of investment:

	31 December 2014	31 December 2013
	000 EUR	**000 EUR**
Current accounts	5,742	2,201
Time deposits	29,652	111,014
Securities	307,116	96,208
Total	342,509	209,424

Breakdown of foreign currency assets by currency:

	31 December 2014	31 December 2013
	000 EUR	**000 EUR**
USD	337,747	207,829
CHF	4,535	1,416
GBP	42	34
Other currencies	185	144
Total	342,509	209,424

Breakdown of securities according to their residual maturity:

	31 December 2014	31 December 2013
	000 EUR	000 EUR
≤ 1 year	131,704	28,595
>1 year and ≤5 years	140,157	67,613
> 5 years	35,256	-
Total	307,116	96,208

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 basis of market exchange rates on 31 December 2014.

Breakdown of foreign currency assets by type of investment:

	31 December 2014	31 December 2013
	000 EUR	000 EUR
Current accounts	73	74
Time deposits	28,663	-
Securities	109,817	208,456
Total	138,553	208,530

Breakdown of foreign currency assets by currency:

	31 December 2014	31 December 2013
	000 EUR	000 EUR
USD	138,553	208,518
GBP	-	12
Total	138,553	208,530

Breakdown of securities according to their residual maturity:

	31 December 2014	31 December 2013
	000 EUR	000 EUR
≤ 1 year	75,621	107,704
>1 year and ≤ 5 years	34,196	100,752
Total	109,817	208,456

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 2014	31 December 2013
	000 EUR	000 EUR
Current accounts	0	0
Time deposits	151,000	36,100
Securities	871,064	747,855
Total	1,022,064	783,955

Breakdown of securities according to their residual maturity:

	31 December 2014	31 December 2013
	000 EUR	000 EUR
≤ 1 year	148,893	347,221
>1 year and ≤ 5 years	722,171	400,634
Total	871,064	747,855

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

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

The total Eurosystem holding of monetary policy assets amounts to EUR 630,341 million (2013: EUR 752,288 million), of which the Bank holds EUR 1,098 million (2013: EUR 3,337 million). In accordance with Article 32.4 of the Statute, 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 (see section on liability item L13 on provisions).

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

Longer-term refinancing operations are regular liquidity-providing reverse transactions with a maturity of one or three months. Operations with one month maturity were abolished in the middle of 2014. In the past also operations with maturity of six or twelve months were occasionally conducted. At the end of 2011 and beginning of 2012, two three-year operations were conducted with the option of early repayment after one year. Both operations will mature in the beginning of 2015. In 2014 the Eurosystem started to conduct the targeted long term refinancing operations with the maturity in September 2018 and with the possibility of early repayment after two years. In 2014, two such operations were executed. In the year under review longer-term refinancing operations provided the bulk of refinancing to the banking sector. They were conducted as fixed rate tender procedures with full allotment.

	31 December 2014	31 December 2013
	000 EUR	000 EUR
Longer term refinancing operations	1,098,380	3,337,000
Total	1,098,380	3,337,000

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. Claims consist almost entirely of fixed-term euro-denominated deposits which are held at euro area credit institutions, in the year 2013 also of Emergency Liquidity Assistance, granted on the basis of appropriate collateral to solvent domestic credit institutions that faced liquidity problems.

	31 December 2014	31 December 2013
	000 EUR	000 EUR
Current accounts	1,272	2,326
Time deposits	229,000	31,974
Emergency Liquidity Assistance	-	344,500
Total	230,272	378,800

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 within the scope of the purchase programme for covered bonds (CBPP)[12], and public debt securities acquired in the scope of the securities market programme (SMP)[13].

The securities under the CBPP and SMP programmes are valued on an amortised cost basis subject to impairment (see 'Securities' in the notes on accounting policies). Annual impairment tests are conducted on the basis of the information available and estimated recoverable amounts as at the year-end.

Under the first covered bond purchase programme, the ECB and the NCBs purchased euro-denominated covered bonds issued in the euro area. The purchases under this programme were fully implemented by the end of June 2010.

Under the second covered bond purchase programme, the ECB and the NCBs purchased euro-denominated covered bonds issued in the euro area with the objective of easing funding conditions for credit institutions and enterprises, as well as encouraging credit institutions to maintain and expand lending to their clients. The programme ended on 31 October 2012. The Bank did not participate in this programme.

On 2 October 2014 the Governing Council announced the technical features of the third covered bond purchase programme. Under this programme, the ECB and the NCBs started to purchase euro-denominated covered bonds issued in the euro area with the objective of easing funding conditions for credit institutions. This programme will last at least two years.

Under the Securities Markets Programme, established in May 2010, the ECB and the NCBs were able to purchase euro area public and private debt securities in order to address the malfunctioning of certain segments of the euro area debt securities markets and restore the proper functioning of the monetary policy transmission mechanism. In September 2012 the Governing Council decided to terminate the Securities Markets Programme with immediate effect.

The Governing Council of the ECB assesses on a regular basis the financial risks associated with the securities held under the Securities Markets Programme and the covered bond purchase programme.

