BANKA
SLOVENIJE

BANK OF SLOVENIA

EUROSYSTEM

ANNUAL REPORT

YEAR 2009

Published by:

BANK OF SLOVENIA
Slovenska 35
1505 Ljubljana
Tel.: +386 01 47 19 000
Fax.: +386 01 25 15 516

The Annual Report is based on figures and information available at the end of March 2010.

This publication is also available in Slovene.

ISSN 1318-5284 (print)
ISSN 1518-2103 (electronic)

Table of contents

Tables, figures and boxes

Figures:

Tables:*

*Excludes Bank of Slovenia's financial statements

Box:

1 INTRODUCTION

The financial and economic crisis continued in 2009, crippling the global economy and international trade. The Slovenian economy was unable to avoid the decline in global economic activity, its GDP falling by 7.8%. The decline in foreign demand and the contraction in global trade hurt exports, which fell by over 15% in 2009. The largest decline among the components of domestic demand was recorded by gross investment, which was down over 30%, while private consumption also fell. The active use of fiscal policy instruments helped to make the fall in GDP less than it would otherwise have been, but the cost of this policy was a high general government deficit and a large increase in general government debt as a proportion of GDP. As a result of imports falling by more than exports, the current account was almost in balance, and the pressure to expand private sector borrowing in the rest of the world eased.

The recession had numerous adverse effects: capacity utilisation fell to 70%, total employment fell and unemployment rose, despite active fiscal policy measures of subsidising temporary lay-offs. The sectors recording the largest declines in activity were manufacturing, construction and services. Productivity declined as a result of output falling more than employment, and unit labour costs rose, which in the long term could entail a decline in the export competitiveness of the economy.

The crisis also marked the performance of the banking sector. The ECB strongly expanded its supply of liquidity by means of instruments that provided liquidity at a fixed interest rate with full allotment and a maturity of up to 1 year, and in addition it expanded the pool of securities eligible as collateral for loans. The ECB's key refinancing rate was 1% for the majority of the year, which allowed banks to approximately maintain their stock of lending, in which there was no significant revival, partly as a result of balance sheet adjustments by corporates and households to the excessive indebtedness from previous years.

Having borrowed heavily on international wholesale financial markets in previous years, in 2009 Slovenian banks were forced to step up their efforts to secure long-term funding from the rest of the world and from more stable domestic sources. The maturity of this funding shortened significantly, while the price of the funding simultaneously rose as a result of the uncertainty on the financial markets. Important factor in the maintenance of bank balance sheets was government borrowing, and the resulting depositing of the money by the government to provide lending potential. The consequences of the recession in the real sector were seen primarily in the deterioration in the banking system's investment portfolio and in the need for loan reprogramming in the sectors hit hardest by the recession. As a result of the decline in lending growth and in turnover in general, and the increase in impairments of investments, the banking system's pre-tax profit in 2009 was down about a half at around EUR 160 million. As the bank regulator and supervisor, the Bank of Slovenia continuously monitored the developments at banks and in the financial system, and put forward proposals for the requisite measures. The current year is expected to be one of the most difficult for the normalisation of lending activity, and will require banks to invest considerable efforts in improving their organisation, performance and profitability.

There were signs of a recovery in the economy and in demand on foreign markets at the turn of the year. Economic policymakers face major challenges in the consolidation of public finances. Significant action must be directed towards speeding up structural reforms and maintaining a sustainable wage and cost policy. Without the right measures of structural and cost policy, the current recovery in the economic activity is insufficient to ensure the competitiveness of the Slovenian economy.

Ljubljana, April 2010

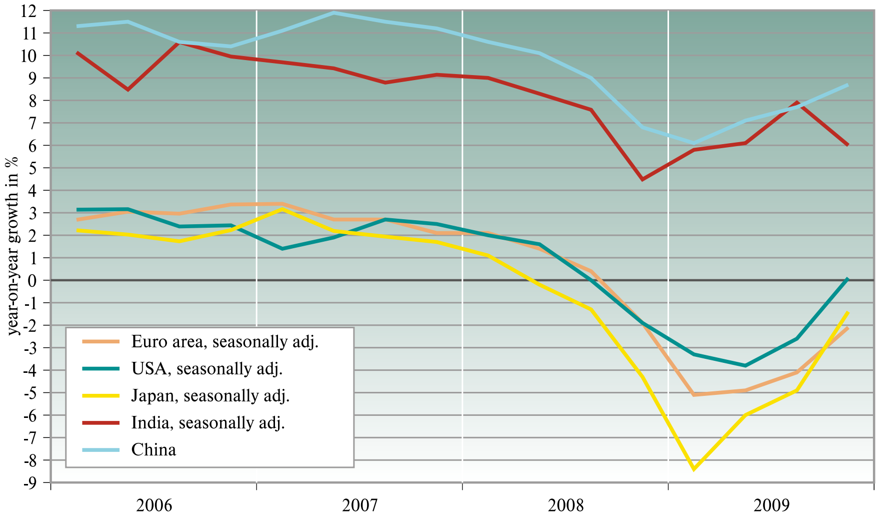
Marko Kranjec
Governor of the Bank of Slovenia

1.1 The economic environment and the banking system in 2009[1]

Economic environment

The global economy saw a sustained large decline in activity in the early part of 2009, and a gradual increase in activity towards the end of the year. According to IMF estimates, global GDP fell by 0.8% last year, while global trade contracted by 12.3%. The global crisis affected individual economies differently. The contraction in international trade and the difficulty in obtaining financial resources merely slowed economic growth in the fast-emerging Asian countries, while the developed countries of the West saw a large recession. The fall in GDP reached its low point in the first quarter in the euro area, when GDP was down 5.1% in year-on-year terms, and in the second quarter in the US, when it was down 3.8% in year-on-year terms. GDP fell by 4.1% in the euro area and by 2.4% in the US in 2009. Economic activity began to gradually increase again in the second half of the year in response to the large-scale coordinated interventions by governments and central banks, which stabilised the financial markets, encouraged spending and thereby stimulated international trade. Another factor in the revival of global trade was the rapid investment spending in China, where economic growth reached 7.4% last year.

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



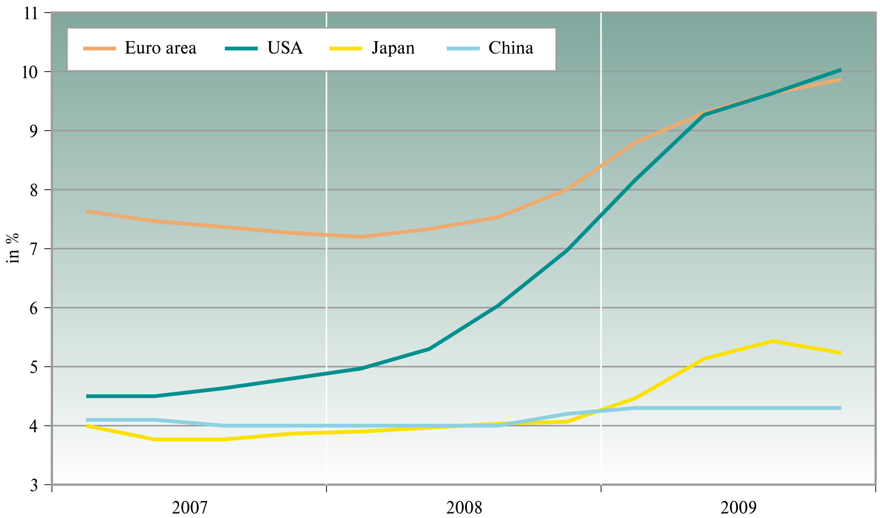
Sources: OECD, Eurostat

The speed and stability of the economic recovery varied greatly from country to country. The contraction in activity had wide-ranging consequences for the labour markets in the majority of developed western countries, where unemployment rose sharply and growth in household income slowed. Unemployment in 2009 was up 1.9 percentage points on the previous year in the euro area at 9.4%, and up 3.5 percentage points in the US at 9.3%. The large general government deficit engendered by the expansive fiscal policy brought a large increase in general government debt, which has triggered a need for public finance consolidation. Debt

1 A detailed illustration of macroeconomic trends and projections is given in the April 2010 Price Stability Report. Detailed analysis of the banking system is given in the May 2010 Financial Stability Review (http://www.bsi.si/en/publications.asp?MapaId=70).

repayments by the government sector, more circumspect consumer behaviour and the maintenance of cost competitiveness will act to curb private consumption in western countries. In the euro area growth is expected to be mainly driven by an increase in exports. The pendulum of global growth will continue to swing towards Asia, where rapid economic growth is expected in 2010.

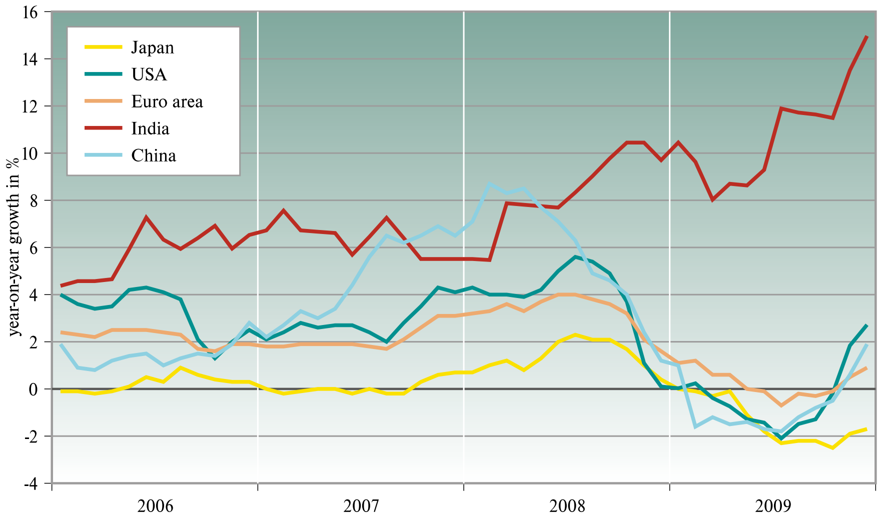
Figure 2: **Unemployment rates in selected major economies**



Source: www.tradingeconomics.com

Inflation in western economies in 2009 was profoundly affected by lower levels of commodity prices in the year-on-year terms, and the decline in domestic demand. Inflation in the euro area last year amounted to 0.3%, the lowest since the creation of the euro, while in the US prices actually fell by 0.3%. Until October 2009, the low and even negative inflation rates were the result of the high basis of energy prices from 2008, while weak domestic demand was also a factor in the fall in inflation. Prices also fell on average over the year in Japan (by 1.4%) and in China (by 0.7%), while prices in India were up 10.8% on the previous year.

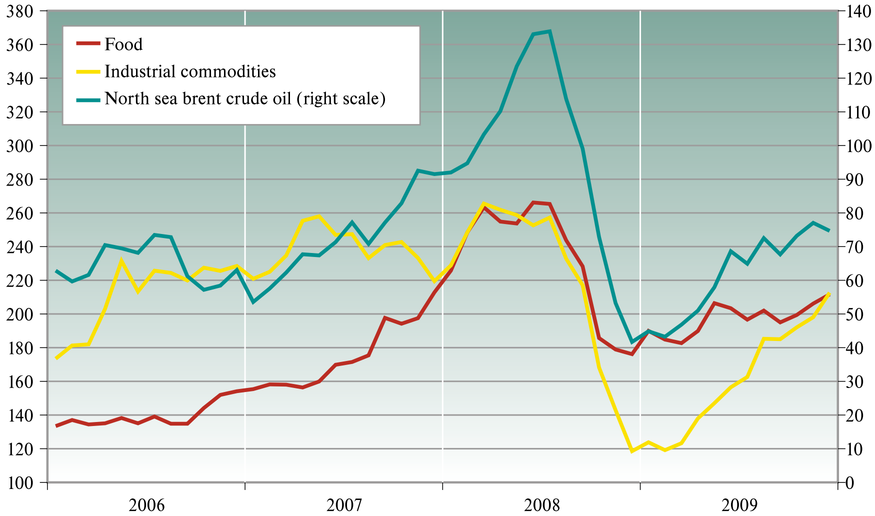
Figure 3: **International comparison of growth in consumer price indices**



Sources: OECD, Eurostat

The considerable fluctuation in oil prices and other commodity prices last year reflected the uncertainty surrounding the consequences of the recession and the expectations in connection with the economic recovery. The price of a barrel of Brent crude averaged USD 62 in 2009, USD 36 less than in 2008. After falling sharply in 2008, oil prices rose throughout 2009. Despite the sustained growth, oil prices did not reach their heights of the previous year, which meant that year-on-year growth in oil prices was constantly negative until October. The rise in oil prices last year was partly the result of the relatively low staring point from the end of 2008, and partly the result of the gradual recovery of the global economy. Prices of other primary commodities and food also rose gradually last year, primarily as a result of increased demand from large Asian economies and low interest rates. This rise also had its roots in the exceptionally low prices at the end of 2008. Prices of non-oil commodities fell by 16% on average in 2009. During the economic crisis, as expected, prices of industrial commodities fell more than food prices, but their growth was also faster during the improvement in the economic situation.

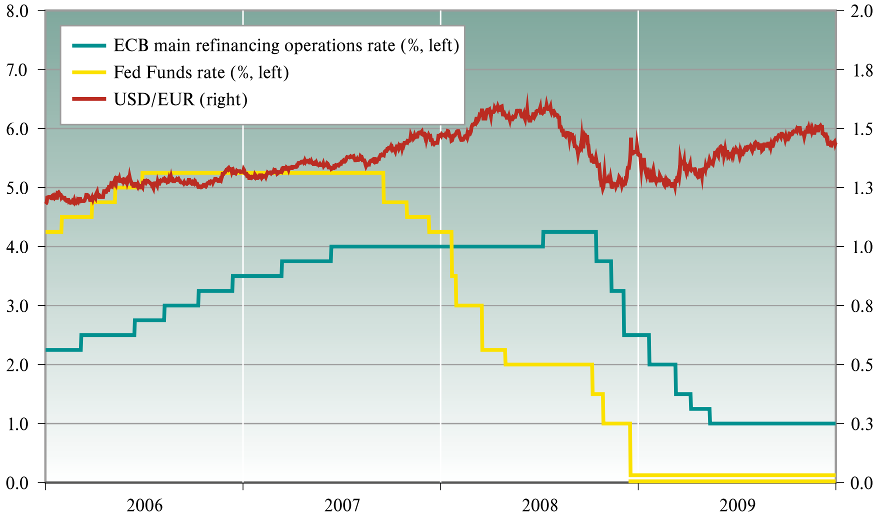
Figure 4: **Prices of commodities and oil on the world market**



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

Interest rates were historically low in 2009, as a result of the response to the crisis situation by certain major central banks. The ECB's key refinancing rate has remained at 1% since May 2009, while the Federal Reserve's key rate has been in the interval between zero and 0.25% since December 2008. Last year the US dollar averaged 1.39 against the euro, compared with 1.47 in 2008, which entailed a depreciation of 5.3% in the euro against the US dollar. However, the average hides some volatility during the year. In the early part of the year the US dollar was strong, and then the euro strengthened until December. The gradual fall in the US dollar during most of the year was the result of uncertainty surrounding the recovery of the American economy, which reduced the appetite for investment in US dollar instruments. At the end of the year problems began to be seen in the euro area in connection with the public finance imbalances in individual euro area countries, and with statistical surprises in the case of Greece, which led to a fall in the euro.

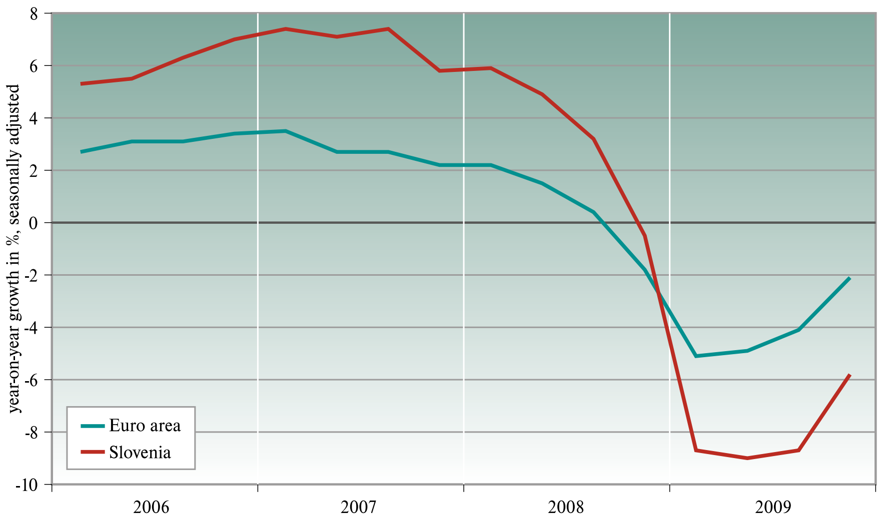
Figure 5: **Euro-US dollar exchange rate and key ECB and Federal Reserve interest rates**



Sources: ECB, Federal Reserve

There were also sharp declines in economic activity, inflation and bank lending activity in Slovenia. The situation on the labour market for jobseekers deteriorated, and unemployment rose. The imbalance in the current account also diminished rapidly. Last year's fall in GDP according to seasonally adjusted figures was 8.1% in Slovenia, compared with 4.1% in the euro area. The main factors in the large decline in economic activity in Slovenia were the interaction of factors from the international environment, the large proportion of total output accounted for by manufacturing, and the end of the investment cycle, which was based on borrowing in the rest of the world. The largest decline among the components of domestic consumption was recorded by gross fixed capital formation, which was down 21.6%. Counter-cyclical fiscal measures brought an increase of 3.2% in government spending. The considerable decline in domestic investment spending was one of the factors in imports recording a much larger decline than exports, the positive contribution of net trade thus reducing the fall in GDP by 2.1 percentage points. The largest decline in value-added in the production sectors was recorded by manufacturing, at 16.7%, mainly as a result of the decline in foreign demand. The decline in construction was similar.

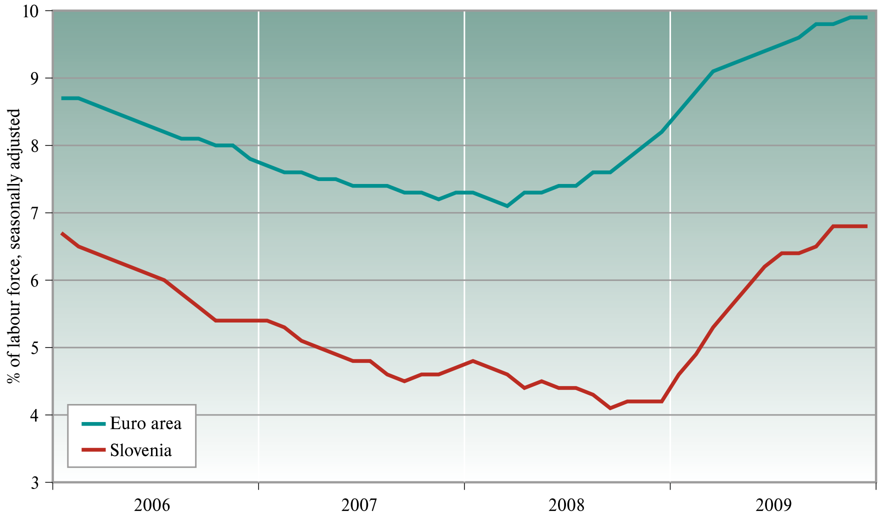
Figure 6: **GDP growth in Slovenia and the euro area**



Source: Eurostat

The decline in economic activity brought job losses, and unemployment rose significantly as a result. Employment fell by 2.2% in 2009, most evidently in manufacturing, where a tenth of jobs were lost last year. The number of employees also fell sharply in the sectors of transportation and storage (by 1.5%) and construction (by 1.6%). The fall in total employment in the whole economy was mitigated by positive growth in employment in the public sector, where the number of employees rose by 1.9% in 2009. On average over the year the number of registered unemployed rose by around 23,000 or just over a third, to stand at 96,672 at the end of the year. The harmonised unemployment rate had reached 6.8% by the end of the year in Slovenia, compared with 9.9% in the euro area overall.

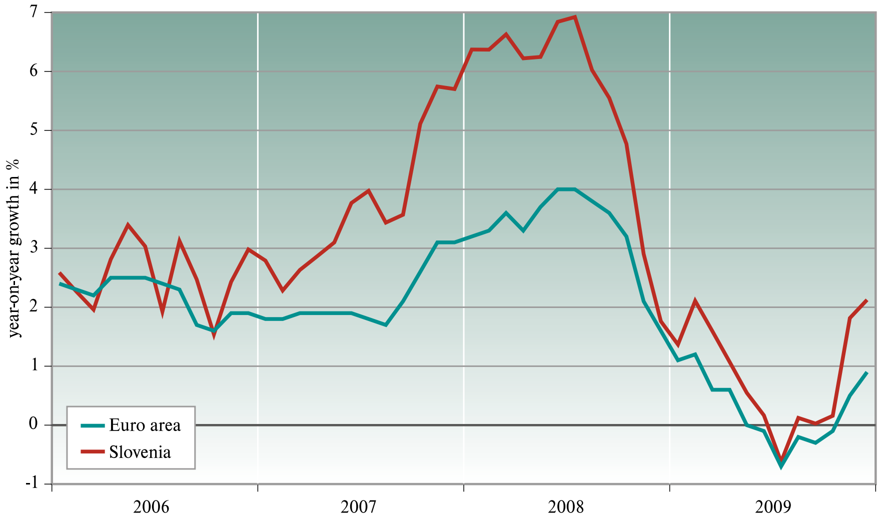
Figure 7: **Harmonised unemployment rate in Slovenia and the euro area**



Source: Eurostat

The main features of inflation in 2009 were the large fall in core inflation and the significant fluctuation in the contribution made by energy prices. Year-on-year growth in the HICP averaged 0.9% in 2009, down 4.6 percentage points compared to 2008. The exceptional contraction in aggregate demand and the trend of decline in costs brought a decline in the core inflation indicators from their high levels of 2008. By the end of 2009 they were below the euro area average. The prevailing external factors were the base effects of the significant fluctuation of oil prices in 2008, which caused a temporary year-on-year fall in prices in the summer of 2009, as in the euro area overall.

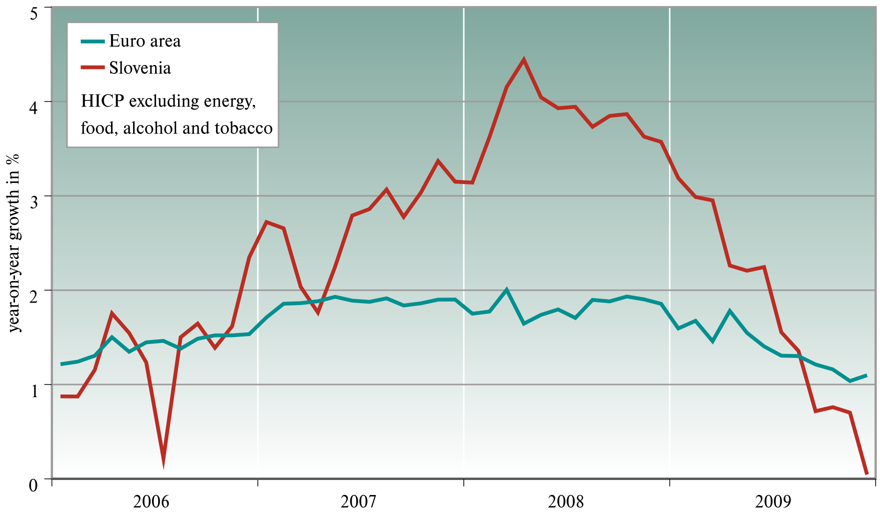
Figure 8: **Inflation in Slovenia and the euro area**



Sources: Eurostat, Bank of Slovenia calculations

After a period in which all the core inflation indicators were above the euro area average, they have been below since the second half of 2009. Core inflation also fell in the euro area overall. This movement was in line with the more pronounced reversal in the cycle and the deeper recession in Slovenia. The narrowest core inflation indicator, the HICP excluding energy, food, alcohol and tobacco, has fallen by more than 4 percentage points since the first half of 2008. The widest, the HICP excluding energy, fell by fully 6 percentage points approximately. All the indicators were more than 2 percentage points higher than those of the euro area on average in 2008, and more than 0.4 percentage points higher in 2009 on average.

Figure 9: **Core inflation in Slovenia and the euro area**

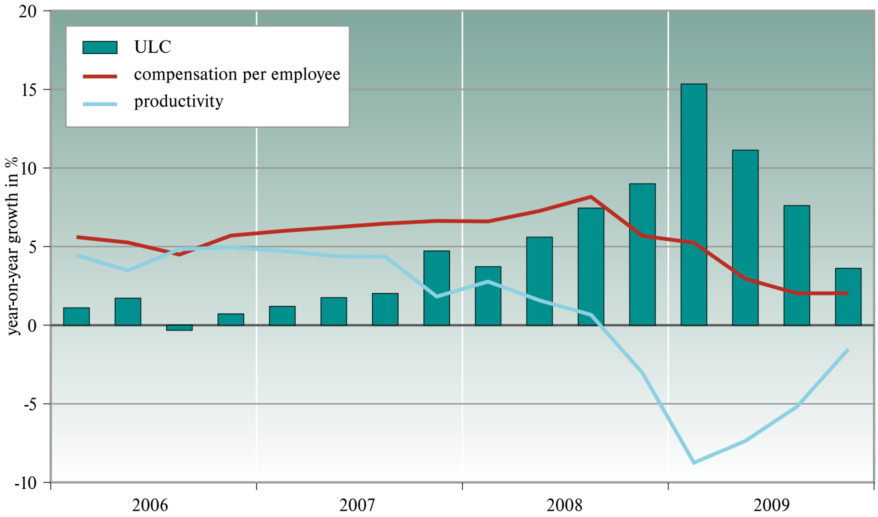


Sources: Eurostat, Bank of Slovenia calculations

Growth in unit labour costs rose significantly in 2009 as a result of the decline in productivity associated with the plummet in economic activity in the early part of the year. Labour productivity reached its low point in the first quarter of 2009, when output per employee was down 8.6% in year-on-year terms. Since then the current rate of growth in economic activity has been positive, but employment has continued to fall. This has brought an improvement in labour productivity.

Growth in labour costs per employee simultaneously declined sharply in the private sector, where year-on-year growth in the average gross wage declined from 7.9% in 2008 to 1.8% in 2009. The decline in growth was particularly pronounced in manufacturing, where the year-on-year increase in the average gross wage was less than 1%. A major factor in the growth in labour costs in the total economy in 2009 was the 6.6% growth in the average gross wage in the public sector, which was the result of the introduction of the new wage system in this sector. Year-on-year growth in public sector wages slowed in the second half of the year as a result of a base effect from autumn 2008. In the context of these movements, growth in unit labour costs (ULC) in the first quarter of 2009 rose to 15.2%, up 6.2 percentage points on the final quarter of 2008. The rate declined evenly over the remainder of the year, reaching 3.7% in the final quarter of 2009. A similar picture is presented by labour costs in Slovenia relative to those in the EU overall, Slovenia's competitiveness deteriorating sharply in 2009.

