BANKA SLOVENIJE

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INTRODUCTION

In Slovenia, 2013 was primarily characterised by a gradual emergence from recession, and major structural reforms that will ensure the long-term sustainability of the system of public finances and strengthen the long-term potential of the economy. The pace of GDP growth in Slovenia was moderately positive throughout last year, with a particularly strong increase in the final quarter. In the second half of 2013, the employment and unemployment indicators also stabilised. By the end of the year, inflation had fallen to the low euro area average, despite the rise in VAT and certain other fiscal measures. At the beginning of last year, a major reform of the pension system entered into force, and labour market reform was also undertaken, while in the second half of the year a great deal of effort was invested in drawing up and carrying out measures to ensure the basis for the stable and effective functioning of the banking system.

In 2013, the export sector was the main engine of economic growth in Slovenia. Last year, the situation in the external environment improved gradually, particularly in the euro area, which emerged from recession towards the end of the year. The improved economic growth in the rest of the world rapidly translated into increased activity in Slovenia's export sector, which exceeded the euro area's average export growth last year. An improvement in cost competitiveness was also a factor in this. There was a record current account surplus.

In the second half of the year, solid growth in exports was joined by a gradual recovery in domestic consumption. Four years of depressed investment activity came to an end, while household consumption stabilised as the decline in the real wage bill slowed, largely as a result of export industry. At the same time, final government consumption contracted further. Another factor in the stabilisation of the domestic market was last year's change in the structure of fiscal consolidation, which nevertheless allowed for a further reduction in the structural fiscal deficit.

In 2013, ECB monetary policy remained expansionary. Due to falling inflation, the Governing Council of the ECB twice lowered its key interest rate in 2013, the rate reaching 0.25% in November. It also shaped market expectations by means of providing forward guidance on the monetary policy orientation, when it announced in July and then subsequently restated several times that its interest rates would remain at or below the current level for the longer term. In 2013, there were no additional non-standard loan operations. By contrast, euro area banks made early repayments of just under a half of the funds lent in the previous 3-year LTROs. By the end of the year, Slovenian banks had not repaid larger amounts of such funds.

In 2013, Slovenia conducted a comprehensive recapitalisation of its banks and a transfer of non-performing claims to the Bank Asset Management Company. To make an assessment of the banks' risk-based capital requirements, a comprehensive asset quality review and stress tests were conducted. December's recapitalisation of three government-owned banks and two smaller banks undergoing an orderly wind-down process raised the general government deficit by 10.3 GDP percentage points last year (to 14.7% of GDP overall). At the end of the year, the public debt stood at 71.7% of GDP.

Although the emergency restructuring of the banking system has placed a burden on the public finances, it is vital that this project is completed. In the short term, its huge importance has been reflected in the significant fall in the required yields on Slovenian long-term government bonds after the initial restructuring steps were taken. The restructuring of the banking system alone will not suffice to revive economic growth. A vital accompanying task will be action to carry out sustainable corporate deleveraging and bank restructuring, in which the Bank of Slovenia will actively participate, and which will also take place under the aegis of the Bank Asset Management Company.

The Bank of Slovenia will continue supporting Slovenia's economic stability by implementing Eurosystem monetary policy, by conducting supervision of the banks and by ensuring financial stability. With regard to the latter, the creation of a banking union in the EU will have a significant impact on the functioning and organisation of the Bank of Slovenia. This will result in the establishment of a new institutional framework that encompasses centralised banking supervision and the introduction of macro-prudential supervision of the financial system.

Ljubljana, April 2014

Boštjan Jazbec
Governor of the Bank of Slovenia

1 The economic environment and the banking system in 2013[1]

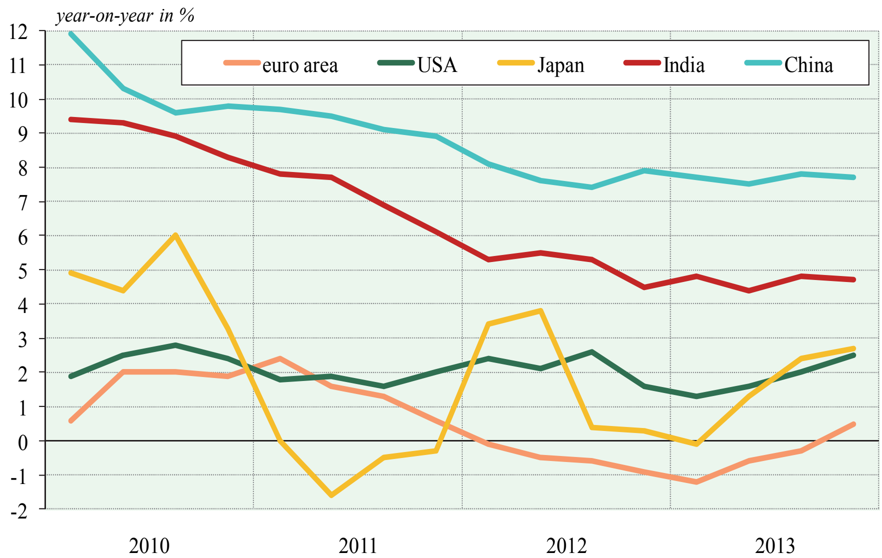
Economic environment

According to the IMF's initial estimates, global economic growth stood at 3.0% in 2013. This was down 0.1 percentage points on 2012. Growth was again highest in the emerging economies, although significantly lower than in the previous year. The volume of global trade grew by 2.7% in 2013, the same rate as in 2012, and below the long-term average. GDP in the euro area declined by 0.5% in 2013, although the situation improved significantly in the second half of the year: the economic sentiment indicator and the consumer confidence indicator rose, the situation in the periphery countries stabilised, at least temporarily, and economic activity increased. In the US, amidst falling unemployment economic growth stood at 1.9% in 2013, which was nevertheless slightly less than in 2012. In the major emerging economies, economic growth slowed to below its long-term average. According to the IMF's initial estimates, it stood at 7.7% in China in 2013, 4.4% in India, 2.3% in Brazil and just 1.5% in Russia.

The situation on the labour market remained adverse, particularly in the euro area. In 2013, the unemployment rate in the euro area remained at around 12%, which alongside fiscal consolidation acted as a drag on growth in private consumption. In the US, household consumption increased in line with the slight increase in consumer confidence and the improvement in the situation on the labour market. The unemployment rate in the US continued to fall in 2013, reaching 6.7% in December, the lowest figure in the last five years.

In 2013, global inflation was constrained most by the fall in the US dollar prices of oil and other commodities. In the euro area, inflation averaged just 1.4% over the year, down 1.1 percentage points on 2012. Alongside the developments in US dollar commodity prices, the main factors in the fall in inflation were the rise in the euro and the weakness of domestic demand. Core inflation in the euro area stood at 0.9% last year, a reflection of weak domestic inflationary pressures in connection with the adverse situation on the labour market. In the US, inflation also fell last year, by 0.6 percentage points to 1.5%. Prices in Japan rose in 2013. Year-on-year inflation stood at 1.6% in December, a rather high rate

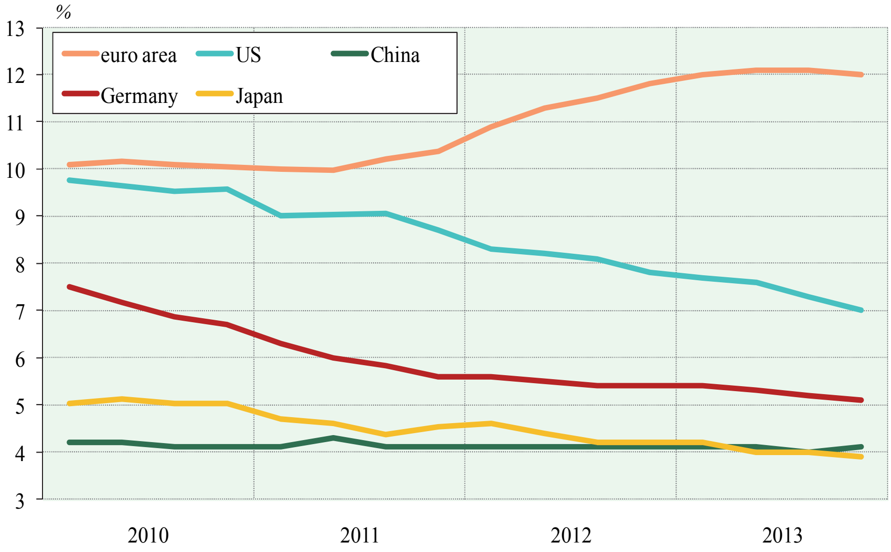
Figure 1: **GDP growth in selected major economies**



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

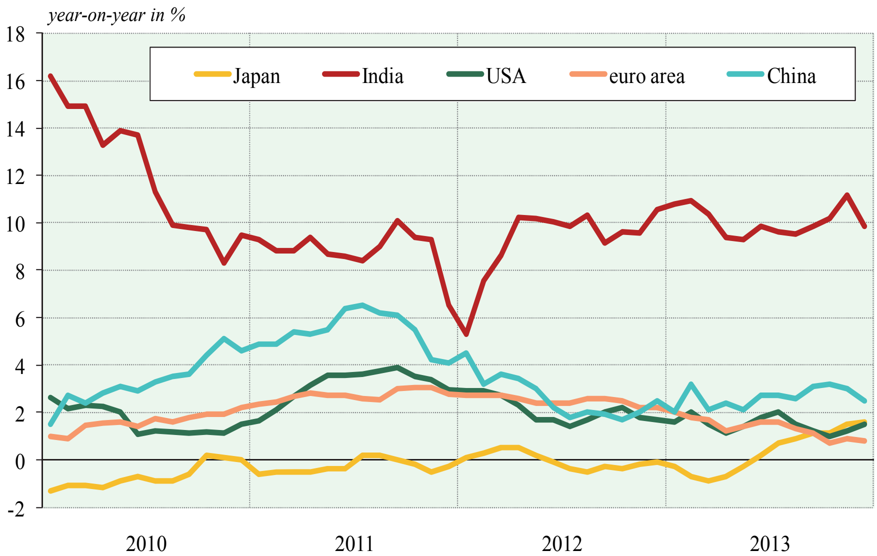
[1] A detailed illustration of macroeconomic developments and projections is given in the April 2013 Macroeconomic Developments and Projections (http://www.bsi.si/en/publications.asp?MapaId=786). Detailed analysis of the banking system is given in the May 2013 Financial Stability Review (http://www.bsi.si/en/publications.asp?MapaId=784).

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



Note: Harmonised and seasonally adjusted quarterly unemployment rate for euro area, US, Japan and Germany.
Sources: Eurostat, www.tradingeconomics.com for China.

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

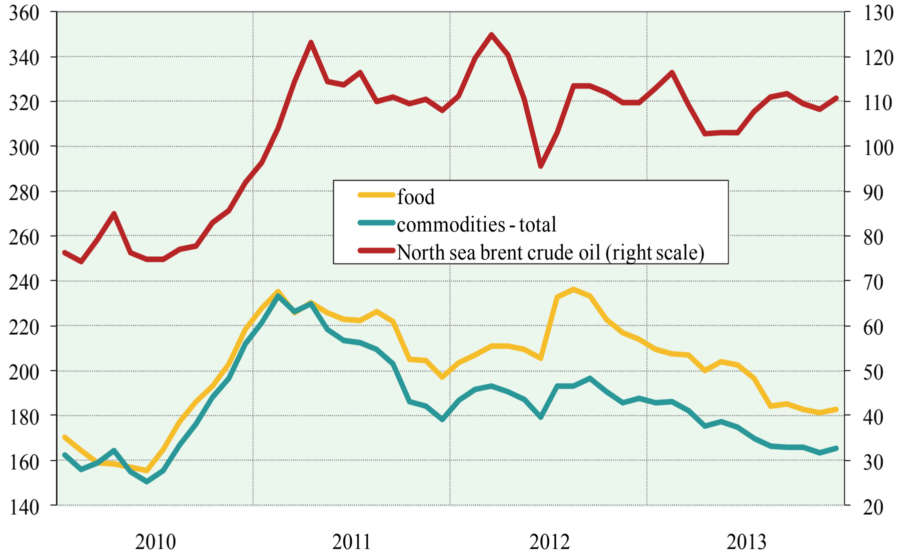


Source: ECB.

given the years of problems with deflation, and is the result of measures by the Japanese central bank. In 2013, inflation stood at 2.5% in China and 8.8% in India, both rates down on the previous year.

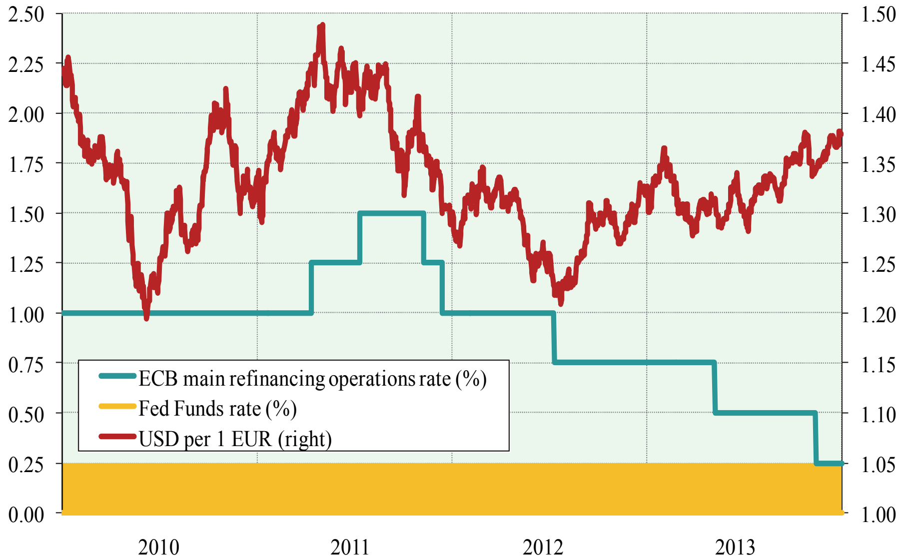
Commodity prices fell significantly last year. Upward pressure on oil prices was primarily the result of the political uncertainty surrounding the situation in the Middle East and North Africa, while downward pressure on prices was mostly the result of the relatively low global economic growth, and an increase in reserves and production. In recent years, production has been increasing sharply in the US, where it was up just over 15% in 2013 according to the International Energy Agency. In light of the economic recovery and the announcement by the Fed that in the event of decent economic figures it would begin tapering its asset purchase programme, liquidity on the markets began to migrate from commodities to other investments. Last year, the price of a barrel of Brent crude averaged USD 108.8, down 2.8% on 2012. US dollar prices of primary commodities fell by 8.6% in 2013, most notably food prices,

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



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

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

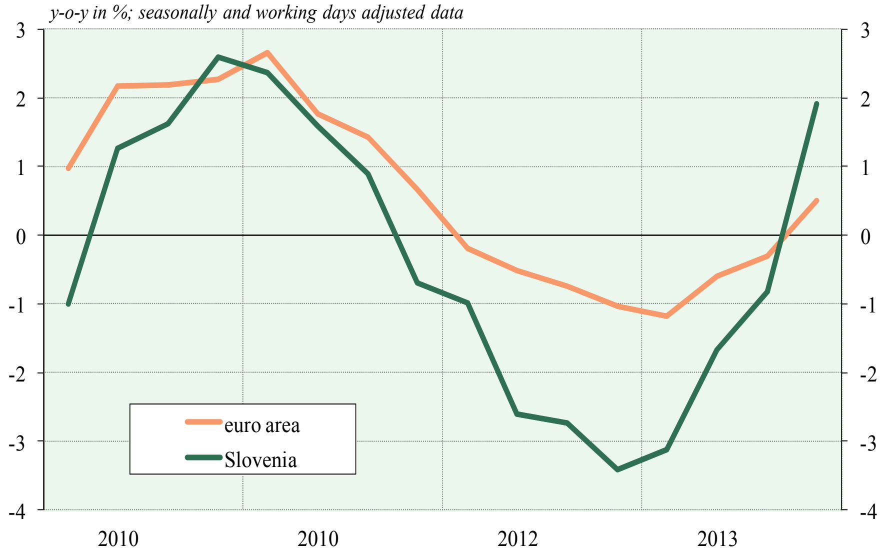


Sources: ECB, Fed.

which were down 10%. The fall in food prices was the result of weaker global demand, while according to the UN Food and Agriculture Organisation stocks of oils, sugar and cereals increased sharply in 2013.

In 2013, monetary policy in the major developed economies remained expansionary. The ECB cut its key interest rate twice last year, first to 0.5% in May, primarily as a result of the continuing decline in GDP in the first quarter, and then to 0.25% in November, primarily as a result of the sharp fall in inflation in the context of the still relatively weak economic growth. The Japanese central bank was most active with non-standard measures last year: in addition to raising its inflation target to 2% it expanded its use of non-standard measures, most notably the purchase of long-term government bonds and, to a lesser extent, other securities. Given the solid economic growth and the fall in unemployment, at the end of 2013 the Fed began tapering its asset purchase programme. Monetary policy in the US nevertheless remains expansionary, the key interest rate remaining in the interval between zero and 0.25%. The Bank

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



Source: Eurostat.

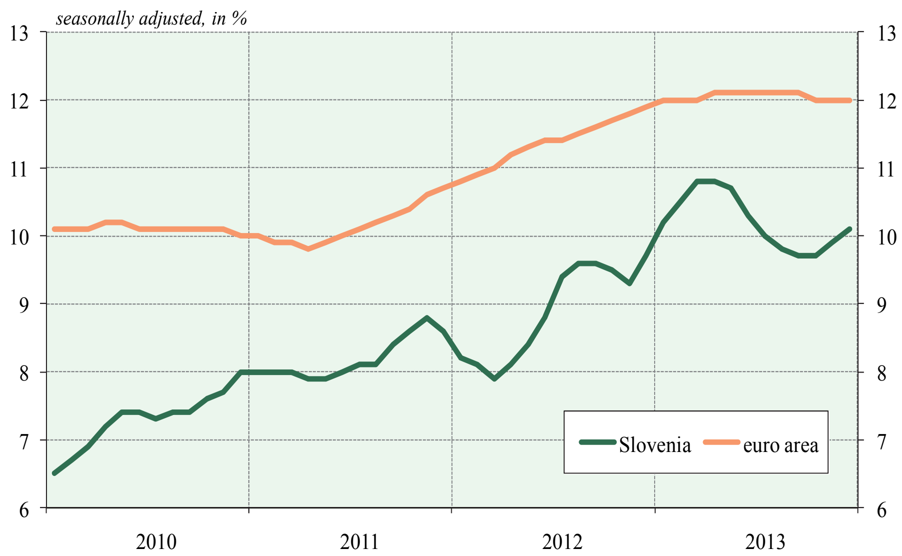
of England's key interest rate has remained unchanged at 0.5% since March 2009, while the volume of non-standard measures, primarily purchases of government bonds, remained unchanged compared with 2012.

Last year, the euro rose significantly against the US dollar. Alongside the more favourable macroeconomic figures in the second half of the year, other factors in this rise were the reduced uncertainty surrounding the euro area periphery countries and a decline in excess liquidity. The euro averaged USD 1.3281 in 2013, up 3.4% on 2012. The euro also rose by 4.7% against the pound sterling, and by fully 26.5% against the Japanese yen. The Japanese yen fell sharply due to measures taken by the Japanese central bank.