The total Eurosystem NCB's holding of SMP and CBPP3 securities amounts to EUR 173,895 million (2013: EUR 178,836 million), of which the Bank holds EUR 643 million (2013: EUR 662 million). In accordance with Article 32.4 of the Statute, losses from holdings of SMP and CBPP3 securities, 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 2014 on securities purchased under the Securities Markets Programme and the third covered bond purchase programme, the Governing Council considered that the identified impairment indicator due to the restructuring of former Portugal bank Banco Espirito Santo did not influence the estimated future cash flows. No impairment losses were therefore recorded in 2014. Furthermore, no impairment losses were recorded in respect of the other securities purchased under the Securities Markets Programme and the third covered bond purchase programme.

With regard to the impairment test conducted on securities purchased under the first covered bond purchase programme, the Bank estimates that all future cash flows on these securities are expected to be received and therefore no impairment losses were recorded in respect of these holdings.

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

[13] 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.

Breakdown of securities held for monetary policy purposes per portfolio:

	31 December 2014		31 December 2013	
	Amortised cost	Market value	Amortised cost	Market value
	000 EUR	000 EUR	000 EUR	000 EUR
First covered bond purchase programme	34,143	38,431	64,703	69,488
Second covered bond purchase programme	-	-	-	-
Third covered bond purchase programme	153,949	154,233	-	-
Securities market programme	489,209	523,578	662,018	697,048
Total	677,302	716,242	726,721	766,536

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

	31 December 2014	31 December 2013
	000 EUR	000 EUR
≤ 1 year	209,856	208,162
>1 year and ≤ 5 years	316,377	371,395
> 5 years	151,068	147,164
Total	677,302	726,721

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

Breakdown of securities per portfolio:

	31 December 2014	31 December 2013
	000 EUR	000 EUR
Marketable securities other than those held to maturity	1,847,806	2,242,780
Held-to-maturity securities	26,731	25,975
Total	1,874,538	2,268,755

Held-to-maturity securities are securities with fixed or determinable payments and a fixed maturity for which the Bank has the positive intent to hold them until maturity.

Breakdown of other securities according to their residual maturity:

	31 December 2014	31 December 2013
	000 EUR	000 EUR
≤ 1 year	591,916	731,734
>1 year and ≤ 5 years	1,180,396	1,488,568
> 5 years	102,225	48,452
Total	1,874,538	2,268,755

9. Intra-Eurosystem claims

Sub-item 9.1 shows the Bank'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 Article 29 of the Statute and are subject to adjustment every five years. The most recent such adjustment took effect on 1 January 2014. Consequently, on 1 January 2014, the share that the Bank held in the subscribed capital of the ECB increased from 0.3270% to 0.3455% and the asset item 9.1 ‘Participating interest in the ECB’ increased for EUR 2.0 million to EUR 37.40 million, as a result of the additional capital contribution that was transferred to the ECB.

The subscribed and paid up capital of the 28 European central banks in the capital of the ECB on 31 December 2014 is as follows:

	Capital key per cent	EUR	Of which fully paid up	Eurosystem key
Nationale Bank van België/ Banque Nationale de Belgique	2.4778	268,222,025	268,222,025	3.5408
Deutsche Bundesbank	17.9973	1,948,208,997	1,948,208,997	25.7184
Eesti Pank	0.1928	20,870,614	20,870,614	0.2755
Central Bank and Financial Services Authority of Ireland	1.1607	125,645,857	125,645,857	1.6587
Bank of Greece	2.0332	220,094,044	220,094,044	2.9055
Banco de España	8.8409	957,028,050	957,028,050	12.6338
Banque de France	14.1792	1,534,899,402	1,534,899,402	20.2623
Banca d'Italia	12.3108	1,332,644,970	1,332,644,970	17.5923
Central Bank of Cyprus	0.1513	16,378,236	16,378,236	0.2162
Latvijas Banka	0.2821	30,537,345	30,537,345	0.4031
Banque centrale du Luxembourg	0.2030	21,974,764	21,974,764	0.2901
Central Bank of Malta/Bank Ċentrali ta' Malta	0.0648	7,014,605	7,014,605	0.0926
De Nederlandsche Bank	4.0035	433,379,158	433,379,158	5.7211
Oesterreichische Nationalbank	1.9631	212,505,714	212,505,714	2.8053
Banco de Portugal	1.7434	188,723,173	188,723,173	2.4913
Banka Slovenije	**0.3455**	**37,400,399**	**37,400,399**	**0.4937**
Národná banka Slovenska	0.7725	83,623,180	83,623,180	1.1039
Suomen Pankki-Finlands Bank	1.2564	136,005,389	136,005,389	1.7954
Total euro-area NCBs	**69.9783**	**7,575,155,922**	**7,575,155,922**	**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	
Lietuvos bankas	0.4132	44,728,929	1,677,335	
Magyar Nemzeti Bank	1.3798	149,363,448	5,601,129	
Narodowy Bank Polski	5.1230	554,565,112	20,796,192	
Banca Naţională 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	**30.0217**	**3,249,851,147**	**121,869,418**	
Total euro area and non-euro area NCBs	**100.0000**	**10,825,007,070**	**7,697,025,340**	

In accordance with 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 also made a contribution in year 2007 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. The payment was made in two parts. As a result of a difference between the euro equivalent of FX reserves to be transferred to the ECB at current exchange rates and the claim of the Bank 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 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 contribution to the ECB's net equity was made on 9 March 2009, 12 July 2013 and 21 February 2014.