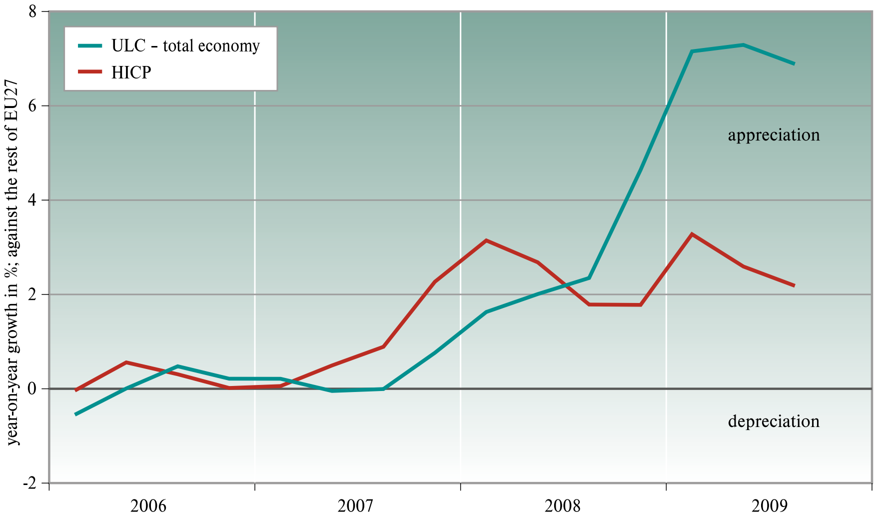
Figure 10: **Labour productivity, unit labour costs and compensation per employee in the Slovenian economy**



Sources: Eurostat, Bank of Slovenia calculations

Growth in costs has a direct impact on the cost competitiveness of the economy, and also indirectly on its price competitiveness, via the effect on the level of prices. For long-term sustainability in the macroeconomic equilibrium it is vital that the level of costs relative to productivity and the level of prices do not show a sustained deviation from the level that provides companies with a competitive position on the internal and external markets. The cost competitiveness and price competitiveness indicators reveal a deviation in the direction of appreciation, i.e. deterioration in competitiveness, relative to the trading partners, since the second half of 2007. In 2009 there was a particularly pronounced upward deviation in unit labour costs. This means that on average the Slovenian economy made significantly less adjustment to the crisis situation in cost terms than the economies with which it trades. A more sustained deterioration in competitiveness could bring a further slowdown in economic growth via a decline in investment activity, sustained high unemployment and loss of market share in international trade.

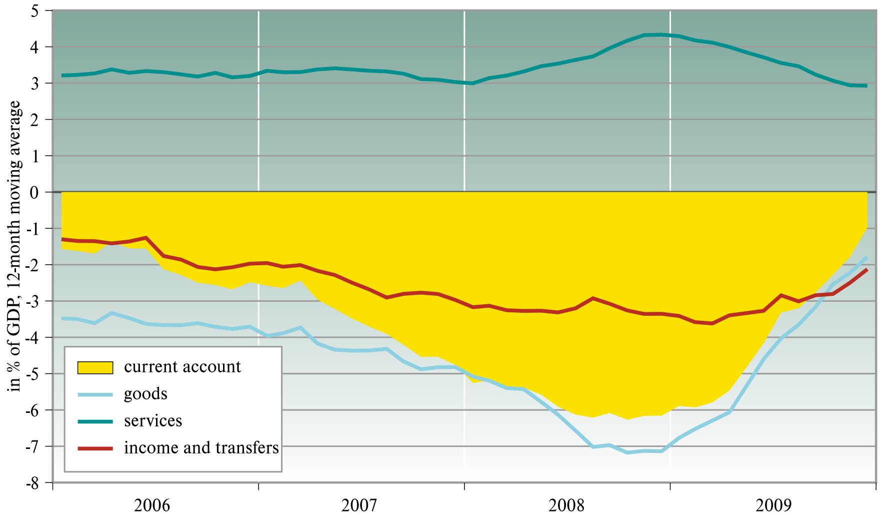
Figure 11: **Real effective exchange rate, deflated by HICP and ULC**



Source: European Commission

The current account deficit widened by approximately 1.5 GDP percentage points each year between 2006 and 2008. The current account deficit stood at EUR 2,287 million or 6.2% of GDP in 2008, the largest figure since Slovenia became independent. As a result of the financial and economic crisis, alongside foreign demand domestic consumption also contracted in 2009, and with it import demand. Merchandise imports fell faster than exports, in both current and year-on-year terms. In addition to volume factors, price factors also played a part in the improvement in the current account. The faster fall in import prices began in the first quarter of 2009, peaking in the third quarter, when import prices were down 10.2% in year-on-year terms, compared with the fall of 5.6% in export prices. Import prices fell by 8.9% on average in 2009, while export prices fell by 4.6%. The terms of merchandise trade improved by 4.7% compared with 2008, which exceeded the total deterioration in the terms of trade between 2005 and 2008. The improvement in the terms of trade contributed approximately EUR 860 million or 2.5% of GDP to the decline in the current account deficit. The merchandise trade deficit in 2009 was just a fifth of that recorded in 2008. With the surplus of trade in services and net outflows of factor income recording a decline of a third, and net outflows of current transfers down by a half, the current account deficit declined to EUR 340 million in 2009, or 1.0% of GDP.

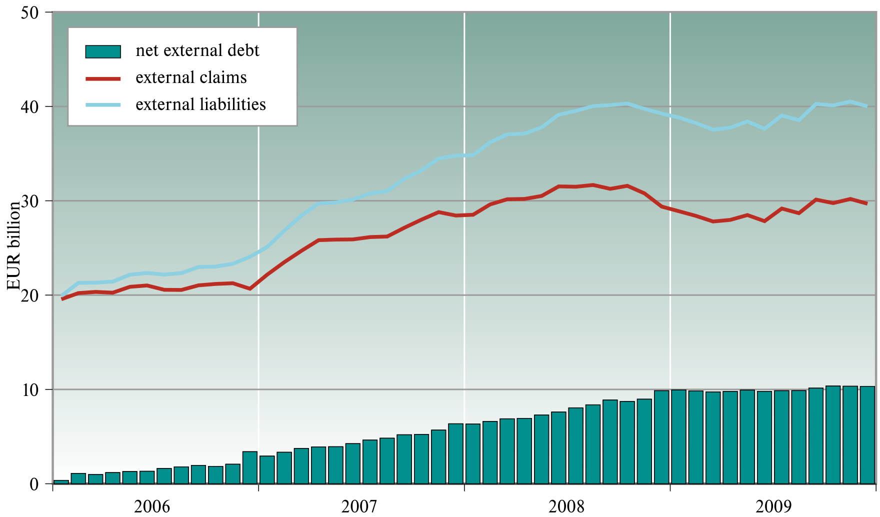
Figure 12: **Components of the current account**



Source: Bank of Slovenia

The private sector's liabilities to the rest of the world declined sharply in the exacerbated financing situation, primarily on account of a decline in the borrowings of the banks, as they reduced their liabilities to the rest of the world by almost EUR 3 billion according to balance of payments figures. This financing of the private sector from the rest of the world was compensated for by the government, which issued EUR 4 billion of bonds in 2009, depositing part of the proceeds with domestic banks and thereby providing cheap funding. Another important financial resource for the private sector (banks in particular) was issues of government-guaranteed bonds, by means of which the private sector obtained around EUR 1.5 billion from the rest of the world. The gross external debt in 2009 was unchanged from the end of 2008. There was a change in the sectoral breakdown of the debtors, as a result of government measures to maintain and stimulate demand. The net external debt at the end of 2009 was also unchanged from a year earlier at around EUR 10 billion.

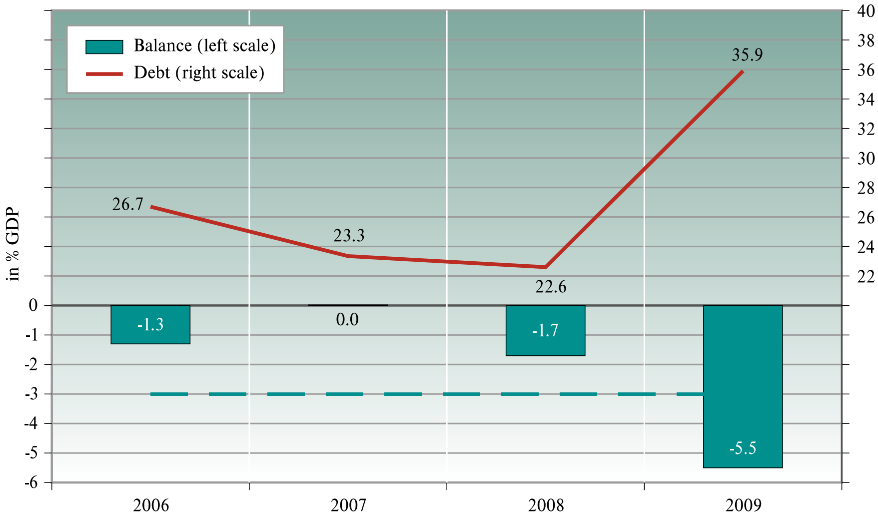
Figure 13: **Slovenia's external debt**



Source: Bank of Slovenia

The general government deficit according to the ESA 95 figures rose to an estimated 5.5% of GDP in 2009. The rise of almost 4 percentage points in Slovenia's general government deficit from the previous year was primarily a reflection of the cyclical position of the economy. The effects of the economic and financial crisis were seen in a decline in general government revenue, whose growth had already begun to decline markedly by the final quarter of 2008. General government expenditure was later in beginning to adjust to the changed circumstances, and did so to a lesser extent, and expenditure rose sharply as a proportion of GDP last year. Another factor in the expansion of the deficit was discretionary measures, including the subsidisation of jobs to maintain employment. The general government debt stood at EUR 12,519 million at the end of 2009, or 35.9% of GDP. In addition to borrowing to finance the general government deficit, the large increase in general government debt in 2009 reflects the increased possibility of borrowing on the basis of amendments to the Public Finance Act. Because its general government deficit was more than 3% of GDP, Slovenia has been in an excessive deficit procedure since 2 December 2009. There are now 20 EU Member States in this position. ECOFIN set a deadline of 2013 for Slovenia to reduce its deficit. The requisite average reduction is 0.75% GDP per year. The updated Stability Programme envisages a gradual reduction in the general government deficit over the next years, under which it should reach 1.6% of GDP by 2013. A major element of the financial consolidation in the public sector is the structural reforms of the pension and healthcare systems and the labour market envisaged by the government's exit strategy.

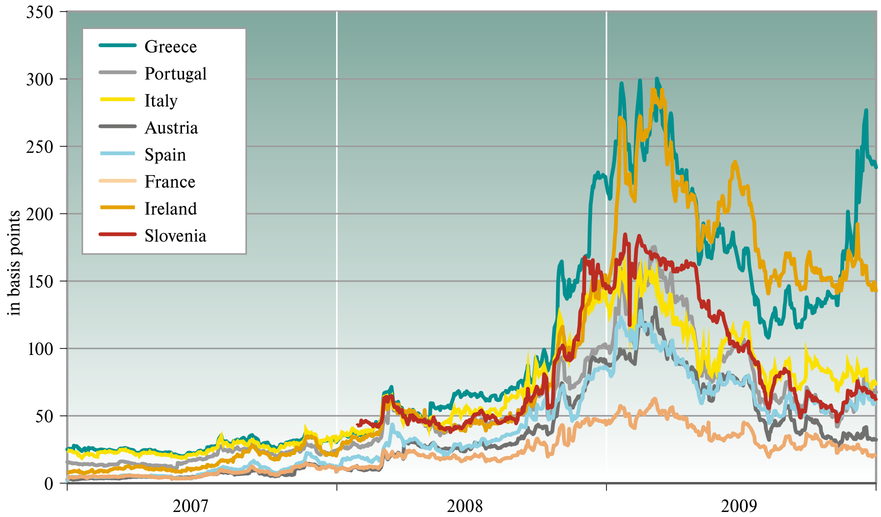
Figure 14: **Balance and debt of the government sector according to ESA 95 methodology**



Source: SORS

The premiums of the required yields on the 10-year government bonds of the majority of euro area countries over that of the benchmark German government bond rose sharply in late 2008 and early 2009. Subsequently they declined in general all the way to December 2009 as a result of the gradual economic recovery in the euro area. They then began to rise again as a result of the downgrading of Greece. The premium of the required yield on Greek 10-year government bonds over that of the benchmark German government bond stood at approximately 240 basis points at the end of December. The premium had stood at approximately 155 basis points in November. The premium for Slovenia rose from 56 basis points in November to 76 basis points after the developments with Greece. It fell again after the end of December to reach 64 basis points. The premiums of Slovenian government bonds over the benchmark German government bond nevertheless remained slightly higher than before the crisis. At the end of 2009 Slovenia retained its AA credit rating, but the continuing retention of a favourable position on the sovereign debt markets will depend on the successful and timely implementation of the exit strategy.

Figure 15: **Premiums on 10-year government bonds over benchmark German bond**



Sources: Bloomberg, Bank of Slovenia calculations
Note: The premium is calculated as the spread between the yield on the 10-year government bond and the yield on the benchmark (German bond) on a daily basis, and reflects the additional risk that the markets ascribe to the country as a debtor

Slovenia is also facing urgent fiscal consolidation, as a result of its large general government deficit and the rise in the general government debt, which nevertheless remains below the euro area average. In the context of greater cost competition and the high likelihood of a sustained deterioration in the situation on the labour market, this will act to curb domestic demand. The effective implementation of structural reforms will be most important in the re-establishment of long-term sustainable economic growth.

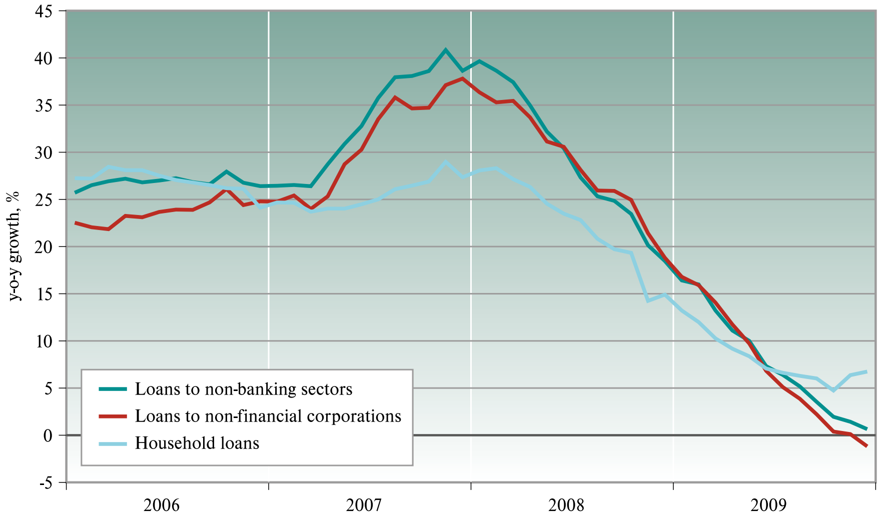
Banking system

At the end of 2009 there were 19 banks operating in Slovenia, of which eight were subsidiaries, three branches of foreign banks, and three savings banks. The banks accounted for 99.2% of the sector at the end of 2009. The number of credit institutions was up one on a year earlier. At the end of 2009 there were eight subsidiary banks and three branches of foreign banks that were under majority foreign ownership, one bank under full domestic ownership, and nine banks under majority domestic ownership. The proportion of the banking system's equity accounted for by non-residents in 2009 was down 1.6 percentage points on 2008 at 36.6%. Counting only non-residents that hold more than 50% of the equity in an individual bank, the figure is 26.8%. The proportion held by non-residents as measured by total assets was 2.9 percentage points higher than the proportion held by non-residents as measured by equity as at 31 December 2009. Government ownership as measured by equity rose slightly last year, to reach 20.5% by the end of the year.

The ratio of the banking system's total assets to GDP rose relatively sharply in 2009 to end the year at 147%. This was the result of an increase in total assets, and a real fall in GDP last year.

Average growth in the banking system's total assets in 2009 was less than half that recorded in the previous year, the rate standing at 8% at the end of the year. In the context of a decline in funding from the rest of the world, weaker growth in household deposits and a large fall in bank lending activity, the main factors in the growth in total assets in 2009 were the increase in government deposits, bond issues and increased bank borrowing at the ECB. The increase in government deposits in 2009 accounted for almost three-quarters of the total net increase in deposits by non-banking sectors. At the same time the banks made almost continuous net reductions in their borrowings from the rest of the world. The increase in total assets in the amount of EUR 3.8 billion in 2009 was not reflected in the net increase in lending to non-banking sectors, which last year amounted to just EUR 0.2 billion, but primarily in increases in claims against banks in the amount of EUR 1.7 billion and investments in securities in the amount of EUR 1.6 billion. The banking system's secondary liquidity thus increased.

Figure 16: **Lending to non-banking sectors**

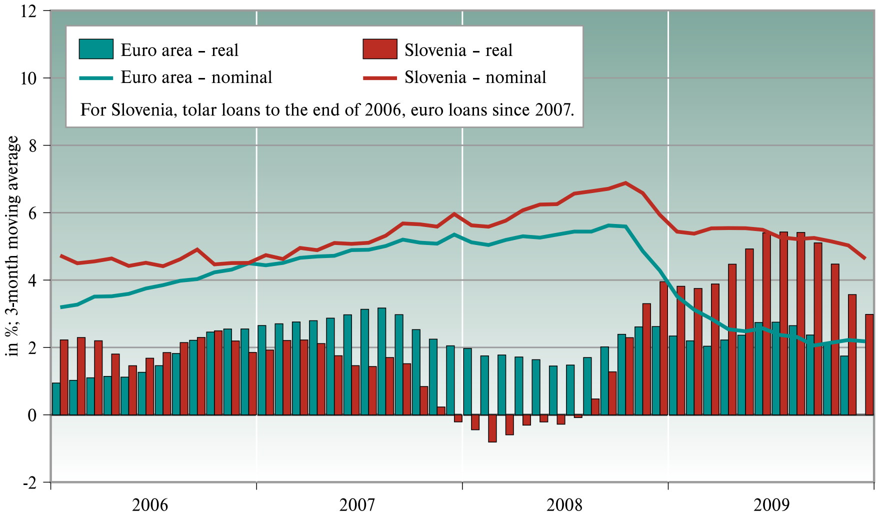


Source: Bank of Slovenia

Growth in bank loans ceased in 2009. Growth in loans had declined rapidly during the previous year, primarily as a result of the greater difficulty in accessing funding from the rest of the world, the rise in real interest rates and a base effect from the previous year, when growth in loans was extremely high. Stricter collateral requirements for loans to clients and higher premiums over the reference interest rates were also factors in the continuing decline in lending in 2009, particularly to corporates. All the groups of banks saw a decline in lending growth, but it was most pronounced at the banks under majority foreign ownership and the large domestic banks. The banks under majority foreign ownership reduced their lending activity to corporates, but recorded above-average activity in lending to households.

After initially lowering their interest rates on corporate loans at the end of the previous year and in the early part of 2009, the banks in Slovenia made almost no more cuts in interest rates. The nominal interest rates on corporate loans in Slovenia were significantly in excess of those in the euro area overall. In 2009 the spread between rates in Slovenia and the euro area on loans over EUR 1 million was around 3 percentage points. The main reason for the spread was the difficulty faced by the banks in accessing funding in the rest of the world. Bonds are a less important form of funding for Slovenian banks than for euro area banks overall. Bond issues in the rest of the world are more expensive for Slovenia as a result of lower credit ratings and higher execution costs. Last year the banks gave greater consideration to the risk and indebtedness of Slovenian corporates when setting interest rates. Given the fall in average inflation in 2009, real interest rates on corporate loans increased sharply.

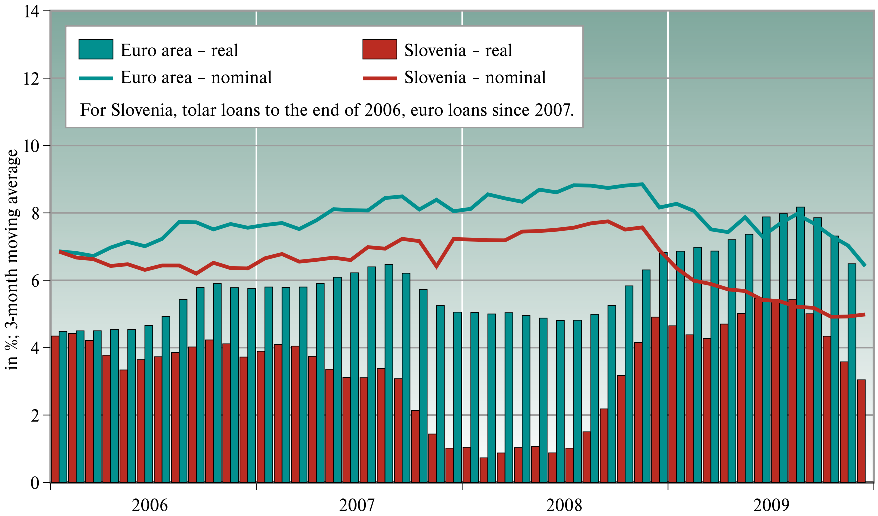
Figure 17: **Interest rates on loans of more than EUR 1 million for non-financial corporations**



Sources: ECB, Bank of Slovenia

Interest rates on consumer loans in Slovenia were lower than those in the euro area overall in both nominal and real terms. There was no increase in the banking system's stock of consumer loans to households in a year of economic crisis.

Figure 18: **Interest rates on consumer loans to households**

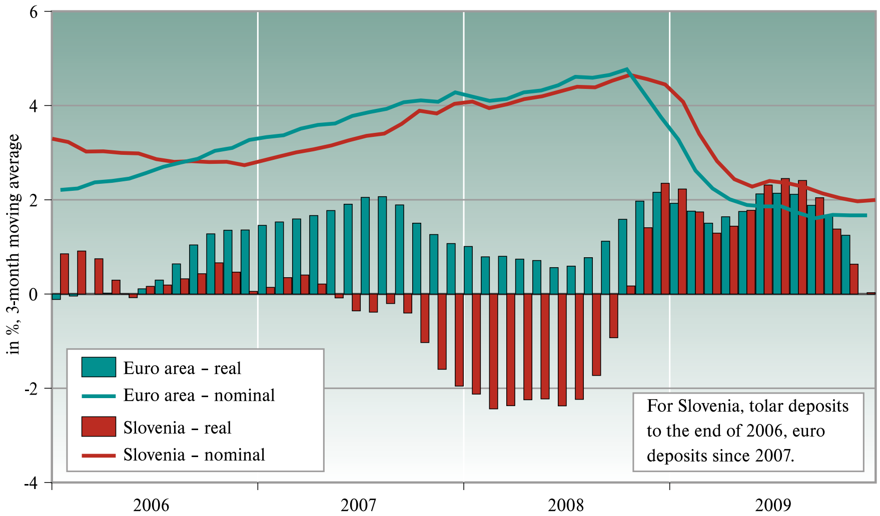


Sources: ECB, Bank of Slovenia

The decline in growth in loans was most pronounced last year for corporate loans (loans to non-financial corporations): year-on-year growth in loans was negative at the end of the year (-1.5%), as in other countries of the EMU. Growth in loans to households declined by less, and stood at 6.8% at the end of the year. The majority of loans to households were long-term. Year-on-year growth in housing loans was still relatively high at the end of the year at 15.7%. The banks primarily approved short-term loans to corporates, but not in a sufficient amount to make the year-on-year growth positive, and the stock of such loans therefore recorded a net decline. The proportion of loans accounted for by long-term loans increased as a result.

Nominal interest rates on deposits of up to 1 year, which represent vast majority of household deposits, last year exceeded the comparable interest rates in the euro area, although the spread narrowed. The banks saw a decline in their funding in the rest of the world, while liabilities were falling due, and additional deposits by non-banking sectors were therefore the only form of funding that was relatively quickly accessible and also cheap compared with other forms of funding (bond issues, borrowing on the market). Competition between the banks increased, which caused a rise in liability interest rates. In the household deposits segment, the banks had already responded by widening the spread of liability interest rates at the end of 2008 on maturities of 1 to 3 months. They then followed suit on deposits of 3 to 12 months. The widening of the spread in these interest rates between banks in Slovenia and banks in the euro area overall to 3 percentage points in the second half of 2009 was a reflection of the increased competition between the banks in Slovenia, particularly on deposits of longer maturities. The banks also competed relatively strongly for government deposits.

Figure 19: **Interest rates on household deposits of up to 1 year**



Sources: ECB, Bank of Slovenia

The deterioration in the economic situation and the deepening of the economic crisis began to be reflected last year in the banking system's performance. The risks that were already discernible in the previous year began to be realised. As growth in bank loans stalled and interest rates fell, the banking system's net interest income last year was lower than in the previous year, although the banks compensated for this with higher non-interest income. The deterioration in the economic situation primarily affected banks via an increase in credit risks. They were forced to increase impairments and provisioning, which significantly reduced profits.

According to provisional unaudited figures, the banking system's pre-tax profit amounted to EUR 160 million in 2009, down almost a half on 2008. The decline in profit was mostly the result of increased impairments and provisioning, and a decline in net interest income. The banks were unable to compensate for this loss of income by raising non-interest income and by cutting operating costs. The banking system's net interest income last year was down 2.1% on 2008, the interest margin on interest-bearing assets declining to 1.98%. The contraction in net interest income was the result of low growth in loans. Loans yield higher interest than other investments. The main factor in last year's growth in net non-interest income was gains on financial assets and liabilities held for trading, the banks having recorded a loss on these in the previous year. The banking system's gross income thus increased.

Table 1: **Banking system's income statement**

	Amount (EUR million)				Growth rate, %				Proportion of gross income, %			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
Net interest	689.8	816.4	938.8	924.7	9.2	18.3	15.7	-2.1	56.7	57.0	69.4	65.3
Net non-interest income	525.8	616.7	414.7	492.2	26.0	17.3	-32.6	18.4	43.3	43.0	30.6	34.7
Gross income	1,215.6	1,433.0	1,353.6	1,417.0	15.9	17.9	-5.1	4.2	100	100	100	100
Operating costs	702.1	755.9	772.6	761.6	8.5	7.7	2.7	-1.9	57.8	52.7	57.1	53.7
Labour costs	367.4	401.8	410.1	413.4	7.3	9.4	2.6	0.3	30.2	28.0	30.3	29.2
Net income	513.5	677.1	580.9	655.4	28.0	31.9	-13.7	12.2	42.2	47.3	42.9	46.3
Net provisioning and impairments	119.8	163.0	276.9	495.8	-14.5	36.0	70.5	78.4	9.9	11.4	20.5	35.0
Pre-tax profit	393.7	514.2	304.0	159.5	50.7	30.6	-40.4	-47.9	32.4	35.9	22.5	11.3
Taxes	90.9	102.5	54.3	38.3	75.5	12.8	-42.8	-34.6	7.5	7.1	4.0	2.7
Net profit	302.8	411.7	249.7	121.3	44.6	36.0	-39.8	-51.0	24.9	28.7	18.4	8.6

Source: Bank of Slovenia

Operating costs last year were lower than in 2008. Growth in labour costs declined in particular. The banks created EUR 496 million of impairments and provisioning last year, 78% more than in 2008. The impairment and provisioning costs are a reflection of the deterioration of the bank portfolios and the economic situation, and have had a profound impact on the banking system's profits since the final quarter of 2008. The proportion of the disposal of gross income accounted for by impairment and provisioning costs was close to 35% last year, having stood at just over a fifth the previous year. The figure was just 11.4% before the crisis.

Table 2: **Bank performance indicators**

(%)	2005	2006	2007	2008	2009
ROA	1.00	1.25	1.36	0.68	0.32
ROE	12.72	15.07	16.29	8.10	3.80
Operating costs on average total assets	2.48	2.23	2.00	1.71	1.54
Interest margin on interest-bearing assets	2.62	2.37	2.33	2.21	1.98
Interest margin on total assets	2.42	2.19	2.16	2.09	1.87
Non-interest margin	1.60	1.67	1.64	0.91	0.99
Gross income on average assets	4.02	3.86	3.80	3.00	2.86

Source: Bank of Slovenia

Credit risk rose relatively rapidly last year as a result of the increasing arrears in clients' settlement of liabilities to banks, an increase in the proportion of non-performing assets, downgradings from the A and B ratings to the C rating, and higher coverage of classified assets by impairments.