According to the revised SORS figures,[2] there was a significant reversal in economic activity in Slovenia in 2013. Quarterly GDP growth increased to stand at 1.2% at the end of the year. The decline in economic activity of just over 1% over the year was solely the result of the low level of activity at the end of 2012. On the output side, there was a significant increase in activity in industry in the second half of the year, which was seen in the vast majority of segments. It entailed a rapid response by firms to the recovery in foreign demand. In the second half of the year, value-added also began to increase in private sector services. This, given the weaker exports of services, could only be the result of the stabilisation of private consumption and the statistical effect of measures to curb the grey economy, which resulted in less concealment of activity. After several years of decline, the construction sector also recovered rapidly in the second half of last year, partly as a result of increased investment in public infrastructure. Overall last year, the contraction in aggregate domestic consumption slowed sharply, primarily as a result of changes in inventories. At the same time, there was an increase in gross fixed capital formation, most notably investment in machinery and equipment as a result of increased investment in the energy sector. There was a significant increase in public construction investment at the end of the year. In the final quarter of last year, the decline in private consumption stopped, in line with developments in the

[2] For the first three quarters of 2013, the quarterly GDP growth figures were revised upwards by a cumulative total of 1.1 percentage points. In the breakdown of domestic demand, year-on-year growth in all key domestic consumption aggregates was revised upwards, the largest revisions being made to the third quarter figures. Compared with the national accounts figures released on 29 November 2013, the year-on-year decline in domestic consumption in the third quarter was 1 percentage point less, primarily as a result of estimated smaller decline in gross fixed capital formation (revised from -4.4% to -1.1%). At the same time, the contribution made to GDP growth by net trade was revised from 1.9 percentage points to 1.1 percentage points, primarily as a result of lower estimated real growth in exports of services. For the third quarter, the estimated year-on-year change in value-added was revised from -1.3% to -0.5%. The year-on-year rates of growth were revised upwards in all sectors other than agriculture, forestry and fishing. At the same time, there was a sharp downward revision in the estimated year-on-year change in net taxes on products, from +3.5% to -0.7%. An explanation of the impact of these revisions on the macroeconomic projections is given on page 17 of the April 2014 Macroeconomic Developments and Projections (http://www.bsi.si/en/publications.asp?MapaId=786).

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



Source: Eurostat.

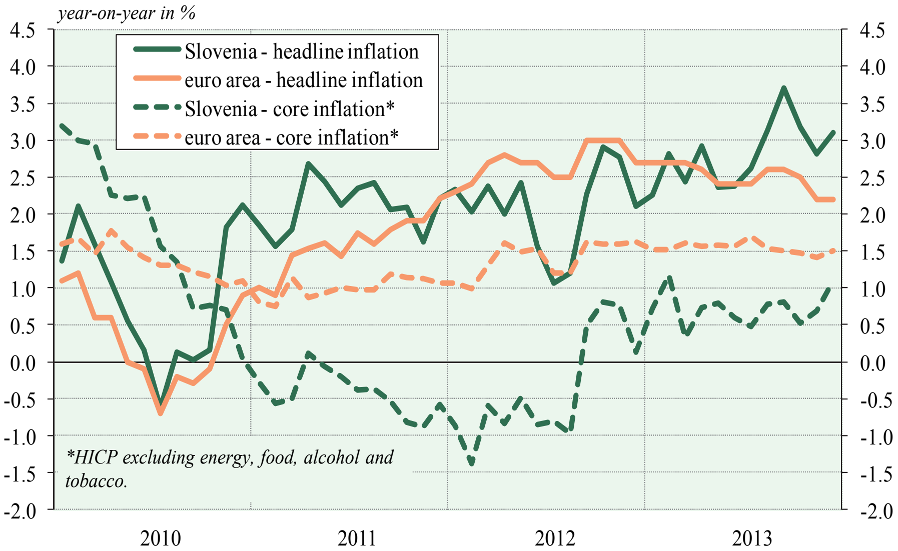
real wage bill. Only the contraction in final government consumption accelerated, as the implementation of fiscal consolidation measures continued. Further evidence of the reversal in domestic demand in the second half of last year came from the increase in imports, as a result of which the contribution made to GDP growth by net trade declined significantly last year.

By the end of 2013, the fall in employment slowed sharply. The largest slowdown was in the construction sector, where the fall of more than 11% in the first quarter had slowed to less than 3% by the end of the year. Primarily as a result of an increase in foreign demand and thus in exports, the fall in the workforce in employment slowed in the manufacturing sector. The year-on-year fall stood at just 1.5% at the end of the year, compared with more than 3% at the beginning of 2013. In the final quarter, the fall in the workforce in employment in private sector services almost came to a halt, primarily as a result of the stabilisation of domestic consumption. The fall in employment in public services also slowed towards the end of the year. There was again a sharp fall in the workforce in employment in public administration, while the number of employees in the health and education sectors began to rise in the second half of the year. Despite more stable situation on the labour market, there are no signs that demand for labour will increase sharply in the future.

In 2013, the trend of rising unemployment stopped. At the end of the year, the registered unemployment rate stood at 13.5%, slightly less than at the beginning of 2013, while the number of unemployed was slightly more than 124,000. The surveyed unemployment rate had also fallen by the end of the year, to 9.6%, less than the euro area average. There was also an improvement in the breakdown of inflows into and outflows from unemployment. Due to the decline in the number of people newly registering as unemployed, the proportion of long-term unemployed increased to almost 48% during the year. Indicators of demand for skilled workers in manufacturing reveal structural imbalances on the labour market. Wage developments were in line with economic activity, as wages fell in the first half of the year but began to rise moderately in the second half of the year. The rise in wages was the result of an increase in wages in the private sector, as wages in the public sector continued to fall in line with fiscal consolidation measures.

As measured by the harmonised index of consumer prices, average inflation in Slovenia stood at 1.9% in 2013, down 0.9 percentage points on 2012. There was a partial change in the structure of inflation. Growth in prices of industrial goods was notably down on 2012. The fall in energy prices was primarily the result of lower import prices of oil and lower prices of natural gas, while weak domestic demand continued to reduce prices of non-energy industrial goods. By contrast, the contribution made by service prices increased sharply as a result of the continuing fiscal consolidation measures and a rise

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



Source: Eurostat.

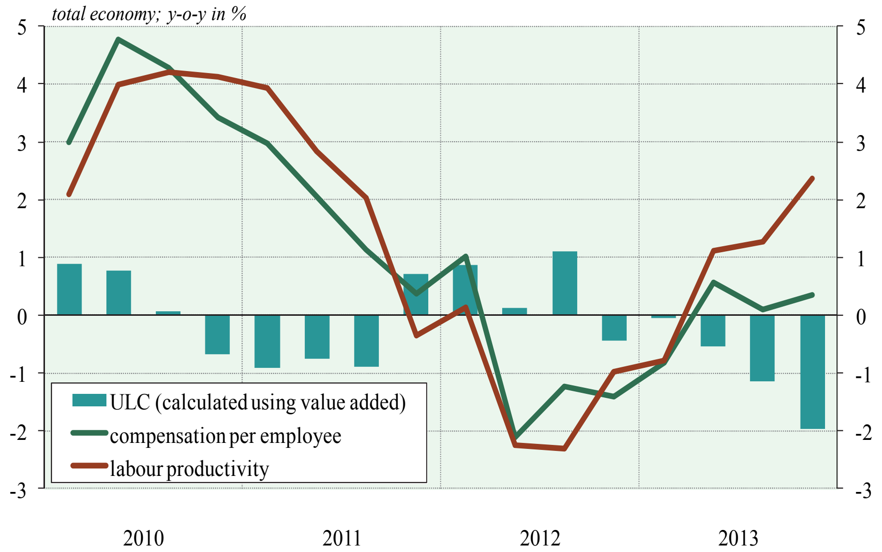
in prices of public services. Last year, the largest contribution to inflation came from growth in prices of food, primarily as a result of higher prices of unprocessed food. Average annual inflation in Slovenia was slightly above the euro area average of 1.4%.

In 2013, the core inflation indicators rose again, primarily as a result of consolidation and administrative measures. As measured by the HICP excluding energy, food, alcohol and tobacco, core inflation rose by 0.2 percentage points in 2013 to 0.9%. The two other indicators of core inflation (excluding energy and excluding energy and unprocessed food) were up 0.1 percentage points. Pressures on core inflation are primarily coming from fiscal consolidation measures: the basic indicator was 0.7 percentage points higher than it would have been at constant tax rates. The largest factor was July's VAT rise. If these measures are excluded, core inflation remains low, in line with the adverse situation on the labour market and the resulting decline in real household disposable income. In 2013, the narrowest core inflation indicator remained below the euro area average, while the other two indicators were above the euro area average.

In 2013, Slovenia's price competitiveness on markets outside the euro area deteriorated, primarily as a result of the sharp appreciation of the euro. Measured against 21 countries outside the euro area, the harmonised price competitiveness indicator[3] increased (deteriorated) by almost 3%, 2.6 percentage points of which was accounted for by exchange rate developments, while domestic inflation was also slightly higher. Relative to 21 major trading partners, the increase (deterioration) in the price competitiveness indicator was larger in the majority of other euro area countries, but the gap was primarily the result of the higher weighting of the US dollar, Japanese yen and Chinese yuan in the currency breakdown of their merchandise trade. Growth in this indicator averaged 3.6% across the euro area, the appreciation of the euro contributing almost 4 percentage points, while the negative contribution made by the slightly lower inflation was negligible. Against euro area countries, Slovenia's price competitiveness deteriorated by 0.4% last year overall. The deterioration ended in the second half of the year as inflation fell to a level comparable with the euro area average, as a result of a sharp decline in growth in prices of processed food, and a fall in prices of non-energy industrial goods.

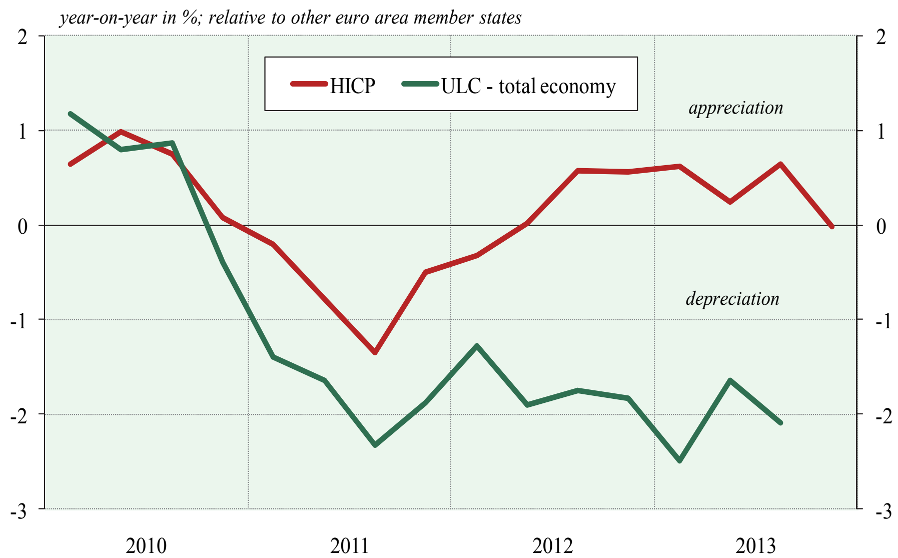
[3] The harmonised price competitiveness indicator for Slovenia adjusted by the HICP/CPI deflator is a weighted average of changes in the exchange rate and prices measured in relation to the major trading partners outside the euro area. Each component of the indicator reflects the changes in the exchange rate and prices in Slovenia in relation to an individual trading partner. The weight of each trading partner corresponds to the proportion of trade between Slovenia and the group of selected countries accounted for by the country in question. The indicator, which measures Slovenia's price competitiveness compared with other euro area countries, is a reflection solely of the weighted average of movements in prices. *Source:* ECB.

Figure 9: **Labour productivity, unit labour costs and compensation per employee in the Slovenian economy**



Source: Eurostat, Bank of Slovenia calculations.

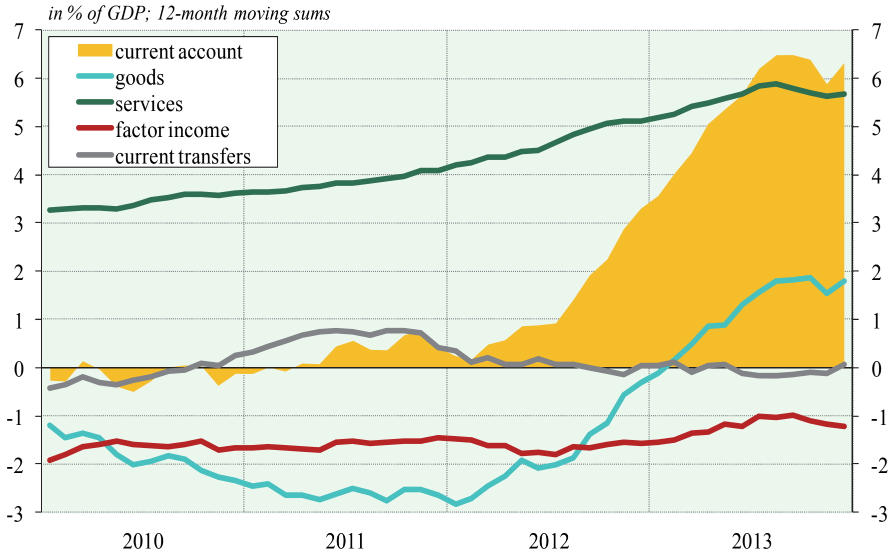
Figure 10: **Harmonised competitiveness indicator, deflated by HICP and ULC**



Source: ECB.

In 2013, developments in unit labour costs in Slovenia were significantly more favourable than in the euro area overall. Nominal unit labour costs (ULCs) declined by almost 1%. The decline was primarily the result of a significant decline in the number of employees, which was larger than the decline in GDP, which increased labour productivity. Productivity growth was particularly pronounced at the end of the year, when economic activity strengthened. In the first three quarters of the year, labour productivity in the euro area increased by 0.2% in year-on-year terms, but higher growth in compensation of employees meant that ULCs increased by 1.4% over the same period. Last year, cost developments in Slovenia were more favourable than in the euro area overall in the vast majority of the private sector activities. The main exception was the financial sector, where ULCs increased sharply as a result of a sharp decline in value-added. Of the other euro area countries, only Cyprus, Slovakia, Spain and Greece recorded a decline in ULCs. Slovenia's cost competitiveness also increased against 21 trading partners outside the euro area. The relevant harmonised competitiveness indicator declined by 0.6% over the first three quarters. Costs contributed 2.8 percentage points to the depreciation, while the rise in the euro re-

Figure 11: **Components of the current account**



Source: Bank of Slovenia.

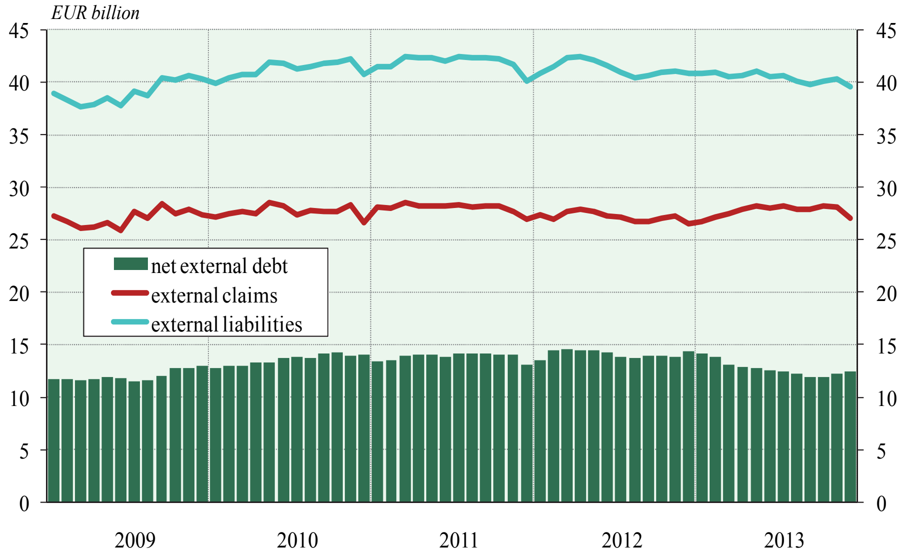
duced the change by 2.2 percentage points. Over the same period, the comparable indicator for the euro area rose by 2.5%.[4]

In 2013, the current account surplus widened further. It amounted to EUR 2.2 billion, or 6.3% of GDP. The increase relative to 2012, when it amounted to 3.3% of GDP, was primarily the result of changes in the merchandise trade position. The merchandise trade deficit of 0.3% of GDP in 2012 became a surplus of EUR 630 million or 1.8% of GDP in 2013. With the gradual recovery in foreign demand, nominal growth in merchandise exports exceeded 2%. At the same time, the decline in merchandise imports slowed to 1.2% overall. This was the result of growth in imports at the end of the year as a result of a reversal in domestic consumption and growth in industrial production. The surplus of trade in services increased from 5.1% of GDP to 5.7% of GDP, primarily as a result of a decline in the deficit in trade in services other than transport and travel. Growth in nominal exports of services slowed to 5%, as a result of the very low growth in exports of travel services. Due to high growth in imports of transport and construction services, overall imports of services increased by 1.6%. The deficit in net factor income narrowed by just over a quarter to EUR 435 million or 1.2% of GDP. This was the result of a slight increase in the surplus in labour income in connection with the rise in the number of residents working in the rest of the world, and above all a decline in the deficit in capital income. The latter was the result of a smaller deficit in net FDI, and a decline in net interest payments on loans in connection with the ongoing deleveraging of banks. In 2013, the sole sharp increase was again recorded by payments of income on government bonds issued in the rest of the world for financing the budget deficit and for bank recapitalisation. The surplus in current transfers saw no significant change last year. It stood at EUR 21 million, but solely as a result of December's net disbursement of European funds in the amount of EUR 170 million.

The private sector[5] increased its investments in the rest of the world by EUR 2.4 billion, EUR 1.6 billion more than in 2012. There was an increase in investments in all financial instruments other than loans. As in 2012, the largest increases were recorded by claims from currency and deposits and capital transfers. Last year, investments in foreign securities increased by EUR 281 million, driven primarily by purchases of foreign bonds by insurance corporations and pension funds. Last year, the banks again re-

[4] The harmonised cost competitiveness indicator for Slovenia adjusted by the ULC deflator is a weighted average of changes in the exchange rate and labour costs measured in relation to the major trading partners outside the euro area. Each component of the indicator reflects the changes in the exchange rate and labour costs in Slovenia in relation to an individual trading partner. The weight of each trading partner corresponds to the proportion of trade between Slovenia and the group of selected countries accounted for by the country in question. The indicator, which measures Slovenia's cost competitiveness compared with other euro area countries, is a reflection solely of the weighted average of movements in labour costs. *Source:* ECB.
[5] The private sector is defined as the total economy excluding the Bank of Slovenia and the general government sector.

Figure 12: **Slovenia's external debt**



Source: Bank of Slovenia.

duced their investments in foreign securities and loans to non-residents. The increase in merchandise exports was reflected in trade credits granted to the rest of the world, which after declining in 2012 increased by EUR 57 million last year.

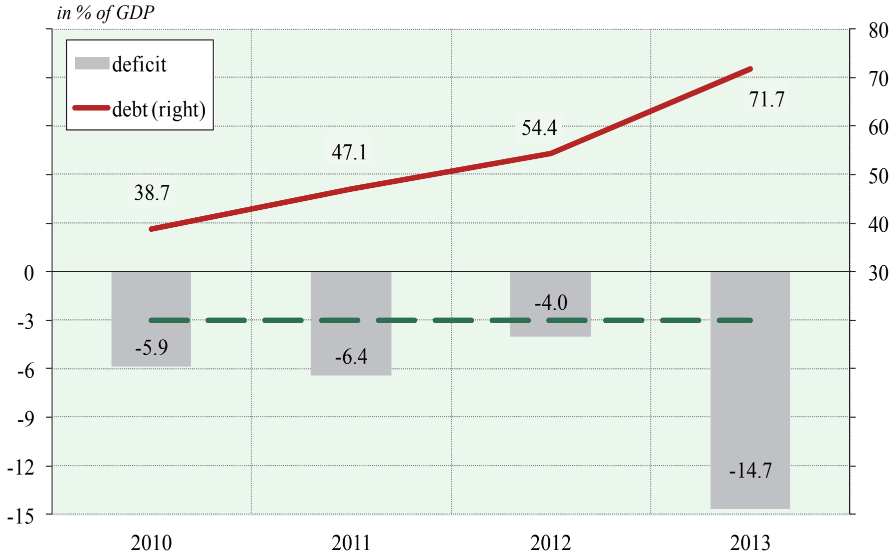
The private sector's liabilities to the rest of the world declined by EUR 1.5 billion last year, primarily as a result of the continuing decline in the banking system's debt to the rest of the world and a decline in FDI. The decline of almost EUR 500 million in the latter was primarily the result of a decline in liabilities to affiliates. Last year, the banks again made debt repayments in the rest of the world, totalling around EUR 1 billion. At the same time, corporates obtained significant financing in the rest of the world, and increased the stock of foreign loans by more than EUR 1 billion.[6] In 2013, the stock of non-residents' investments in private sector securities declined by EUR 150 million. Overall last year, liabilities from trade credits declined by EUR 142 million as a result of the decline in imports at the beginning of 2013. At the same time, foreign deposits at domestic banks declined again, by EUR 850 million. The majority of this decline was primarily the result of the withdrawal of deposits by foreign banks and foreign households.