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

Sub-item 9.2 contains the Bank's claims arising from the transfer of foreign reserve assets to the ECB when the Bank joined the Eurosystem. The claims are denominated in euro at a value fixed at the time of their transfer. They are remunerated at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations, adjusted to reflect a zero return on the gold component.

The adjustment to the capital key weightings of the ECB on 1 January 2014 also resulted in the adjustment of the claim of the Bank with respect to the foreign reserve assets transferred to the ECB. In order to reflect its increased capital key share, the euro-denominated claim of the Bank increased by EUR 10.7 million to EUR 200.2 million on 1 January 2014.

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 vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem which arise from applying the euro banknote allocation key (see ‘Banknotes in circulation’ and ‘Intra-ESCB balances/Intra-Eurosystem balances’ in the notes on accounting policies)[14]. The increase of the net claim in comparison to 2013 (EUR 136.5 million) is due to increase in banknotes put into circulation by the Bank in 2014 (increase of 15.7% compared to 2013), as well as the rise in banknotes in circulation in the Eurosystem as a whole (increase of 6.3% compared to 2013). 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.

Sub-item 9.5 'Other claims within the Eurosystem (net)' consists of a net TARGET2 balance, arising from cross-border transfers via TARGET2 with other NCBs in the ESCB and the ECB, the claim arising from the allocation of monetary income to the national central banks (see profit and loss item 5 'Net result arising from allocation of monetary income') and the claim arising from the ECB's interim profit distribution (see profit and loss item 4 'Income from equity shares and participating interests').

The net TARGET2 balance is remunerated at the latest available marginal rate for the main refinancing operations. The settlement takes place monthly on the second business day of the month

[14] 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’.

following that to which the interest relates. The change of TARGET2 position from liability into asset during the year 2014 is mainly related to the currency swap USD/EUR, which followed the issue of government bonds of the Republic of Slovenia, denominated in US dollars, and caused the cross-border inflow of liquidity.

11. Other assets

The Bank's holding of coins, issued by 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.

	Land and buildings	Computers & equipment	Total
	000 EUR	000 EUR	000 EUR
Cost or valuation			
At 31 December 2013	**22,406**	**22,920**	**45,325**
Additions	7,204	1,539	8,744
Disposals		722	722
At 31 December 2014	**29,610**	**23,737**	**53,347**
Depreciation			
At 31 December 2013	**3,986**	**18,781**	**22,768**
Disposals	-	721	721
Charge for the year	187	1,387	1,573
At 31 December 2014	**4,173**	**19,448**	**23,620**
Net book value			
At 31 December 2013	**18,420**	**4,138**	**22,558**
At 31 December 2014	**25,437**	**4,289**	**29,726**

As at 31 December 2014 an amount of EUR 12.4 million relating to investment properties in Austria is included in land and buildings (2013: EUR 8.0 million).

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

Sub-item 11.4 'Off-balance sheet instruments revaluation differences' includes the positive revaluation effect arising from the forward legs of foreign currency swaps, which are recorded on off-balance-sheet account.

Sub-item 11.5 'Accruals and prepaid expenses' contains the accrued income identified at 31 December 2014. This consists mainly of interest income which is due in the new financial year.

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

Liabilities

1. Banknotes in circulation

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

The total value of euro banknotes issued by the central banks in the Eurosystem is distributed among these banks on the last business day of each month in accordance with the key for allocating euro banknotes (see Accounting policies). In accordance with the banknote allocation key applying on 31 December 2014, the Bank has a 0.4540% (2013: 0.4325%) share of the value of all euro banknotes in circulation. During 2014, the total value of banknotes in circulation within the Eurosystem increased by 6.3% from EUR 956,185 million to EUR 1,016,538 million. In accordance with the allocation key, the Bank shows holdings of euro banknotes amounting to EUR 4,615.1 million at the end of the year 2014 (2013: EUR 4,135.5 million). The value of the euro banknotes actually issued by the Bank was EUR 2,527.4 million (2013: EUR 2,184.3 million). As this was less that the allocated amount, the difference of EUR 2,087.7 million (2013: EUR 1,951.2 million) is shown in asset sub-item 9.4 'Net claims related to the allocation of euro banknotes within the Eurosystem'.

	31 December 2014	31 December 2013
	000 EUR	000 EUR
EUR 5	-39,468	-30,955
EUR 10	434,898	344,822
EUR 20	3,607,206	3,328,895
EUR 50	-1,377,622	-1,570,122
EUR 100	-846,649	-675,708
EUR 200	-221,612	-195,207
EUR 500	970,604	982,592
Total euro banknotes actually put into circulation by the Bank	2,527,358	2,184,317
Redistribution of euro banknotes in circulation within the Eurosystem	2,489,236	2,310,793
Euro banknotes issued by the ECB (8%)	-401,512	-359,610
Total EUR banknotes according to the Bank’s banknote allocation key	4,615,083	4,135,500

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

These interest bearing liabilities arise from the monetary policy conducted by the Bank on behalf of the ESCB.