The banking system's income risk rose as a result of the increase in impairments and provisioning and the stagnation in lending activity. However, interest-rate risk declined as a result of the increase in short-term loans with a fixed interest rate and government deposits with a maturity of up to 1 year. The risk of a change in the exchange rate remained small, while the banking system's liquidity risk was also relatively low last year. The banks had relatively high liquidity ratios, and increased secondary liquidity. However, the banks have become more exposed to refinancing risk since last year. Slovenia's banking system has maintained an adequate level of solvency, despite the difficult situation. The banks had a capital adequacy ratio of 11.6%, and a Tier 1 capital adequacy ratio of 9.3%.

Table 3: **Credit rating structure and level of coverage of classified assets by impairments and provisions**

	31. Dec 2007			31. Dec 2008			31. Dec 2009		
	Classified assets	Impairments	Coverage of claims by impairments (%)	Classified assets	Impairments	Coverage of claims by impairments (%)	Classified assets	Impairments	Coverage of claims by impairments (%)
Total	41,026	1,314	3.2	47,129	1,403	3.0	48,935	1,818	3.7
	Structure, %			Structure, %			Structure, %		
A	74.1	8.6	0.4	74.4	8.8	0.4	70.3	7.0	0.4
B	22.7	33.7	4.7	22.7	34.4	4.5	24.9	30.8	4.6
C	1.3	10.0	23.9	1.0	8.7	24.8	2.6	16.1	23.3
D	0.7	14.3	65.7	1.0	20.8	62.3	1.5	24.7	62.9
E	1.1	33.4	100.0	0.8	27.2	100.0	0.8	21.3	100.0

Source: Bank of Slovenia

1.2 Implementation of the Bank of Slovenia's strategy

Last year was the first year of the implementation of the Strategic Plan 2009-2012. In the plan the Bank of Slovenia defined seven core objectives that it would pursue in its activities.

Core objective I: "To ensure price stability in the euro area by participating in the definition and implementation of the Eurosystem's monetary policy"

The Eurosystem responded properly to the economic situation by adjusting interest rates. Because of the economic crisis, it also introduced non-standard instruments into monetary policy. The introduction of full allotment of liquidity at a fixed interest rate and the lengthening of the maturity of loans to up to 1 year made it easier for the banking system to refinance its liabilities in the situation when Slovenian banks were repaying debt to foreign banks. The Bank of Slovenia thereby significantly reduced the liquidity risk at banks within the framework of Eurosystem operations. By expanding the pool of collateral eligible at the central bank, it expanded the opportunity of accessing liquidity at the central bank within the framework of the Eurosystem. By deciding to participate in the programme of purchasing covered bonds, it also enabled the first issues of covered bonds on the Slovenian market.

Core objective II: "To support general economic policy to achieve social welfare in the Republic of Slovenia"

In regular publications of economic and financial developments it constantly assessed the macroeconomic and financial trends in Slovenia, and in the Price Stability Report it reported its projections of these trends twice a year, together with an assessment of uncertainties in the economic environment. Within the framework of the standard methodology it helped to frame the Eurosystem view of the public finance developments in Eurosystem countries, and regularly participated in the formulation of the Eurosystem's macroeconomic projections. It encouraged independent analysis and research, and provided databases for analytical and model assessments. It updated the methodology for reporting by monetary financial institutions, and coordinated it intersectorally in conjunction with the SMA and the ISA. Within the ESCB and the CEBS it participated in the coordination of the methodology for monetary and financial statistics for the needs of supervision. The Bank of Slovenia meets its statistical reporting obligations in the Eurosystem with the requisite quality, and provides public access to data in aggregated form.

Core objective III: "To strive for financial stability, the quality supply of cash and secure and effective payment systems, taking into account the principles of market economy and free competition, and the interests of consumers"

The Bank of Slovenia analyses the stability of the Slovenian financial system. In addition to conducting periodic internal analysis, it draws up comprehensive analysis of the changes in risk in the banking system and analysis of the stability of the financial system twice a year. These analyses are available to public, and appropriate measures are taken in response to the identified changes where the need arises. The Bank of Slovenia participates in the Eurosystem to determine demand for cash and, within a narrower group of national central banks, on the basis of an agreement to print banknotes, it commissions the printing of the allocated quantity of banknotes on the basis of a public tender. It ensures that there are no disruptions in the supply of banknotes via five depot banks, recirculating the acceptable banknotes and withdrawing the unacceptable ones. Together with other national central banks and the ECB, the Bank of Slovenia participates in the projects and activities by which the Eurosystem implements the process of integrating, harmonising and standardising payment and settlement systems in the euro area (T2S, CCBM2, SEPA), and ensures that they operate smoothly. By reviewing the operation of payment systems it assesses operational risks, and requires operators and participants to manage these risks appropriately.

Core objective IV: "To optimise the Bank of Slovenia's active role in the ESCB through specialised activities"

The Bank of Slovenia regularly participates in the activities of the ESCB's committees, and directs the activities of its committee members. It requires staff to assess details and the positions regarding proposals discussed by the Governing Council of the ECB. It also adjusted its internal organisation of work to the working methods of the ESCB. It participates in joint Eurosystem programmes to provide technical assistance, itself designing a programme of bilateral technical assistance aimed at central banks in countries of the western Balkans that are not yet EU Member States. It also participates actively in the programme of the Centre of Excellence in Finance, which operates under the sponsorship of international financial institutions.

Core objective V: "To shape and introduce conditions for a stable and efficient banking system and for the security of deposits at banks and savings banks"

Banking supervision is based on the effective implementation of banking directives and other relevant directives, which are being relatively rapidly updated and amended as a result of the financial turmoil. In 2009 the Bank of Slovenia actively participated in the drafting of national legislation and regulations governing the operations of banks and savings banks. By actively monitoring the effects of the anti-crisis measures and recommendations, and by supervising credit risk, the Bank of Slovenia encouraged an appropriate response from senior management at the banks to the difficult business conditions inside and outside Slovenia. Only in this way were the banks able to take up any increased credit risk, and to adequately manage their liquidity.

Core objective VI: "To ensure a reliable risk management system and business continuity processes"

The Bank of Slovenia sets out risk management policy and supervises the implementation of the policy via two channels: financial risks via the Investment Committee, and operational risks, information system security and business continuity via the Operational Risk Committee. In both fields it is developing new methods and gradually introducing them into practice to improve risk management, thereby mitigating the risks to which it is exposed.

Core objective VII: "To ensure and support an effective, flexible and cost-effective organisation with motivated and professionally qualified employees"

The Bank of Slovenia cut its operating expenses by 5% in 2009. The effective number of employees remains below the target level set by the financial plan (430). At the same time the average qualifications of the workforce are improving. The main organisational activities include the introduction of medium-term planning over a four-year horizon, the establishment of a system for monitoring costs in each central banking function, an update of the rules for project work and preparations for the computerisation of development work.

2 BANK OF SLOVENIA ACTIVITIES

2.1 Tasks in the scope of the ESCB

2.1.1 Implementation of the Eurosystem's monetary policy

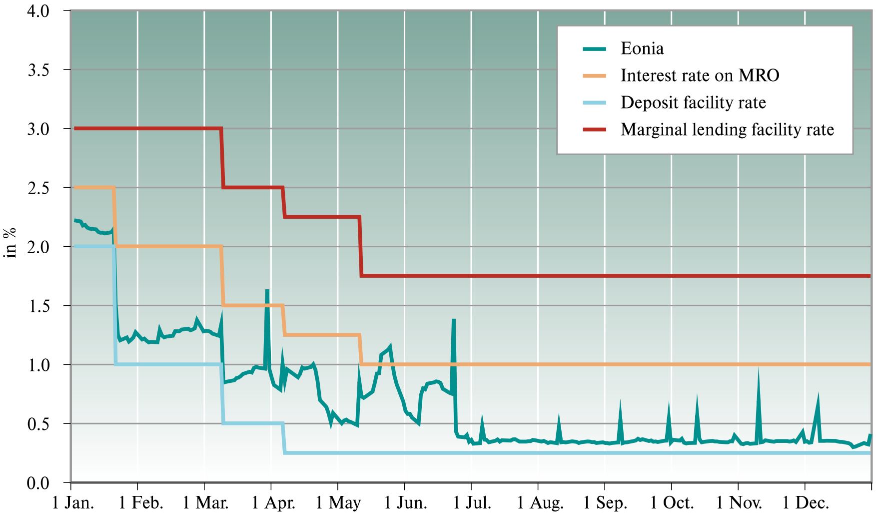
The Eurosystem steers the market interest rate in the euro area by continuously providing the banking system the amount of lending, and thus the liquidity to satisfy the assessed liquidity deficit in the banking system. Banks' demand for central bank money is driven by the needs of individual banks for cash in the form of banknotes and coins, and by the need for balances on accounts at the central bank for the settlement of transactions with other banks. In this regard, the Eurosystem only regulates the aggregate amount of liquidity and relies on the money market to allocate it to individual banks in accordance with their needs.

Stabilisation of the money market with the increased provision of liquidity throughout 2009.

In 2009 the euro area money market felt the effects of the financial turmoil that began in the middle of 2007 with problems on the US real estate market and reached its peak in September 2008 with the collapse of the US investment bank Lehman Brothers. The turmoil resulted in the reduction in confidence between banks. Therefore, the allocation of liquidity to banks via the money market did not function well. The Eurosystem compensated for the malfunctioning of the money market by acting as an intermediary between banks that had a liquidity surplus (and therefore wished to lend money) and those banks desiring to borrow money. The result was a rise in lending by the Eurosystem above typical levels, and liquidity in excess of the normal needs of banks. The banks placed excess funds in the deposit facility, while the Eurosystem provided liquidity to banks via fixed-rate tender procedures with full allotment. The gradual economic recovery towards the end of the year led to a normalisation of the money market to such an extent that in December the Eurosystem reduced the number of special operations executed due to the financial turmoil. In the absence of inflationary pressures, in early 2010 the Eurosystem continued to provide unlimited liquidity (i.e. full allotment[2]) in its regular open market operations. In the context of persistent excess liquidity, the market interest rate (Eonia) remained around 60 to 70 basis points (one-hundredths of a percentage point) below the ECB's key interest rate throughout the year, i.e. merely a few basis points above the deposit facility rate (see figure 20).

2 Full allotment means that banks received as much liquidity as they required at a pre-determined (fixed) interest rate.

Figure 20: **ECB interest rates and Eonia**



Source: ECB

The Eurosystem's implementation of monetary policy is decentralised via the national central banks of euro area Member States. The Bank of Slovenia implements monetary policy in transactions with Slovenian banks and savings banks, which are also subject to the Eurosystem's minimum reserve system. At the end of 2009 a total of 21 out of 25 Slovenian institutions subject to the minimum reserve system had access to the most important monetary policy instruments, i.e. main refinancing operations, longer-term refinancing operations and standing facilities.

A detailed description of changes in the use of monetary policy instruments and the quantification of their relative importance in 2009, and an explanation of the use of collateral vis-à-vis monetary policy liquidity-providing instruments are given below.

Eurosystem monetary policy instruments in 2009

A package of non-standard monetary policy measures was introduced in the middle of the year.

The Eurosystem implements monetary policy using three groups of instruments: open market operations, standing facilities and minimum reserves.[3] The Eurosystem stabilises demand for its money (i.e. base money or the monetary base) via minimum reserves. Open market operations (reverse main refinancing and longer-term refinancing operations) are used to regularly provide the necessary amount of this money, while standing facilities, such as the marginal lending and deposit facilities, are used to offset the remaining imbalances between the supply and demand. In 2009, due to the deterioration in the functioning of the financial markets, the Eurosystem adopted a package of non-standard measures in which it included outright securities transactions in open markets operations and extended the maturity of reverse operations conducted via fixed-rate tender procedures with full allotment (see Box 1).[4] Another significant change relating to conditions prior to September 2008 was that banks made more frequent use of the deposit facility than usual due to the surplus liquidity that arose as the result of the Eurosystem's intermediary role on the money market (i.e. full allotment in reverse operations instead of neutral allotments or allotments at pre-announced amounts).

3 The General documentation on Eurosystem monetary policy instruments and procedures contains a detailed description of monetary policy instruments. This text is available on the ECB's website at http://www.ecb.int/pub/pdf/other/gendoc2008sl.pdf.

4 The Decision of the ECB on the implementation of the covered bond purchase programme (ECB/2009/16) represents the legal basis for the outright purchase of securities. The text is available on the ECB's website at http://www.ecb.int/ecb/legal/pdf/l_17520090704sl00180019.pdf.

Box 1: **Package of non-standard monetary policy measures**

The Eurosystem announced two measures on 7 May 2009: the execution of three 12-month longer-term refinancing operations and the purchase of covered bonds.

By extending the maximum maturity of operations from the previous 6 months to 12 months, the Eurosystem facilitated the funding of banks in a period of difficult access to long-term funding on the market. The banks responded to 12-month operations in significant amounts: the largest volume of a single operation to date was achieved at the end of June with the amount of EUR 442 billion, while operations at the end of September and in December 2009 totalled EUR 75 billion and EUR 97 billion respectively.

As part of its second measure, the Eurosystem announced that it would purchase EUR 60 billion in covered bonds between the beginning of July 2009 and the end of June 2010 as part of the covered bond purchase programme. The objective of the programme was to contribute to: (a) reviving the primary covered bond market, which is the second largest euro area bond market following the government bond market; (b) improving the liquidity of the secondary covered bond market; (c) lowering money market interest rates; and (d) increasing availability of loans to non-banking sectors.

The Eurosystem purchases bonds that fulfil the following criteria: (a) the bonds are eligible as collateral for monetary policy operations; (b) the bonds are denominated in euro; (c) the bonds are issued by banks incorporated in the euro area; (d) the bonds are issued and settled in the euro area; (e) the bonds are covered bonds issued in accordance with the criteria set in Article 22(4) of the UCITS Directive or structured covered bonds offering similar safeguards; (e) as a rule the issue size shall be a minimum of EUR 500 million, but never less than EUR 100 million; (f) as a rule the issue has a minimum rating of AA-/Aa3; and (g) covered bonds shall be issued pursuant to legislation governing covered bonds that is in force in a euro area Member State.

The positive effects of the programme were evident in 2009 in an increase in issues of covered bonds and in the rapid closing of the gap in interest rates between covered bonds and government bonds. By 31 December 2009 the Eurosystem had purchased covered bonds with a nominal value of EUR 28.3 billion.

Full allotment in all open market operations continued in 2009 …

Main refinancing operations (MRO) are liquidity-providing reverse operations, executed weekly with a typical maturity of one week according to a pre-announced calendar. In 2009 the Eurosystem continued to execute MROs in the form of standard full allotment liquidity-providing tenders. Full allotment was introduced in October 2008 owing to the considerable tightening of bank funding on the interbank market, as confidence in dealings between banks collapsed following the bankruptcy of Lehman Brothers Bank.

In 2009 there were 52 MROs for an average amount of EUR 149.8 billion (EUR 201.1 billion in 2008). Slovenian banks and savings banks participated in all 52 MROs, and were allotted EUR 5.5 billion in liquidity, representing 0.07% of total allotments.

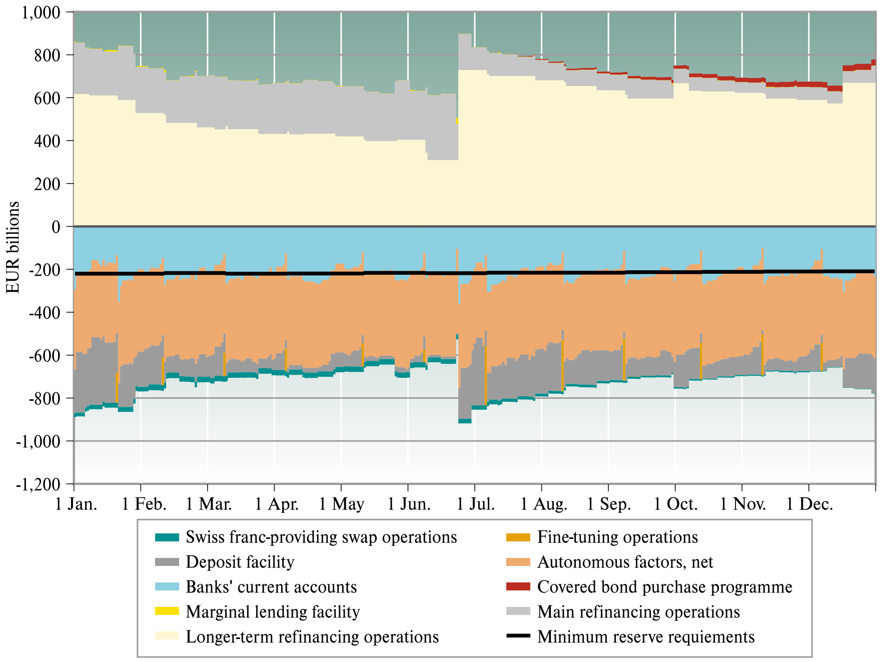
… as did the extension of the maturities of operations.

Under normal conditions, *longer-term refinancing operations (LTRO)* are aimed at providing counterparties with additional stable refinancing. These are liquidity-providing reverse transactions, executed monthly with a typical maturity of three months and according to a pre-announced calendar. Due to the continuation of tensions on the financial markets, in 2009 the Eurosystem renewed all LTROs at maturity, including additional operations with maturities of three and six months, and operations with maturity equal to the reserve maintenance period. Thus, in addition to the regular three-month operations, every month the Eurosystem also executed one additional three-month and one six-month operation, and an operation with a maturity of around one month.

Moreover, on 7 May 2009 the Eurosystem announced 12-month LTROs, and executed three such operations during 2009, on 24 June, 30 September and 16 December. All operations were executed as full allotment tenders, taking full account of the funding needs of the banks. The first two operations were executed at a fixed interest rate equal to the MRO interest rate prevailing at the time of operations. The final operation was executed at an interest rate equal to the average interest rates for MROs until the maturity of the aforementioned operation. The Eurosystem's aim of these operations was to maintain bank lending to non-banking sectors, at a minimum, at an unchanged level.

The average amount of liquidity provided to the system via LTROs in 2009 was EUR 554.8 billion, the amount having risen sharply following the first of three 12-month operations (see Figure 21). In addition to 12 regular three-month operations, 39 additional operations were executed in 2009, of which 12 were three-month, 12 were six-month and 12 were one-month, while three were 12-month operations. All were executed as full allotment liquidity-providing operations. LTROs, measured as a proportion of the coverage of the Eurosystem's liquidity deficit, remained the main source for providing liquidity in the euro area in 2009. The high amount of operations has been compensated by decreasing in the amount of main refinancing operations and by an increase in the use of the deposit facility.

Figure 21: **Supply (+) and demand (–) for Eurosystem liquidity**

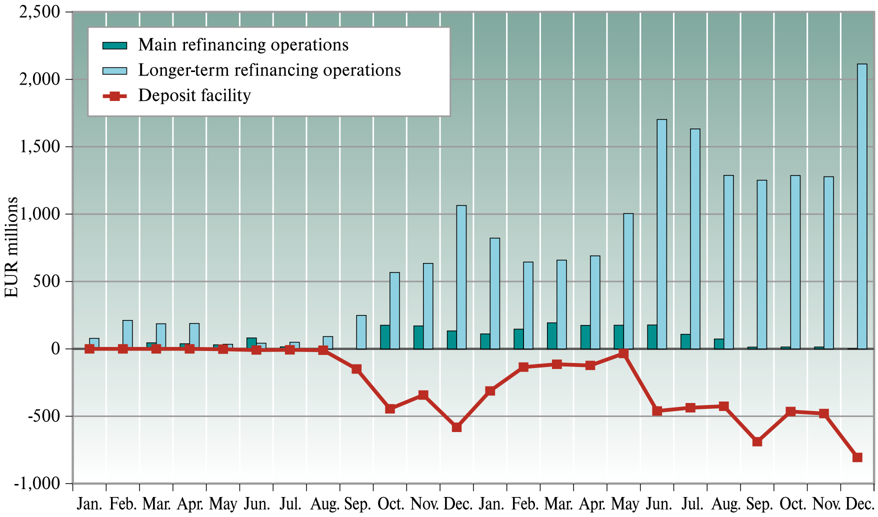


Source: ECB

There was an increase in the level of the Bank of Slovenia's open market operations.

Slovenian counterparties participated in a total of 28 LTROs, in which they submitted bids totalling EUR 3.1 billion, EUR 1.9 billion of which related to 12-month operations. Participation in the latter increased the amount of bank borrowing at the Bank of Slovenia (see Figure 22) to the highest level since the introduction of the euro in Slovenia. Prior to this, Slovenian banks had sought the majority of their funding on the financial markets. A similar change occurred with regard to the deposit facility (see below), which partly compensated for the banks' investments on the financial markets.

Figure 22: **Outstanding amounts of Eurosystem monetary policy instruments in 2008 and 2009: Slovenian banks and savings banks (at month-end)**



Source: Bank of Slovenia

Fine tuning operations (FTO) are executed by the ECB on an ad hoc basis with the aim of managing liquidity imbalances in the market and thus stabilising interest rates. In 2009 these operations were executed solely in the form of quick tenders of collection of fixed-terms deposits, and only on the last day of the reserve maintenance period, with the aim of balancing the banking system's actual liquidity with its liquidity needs (determined by minimum reserves and possible excess reserves held voluntarily by banks). The average amount of all operations was EUR 154.2 billion, and all operations were executed with an overnight maturity. In 2009 the ECB did not amend the range of counterparties that may participate in these operations. That range was temporarily expanded in October 2008 to all counterparties with access to main refinancing operations. Slovenian banks and savings banks, which deposited an average of EUR 0.4 billion, regularly participated in these tenders.

The deposit facility was used on a daily basis due to excess liquidity.

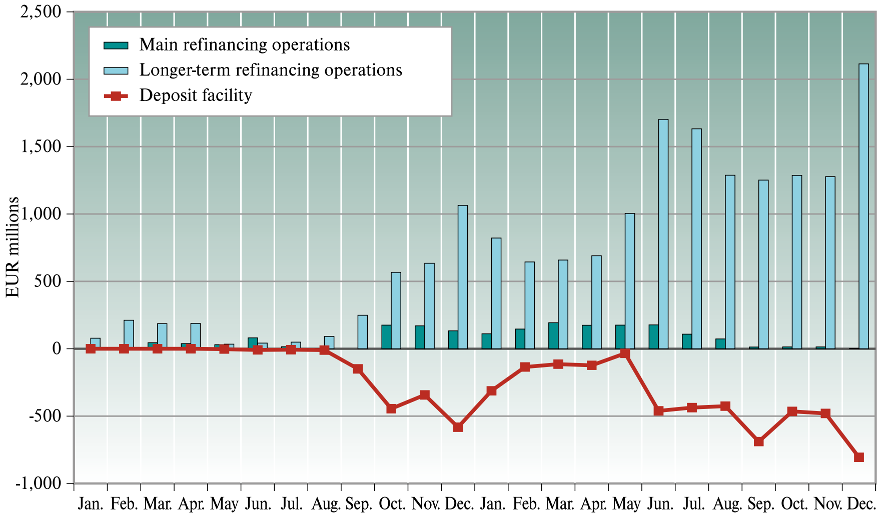
The use of *standing facilities* is usually limited to the closing of unexpected liquidity supply/demand gaps of counterparties. These gaps are typically larger at the end of a reserve maintenance period, when it is not possible to balance gaps via minimum reserve holdings exceeding the requirement. The possibility to regulate the level of reserves via open market operations is also reduced. Since mid-October 2008, when the Eurosystem began executing open market operations using full allotment tenders, banks have regularly (daily) used the deposit facility to invest the excess liquidity that arose when banks received the full amount of liquidity via MROs and LTROs. In 2009 the average daily balance of Eurosystem's deposit facility was EUR 109.4 billion, compared with EUR 49.8 billion in 2008. As evidenced by Figure 21, the deposit facility increased, particularly following the allocation of the first 12-month LTRO. From that time until the end of the year, the deposit facility averaged EUR 126.8 billion. In 2009 the average daily balance of the Eurosystem's marginal lending facility was EUR 0.9 billion, compared to EUR 2.3 billion in 2008. The use of the deposit facility by Slovenian banks and savings bank was similar to that in the euro area overall. Average use over the entire year in 2009 was EUR 0.4 billion, compared to EUR 0.1 billion in 2008. The marginal lending facility was used once in Slovenia in 2009.

The Eurosystem limits extreme fluctuations in market interest rates and influences activity on the money market by setting deposit facility and marginal lending facility interest rates. To stimulate trading, on 21 January 2009 the Eurosystem expanded the interest rate band around the MRO interest rate to ±100 basis points. The aforementioned band around the MRO interest rate was narrowed to ±50 basis points on 8 October 2008 due to sharp fluctuation in the Eonia, directly following the collapse of the US investment bank Lehman Brothers. On 13 May 2009 the Eurosystem again narrowed the band around the MRO interest rate to ±75 basis points. The Eurosystem narrowed the corridor to maintain a symmetrical band as the MRO interest rate fell to 1.00%, and at the same time preventing the interest rates on deposit facility from falling to 0% (maintaining equal gaps would, for example, result in an interest rate of 0%).

There was a 2.6% increase in the reserve requirement.

The Eurosystem's *minimum reserve requirement* is determined in relation to specific items from the liability side of banks' and savings banks' balance sheet.[5] The average balance of the minimum reserve requirement in the euro area in 2009 was EUR 216.2 billion (EUR 0.4 billion in Slovenia), and was 2.6% higher (9.3% higher in Slovenia) than the average requirement in 2008. The average annual balance on accounts included in the reserve requirement holdings was EUR 216.8 billion in 2009. Slovenian institutions subject to the reserve requirement accounted for EUR 0.4 billion or 0.20% of this amount. There was one violation of the minimum reserve requirement in Slovenia in 2009.

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



Sources: Bank of Slovenia, ECB

There was a decline in US dollar and Swiss franc loans.

Since December 2007, due to a halt in US dollar refinancing by European banks, the Eurosystem initially provided its counterparties with funding in US dollars, first linked to the Federal Reserve's *Term Auction Facility,* and later independently of it, but always in cooperation with the Federal Reserve. In October 2008 the Eurosystem executed all US dollar operations (with maturities of 7, 28 and 84 days) using fixed-rate full allotment tenders. At the same time it provided counterparties without sufficient collateral for US dollar loans the possibility of euro/US dollar foreign exchange swaps, whereby a loan in US dollars was secured by a euro deposit of counterparty within the Eurosystem. Foreign currency exchange swaps were discontinued at the end of January 2009 due to low demand. US dollar lending by the Eurosystem contracted with the normalisation of access by European banks to US dollar funding market: operations with maturity of 28 days were discontinued

5 The Eurosystem's minimum reserve system is described in Chapter 7 of the General documentation on Eurosystem monetary policy instruments and procedures, found at http://www.ecb.int/pub/pdf/other/gendoc2008sl.pdf.

at the end of July 2009, those with a maturity of 84 days at the end of October, while those with a maturity of 7 days were discontinued at the end of January 2010. The average balance in 2009 stood at EUR 92.6 billion, and at EUR 10.9 million at Slovenian banks and savings banks.

In a similar manner and for reasons similar to those for the US dollar, the Eurosystem, based on an agreement with the Swiss central bank, began lending Swiss francs at a fixed interest rate with a foreign currency swap to European banks on 22 October 2008. In 2009 it only provided loans with a maturity of seven days, in the counter-value of EUR 20 billion in January, and in the counter-value of EUR 25 billion from February on. Because the demand for Swiss francs gradually waned towards the end of 2009, the Eurosystem discontinued foreign currency swaps, together with US dollar lending, at the end of January 2010. The average daily balance of euro/Swiss franc foreign currency swaps in 2009 stood at EUR 16.4 billion, and at EUR 31.2 million at Slovenian banks and savings banks.