At the end of 2013, the net external debt amounted to EUR 12.5 billion, down EUR 1.8 billion on the end of 2012. Net debt repayments were recorded by all sectors other than the government, which last year increased its net external debt by EUR 4 billion. The largest contributions to the decline in the net debt to the rest of the world came from the Bank of Slovenia and the banking sector. The latter again made debt repayments in the rest of the world, in the amount of more than EUR 2.5 billion.

In 2013, the general government deficit was significantly wider than in the previous year, primarily as a result of the measures to stabilise the banking system and certain other one-off factors. The general government deficit stood at 14.7% of GDP, 10.7 percentage points more than in 2012. The measures to stabilise the banking system accounted for 10.3% of GDP of the deficit, compared with 0.2% of GDP in 2012. Other one-off factors include the compensation paid to people deleted from the register of permanent residents in the amount of 0.4% of GDP, and the net effect of the Supreme Court judgement in relation to compensation for eliminating wage disparities in the amount of 0.3% of GDP. Despite measures to raise revenues, general government revenues increased by just 0.6% in the context of adverse developments in the tax base, particularly the tax base related to the situation on the labour market. The main measures on the revenue side were a rise in VAT, a higher tax burden on energy products and the introduction of a tax on financial transactions. The overall effect of these measures is esti-

[6] A large part of the increase was related to the disbursement of foreign funds for the construction of energy facility.

Figure 13: **General government deficit and debt according to ESA95 methodology**



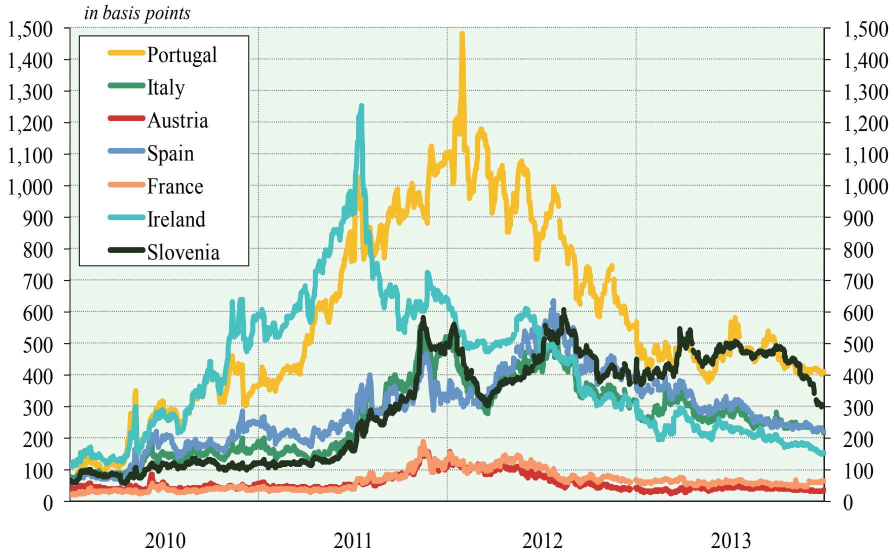
Source: SORS.

mated at around 1% of GDP. In 2013, indirect taxes thus increased by 4.8%, while personal income tax was down 7.7% and social security contributions were down 1.9%. General government expenditure was up 22.6%, and was concentrated in the item of capital transfers on account of the bank recapitalisations. Excluding the bank recapitalisations and the two aforementioned one-off factors, other expenditure increased by 0.3%. Expenditure on interest increased by just over a fifth to 2.6% of GDP. Due to wage agreements, compensation of employees declined by 3.7%, while intermediate consumption also declined. After several years of decline, government investment increased by almost 13%. In 2013, the general government deficit was significantly wider than expected in the Stability Programme update of May 2013 (7.9% of GDP), primarily as a result of larger bank recapitalisations. According to the European Commission's estimates of February 2014, the structural deficit in 2013 stood at 2.2% of GDP, 0.4 percentage points less than in the previous year.

The financial assistance to the domestic banks brought a sharp increase in the general government debt. At the end of 2013, the general government debt amounted to EUR 25,307 million or 71.7% of GDP, up EUR 6,103 million on a year earlier. The main factor in the increase in debt was the measures to stabilise the banking system. These had an impact via bank recapitalisations, which widened the deficit by EUR 3.6 billion, and via the issue of Bank Asset Management Company (BAMC) bonds in the amount of EUR 1 billion. Additional factors in the increased debt were the deficit not related to banks, and the assistance to euro area countries in financial distress. The major borrowing was undertaken in April, May, November and December. In April, an 18-month treasury bill with a nominal value of EUR 1.1 billion was issued, which mostly replaced the maturing 18-month treasury bill issued in 2011. In May, two bonds were issued on the markets in the US and the UK: a 10-year bond with a nominal value of USD 2.5 billion and a 5-year bond with a nominal value of USD 1 billion. November's borrowing amounted to EUR 1.5 billion, the bond maturing in three years. In December certain existing bond issues were expanded by around EUR 0.9 billion, which was the government's non-cash contribution to the recapitalisation of the banks and the recapitalisation of the BAMC. In addition, non-performing claims were transferred to the BAMC in December by means of the issue of 2- and 3-year BAMC bonds with a total nominal value of EUR 1 billion.

The increase in government guarantees was the result of measures to stabilise the banking system and support for the TEŠ6 project (Block 6 of Šoštanj power station). In 2013, government guarantees increased by EUR 1.8 billion to reach EUR 8.3 billion or 23.4% of GDP at the end of the year. Of the aforementioned amount, EUR 2.8 billion relates to guarantees issued to DARS d.d. At the end of the

Figure 14: **Spreads of long-term government bonds over the benchmark German bonds**



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

year, the stock of Slovenian government guarantees tied to assistance to euro area countries in financial distress via the EFSF amounted to EUR 1.5 billion, guarantees having been given to Greece, Ireland and Portugal. The increase in the stock of government guarantees was primarily the result of the issue of BAMC bonds with a government guarantee as part of the bank resolution measures (EUR 1 billion) and the guarantee for the loan for the TEŠ6 project (EUR 0.4 billion). Guarantees constitute contingent liabilities for the government, which it must meet if the guarantee is called. In 2013, a total of EUR 59 million of guarantees were called, more than in previous years.

The required yield on long-term Slovenian government bonds and the spread on long-term Slovenian government bonds over the benchmark German bonds remained relatively high last year. The fall towards the end of the year was primarily the result of the measures taken to stabilise the banking system. In the early part of the year, the required yield and the spread were relatively stable, before temporarily rising sharply in March as a result of the uncertainty surrounding the Cypriot debt crisis. May's amendments to the constitution in connection with the insertion of the fiscal golden rule and the tightening of referendum legislation did not have an impact on the required yield or the spread. The required yield and the spread rose slightly in June after figures showing the continuing contraction in economic activity in Slovenia were released, and then remained relatively stable until the end of the autumn, albeit at a higher level than in the early part of the year. The reason was the uncertainty on the financial markets before the release of the results of the stress tests and asset quality review of Slovenian banks. By the final quarter, the required yield and the spread had begun to decline, partly as a result of the easing tension on the financial markets following the release of the stress tests results and after the first measures to stabilise the Slovenian banking system were taken. At the end of the year, the required yield was slightly less than 5%, while the spread over the benchmark long-term German government bond was nearly 300 basis points.

Slovenia had its deadline for eliminating the excessive general government deficit extended to 2015. The National Assembly approved the insertion of a fiscal golden rule on a balanced budget in the constitution. In June 2013, the European Council extended Slovenia's deadline for reducing the general government deficit to below 3% of GDP to 2015. The extension was approved on the basis of the finding that Slovenia took effective action to reduce the deficit in line with European Council recommendations, but there were unexpected economic developments with major adverse fiscal consequences.

The structural position is expected to be balanced by 2017 according to the plans in the Stability Programme. In the future, further fiscal consolidation and structural reforms remain a commitment for Slovenia, partly in light of the size of the government debt and the estimated high costs in connection with the ageing of the population. Measures for the recovery of the banking system will continue to have an impact on fiscal developments in 2014. In May 2013, the National Assembly amended Article 148 of the Constitution of the Republic of Slovenia to insert a fiscal golden rule, which stipulates that general government revenues and expenditure must be balanced or in surplus over the medium term. Details of the implementation of the fiscal golden rule will be set out in a special law, which the National Assembly will have to pass with a two-thirds majority.

Banking system[7]

Banks dominate the banking sector. As at 31 December 2013 there were 17 banks operating in Slovenia (seven of which were direct subsidiaries of Eurosystem banks), three savings banks, and three branches of foreign (Eurosystem) banks. The banks dominate the banking sector, with a market share of 96.0% in terms of total assets. The total number of credit institutions was unchanged from the previous year, although a decision to carry out a controlled wind-down at two smaller banks was taken in early September 2013. The Bank of Slovenia received notifications from 16 new credit institutions last year, while four credit institutions revoked their notifications, taking the total number of credit institutions that had provided notification of cross-border activities in Slovenia to 318 by the end of the year.

There was a significant change in the ownership structure of the banking system in 2013, the government recapitalising five banks on the basis of a decision on state aid. In addition to the seven subsidiary banks and three branches that were under full foreign ownership as at 31 December 2013, there were seven banks under full domestic ownership, and three banks under majority domestic ownership, only one of which had more than 10% foreign equity. The proportion of capital held by non-residents as measured by equity stood at 31.3%, while the proportion under direct government ownership was 58.7%, and the proportion held by other domestic owners was 10.0%. There was a significant change in the ownership structure of the banking system in 2013, the government recapitalising five banks on the basis of a decision on state aid by covering the losses with shares of existing owners, thereby becoming the sole owner. As a result, the proportion of equity in the banking system held by the government increased by 35.9 percentage points, while the proportion held by non-residents declined by 10.7 percentage points and the proportion held by other domestic owners declined by 25.3 percentage points. The proportion of the banking system held by non-residents as measured by total assets as at 31 December 2013 was 1.1 percentage points higher than the figure as measured by equity, while the proportion held by other domestic owners (excluding the government sector) was 2.8 percentage points higher.

After the comprehensive review of the banking system the banks created additional impairments and provisions, and transferred certain claims to the Bank Asset Management Company (BAMC), as a result of which the banking system's total assets declined by EUR 5.7 billion to EUR 40.4 billion. The banking system's total assets[8] at the end of the year stood at EUR 40.4 billion, down 12.3% on the end of the previous year. This was primarily the result of the comprehensive review of the banking system[9] and the measures taken on its basis, including the transfer of some of the banks' claims to the Bank Asset Management Company when state aid was received, the additional creation of impairments and provisions, and the contraction in the balance sheets of the banks undergoing the orderly wind-down process. The banking system's total assets declined for the fourth consecutive year (since the end of 2009), taking the cumulative decline to EUR 11.6 billion, the largest decline of EUR 5.7 billion coming

[7] Unaudited figures available on 31 March 2014 were used in this section.
[8] Includes banks, savings banks and branches.
[9] The Bank of Slovenia conducted an independent asset quality review and stress tests for a representative portion of the banking system in 2013 on the basis of recommendations by the European Council. The following actions were taken on the basis of the findings: burden sharing by shareholders and subordinated creditors, the immediate recapitalisation of five banks, and the transfer of non-performing claims to the BAMC. Detailed information on the comprehensive review of the banking system can be found on the Bank of Slovenia website (http://www.bsi.si/).

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

	31 Dec. 2010	31 Dec. 2011	31 Dec. 2012	31 Dec. 2013
Non-residents (more than 50% management rights)	27.9%	30.1%	33.3%	30.7%
Non-residents (less than 50% management rights)	9.2%	9.1%	8.7%	0.4%
Central government	20.1%	22.7%	22.8%	58.2%
Other domestic persons	42.8%	38.1%	35.2%	10.6%

Source: Bank of Slovenia.

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

	31 Dec. 2010	31 Dec. 2011	31 Dec. 2012	31 Dec. 2013
Non-residents (more than 50% management rights)	27.8%	28.2%	30.0%	31.8%
Non-residents (less than 50% management rights)	10.5%	9.9%	8.9%	0.5%
Central government	21.7%	24.2%	22.9%	54.7%
Other domestic persons	40.1%	37.7%	38.3%	12.9%

Source: Bank of Slovenia.

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

in mio EUR	2010	2011	2012	2013
Average total assets of banks and savings banksc	51,827	50,439	48,465	44,644
GDP at current prices	35,485	36,150	35,319	35,275
Average total assets (as % of GDP)	146.1	139.5	137.2	126.6

Source: Bank of Slovenia.

last year. The contraction in total assets meant that the ratio of the total assets of banks and savings banks to GDP declined by 10.6 percentage points last year to end the year at 126.6%.

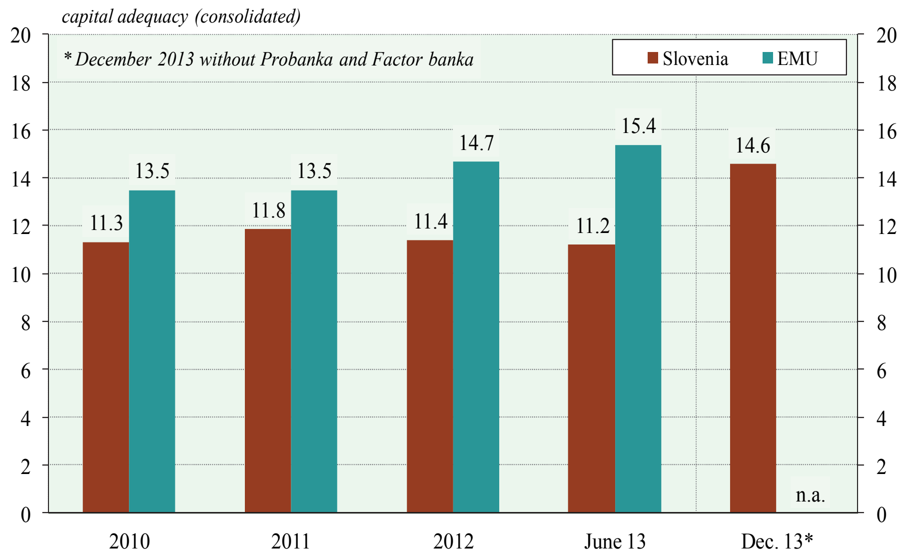
The measures taken by the Slovenian government and the Bank of Slovenia to stabilise the banking system in December 2013 had a relatively strong impact on the major balance sheet categories. The following measures were taken: a) the recapitalisation of NLB d.d., NKBM d.d., Abanka Vipa d.d. and two smaller banks, Factor banka d.d. and Probanka d.d., which have been undergoing a controlled wind-down process since September; b) recapitalisation via government securities obtained by the aforementioned banks in their portfolios, with the exception of Abanka; c) the write-down of subordinated instruments (bail-in); and d) the transfer of certain non-performing claims at NLB d.d. and NKBM d.d. to the Bank Asset Management Company (BAMC). On the liability side, this resulted in an increase in equity, and a decline in government deposits and subordinated debt. On the asset side, there was an increase in investments in securities as a result of the bonds and treasury bills received in the banks' portfolios. At the same time on the asset side the stock of loans was reduced by those transferred to the BAMC, while securities increased as the two largest banks received BAMC securities in their portfolios.

Solvency risk has diminished after December's measures. Common own funds (Tier 1) accounted for 94.2% of total own funds, while the overall capital adequacy ratio on a solo basis was 14.3%. The own funds of banks and savings banks amounted to EUR 3.8 billion as at 31 December 2013. The expropriation of existing owners and the recapitalisation by the government brought major structural changes. The proportion of own funds accounted for by common own funds increased by 9.2 percentage points to 94.2%. As capital requirements declined, the overall capital adequacy ratio, which in previous years had been stable at just under 12%, increased to 14.3%, comparable with other European banking systems. A further increase in capital adequacy is expected in the first half of 2014, after the forbearance and recapitalisations envisaged for other banks. Higher capital adequacy in the banking system is also diminishing the arguments for reducing lending activity as a means of raising capital ratios.

The proportion of claims more than 90 days in arrears declined to 13.4%, while the coverage of these claims by impairments and provisions increased to 55.2%. The comprehensive review of the banking system had a significant impact on the composition of the credit portfolio. Classified claims[10] on the basis of the banking system's credit portfolio amounted to EUR 42.2 billion as at

[10] Financial assets measured at amortised cost, and certain high-risk off-balance-sheet claims.

Figure 15: **Capital adequacy at banks and comparison with the euro area**



Source: Bank of Slovenia.

31 December 2013, down EUR 6.4 billion on the end of the previous year, primarily as a result of the transfer of non-performing claims to the BAMC and a more active approach to the recovery and write-off of non-performing loans. The proportion of claims more than 90 days in arrears declined by 4.8 percentage points between November and December after the transfer to the BAMC, and stood at 13.4% at the end of 2013 including households. The coverage of these claims by impairments and provisions increased by 12.7 percentage points in 2013 to 55.2% as a result of the recording the effects of the asset quality review. The deterioration in the income position of households in 2013 was not reflected significantly in the quality of the banks' claims against this sector, which is one of the least risky parts of the banks' portfolios, non-performing claims accounting for 4.1% of total claims against the sector.

Income risk increased in 2013 as a result of a sharp increase in the proportion of non-performing claims in the banking system's portfolio and the contraction in loans. After the additional creation of impairments as a result of the comprehensive review of the banking system, the banks ended the year with a pre-tax loss of EUR 3.3 billion. The financial and economic crisis in Slovenia since the end of 2008 has also had an impact on the banking system's income statement. As a result of the contraction in lending and the fall in interest rates on both the asset and liability sides, net interest income declined for the third consecutive year, and amounted to EUR 0.7 billion in 2013. The faster decline in net interest income last year further reduced the banking system's net interest margin, which is among the lowest in the region. The interest margin calculated on interest-bearing assets stood at 1.68% in 2013. Net non-interest income, which deviated in 2012 because of extraordinary revenues, amounted to EUR 0.4 billion in 2013, down almost a half. Net fees and commission have remained around EUR 0.3 billion in recent years. Operating costs were stable in the amount of EUR 0.7 billion. As a result of a deterioration in payment discipline, downgradings of debtors, and the booking of the effects of the asset quality review, the banks created EUR 3.7 billion of impairments and provisions in 2013, which resulted in the banking system recording a pre-tax loss of EUR 3.3 billion.

Refinancing risk on the wholesale markets diminished after December's measures to ensure the stability of the banking system. Given the intensive decline in indebtedness on the international wholesale markets and the significant decline in the stock of these liabilities, the banks are not facing high refinancing risk in the short term. An increased need for bank refinancing appears in a time horizon of more than one year. EUR 2.6 billion of liabilities from LTROs at the ECB mature in the first quarter of 2015, which banks are intending to partly repay early during 2014.

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

	Amount (EUR million)				Growth rate (%)				Proportion of gross income (%)			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
Net interest	1,047.3	1,017.5	886.3	711.1	11.5	-2.8	-12.9	-19.8	70.2	70.3	56.6	65.7
Net non-interest income	443.7	429.3	679.4	371.4	-11.4	-3.3	58.3	-45.3	29.8	29.7	43.4	34.3
Gross income	1,491.0	1,446.8	1,565.7	1,082.5	3.5	-3.0	8.2	-30.9	100.0	100.0	100.0	100.0
Operating costs	778.7	776.6	742.7	719.8	0.2	-0.3	-4.4	-3.1	52.2	53.4	47.4	66.5
Labour costs	420.5	416.4	399.7	384.2	-0.4	-1.0	-4.0	-3.9	28.2	28.8	25.5	35.5
Net income	712.4	670.2	823.0	362.7	7.4	-5.9	22.8	-55.9	47.8	46.3	52.6	33.5
Net provisioning and inpairments	811.3	1,206.8	1,599.4	3,700.9	61.9	48.7	32.5	131.4	54.4	83.4	102.2	341.9
Pre-tax profit	-98.9	-536.5	-776.4	-3,338.2	-161.0	-442.4	-44.7	-330.0	-6.6	-37.1	-49.6	-308.4
Taxes	2.6	94.5	22.3	-147.7	-106.7	3,510.7	-76.4	-760.9	0.2	6.5	1.4	-13.6
Net profit	-96.3	-442.0	-754.0	-3,485.9	-178.3	-359.0	-70.6	-362.3	-6.5	-30.5	-48.2	-322.0

Source: Bank of Slovenia.