Sub-item 2.1 'Current accounts' contains the deposits of credit institutions, which are used to meet the minimum reserve requirements and to settle payments. The main criterion for including these deposits in this sub-item is that the respective institution is subject to the Eurosystem minimum reserve system. Reserve requirements have to be fulfilled on average over the reserve maintenance period, which lasts approximately one month. In the year 2015 the reserve maintenance period was extended to approximately six weeks (in accordance with the schedule published by the ECB). Banks’ reserve balances up to calculated reserve requirements have been remunerated at the prevailing interest rate for the Eurosystem’s main refinancing operations. In addition, in the middle of 2014, the Eurosystem at the introduction of the negative interest rate for the deposit facility also introduced the negative remuneration of the average excess reserves at the deposit facility rate. In case of positive deposit facility rate, the excess reserves are not remunerated.

Sub-item 2.3 'Fixed term deposits' contains overnight operations, executed in the past (till January 2012) by the ECB usually on the last day of the reserve maintenance period. Since the introduction of the securities markets programme in May 2010 and until the middle of 2014, fixed term deposit operations with a weekly frequency and maturity of one week had been conducted, with the aim to sterilise liquidity issued using this programme. Fixed term deposit operations had been conducted as variable rate tenders.

	31 December 2014	31 December 2013
	000 EUR	000 EUR
Current accounts (covering the minimum reserve system)	1,434,063	1,463,776
Fixed term deposits	-	604,500
Total	1,434,063	2,068,276

3. 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.

5. Liabilities to other euro area residents denominated in euro

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

	31 December 2014	31 December 2013
	000 EUR	000 EUR
Government sight deposits and special funds	2,690,518	335,931
Government fixed-term deposits	-	1,350,000
Other public sector deposits	27,740	27,889
Total	2,718,258	1,713,820

Sub-item 5.2 Other liabilities' includes among other the accounts of the banks that are not subject to minimum reserve requirements, stock exchange market customers' accounts and fixed term deposit of Guarantee fund of Central Securities Clearing Corporation.

6. 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. The IMF account No. 2 is also included in this balance sheet item.

7. 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.

9. Counterpart of special drawing rights allocated by the IMF

This item represents the liability of the Bank towards IMF which corresponds to the allocation of SDRs to the Republic of Slovenia as a result of its membership in the IMF. The liability is shown in the balance sheet at the end of 2014 on the basis of the market rate of SDR 1 = EUR 1.1924 (31 December 2013: SDR 1 = EUR 1.1183) calculated by the ECB at the end of the year for all central banks participating in the Eurosystem. The increase in the amount of this liability in 2014 is solely due to valuation effects, i.e. the depreciation of the euro against the SDR.

10. Intra-Eurosystem liabilities

Sub-item 10.4 'Other liabilities within the Eurosystem (net)' included in 2013 the net position of 'Other claims/liabilities within the Eurosystem (net), that consisted of a net TARGET2 balance, the claim arising from the allocation of monetary income to the national central banks and the claim arising from the ECB's interim profit distribution. At the end of 2014 the net position is disclosed under the sub-item 'Other claims within the Eurosystem (net).'

12. 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 2014. This consists mainly of interest expenditure which is due in the new financial year but was incurred in the financial year just ended.

Sub-item 12.3 'Sundry' consists mainly of fiduciary liabilities and non-returned tolar banknotes.

13. Provisions

	31 December 2014	31 December 2013
	000 EUR	000 EUR
Provisions for employees and for known risks	21,625	35,626
Provisions for general risks	386,900	366,750
Total	408,525	402,376

Provisions for employees and for known risks

Provisions for post-employment benefits are calculated in accordance with IAS 19 – Employee benefits on the basis of actuarial assumptions as at 31.12.2011. The latter consider the stipulations of the Bank collective agreement, expected future salary increase, fluctuation and a rate of 4.85% used to discount the future obligations, determined by reference to 10-years high quality corporate bonds in the euro area. Considering the fact that assumptions used in the calculation are not changing significantly in the individual year and that they remain inside the corridors set by the aforementioned standard, the decision was taken that the actuarial calculation is performed every five years.

Provisions for known risks relate to potential liabilities of the Bank for the certain legal claims pending and to the potential liabilities streaming from off-balance sheet positions. Provisions for potential liabilities streaming from off-balance sheet positions were reduced on the basis of Value-at-Risk assessment as at 31 December 2014 in amount of EUR 7.6 million.

Provisions for general risks

Taking into account the Bank's exposure to interest rate, exchange rate, credit and price risks, general provisions for future unrealised interest rate, exchange rate and (gold) price change losses and credit events could be created. In 2014, the Bank created additional general provisions based on the assessment of risk exposure in the net amount of EUR 20.2 million.

14. Revaluation accounts

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

In case of valuation of securities, positive valuation effects of EUR 27.3 million arose from the valuation of EUR denominated portfolio (2013: EUR 27.5 million) and EUR 1.2 million from the valuation of USD denominated assets (2013: EUR 1.0 million).

In case of foreign currency positions, positive valuation effects of EUR 25.7 million arose from the valuation of USD position and EUR 9.7 million from the valuation of SDR position (2013: EUR 0.9 million from the valuation of USD position).