Collateral in Bank of Slovenia credit operations

In accordance with the Statute of the ESCB and the ECB, all Eurosystem monetary policy credit operations must be secured by eligible assets. Financial assets must meet uniform criteria valid throughout the euro area to be considered eligible collateral for Eurosystem monetary policy operations and intraday loans. Eligible assets include securities (marketable assets) and non-marketable assets, bank loans being the most important among the latter.[6]

Due to increased borrowing by banks, the Eurosystem temporarily amended certain criteria for eligible collateral back on 15 October 2008, with expansion of collateral being valid until the end of 2009. Thus, in addition to existing collateral, the following were also made eligible: (a) securities (with the exception of asset-backed securities) and non-marketable financial assets with a credit rating between BBB+/Baa1 and BBB-/Baa3, (b) debt securities issued by credit institutions that are traded on certain over-the-counter markets, as defined by the ECB, (c) subordinated debt securities with an eligible guarantee, and (d) certain debt instruments issued in the euro area and denominated in US dollars, pound sterling or Japanese yen. On 7 May 2009 the Eurosystem extended the validity of the aforementioned measure until the end of 2010.

The value of the collateral pool rose by EUR 1.6 billion to EUR 4.1 billion.

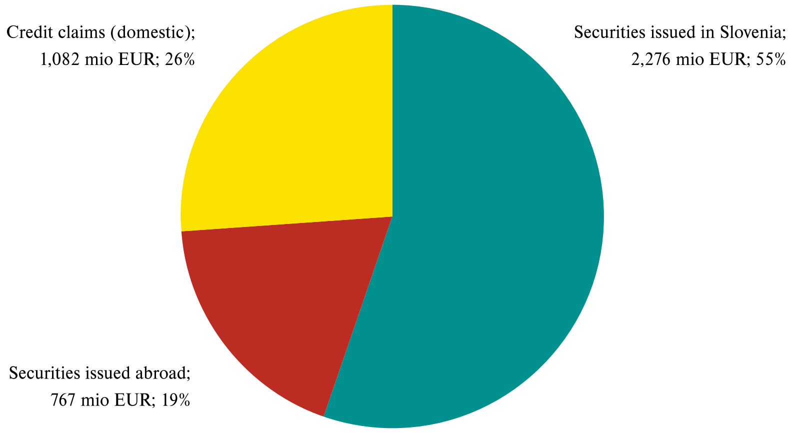
Slovenian counterparties use financial assets to secure transactions with the Bank of Slovenia by transferring them to the pool of collateral at the Bank of Slovenia. Financial assets issued, approved or settled in Slovenia are transferred to the pool by pledging eligible securities held at Central Securities Clearing Corporation (CSCC) or by a lien on a bank loan entered in the register of bank loans at the Bank of Slovenia. Financial assets issued abroad are transferred to the pool using the correspondent central bank model.[7] Due to increased demand for Eurosystem credit operations, the total value of the pool of collateral rose gradually in 2009 from EUR 2.5 billion at the beginning of the year to EUR 4.1 billion by the end of the year, when the pool was composed of securities issued in Slovenia in the amount of EUR 2.3 billion and securities issued abroad in the amount of EUR 0.7 billion. The pool also included domestic bank loans totalling EUR 1.1 billion.

6 Eligible financial assets are described in Chapter 6 of the General documentation on Eurosystem monetary policy instruments and procedures, found at http://www.ecb.int/pub/pdf/other/gendoc2008sl.pdf.

7 The correspondent central bank model (CCBM) is a mechanism between Eurosystem central banks that permits counterparties to collateralise Eurosystem claims with financial assets issued or settled in a country other than the counterparties' country of origin. More information regarding the CCBM is available in an English-language brochure on the ECB's website at http://www.ecb.int/pub/pdf/other/ccbm2008en.pdf.

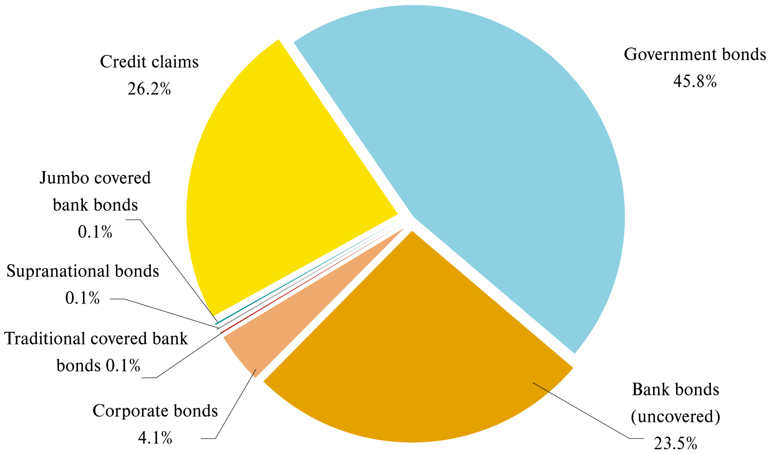
Slovenian banks and savings banks began using domestic bank loans in December 2008, but did not use bank loans granted to borrowers abroad.

Figure 24: **Pool of collateral at the Bank of Slovenia as at 31 December 2009 – breakdown by place of issue**



Source: Bank of Slovenia

Figure 25: **Pool of collateral at the Bank of Slovenia as at 31 December 2009 – breakdown of securities by type and bank loans**



Source: Bank of Slovenia

2.1.2 Bank of Slovenia as a 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. The Bank of Slovenia may act as a lender of last resort, i.e. it may, based on adequate collateral, lend to an otherwise solvent bank that finds itself in unexpected liquidity difficulties.

One of the ways the Bank of Slovenia functioned in this role was by granting a special liquidity loan with participation, based on agreements on willingness to participate in liquidity loans between the Bank of Slovenia and banks. The agreements expired at the end of January 2009, when the Governing Board of the Bank of Slovenia decided not to renew the agreement. The banks' participation mechanism was not triggered while the agreements were in force.

2.1.3 Payment and Settlement Systems

Smooth functioning of payment and settlement systems facilitates the reliable, timely and cost-efficient settlement of financial transactions. Of particular importance among these are transactions arising from the implementation of the central bank's monetary policy. Payment and settlement systems are a vital part of the economic and financial infrastructure, and when functioning safely and efficiently they contribute to the general stability and efficiency of the economy. The Bank of Slovenia, as the central bank, therefore serves in several roles in this area: it ensures the stability of individual payment system participants; it carries out examinations of the safety and efficiency of payment and settlement systems; and it manages a payment system that facilitates the settlement of transactions in central bank money. Also of importance is its role as a catalyst and facilitator of the activities of market participants, with the aim of improving competition and promoting development. Notwithstanding the role the Bank of Slovenia plays, its objective is to ensure transparent functioning and the clarity of its basic guidelines for all payment and settlement system participants.

TARGET2

TARGET2 (Trans-European Automated Real-time Gross settlement Express Transfer system) is operated by the Eurosystem and operates on a single technical platform, although in legal terms each central bank operates its own national component. The Slovenian component is called TARGET2-Slovenija.

Two upgrades of the TARGET2 system were carried out in 2009.

The Eurosystem's activities in 2009 with regard to the operation of the TARGET2 system were primarily focused on improving its functioning. To that end, two upgrades were carried out: the first introduced new functionalities that facilitate the more efficient settlement of transactions from securities trading. However, these functionalities had no impact on the operations of the Slovenian banking system. The second and first major upgrade of the system following its establishment in 2007, introduced new liquidity management functionalities and functionalities to ensure the system's increased robustness. The aforementioned changes required amendments to the legal basis of the TARGET2 system. Therefore, the Bank of Slovenia updated the *General Terms and Conditions for participation in the TARGET2-Slovenija system* accordingly.

A procedure for implementing upgrades of the TARGET2 system was defined.

In early 2009 detailed Eurosystem guidelines regarding the implementation of future upgrades were defined on the basis of experiences from previous system upgrades. In accordance with these guidelines, the TARGET2 system will be upgraded, as a rule, once a year in November. User participation is foreseen for defining the content and scope of upgrades. The entire process of implementing a specific major upgrade to the TARGET2 system takes 21 months, and includes the identification of a package of changes, several consultations with users, testing and the amendment of the legal basis.

In accordance with these guidelines, preparations were made in 2009 for the implementation of the next major upgrade of the TARGET2 system, foreseen in November 2010. The upgrade will entail the introduction of adaptations owing to the establishment of the new collateral central bank management system and adaptations arising from improvements to the interface via which TARGET2 system participants monitor their transaction therein. Discussions regarding the content of this upgrade, the framework of which was defined in December 2009 taking into account user requirements, are being held in Slovenia in the scope of the TARGET2 system national user group, which functions under the auspices of the Bank of Slovenia.

In discussions regarding the strategy of further development of the TARGET2 system, special attention in 2009 was given to introducing the settlement of SEPA credit transfers in the TARGET2 system. The Eurosystem foresees the introduction of this payment instrument in the TARGET2 system, but not until after 2010.

TARGET2-Securities

A centralised European infrastructure for securities settlement known as TARGET2-Securities is under development.

In July 2006 the ECB's Governing Council decided to further explore, in cooperation with central securities depositories and other market participants, the setting up of a new service – known as TARGET2-Securities (T2S) – for securities settlement in the euro area. The objective of T2S is to establish a single technical platform for settlin6g securities transactions, meaning that the securities settlement function would be outsourced from all European central securities depositories and centralised on a single platform. The primary aim of T2S is to consolidate securities settlement infrastructures in the EU, which are currently fragmented and locally oriented, thus increasing the effectiveness and security of securities settlements, and ultimately improving the competitiveness of EU securities markets. Following a positive response from the central securities depositories and expressions of support from the European Parliament and the European Commission, in July 2008 the Governing Council of the ECB adopted a decision to establish the T2S system (to be carried out by the central banks of France, Italy, Germany and Spain), and to start the preparation of functional specifications, which were expected to be completed in the second half of 2010.

Key milestones in 2009: establishment of T2S Programme Board and the signing of a Memorandum of understanding.

In 2009 activities at the level of ESCB focused on the preparation of T2S functional specifications, the updating of user requirements, the creation of a draft legal document defining relations between individual participants (in particular relations within the Eurosystem and relations between the Eurosystem and central securities depositories), the definition of the governance structure for the T2S operational phase, the preparation of cost estimates and the formulation of a pricing policy. Important milestones in 2009 included the establishment of a T2S Programme Board in March 2009 as the Eurosystem's representative body in relations with the central banks that will establish the system and with the central securities depositories, which resulted in the restructuring of the project's internal governance within the ESCB, and the signing of the *Memorandum of Understanding between the Eurosystem and Central Securities Depositories* in July 2009, by which all euro area central securities depositories (and some outside the euro area) expressed their commitment towards joining T2S. All signatories to the Memorandum of understanding reserved the right to cooperate with the Programme Board in the drafting of the future, binding contractual relationship between the Eurosystem and central securities depositories, which will govern in detail all key elements forming the basis for decisions regarding participation in T2S (i.e. the pricing policy, a detailed project plan, technical specification, the governance structure, change management, information security, the level of services and the operational framework).

The needs of the Slovenian environment are being analysed by the national user group.

In 2009 the Bank of Slovenia continued its participation in the project at the Eurosystem level, and in the national environment, where it leads active dialogue with Slovenian market participants within the national user group. The group also includes representatives of the Central Securities Clearing Corporation (CSCC), the Ministry of Finance, the Securities Market Agency, the Association of Members of the Stock Exchange, the Bank Association of Slovenia and individual banks.

The Bank of Slovenia manages the group and is responsible for its overall work structure. Information and opinions on T2S are exchanged within the group. Its role also includes the analysis of the impact of T2S and the inclusion of the CSCC in T2S on the Slovenian environment, an analysis of user requirements and functional specifications and the identification of associated adaptations required, as well as the preparation of comments and positions concerning the requirements of the Slovenian environment.

Preparations have begun for a detailed model for the participation of CSCC in T2S.

The *Memorandum of Understanding between the Eurosystem and Central Securities Depositories*, signed by the CSCC, was also a significant milestone in the national environment. On the basis of the memorandum of understanding, close cooperation began in August 2009 between the Bank of Slovenia and the CSCC for the preparation of a detailed model for the inclusion of CSCC in T2S. The model is expected to be completed by the time the drafting of the binding contractual relationship at the Eurosystem level is completed (July 2010). Together with the key elements set out in the contractual relationship, the model will serve as the basis for CSCC decision regarding participation in T2S.

The Collateral Central Bank Management (CCBM2)

The CCBM2 will form a single technical platform for collateralisation and execution of Eurosystem credit operations.

The Collateral Central Bank Management (CCBM2) will form a single technical platform jointly owned by the Eurosystem central banks. The platform will be established to ensure greater technical and cost efficiency and the harmonisation of back office operations at central banks supporting the implementation of the general collateral framework and the execution of Eurosystem credit operations.

The CCBM2 will support the decentralised execution of tasks, with the possibility of selecting the necessary functionality.

In line with the principle of decentralisation, central banks will continue to carry out their tasks in the national environment, while existing technical support relating to the management of credit operations may be outsourced to the CCBM2. The technological design of the platform will be based on a modular architecture, which will allow each participating central bank to select the functionalities of the platform based on its own needs and those of the national environment. The functional framework of the CCBM2 will enable the management of eligible domestic and cross-border collateral (marketable and non-marketable) in real time and with different collateralisation techniques. Interoperability with the TARGET2 payment system and the TARGET2-Securities settlement system will be ensured.

The preparation of project documentation is underway.

The decision on development of CCBM2 and its providers (the central banks of Belgium and the Netherlands) was made in July 2008 based on Eurosystem user requirements and the preliminary intentions expressed by central banks regarding the use of the platform. Until the end of 2009 intensive work was carried out within the Eurosystem on the drafting of key project documentation that includes detailed functional and technical specifications of the platform, security requirements, a testing and migration strategy, and the restructuring of the project's internal governance. The project was presented in detail to market participants from the euro area for the first time in March 2009.

The Bank of Slovenia participates in ESCB working bodies.

CCBM2 activities at the Bank of Slovenia in 2009 included close cooperation in the drafting of project documentation within the Eurosystem's working bodies and the development of the most appropriate concept for the Bank of Slovenia's participation in the CCBM2, taking into account the specifics of the current framework for execution and collateralisation of Bank of Slovenia credit operations.

Single Euro Payments Area (SEPA)

The objective of SEPA is to harmonise payments with basic payment instruments.

The establishment of the Single Euro Payments Area (SEPA) is a European banking sector project, aiming to facilitate the sending and receiving of electronic payments in euro, within national and across borders, under the same conditions, and with the same rights and obligations. Through the harmonisation of payments with basic payment instruments (credit transfers, direct debits and payment cards), payments may be made from a single payment account using a single set of payment instruments, while the distinction between national and cross-border payments will cease to exist. Geographically, SEPA covers the European Union Member States (EU27) and five other countries (Iceland, Liechtenstein, Monaco, Norway and Switzerland).

The establishment of SEPA in Slovenia is managed by the Bank Association of Slovenia (BAS), which is also a member of the European Payments Council (EPC). Because the basic aim of SEPA to support the functioning of the internal EU market through the integration of the European payments market is also a political objective, the Bank of Slovenia also plays a role in the project. The Bank of Slovenia, like the ECB at the EU level, in its role as a catalyst and facilitator of change supports the project to establish SEPA in Slovenia by coordinating and directing activities in line with the Eurosystem's policy.

As of 4 March 2009, Slovenian payment service providers have offered national payments in SEPA credit transfers format.

Since the launch of the SEPA Credit Transfer Scheme in January 2008, Slovenian payment service providers have offered cross-border payments in line with the aforementioned scheme, and national payments as of 4 March 2009. The migration date of national legacy credit transfers schemes to the SEPA Credit Transfer Scheme has been progressing primarily at the payment system level. The mass migration of payment service users to the use of SEPA payment instruments will be possible with the introduction of the new SEPA Credit Transfer Scheme-compliant Universal Payment Order form (UPN) that was designed by the Slovenian banking sector and is expected to be available in the second half of 2010.

The SEPA Direct Debit Scheme Rulebook entered into force on 2 November 2009.

Few payment service providers in some countries have already offered SEPA direct debits as of 2 November 2009, following the entry into force of the SEPA Direct Debit Scheme Rulebook. Pursuant to *Regulation (EC) No. 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community and repealing Regulation (EC) No. 2560/2001*, Slovenian payment service providers will ensure reachability for cross-border SEPA direct debits by 1 November 2010. Therefore, intense preparations were conducted throughout 2009 regarding the introduction of the SEPA Direct Debit Scheme.

The Bank of Slovenia plays the role of catalyst and promoter of change in the SEPA project.

In its role as a catalyst and facilitator of change, in 2009 the Bank of Slovenia, taking into account the banking sector's activities in the SEPA credit transfer and SEPA direct debit segments, dedicated special attention to the development of SEPA payment services and products that will provide users, at a minimum, the same level of services that they were accustomed to with national legacy payment instruments. Additional attention was given to the insufficient inclusion of non-banking stakeholders, payment service users in particular, in activities to develop new solutions, while the importance of establishing dialogue with them was stressed to project managers. More intense and targeted communication with non-banking stakeholders is needed to ensure the fastest possible migration of users to SEPA payment services and products, which will facilitate the cessation of transactions with national legacy instruments and the achievement of economies of scale.

In line with the Eurosystem's policy, the Bank of Slovenia also actively monitors progress regarding the introduction of new services. In November 2009 the Bank of Slovenia began collecting data that will facilitate the monitoring of the progress in the area of SEPA Direct Debits introduction in Slovenia. Similarly, it has been monitoring the progress in the area of SEPA Credit Transfers and SEPA Card Payments ever since their introduction in January 2008.

The document SEPA Project in Slovenia – First Progress Report was drafted.

Following the example of the ECB and some Eurosystem national central banks, in December 2009 the Bank of Slovenia published the document *SEPA Project in Slovenia – First Progress Report* (hereinafter: the *Report),* intended for all SEPA project stakeholders, and for payment service providers in particular. The *Report* provides a preliminary assessment of the status of the SEPA project in Slovenia by key areas, as well as recommendations regarding key tasks, the execution of which will facilitate the achievement of project objectives and on the basis of which the Bank of Slovenia will continue to monitor progress at least until migration has been completed.

SEPA infrastructure management

Banks and savings banks in Slovenia took the decision back in 2007 to establish a new payment system under the auspices of Bankart d.o.o. for low-value payments (i.e. up to EUR 50,000) that is compliant with SEPA requirements. A significant milestone in this regard was reached in 2009 with the establishment on 4 March of the *SEPA interna kreditna plačila* (SEPA internal credit transfer) system, intended for the execution of domestic SEPA credit transfers between system participants. The new payment system facilitates the settlement of payments several times a day, and thus ensures a level of services, under SEPA conditions, that users were previously accustomed to. The Bank of Slovenia acts as a settlement agent for this payment system, meaning that it settles the mutual claims and liabilities of system participants in risk-free central bank money on accounts held at the Bank of Slovenia.

A new SEPA payment system replaced the Bank of Slovenia's Giro Clearing system.

The SEPA internal credit transfer system also enabled the migration of all domestic payments previously processed in the Bank of Slovenia's Giro Clearing system to the new payment system owned by the banks, after the decision was taken not to adapt the Giro Clearing system to SEPA requirements. The migration was carried out gradually, with the Bank of Slovenia actively monitoring progress. On this basis, a date of 1 August 2009 was set for shutting down the Giro Clearing system, which the Bank of Slovenia managed from October 1998.

The Bank of Slovenia ensures cross-border reachability in the SEPA Credit Transfer Scheme.

In February 2009 Bankart d.o.o. established the *SEPA eksterna kreditna plačila* (SEPA external credit transfers), intended for the execution of cross-border SEPA credit transfers, with the aim of integrating domestic and cross-border payments in euros under SEPA-environment. The Bank of Slovenia established an interface for the aforementioned system with the trans-European STEP2 SCT system, managed by EBA Clearing, and thus enabled the exchange of payments with nearly 4,500 European banks for participants in the SEPA external credit transfers system. The exchange of payment orders between the SEPA external credit transfers system and STEP2 SCT systems is carried out via the Bank of Slovenia, as is the settlement of the claims and liabilities of participants in the SEPA external credit transfers system.

Preparations were also made in 2009 at the Bank of Slovenia to establish an infrastructure for the execution of SEPA direct debits. The establishment of a system at Bankart d.o.o. for the execution of cross-border direct debits is planned for November 2010, with the aim of ensuring the reachability of bank accounts at Slovenian payment service providers for SEPA direct debits. Similar to the SEPA cross-border credit transfer segment, the Bank of Slovenia will establish an interface with the STEP2 M-PEDD system, established in November 2009 and managed by EBA Clearing.

Payment and settlement systems oversight and supervision of payment institutions

The objective of oversight of payment and settlement systems is to ensure their safety and efficiency through monitoring, analysis and inducing change, and thus contribute to maintaining systemic stability, reducing systemic risk and maintaining public confidence in payment systems.

The Bank of Slovenia is competent and responsible for the oversight of payment and settlement systems.

Pursuant to the *Bank of Slovenia Act* and the new *Payment Services and Systems Act*, which entered into force on 1 November 2009, the Bank of Slovenia is competent and responsible for the oversight of payment systems. Also representing the basis for oversight is the *Regulation on payment systems*, which was adopted on the basis of the *Payment Services and Systems Act* and sets out in detail the rules regarding criteria for defining systemically important payment systems, requirements for managing operational, financial and other risks in payment systems, and reporting on the operation of payment systems.

In 2009 the Bank of Slovenia, in accordance with its responsibilities, was performing the oversight of payment systems on the basis of regular and ad hoc reports of payment system operators in Slovenia, who are obliged to submit such reports to the Bank of Slovenia. The operators' reports relate to the regular operation of the systems and the operations of payment system operators, and all planned or unplanned deviations from regular operations, as well as changes in the operational concept of payment systems. The Bank of Slovenia also monitored the implementation of recommendations and warnings issued to payment system operators on the basis of on-site inspections of payment systems and their operators.

In 2009 the Bank of Slovenia also participated in oversight activities of payment systems, payment schemes and important payment system infrastructures carried out at the Eurosystem level. These activities primarily include the preparation of methodologies for conducting oversight of payment systems and payment schemes and cooperative oversight of payment systems, payment schemes and important payment system infrastructures with participants from various countries. With the aim of defining the Eurosystem's role with regard to payment systems, in February 2009 the ECB issued a new Eurosystem oversight policy framework that provides for a consistent and standard oversight approach.

Another important function of central banks is the oversight of the development and functioning of securities settlement systems. These represent an important feature of the infrastructure of every securities market, as they ensure compliance with the obligation to transfer and settle securities. An important interest of central banks is therefore the smooth functioning of and effective risk management in securities settlement systems, as possible weaknesses can be a source of financial and operational risks for the participants in these and other linked securities settlement and payment systems. The Bank of Slovenia is responsible for oversight of the functioning of securities settlement systems on the basis of the *Bank of Slovenia Act*, while this responsibility is further reinforced by the *Financial Instruments Market Act*, which imposes the authority and responsibility for the oversight of the central securities depository as regards systemic risk linked to the settlement system, on the Bank of Slovenia. The Bank of Slovenia cooperates with the Securities Market Agency in this regard.

In 2009, the Bank of Slovenia participated at the Eurosystem level in the activity of revising joint ESCB and CESR recommendations (*Committee of European Securities Regulators*) for conducting oversight of central securities depositories as securities settlement system operators. The reports were formally approved and published in June 2009.

In August 2009 the assessment of the eligibility of the CSCC with regard to the *Standards for the Use of EU Securities Settlement Systems in ESCB Credit Operations* was formally approved, as were also two assessments of the compliance of CSCC's existing links with the foreign central securities depositories Clearstream Banking Frankfurt and Clearstream Banking Luxembourg.

New competence and responsibility of the Bank of Slovenia – supervision of payment institutions.

Pursuant to the new *Payment Services and Systems Act*¸ the Bank of Slovenia is also competent and responsible for the supervision of payment institutions with regard to payment services and ancillary services provided in the Republic of Slovenia, in other Member State and in third countries. The definition of a new category of payment service providers derives from *Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market*, which envisages the granting of authorisation to legal persons for the provision of payment services throughout the European Union under the same conditions regarding the security and reliability of payment service provision.

The tasks of the Bank of Slovenia with regard to payment institutions, which derive from legislation and associated implementing regulations, primarily include the granting, refusal, extension and withdrawal of authorisations to provide payment services as a payment institution, the administration of the public register of payment institutions accessible on the Bank of Slovenia's website, and the supervision of payment institutions through the monitoring, collection and verification of reports, on-sight inspections of the operations of payment institutions, and through the issue of supervisory measures and cooperation with other supervisory authorities, responsible for the supervision of payment service providers in the Republic of Slovenia and Member States.. A working group was formed in 2009 to establish the Bank of Slovenia's new function. The group began preparing and ensuring the requisite organisational, personnel and technical conditions for the independent execution of this function.

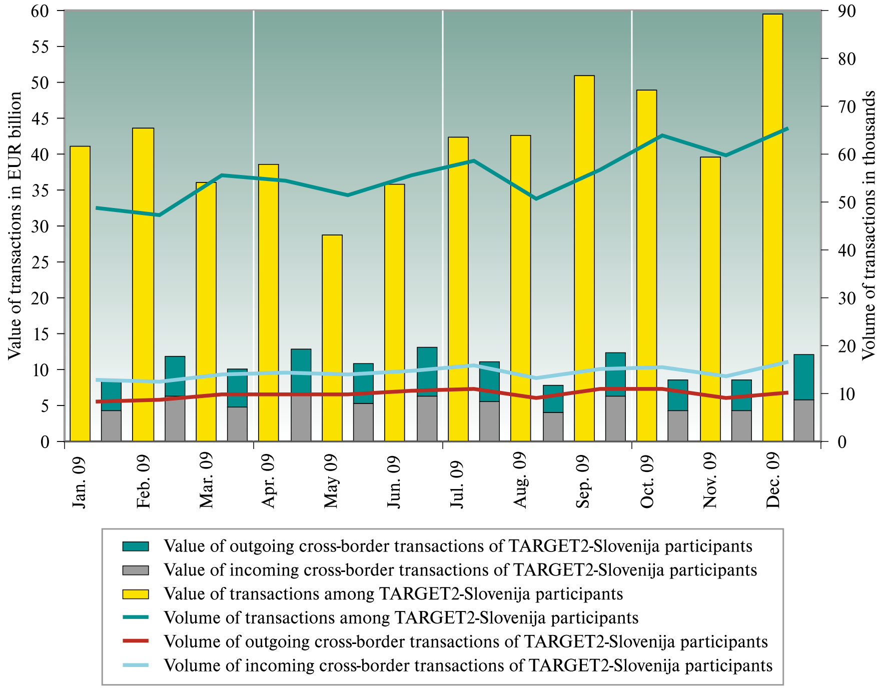
Statistics for payment systems and services provided by the Bank of Slovenia

The Bank of Slovenia operates the TARGET2-Slovenija system, which is intended for the settlement of high-value payments, urgent low-value payments and time-critical payments in euros, and operated the Giro Clearing low-value payment system until the end of July 2009.

The value of domestic transactions in the TARGET2-Slovenija system was up 23.7% on 2008.

In 2009 the TARGET2-Slovenija system settled 667,403 domestic transactions (between TARGET2-Slovenija system participants) with a total value of EUR 507,617.82 million, a 1.2% increase in the number and a 23.7% increase in the value of transactions, compared to 2008. In addition to domestic transactions, 171,054 incoming cross-border transactions (between participants of other national components of the TARGET2 systems and TARGET2-Slovenija participants) were settled with a total value of EUR 63,340.99 million, while there were 117,281 outgoing cross-border transactions with a total value of EUR 63,937.41 million.