Table 5: **Bank performance indicators**

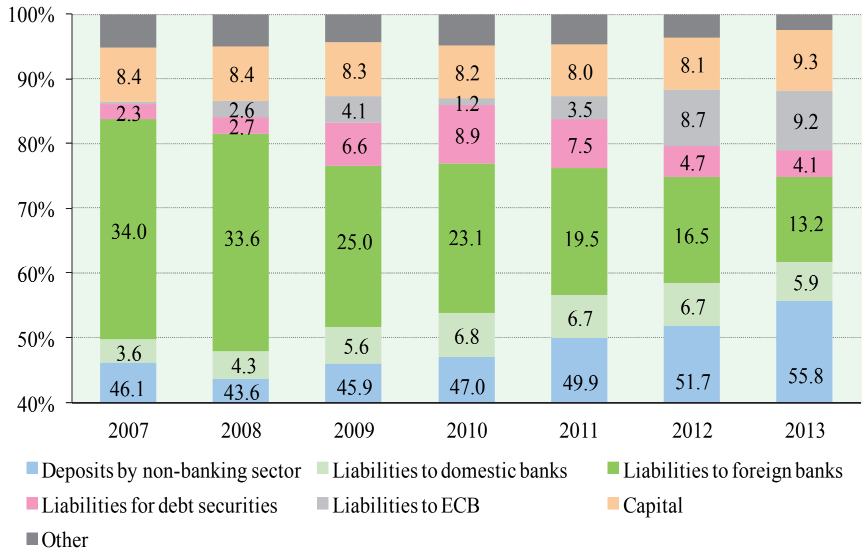
In %	2009	2010	2011	2012	2013
ROA	0.32	-0.19	-1.06	1.60	7.48
ROE	3.87	-2.30	-12.54	19.04	96.85
Interest margin on interest-bearing assets	1.98	2.14	2.13	1.93	1.68
Interest margin on total assets	1.88	2.02	2.02	1.83	1.59
Non-interest margin	1.00	0.86	0.85	1.40	0.83
Gross income on average assets	2.88	2.88	2.87	3.23	2.42

Source: Bank of Slovenia.

The sustained financial crisis was again reflected last year in a relatively sharp adjustment in funding structure, and consequently in an increase in interest rate risk. Deposits by the non-banking sector are the main source of funding, accounting for 55.8% of the total. The banks continued to reduce their dependence on wholesale funding in 2013: it accounted for 17.3% of total funding at the end of the year, down a half on the outbreak of the crisis. Deposits by the non-banking sector remain the most important source of funding, despite declining in 2013. Last year's decline in household deposits, which continue to account for the largest proportion of funding at 35.5%, was partly the result of developments in Cyprus and the lack of confidence in the stability of the domestic banking system, particularly large government-owned banks. Household deposits declined by 3.1% in 2013. The contraction in bank loans and deposits was partly compensated for by borrowing within the Eurosystem, which has remained stable at around 9% of funding over the last two years. Funding was primarily earmarked in 2013 for lending to the non-banking sector (60.4% of the total), and the purchase of securities for the purpose of secondary liquidity, most of which were classified under the available-for-sale accounting category (13.7% of the total). Bank loans and deposits also account for a proportion of investments (10.0% of the total).

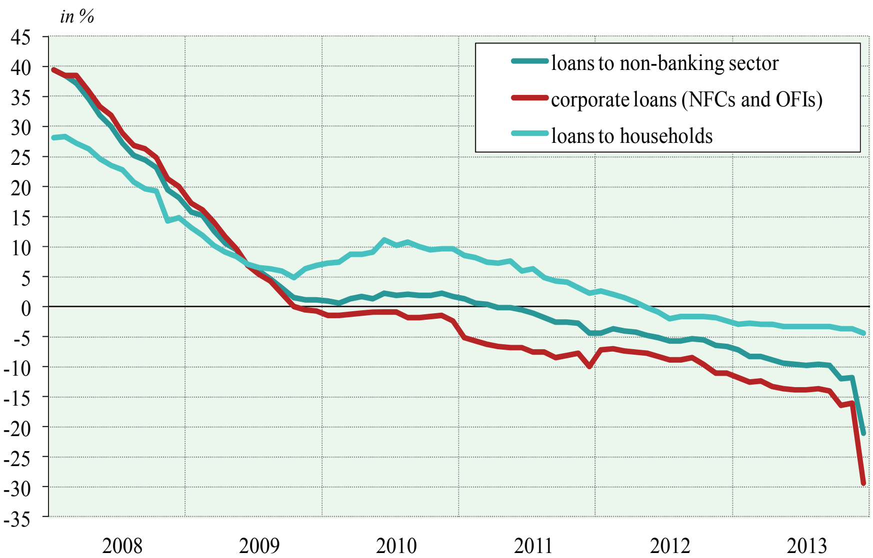
The liquidity of the Slovenian banking system remained at a relatively stable level in 2013, and had even improved by the end of the year after the recapitalisation and the transfer of non-performing claims to the BAMC. The issue of treasury bills and three government bonds brought an improvement in liquidity during the year. The positive impact of these measures was also reflected in an increase in secondary liquidity, a reduction in net debt to the Eurosystem, and an increase in the pool of eligible collateral at the Eurosystem and thus in the proportion of the still available share of pool, which was up 10 percentage points overall to stand at 44% at the end of the year. However, in the second half of the year certain small banks had liquidity difficulties owing to an unstable funding structure and inadequate business models in crisis conditions. In addition, Slovenian banks also strengthened their net creditor position on the market for unsecured euro area loans. The shallow domestic money market and the limited access to international financial markets nevertheless mean that the banks can occasionally face difficulties in effective liquidity management.

Figure 16: **Funding structure**



Source. Bank of Slovenia.

Figure 17: **Lending to the non-banking sector**



Source. Bank of Slovenia.

Year-on-year growth in loans to the non-banking sector declined in 2013 at the domestic banks and the banks under majority foreign ownership. The banking system's loans to the non-banking sector declined by 21% over the year, 6 percentage points of which was the result of the transfer of non-performing claims to the BAMC. Last year's contraction in loans was largest at the large domestic banks.

The contraction in loans was the result of supply and demand factors. In 2013 the banks faced limited access to wholesale funding and constraints on capital, which restricted the money available for financing the Slovenian economy. By contrast, loans to corporates and households also declined as a result of weak demand. Last year there was a decline in demand for loans owing to low investment in gross fixed capital formation by Slovenian corporates and the high indebtedness of the corporate sector. The main factors in the decline in demand for household loans were the decline in household disposable income and the decline in final consumption.

2 BANK OF SLOVENIA ACTIVITIES

2.1 Tasks in the scope of the ESCB

2.1.1 Institutional framework

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

With the introduction of the euro in Slovenia on 1 January 2007, the Bank of Slovenia became a part of the Eurosystem, which comprises the European Central Bank (ECB) and the national central banks (NCBs) of the euro area countries. Since the introduction of the euro in Slovenia, as a member of the Governing Council of the ECB, the Governor of the Bank of Slovenia has attended meetings of the aforementioned body, which normally take place twice a month. The Governing Council of the ECB comprises the six members of the Executive Board of the ECB and the governors of the NCBs of the euro area countries. The responsibilities of the Governing Council of the ECB include defining the monetary policy for the Eurosystem. The Governor of the Bank of Slovenia is also a member of the General Council of the ECB, its third decision-making body, which meets four times a year. The General Council comprises the President and the Vice-President of the ECB and the governors of the NCBs of all EU Member States.

In 2013 Bank of Slovenia representatives attended sessions of committees and their working groups in the wider composition of the European System of Central Banks (ESCB) and in the narrower composition of the Eurosystem. The wider composition comprises the ECB and the NCBs of all EU Member States, while the narrower composition comprises the ECB and the NCBs of the euro area. The committees support the work of ECB decision-making bodies, which can request expert and technical advice from the committees.

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

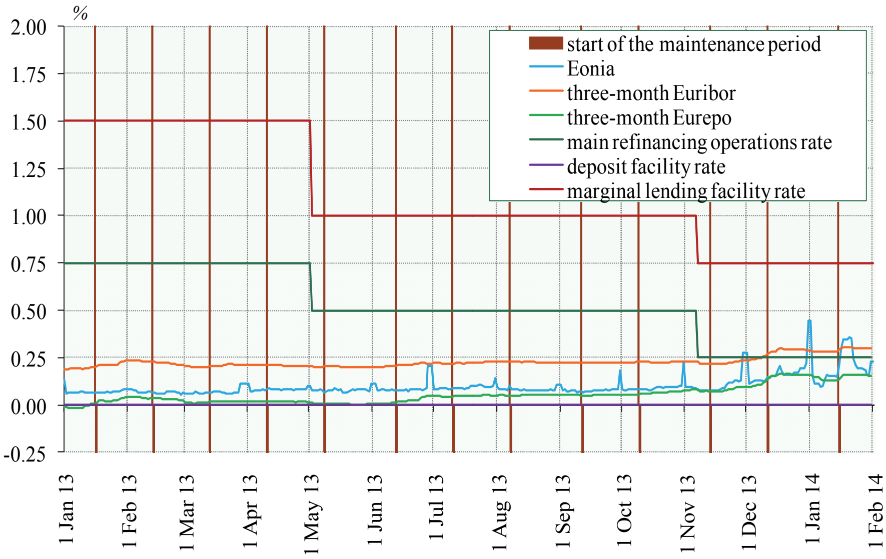
The Bank of Slovenia's key for subscription to the ECB's capital is 0.3455% as of 1 January 2014. Until 31 December 2013 it stood at 0.3270%. The increase was the result of the adjustment to the key for subscription to the ECB's capital undertaken on the basis of GDP and total population every five years.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

2.1.2 Implementation of the Eurosystem's monetary policy

The Eurosystem did not introduce additional non-standard open market operations in 2013. The year saw a slow but steady improvement in the economic confidence, market sentiment and liquidity situation, which was the result of confidence being gradually restored in the euro area periphery countries. In an environment where key interest rates at all major global central banks were at record lows, investors sought investments with higher returns, which resulted in a rise in numerous stock market indices around the world and a decline in the credit premiums on the government securities of euro area periphery countries.

The Governing Council of the ECB cut the interest rate twice in 2013 because of low and declining inflation and inflation forecasts. It cut the interest rate for main refinancing operations (i.e. the key

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



Sources: ECB, Bloomberg.

interest rate for the euro) from 0.75% to 0.50% in May, and by a further 25 basis points to 0.25% in November (see Figure 18). In both cases the corridor between the marginal facility rates was narrowed. After November's interest rate cut the corridor became asymmetrical, the interest rate on the deposit facility having remained unchanged at zero since July 2012, while the interest rate on the marginal lending facility was cut to 0.75%. The markets' expectations regarding future interest rates were further anchored by the Governing Council by means of providing forward guidance on the monetary policy orientation, by announcing at the beginning of July and then restating several times that interest rates would remain at or below the current level for some time.

Excess liquidity[11] gradually declined in 2013 as a result of early repayments of loans obtained on the basis of the 3-year LTROs. After the Eurosystem executed two 3-year LTROs in late 2011 and early 2012, in light of the high level of uncertainty surrounding the future economic situation and the risk faced by other market participants, and given the banks' reluctance to lend across national borders even in the short term (segmentation of the money market), the excess liquidity in the euro money market increased from a level between EUR 200 billion and EUR 300 billion to more than EUR 800 billion. One year later, as of early January 2013, the banks had the chance to make early repayments of liquidity borrowed via the 3-year LTROs, each week, in part or in full. The banks made gradual repayments of the borrowed liquidity during 2013, as the uncertainty on the markets decreased, as access to market funding improved, and as a result of the ongoing restructuring and deleveraging of banks and corporates. The liquidity declined to EUR 150 billion towards the end of the year. The decline in borrowing at the Eurosystem is a reflection of the decline in the banks' need for liquidity reserves.

Simultaneously, trading on the secured and unsecured segments of the interbank market increased. There was also a decline in the dispersion of interest rates across euro area countries. There nevertheless remained differences between countries in their utilisation of open market operations. The Eurosystem intermediation, which in previous years had mostly replaced the money market, was therefore not fully eliminated: the banking systems of individual euro area countries were primarily debtors or primarily creditors of the Eurosystem in 2013.

In the context of money market segmentation, the decline in excess liquidity towards the end of the year increased the volatility of the money market interest rates at shortest maturities, particularly the EONIA. Even at the end of January, the first possible date for the early repayment of the first 3-year LTRO, the unexpectedly sharp decline in excess liquidity slightly increased the volatility of inter-

[11] Excess liquidity is defined as the liquidity that the banks hold in excess of their needs deriving from autonomous factors and the prescribed minimum reserves.

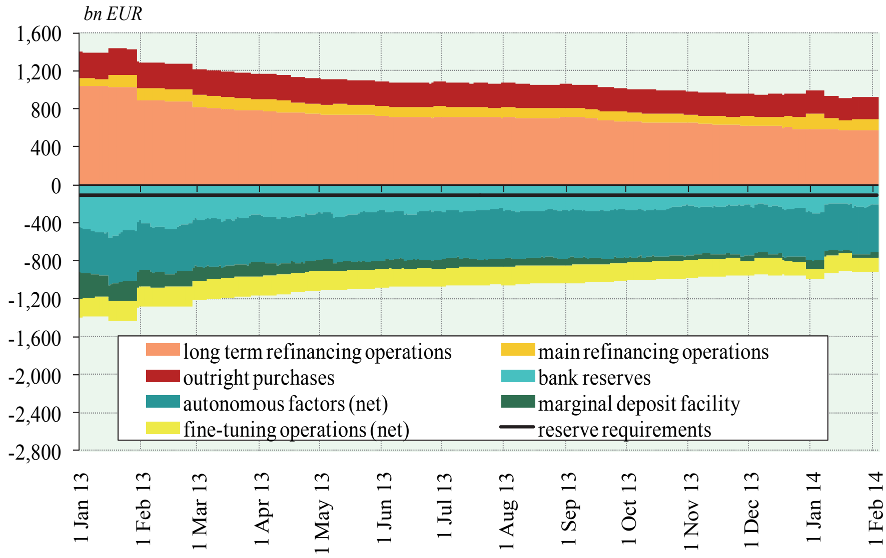
est rates and raised the expected interest rate, which was reflected in a steeping of the money market yield curve and a rise in forward interest rates. Another factor was market expectations, which given the euro area's gradual emergence from recession in general no longer encompassed further cuts in the ECB's key interest rate. There were also external factors, most notably June's announcement by the Federal Reserve System that in the event of decent economic figures it would begin tapering its asset purchase programme. The Governing Council of the ECB thus cut its key interest rate, as well as publicly announced and subsequently restated several times the forward guidance on the monetary policy orientation. It also expressed its willingness to take additional non-standard measures. The Eurosystem additionally limited any further deterioration in the banks' funding conditions, particularly at the time of the maturity of the 3-year LTROs, by extending the policy of fixed rate full allotment procedure[12] until July 2015. These measures assured that the volatility in interest rates on the shortest maturities was not transmitted to longer maturities, which remained in line with the general monetary policy stance in 2013.

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

The Eurosystem has executed all open market lending operations via fixed rate full allotment procedure since October 2008. The Governing Council of the ECB has extended this policy multiple times, in 2013 firstly in May to the middle of 2014, and then again in November to the middle of 2015. In fixed rate full allotment procedure, the banks themselves determine the level and maturity of allotted liquidity, which are adjusted to the desired liquidity and available collateral. The improvement in the situation on the financial markets and the improved access to funding brought a reduction in the banks' participation in open market operations in 2013 despite the full allotment procedure.

The Eurosystem injected liquidity in 2013 via main refinancing operations (MROs) and longer-term refinancing operations (LTROs) with maturities of three months. The two types of operation form part of the standard set of instruments of Eurosystem monetary policy. There was also a continuation of LTROs with a maturity of one reserve maintenance period, which the Eurosystem introduced alongside the fixed rate full allotment policy to ease the bank's liquidity management and their maintenance of the reserve requirements in an environment of limited functioning of the money market. It removed liquidity from circulation by means of fine tuning operations (FTOs), which in 2013 were executed in the form of a fixed-term deposit. The purpose was to sterilise the liquidity effects of securities

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



Source: ECB.

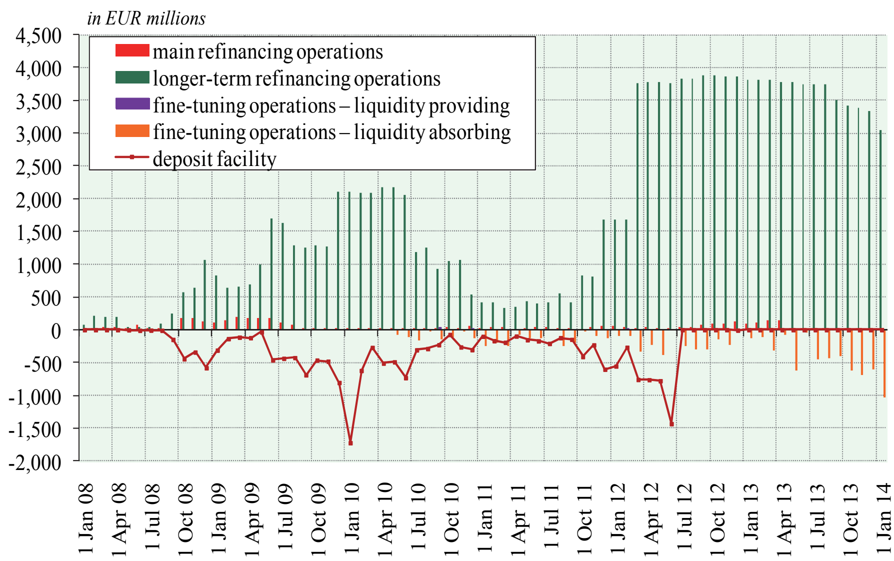
[12] Fixed rate full allotment tender procedure allows the counterparties to receive as much liquidity as they wish, insofar as they are able to secure it with eligible collateral.

purchases in the Securities Markets Programme (SMP). In addition, in January 2013 the banks began making early repayments of the 3-year LTROs, via which they could reduce their Eurosystem borrowing on a weekly basis. The number of banks that were eligible to participate in open market operations fell in 2013 to stand at 1,740 at the end of the year (compared with 2,298 a year earlier), while the number of financial institutions in the euro area fell from 7,059 at the end of 2012 to 6,790 at the end of 2013.

Main refinancing operations (MROs) are regular loans with a typical maturity of 1 week. They are the main instrument via which the Eurosystem signals its monetary policy stance. They are tendered weekly according to a calendar announced in advance. The Eurosystem executed 53 tenders in 2013, all with full allotment at a predetermined fixed interest rate equal to the ECB's key interest rate. Given the still significant level of excess liquidity that resulted from the 3-year LTROs, the importance of MROs from the point of view of liquidity remained relatively limited. The average allotted amount of MROs stood at EUR 108 billion in 2013 (compared with EUR 98 billion in 2012), with an average of 76 banks participating in the tenders (compared with 95 in 2012). The amount allotted in MROs ranged from EUR 77.7 billion (9 January) to EUR 168.7 billion (30 December), while the number of participating banks ranged from 62 (22 May) to 181 (30 December). Slovenian banks and savings banks borrowed up to EUR 197 million (17 April) on a weekly basis via MROs, the borrowed amount averaging EUR 49 million (compared with EUR 58 million in 2012). The participation of Slovenian banks and savings banks diminished in the second half of the year, when bids were submitted to only 16 of the 27 MROs.

LTROs are tendered to banks on a monthly basis with a maturity of three months to provide additional longer-term refinancing. Under full allotment the loans are allotted at a fixed interest rate calculated as the average of the ECB's key interest rate over the duration of the operation (the indexed rate). An average of 46 banks participated in these tenders, and were allotted an average of EUR 7.2 billion (a low of EUR 1.9 billion on 31 October and a high of EUR 20.9 billion on 19 December). In addition, the Eurosystem also executed monthly tenders of LTROs with a maturity equal to the reserve maintenance period, with full allotment at an interest rate equal to the ECB's key interest rate, for the fifth consecutive year in 2013. An average of 21 banks participated in these tenders, and were allotted an average of EUR 5.3 billion. The most important source of liquidity in 2013 was again the 3-year LTROs approved at the end of 2011 and in early 2012, the outstanding amount of which declined by EUR 446 billion to EUR 544.4 billion as the banks gradually made early repayments (see Box 1, p 29). The outstanding amount of LTROs at Slovenian banks and savings banks declined by EUR 520 million in 2013, from EUR 3,857 million to EUR 3,337 million.