In case of gold the acquisition cost is EUR 482.688 per fine ounce of gold at the end of 2014 (2013: EUR 482.688), comparing with market price at the end of 2014, which was EUR 987.769 per fine ounce of gold (2013: EUR 871.220). Market value of gold position exceeded its acquisition price and resulted in a positive valuation effects amounting to EUR 51.7 million (2013: EUR 39.8 million).

	31 December 2014	31 December 2013
	000 EUR	**000 EUR**
Price effect	28,504	28,527
- securities in foreign currencies (asset items 2 and 3)	1,170	991
- securities in euro (asset items 4 and 7)	27,334	27,535
Exchange rate effect	36,267	854
Gold value effect	51,687	39,760
Total	116,458	69,141

15. Capital and reserves

In accordance with the Article 5 of the Bank of Slovenia Act, the capital of the Bank was created from the general reserves in the amount of EUR 8.3 million in year 2002. Banka Slovenije's initial capital may be increased by allocating of 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. Special reserves serve to cover exchange rate and price risks. Investment properties revaluation reserve are created out of the valuation gains arising from the appraisal of the investment properties in Austria, performed by the independent real estate assessor.

	31 December 2014	31 December 2013
	000 EUR	**000 EUR**
Composition of reserves:		
Initial capital of the Bank of Slovenia	8,346	8,346
General reserve	659,734	656,136
Special reserve for foreign exchange differences	174,214	174,214
Special reserve – price risk (gold)	19,736	19,736
Revaluation reserve	12,463	8,053
Total reserves	874,492	866,484

Notes to the off-balance-sheet items

Foreign currency swaps

As at 31 December 2014, the forward foreign currency position arising from EUR/foreign currency swap transactions amounts to EUR 176.9 million (2013: net EUR 152.9 million, of which forward liabilities amounts to EUR 189.2 million and forward claims to EUR 36.3 million).

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

	31 December 2014		**31 December 2013**	
	000 Foreign currency	**000 EUR**	**000 Foreign currency**	**000 EUR**
Forward liabilities in USD	214,800	176,921	260,900	189,181
Forward claims in USD	-	-	50,000	36,256
Total	**214,800**	**176,921**	**210,900**	**152,926**

Securities lending

As at 31 December 2014, securities with a market value of EUR 225 million (31 December 2013: EUR 150 million) were lent under automated security lending contracts with the agents, which were, in case of collateral, reinvested into reverse repo transactions, prime asset backed securities, bank bonds and certificates of deposits.

Other off-balance-sheet items

The following other financial liabilities of the Bank were stated off-balance-sheet as at 31 December 2014:

- obligation under the IMF's statutes to provide currency on demand in exchange for SDRs up to the point at which the Bank's SDR holdings are three times as high as the amount it has received gratuitously from the IMF, which was equivalent to EUR 525.4 million as at 31 December 2014 (31 December 2013: EUR 504.3 million);

- a contingent liability of EUR 172.8 million, equivalent to the Bank's share of the maximum of EUR 50 billion reserve assets that the ECB may require the euro area NCBs to transfer under Article 30.1 ESCB Statute (31 December 2013: EUR 163.5 million).

Notes to the profit and loss account

1. **Net interest income (expenditure)**

Interest income

Net interest income consists of interest income on foreign reserve assets and euro-denominated portfolio and interest income on euro-denominated claims. 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.

	31 December 2014	31 December 2013
	000 EUR	000 EUR
Interest income		
Gold	**206**	**83**
Current accounts and deposits	**961**	**468**
- In foreign currency	300	270
- In euro	661	198
Securities	**58,318**	**114,250**
- In foreign currency	2,706	3,445
- In euro	55,613	110,806
IMF	**320**	**284**
Monetary policy operations	**3,897**	**21,246**
- Main refinancing operation	0	355
- Longer-term refinancing operations	3,896	20,890
- Other refinancing operations	1	1
Intra Eurosystem claims	**5,541**	**13,838**
- Claims arising from the transfer of foreign reserves to the ECB	282	904
- Net claims related to the allocation of banknotes within the Eurosystem	3,524	12,935
- TARGET2 balances	1.735	-
Other interest income	**4,579**	**2,342**
Total	**73,822**	**152,511**

Significant decrease of interest income in year 2014 in comparison with 2013 mainly relates to the recognised income of a specific bond, matured in February 2013 (EUR 34.0 million), lower interest rates level and lower balances of longer-term refinancing operations.

Interest expense

Interest expense arises from the liabilities in form of government accounts and deposits and monetary policy operations with the aim to absorb liquidity. The latest mainly concerns interest paid on banks' minimum reserves and deposits. Interest expense also includes interest paid on TARGET2 balances.

Significantly lower interest expense in 2014 comparing to 2013 is a result of a lower interest rates level and of the change of TARGET2 position from the liability to claim during the year 2014.

	31 December 2014	31 December 2013
	000 EUR	**000 EUR**
Interest expenditure		
Current accounts and deposits	**2,788**	**529**
- In foreign currency	124	194
- In euro	2,665	335
IMF	**184**	**174**
Monetary policy operations	**1,399**	**1,484**
- Minimum reserves	337	1,179
- Fixed term deposits	1,062	305
Intra Eurosystem liabilities	**417**	**23,030**
- TARGET2 balances	417	23,030
Foreign currency swaps	**188**	**428**
Total	**4,976**	**25,645**

2. Net result of financial operations, write-downs and transfer to/from risk provisions

The net income shown in sub-item 'Realised gains/losses arising from financial operations' arose 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 2014 below the average cost of the respective currencies or securities. The valuation losses in 2014 mostly occurred in EUR and USD denominated securities (in 2013 in EUR and USD denominated securities as well as in Bank's SDR currency position).