Figure 26: **Volume and value of transactions via the TARGET2-Slovenija system by month in 2009**

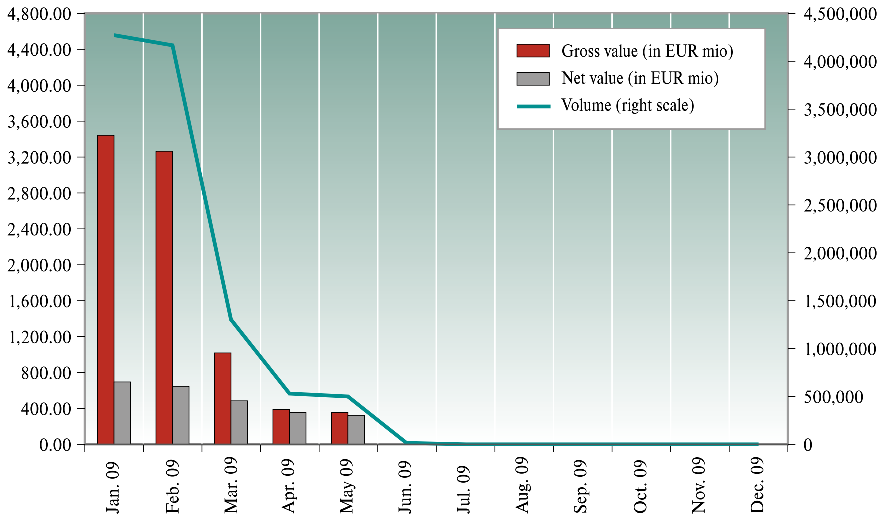


Source: Bank of Slovenia

The Giro Clearing system only functioned for the first seven months of the year.

The Giro Clearing system, intended for the processing of non-urgent low-value credit transfers, processed 10,795,095 transactions with a total value of EUR 8,838.60 million over the first seven months of 2009. The gradual migration of payments from the Giro Clearing system to the new SEPA internal credit transfer system was carried out following the latter's establishment by Bankart d.o.o. in March until the end of July 2009. The Giro Clearing system ceased to operate on 1 August 2009.

Figure 27: **Volume and value of transactions via the Giro Clearing system by month in 2009**



Source: Bank of Slovenia

2.1.4 Joint management of the ECB's monetary reserves

With the adoption of the euro on 1 January 2007, the Bank of Slovenia transferred its portion of foreign currency assets in US dollars and gold to the ECB. The main purpose of the international monetary reserves is to ensure adequate liquidity for operations on the currency market. All euro area central banks have contributed their shares to the ECB's monetary 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 international monetary reserves. In addition to the international monetary reserves, the Bank of Slovenia also holds foreign currency investments due to the possible further call for monetary reserves by the ECB, in accordance with Article 30 of the Protocol on the Statute of the European System of Central Banks and the European Central Bank (also see section 2.2.3).

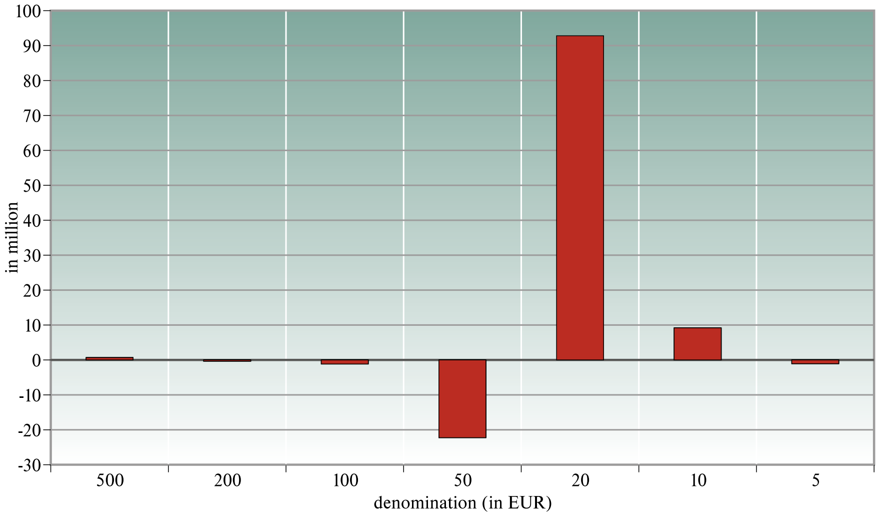
2.1.5 Cash operations

EUR 1.03 billion in euro cash was released into circulation.

By the end of 2009 EUR 1.03 billion net of euro cash had been released into circulation (taking into account cash at banks) via the Bank of Slovenia. Of this amount, EUR 991.29 million was in banknotes (77.87 million banknotes) and EUR 39.87 million was in coins (161.22 million coins). Of the aforementioned, the most common denomination of euro banknotes was EUR 20 (92.82 million banknotes), followed by EUR 10 (9.2 million banknotes) and EUR 500 (0.7 million banknotes). There were more EUR 200, EUR 100, EUR 50 and EUR 5 banknotes returned to the Bank of Slovenia than released into circulation. In terms of quantity, the most common denominations of coins released into circulation by the Bank of Slovenia are 1 euro cent (41.8 million coins) and 2 euro cents (34.02 million coins). The EUR 1 coin represents the smallest proportion in terms of quantity (6.36 million coins).

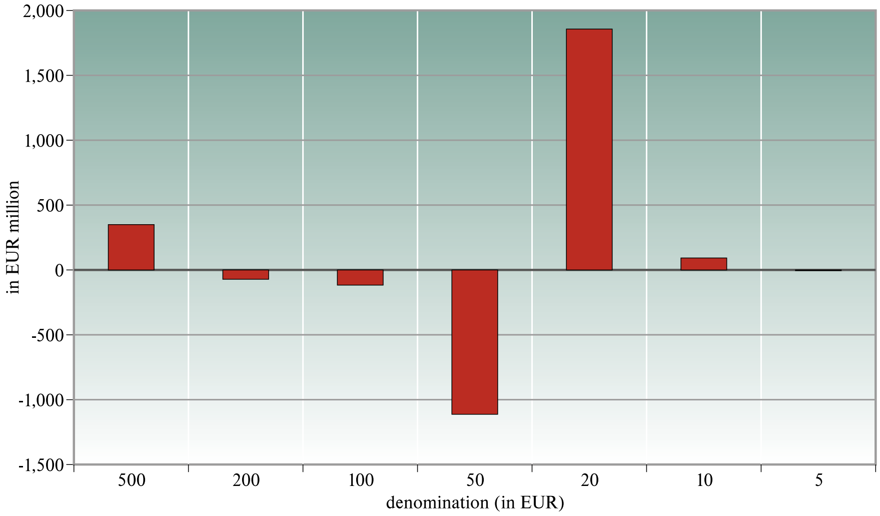
The Bank of Slovenia organised the issue, distribution and storage of general circulation and commemorative coins for the Republic of Slovenia.

Figure 28: **Banknotes released into circulation by volume**



Source: Bank of Slovenia

Figure 29: **Banknotes released into circulation by value**



Source: Bank of Slovenia

A new EUR 2 commemorative coins was released to mark the 10th anniversary of Economic and Monetary Union.

The Bank of Slovenia released into circulation 1,000,000 new commemorative EUR 2 coins to mark the 10th anniversary of Economic and Monetary Union. The common European side is the same as the EUR 2 circulation coin.

In 2009 the following collector coins were also issued to mark the 100th anniversary of the first flight by a powered aircraft over Slovenia: a gold coin, silver coin and a EUR 3 bi-coloured coin, while a gold coin and silver coin were issued to mark the 100th anniversary of the birth of the painter Zoran Mušič.

The total value of tolar banknotes, coins and payment notes still in circulation stands at EUR 45.05 million.

As at 31 December 2009 there were still 47.03 million tolar banknotes in circulation (worth SIT 8.21 billion), of which the most common denomination of banknote was SIT 10 (17.64 million banknotes), followed by SIT 20 (11.3 million banknotes) and SIT 100 (6.67 million banknotes). There are still 446.08 million tolar coins (worth SIT 2.18 billion) and 20.92 million payment notes (worth SIT 404.14 million) in circulation. To date 88.3% of all printed tolar banknotes or 98.7% of the total value of all printed tolar banknotes had been returned, while 18.3% of all minted tolar coins or 47.2% of the total value of all minted tolar coins and 86.4% of all payment notes issued or 99.0% of the total value of all payment notes issued have been returned.

The first Slovenian currency – payment note – can be exchanged at the Bank of Slovenia.

The original Slovenian payment notes and tolar banknotes are exchangeable at the Bank of Slovenia treasury without any time limit, while tolar coins can be exchanged until 31 December 2016.

A total of 9,686 treasury receipts and outlays of euro cash (2008: 6,888) and 5,152 incoming and outgoing payments of cash for the needs of government bodies were made (2008: 4,824).

The cash processing unit processed 41.19 million banknotes and coins.

The Bank of Slovenia cash processing unit sorted 41.19 million banknotes and coins (2008: 33.0 million), comprising 34.63 million banknotes and 6.56 million coins (2008: 32.1 million banknotes and 0.9 million coins). A total of 16.77 million euro banknotes (compared to 21.2 million banknotes in 2008) were taken out of circulation and destroyed in order to maintain an appropriate quality of banknotes in circulation.

Euro cash was supplied to Slovenian economy through the Bank of Slovenia's banknote depots at five commercial banks, for which the Bank of Slovenia set a quarterly treasury maximum and checked operations on a daily basis.

Slovenian economy was supplied euro cash from bank depots.

In lines with relevant authorisations, in 2009 the expert committee for testing, verifying and setting up devices to process euro banknotes and coins, comprising workers from the Bank of Slovenia and the Ministry of the Interior, carried out 22 so-called monitoring tests, through which the committee verified the appropriateness and proper functioning of euro banknote processing devices at credit institutions. It is evident from the report for the ECB Governing Council on progress and the implementation of the Banknote Recycling Framework (BRF) for 2009 in Slovenia that the Bank of Slovenia successfully implemented the BRF. It carried out all tasks in a timely manner in the scope of this project (i.e. the establishment of a legal basis, notification of credit institutions and training on the recognition of authentic euro cash in the banking sector), and even completed some tasks (i.e. the introduction of monitoring tests and reporting by banks) before certain members of the Eurosystem. All of the aforementioned activities were coordinated with the banks.

The Bank of Slovenia successfully implemented the BRF.

According to data from the National Analysis Centre (NAC) and the Coin National Analysis Centre (CNAC) 1,891 counterfeit euro banknotes and 1,448 euro coins were withdrawn from circulation in 2009, compared to 1,970 euro banknotes and 1,878 euro coins in 2008. The number of counterfeit euro banknotes in Slovenia in 2009 decreased by 4.0%, while the number of counterfeit euro coins decreased by 22.9%. In 2009 the total value of all euro counterfeits in Slovenia was EUR 118,592.00 compared to EUR 212,740.50 in 2008 (representing a decrease of 44.3%). The majority of counterfeit euro banknotes, both in terms of quantity and value, is represented by the three mid-value denominations (EUR 100, 50 and 20), while EUR 2 coins represent the majority of counterfeit euro coins. The figures for counterfeit euro cash in Slovenia have been stable for several years.

The value of euro counterfeits decreased.

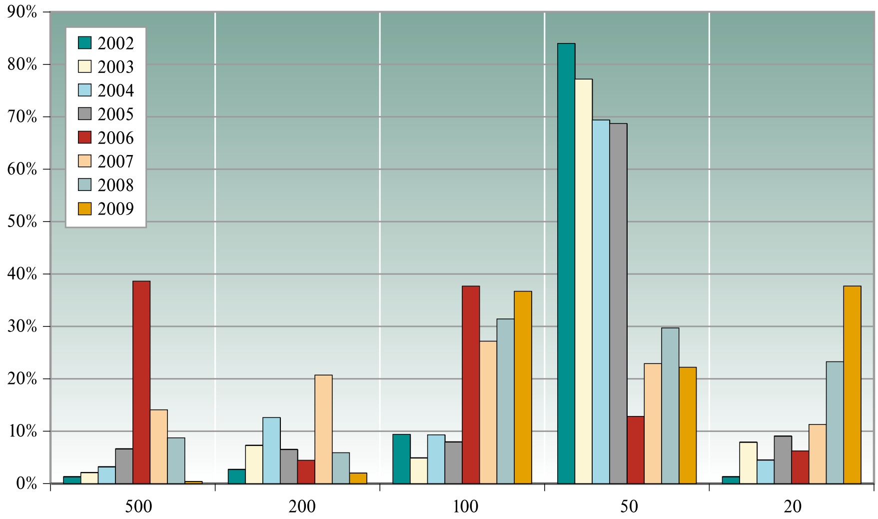
Some 61 counterfeits of foreign currency (US dollars and pound sterling) were withdrawn from circulation in Slovenia in 2009, compared to 1,057 counterfeits in 2008. The quality of foreign currency counterfeits has improved over time, making it more difficult for users to recognise them, particularly US dollar counterfeits.

Foreign currency counterfeits were also discovered.

In line with Regulation (EC) 1338/01, the NAC and CNAC are responsible for issuing expert opinions on the authenticity of euro banknotes and coins, respectively. These agencies operate within the Centre for Forensic Investigation (CFI) at the Ministry of the Interior (MI). 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 European Central Bank's Counterfeit Analysis Centre, other national counterfeit centres and the European Technical and Scientific Centre (ETSC).

The authenticity of euro cash was monitored.

Figure 30: **Denominational breakdown of counterfeit euro banknotes identified in Slovenia by volume**



Source: Bank of Slovenia

2.1.6 Statistical system

Responsibility for monetary and financial statistics and financial accounts and international relations statistics.

The Bank of Slovenia performs statistical functions in the areas of monetary, financial and international relations statistics, as well as national financial accounts statistics. The statistical process in these areas includes data collection, processing, transmission to users and/or the publication of aggregate data. The Bank of Slovenia plays a less active role in other general economic and public finance statistics.

The Bank of Slovenia fulfils its statistical functions on basis of the Statute of the European System of Central Banks (ESCB) and of the European Central Bank, on its status as an authorised performer of the statistical research programme, according to the National Statistics Act and based on other authorisations.

The purpose of the Bank of Slovenia's statistical work entails informing the domestic and foreign public of financial and macroeconomic trends in Slovenia, and most significantly providing data support for economic policy and the financial stability of the Slovenian economy in the scope of Economic and Monetary Union.

Statistical cooperation within the ESCB and other international organisations and institutions.

The Bank of Slovenia cooperates with international organisations and institutions, particularly the ECB, IMF, Eurostat (European Statistical Office within the European Commission), the BIS and the OECD in the development of statistical requirements, methodologies and standards. Bank of Slovenia representatives are members of the ESCB's Statistics Committee and permanent working groups on external statistics, general economic statistics, government finance statistics, monetary and financial statistics, (national) euro area accounts, and statistical information systems. The Bank of Slovenia's cooperation also includes occasional task forces, such as the group developing a central ESCB securities database. The organisation of the Financial Statistics Department has been aligned with the need to cooperate within the ESCB.

Bank of Slovenia representatives also attend regular meetings of the relevant Eurostat working groups and regular plenary sessions of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB), which is the main body for coordinating strategic issues concerning European macroeconomic statistics for European central banks (including non-EU countries), statistical offices, Eurostat and the ECB.

Cooperation with the MF and SORS based on an agreement on macroeconomic and financial statistics.

The most notable form of cooperation with national statistical institutions is with the Ministry of Finance (MF) and the Statistical Office of the Republic of Slovenia (SORS), based on a Memorandum of Understanding in the area of macroeconomic and financial statistics, signed in 2004 and updated in 2009. The MoU was modelled on a similar document agreed between the ECB and Eurostat. The aim of this cooperation is to harmonise competences and responsibilities in response to the increasing burden of statistical requirements and the interdependence of individual statistics, and helps achieve compliance with the statistical requirements triggered by EU and EMU membership.

The MoU set out the responsibilities of the signatories and the manner of their cooperation in the provision of Slovenian macroeconomic and financial statistics to the European Commission, Eurostat, ECOFIN and the ECB. The MoU also includes cooperation in maintaining standard classifications of institutional sectors, which represent a particularly important statistical infrastructure for the provision of macroeconomic and financial statistics. The official sector classification is managed by the Agency for Public Legal Records and Related Services (AJPES) as part of the Business Register of Slovenia.

The Bank of Slovenia bases its complex sets of financial accounts statistics, and monetary, financial and international relations statistics on data from direct and indirect reports from financial institutions and non-financial corporations and on merchandise trade figures prepared by the SORS, in cooperation with the Customs Administration of the Republic of Slovenia (CARS). The Bank of Slovenia also collects, compiles and/or publishes statistics on modern means of payment and financial markets, as well general economic and public finance statistics.

Financial account statistics are based on quarterly reports collected by the AJPES.

Financial account statistics are prepared using the quarterly reports of individual institutional units (non-financial corporations, financial corporations and government units) collected by the AJPES for the Bank of Slovenia. In 2009 the Bank of Slovenia compiled quarterly financial account data for the final quarter of 2008 and the first three quarters of 2009, as well as annual financial account data for 2008.

Quarterly financial account data was submitted to the ECB in accordance with Guideline ECB/2005/13. Quarterly financial accounts for the government sector were submitted to the ECB and Eurostat in accordance with Regulation (EC) No. 501/2004, while annual financial accounts were submitted to Eurostat in accordance with Regulation (EC) No. 2223/96.

The Financial Accounts of Slovenia 2003-2008 was published in November 2009. In addition to financial account tables and the compilation method, the publication also includes an analysis of financial account data by individual sector.

In 2009 quarterly bulletins of the Financial Accounts of Slovenia for the third and fourth quarters of 2008 and the first and second quarters of 2009 were prepared and published on the Bank of Slovenia's website.

The comprehensive collection of monthly, quarterly and annual monetary and financial statistics continued in 2009 in accordance with the methodological requirements of the ECB, BIS and IMF, and the needs of the Bank of Slovenia.

In addition to the balance sheet and interest rate statistics of monetary financial institutions (MFI), the data pursuant to Regulations ECB/2001/13 and ECB/2001/18 and Guidelines ECB/2007/9 also includes data regarding non-monetary financial intermediaries, securities, payment systems and structural data from the banking system.

New multi-purpose reporting of data regarding investment funds.

A new reporting requirement on investment fund operations by management companies was successfully introduced by the Bank of Slovenia in January 2009 in cooperation with the Securities Market Agency. The new report combines the needs of the Securities Market Agency with the requirements of the Bank of Slovenia for the investment fund data deriving from Regulation ECB/2007/8, Guideline ECB/2007/13 and Regulation (EC) No. 2223/96, and Regulation ECB/2001/13 (applying only to money market funds) and financial stability analysis needs. The level of quality of the new report facilitated the elimination of previous management company reports for the Bank of Slovenia deriving from financial account statistics, the balance sheet data of monetary financial institutions (for money market funds) and certain supervisory reports for the Securities Market Agency. The reporting of investment fund data using a multi-purpose report is significantly more efficient and eases the workload. The additional statistical and analytical value of collected investment fund data is seen in the direct link of the breakdown of this data with the breakdown of data in reports by MFIs.

Implementation of expanded, multi-purpose MFI reporting.

A revised methodology was introduced in the reporting of MFIs in 2009. In addition to the amendments to Regulation ECB/2008/32 concerning balance sheets and Regulation ECB/2009/7 concerning interest rates, the report will also include: the core part of the financial supervisory report (FINREP), financial account statistic requirements and economic relations with the rest of the world vis-à-vis MFIs, and other analytical needs of the Bank of Slovenia. Implementation of the majority of changes must be completed by July 2010 to comply with the deadlines set out in the amended ECB regulations.

Reporting burden on financial institutions reduced.

The aforementioned changes were introduced in line with the recommendations issued by the Governing Council of the ECB on multi-purpose reporting. It also reduced the reporting burden on financial institutions.

The Bank of Slovenia cooperated with the expert working group of the ESCB and the Committee of European Banking Supervisors (CEBS) on the harmonisation of the monetary and financial statistics methodology with the requirements of the FINREP and COREP supervisory reports on banking operations, with a deadline of September 2009. The aim of the so-called “JEGR” group was to find synergies between the two sets of data requirements as the basis for reducing the reporting burden on credit institutions and improving the quality of data to support the decision-making process (i.e. analysis and supervision) in the long term.

Threshold for the capture of payment transactions increased from EUR 12,500 to EUR 50,000.

In 2009 the Bank of Slovenia Act replaced the Foreign Currency Exchange Act as the legal basis for the Regulation on mandatory reporting of international transactions. In the instructions on the implementation of the aforementioned regulation, the Bank of Slovenia raised the statistical reporting threshold for international payment transactions as of the beginning of 2009 from the previous EUR 12,500 to EUR 50,000, as required by Regulation (EC) 2560/2001 on cross-border payments in euro, and eliminated all requirements on neutral data.

Balance of payment and international investment position data, including external debt and foreign direct investment figures, were compiled regularly in 2009. A regular revision, typically including data for the last two years, was carried out following the receipt of final merchandise trade figures for 2008.

In 2009 the Bank of Slovenia began to receive bilateral data from the central banks of Austria, Croatia, Italy, Germany and Switzerland on pensions received by the residents from those countries. In 2009 the Bank of Slovenia sent its first reports on the operations of companies in the rest of the world that are directly or indirectly owned by Slovenian entities to Eurostat (for the 2007 reporting period) and to the OECD (for the 2008 reporting period).

Preparations for entry to the OECD.

For the needs of membership in the OECD, in 2009 the Bank of Slovenia compiled and submitted financial account statistics, statistics on economic relations with the rest of the world and financial intermediary statistics to the aforementioned organisation. The quality and scope of the data, for which the Bank of Slovenia is responsible, is for the most part in line with the requirements of the OECD. Among the most demanding obligations is the adoption of the 4th edition of the OECD Benchmark Definition of Foreign Direct Investment, which OECD countries will introduce in 2010.

The Bank of Slovenia also submits certain public finance data and general economic statistics to the ECB. In addition to Maastricht criteria data on long-term interest rates, the general government balance, government debt and the harmonised consumer price index, this includes information from national account statistics, labour statistics, information concerning excessive government deficit procedure, etc. This information is compiled by the SORS and/or the Ministry of Finance in accordance with an agreement between these institutions. The Bank of Slovenia monitors and promotes the quality of data submitted to the ECB based on the Guideline of the ECB on the statistical reporting requirements of the European Central Bank and the procedures for exchanging statistical information within the ESCB in the field of government finance statistics (ECB/2005/5).

The Bank releases macroeconomic data on Slovenia on its website in accordance with the IMF's Special Statistical Data Dissemination Standards (SDDS). These standards require the regular publication of methodologically sound macroeconomic figures according to an advance release calendar. The Ministry of Finance and the SORS also contributed appropriate data for publication in accordance with these standards.

Key financial and macroeconomic data for Slovenia are published in a monthly bulletin and in annual publications on direct investments and financial accounts. All publications, along with information on the extended data series from the bulletin and certain other important data, are also published on the Bank of Slovenia's website. In addition to domestic recipients, the more important direct recipients of the statistical data are the ECB, Eurostat, the IMF and the BIS.

2.1.7 International cooperation

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

In 2009 Slovakia joined the euro area.

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 16 national central banks of euro area Member States. Since the introduction of the euro in Slovenia, the Governor of the Bank of Slovenia has participated as a member of the Governing Council of the ECB in its sessions, which normally take place twice a month. The Governing Council of the ECB comprises the six members of the Executive Board and the governors of the national central banks of euro area Member States. The Governor of the Bank of

Slovenia is still a member of the General Council of the ECB, the third decision-making body of the ECB, 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 2009 Slovakia joined the euro area.

Bank of Slovenia experts attended sessions of committees and their working groups in 2009, when meetings were conducted in the wider composition of the European System of Central Banks (ESCB) and in the narrower composition of the Eurosystem. The committees support the work of ECB decision-making bodies, which may 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 shares of the national central banks in the ECB's capital key are weighted according to the proportion of the respective Member States in the total population and gross domestic product of the EU. The national central banks of EU Member States that have introduced the euro have paid up their entire share to the capital of the ECB. Other national central banks of EU Member States that have not yet introduced the euro have not paid up their entire share, but only 7% of the amount that they will have to pay up when they introduce the euro.

The Bank of Slovenia's key for subscription to the ECB's capital was 0.3288% in 2009.

The Bank of Slovenia's key for subscription to the ECB's capital was 0.3288% in 2009. The total amount of paid-up ECB capital of all national central banks is EUR 4,142 million.

European Union

In 2009 the Governor of the Bank of Slovenia participated in informal sessions of ECOFIN (meetings of financial ministers, with the governors of EU Member State central banks in attendance).

In 2009 Bank of Slovenia experts also 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 of European Banking Supervisors (CEBS) and its working groups, meetings of the Committee on Monetary, Financial and Balance of Payments statistics (CMFB) and other working groups from the relevant area that are active within the European Commission and the EU Council.

IMF

In accordance with Slovenian law, the Bank of Slovenia is responsible for the Republic of Slovenia's cooperation within the International Monetary Fund (IMF), and the Governor of the Bank of Slovenia is a member of the IMF Committee of Governors.

Slovenia's quota at the IMF was unchanged at SDR 231.7 million, representing 0.12% of the voting power of all IMF members. In accordance with Resolution 63-2 on the Reform of Quota and Voice in the IMF, which the Committee of Governors approved in April 2008, the quotas and voting shares of the 54 members were to have increased, including those of Slovenia. The aforementioned increase in quotas did not occur in 2009, as the adopted resolution requires a change to the IMF

Statute, which requires the ratification of at least three-fifths of all Member States, or 85% of total voting power.

Since 1998 Slovenia has contributed to financing IMF loans under the Financial Transaction Plan (FTP). In the first half of 2009 Slovenia contributed funds amounting to SDR 12.0 million under the FTP for lending purposes. At the end of December 2009 Slovenia's reserve tranche position at the IMF stood at SDR 42.1 million, an increase on 2008.

In October 2009 Slovenia joined other members in signing a voluntary SDR trading arrangement with IMF. Participation in the arrangement is the result of the general allocation of special drawing rights to all IMF members in autumn.

Slovenia signed a voluntary SDR trading arrangement with IMF.

The IMF mission visited Slovenia to hold regular consultations pursuant to Article IV of the IMF Statute. The Board of Executive Directors discussed the report from the IMF mission in mid-May. The report was published on 22 May.

A mission from the World Bank and IMF visited Slovenia in December with the aim of setting out the framework for supervision of the financial sector in Slovenia. Members of the mission met with representatives of the Bank of Slovenia, the Ministry of Finance, the Securities Market Agency, the Insurance Supervision Agency and representatives of several institutions with the aim of preparing an assessment of the effectiveness of supervision of the financial sector.

Bank for International Settlements

The Governor of the Bank of Slovenia participated in meetings of central bank governors of BIS Member States, which are organised every two months. Discussions are held on the effects of the global financial turmoil and the search for appropriate measures to mitigate the turmoil in the banking sector, on risk management, the formulation of a new approach to supervision of financial markets and the search for balance in pro-cyclical effects.

The Bank of Slovenia is a shareholder in the BIS, and its representatives participated in the annual General Meeting of the BIS in Basel.

OECD

Preparations to join the Organisation of Economic Cooperation and Development (OECD) began at the end of 2007, when the OECD Council approved the Accession Programme for Slovenia's entry into the organisation. Negotiations to that end continued in 2009, and entailed the active participation of Bank of Slovenia representative as a member of the interdepartmental working group, the participation of Bank of Slovenia representatives in the drafting of initial positions and participation in discussions before the following committees: the Committee on Financial Markets, the Investment Committee, the Committee on Statistics and the Steering Group on Corporate Governance. In 2009 Bank of Slovenia representatives also attended regular meetings of the Economic Policy Committee, the Committee on Financial Markets and the Working Group on International Investment Statistics, to which Slovenia was invited as an observer. The Bank of Slovenia participated in the drafting of the Economic Survey of Slovenia, which was published on 1 July.