Figure 20: **Stock of Eurosystem monetary policy instruments, 2008 to 2013; Slovenian banks and savings banks (stock at month end)**



Sources: ECB, Bloomberg.

Box 1: **Early repayments of 3-year LTROs**

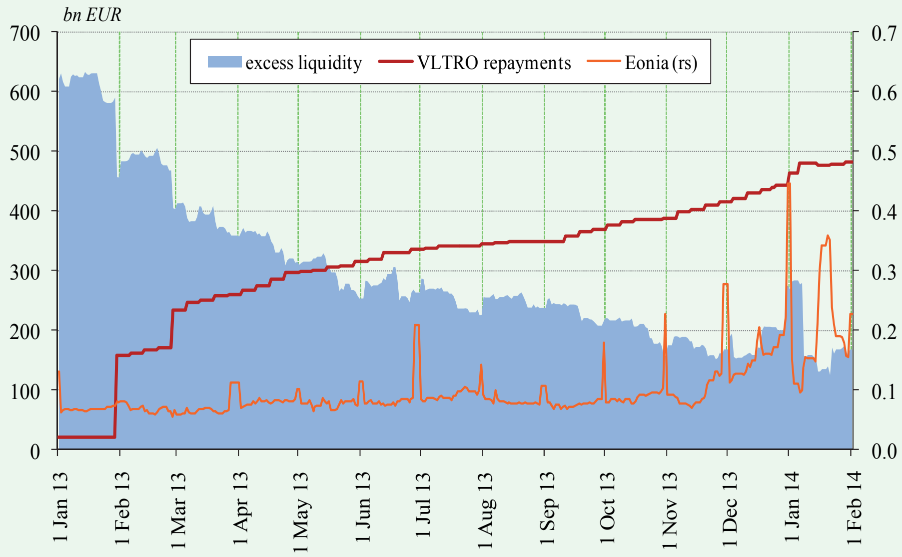
The Eurosystem executed two 3-year LTROs in late 2011 (maturing on 29 January 2015) and early 2012 (maturing on 26 February 2015), the purpose of which was to limit the contraction in lending of the banking sector and to improve the transmission of monetary policy to the real sector. The banks participated in the two 3-year LTROs in record numbers and in record amounts. There was a net increase of EUR 524 billion in liquidity (taking into account the transfer of borrowing from 1-year to 3-year LTROs). After one year, the banks had the opportunity to make early repayments of the borrowed liquidity on a weekly basis, in part or in full, until the maturity of the LTROs. EUR 137 billion or 28% of the funds from the first 3-year LTRO were repaid in the first allowed early repayment in January 2013, while EUR 61 billion or 12% of the funds from the second 3-year LTRO were repaid in the first allowed early repayment in February 2013. The volume of early repayments then diminished, and averaged EUR 4 billion to EUR 5 billion per week. By the end of the year the banks had repaid a total of EUR 446 billion or 44% of the EUR 1,018.7 billion borrowed in the two 3 -year LTROs.

The banks began repaying the 3-year LTROs primarily because of the improvement in the situation on the financial markets which enabled them to access other long-term funding. In addition to (1) the improvement in access to and terms of funding, other factors contributing to early repayments are (2) the decline in bank indebtedness and the contraction of wholesale funding, (3) the desire to be less dependent on borrowing at the central bank, which was particularly pronounced towards the end of the year under the influence of the adjustments in the banks' balance sheets before the announced asset quality reviews in 2014, and (4) the bank recapitalisations, which reduced the banks' need to maintain high liquidity reserves and reduced their precautionary reasons for borrowing. Because the euro money market was still segmented in 2013, there were also reasons of a specific nature for the early repayment, which related to particular banks and to the banking system in particular countries. The very favourable price of the 3-year LTROs and the desire to maintain precautionary liquidity reserves were the reasons that the early repayments by banking systems in certain countries remained limited.

The early repayments of the 3-year LTROs were a key factor in the decline in excess liquidity in the euro area in 2013. There were other minor factors, such as the increase in liquidity absorption by autonomous factors, most notably the rise in the quantity of banknotes in circulation.

The trend of early repayment of the 3-year LTROs will continue in 2014, although the pace and volume are difficult to forecast. The process will most likely be dependent on external factors (functioning of the interbank market, changes to regulations) and internal factors (changes in bank deposits, access to more favourable funding, the banks' policy with regard to dependence on the Eurosystem). Early repayments will be made until the 3-year LTROs mature in January and February 2015.

Figure 1: **Early VLTRO repayments, excess liquidity and Eonia**



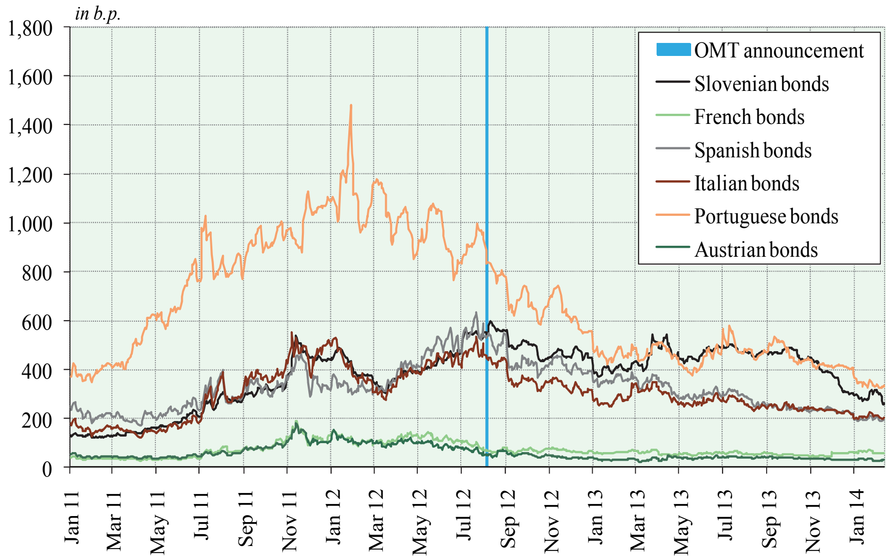
Source: Bloomberg.

In 2013 the Eurosystem executed its fine tuning operations on a weekly basis in the form of 1-week fixed-term deposits that sterilised the liquidity injected via securities purchases in the SMPs of 2010 and 2011. There were 53 operations in which the Eurosystem offered deposits in the amount equivalent to the non-matured purchased securities at that time. The amount declined from EUR 198 billion to EUR 178.5 billion over the period; at its peak the Eurosystem held EUR 219.5 billion of bonds of euro area countries from the SMP. Banks bid on the interest rate, and the maximum bid rate was equal to the ECB's key interest rate. At four auctions the Eurosystem was unable to entirely sterilise the amount offered, namely once in November and three times in December. This was the result of increased demand for liquidity before the end of the year, when the banks compensated for the relatively high early repayments of 3-year LTROs by reducing fixed-term deposits with the Eurosystem and by temporarily increasing their participation in short-term liquidity providing operations. Despite a rise in the number of participating banks (an average of 100 banks participated, compared with 73 in 2012), the total average bid amount exceeded the offered amount by less than the year before (1.3 times higher in 2013, compared with 1.9 times higher in 2012), which was the result of the decline in excess liquidity. The marginal rate therefore increased, and has remained at the level of the ECB's key interest rate as of the end of November. Slovenian banks and savings banks participated in all the tenders of fixed-term deposits. They bid EUR 457 million on average (compared with EUR 386 million in 2012), and succeeded in placing an average of EUR 371 million (compared with EUR 199 million in 2012). Their response to FTOs increased towards the end of the year, after the issue of government bonds in November and after the results of the comprehensive review and the stress tests of eight Slovenian banks were released.

Other open market operations: outright securities purchases

In 2013 outright monetary transactions (OMTs) remained the sole Eurosystem instrument for the outright purchase of securities. The SMP and CBPP2 were ended in 2012, the CBPP having been ended in 2010. OMTs, which allow the Eurosystem to make outright purchases of government securities on the secondary market, were introduced in September 2012. The instrument was not used, but market participants nevertheless attributed to it an important role in reducing the risk of the euro area break-up, which contributed to a fall in the euro area periphery countries government bonds' premiums over the benchmark German government bonds (see Figure 21).

Figure 21: **Spreads on 10-year government bonds of euro area periphery countries over benchmark German government bonds**



Sources: ECB, Bloomberg.

At the end of 2013 the Eurosystem still held EUR 41.6 billion of covered bonds from the CBPP and EUR 15.4 billion from the CBPP2. Totals of EUR 60 billion and EUR 16.4 billion of bonds were purchased in the two programmes. The Eurosystem holds these bonds to maturity, although the Governing Council of the ECB has ruled that they can also be lent. Lending activity from this source was very limited in 2013.

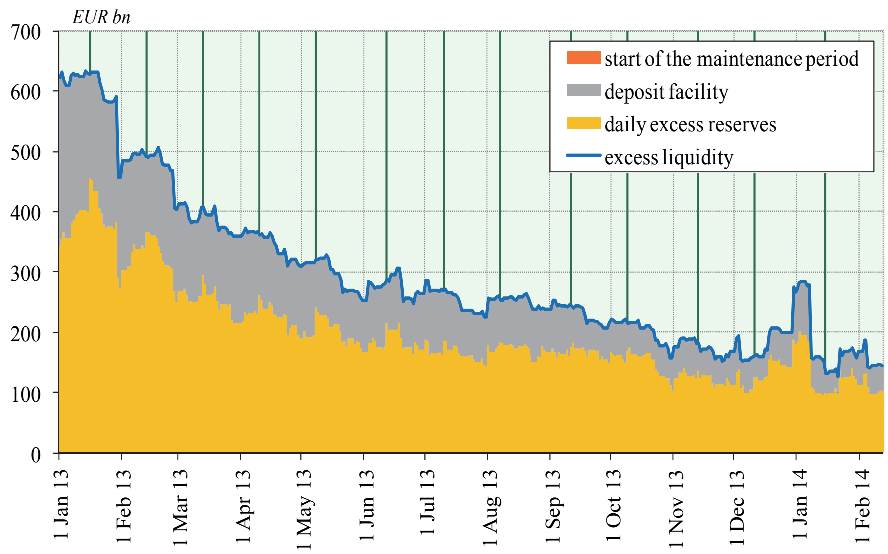
Standing facilities and minimum reserves

With the decline in excess liquidity in the euro area in 2013, banks' excess reserves and recourse to the deposit facility at the Eurosystem also declined gradually. In 2013 the interest rate on the deposit facility remained unchanged at zero percent, for which reason banks in the euro area maintained the majority of their excess liquidity in current accounts in the form of excess reserves, which are also not remunerated. A smaller proportion was transferred to the deposit facility, which declined from approximately EUR 250 billion at the beginning of the year to approximately EUR 60 billion at the end of the year (see Figure 22). The decision between retaining money in accounts at central banks (as excess reserves, see the last paragraph of this section) and transferring it to the deposit facility rests with the bank, and is often related to the regulatory treatment of one or the other, for example inclusion in regulatory liquidity ratios. In 2013 the average daily use of the deposit facility in the euro area was EUR 100 billion, EUR 393 billion less than in 2012. Slovenian banks and savings banks did not use the deposit facility in 2013, except in two cases.

The use of the marginal lending facility in the euro area also declined in 2013 compared with 2012. In 2013 the average daily recourse to the marginal lending facility equalled EUR 0.5 billion, while it stood at EUR 1.9 billion in 2012. The largest daily recourse in 2013 amounted to EUR 7 billion, down significantly compared to EUR 16 billion in 2012. With the exception of three recourses, Slovenian banks and savings banks did not use marginal lending facility in 2013.

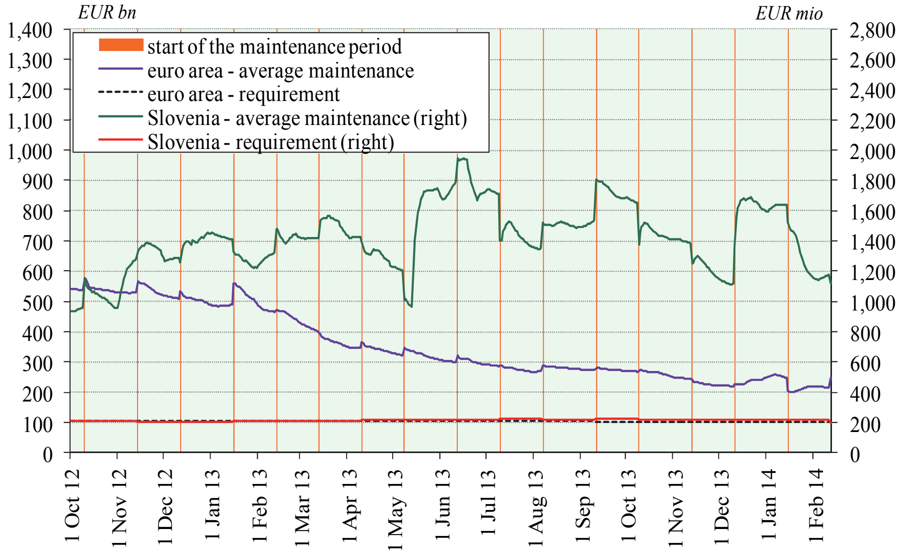
Having been cut from 2% to 1% in January 2012 maintenance period, the reserve ratio remained unchanged at 1% in 2013. While the reserve ratio remained unchanged, the average daily requirements in the euro area over the 12 maintenance periods of 2013 compared to the 12 maintenance periods of 2012 declined slightly from EUR 106 billion to EUR 105 billion. In contrast to the euro area, in Slovenia the average daily requirements increased from EUR 209 million to EUR 219 million.

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



Source: ECB.

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



Sources: ECB, Bank of Slovenia.

While banks across the euro area reduced their surpluses in current accounts in 2013 compared with 2012, surpluses of Slovenian banks and savings banks increased (see Figure 23). The average daily excess reserves in the euro area over the 12 maintenance periods of 2013 stood at EUR 197 billion, down EUR 20 billion compared to the 12 maintenance periods of 2012. In 2013 the average excess reserves in the euro area declined by more than a half relative to requirements, and stood at approximately 200% of reserve requirements at the end of year. By contrast, Slovenian banks and savings banks maintained the majority of their liquidity surpluses in current accounts. The average daily excess reserves in Slovenia over the 12 maintenance periods of 2013 stood at a high EUR 1,253 million, an increase of EUR 733 million compared to the 12 maintenance periods of 2012. The excess reserves were high over the whole of 2013 at around 700% of reserve requirements, the figure even approached 900% in June.

US dollar lending

The Eurosystem continued lending US dollars to European banks in 2013. US dollar refinancing operations are executed on the basis of eligible collateral denominated in euros, at a pre-determined fixed interest rate with full allotment. There were 52 tenders for US dollar refinancing operations with a maturity of seven days and 14 tenders for US dollar refinancing operations with a maturity of three months in 2013. The situation with regard to the US dollar funding of euro area banks improved in 2013, as a result of which the stock of the two US dollar operations fell to just EUR 3 billion (compared with USD 34 billion in 2012). The decline in demand was particularly pronounced in the second half of the year, when the stock fell below EUR 1 billion, and banks did not participate in the majority of the operations. Slovenian banks and savings bank have not participated in these operations since the end of 2009. US dollar refinancing operations, which are undertaken in coordination with the central banks of the Federal Reserve System, the Bank of Japan, the Bank of Canada, the Swiss National Bank and the Bank of England, are executed on the basis of bilateral agreements with the Federal Reserve System. At the end of October the bilateral agreements were changed into standing swap agreements, based on which each central bank will be able to continue providing loans to its counterparties in one of these currencies. Loans in currencies other than the US dollar were not activated. As a result of the improvement in the US dollar funding, in January 2014 the ECB decided in conjunction with the other central banks to discontinue 3-month US dollar refinancing operations in April 2014.

Collateral for monetary policy loans

All loans granted to banks within the Eurosystem's monetary policy framework must be secured by eligible assets. In open market operations based on full allotment this collateral entails the ceiling on bank borrowing from the Eurosystem.

The Eurosystem accepts a wide range of assets as collateral: marketable assets (debt securities on the single list on the ECB website at ww.ecb.int) and non-marketable assets (primarily bank loans). Securities are valued daily at current market prices or at a theoretical-model value, while loans are valued at the outstanding principal amount. The Eurosystem applies risk control measures to protect itself against the risk of any financial loss that would arise in the sale of assets in case a bank is unable to repay a loan. The value of an underlying asset accepted as collateral is reduced by haircuts, the amount of which depends on the credit rating, the type of asset (e.g. government bond, covered bond or other bond, bank loan), the type of interest rate (fixed or variable) and the residual maturity of the asset in question. In addition, the Eurosystem may use other measures to protect against losses.

In its collateral policy in 2013 the Governing Council of the ECB tried to balance the banks' needs for an adequate volume of eligible assets with the maintenance of the Eurosystem's financial risks at an acceptable level. Repayments of loans under the 3-year LTROs partly reduced the banks' need for the Eurosystem eligible assets. Eurosystem policy in this area nevertheless remains prudent, as there is a great deal of uncertainty surrounding the recovery of the financial markets. The maintenance of an adequate volume of eligible assets was of key importance to the banks with limited funding possibilities on the market.

The Governing Council of the ECB adopted several decisions in connection with eligible assets. In January unrated covered bonds issued before January 2008 were removed from the list of eligible assets, debt securities were restricted to those with a simple coupon structure, and own use of covered bonds was limited to bonds that comply with the Capital Requirements Directive, while in addition to the introduction of additional requirements regarding the originator, the location of the debtor vis-à-vis the assets in the bond's cover pool and the homogeneity of the cover pool, reporting requirements for loan-level data began to be gradually introduced for asset-backed securities. In March it announced that the own use of government-guaranteed bank bonds would no longer be allowed as of 1 March 2015, when the 3-year LTROs matures. In October it revised the haircuts for marketable and non-marketable assets. In light of the increase in own use of covered bonds and the corresponding higher risks, in November it set out additional haircuts for the own used covered bonds.

Certain Governing Council decisions had a direct impact in increasing the value of eligible assets. After the approval of the eligibility of the Cypriot programme of EU and IMF financial assistance, it ruled that Cypriot government and government-guaranteed securities would again become eligible; eligibility had been lost on 27 June 2012, as the best Cypriot sovereign rating fell below the minimum credit rating threshold of BBB-/Baa3. At the end of June, in light of the restructuring of the Cypriot debt, these securities were suspended from eligibility for a period of one week. In October, as part of a revision of risk control measures, the rating for asset-backed securities that meet the loan-level reporting requirement in the cover pool was reduced from AAA/Aaa to A-/A3.

The pool of posted collateral at the Eurosystem averaged EUR 2,355 billion in 2013, down EUR 93 billion on the previous year's average. In terms of asset type, covered bank bonds account for the largest proportion (19% of the total), followed by bank loans (16%), asset-backed securities (15%) and government securities (14%). The figures for the eligible assets and posted collateral aggregated across the euro area are now available on a quarterly basis on the ECB's website.

Collateral for Bank of Slovenia credit operations

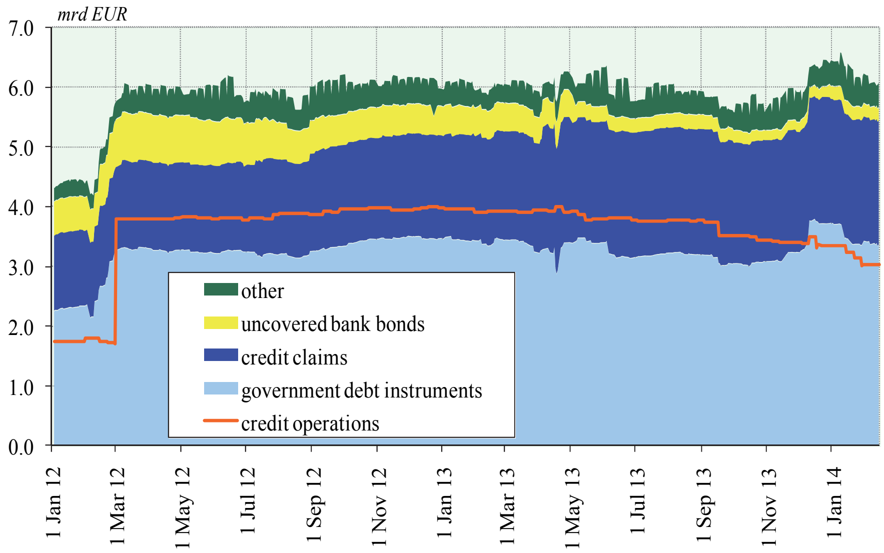
The measures of the Governing Council of the ECB have not had a significant impact on the volume of eligible assets held by Slovenian banks. They do not issue covered bonds, and do not have asset-backed securities or securities with complex coupon structures. Their own use of securities is also minimal. The impact of the revised haircuts applied in asset valuation as of October was also negligible.