According to the Governing Board decision, provisions for the certain legal disputes, which could result in a claim to the Bank, have been partly reduced. Provisions for potential liabilities streaming from off-balance sheet positions were also reduced on the basis of Value-at-Risk assessment.

Transfer to provisions for general risks represents the net amount of provisions, created for potential losses from interest rate, price, exchange rate and credit risks (see section on liability item L13 on provisions).

	31 December 2014	31 December 2013
	000 EUR	000 EUR
Realised gains/losses		
Currency position	807	3,429
Securities	16,715	20,855
Total	**17,521**	**24,284**
Write-downs		
Currency position	-32	-1,870
Securities	-450	-1,427
Total	**-482**	**-3,297**
Transfer to/from provisions for foreign exchange risks, price risks, credit risks and other operational risks		
Provisions for known risks	14,001	6,673
Provisions for general risks	-20,150	-80,390
Total	**-6,149**	**-73,718**
Total	**10,890**	**-52,730**

3. Net fee and commission income

Fees and commissions receivable mainly arise from payment and settlement service, supervisory and regulatory functions and security lending transactions.

4. Income from equity shares and participating interests

This item represents the Bank's dividends received on Bank's shares in the international financial institutions and the ECB.

Also included under this caption is the amount due to the Bank with respect to the ECB's interim profit distribution totalling EUR 4.2 million (2013: EUR 6.4 million) (see 'ECB profit distribution' in the notes on accounting policies). In 2014 the part of ECB's profit was retained by the ECB in accordance with a decision of the Governing Council with respect to the establishment of a provision for foreign exchange rate, interest rate, credit and gold price risks. The retained amount not distributed to the Bank amounts to EUR 0.07 million (2013: EUR 0.02 million).

5. Net result of pooling of monetary income

The monetary income of the Eurosystem national central banks is allocated in accordance with the decision taken by the Governing Council of the ECB[15]. The amount of each Eurosystem NCB's monetary income is determined by measuring the actual annual income that derives from the earmarkable assets held against its liability base.

[15] Decision of the European Central Bank of 25 November 2010 on the allocation of monetary income of the national central banks of member states whose currency is euro (recast) (ECB/2010/23), OJ L 35, 09.02.2011, p. 17-25, amended by the Decision of the European Central Bank of 3 November 2011 (ECB/2011/18), OJ L 319, 02.12.2011, p. 116, Decision of the European Central Bank of 5 June 2014 (ECB/2014/24), OJ L 117, 07.06.2014, p. 168 and Decision of the European Central Bank of 15 December 2014 (ECB/2014/56), OJ L 53, 25.02.2015, p. 21-23.

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

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. At the end of each financial year the total monetary income pooled by the Eurosystem is allocated among the NCBs according to the subscribed ECB capital key. The difference between the monetary income pooled and that reallocated to the individual NCB constitutes the net result arising from the calculation of monetary income recorded in the Profit and Loss account.

In the year 2014 the allocation of monetary income resulted in a net claim of EUR 13.6 million for the Bank (2013: EUR 7.7 million). This net claim consists of the claim for year 2014, which represents the difference between the EUR 38.6 million (2013: EUR 70.7 million) of monetary income paid by the Bank into the common pool and the Bank's claim of EUR 49.1 million (2013: EUR 78.4 million) on the common pool, corresponding to the Bank's share in the ECB's paid-up capital, and of net claims resulting from subsequent adjustment for years 2008, 2009, 2010, 2011, 2012 and 2013).

This item also includes the effect of the release of the provisioning against counterparty risks in monetary policy operations of the Eurosystem amounting to an income of EUR 1.4 million in year 2013.

6. Other operating income

Other operating income includes income from non-bank services like rental income, income from confirmations issued, numismatics and other income.

7. Operating expenses

Staff costs

Staff costs include salaries and other staff costs together with the related taxes and contributions.

The Bank employed 437 employees as at 31 December 2014 (31 December 2013: 417 employees).

In accordance with the contract between the Bank and the Trade union from March 2002 Bank employees have been included into Voluntary supplementary pension insurance, which is defined as a contribution plan. Staff costs include contribution of the Bank for Voluntary supplementary pension insurance of EUR 0.5 million (2013: EUR 0.5 million).

In 2014 the remuneration of the Governing board members of the Bank was of EUR 720 thousands (2013: EUR 754 thousands).

Other operating expenses

This item consists mainly of expenses relating 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 was 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. Significant increase in banknote production costs in comparison to the preceding year arises from the late delivery of banknotes that realised in 2014 instead in year 2013.

Other expenses

Other expenses consist mainly of contributions of the Bank, taxes and other operating expenses. This item in 2013 also included a unique cost of external asset quality review (AQR) and cost of stress tests for the major part of Slovenian banking system, conducted on the basis of European Commission directive.