Technical assistance

The Bank of Slovenia works with other central banks as part of central bank technical assistance. In 2009 the Bank of Slovenia received technical assistance relating to banking supervision from the central bank of Cyprus and for cash operations from the Austrian central bank.

In 2009 the Bank of Slovenia offered technical assistance to the central banks and other institutions of five countries (Ukraine, Serbia, Bosnia and Herzegovina, Croatia and Kosovo) relating to banking supervision, financial stability and money market.

2.1.8 Information system

The Bank of Slovenia is linked to the information system of the ESCB.

Article 55 of the Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, No. 72/06 [official consolidated version]) states that, as of the day the Republic of Slovenia joined the European Union, the Bank of Slovenia shall cooperate with the ECB in accordance with the Statute of the ESCB and of the ECB as regards the recording, collection, processing and disclosure of data and information relevant for the performance of its functions.

Infrastructure of the ESCB's information system.

The Bank of Slovenia is technically linked to the information system of the ECB and ESCB via the ESCB's physical network infrastructure system,[8] its application network infrastructure system,[9] the ESCB's system for the secure exchange of e-mail[10] and via a teleconferencing system. Infrastructure equipment is situated at primary and auxiliary locations at the Bank of Slovenia.

The link with the ECB is provided by the ESCB's Core Network. The Core Network is a highly available, secure private network that links national central banks with the ECB. The ECB is responsible for system administration of the Core Network, including for equipment installed at the national central banks.

The ESCB's ESCB-Net system represents a portion of the infrastructure used to link the national central banks with the ECB. ESCB-Net comprises several multi-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 auxiliary 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 ESCB-Net equipment located at the Bank of Slovenia's premises is administered by the Bank of Slovenia.

The aforementioned infrastructure equipment must be upgraded regularly with regard to technological development, increases in the quantity of data and the increased requirement of commercial users. Thus, both the ESCB's Core Network and ESCB-net were upgraded in 2009.

Applications in the ESCB's information system.

A number of applications, via which data is exchanged between the national central banks and the ECB and ESCB, run on the aforementioned infrastructure. The most important of these are as follows:

8 Core Network
9 ESCB-Net
10 CebaMail

- applications for receiving data from individual national central banks with regard to euro cash (CIS - Currency Information System) and with regard to euro cash counterfeits (CMS - Counterfeit Monitoring System),
- an application for managing user access rights at the ESCB (EUMIDES),
- a system for the secure exchange of data between applications at the ESCB level in XML format (EXDI - ESCB XML Data Integration),
- an application to support monetary policy operations (BI - Bilateral Interventions),
- a tender system (TOP - Tender Operation System),
- an application for collateral valuation (Valuation hubs for collateral),
- the Trans-European Real-time Gross settlement Express Transfer system (TARGET2),
- a securities database (CSDB - Centralised Securities DataBase),
- a statistical data warehouse (SDW), and
- the DARWIN electronic documentation system (Documents and Records Web-based Information Network).

2.2 Tasks under national jurisdiction

2.2.1 Banking supervision and ensuring financial stability

Licensing

Licensing credit institutions is one of the Bank of Slovenia's most important tasks. In 2009 the Bank of Slovenia issued authorisations to provide mutually recognised and additional financial service, to develop and operate a payment system and to hold office as a member of a bank's management board. The decision to grant or refuse an authorisation is taken by the Governing Board of the Bank of Slovenia based on the opinion of the License Committee, except in the case of authorisations to hold office as a member of a management board, where the decision is based on the opinion of the Committee of the Governing Board of the Bank of Slovenia for the Preparation of Opinions for the Issue of Authorisation to Hold Office as a Member of a Bank's Management Board.

The Bank of Slovenia issued a total of 22 authorisations in 2009.

In 2009 the Bank of Slovenia issued a total of 22 authorisations to provide various types of financial services and to hold office as a member of a bank's management board. The majority of authorisations (15) issued in 2009 were to hold office as a member of a bank's management board. Four authorisations were issued to provide additional financial services and one to provide mutually recognised financial services. In 2009 the Bank of Slovenia also issued one authorisation to develop and operate a payment system. There were more authorisation issued in 2009 to hold office as a member of a bank's management board than in the previous year (2008: 8 authorisations), and fewer authorisation to provide mutually recognised and additional financial services (2008: 10 authorisations). In 2009 there were no authorisations issued to provide basic banking services, to acquire a qualifying holding or for the merger of banks.

In 2009 the Bank of Slovenia received 28 notifications of the direct provision of banking and other mutually recognised financial services.

Pursuant to Directive 2006/48/EC (previously: Directive 2000/12/EC) and Annex I (List of activities subject to mutual recognition), a bank of a Member State that is entitled to provide banking services and other (mutually recognised) financial services may also provide these services in Slovenia. It may provide them via a branch (*in the case of permanent pursuit of business*) or directly (*in the case of occasional provision of services without elements of a permanent presence in Slovenia*) without an authorisation from the Bank of Slovenia, which must be notified in writing by the relevant supervisory authority in the home Member State. In 2009 the Bank of Slovenia received 28 notifications of the direct provision of banking or other mutually recognised financial services (compared to 66 notifications in 2008) and one notification of the expansion of mutually recognised financial services via an already functioning branch. A list of banks of EU Member States that have carried out the notification procedure for the provision of banking services and other financial services in Slovenia via their home banking supervisors is available on the Bank of Slovenia's website. Different arrangements apply to the banks of third countries. Banks of third countries may only provide banking and other (mutually recognised) financial services via a branch, Bank of Slovenia authorisation being required to establish the branch. The Bank of Slovenia may request that the 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.

Examinations of banks and savings banks

In 2009 the Banking Supervision Department continued to conduct regular on-site examinations of banks and savings banks according to its internal risk assessment methodology (RAS – Risk Assessment System), which is based on assessing the risks and quality of the control environment. Examinations of specific areas of risk were prevalent among the examinations conducted, practice having shown that shorter and thus more frequent and more detailed examinations of specific areas are more significant and more needed than comprehensive examinations (full-scope examinations). The greatest emphasis was placed on credit, liquidity and operational risks, in line with the development of macroeconomic conditions. Follow-ups of the implementation of measures and recommendations were also frequent.

With regard to the internal capital adequacy assessment process, the Bank of Slovenia focused on banks that use more complex methods than those prescribed in Pillar 1 for the calculation of internal capital requirements.

In 2009 the Banking Supervision Department continued to follow-up and monitor the implementation of the new capital framework at banks and savings banks (as a continuation of activities from 2007 and 2008, when the Banking Supervision Department began systematically monitoring the preparations of banks and savings banks for the introduction of the new European capital framework), and the related calculation of capital requirements in the scope of Pillar 1 and the internal capital adequacy assessment process in the scope of Pillar 2 of Basel II. Examinations of banks' readiness for the introduction of advanced approaches for calculating capital requirements for credit risk (IRB)[11] and operational risk (AMA)[12] were carried out. Primarily banks under majority foreign ownership opted for one of the aforementioned approaches. Banks that have chosen to begin using an advanced approach (IRB and/or AMA) for the calculation of capital requirements in the near future are included in a joint decision-making process and are a part of a joint application, which the parent bank submits to its supervisor. In such cases, the Bank of Slovenia is included in the process of issuing a joint decision as host supervisor. Cooperation with foreign supervisors, who are responsible for activities relating to joint decisions, is intensive in such cases. With regard to the internal capital adequacy assessment process, in force for a second year, the Bank of Slovenia focused on the quantitative part of the process and on those banks that use methods for the calculation of internal capital requirements that differ and are typically more complex than those prescribed in Pillar 1.

11 Internal Ratings-Based Approach (IRB)
12 Advanced Measurement Approach (AMA)

Cooperation with foreign supervisors is also connected with the ever expanding supervisory colleges, in which supervisors of the Banking Supervision Department participated in 2009. The colleges' primary aim is to achieve more comprehensive and better coordinated supervision of cross-border banking groups. The Bank of Slovenia thus participates in six supervisory colleges. The Bank of Slovenia is responsible for the organisation and management of the supervisory college for the Slovenian banking group Nova Ljubljanska banka. The second annual meeting was held in October 2009 and attended by representatives of all supervisory institutions of the countries where the bank has subsidiaries.

In addition to the aforementioned examinations, the Banking Supervision Department also carried out specific examinations, primarily with regard to compliance with legislation relating to the prevention of money laundering and terrorist financing, the readiness of banks to use bank loans as collateral for Eurosystem claims and the recognition of the eligibility of credit ratings from external credit assessment institutions used by banks in the calculation of capital requirements for credit risk using the standardised approach.

In 2009 the Banking Supervision Department continued to examine banks and other financial organisations abroad that are owned by Slovenian banks. On the basis of memoranda of understanding (the Bank of Slovenia has a total of 12 memoranda of understanding with foreign supervisory institutions), the Banking Supervision Department participated in four examinations of the operations of foreign banks in cooperation with supervisors in the countries where the subsidiaries operate.

The Banking Supervision Department participated in four examinations of the operations of foreign banks in cooperation with the supervisors in the countries where subsidiaries operate.

Based on authorisations from the Governor of the Bank of Slovenia, 46 examinations of operations of greatly varying scope (in terms of content and duration) were initiated in 2009. The Banking Supervision Department carried out the following activities in the scope of examinations initiated in 2009 and in previous years:

- 19 on-site examinations by individual area of risk and the control environment,
- 25 specific examinations, of which:
  - 6 examinations of the readiness of banks to use banks loans as collateral for Eurosystem claims,
  - 6 examinations of the implementation of the new capital framework,
  - 5 examinations of the prevention of money laundering and terrorist financing,
  - 3 examinations of external credit assessment institutions, and
  - 5 examinations in other areas (examination of a currency option pricing model, examination of the accuracy of transaction account statements, etc.),
- several examinations of the implementation of measures and a number of one-day examinations or monitoring of a specific area of operations.

Based on the finding of examinations at banks and savings banks, the Bank of Slovenia may issue recommendations, warnings or orders, in accordance with the Banking Act. In 2009 the Bank of Slovenia issued three orders to rectify breaches, several orders and resolutions extending deadlines from orders, rejecting appeals and terminating proceedings against banks, and several letters to the management and supervisory boards of banks and savings banks with a range of warnings and recommendations for improving operations.

The Bank of Slovenia approved 12 requests for authorisation in 2009 with regard to the characteristics of components for the calculation of capital.

In line with the Core Principles for Effective Banking Supervision, the Banking Supervision Department of the Bank of Slovenia maintains regular contact with the management of banks and savings banks through channels including regular annual meetings held at the completion of an examination or separately. These meetings are primarily intended to assess bank or savings bank performance and to become familiar with its strategy. The exchange of opinions and information between supervisors and the management of banks or savings banks is also a prerequisite for timely and appropriate action in the event of operating difficulties. The Banking Supervision Department continued this practice in 2009, and conducted a number of interviews with the management of banks and savings banks.

The Securities Market Agency, the Insurance Supervision Agency and the Bank of Slovenia are obliged to inform each other of identified irregularities.

Cooperation with the other two Slovenian supervisory authorities (the Securities Market Agency and the Insurance Supervision Agency) took the form of an exchange of information between the institutions. The rules on mutual cooperation between supervisory authorities regulate the cooperation between the Bank of Slovenia, the Securities Market Agency and the Insurance Supervision Agency. Supervisory authorities are required to inform each other if they identify any irregularities relating to the work of other institutions.

Changes to banking regulations

The majority of changes to secondary legislation in 2009 were the result of changes in the amended Banking Act (Official Gazette of the Republic of Slovenia, No. 19/09; hereinafter: the ZBan-1C), published in March. Some of these changes entail the Bank of Slovenia's response to the financial turmoil and its impact on banks and savings banks.

The amended *Regulation on the assessment of credit risk losses of banks and savings banks* was adopted in January. It calls on banks to assess whether there exists objective evidence of impairment of financial assets or the possibility of losses arising from off-balance sheet items on a monthly rather than quarterly basis, and to disclose the associated impairments and provisions and report them to the Bank of Slovenia on a monthly basis. Also amended were the *Instructions for implementing the regulation on the assessment of credit risk losses of banks and savings banks*, owing to additional reporting requirements for banks with regard to the collateral considered in the classification of financial assets and in the calculation of credit risk losses.

A natural person may now be a qualifying holder of a bank's shares.

The new *Regulation on the holders of qualifying holdings of banks and savings banks* was also published in March. The implementation of procedures for licensing qualifying holders required adapting to the changes in the amended ZBan-1C, by which the provisions of Directive 2007/44/EC were transposed into Slovenian law. The new regulation defines in greater detail the assessment criteria and documentation a prospective qualifying holder must submit to the Bank of Slovenia. A significant new feature is that a natural person may also be a qualifying holder of a bank's shares. Also, in addition to the reputation of a prospective qualifying holder, it must also be determined whether reasons to suspect money laundering or terrorist financing exist for an intended transaction.

Also adopted in March was the *Regulation amending the regulation on the books of account and annual reports of banks and savings banks*, which was prepared on the basis of the new International Accounting Standard 1, Presentation of Financial Statements, and other associated changes to the International Financial Reporting Standards. Other changes derive from the amended ZBan-1C and the Financial Instruments Market Act (hereinafter: the ZTFI). Changes to the *Instructions for* *drawing up the statement of financial position and the income statement of banks and savings banks* and the amended *Instructions for calculating the performance indicators of banks and savings banks* were also linked to the amended terminology of financial statements.

Further changes to implementing regulations deriving from the amended ZBan-1C were published in June. Pursuant to the amended *Regulation on the minimum scope and content of the additional audit of compliance with risk management rules at banks and savings banks*, a certified auditor must, in addition to the auditor's report on the auditing of the annual report pursuant to the Companies Act (hereinafter: the ZGD-1), prepare an additional auditor's report on compliance with risk management rules, which was previously an integral part of the auditor's report on the auditing of the annual report. The additional report will not be published, but will be submitted solely to the Bank of Slovenia. The first submission will be for the 2009 financial year. The auditor will present its findings in an additional report regarding compliance with organisational requirements and the appropriateness of a bank's treatment of specific risks and its associated information support.

Verification of the credibility of disclosures is now the responsibility of a bank's internal audit department.

Consequently, the *Regulation on disclosures by banks and savings banks* was also amended. In accordance with the amended ZBan-1C, disclosures pursuant to the third pillar of the capital framework will no longer be the subject of an audit by a certified auditor. Verification of the credibility of disclosures will be the responsibility of a bank's internal audit department, as is the practice in the majority of other Member States.

The *Regulation on the reporting of individual facts and circumstances of banks and savings banks* was also amended owing to changes brought about by the amended ZBan-1C and the amended Regulation on the books of account and annual reports of banks and savings banks. Due to the shortening of the deadline for the submission of the audited annual report and the audited consolidated annual report to the Bank of Slovenia, the deadline for the submission of the auditor's corrections, which are reported on new forms, was also shortened.

The amended *Regulation on electronic money issuing companies entails* changes to the auditing of and the auditor's report on electronic money issuing companies. The changes are the same as those introduced for banks.

The mandatory appointment of an audit committee for all banks and savings banks was introduced.

The *Regulation amending the regulation on the diligence of members of management boards and supervisory boards of banks and savings banks* was published in September**.** The amended ZBan-1C introduced the mandatory appointment of an audit committee for all banks and savings banks (previously, this only applied to the parent bank of a banking group and to a bank that provides financial services via a foreign branch). Both the composition of the committee and the attributes of its members, which must be verified by the supervisory board prior to their appointment, are set out in the ZGD-1 and the ZBan-1, and thus do not require repeating in an implementing regulation.

The *Amended instructions for implementing the regulation on the minimum requirements for ensuring an adequate liquidity position at banks and savings banks* were published in October, and are linked to the amendment to the instructions from November 2008 that permitted banks to calculate the Category 1 liquidity ratio until 31 December 2009 without taking into account a decrease in the pool of eligible collateral due to longer-term refinancing operations at the ECB. Since banks continue to operate in tight liquidity conditions linked to the financial turmoil, it makes sense to continue permitting banks to calculate the Category 1 liquidity ratio in the same manner.

Adopted in December was the amended *Regulation on credit protection*, by which the definition of an independent real estate appraiser was amended. The definition is no longer based on defining the appropriate types of real estate appraisers, but on the requirement that real estate appraisals must be fully in line with the International Valuation Standards (ISV), as adopted by the International Valuation Standards Council.

On the basis of the Mortgage Bond and Municipal Bond Act (Official Gazette of the Republic of Slovenia, No. 58/09), the following secondary legislation was adopted at the end of December: the *Regulation on the conditions for acquiring authorisation to issue mortgage bonds and municipal bonds*, the *Regulation on the conditions for acquiring authorisation to act as the custodian of a collateral register*, the *Regulation on the harmonisation of the eligible collateral pool with issued Mortgage bonds and municipal bonds* and the *Regulation on the conditions for the inclusion of derivatives in the eligible collateral pool*. The previously valid regulations were replaced with new regulations to bring them in line with changes to regulations adopted in the interim period and linked to the provision of financial services by banks and, to a lesser degree, owing to the adoption of the amended Mortgage Bond and Municipal Bond Act.

The calculation of the fees for the supervision of banks and savings banks and the fees for decisions regarding request for the granting of Bank of Slovenia authorisation was amended.

The *Regulation on the amounts of annual fees for supervision and fees for decisions regarding requests for the granting of authorisation* and the *Regulation on the amounts of annual fees for supervision and fees for decisions regarding requests for the granting of Bank of Slovenia authorisation pursuant to the Payment Services and Systems Act* were amended in 2009 due to changes to the ZBan-1 and the entry into force of the Payment Services and Systems Act.

Financial stability

In 2009 the Bank of Slovenia, in accordance with legally prescribed objectives, analysed the financial stability of the Slovenian financial system, and took into account all findings regarding proposed measures. Alongside its regular operational tasks, Bank of Slovenia focused on the preparation of its traditional yearly analysis, published in May as the Financial Stability Review. It was followed in autumn by the analysis Macro Stress Tests for the Slovenian Banking System. At the end of 2009 the Bank of Slovenia also published the report Stability of the Slovenian Banking System.

The escalation of the financial turmoil and deteriorating economic conditions resulted in a reversal in the credit cycle in Slovenia.

Last year, for the first time in five years, the Financial Stability Review placed greater attention on the realisation of financial risks as a warning of potential systemic risks in the Slovenian financial system, as the international financial turmoil seriously affected the normal operations of a number of banks around the world in the final quarter of 2008. In 2008 a period of relatively high stability of the Slovenian financial system ended, and a period of uncertainty accompanied by the realisation of risks was ushered in.

The Financial Stability Review presented developments in the economy in 2008 in and in the first quarter of 2009. Its emphasis was on the assessment of systemic risks in the Slovenian banking system and their effects on the corporate sector, the household sector and the rest of the world. The period assessed was characterised by the deteriorating economic conditions. The escalation of the financial turmoil in autumn 2008 and the undermined confidence on the financial markets resulted in a complete reversal in the supply of lending by Slovenian banks. Alongside the pass-through of the financial turmoil to the real sector, the reversal in the credit cycle was also affected by the decline in economic growth on key export markets. Credit demand continued to slow in the context of the continuing economic crisis. The pro-cyclical behaviour of banks during a period of contracting economic growth hindered corporate operations, as companies were faced with an inadequate supply of long-term loans.

Long-term sources of bank funding are needed to normalise credit supply.

One of the reports findings is that normalising the supply of lending in terms of level and maturity requires the unimpeded refinancing of Slovenian banks in the rest of the world or the replacement of foreign funding with long-term domestic savings. The report emphasises that short-term financial assets acquired via bank borrowing from the Eurosystem and an increase in short-term government deposits at banks do not resolve the problem of obtaining stable long-term funding for the Slovenian banking system. Such short-term funding merely provides banks with the liquidity to make regular repayments of liabilities to foreign lenders.

The Bank of Slovenia pointed out in its report the need for the immediate implementation of the government guarantee for the borrowing of credit institutions in the rest of the world due to unstable functioning of the international financial markets.

Assessments of financial stability last year warned of increased credit risk which, together with low interest rates, increases banks' income risk.

The report warned of increased credit risk owing to the reversal of the credit cycle and the depth and duration of the economic crisis. According to the report's findings, increased credit risk will be a decisive factor in banks' performance. Moreover, persistently low interest rates are further increasing income risk at banks, which will translate to falling profits. Some banks could even record a loss. The ability of banks to increase their capital could be limited. The Bank of Slovenia warned bank owners, including the government, of their responsibility to increase capital in the context of increased write-offs of bad loans. The report also finds that banks have a surplus of capital over minimum capital requirements of 30%. That level of capital indicates that banks could absorb higher-than-normal losses in their portfolio without difficulty.

Macro Stress Tests for the Slovenian Banking System analyses the most likely changes in the banking system's balance sheet and income statement over the next two-year period, and assesses the banking system's sensitivity to simulated shocks in selected risk factors. The aforementioned analysis was prepared in autumn, and is used for the Bank of Slovenia's internal needs.

Last year the deepening of the economic crisis began to show in the performance of banks.

The report Stability of the Slovenian Banking System was published last December. In it, the Bank of Slovenia finds that the deteriorating economic conditions and the deepening of the economic crisis have begun to show in the performance of banks. The risks apparent back in 2008 affected banks in 2009. Banks' net interest income was down on 2008 due to the stagnation in lending and low interest rates. This was offset by higher non-interest income. In the deteriorating economic conditions, the banks faced increased credit risks, which led to significantly higher impairment and provisioning costs. Profits were down sharply.

The report "Stability of the Slovenian Banking System" warned of a rapid increase in credit risk.

The report also points out the relatively rapid increase in credit risk, as evidenced by several indicators. First, the number of customers settling their liabilities to banks in arrears is rising. The second indicator is a rising proportion of non-performing assets, the donwgrading of classified assets from the A and B ratings (i.e. the highest ratings) to the C rating and the higher coverage of classified assets by impairments. Classified assets paid in arrears exceeding 90 days at non-financial corporations doubled over the first three quarters of 2009, a reflection of deteriorating corporate liquidity.

In its report, the Bank of Slovenia finds that banks have responded to increased credit risk in two ways. First, they increased their credit standards, primarily in the first half of the year. They most frequently raised their premiums on interest rates and demanded higher quality loan collateral, particularly when real estate was involved. The banks also increased impairment and provisioning costs significantly. With regard to risks in the banking sector, the report finds that the risk of a change in interest rates has diminished owing to an increase in fixed-rate short-term loans and an increase in government deposits with a maturity of up to one year. Liquidity risk was relatively low in the banking sector last year, as evidenced by the relatively high level of liquidity ladder coefficients and the stock of secondary liquidity. Currency risk also remained low. Despite the difficult conditions, the Slovenian banking system has to date maintained an adequate level of solvency, with an capital adequacy ratio of 11.6%, and a Tier 1 capital ratio of 9.3% (calculated according to the methodology for determining capital adequacy), which exceeds the EU average.

In 2010 banks will face even greater challenges than in 2009.

However, the Bank of Slovenia warns in the report that the banks will face even greater difficulties in 2010 than they faced in 2009. Owing to a persistent increase in credit risk and falling profits, capital adequacy and the capacity to absorb risks is becoming the most important factor in ensuring the stability of the Slovenian banking system. Thus, how to harmonise the capital adequacy ratio with increasing credit risk will be of vital importance to the management boards and owners of banks in 2010. To that end, banks will have to carefully assess what will become of their lending activity on the one hand and their funding on the other. Funding costs will be higher. In the context of interventions by the government and the Eurosystem, the risks associated with the provision of appropriate sources of funding were lower in 2009, while banks will be exposed to higher funding costs in the future. This will force banks to streamline operations, including via consolidation.

In 2009 the Bank of Slovenia emphasised the importance of its regular analytical monitoring the stability of the Slovenian financial system. In cooperation with other institutions in Slovenia and abroad, it analysed anti-crisis measures and scenarios for their possible application, and adopted measures necessary to maintain financial stability. At the beginning of the year it called on banks to appropriately assess credit risks in the adverse economic conditions and to create sufficient impairments. It also called on banks to allocate as much profit as possible to the banks' reserves. In March the Bank of Slovenia warned banks of the importance of the proper classification of financial instruments. In spring the Bank of Slovenia, together with the banks, also carried out micro stress tests, and highlighted activities to improve risk management at banks and savings banks. Slight adjustments to items of the liquidity ladder followed in autumn. At the end of the year it warned banks to practice moderations with regard to bonuses.

2.2.2 Payments by Bank of Slovenia clients

Administration of budget user accounts

The Bank of Slovenia administers the treasury account of the government and municipalities.

The Bank of Slovenia administers the government's single treasury account and 206 standard municipal treasury accounts, open in a number of currencies. The accounts of direct and indirect users of the national and municipal budgets, the Health Insurance Institute of Slovenia and the Pensions 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 managed by the Public Payments Administration, to which direct and indirect users of the national and municipal budgets present payment instructions and from which they receive a full set of return information about payments transacted.

In 2009 EUR 36.864 billion in inflows and EUR 36.863 billion in outflows were processed through the government's single treasury account, and EUR 35.173 billion in inflows and EUR 35.169 billion in outflows through municipal treasury accounts.

In addition to the single treasury accounts, the Bank of Slovenia also manages 43 special purpose accounts for the government and other budget users.

Administration of accounts for the CSCC and CSCC 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 the 2009 there were 23 CSCC members, including 13 commercial banks and 10 investment firms, with open transaction accounts for customer funds and clearing accounts at the Bank of Slovenia.

The Bank of Slovenia administers a guarantee fund cash account and a fiduciary account for the custodian services of the CSCC.

In 2009 EUR 4.721 billion in inflows and EUR 4.726 billion in outflows were processed through the CSCC account and CSCC member accounts.

Administration of accounts for foreign financial institutions and EU institutions

The Bank of Slovenia also administers the accounts for foreign financial institutions and EU institutions, via which inflows of EUR 782.1 million and outflows of EUR 799.4 million were processed in 2009.

2.2.3 Management of the Bank of Slovenia's financial investments

The Bank of Slovenia's financial investments include all of its financial assets not related to the implementation of monetary policy. They comprise financial investments denominated in domestic and foreign currencies. The value of the Bank of Slovenia's financial investments as at 31 December 2009 was EUR 4,867.7 million, of which EUR 4,118.7 million was investments in financial instruments, which are either claims against euro area residents or claims against non-euro residents denominated in euros. These include EUR 3,746.3 million of investments in capital market instruments, EUR 20.0 million in money market instruments and EUR 352.4 million in cash and deposits. In addition, EUR 749.1 million was invested in financial instruments, which are claims against non-euro area residents denominated in non-euro currencies and meet the criteria of international monetary reserves. The volume of financial investments is also dependent on the level of liabilities to the Eurosystem. These were down in 2008 and 2009 in accordance with guidelines on the management of financial investments.

The value of the Bank of Slovenia's financial investments on 31 December 2009 was EUR 4,867.7 million.

Table 4: **Balance of the Bank of Slovenia's financial investment**

In EUR million	Financial investments of the Bank of Slovenia		
Balance as of:	Investments in euros and all investments in instruments of euro area issuers	International monetary reserves	Total
31. Dec 2007	4,820.0	727.9	5,547.9
31. Dec 2008	4,667.7	687.2	5,354.9
31. Dec 2009	4,118.7	749.1	4,867.7

Source: Bank of Slovenia

The decrease in financial investments is the result of a decrease in liabilities to the Eurosystem.

According to the International Monetary Fund's definition, cash in foreign currency and foreign exchange holdings abroad, gilt-edged securities, monetary gold, holdings of SDRs and the reserve tranche at the International Monetary Fund are considered international monetary reserves. Since 1 January 2007 Slovenia has applied the definition applied by all other euro area Member States in the statistical treatment of international monetary reserves. In addition to monetary gold, the reserve tranche and SDRs, that portion of foreign currency reserves not denominated in euros and placed outside the euro area is contributed to international monetary reserves. The methodology is explained in detail in the article, Statistical Treatment of International Monetary Reserves Following Slovenia's Entry to the Euro Area (Surveys and Analysis, May 2007).