Banks may use debt securities and bank loans that, in addition to other eligibility criteria, meet the minimum Eurosystem credit rating threshold. Since the majority of Slovenian debtors do not have credit ratings from agencies and with the aim of expanding the volume of eligible domestic assets, the Bank of Slovenia offers the possibility of using its in-house credit assessment system, the ICAS BS. As of 7 January 2013 the banks have been able to use bank loans to debtors with the appropriate credit rating from the ICAS BS. The use of these assets as collateral for monetary policy loans was modest, and accounted for 6% of total bank loans in the pool of collateral or EUR 136 million.

The pool of collateral held by banks at the Bank of Slovenia increased in 2013, particularly in the final quarter. It averaged EUR 6.0 billion over the year, up EUR 214 million on the previous year. The banks primarily increased the pool via government securities and bank loans. On yearly average the share of securities of Slovenian issuers in the pool accounted 50%, while the share of securities of foreign issuers accounted 16% and the share of non-marketable assets 34%. The average share of free pool, i.e. the surplus of the banks' pool of collateral over the Bank of Slovenia's loans to banks, accounted 36% in 2013 (compared with 37% in 2012), but had increased to 46% by the end of the year. The reason for the increase in the free pool was the increase in the pool and the decline in the open market operations with Slovenian banks.

At the end of 2013 there were 43 securities of Slovenian issuers on the Eurosystem's single list of eligible assets. These comprised Slovenian government bonds and treasury bills, four bonds issued by SID banka, two government-guaranteed bonds issued by DARS, a bond issued by Slovenska odškodninska družba, and a government-guaranteed bond issued by Deželna banka Slovenije. A total of EUR 19 billion in assets (which were not owned solely by Slovenian banks) were included on the single list.

Figure 24: **Breakdown of pool of collateral at the Bank of Slovenia by type of assets and credit operations**



Source: Bank of Slovenia.

2.1.3 Bank of Slovenia as the lender of last resort

Article 4 of the Bank of Slovenia Act states that one of the Bank of Slovenia's objectives is to strive to ensure financial stability. On the basis of point 14 of Article 12 of the aforementioned law, the Bank of Slovenia may therefore act as the lender of last resort, i.e. in exchange for appropriate collateral it lends to a solvent bank or savings bank that could find itself in sudden liquidity difficulties. The Bank of Slovenia approved the use of emergency liquidity assistance for the first time in September 2013. The daily use of emergency liquidity assistance averaged EUR 384 million between September and December 2013.

2.1.4 Payment and settlement systems

Payment and settlement systems are a vital part of the broader financial system, as by ensuring the reliable, safe, cost-effective and timely settlement of financial transactions they make a key contribution to the smooth functioning of financial markets, and thereby to general economic stability and efficiency. Their importance has been particularly evident in the financial and economic crisis, as the sound design and, in particular, the reliable and efficient functioning of payment and settlement systems made it easier to take anti-crisis monetary policy measures, which limited the impact of the crisis on the functioning of the economy and society as a whole.

In light of the above, the smooth, safe and efficient functioning of payment and settlement systems is in the interest of the central bank (in meeting the primary objective of price stability and in ensuring financial stability). The Bank of Slovenia therefore performs various duties and acts in various roles with regard to payment and settlement systems: it operates a payment system that facilitates the settlement of transactions in central bank money, it oversees the security and efficiency of payment and settlement systems, and it supervises the operations of payment service providers and operators of market infrastructure. Also of importance is its role as a catalyst and a promoter and guide of the activities of market participants, with the aim of improving competition and promoting development in the area of payments and the settlement of transactions in financial instruments. Notwithstanding the duty that the Bank of Slovenia is performing or the role in which it is acting, its objective is to ensure transparent functioning and the clarity of its basic guidelines for all payment and settlement system participants.

TARGET2

TARGET2 is the pan-European payment system for high-value and urgent payments in euros that allows the prompt settlement of individual payments. It is operated overall by the Eurosystem, and works on a single shared technical platform, but in formal legal terms each central bank included in TARGET2 operates its own national component. The Slovenian component, which is operated by the Bank of Slovenia, is called TARGET2-Slovenija.

The development of the functionality of the TARGET2 payment system continued in 2013 within the framework of Eurosystem activities. The TARGET2 platform was upgraded with new functionalities in the Information and Control Module and a new version of cash management messages, while new functionality allowing for communication between the TARGET2 and TARGET2-Securities platforms was implemented (for the moment in a test environment only). Prior to the implementation of the new functionalities in a production environment, in cooperation with TARGET2-Slovenija payment system participants the Bank of Slovenia conducted vital testing of the new functionalities and the most frequently used existing functionalities, and in addition participated in preparations for the next upgrade in the TARGET2 platform, which will be carried out in 2014.

Preparations were also made in 2013 for the introduction of the ISO 20022 standard in the TARGET2 payment system, which is projected for 2017. On the basis of a comprehensive strategy for the introduction of the standard, the Eurosystem drew up a document in which it defined the general functionalities of the TARGET2 platform after the introduction of the ISO 20022 standard, which provided TARGET2 participants with information for planning their own activities in relation to the implementation of the standard in the TARGET2 system.

In June 2013 the Bank of Slovenia also conducted a self-assessment of risk management in the operation of the technical infrastructure for accessing the TARGET2 platform. The basis for this activity is the *TARGET2 Risk Management Framework*, which instructs central banks included in TARGET2 to conduct a self-assessment of risk management in the operation of technical infrastructure used to access the TARGET2 platform. It was found that the risks were managed adequately at the Bank of Slovenia.

TARGET2-Securities

The TARGET2-Securities (T2S) project continued at Eurosystem level in 2013. The aim of the Eurosystem project started in 2008 is to put in place a single technical platform for the settlement of securities transactions, onto which central securities depositories will migrate securities accounts, and where central banks will open so-called dedicated cash accounts via which the cash settlement of securities transactions will take place. The project activities are proceeding in line with the Eurosystem plan (updated in 2013), which envisages the start of operations by the first group of central securities depositories and central banks in the T2S in June 2015, and the start of operations by the final group, which includes the national Central Securities Depository (KDD - Centralna klirinško depotna družba d. d.), in February 2017.

The Bank of Slovenia (in the area of dedicated cash accounts) and the KDD (in the area of securities accounts) are steering the migration of the Slovenian national environment in T2S. The Bank of Slovenia is continuing to manage the National T2S User Group, which is a forum of relevant stakeholders from the Slovenian securities market in connection with issues relating to T2S. The primary duties of the group are to discuss options for optimal inclusion of the Slovenian environment in T2S, to exchange information and views in connection with the T2S project and to provide comments and positions of Slovenian market in consultations with the ESCB. The group's key topic in 2013 was discussion of international standards for securities transactions in the area of corporate actions by securities issuers and the corresponding formulation of the operational, technical and legislative changes to meet the Eurosystem requirements for inclusion in T2S.

The Bank of Slovenia continued its activities in connection with its migration and the migration of its clients in T2S. The objective was to allow individual market participants, in accordance with their business needs, to open dedicated cash accounts for settlement in T2S by June 2015. This comes into consideration if a market participant requires a dedicated cash account for the settlement of securities transactions at a central securities depository for which the start of operations in T2S is envisaged in the first group. In this sense it was necessary to define the needed changes and solutions for various Bank of Slovenia business processes, including the set up and adaption of the infrastructure for accessing T2S, changes in legislation, and communications with the KDD and with market participants as (potential) future holders of dedicated cash accounts.

Single Euro Payments Area (SEPA)

The basic aim of the creation of the Single Euro Payments Area (SEPA) is to introduce harmonised basic payment instruments (credit transfers, direct debits and payment cards) and common standards to enable non-cash payments in euros to be made anywhere in the SEPA, under the same basic conditions, with the same rights and obligations. This will eliminate the distinction between payments in a country and cross-border payments, which will all therefore be treated as domestic payments. The establishment of the SEPA, which is also a vital step in completing the introduction of the euro as a single currency for non-cash payments, will also ensure the effective competition between payment service providers, will provide the conditions for the development of new pan-European products and services, and innovations in the area of payments.

The SEPA received its final framework in 2012 with the adoption of the Regulation of the European Parliament and of the Council on the introduction of technical requirements for credit transfers and direct debits in euros and amending Regulation (EC) No. 924/2009, (Regulation 260/2012). This sets 1 February 2014 as the deadline for completing the migration of the old credit transfers and direct debits that differed from country to country to the common pan-European payment instruments. Because certain euro area countries announced even before 1 February 2014 that they would not be able to fully complete migration by the aforementioned deadline, on 9 January 2014 the European Commission issued a draft regulation amending Regulation 260/2012, under which the deadline for migration to SEPA payment instruments would be extended by six months, i.e. to 1 August 2014. The extension of the deadline for completion of migration is of no relevance to Slovenia, as migration in Slovenia is almost complete. After the completion of the migration of credit transfers at the end of 2012, the migration of direct debits was completed in January 2013.

During and after the migration of direct debits to the SEPA in Slovenia, within the framework of its activities of regularly monitoring the payment services market and on the basis of information from payment service users the Bank of Slovenia observed certain irregularities and problems in SEPA direct debit operations. This could threaten payment service users' confidence in SEPA direct debits and their acceptance of the new payment instrument, and thus confidence in the SEPA as a whole. In its role as supervisory authority and in accordance with its legal powers, and as a catalyst of change, development, and the activities of market participants, the Bank of Slovenia took specific action in response. This included communications with stakeholders in the payments market and the relevant supervisory procedures to ensure the legitimate functioning of the payment services market in Slovenia.

As part of the Eurosystem, the Bank of Slovenia has monitored and supported the creation of the SEPA since the very beginning. In this role it coordinates and guides the activities of the banking sector in the implementation of SEPA targets, pursuing the objectives of security and efficiency in payments in so doing. The key to performing this role is dialogue with other stakeholders in the payment services market, which the Bank of Slovenia also ensures via its representatives in the SEPA project bodies established under the aegis of the Bank Association of Slovenia. Bank of Slovenia representatives again actively participated in such bodies in 2013 in the role of observers at meetings and in the formulation of positions, on the basis of which the Bank of Slovenia monitors and directs the activities of the Slovenian banking community in accordance with the policy of the Eurosystem.

On 2 July 2013 the Bank of Slovenia set up the National Payments Council (NPC) to act as a catalyst and to support the balanced and sustainable development of the market for safe and efficient payment services in Slovenia, and to ensure its adjustment to changes in the international environment and an adequate place within the SEPA. When setting up the NPC, the Bank of Slovenia took account of best practice in dealing with payment-related issues in EU Member States, particularly the specific features and needs of the Slovenian market. The NPC is essentially a strategic, consultative and communications body that ensures active dialogue between payment service users and providers and the public authorities. Its decisions provide a basis for the work of NPC members in the payments area. The platform provided by the NPC is a place where representatives of the supply and demand sides of the payment services market can meet to coordinate their interests, set their priorities and resolve any misunderstandings. The Bank of Slovenia and other public authorities, on the other hand, express their views within the NPC and guide the functioning of the payment services market, while collecting information that may be used in the formulation of their own policies and the representation of the Slovenian payments services market in the bodies of the ESCB and the EU. Broad participation in the NPC is essential, as it facilitates the mutual understanding of issues and the discussion of issues that cannot be resolved by a single entity or a group of stakeholders.

Operation of SEPA infrastructure and implementation of the settlement agent function

The Bank of Slovenia provides a link between the systems operated by Bankart d.o.o. for the execution of SEPA credit transfers and SEPA direct debits and the pan-European payment systems for these two payment instruments operated by EBA Clearing. As a direct participant in pan-European payment systems, in 2013 the Bank of Slovenia enabled banks and savings banks in Slovenia (as indirect participants) to exchange SEPA credit transfers with more than 4,500 payment service providers and to exchange SEPA direct debits with more than 3,900 payment service providers across Europe. By providing this link the Bank of Slovenia enables Slovenian banks and savings banks to meet the requirement for reachability for cross-border SEPA credit transfers and SEPA direct debits within SEPA credit transfer and direct debit schemes, which derives from EU Regulation No. 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No. 924/2009, and means that payment services providers that are reachable for domestic credit transfers and direct debits must be reachable for cross-border payments using these payment instruments.

The Bank of Slovenia provided the settlement agent function for seven payment systems for retail payments in 2013. Providing this function means that the Bank of Slovenia settles the cash claims and liabilities of participants in these payment systems deriving from their participation in these payment systems in risk-free central bank money in the accounts that participants in these payment systems hold with the Bank of Slovenia.

Payment and settlement systems oversight

The Bank of Slovenia issues authorisations to participants of payment systems and their operators, and conducts oversight of the functioning of payment and settlement systems. Oversight of the functioning of payment and settlement systems is one of the most important central bank functions. The aim is to ensure security and efficiency in the functioning of payment and settlement systems by monitoring, analysing and inducing changes (and by taking action when payment and settlement systems fail to meet the prescribed requirements and standards), thereby contributing to ensuring systemic stability and to mitigating systemic risk, and maintaining public confidence in these systems.

Under the *Bank of Slovenia Act* and the *Payment Services and Systems Act* (the ZPlaSS), the Bank of Slovenia is competent and responsible for payment system oversight. Another basis for oversight is the *Regulation on payment systems*, which was adopted on the basis of the ZPlaSS. The regulation sets out detailed rules regarding criteria for defining an important payment system, requirements for managing financial, operational and other risks in payment systems, and the content, form and method of reporting on the functioning of payment systems. When conducting oversight the Bank of Slovenia also follows Eurosystem guidelines, and international principles and standards.

The Bank of Slovenia issued one authorisation and conducted two on-site examinations in 2013, and in addition oversaw the functioning of payment systems on the basis of analysis of regular and *ad hoc* reports by payment system operators. The operators' reports relate to the regular functioning of the payment systems and the operations of the payment system operators, to all planned or unplanned deviations from regular operations, and to changes in the functional concepts of payment systems. An authorisation was issued to participants in the SEPA internal credit transfers payment system for an amendment of payment system rules, and the Bank of Slovenia conducted two ordinary on-site examinations of the functioning and operation of payment systems, and issued appropriate measures on the basis of the findings.

The Bank of Slovenia was also active in the implementation of oversight at the Eurosystem level. It participated in the oversight of payment systems and other arrangements in this area (payment instruments, external service providers), and also in the establishment and maintenance of the single security standards in the area of retail payments.

The Bank of Slovenia was also active in the national environment and across the Eurosystem in the oversight of the functioning of securities settlement systems in 2013. The Bank of Slovenia is competent and responsible for the oversight of the functioning of securities settlement systems under the *Bank of Slovenia Act*. Furthermore, its responsibility is defined in more detail in the *Financial Instruments Market Act*, which empowers the Bank of Slovenia the authority and responsibility for oversight of the KDD in respect of the systemic risk of the securities settlement system, whereby the Bank of Slovenia works in cooperation with the Securities Market Agency (SMA). When conducting oversight the Bank of Slovenia follows Eurosystem guidelines, and the latest international guidelines for the security and reliability of the functioning of securities settlement systems issued in the form of international principles and standards.

Activities in the domestic environment focused on regular monitoring of changes in the functioning of the KDD and an assessment of the KDD's compliance with Eurosystem oversight standards. In connection with scheduled monitoring of the functioning of the KDD, the Bank of Slovenia issued two opinions in the scope of related consultations with the SMA, while with regard to the preparation of the assessment of compliance with Eurosystem oversight standards as of November 2013 there were detailed organisational and substantive preparations for the first comprehensive oversight of the KDD's functioning, which was begun in cooperation with the SMA in January 2014. At the Eurosystem level the Bank of Slovenia participates in the preparation of Eurosystem user assessments in respect of the compliance of securities settlement systems for use in Eurosystem credit operations. To this end, in 2013 the Bank of Slovenia prepared a user assessment of the cross-border links between the securities settlement system operated by the KDD and the foreign securities settlement system operated by Euroclear Bank, a central securities depository established in Belgium, and issued recommendations in 2014 on the basis of the findings of the assessment.

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

The Bank of Slovenia issues authorisations to payment institutions and electronic money institutions, and supervises their operations. The Bank of Slovenia's powers in this area are set out by the ZPlaSS, which also assigns it the role of the misdemeanours authority in connection with the provision of payment services and the issuance of electronic money.

In 2013 the Bank of Slovenia carried out a series of activities in connection with the supervision of payment institutions and electronic money institutions. They included an on-site examination of the operations of one payment institution, while attention at all payment institutions with a Bank of Slovenia authorisation was focused on the provision of payment services in practice, and on problems and deficiencies identified in practice. One payment institution had its authorisation to provide payment services revoked, and one payment institution was granted a new authorisation of this type. Although it did not receive any requests in 2013 for the issue of an authorisation to issue electronic money as an electronic money institution, the Bank of Slovenia carefully monitored developments in the market and business models that could entail the issuance of electronic money.

The Bank of Slovenia publishes and updates a register of payment institutions and electronic money institutions on its website. The aforementioned register is a centralised database of entities that provide services on the basis of an authorisation obtained from the Bank of Slovenia. The Bank of Slovenia also administers lists of payment institutions and electronic money institutions from the countries of the European Economic Area that may provide payment services in Slovenia through a branch, through an agent or directly, on the basis of notification of the Bank of Slovenia by the competent supervisory authority of the home country. There were 54 new notifications in relation to payment institutions in 2013, and 13 notifications in relation to electronic money institutions. There were thus 178 notified payment institutions and 38 notified electronic money institutions at the end of the year.

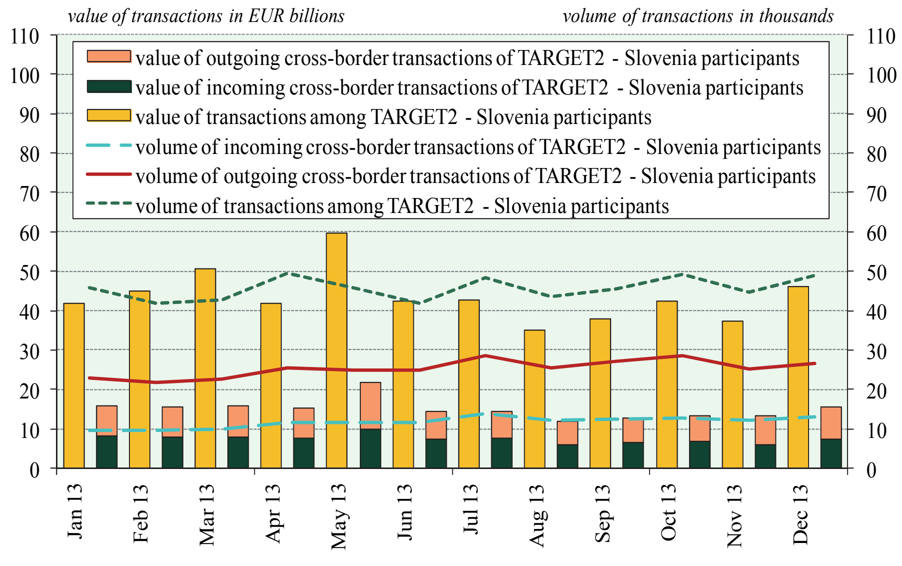
Under the *Foreign Exchange Act,* the Bank of Slovenia is competent and responsible for issuing authorisations to provide currency exchange services, and for supervising the operations of non-banking entities that provide currency exchange services (currency exchange operators). The supervisory activities encompass on-site examinations of currency exchange operators at the point of exchange, and off-site supervision via reports on operations submitted on a half-yearly basis to the Bank of Slovenia by individual currency exchange operators. The Bank of Slovenia also publishes a list of currency exchange operators holding a Bank of Slovenia authorisation to provide currency exchange services, including their associated points of exchange, on its website. There were a total of 22 currency exchange operators with 32 points of exchange in Slovenia at the end of 2013. The Bank of Slovenia conducted on-site examinations of all currency exchange operators with a Bank of Slovenia authorisation in 2013. In addition, it issued rulings to four currency exchange operators revoking their authorisations to provide currency exchange services and to two existing currency exchange operators expanding their authorisations to provide currency exchange services to an additional point of exchange.