8. 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 shows the profit amounted to EUR 74.8 million (2013: EUR 50.4 million). Appropriation of the financial result will be performed in accordance with the Article 50 of the Law on the Bank of Slovenia.

5 APPENDICES

5.1 Publications and website

Title	*Frequency*	*Content*
	monthly	**Slovene and English**
Bilten/ Monthly Bulletin		Macroeconomic statistics with an emphasis on monetary statistics, exchange rates and international economic relations. Economic and financial developments; methodological appendix; review of Slovenian banks, calendar of data releases.
	half-yearly	
Makroekonomska gibanja in projekcije/ Macroeconomic Developments and Projections		The publication focuses on projections of basic macroeconomic indicators for Slovenia for the next two years with accompanying risk factors. The publication also assesses developments in macroeconomic aggregates in the domestic and international economic environments.
	annual	
Finančni računi Slovenije/ Financial Accounts of Slovenia		Comprehensive review of Slovenia's unconsolidated and consolidated sectoral financial accounts in an internationally comparable manner.
Letno poročilo/ Annual Report		Report by the Bank of Slovenia to the National Assembly of the Republic of Slovenia. Description of economic developments, monetary policy, operations of banks and the Bank of Slovenia, and other activities of the Bank of Slovenia.
Neposredne naložbe/ Direct Investment		Statistical review of FDI and portfolio investment in Slovenia vis-à-vis the rest of the world, both inward and outward (on an annual basis).
Poročilo o finančni stabilnosti/ Financial Stability Review		A report by the Financial Stability and Macro-Prudential Policy Department that is intended primarily for the analytical monitoring of developments, an assessment of risks in the financial sector, and articles by experts on the maintenance of financial stability.

Stabilnost slovenskega bančnega sistema/ Stability of the Slovenian Banking System		A report by the Financial Stability and Macro-Prudential Policy Department that is intended primarily for the analytical monitoring of developments, and an assessment of risk in the banking sector.
		Slovene
	monthly	
Slovenia's International Economic Relations		A brief disclosure and analysis of monthly statistics for the balance of payments and the external debt, and quarterly data on the international investment position.
	quarterly	
Financial Accounts of Slovenia (quarterly information)		A brief review of the quarterly financial accounts of Slovenia by sector.
	annual	
Analysis of fees of banks and savings banks for payment services, and calculation of costs of baskets of payment services		Analysis of fees for individual key categories of payment service by individual provider, and a calculation of the costs of baskets of payment services that allow users (legal and natural persons) to judge which provider is most favourable for their purposes / payment habits.
Results of the survey on demand for loans by non-financial corporations by sector		A survey of the demand for loans from non-financial corporations in each sector that is aimed at identifying trends in demand and excess demand on the part of non-financial corporations for loans from banks and savings banks.

Research

Title	*Frequency*	*Content*
	occasional	
Delovni zvezki / Working Papers papers in Slovene or English released occasionally		The articles discuss areas of professional interest and working relevance to the central bank, which primarily means macroeconomic policy with a focus on analysis of the transmission of monetary policy, the banking system, money, financial markets and the balance of payments. The content of the articles may be analytical, research-focused or merely informative.

Surveys and Analysis
papers in Slovene or English

Analytical and methodological presentations in macroeconomic and other areas.

Expert papers on financial stability
papers in Slovene or English

The papers discuss themes relating to financial stability and macroprudential supervision.

Website

index of Slovenian pages
http://www.bsi.si/ …
… /html/kazalo.html
index of English pages
Http://www.bsi.si/…
… /eng/index.html

The Bank of Slovenia website with a comprehensive presentation of the role and duties of an institution that is a member of the Eurosystem. Current data on exchange rates and interest rates, banks' and savings banks' fees for payment services, and major publications in electronic form.

All Bank of Slovenia publications other than the Annual Report, which is still in print, are available solely in electronic form. As of 2015 the analysis section of the Monthly Bulletin has been replaced by the *Summary of Macroeconomic Developments*, which is available at http://bsi.si/en/publications.asp?MapaId=70. At the same time the half-yearly publication Macroeconomic Developments and Projections has been replaced by the quarterly publication *Economic and Financial Developments*, which is also available at http://bsi.si/en/publications.asp?MapaId=70.

5.2 Secondary legislation in the area of banking supervision adopted in 2014

January 2014:

- Regulation on the implementation of the EU regulation on prudential requirements for credit institutions and investment firms with regard to the implementation of options and discretions and of other tasks of the competent authority for credit institutions (Official Gazette of the Republic of Slovenia, No. 5/14)
- Regulation amending the regulation on the documentation for demonstrating fulfilment of the conditions for performing the function of a member of the management board of a bank or savings bank (Official Gazette of the Republic of Slovenia, No. 5/14)

February 2014:

- Regulation amending the regulation on the assessment of credit risk losses of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 12/14)
- Regulation on the amounts of annual fees for supervision and fees for decisions on requests for the granting of authorisations (Official Gazette of the Republic of Slovenia, No. 12/14)

March 2014:

- Guidelines for implementing the regulation on the assessment of credit risk losses of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 18/14)

April 2014:

- Regulation amending the regulation on risk management and implementation of the internal capital adequacy assessment process for banks and savings banks (Official Gazette of the Republic of Slovenia, No. 25/14)

October 2014:

- Regulation on eligible assets and documentation for the granting of an authorisation to increase the share capital of banks and savings banks via a non-cash contribution (Official Gazette of the Republic of Slovenia, No. 72/14)

December 2014:

- Regulation amending the regulation on the books of account and annual reports of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 89/14)
- Guidelines amending the 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

5.3 Glossary of selected terms

Money market – The market on which short-term (up to one year) securities, deposits, loans and derivatives based on short-term interest rates (swaps, forward contracts, etc.) are traded.