A three-level decision making process is employed to manage financial assets.

The management of the Bank of Slovenia's financial investments is based on a three-level decision-making process. The Governing Board of the Bank of Slovenia sets out the Guidelines for Managing the Bank of Slovenia's Financial Investments, which represent the long-term policy for the management of the Bank of Slovenia's financial investments and defines management objectives. The second level in the process is represented by the Investment Committee, which prescribes the criteria for managing the Bank of Slovenia's financial investments in order to limit the exposure to various types of risk. The Investment Committee also defines the methodology of measuring the performance and of quantifying risks. At the third level, portfolio managers carry out the operational aspect, within set tolerances.

The current credit risk management criteria allow investments in financial instruments exposed to sovereign, supranational and banking types of risk, issued by counterparties with an internal rating of at least A-. The ratio of the size of investment exposed to sovereign or supranational types of risk and banking risk is also prescribed. Investments in the supranational and banking sector are limited to a list of eligible counterparties, whereby there is also an upper limit on exposure to an individual entity to supranational risk or to an individual banking group. The upper exposure limit depends on the Bank of Slovenia's internal counterparty rating.

Investment policy is defined in management criteria.

The currency exposure and the limits on permitted deviations are precisely set out in the criterion for managing currency risk. The criterion also lays down a target currency structure for Bank of Slovenia investments. In 2007 an additional instrument, i.e. a foreign exchange swap instrument was added to the list of eligible instruments, which allows for exposure to individual types of currency risk, while hedging against changes in the exchange rate itself. In this manner, the Bank of Slovenia hedged the entire foreign currency exposure in January 2008, with the exception of the portion of investments representing the amount potentially called into international monetary reserves by the ECB. The criterion for managing interest-rate risk specifies the modified duration of financial investments, and lays down the maximum allowable deviation from the target modified duration. The criterion for managing liquidity risk specifies a minimum amount of liquid assets. The criteria for managing the Bank of Slovenia's financial 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 public institution financing include deposits and purchases of primary issued securities, commercial paper and certificates of deposit if the issuer is a public institution. Purchasing EU public sector financial instruments on the primary market is prohibited, while investments are permitted on the secondary market within a fixed limit for each country. The management of the Bank of Slovenia's financial investments was carried out in line with the aforementioned criteria during 2009. More detailed information on the structure of the international monetary reserves as at 31 December 2009 is given in the section on the financial statements.

3 ORGANISATIONAL STRUCTURE OF THE BANK OF SLOVENIA

Employees

The Bank of Slovenia had 428 employees as at 31 December 2009, of which 245 or 57% were female and 183 or 43% were male. The target number of employees for 2009 was 430. This target, adopted with the financial plan, was not achieved primarily owing to delays in announcement of new positions.

The average age of Bank of Slovenia employees in 2009 was 42 years and 7 months, while the average years of service as at 31 December 2009 was 19.

Governance and changes in 2009

The Governing Board of the Bank of Slovenia comprises five members: the Governor and four Vice-Governors. The Governor may authorise one of the Vice Governors to be his deputy.

The composition of the Governing Board of the Bank of Slovenia as at 31 December 2009 was as follows:

- Marko Kranjec, Ph.D., Governor,
- Andrej Rant, Vice-Governor – Deputy Governor,
- Darko Bohnec, Vice-Governor, and
- Janez Fabijan, Vice-Governor.

One position on the Governing Board of the Bank of Slovenia is vacant owing to the repetition of the selection process for vice-governor.

The following changes occurred in the composition of the Governing Board of the Bank of Slovenia in 2009:

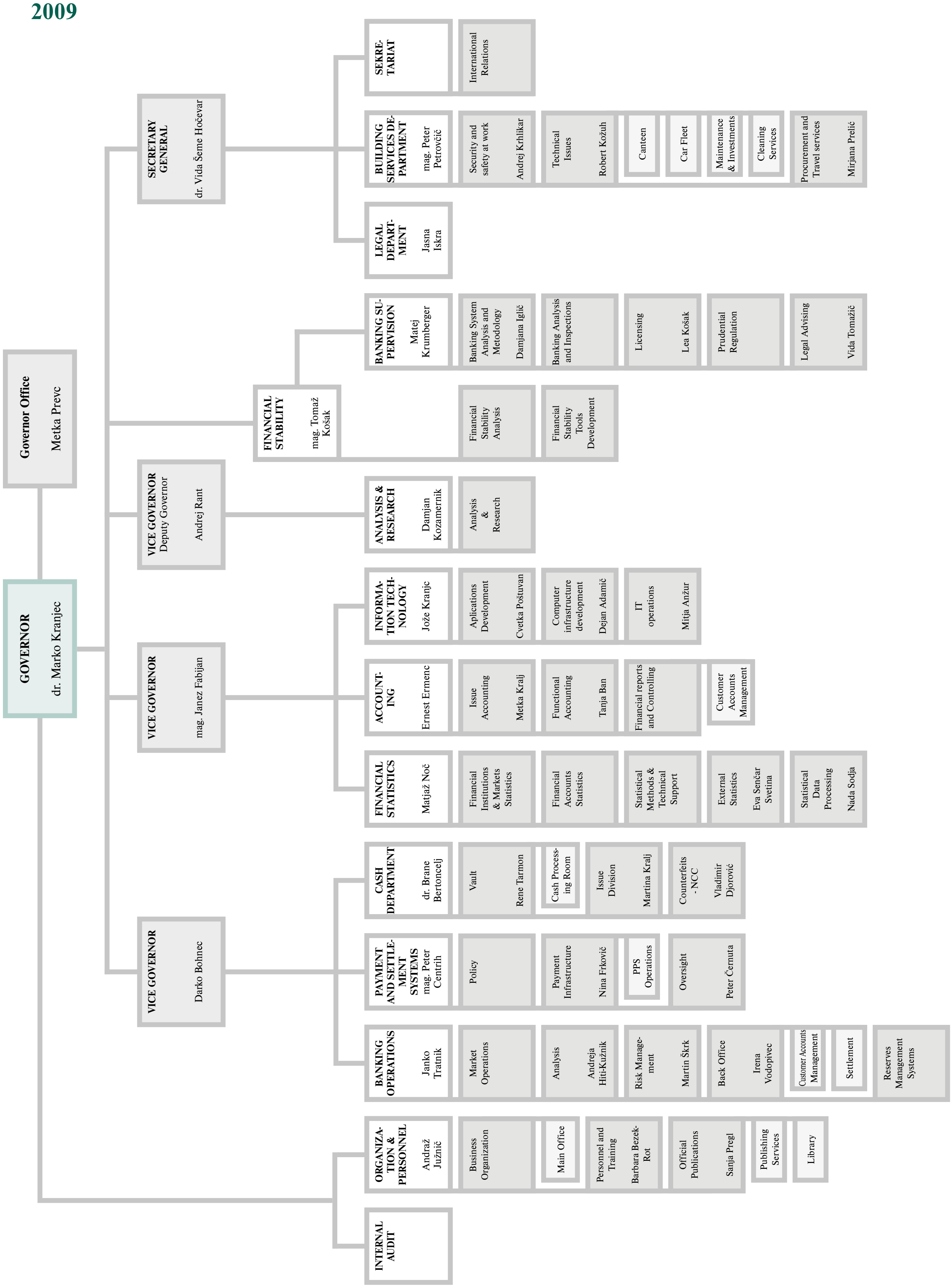
- At its session of 21 May 2009 the National Assembly adopted a decision on the appointment of Janez Fabijan as Vice-Governor and member of the Governing Board of the Bank of Slovenia for a term of six years, beginning on 11 September 2009.
- At its session of 21 May 2009 the National Assembly adopted a decision on the appointment of Božo Jašovič as Vice-Governor and member of the Governing Board of the Bank of Slovenia for a term of six years. Mr Jašovič's term began on 11 September 2009 and ended on 30 September 2009, when he assumed leadership of the management board of Nova Ljubljanska banka d.d.
- At its session of 19 November 2009 the National Assembly adopted a decision on the appointment of Darko Bohnec and Timotej Jagrič, Ph.D. as Vice-Governors and members of the Governing Board of the Bank of Slovenia for a term of six years. Darko Bohnec began his term on 5 March 2010. The process of selecting a vice-governor will be repeated, as Timotej Jagrič, Ph.D. did not assume his function.

Commissions and committees of the Governing Board as at 31 December 2009

The following important commissions, committees and working bodies function at the Bank of Slovenia:

- License Commission (president: Darko Bohnec, since 30 September 2009),
- Commission of the Governing Board of the Bank of Slovenia for the Preparation of Opinions for the Issue of Authorisations to Hold Office as a Member of a Bank's Management Board (president: Darko Bohnec, since 1 October 2009),
- Research Commission (president: Andrej Rant, since 8 June 2009),
- Audit Committee (president: Dušan Zbašnik, Ph.D.),
- Investment Committee (president: Andrej Rant),
- The Information Security Committee and the Business Continuity Committee were combined to form the Operational Risk Committee on 20 October 2009 (president: Darko Bohnec, since 20 October 2009),
- Central Inventory Committee (president: Mirjana Grujić).

Organisational structure of the Bank of Slovenia as at 31 December 2009



4 FINANCIAL STATEMENTS

Financial statements of the Bank of Slovenia for the Year 2009

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.

Deloitte

DELOITTE REVIZIJA D.O.O.
Davčna ulica 1
1000 Ljubljana
Slovenija

Tel: +386 (0) 1 3072 800
Faks: +386 (0) 1 3072 900
www.deloitte.si

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 December 31, 2009 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 10^{th} November 2006 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2006/16) and articles of Law on Bank of Slovenia that are applicable for financial reporting. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 give a true and fair view of the financial position of Bank of Slovenia as of December 31, 2009, and of its financial performance for the year then ended in accordance with the Guideline of the European Central Bank of 10th November 2006 on the Legal Framework for Accounting and Financial reporting in the European System of Central Banks (ECB/2006/16) and articles of Law on Bank of Slovenia, applicable for financial reporting.

DELOITTE REVIZIJA d.o.o.

Andreja Bajuk Mušič
Certified auditor

Yuri Sidorovich
President of the board

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 1

Ljubljana, February 24th, 2010

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 and No. 72/06), 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 10 November 2006 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2006/16)[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 343rd 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-seven National Central Banks (NCBs) of the member states of the European Union on 31 December 2009 plus the European Central Bank (ECB). The term 'Eurosystem' refers to the sixteen NCBs of the member states participating in the Monetary Union, plus the ECB on the same date.

[3] OJ L 348, 11.12.2006, p. 1-37. The Accounting guideline is amended by the Guideline of the European Central Bank of 17 December 2007 (ECB/2007/20), OJ L 42, 16.02.2008, p. 85-87 and by the Guideline of the European Central Bank of 11 December 2008 (ECB/2008/21), OJ L 36, 05.02.2009, p. 46-58 and by the Guideline of the European Central Bank of 17 July 2009 (ECB/2009/18), OJ L 202, 04.08.2009, p. 65-81.

gains 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
Following the decision of the Governing Council of 7 May and 4 June 2009 the ECB and the NCBs started to purchase for monetary policy purposes euro-denominated covered bonds issued in the euro area. These securities are valued at amortised cost and are subject to impairment tests.

Securities held for other than monetary policy purposes
Marketable securities are valued at the market prices prevailing at the balance sheet date on a security-by-security basis. Investments in securities are included in the balance sheet items 'Claims on non-euro area residents denominated in foreign currency', 'Claims on euro area residents denominated in foreign currency', 'Claims on non-euro area residents denominated in euro', and 'Securities of euro area residents denominated in euro'.

Non-marketable securities 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:

Buildings	1.3 – 1.8 %
Computers	20 – 33 %
Other equipment	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 statement of income and expenditure.

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 2009). 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 and the ECB's profit/loss.

Banknotes in circulation
The ECB and the sixteen 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 Slovakia joined the Eurosystem on 1st January 2009.

[5] Decision of the European Central Bank of 6 December 2001 on the issue of euro banknotes (ECB/2001/15), OJ L 337, 20.12.2001, p. 52-54, amended by Decision of the European Central Bank of 18 December 2003 (ECB/2003/23), OJ L 9, 15.01.2004, p. 40-41 and by Decision of the European Central Bank of 22 April 2004 (ECB/2004/9), OJ L 205, 09.06.2004, p. 17-18 and by Decision of the European Central Bank of 15 December

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 liability balance sheet 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, which incur interest[7], are disclosed under the sub-item 'Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem' (see 'Intra-ESCB 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. For the Bank of Slovenia, the adjustment period will end on 31 December 2012.

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

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, shall be due to the NCBs in the same financial year it accrues and distributed on the second working day of the following year in the form of an interim distribution of profit[10]. It shall be so distributed in full unless the ECB's net profit for the year is less than its income earned on euro banknotes in circulation and subject to any decision by the Governing Council to reduce this income in respect of costs incurred by the ECB in connection with the issue and handling of euro banknotes. The Governing Council may also decide to transfer part or all of the ECB's seigniorage income to a provision for foreign exchange rate, interest rate, credit and gold price risks. The amount distributed to NCBs is disclosed in the Profit and Loss account under 'Income from equity shares and participating interest'.

2006 (ECB/2006/25), OJ L 24, 31.01.2007, p. 13-14 and by Decision of the European Central Bank of 7 December 2007 (ECB/2007/19), OJ L 1, 04.01.2008, p. 7-8 and by Decision of the European Central Bank of 12 December 2008 (ECB/2008/26), OJ L 21, 24.01.2009, p. 75-76.

[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.

[7] Decision of the European Central Bank of 6 December 2001 on the allocation of monetary income of the national central banks of participating member states from the financial year 2002 (ECB/2001/16), OJ L 337, 20.12.2001, p. 55-61 amended by Decision of the European Central Bank of 18 December 2003 (ECB/2003/22), OJ L 9, 15.01.2004, p. 39 and by Decision of the European Central Bank of 19 May 2006 (ECB/2006/7), OJ L 148, 02.06.2006, p. 56-60 and by Decision of the European Central Bank of 22 November 2007 (ECB/2007/15), OJ L 333, 19.12.2007, p. 86-89 and by Decision of the European Central Bank of 14 December 2009 (ECB/2009/27), OJ L 339, 22.12.2009, p. 55-57.

[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 17 November 2005 on the distribution of the income of the European Central Bank on euro banknotes in circulation to the NCBs of the participating Member States (ECB/2005/11), OJ L 311, 26.11.2005, p. 41-44.

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 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. The relevant amount of provision for such risks is determined annually on the basis of Value-at-Risk (VaR) method. VaR is defined as the maximum loss of portfolio with a given diversification of that portfolio at a certain level of probability (95%) and for a given holding period (one year). The provision will be used to fund future unrealised losses not covered by the revaluation accounts.

Intra-ESCB balances
Intra-ESCB transactions are cross-border transactions that occur between two ESCB central banks. These transactions are processed primarily via TARGET2[11] and give rise to the daily net bilateral position. This position in the books of the Bank represents the net claim or liability of the Bank against the rest of the ESCB members connected to TARGET2. Due to a change of methodology (netting) certain comparative amounts from 2008 are reclassified.

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 valuation gains which arose before the euro adoption are separated from the unrealised valuation gains 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 gains 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 losses are taken to the Profit and Loss account if they exceed previous revaluation gains registered in the corresponding revaluation account. Such losses can not be reversed against any future unrealised gains in subsequent years. Unrealised gains and losses 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

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

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 valuation gains are not recognised as income but are transferred to the revaluation accounts. Unrealised valuation losses are taken to the Profit and Loss account when exceeding previous revaluation gains registered in the revaluation accounts. Unrealised valuation gains/losses 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 liabilities side.

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

Cash flow statement
Taking 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 profit taxes.

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 losses 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 2009 to 2011.

Balance Sheet as at 31 December 2009

ASSETS (thousands of euro)		31 December 2009	31 December 2008
1	**Gold and gold receivables**	**78,428**	**63,611**
2	**Claims on non-euro area residents denominated in foreign currency**	**672,425**	**618,103**
	2.1 Receivables from the IMF	261,512	41,711
	2.2 Balances with banks and security investments, external loans and other external assets	410,913	576,392
3	**Claims on euro area residents denominated in foreign currency**	**245,136**	**261,599**
4	**Claims on non-euro area residents denominated in euro**	**877,855**	**1,139,981**
	4.1 Balances with banks, security investments and loans	877,855	1,139,981
	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**	**2,114,800**	**1,197,600**
	5.1 Main refinancing operation	1,000	133,600
	5.2 Longer-term refinancing operations	2,113,800	1,064,000
	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**	**19,878**	**635,778**
7	**Securities of euro area residents denominated in euro**	**2,941,945**	**2,441,529**
	7.1 Securities held for monetary policy purposes	84,703	-
	7.2 Other securities	2,857,242	2,441,529
8	**General government debt denominated in euro**	-	-
9	**Intra-Eurosystem claims**	**2,752,257**	**2,637,048**
	9.1 Participating interest in ECB	58,340	55,098
	9.2 Claims equivalent to the transfer of foreign reserves	189,410	183,995
	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	2,504,507	2,397,955
	9.5 Other claims within the Eurosystem (net)	-	-
10	**Items in course of settlement**	-	-
11	**Other assets**	**284,537**	**299,060**
	11.1 Coins of euro area	1,654	1,386
	11.2 Tangible and intangible fixed assets	21,136	18,929
	11.3 Other financial assets	50,426	50,819
	11.4 Off-balance sheet instruments revaluation differences	809	0
	11.5 Accruals and prepaid expenses	71,574	77,356
	11.6 Sundry	138,937	150,568
12	**Loss for the year**	-	**29,719**
Total assets		**9,987,259**	**9,324,028**

* Only an ECB balance sheet item

LIABILITIES (thousands of euro)	31 December 2009	31 December 2008
1 Banknotes in circulation	**3,495,792**	**3,215,097**
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	**1,220,232**	**984,410**
2.1 Current accounts (covering the minimum reserve system)	415,132	402,710
2.2 Deposit facility	805,100	581,700
2.3 Fixed-term deposits	-	-
2.4 Fine-tuning reverse operations	-	-
2.5 Deposits related to margin calls	-	-
3 Other liabilities to euro area credit institutions denominated in euro	**13,655**	**9,646**
4 Debt certificates issued	-	-
5 Liabilities to other euro area residents denominated in euro	**299,943**	**309,292**
5.1 General government	270,725	267,728
5.2 Other liabilities	29,217	41,565
6 Liabilities to non-euro area residents denominated in euro	**16,174**	**33,456**
7 Liabilities to euro area residents denominated in foreign currency	**68,743**	**71,543**
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	**235,009**	**28,096**
10 Intra-Eurosystem liabilities	**3,333,973**	**3,555,940**
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)	3,333,973	3,555,940
11 Items in course of settlement	-	-
12 Other liabilities	**189,905**	**201,893**
12.1 Off-balance sheet instruments revaluation differences	7,295	12,628
12.2 Accruals and income collected in advance	6,690	13,061
12.3 Sundry	175,920	176,204
13 Provisions	**118,538**	**62,007**
14 Revaluation accounts	**167,378**	**100,830**
15 Capital and reserves	**724,352**	**751,818**
15.1 Capital	8,346	8,346
15.2 Reserves	716,007	743,472
16 Profit for the year	**103,566**	-
Total liabilities	9,987,259	9,324,028

* Only an ECB balance sheet item

Profit and Loss Account for the year ended 31 December 2009

thousands of euro	2009	2008
1.1 Interest income	170,519	313,561
1.2 Interest expense	-53,680	-195,199
1 Net interest income (expenditure)	**116,840**	**118,362**
2.1 Realised gains/losses arising from financial operations	62,787	2,812
2.2 Write-downs on financial assets and positions	-15,113	-119,054
2.3 Transfer to/from provisions for foreign exchange risks, price risks and other operational risks	-64,894	-7,219
2 Net result of financial operations, write-downs and risk provisions	**-17,220**	**-123,461**
3.1 Fee and commission income	12,028	11,845
3.2 Fee and commission expense	-1,556	-1,645
3 Net fee and commission income	**10,471**	**10,200**
4 Income from equity shares and participating interests	4,128	6,436
5 Net result arising from allocation of monetary income	14,848	-17,937
6 Other operating income	4,195	6,803
Total net income	**133,262**	**404**
7.1 Staff costs	-17,989	-17,899
7.2 Administrative expenses	-6,981	-7,655
7.3 Depreciation of tangible and intangible fixed assets	-2,108	-2,187
7.4 Banknote production services	-2,166	-1,582
7.5 Other expenses	-452	-800
7 Total operating expenses	**-29,696**	**-30,123**
8 Profit (Loss) for the year	**103,566**	**-29,719**

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

The unaudited financial statements were approved by the Governing Board on 9 February 2010 and these audited financial statements were approved by the Governing Board on 16 March 2010 and were signed on its behalf by:

Marko Kranjec, 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 2009. This price, notified by the ECB, amounts to EUR 766.347 per ounce of fine gold compared with EUR 621.542 on 31 December 2008. Unrealised valuation gains of EUR 29.0 million (of which EUR 8.8 million from year 2007, EUR 5.5 million from year 2008 and EUR 14.8 million from year 2009) were disclosed under the liability balance sheet item 'Revaluation accounts'.

	000 EUR	Fine troy ounces
Balance as at 31 December 2008	63,611	102,014
Revaluation of gold stock as at end of 2009	14,817	-
Balance as at 31 December 2009	78,428	102,014

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 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.

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). The significant increase in the SDRs in comparison to the previous year reflects the general and special SDR allocation to IMF member countries. This allocation is designed to provide liquidity to the global economic system by supplementing the foreign exchange reserves of the IMF member countries. The general allocation was approved by the IMF's Board of Governors on 7 August 2009 and was made to the IMF members in proportion to their existing quotas. The special allocation was carried out in line with the Fourth Amendment of the IMF's Articles of Agreement, which entered into force on 10 August 2009 (see Liability balance sheet item 9 'Counterpart of special drawing rights allocated by the IMF').

Both claims are shown in the balance sheet on the basis of the market rate of SDR 1 = EUR 1.0886 (31 December 2008: SDR 1 = EUR 1.1048) 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 below the average cost and valuation losses were therefore recognised in accordance with the accounting rules in the Profit and Loss Account.

	31 December 2009		31 December 2008	
	000 SDR	000 EUR	000 SDR	000 EUR
Quota	231,700	252,229	231,700	255,982
Less IMF holdings of EUR	-189,607	-206,406	--201,607	-222,735
Reserve tranche in the IMF	42,093	45,823	30,093	33,247
SDR Holdings	198,134	215,689	7,661	8,464
Total	240,227	261,512	37,754	41,711

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 2009.

Breakdown of foreign currency assets by type of investment:

	31 December 2009	31 December 2008
	000 EUR	000 EUR
Current accounts	1,301	996
Time deposits	51,367	60,191
Securities	358,245	515,206
Total	410,913	576,392

Breakdown of foreign currency assets by currency:

	31.12.2009	31.12.2008
	000 EUR	000 EUR
USD	277,807	422,558
AUD	98,846	84,903
GBP	33,908	68,496
Other currencies	352	435
Total	410,913	576,392

Breakdown of securities according to their residual maturity:

	31 December 2009	31 December 2008
	000 EUR	000 EUR
≤ 1 year	135,800	54,204
>1 year and ≤5 years	222,444	424,347
> 5 years	-	36,654
Total	358,245	515,206

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. This item also includes a claim arising from reverse operations with Eurosystem counterparties in connection with the short-term USD liquidity providing programme (US dollar Term Auction Facility). Under this program, US dollars were provided by the Federal Reserve to the ECB by means of a temporary reciprocal currency arrangement (swap line) with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into back-to-back swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct liquidity-providing operations with the Eurosystem counterparties in the form of reverse and swap transactions. These back-to-back swap transactions between the ECB and NCBs resulted in intra-Eurosystem balances reported under 'Other liabilities within the Eurosystem (net)'.

Foreign currency assets are shown at their euro equivalent as calculated on basis of market exchange rates on 31 December 2009.

Breakdown of foreign currency assets by type of investment:

	31 December 2009	31 December 2008
	000 EUR	000 EUR
Current accounts	117	245
Time deposits	-	19,169
Term Auction Facility operations	-	32,335
Securities	245,019	209,850
Total	245,136	261,599

Breakdown of foreign currency assets by currency:

	31.12.2009	31.12.2008
	000 EUR	000 EUR
USD	214,825	129,090
AUD	18,719	17,799
GBP	11,592	114,706
Other currencies	-	4
Total	245,136	261,599

Breakdown of securities according to their residual maturity:

	31 December 2009	31 December 2008
	000 EUR	000 EUR
≤ 1 year	86,281	69,464
>1 year and ≤ 5 years	158,738	136,566
> 5 years	-	3,820
Total	245,019	209,850

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

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

Breakdown of euro denominated assets by type of investment:

	31 December 2009	31 December 2008
	000 EUR	000 EUR
Current accounts	812	402
Time deposits	142,331	264,143
Securities	734,711	875,436
Total	877,855	1,139,981

Breakdown of securities according to their residual maturity:

	31 December 2009	31 December 2008
	000 EUR	000 EUR
≤ 1 year	138,118	195,851
>1 year and ≤ 5 years	470,769	582,622
> 5 years	125,825	96,963
Total	734,711	875,436

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 749,906 million, of which the Bank holds EUR 2,115 million. In accordance with Article 32.4 of the Statute, any risks from monetary policy operations, if they were to materialise, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

Main refinancing operations are regular liquidity-providing operations which are conducted with a weekly frequency in the form of reverse transactions and executed through standard tenders. In 2009 the main refinancing operations were conducted as fixed-rate tenders with full allotment. As a main monetary policy instrument, they play a pivotal role in fulfilling the objectives of Eurosystem's market operations.

Longer term refinancing operations are regular liquidity-providing reverse transactions with a maturity of one, three or six months. In June the Eurosystem started to execute also operations with a maturity of twelve months. In the year under review longer term refinancing operations provided the bulk of refinancing to the banking sector. They were held as fixed-rate tenders with full allotment.

	31 December 2009	31 December 2008
	000 EUR	000 EUR
Main refinancing operations	1,000	133,600
Longer term refinancing operations	2,113,800	1,064,000
Total	2,114,800	1,197,600

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

This item comprises claims on credit institutions which do not relate to monetary policy operations. Claims consist almost entirely of fixed-term euro-denominated deposits which are held at euro area credit institutions.

	31 December 2009	31 December 2008
	000 EUR	000 EUR
Current accounts	1,578	1,578
Time deposits	18,300	634,200
Total	19,878	635,778

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 announced by the Governing Council of the ECB on 7 May 2009 (see 'Securities held for monetary policy purposes' in the notes on accounting policies).

In order to report securities held for monetary policy purpose separately, the item 'Securities of euro area residents denominated in euro', has been divided into two sub-positions: 'Securities held for monetary policy purposes', which was introduced in order to reflect the euro-denominated covered bond portfolio, which commenced in July 2009; and 'Other securities', which includes marketable securities that are not related to the monetary policy operations of the Eurosystem (which previously accounted for the whole position).

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

	31 December 2009	31 December 2008
	000 EUR	000 EUR
≤ 1 year	-	-
>1 year and ≤ 5 years	77,285	-
> 5 years	7,418	-
Total	84,703	-

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 other securities according to their residual maturity:

	31 December 2009	31 December 2008
	000 EUR	000 EUR
≤ 1 year	744,735	288,507
>1 year and ≤ 5 years	2,000,545	2,045,442
> 5 years	111,962	107,580
Total	2,857,242	2,441,529

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 29.3 of the Statute and which must be adjusted every five years. The most recent such adjustment took effect on 1 January 2009. Based on the Council Decision on 15 July 2003 on the statistical data to be used for the determination of the key for subscription of the capital of the European Central Bank, the capital key shares of NCBs were adjusted by means of transfers among the NCBs. Consequently, on 1 January 2009, the share of the Bank held in the subscribed capital of the ECB – EUR 5,761 million in total – increased from 0,3194% to 0,3288 % and asset item 9.1 'Participating interest in the ECB' increased by EUR 0.5 million to EUR 18.9 million, as a result of the additional capital contribution that was transferred to the ECB.