Statistics for the TARGET2-Slovenija payment system operated by the Bank of Slovenia

A total of 547,297 transactions with a total value of EUR 521,026.16 million were settled between participants in the TARGET2-Slovenija system in 2013. This was down 6.88% on 2012 in terms of number and down 18.88% in terms of transaction value. The decline in value was primarily the result of a decline in the value of transactions in the deposit facility, a monetary instrument, which was attributed to the fall in the interest rate on the deposit facility, which has been zero as of 11 July 2012, and the resulting lack of demand for the instrument. The decline in the value of transactions settled relative to 2012 would have been even higher were it not for the large increase in the value of transactions related to central and local government deposits.

A total of 303,789 incoming cross-border transactions with a total value of EUR 90,827.41 million and 140,629 outgoing cross-border transactions with a total value of EUR 87,427.26 million were settled between participants in the TARGET2-Slovenija system and participants in other national components of the TARGET2 system in 2013. The number of incoming cross-border transactions was up 11.90% while their value was up 30.59% on 2012, and the number of outgoing cross-border transac-

Figure 25: **Number and value of transactions via the TARGET2-Slovenija system by month in 2013**



Source: Bank of Slovenia.

tions was up 12.04% while their value was up 22.69%. The largest factor in the increase in the value of cross-border transactions relative to 2012 was an increase in liquidity transfers between Slovenian participants (commercial banks) and their owners that are foreign participants in the TARGET2 payment system.

2.1.5 Joint management of the ECB's foreign reserves

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

2.1.6 Cash operations

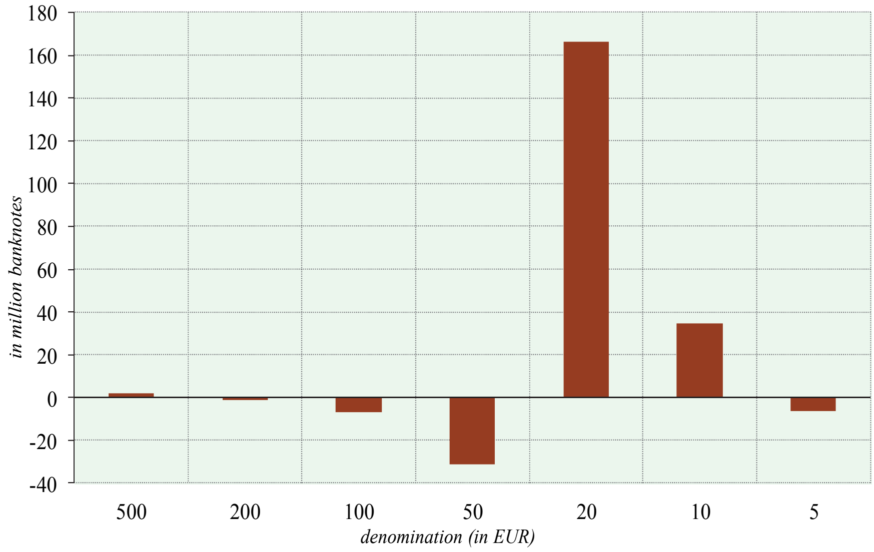
A total of EUR 2.24 billion of cash had been net issued into circulation by the Bank of Slovenia by the end of 2013. This comprised EUR 2.18 billion in banknotes[13] (157.57 million banknotes) and EUR 53.69 million in coins (187.94 million coins). In terms of quantity, the 20-euro note net issuance was the highest (166.44 million banknotes), followed by the 10-euro note (34.48 million banknotes) and the 500 -euro note (1.97 million banknotes). For all other denominations (200-euro, 100-euro, 50-euro and 5-euro notes), there was a negative net issuance (i.e. the number of banknotes issued was lower than the number returned to the Bank of Slovenia). The coins that were net issued most heavily in terms of quantity were the 1-cent (49.34 million coins) and 2-cent (39.82 million coins), while the lowest net issuance was recorded by the 1-euro (6.64 million coins). Euro cash was supplied through the Bank of Slovenia's banknote depots at five commercial banks, whose operations were coordinated by the Bank of Slovenia on a daily basis.

The Bank of Slovenia organised the issuance, distribution and storage of general circulation and commemorative coins for the Republic of Slovenia. The Bank of Slovenia issues 2-euro commemorative coins and collector coins issued by the Republic of Slovenia for circulation and sale. As of February 2013 the Bank of Slovenia issued into circulation one million 2-euro commemorative coins to mark the 800th anniversary of visits to Postojna Cave, and issued collector coins marking the 300th anniversary of the Tolmin Peasant Revolt (1,500 gold, 2,000 silver and 200,000 bi-coloured 3-euro coins) for circulation and sale. For the collector market the Bank of Slovenia also issued a collection of euro coins minted in 2013, and a proof-quality 2-euro commemorative coin.

The total value of the tolar banknotes, coins and payment notes still in circulation as at 31 December 2013 was EUR 42.76 million. This comprised 46.67 million tolar banknotes (worth SIT 7.63 billion), 447.69 million tolar coins (worth SIT 2.21 billion) and 20.92 million payment notes (worth SIT 403.87 million). Compared with circulation at the end of 2005, 58.77% of the tolar banknotes have been returned from circulation (96.43% of the total value of the tolar banknotes), while 13.68% of the tolar coins have been returned (36.77% of the total value of the tolar coins). The payment notes and tolar banknotes are exchangeable at Bank of Slovenia counters with no time limit, while coins can be exchanged by 31 December 2016.

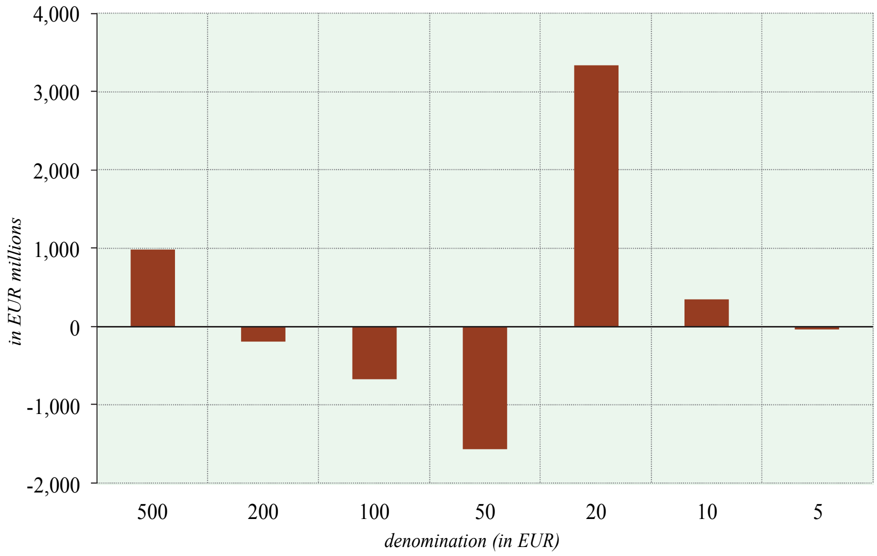
[13] Figure 26 illustrates the breakdown of euro banknotes in circulation in terms of quantity, while Figure 27 illustrates the breakdown in terms of value.

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



Source: Bank of Slovenia.

Figure 27: **Net issuance of euro banknotes in terms of value**



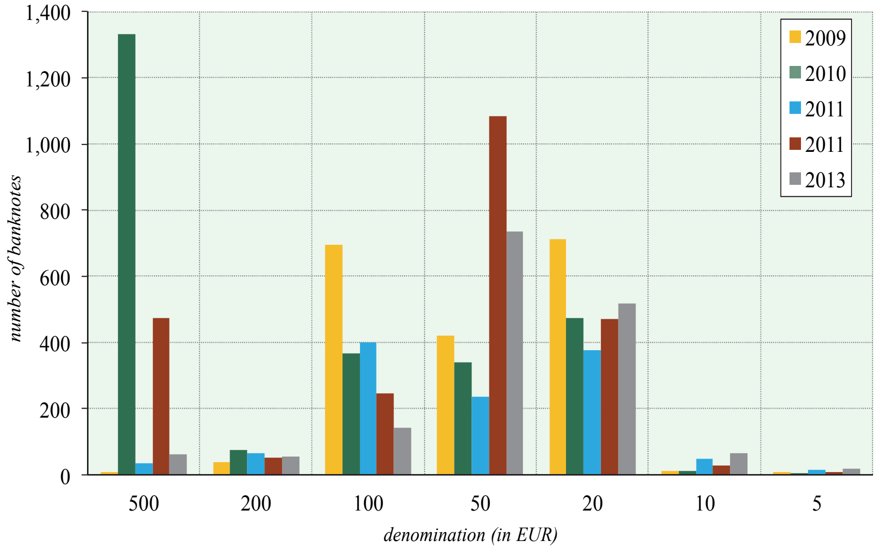
Source: Bank of Slovenia.

There was a decrease in the number of transactions via the counters of the Bank of Slovenia in 2013. A total of 2,567 counter receipts and outlays of euro cash (2012: 2,874) and 3,031 incoming and outgoing payments of cash for the needs of government bodies were made in 2013 (2012: 3,053), while there were 2,684 exchanges of tolar banknotes and coins (2012: 3,090).

The Bank of Slovenia cash processing unit sorted 29.68 million banknotes and coins, compared with 38.51 million in 2012. A total of 29.52 million banknotes and 163,201 coins were sorted in 2013 (compared with 38.44 million banknotes and 75,850 coins in 2012). A total of 12.72 million banknotes were taken out of circulation and destroyed in order to maintain high quality of banknotes in circulation (compared with 17.29 million banknotes in 2012).

The expert committee for testing, verifying and setting up machines to handle euro banknotes and coins, which is composed of employees of the Bank of Slovenia and the Ministry of the Interior, conducted 19 monitoring tests in 2013 in accordance with its mandate. With these tests the adequacy

Figure 28: **Counterfeit euro banknotes seized in Slovenia**



Source: Bank of Slovenia.

and accuracy of banknote handling machines were verified. Coin processing machines were also tested at cash handlers. The Bank of Slovenia drew up a timetable of testing on the basis of the data (number and type of sorting systems) obtained from cash handlers. It was appropriately taken into account that in Slovenia the majority of activities in connection with the fitness and authenticity of euro banknotes are carried out at the five Bank of Slovenia banknote depots (NLB, NKBM, Banka Celje, Gorenjska banka and Banka Koper), where most tests were also conducted. All the tests were successfully passed in 2013.

According to the data of the National Analytical Centre (the NAC) and the Coin National Analytical Centre (the CNAC), 1,597 counterfeit euro banknotes[14] and 1,307 counterfeit euro coins were seized in 2013 (73 counterfeit banknotes worth EUR 25,265 were seized before circulation). A total of 2,362 counterfeit euro banknotes (all withdrawn from circulation) and 1,956 counterfeit euro coins were seized in 2012. Therefore the number of counterfeited banknotes and coins decreased (by 32.4% and 33.2%, respectively). The value of euro counterfeits discovered in Slovenia was EUR 105,776 in 2013, down 68.7% on the figure of EUR 338,236 in 2012. In terms of quantity, 50-euro notes accounted for the largest proportion of counterfeit banknotes (46.2%), while 2-euro coins accounted for the largest proportion of counterfeit coins (54.9%). The figures for the number of euro counterfeits seized in Slovenia have shown a similar trend for several years: in one year there is a relatively high increase (owing to individual large-scale criminal acts), while the following year shows a relatively large fall in the number of counterfeits. The Eurosystem figures in this area rank Slovenia in the lowest third of countries in terms of the number of counterfeits discovered. Some 65 foreign currency counterfeits (US dollars, Swiss francs and pounds sterling) were discovered in 2013, compared with 321 in 2012. The quality of foreign currency counterfeits has remained at approximately the same level.

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

[14] Figure 28 illustrates the breakdown of counterfeit euro banknotes in terms of quantity.

2.1.7 Statistical system

All regular, i.e. non-developmental, statistical tasks for which the Bank of Slovenia is responsible were successfully carried out in 2013. These areas include monetary and financial statistics, the external statistics, the statistics of the national financial accounts, and certain other statistics. The statistical data was provided to all users, including releases of data on the Bank of Slovenia website in the bulletin, in time series, etc.

The core developmental task in 2013 was to prepare for the introduction of the new European system of national accounts in all statistical areas, the ESA 2010. In addition, the Bank of Slovenia began introducing the SDMX_ML standard in the area of data submission, which will replace the GESMES data submission standard in 2014.

Monetary and financial statistics

In connection with the harmonised statistics for MFIs' balance sheets and interest rates, the ECB announced updates to the regulations in 2013, to which adaptations must be made. In accordance with the introduction of the ESA 2010 institutional sectors, the reporting instructions on reporting this data by credit institutions were updated and the software for receiving reports was updated. Other changes will be introduced in 2014. Reporting under the updated regulations will begin in January 2015 for the data from December 2014, and retrospective data will also be required (the burden for which will not fall on reporting institutions).

At the end of 2013, the ECB also released a regulation with updated requirements for investment fund statistics. Given that this report is already rather detailed, it was only necessary to change the sector attribute. The software for the receiving of reports by the SMA was also modified. The revised figures will be submitted to the ECB for the first time in January 2015, containing the December 2014 data.

An ECB regulation on insurance statistics is under preparation, the aim being to avoid duplicate reporting, and thus to adjust the definitions of the data requirements to the reporting requirements under the Solvency II Directive. An agreement was reached in November 2013 on changes to the latter via the Omnibus II directive, and Solvency II is expected to be introduced on 1 January 2016. In the period before the final introduction of Solvency II, i.e. the period between the third quarter of 2015 and the final quarter of 2016, interim reporting that is harmonised with the requirements of the EIOPA Interim Guideline has been envisaged for the ECB. Only thenceforth, as of the first quarter of 2017, shall reporting under the Solvency II requirements also encompass the additional requirements of the ECB.

In 2013 the ECB performed questionnaires to investigate reporting options for insurance statistics. A questionnaire on the method of submission of reported data (the national supervisor or central bank, XBRL taxonomy or other option, etc.) and a questionnaire on costs had to be completed, the results of which were compared with the measured benefit to users at the ECB. Experts from the ECB, the EIOPA, Insurance Europe, insurers and central banks met to discuss the content, the deadlines, and the manner of implementation of the requirements. A draft ECB regulation for insurers' reporting is expected to be ready by the spring of 2014. In light of the delays in the adoption of European regulations, in December 2013 the Bank of Slovenia temporarily suspended its activity in connection with insurers' new reporting requirements.

A register of institutions and a database of euro area funds were established in 2013 as an expanded single register of financial institutions accessible to members of the ESCB. The data on credit institutions is updated on a daily basis, while the data on investment funds and financial vehicle corporations engaged in securitization transactions is updated on a quarterly basis. The register is technically supported by the Italian central bank in conjunction with the ECB, while the development costs and an annual fee were divided among members of the ESCB. The new software scheme and pilot data submission were successfully tested in April 2013.

In connection with the financial turmoil and the establishment of the SSM, there is increased need for and efforts in the direction of the standardised capture of data on borrowers and loans in all Member States. The ESCB's Joint Task Force on Analytical Credit Datasets examined the need for detailed data on loans and borrowers, and has proposed the establishment of harmonised reporting of detailed loan data in euro area countries within two years, which received wide support within the ESCB. The detailed loan data is required for the implementation of Eurosystem tasks, including the analysis of monetary policy and its operations, risk management, supervision of financial stability and research, and also for the Eurosystem's contribution to continuity in the implementation of the competent authorities' policy in respect of the prudential supervision of credit institutions and the stability of the financial system (particularly within the framework of the preparatory work in connection with the establishment of the Single Supervisory Mechanism). In light of the above, and in particular given the awareness of the need for deeper breakdown of loan data, at the end of 2013 activities started to establish a single multi-purpose credit register at the Bank of Slovenia.

Activities to establish multi-purpose quarterly reporting by leasing companies was completed in full and by the scheduled deadlines in 2013, and 42 companies were included in the statistical sample for reporting on a mandatory basis. Conceptual and technical support for reporting was put in place to provide for high-quality data capture, data processing and data output for the needs of statistics and financial stability. The quality of the data allowed exemption of the mandatory reporters from reporting data on financial accounts statistics via AJPES. In light of the changeover to the ESA 2010 and the changes already made by reporters in their regular reporting, new reporting instructions for implementing the regulation on reporting by institutions engaged in leasing business were issued in December 2013.

Along with the successful execution of regular tasks, activity continued within the ESCB for the introduction of the new reporting of payments statistics. Reporting requirements were set out in the spring on the basis of a comparison of the merits to users with the costs to reporters, while the new Regulation ECB/2013/43 on payments statistics was issued at the end of the year. Reporting will begin in June 2015, which means that all the requisite activities must be carried out in 2014.

External statistics

The Bank of Slovenia began revising its data sources for balance of payments statistics and the international investment position to the new requirements of the sixth issue of the balance of payments manual and the ESA 2010. These data sources also encompass the external debt, FDI and international monetary reserves. The revisions are proceeding in parallel with the comprehensive regular production of data.

A new method for reporting payment transactions with the rest of the world as of May 2014 was agreed with the Bank Association of Slovenia. The agreement allows the Bank of Slovenia to retain a range of transactions with the rest of the world irrespective of size, while at the same time this reporting will not require additional data processing at banks, as it is based on data existing in payment orders. This will allow the Bank of Slovenia to retain a valuable data source used in monitoring the quality of balance of payments figures, while reporting will be in line with Regulation (EC) No. 924/2009.

A recalculation was made for the 2006 to 2012 period in the revision of balance of payments figures and the international investment position. A revision of this magnitude was necessary primarily because of the revision of merchandise trade figures made by the SORS. On the basis of detailed analysis of the data for merchandise imports and exports undertaken by foreign (non-resident) firms in Slovenia after it entered the EU, the SORS slightly upgraded its data collection methodology on international trade statistics; the upgrade required an additional revision to the figures for Slovenia's merchandise trade with non-EU countries and (to a lesser extent) the figures for merchandise trade with EU Member States. In the revision of the balance of payments and the international investment position, the following changes were made in addition to the ordinary updates:

- a change was made to the recording of trading in emission vouchers (reallocation from trade in services to capital transfers in line with a Eurostat recommendation);

- on the basis of bilateral cooperation with individual countries, the figures for immigrants' outward remittances (most notably to Serbia) were updated and the first figures for inward remittances from emigrants (in Germany, Italy, Austria and Switzerland) were submitted;

- the Surveying and Mapping Authority of the Republic of Slovenia (SMARS) made available consolidated data from the real estate register on non-residents that own real estate in Slovenia. The improved data has allowed for a revision to the figures as of 2008. The figures were adjusted retrospectively using transaction prices and real estate price indices;

- in 2013 the government commenced monthly reporting of international transactions and stocks of derivatives in connection with the hedging of currency risk in respect of bonds issued in US dollars.

October 2013 saw the publication of Direct Investment 2012, with detailed data on the origin of inward FDI in Slovenia and its integration into the Slovenian economy. The publication also includes data on and brief analysis of Slovenia's outward FDI, and data on the operations of firms in the rest of the world in which Slovenian investors have a direct or indirect controlling interest (Foreign Affiliates Trade in Services Statistics, FATS).

Financial accounts statistics

The Bank of Slovenia once more compiled annual and quarterly financial accounts in 2013. The primary source for compiling Slovenia's financial accounts are the quarterly reports of individual business units (non-financial corporations, financial corporations and government units) for the needs of financial accounts statistics, which are collected for the Bank of Slovenia by AJPES, with the exception of multi-purpose reports by financial intermediaries. Quarterly financial accounts data was submitted to the ECB in accordance with Guideline ECB/2005/13. Quarterly financial accounts data for the government sector was submitted to the ECB and Eurostat in accordance with Regulation (EC) No. 501/2004, while annual financial accounts data was submitted to Eurostat in accordance with Regulation (EC) No. 2223/96.

The print publication Financial Accounts of Slovenia 2007–2012 was released in July 2013. Alongside tables of financial accounts and the compilation methodology, it also contains analysis of financial accounts data in individual sectors and a comparison with the euro area. In addition to the annual and quarterly financial accounts data and quarterly information in the Financial Accounts of Slovenia, data time series are now also published on the Bank of Slovenia website.