EONIA (Euro Overnight Index Average) – The reference interest rate for overnight unsecured interbank lending in euros. It is calculated daily as the weighted average interest rate on lending by banks from a pre-selected group. The group includes major banks operating on the euro interbank market.

ESCB – The European System of Central Banks, which comprises the ECB and the NCBs of EU Member States.

Euro area – The area encompassing the EU Member States that have adopted the euro as their currency in accordance with the Treaty on the Functioning of the European Union.

Eurosystem – Comprises the ECB and the NCBs of the euro area countries.

Key interest rate – The interest rate used by a central bank to signal the monetary policy stance. Usually this is the interest rate on one of the monetary policy instruments, most often an open market operation. In the euro area this is the minimum bid rate on main refinancing operations.

Covered bond – A bond issued by a bank and secured by all its assets. In the event of the bank's bankruptcy the bond holder has the right of priority in repayment through the sale of the issuer's assets (e.g. mortgage loans) that were designated as collateral.

Quantitative easing – Action by the central bank that aims to directly reduce long-term interest rates by means of the outright purchase of long-term securities (e.g. government bonds).

Marginal interest rate – The interest rate at which the total tender allotment is exhausted, i.e. the last accepted interest rate at which bids are realised.

Deposit facility – A standing facility of the Eurosystem that counterparties may use at any time to make overnight deposits at an NCB at an interest rate that is lower than the ECB's key interest rate and is usually lower than the market interest rate (EONIA).

Marginal lending facility – A standing facility of the Eurosystem that counterparties may use at any time to receive overnight credit from an NCB at an interest rate that is higher than the ECB's key interest rate and is usually higher than the market interest rate (EONIA).

National central bank (NCB) – Any of the central banks of the euro area. In Slovenia it is the Bank of Slovenia.

Non-standard monetary policy measures – Temporary measures that are not part of the standard framework of the Eurosystem's monetary policy, and which may be adopted by the Governing Council of the ECB when certain segments of the financial market or the wider financial system are not functioning properly. It may adopt them to support the transmission of decisions on the key interest rate into interest rates on the money market, and into the euro area economy at large. Examples include the LTROs with maturities of several years, programmes of purchases of securities (e.g. the CBPP), changes in the breadth of the interest rate corridor on the standing facilities, and changes in the minimum reserve ratio.

Unsecured interbank money market – The market for interbank deposits with a maturity period of up to 1 year. It is classed as unsecured because the lending bank does not receive any financial assets from the recipient bank as collateral for the deposits. The secured market where the bank receives collateral is the repo market.

Minimum reserves – The minimum amount of money that credit institutions (banks and savings banks) are required to maintain in their accounts at a central bank on average over the reserve maintenance period. The amount is calculated by multiplying the reserve base (e.g. selected liabilities in credit institutions' balance sheets) by the prescribed reserve ratio. As of 18 January 2012 the minimum reserve ratio in the euro area has been 1% for liabilities with a contractual maturity of up to 2 years, and 0% for liabilities with a maturity of more than 2 years and for liabilities created by repo transactions. A bank's liabilities to the Eurosystem and to other institutions that are required to maintain minimum reserves at Eurosystem central banks are not included in the reserve base. The reserve maintenance period in 2014 started on the Wednesday following the meeting of the Governing Council of the ECB, when the latter made its decisions on the ECB's key interest rate (normally it was the first meeting of a calendar month), and ended on the Tuesday prior to the corresponding Wednesday in the next month.

Standing facility – A central bank lending or deposit facility available at all times to counterparties at their own initiative. The Eurosystem offers the marginal lending facility and the deposit facility. This is a monetary policy instrument alongside open market operations and the minimum reserves.

Open market operations – Operations conducted by a central bank at its own initiative to manage liquidity. They contrast with open tenders that are accessible at any time at the initiative of a counterparty. In the Eurosystem these are main refinancing operations (MROs), longer-term refinancing operations (LTROs), fine-tuning operations (FTOs) and structural operations such as outright purchases of securities. If executed as loans to banks (always for the first two, and possible for the third), they must be secured with eligible collateral.

Full allotment – The allotment procedure in Eurosystem open market operations, where the Eurosystem allots the full amount that a bank bids for in a tender, without regard to the total demand of all banks in that tender. It has been used since October 2008.

Excess reserves – The balances of institutions in accounts at NCBs in excess of the calculated minimum reserve requirements, i.e. in excess of the liability that banks must meet through balances in such accounts.

Forward guidance – The announcement of the future monetary policy stance, i.e. the direction of change and/or the level of the key interest rate, which is made by the Governing Council of the ECB on the basis of an assessment of the risks to price stability.