The participating interests of the 27 European central banks in the capital of the ECB on 31 December 2009 are the following:

	Capital key per cent	EUR	Of which fully paid up	Eurosystem key
Nationale Bank van België/ Banque Nationale de Belgique	2.4256	139,730,385	139,730,385	3.4755
Deutsche Bundesbank	18.9373	1,090,912,027	1,090,912,027	27.1341
Central Bank and Financial Services Authority of Ireland	1.1107	63,983,566	63,983,566,24	1.5914
Bank of Greece	1.9649	113,191,059	113,191,059	2.8154
Banco de España	8.3040	478,364,576	478,364,576	11.8983
Banque de France	14.2212	819,233,899	819,233,899	20.3767
Banca d'Italia	12.4966	719,885,688	719,885,688	17.9056
Central Bank of Cyprus	0.1369	7,886,333	7,886,333	0.1962
Banque centrale du Luxembourg	0.1747	10,063,860	10,063,860	0.2503
Central Bank of Malta/Bank Ċentrali ta' Malta	0.0632	3,640,732	3,640,732	0.0906
De Nederlandsche Bank	3.9882	229,746,339	229,746,339	5.7144
Oesterreichische Nationalbank	1.9417	111,854,588	111,854,588	2.7821
Banco de Portugal	1.7504	100,834,460	100,834,460	2.5080
Banka Slovenije	**0.3288**	**18,941,025**	**18,941,025**	**0.4711**
Národná banka Slovenska	0.6934	39,944,364	39,944,364	0.9935
Suomen Pankki-Finlands Bank	1.2539	72,232,820	72,232,820	1.7966
Total euro-area NCBs	**69.7915**	**4,020,445,722**	**4,020,445,722**	**100.0000**
Bulgarian National Bank	0.8686	50,037,027	3,502,592	
Česká národní banka	1.4472	83,368,162	5,835,771	
Danmarks Nationalbank	1.4835	85,459,278	5,982,149	
Eesti Pank	0.1790	10,311,568	721,810	
Latvijas Banka	0.2837	16,342,971	1,144,008	
Lietuvos bankas	0.4256	24,517,337	1,716,214	
Magyar Nemzeti Bank	1.3856	79,819,600	5,587,372	
Narodowy Bank Polski	4.8954	282,006,978	19,740,488	
Banca Naţională a României	2.4645	141,971,278	9,937989	
Sveriges Riksbank	2.2582	130,087,053	9,106,094	
Bank of England	14.5172	836,285,431	58,539,980	
Total non-euro area NCBs	**30.2085**	**1,740,206,681**	**121,814,468**	
Total euro area and non-euro area NCBs	**100.0000**	**5,760,652,403**	**4,142,260,189**	

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, the additional contribution to the ECB's net equity was made on 9 March 2009.

	31 December 2007
	000 EUR
Contribution to revaluation accounts	25,752
- paid on 3 January 2007	7,647
- paid on 12 March 2007	18,105
Contribution to provisions	10,947
- paid on 12 march 2007	10,947
Contribution paid on 9 March 2009	2,700
Total	39,399

Sub-item 9.2 contains the Bank's claims arising from the transfer of foreign reserve assets to the ECB. The claims are denominated in euro at a value fixed at the time of their transfer. They are remunerated at the latest available marginal rate for the Eurosystem's 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 2009 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 5.4 million to EUR 189.4 million on 1 January 2009.

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' in the notes on accounting policies)[12]. The net position, taking into account the adjustment as a result of smoothing mechanism, which reduces the interest bearing claim for the compensatory amount of EUR 1,155 million (2008: EUR 1,351.0 million), is remunerated at the marginal interest rate applying to the main refinancing operations.

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.

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

	Land and buildings	Computers & equipment	Total
	000 EUR	000 EUR	000 EUR
Cost or valuation			
At 31 December 2008	**17,484**	**18,290**	**35,773**
Additions	2,789	1,561	4,350
Disposals	0	-648	-648
At 31 December 2009	**20,272**	**19,203**	**39,476**
Depreciation			
At 31 December 2008	**3,176**	**13,668**	**16,844**
Disposals	0	-637	-637
Charge for the year	152	1,980	2,133
At 31 December 2009	**3,328**	**15,011**	**18,339**
Net book value			
At 31 December 2008	**14,308**	**4,622**	**18,929**
At 31 December 2009	**16,944**	**4,192**	**21,136**

As at 31 December 2009 an amount of EUR 8.0 million relating to investment properties in Austria is included in land and buildings (2008: EUR 5.8 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 2009. 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 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 2009, the Bank has a 0.4335% (2008: 0.4215%) share of the value of all euro banknotes in circulation. During the year 2009 the total value of banknotes in circulation within the Eurosystem rose from EUR 762,921 million to EUR 806,522 million. In accordance with the allocation key, the Bank shows holdings of euro banknotes amounting to EUR 3,495.8 million at the end of the year (2008: EUR 3,215.1 million). The value of the euro banknotes actually issued by the Bank was EUR 991.3 million (2008: EUR 817.1 million). As this was less that the allocated amount, the difference of EUR 2,504.5 million (2007: EUR 2,398.0 million) is shown in asset sub-item 9.4 'Net claims related to the allocation of euro banknotes within the Eurosystem'.

	31 December 2009	31 December 2008
	000 EUR	000 EUR
EUR 5	-5,365	-1,146
EUR 10	92,037	46,698
EUR 20	1,856,397	1,299,113
EUR 50	-1,112,589	-851,782
EUR 100	-116,745	-45,411
EUR 200	-72,140	-38,934
EUR 500	349,689	408,605
Total euro banknotes actually put into circulation by the Bank	991,285	817,142
Redistribution of euro banknotes in circulation within the Eurosystem	2,808,438	2,677,603
Euro banknotes issued by the ECB (8%)	-303,931	-279,648
Total EUR banknotes according to the Bank's banknote allocation key	3,495,792	3,215,097

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 the credit institutions, which are used to meet the minimum reserve requirement and settle payments. The main criterion for including these deposits in this sub-item is that the respective counterparty appears in the list of institutions which are subject to the minimum reserve regulations in the Eurosystem. Minimum reserve requirements have to be respected on average over the reserve maintenance period in accordance with the schedule published by the ECB. Banks' minimum reserve balances have been remunerated on a daily basis at the prevailing interest rate for the Eurosystem's main refinancing operations.

Sub-item 2.2 'Deposit facility' contains overnight deposits placed with the Bank by Slovenian counterparties at a predetermined interest rate (standing facility).

	31 December 2008	31 December 2007
	000 EUR	000 EUR
Current accounts (covering the minimum reserve system)	415,132	402,710
Deposit facility	805,100	581,700
Total	1,220,232	984,410

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.

Sub-item 5.2 Other liabilities' includes among other also 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 and non-Eurosystem central banks. 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 2009 on the basis of the market rate of SDR 1 = EUR 1.0886 (31 December 2008: SDR 1 = EUR 1.1048) calculated by the ECB at the end of the year for all central banks participating in the Eurosystem. The increase of this liability in the amount of EUR 206.9 million in 2009 reflects the IMF's allocation of SDRs to the Eurosystem central banks (SDR 171.8 million of general allocation and SDR 18.7 million of special allocation). Interest on initial SDR allocation is reimbursed by the Republic of Slovenia.

10. Intra-Eurosystem liabilities

Sub-item 10.4 'Other liabilities within the Eurosystem (net)' includes net position of 'Other claims/liabilities within the Eurosystem (net). This item 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 distribution of ECB's income on euro banknotes in circulation (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 following that to which the interest relates. The creation of this liability reflects outflows of funds from domestic credit institutions to other euro area countries. These funds came from the gradual release of credit institutions' deposits with the Bank after Slovenia joined EMU on 1 January 2007.

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 2009. 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 2009	31 December 2008
	000 EUR	000 EUR
Provisions for employees and for known risks	80,119	15,684
Provisions for general risks	20,037	20,037
Provision in respect of monetary policy operations	18,381	26,286
Total	118,538	62,007

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 31.12.2006. The latter consider the stipulations of the Bank collective agreement, expected future salary increase and a rate of 4.7% 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 towards creditors of several Savings and Loan Undertakings and to the potential liabilities streaming from off-balance sheet positions. For the latter, the provision amounting to EUR 64.7 million has been created in 2009. The provision relates to the price risk of invested assets, received as collateral for securities lent via agent banks.

Provisions for general risks

Taking into account the Bank's exposure to interest rate risks, provisions for future unrealised interest rate losses have been created and approved by the Governing Board in year 2007 amounting to EUR 15.3 million and EUR 4.7 million in year 2008, for the price risks of off-balance sheet positions. In 2009, the Bank did not increase the provisions for general risks.

Provisions in respect of monetary policy operations

In accordance with Article 32.4 of the Statute, the provision against counterparty risks in monetary policy operations is allocated between the national central banks of participating Member States (NCBs) in proportion to their subscribed capital key shares in the ECB prevailing in the year when the defaults have occurred. In accordance with the general accounting principle of prudence, the Governing Council has reviewed the appropriateness of the volume of this provision and decided to reduce the provision from a total amount of EUR 5,736 million as at 31 December 2008 to an amount of EUR 4,011 million as at 31 December 2009. The Bank's share in this provision amounts to EUR 18.4 million (2008: EUR 26.3 million). The respective adjustments are reflected in the NCB's profit and loss accounts. In case of Bank of Slovenia the resulting income amounted to EUR 7.9 million in 2009 (see Profit and loss account item 5 'Net result of pooling of monetary income').

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, gains of EUR 120.3 million arose from the valuation of EUR denominated portfolio (2008: EUR 51.1 million), EUR 8.9 million from the valuation of USD denominated assets (2008: EUR 19.4 million), EUR 4.9 million from AUD denominated securities portfolio (2008: EUR 2.2 million)and EUR 2.5 million from the GBP denominated portfolio (2008: EUR 3.8 million).

In case of foreign currency positions, gains of EUR 1.9 million arose from the valuation of CHF position (2008: EUR 7.8 million from the valuation of USD position and EUR 2.0 million from the valuation of CHF position).

In case of gold the acquisition cost is 1 ozf = EUR 482.688, comparing with market price at the end of 2009, which was EUR 766.347 per fine ounce of gold (2008: EUR 621.542). Market value of gold position exceeded its acquisition price and resulted in a revaluation gain amounting to EUR 29.0 million (2008: EUR 14.2 million).

	31 December 2009	31 December 2008
	000 EUR	000 EUR
Price effect	136,487	76,604
- securities in foreign currencies (asset items 2 and 3)	16,209	25,501
- securities in euro (asset items 4 and 7)	120,278	51,103
Exchange rate effect	1,859	10,011
Gold value effect	29,032	14,215
Total	167,378	100,830

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. Special reserves are equal to the amount of unrealised income deriving from exchange rate and price changes until the end of 2006. 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 2009	31 December 2008
	000 EUR	000 EUR
Composition of reserves:		
Initial capital of the Bank of Slovenia	8,346	8,346
General reserve	284,018	313,733
Special reserve for foreign exchange differences	380,714	380,718
Special reserve – price risk (gold)	43,236	43,236
Revaluation reserve	8,039	5,785
Total reserves	724,352	751,818

Notes to the off-balance-sheet items

Foreign currency swaps

As at 31 December 2009, the forward foreign currency position arising from EUR/foreign currency swap transactions amounts to EUR 409.2 million (2008: EUR 546.0 million).

Forward liabilities to the ECB outstanding as as 31 December 2008 arose in connection with short-term USD liquidity-providing-programme (US dollar Term Auction Facility) in agreement by the Federal Reserve (see balance sheet asset item 'Claims on euro area residents denominated in foreign currency'). As at the end of 2009, the Bank has no such liabilities.

In addition, off-balance sheet items include forward liabilities to the ECB and forward claims against Slovenian counterparties outstanding as at 31 December 2009, which arose in connection with the provision of Swiss franc funding to Slovenian counterparties. Swiss francs were provided by the Swiss National Bank to the ECB by means of a swap arrangement. The ECB simultaneously entered into swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct Swiss franc liquidity-providing operations with the Eurosystem counterparties against euro cash in the form of swap transactions. The swap transactions between the ECB and the NCBs resulted in intra-Eurosystem balances reported under 'Other claims within the Eurosystem (net)'.

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 2009		31 December 2008	
	000 Foreign currency	000 EUR	000 Foreign currency	000 EUR
Forward liabilities in AUD	189,400	118,316	210,000	103,581
Forward liabilities in GBP	41,000	46,166	177,200	186,037
Forward liabilities in USD	352,500	244,690	356,800	256,377
Total	-	**409,172**	-	**545,995**
Forward liabilities to ECB in USD (TAF)	-	-	45,000	32,335
Forward liabilities to ECB in CHF	1,510	1,018	143,183	96,420
Forward claims against Eurosystem counterparties in CHF	1,510	1,018	143,183	96,420

Securities lending

As at 31 December 2009, securities with a market value of EUR 821 million (31 December 2008: EUR 1,007 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 2009:

- 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 489.3 million as at 31 December 2009 (31 December 2008: EUR 75.8 million);

- a contingent liability of EUR 164.4 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 2008: EUR 159.7 million);

- a contingent liability of EUR 16.4 million, which is the equivalent to the Bank's share of the ECB's capital, should the ECB doubles its capital under Article 28.1 ESCB Statute (31 December 2008: EUR 16.0 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 and net claim arising from the allocation of banknotes within the Eurosystem.

	31 December 2009	31 December 2008
	000 EUR	000 EUR
Interest income		
Gold	**212**	**161**
Current accounts and deposits	**5,500**	**42,339**
- In foreign currency	326	4,463
- In euro	5,174	37,875
Securities	**125,295**	**207,455**
- In foreign currency	22,470	45,624
- In euro	102,825	161,831
IMF	**333**	**436**
Monetary policy operations	**18,406**	**10,928**
- Main refinancing operation	1,499	1,688
- Longer-term refinancing operations	16,906	9,225
- Other refinancing operations	0	16
Intra Eurosystem claims	**19,169**	**48,033**
- Claims arising from the transfer of foreign reserves to the ECB	2,087	6,418
- Net claims related to the allocation of banknotes within the Eurosystem	17,082	41,615
Foreign currency swaps	**1,421**	**3,949**
Other interest income	**184**	**261**
Total	**170,519**	**313,561**

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 overnight deposits. Interest expense also includes interest paid on TARGET2 balances.

	31 December 2009	31 December 2008
	000 EUR	000 EUR
Interest expenditure		
Current accounts and deposits	**2,202**	**19,981**
- In foreign currency	130	1,993
- In euro	2,071	17,987
IMF	**178**	**-**
Monetary policy operations	**7,398**	**19,029**
- Minimum reserves	5,494	16,017
- Overnight deposits	1,793	2,663
- Fixed term deposits	110	348
Intra Eurosystem liabilities	**40,583**	**148,370**
- TARGET balances	40,583	148,370
Foreign currency swaps	**3,303**	**7,673**
Other interest expense	**16**	**146**
Total	**53,680**	**195,199**

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

The net income shown in sub-item 'Realised gains/losses arising from financial operations' arose from the sale of gold, 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 2009 below the average cost of the respective currencies or securities. The valuation losses in 2009 occurred mostly in EUR denominated securities (the same as in 2008).

Transfer to provisions for special risks amounting to EUR 64.7 million represents the amount of provisions, created for potential losses from off-balance sheet positions.

According to the Governing Board decision, additional provisions have been made for the certain legal claims pending, in the amount of EUR 0.2 million.

	31 December 2009	31 December 2008
	000 EUR	000 EUR
Realised gains/losses		
Gold	-	31
Currency position	1,560	-1,603
Securities	61,227	4,384
Total	62,787	2,812
Write-downs		
Currency position	-1,717	-4
Securities	-13,396	-119,050
Total	-15,113	-119,054
Transfer to/from provisions for foreign exchange risks, price risks and other operational risks		
Provisions for specific risks	-64,894	-2,482
Provisions for general risks	-	-4,737
Total	-64,894	-7,219
Total	-17,220	-123,461

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. Fees and commissions are paid for the domestic and foreign bank's payment services and to the commercial banks for their readiness to provide liquidity loans to other banks.

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 distribution of the ECB's income on euro banknotes amounting to EUR 3.7 million (2008: EUR 5.5 million) (see 'Banknotes in circulation' in the notes on accounting policies).

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[13]. 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.

---

[13] Decision of the European Central Bank of 6 December 2001 on the allocation of monetary income of the national central banks of participating member states from the financial year 2002 (ECB/2001/16), OJ L 337, 20.12.2001, p. 55-61, as amended by the Decision of the European Central bank of 18 December 2003 (ECB/2003/22), OJ L 9, 15.01.2004, p. 39 and by the Decision of the European Central Bank of 19 May 2006 (ECB/2006/7), OJ L 148, 02.06.2006, p. 56-60 and by Decision of the European Central Bank of 22 November 2007 (ECB/2007/15), OJ L 333, 19.12.2007, p. 86-88 and by Decision of the European Central Bank of 14 December 2009 (ECB/2009/27), OJ L 339, 22.12.2009, p. 55-57.

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 2009 the allocation of monetary income resulted in a net claim of EUR 6.9 million for the Bank (2008: EUR 8.3 million). This net claim represents the difference between the EUR 46.8 million (2008: EUR 117.8 million) of monetary income paid by the Bank into the common pool and the Bank's claim of EUR 53.7 million (2008: EUR 126.1 million) on the common pool, corresponding to the Bank's share in the ECB's paid-up capital.

This item also includes the net result of the provisioning against counterparty risks in monetary policy operations of the Eurosystem amounting to an income of EUR 7.9 million (2008: expense of EUR 26.3 million; see section on liability item L13 on provisions).

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 428 employees as at 31 December 2009 (31 December 2008: 424 employees). The number of limited positions increased due to substitution for maternity and sick leave, the number of permanent positions decreased from 411 to 410.

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 0.4 million (2008: EUR 0.4 million).

In 2009 the remuneration of the Governing board members of the Bank was of EUR 0.7 million (2008: EUR 0.9 million).

Other operating expenses

This item consists mainly of expenses relating to the building and equipment maintenance, renting expenses, business travel and training costs, communication and energy costs, IT related expenses (software maintenance, system assistance), expenses for services outsourced, expenses for small goods and 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.

Other expenses

Other expenses consist mainly of contributions of the Bank, taxes and other operating expenses.

8. Profit for the year

According to the Accounting Guideline, to which the unrealised valuation losses shall be covered from the current financial result, whilst the unrealised valuation gains are transferred directly to revaluation accounts, the Bank shows the profit amounted to EUR 103.6 million (2008: loss amounted to EUR 29.7 million). In accordance with the second paragraph of the Article 50 of the Law on the Bank of Slovenia, 25% share of the financial result (EUR 25.9 million) will be transferred to the Republic of Slovenia budget. The remaining amount will be allocated to the Bank's general reserves.

5 APPENDICES

5.1 Publications and website

Title and basic information	Content
Bilten **[Monthly Bulletin]** • Monthly • in Slovene and English	Macroeconomic statistics with an emphasis on monetary statistics, exchange rates and economic relations with the rest of the world. Economic and financial developments; methodological appendix; review of Slovenian banks, calendar of data releases.
Letno poročilo **[Annual Report]** • annual (released in spring) • in Slovene and English	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]** • annual • in Slovene and English	Statistical review of direct and portfolio investment vis-à-vis Slovenia, both inward and outward (on an annual basis).
Finančni računi Slovenije **[Financial Accounts of Slovenia]** • annual • in Slovene and English	Comprehensive review of unconsolidated and consolidated sectors of the financial account of the Republic of Slovenia in an internationally comparable manner.
Prikazi in analize **[Surveys and Analyses]** • quarterly • in Slovene	Analytical and methodological presentations in monetary, balance of payments and related areas.
Finančni trgi **[Financial Markets]** • quarterly • in Slovene	Statistical review of non-monetary financial intermediaries, the securities market and interest rates.
Poročilo o cenovni stabilnosti **[Price Stability Report]** • half-yearly • in Slovene and English	Monetary policy actions, outline of inflation trends and projections of key macroeconomic indicators for Slovenia for the next two years.
ARC Working Papers	Collection of articles on all topics of professional and operational relevance for central banking. Content of articles may be analytical or merely informative.
Poročilo o finančni stabilnosti **[Financial Stability Report]** • annual • in Slovene and English	Analytical monitoring of developments in the banking sector, and articles by experts on maintaining financial stability.
Website • index of Slovenian pages http://www.bsi.si/kazalo.html • index of English pages http://www.bsi.si/... /eng/index.html	Website of the Bank of Slovenia with information about the institution, Slovenian banknotes and coins, laws and regulations governing the work of the central bank, and other useful information. Current data on exchange rates, interest rates and Bank of Slovenia securities, and major publications available for download in electronic form.

5.2 Secondary legislation affecting banking supervision

January 2009	Regulation amending the regulation on the assessment of credit risk losses of banks and savings banks Instructions amending the instructions for implementing the regulation on the assessment of credit risk losses of banks and savings banks Member State banks' obligations to central banks and legal provisions applying to Member State banks in order to protect the general good
March 2009	Regulation on the holders of qualifying holdings of banks and savings banks Regulation amending the regulation on the books of account and annual reports of banks and savings banks Instructions for preparation of the balance sheet and income statement of banks and savings banks Instructions amending the instructions for calculating performance indicators of banks and savings banks
June 2009	Regulation on the minimum scope and content of the additional audit to verify compliance with risk management rules at banks and savings banks Regulation on the reporting of certain facts and circumstances relating to banks and savings banks Regulation amending the regulation on electronic money issuing companies Regulation amending the regulation on disclosures by banks and savings banks Instructions amending the instructions for implementing the regulation on the minimum requirements for ensuring an adequate liquidity position at banks and savings banks
August 2009	Regulation on the amounts of payments for supervision and fees for decisions regarding requests for the granting of authorisation
September 2009	Regulation amending the regulation on the diligence of members of the management and supervisory boards of banks and savings banks
October 2009	Instructions amending the instructions for implementing the regulation on the minimum requirements for ensuring an adequate liquidity position at banks and savings banks Regulation on the amounts of payments for supervision and fees for decisions regarding requests for the granting of authorisation Regulation on the amounts of annual fees for supervision and fees for decisions regarding requests for the granting of Bank of Slovenia authorisation pursuant to the Payment Services and Systems Act
December 2009	Regulation amending the regulation on credit protection Regulation on the conditions for acquiring an authorisation to issue mortgage bonds and municipal bonds Regulation on the harmonisation of the eligible collateral pool with issued mortgage bonds and municipal bonds Regulation on the conditions for the inclusion of derivatives in the eligible collateral pool Regulation on the conditions for acquiring authorisation to act as the custodian of a collateral register

5.3 Glossary of selected terms

Money market – The market on which participants lend money with a maturity of up to one year.

Eonia (Euro OverNight Index Average) – The effective overnight reference rate for overnight, unsecured interbank lending in euro. It is calculated daily as the weighted average interest rate on lending by banks from a pre-selected panel of banks. The panel includes major banks operating on the euro interbank market.

UCITS Directive – An EU directive that defines the permitted investment policy of investment funds. Article 22(4) lays down the exceptions to rules regarding the maximum exposure of a fund to a single issuer of securities for a special type of bonds. The definition of a **covered bond** is contained therein.

ESCB – The European System of Central Banks Comprises the European Central Bank and the national central banks 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 and in which a single monetary policy is conducted under the responsibility of the Governing Council of the ECB.

Eurosystem – Comprises the European Central Bank and the **national central banks** of the **euro area**.

Quick tender – The tender procedure used by the **Eurosystem** for fine-tuning operations when it is deemed desirable to have a rapid impact on the liquidity situation in the market. It is executed over a 90-minute timeframe, from announcement to the notification of counterparties regarding allocation of the tender amount.

ECB key interest rate – The interest rate used by the **Eurosystem** to signal the monetary policy stance. It is the same as the main refinancing operation's minimum bid rate.

Covered bond – A bond issued by a bank and secured by the property (i.e. mortgage loans) of the issuer. If the issuer is unable to repay a bond, the holder has a pre-emptive right to a payout from the sale of this property.

Liquidity deficit – The sum of the **deficit structural position of the money market** and the banking system's **minimum reserve requirement**.

Liquidity surplus – The difference between the **surplus structural position of the money market** and the banking system's **minimum reserve requirement**.

Deposit facility – A standing facility of the **Eurosystem** that counterparties may use of to make overnight deposits at a **national central bank** at an interest rate that is generally lower than the market interest rate (**Eonia**).

Marginal lending facility – A standing facility of the **Eurosystem** that counterparties may use to receive overnight credit from a **national central bank** at an interest rate that is usually higher than the market interest rate (**Eonia**).

National central bank – Any central bank in the euro area. In Slovenia it is the Bank of Slovenia.

Neutral allotment – The amount of an MRO allotment that enables banks to meet their **minimum reserve requirement** smoothly over the maintenance period.

Reserve requirement – The minimum prescribed amount of money that credit institutions (banks and savings banks) are obliged to maintain on account at a central bank over the average reserve maintenance period. The amount is calculated by multiplying the base (i.e. selected liabilities in credit institutions' balance sheets) by the reserve ratio. The reserve ratio in the euro area is 2% for liabilities with a contractual maturity of up to two years, and 0% for liabilities with a maturity of more than two years and for those arising from repo transactions. Liabilities to the **Eurosystem** and other institutions subject to the minimum reserve requirement of the Eurosystem are not included in the base. The reserve maintenance period typically starts on the Wednesday following the meeting of the Governing Council of the ECB, when the latter makes decisions regarding the **ECB's key interest rate**, and ends on the Tuesday prior to the next Wednesday meeting.

Standing facility – A central bank facility available at all times to counterparties at their own initiative. The **Eurosystem** offers two overnight standing facilities: the **marginal lending facility** and the **deposit facility**.

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

Reverse transaction – An operation whereby the **national central bank** simultaneously buys and sells (or vice-versa) financial assets under a repurchase agreement or conducts credit operations against collateral, with differing settlement dates. The opposite is an outright transaction comprising only one part (there is no reversing part), i.e. a national central bank buys or sells financial assets (typically securities) on the market.

Standard tender – A tender procedure used by the **Eurosystem** in its regular open market operations. It is executed over a 24-hour timeframe, from announcement to the notification of counterparties regarding allocation of the tender amount.

Structural position of the money market or the structural liquidity position – The difference between the autonomous items from the liability and asset sides of a central bank's balance sheet. When the liability side of autonomous items is greater (or less than) the asset side, the result is a deficit (surplus) structural position of the money market. The structural position of the euro area's money market is in deficit, while the structural position of the Slovenian money market was in surplus until the end of 2006. The autonomous items in a central bank's balance sheet are those items that did not arise as the result of monetary policy measures. The amount of base money, and thus the liquidity of banks, changes either autonomously, i.e. even when this is not the central bank's aim, or when the central bank uses monetary policy instruments. Examples of autonomous items from a central bank's balance sheet are banknotes, government deposits with the central bank, float, foreign exchange reserves and other assets of the central bank, as well as its capital and reserves. These are items that cannot be directly linked to the implementation of monetary policy. The structural liquidity position indicates to what extent (i.e. just right, too little to too much) banks are provided with liquidity, i.e. what is the supply of base money to banks autonomously, in the absence of central bank monetary policy measures. It also represents the structural position of the money market (typically understood as the interbank market), where payments are made in base money.