Preparations for the introduction of the new national accounts system (the ESA 2010) were also made in 2013. It involves methodological changes and also changes in institutional sectors and financial instruments.

Other statistics and activities

Quarterly figures for the performance of business entities have been included in the Slovenian database as of 2013. The Bank of Slovenia cooperates with the Chamber of Commerce and Industry of

Slovenia, AJPES and the SORS in drawing up corporate performance indicators on the basis of quarterly figures for publication.

As a user of the R statistics package, the Bank of Slovenia gave a presentation at a conference of R users on the use of the software entitled *Use of R and LaTeX for periodical statistical publications.* R is primarily used in the area of data processing and analysis in connection with real estate, and in studies of the possibility of computerised data release. The Bank of Slovenia upgraded the transaction database of real estate prices in 2013 to add data from the real estate register. The combination of the two databases proved of valuable assistance in the preparation of data for the stress tests of the largest banks in Slovenia.

Under the aegis of the ESCB, the Bank of Slovenia participated in the updating of the central securities database (CSDB) in the EU. It also participated in the development of the SHSDB, which will contain data on Slovenian holdings of securities and holders of Slovenian securities. The exchange of data with other central banks will allow a comprehensive view of securities market data.

The Bank of Slovenia began monitoring the annual figures on state aid to financial institutions during the economic and financial crisis as of 2008. The figures are aimed at economists for the analysis of the actual and potential impact of government interventions, and also at economic policy makers.

The Bank of Slovenia conducted a survey of corporate access to financing in 2013. The Bank of Slovenia survey provides oversight of the availability of financial resources from the corporate point of view. The results of the analysis are published on the Bank of Slovenia website.

Under the aegis of the ESCB, the Bank of Slovenia published the data from the first joint household finance and consumption survey (HFCS) in the euro area on its website. At the end of the year the Bank of Slovenia began preparing a public tender for the 2014 survey.

Successful cooperation in the area of statistics continued in 2013. The Bank of Slovenia works with the SORS, the MoF, AJPES, the SMA and the ISA in this area.

At the international level, in addition to the aforementioned cooperation under the aegis of the ESCB, the Bank of Slovenia also worked with the BIS, Eurostat, the IMF, the OECD and the World Bank in 2013. Along with the regular care of the IMF's SDSS standard on publication, the Bank of Slovenia began examining its inclusion in the expanded SDDS Plus version. The Bank of Slovenia also provided technical assistance on statistics to the National Bank of Serbia in 2013.

2.1.8 Information system

As a member of the ESCB, the Bank of Slovenia is connected to the ESCB's information system. Article 55 of the Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, No. 72/06) stipulates that as of the day that Slovenia joined the European Union, the Bank of Slovenia is to cooperate with the ECB in accordance with the Statute of the ESCB and of the ECB in respect of the recording, collection, processing and disclosure of data and information relevant to the performance of its functions.

The Bank of Slovenia is technically linked to the ECB/ESCB information system via complex infrastructure. The link includes the ESCB's physical network infrastructure system,[15] the ECSB's application network infrastructure system,[16] the ESCB's system for the secure exchange of e-mail[17] and a

[15] Core Network.
[16] ESCB-Net.
[17] ESCBMail.

teleconferencing system. The infrastructure equipment is situated at primary and backup locations at the Bank of Slovenia.

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

The ESCB's application network infrastructure system forms part of the infrastructure used to link the NCBs with the ECB. It comprises several special-purpose servers, firewalls, network switches, etc. All equipment is duplicated to ensure a high level of availability. Some of the equipment is at the Bank of Slovenia's backup computer centre, which allows the link to the ECB to be maintained without disruption even in the event of a total outage at the Bank of Slovenia's primary computer centre. All of the equipment of this network that is located at Bank of Slovenia sites falls under its administrative domain.

This entire infrastructure is designed to support the implementation of the ESCB's business processes. All changes to these business processes and introductions of new business processes require an appropriate adjustment in the infrastructure. The infrastructure equipment must be upgraded regularly with regard to technological advances, increases in the quantity of data and the increased requirements of commercial users. In 2013 the Bank of Slovenia tested the functioning of TLS encryption, and completed the upgrade of the ESCB-Net environment and EXDI system. In so doing it prepared the servers on which the new version of the EXDI software will be installed, and conducted testing of the new teleconference system. During the entire year the Bank of Slovenia carried out regular maintenance work on the ESCB-Net and EXDI systems. It was involved in the transfer of ESCB application software into the production environment.

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

Activities continued on the ESCB system in 2013 to provide application support for the implementation of measures approved by the Governing Council of the ECB. The Bank of Slovenia thus had to adapt and provide application support, particularly in support of the eligibility criteria of financial assets, exchanges of various data in terms of content and technological solutions, and updates of the monthly and daily report for the needs of recording data on the new second series of euro banknotes.

The introduction of the Single Supervisory Mechanism (SSM) also requires adaptations to the information system. The preparatory activity began at the ECB in 2013. The SSM will also require appropriate support in the area of the information technology. From a technological standpoint, it will be necessary to integrate the new requirements into the existing environment, solutions will have to be operationally effective and flexible, and synergies with existing solutions and infrastructure must be exploited. Like everything else, the requirements relating to the SSM will have an impact on the information systems of the NCBs and supervisory institutions.

The security of the ESCB information system is also very important. The Bank of Slovenia participated in three major inter-related projects in the area of information security. The migration of ESCB applications to the infrastructure for the centralised management of user accounts and access rights within the framework of the IAM (Identity and Access Management) project continued in 2013. The ESCB-PKI project is being implemented in parallel to increase the level of confidence in electronic identities. A certification authority for digital certificates that will be recognised in the ESCB environment is being established in the scope of the aforementioned project. Digital certificates will be used by ESCB user accounts as an authentication mechanism when logging into critical ESCB applications. The Secure ESCB Email project continued, its aim being to increase the security of content exchanged in the ESCB email system by using an encryption mechanism and electronic signature that is based on digital certificates recognised at the ESCB level. At the end of 2013 the Bank of Slovenia submitted an application for recognition as a certification authority for Bank of Slovenia digital certificates at the ESCB level. This will allow the Bank of Slovenia to use its own digital certificates in the systems of the ESCB and the systems of other providers of information services in Slovenia that require the use of corporate digital certificates from a recognised certification authority.

2.2 Tasks in the area of ensuring financial stability

2.2.1 Financial stability

The Bank of Slovenia continued its regular monitoring of the Slovenian financial system in 2013, and its analysis of financial stability and exposure to risk in the system. Two publications analysing the main risks in the financial system were compiled in 2013: the Financial Stability Review in the spring, and the Stability of the Slovenian Banking System at the end of the year, which was released at the beginning of 2014. In addition to the aforementioned analyses, the Bank of Slovenia continued its monthly analysis of the performance of the banking system in 2013, and continued to act within the framework of the European Systemic Risk Board.

The Financial Stability Review analysed the changes and significant risks associated with the Slovenian financial system in 2012 and early 2013. The crisis in Slovenia revealed the banks' over-dependence on funding on the international financial markets and the high debt-to-equity ratios in the corporate sector. Corporates were again unable to deleverage substantially in 2012. The banks continued to reduce their balance sheets as a result of repayments of liabilities on the wholesale financial markets and the low capital adequacy. The banking sector's loss in 2012 was the largest since the outbreak of the financial crisis, and was primarily the result of higher impairment and provisioning costs and lower net interest income. Income risk became one of the most important systemic risks, as a result of the deterioration in the structure of the credit portfolio and the contraction in lending activity. The banks' rising funding costs in previous years led to high lending rates for corporates, and a decline in the net interest margin. This resulted in high costs for corporate financing, which was already constrained, and limited capacity for the banks to generate internal capital. The proportion of the banking system's total classified claims that are more than 90 days in arrears reached 14.6%, and the figure was particularly high at the large domestic banks. According to this indicator, households remain relatively low-risk, while corporates in bankruptcy are among the highest-risk investments. The banks improved their capital structure and capital adequacy in 2012, although the shortfall on the average capital adequacy across the EU increased slightly, primarily as a result of changes in the ratio of risk-weighted assets to total assets. The conclusion of the Financial Stability Review was that only a consolidated banking system with lower leverage at banks and corporates would entail a healthy basis for the start of new growth in loans.

The Stability of the Slovenian Banking System mostly analysed the risks associated with the banking system in the first three quarters of 2013. The development of systemic risks in the Slovenian banking system in 2013 was influenced by the ongoing decline in economic activity and financial intermediation. The report found that credit risk was reduced at the banks after the asset quality review and the transfer of the two largest banks' non-performing claims to the Bank Asset Management Company (BAMC) in December. The quality of the investments at the government-owned banks improved as a result of a decline of non-performing claims and an increase in investments in risk-free BAMC bonds and government bonds received for the recapitalisation of the aforementioned banks. The report found that renewed growth in non-performing claims could be prevented by the banks taking an active approach to the forbearance of their remaining non-performing claims against debtors, and by the effective functioning of the BAMC, which reduces the burden of corporate debt transferred to it by converting it into equity, which it then actively manages or sells. Solvency risk in the banking sector declined after the bank recapitalisations. Income risk increased as a result of the high proportion of non-performing claims in the banking system's portfolio and the contraction in loans. The liquidity of the banking system was relatively stable in 2013, and improved significantly at the end of the year as measures were taken. However, some of the small banks found themselves in liquidity difficulties in the second half of 2013 owing to an unstable funding structure and inadequate performance in crisis conditions. As a result of the continuing intensive process of the banks' debt repayments to the rest of the world and the shortening of maturities on funding in 2013, the banking system's exposure to interest rate risk began to rise and income risk increased, an indication of the banking system's heavy losses in the last year. The conclusion of the report was that the development of systemic risks in the banking system remains uncertain, despite an effective beginning to bank recovery in December 2013. The further consolidation of the banking system is vital to making improvements in the banks' efficiency, which must be reflected in a rise in the net interest margin and the proper evaluation of the risks taken up.

The Bank of Slovenia was intensively involved in the implementation of stress tests for a representative portion of the banking system, using both a bottom-up approach and a top-down approach. The stress tests were conducted in the second half of 2013, and followed the comprehensive asset quality review. The Bank of Slovenia drew up forecasts for key banking variables for the purpose of assessing the capital deficit in the event of the adverse scenario. These forecasts were used by the external consultants to draw up estimates of the two components of the capital deficit, namely the banks' loss absorption capacity and the forecast for credit risk losses. A review of methodology was conducted within the framework of the two components of the capital deficit, and the methodology was tailored to the specifics of the Slovenian banking market and the Slovenian economy.

Regular risk analysis, including the results of the macro stress tests, also forms the basis for decisions on the drafting of proposals for macro-prudential measures. The most recently adopted measure was restrictions on liability interest rates, which was based on the findings of increased risk across the banking system. The measure was adopted in 2012. The purpose of the measure was to restrain the banks' ability to compete for deposits by the non-banking sector by raising liability interest rates. The measure defines a premium on capital requirements for new deposits by the private non-banking sector where the realised deposit interest rate exceeds the ceiling set by the measure. The Bank of Slovenia takes account of the increased profitability risk from liability interest rates within the framework of the internal capital adequacy assessment process. No macro-prudential measures were adopted in 2013, although a proposed measure restricting the gross loan-to-deposit ratio for the non-banking sector was drafted. A reduction in the aforementioned ratio is vital to achieving a stable funding structure in the banking system, although reducing it too quickly would increase systemic liquidity risk. The measure is expected to be adopted in the first half of 2014, after the procedure of notifying and consulting the ESRB.

The Macro-Prudential Supervision of the Financial System Act and the Financial Stability Committee

With the aim of helping to protect the stability of the entire financial system, which includes increasing the robustness of the financial system and preventing or reducing the accumulation of systemic risks, the Macro-Prudential Supervision of the Financial System Act (the ZMbNFS), which was adopted on 27 November 2013, entered into force on 21 December 2013. The adoption of the ZMbNFS has put in place a legal basis for the supervision of the stability of the financial system as a whole. The ZMbNFS establishes the Financial Stability Committee (FSC), which will be responsible for macro-prudential policy in Slovenia. The FSC will assess systemic risks to financial stability, will strengthen cooperation between existing supervisors, and will dictate measures to them. The FSC comprises two representatives from the sectoral supervisory authorities (the Bank of Slovenia, the Securities Market Agency and the Insurance Supervision Agency) and two representatives from the Ministry of Finance. All committee members other than the representatives of the Ministry of Finance have the right to vote. The FSC will be chaired by the Governor of the Bank of Slovenia. The objective of the FSC, which will be supported in its work by the Bank of Slovenia, is to use macro-prudential measures to ensure that the financial sector makes a sustainable contribution to economic growth. The FSC will recommend measures to be taken by the sectoral supervisors. The latter will retain their supervisory function at the level of individual financial institutions.

2.2.2 Banking supervision, and follow-up reviews of measures

The Bank of Slovenia has a mandate to conduct banking supervision. The principles of constant supervision and proportionality should in particular be applied in banking supervision, which means that supervision is conducted constantly and at all banks. The methodology of supervision encompasses a large variety of activities. In particular, the banks' operations are monitored by means of:

- analysis of reports submitted regularly, and *ad hoc* reports submitted by request;
- examinations and reviews at banks' premises;
- meetings with representatives of a bank;
- cooperation and exchange of information with other supervisors for an individual bank;
- measures taken on the basis of these activities to improve operations and reduce risks at banks.

Proportionality is applied by allocating the capacity available for supervision across the banks in relation to the estimated level of risk at each bank and the bank's importance to the stability of the entire banking system. The objective of supervision is that a comprehensive supervisory review is conducted every three years at each bank under the Bank of Slovenia's jurisdiction, and at least one examination is conducted at each bank every year. The area of examination is chosen with regard to the material significance and the estimated level of risk in the area, and the time that has passed since the last examination of the individual area. Prudential and thematic examinations are conducted at banks. Prudential examinations of banks typically focus on individual areas of risk or operation. The emphasis in thematic reviews of banks is on compliance with legislation or best banking practice determined for individual products or even individual transactions at a specific bank or at several banks. Changes to regulations or standards applicable to all banks are frequently adopted on the basis of the conclusions from thematic examinations.

Annual reviews and the assessment of risks and capital levels at banks in the banking system are an integral part of regular comprehensive banking supervision. The Supervisory Review and Evaluation Process (SREP) focuses on the assessment of risks and the quality of the control environment at the bank under review, on the review and evaluation of its Internal Capital Adequacy Assessment Process (ICAAP), and on compliance with the prudential standards set out by the Banking Act and the corresponding secondary legislation. The SREP encourages active dialogue with the bank with a view to the timely identification of any weaknesses in risk management and the ICAAP. The aim is to take rapid action to mitigate risks and to provide the estimated level of required capital. In accordance with the internal supervision methodology, which is based on the assessment of risks and the quality of the control environment, the following risks are subject to assessment: credit risk, market risk, interest rate risk, liquidity risk, operational risk, strategic risk, capital risk, profitability risk and reputation risk. Each area of risk is divided into risk elements that precisely define the individual risk, and which are assessed. Risk assessment in this step means the evaluation of so-called inherent risk, i.e. the risk that the bank is prepared to take up and that is defined by its business model alongside products and services, and target customers and markets. The bank can mitigate or monitor the risks by means of an effective control environment. The areas of the control environment that are assessed are internal controls, organisation and governance. As is the case for the different areas of risk, each area of the control environment is divided into elements that represent meaningful components of the control environment, define it in detail and are subject to assessment. Whenever a specific area of risk is being assessed, the corresponding internal controls are also assessed. The individual view of a particular bank is obtained by splitting the bank across its business activities and by setting a weight with regard to material significance from the point of view of the risk to the bank as a whole. A cross-section of the bank's business activities and the corresponding risks with the related supervisory environment illustrated in a table forms the bank's risk matrix. A risk matrix is drawn up for each bank. The assessment of the risks and the control environment is the result of a constant process of bank monitoring, and the reviews and examinations at banks are just a part of this process. The aforementioned methodology of supervision allows for comparability between individual banks and between different periods of time.

Risks are assessed at the level of the bank, and at the level of the banking system. Another result of the supervisory review of capital and risk assessment process at banks is the analysis and assessment of the materiality of key risks and the trends in their development (decline or increase) in the banking system as a whole. The priorities in supervision are adjusted as appropriate to the changes in the materiality of these risks, and the required systemic measures to mitigate and/or control and/or prevent these risks are taken.

The annual review and assessment of risks in the banking system at the end of 2012 revealed a deterioration in the overall risk assessment in 2012 and suggested that the trend would continue in 2013. The most significant deterioration was the result of deterioration in the assessments of credit risk, strategic risk (including capital risk) and liquidity risk. As a result of their business models, their manner of operation and the situation on the markets in which Slovenian banks operate, credit risk is by far the largest risk in the system. The number of non-performing loans and the losses from the existing credit portfolio are continually increasing. There is little new lending to creditworthy clients. The key problems are corporate over-leveraging, the deterioration in payment discipline, and the problem of the quality and liquidity of collateral. The capital requirements for credit risk account for over 90% of total capital requirements. The worst assessment in 2012 was recorded by strategic risk, owing to the lack of clarity in ownership relations, the uncertain economic situation and, in particular, the bad economic situation of the actual bank owners, who are unable or unwilling to support the banks in the event of any problems.

An annual plan of bank reviews and examinations in a particular year is drawn up on the basis of the results and conclusions of the annual risk assessment in the banking system and at individual banks. Proceeding from the risk assessment and the requirements for constant and proportionate supervision, and with regard to the available capacity, ten prudential examinations at banks and banking groups were planned in 2013. In accordance with the level of credit risk, which is by far the largest risk at the banks operating in Slovenia, the plan envisaged an examination of credit risk at eight banks. The plan also included examinations of other areas of risk, as illustrated in Table 6.

Table 6: **Breakdown of scheduled examinations by area**

Examination area	Credit risk	Liquidity risk	Operating risk	Capital risk	Interest rate risk	Strategic risk	Governance	Thematic examination
Number of banks	8	6	4	2	2	2	2	11

Source: Bank of Slovenia.

The planned thematic examinations focused on the following areas:

- in connection with the deposit guarantee scheme, examinations of the nominated potential successor banks for the implementation of their preparedness to take over tasks and responsibilities in case of activation of the deposit guarantee scheme, and examinations (planned for five banks) of readiness for the timely and accurate submission of data per depositor (i.e. single customer view) to the Bank of Slovenia as the competent authority which administers the deposit guarantee scheme as well as to the successor banks;
- examinations of the adequacy of the system and rules put in place for the prevention of money laundering and terrorist financing were planned at two banks;
- an asset quality review of eligible collateral for liquidity loans at the central bank was planned at three banks;

- a review of the fulfilment of the conditions for the use of an internal risk assessment model was planned at one bank.

Several extraordinary tasks were included in the plan. This was necessary because of an assessment of very large risks at certain banks where special measures have already been ordered, and delays in implementing these measures. These tasks comprised:

- permanent intensive monitoring of liquidity at three banks by order of the Crisis Management Group;
- a review of asset valuations during transfer to the Bank Asset Management Company;
- participation in activities to provide legal and other frameworks for the effective restructuring of the corporate sector, which were carried out at the initiative of the Bank of Slovenia.

The implementation of tasks in connection with bank recovery had a major impact on the implementation of the planned supervisory tasks in 2013. Further deterioration in the economic situation in the wider environment in 2013, in which political instability was also a major factor, resulted in a rapid credit downgrading for Slovenia, which had a major impact on access to funding for Slovenian banks on the international financial markets, and thus on the liquidity position of certain banks. Within the framework of measures taken by the government at the proposal of the European Commission to improve the economic situation, one of the priority tasks was the recovery of the banking system via the transfer of non-performing claims to the Bank Asset Management Company and the simultaneous recapitalisation of the banks by the government to restore their ability to finance corporates. For this reason it was necessary to conduct a comprehensive asset quality review, and to assess the need for additional capital on the basis of stress tests. The new priority tasks required a larger HR component in supervision. Given the change in priority tasks and other capacities, in contrast to the plan there were just two regular prudential examinations conducted at two banks, while the numbers of follow-up examinations (22 examinations at 14 banks) and thematic examinations (20) were higher than planned. In addition to the areas previously planned, there was also an examination of the organisation of mortgage banking during the issue of a licence to a bank to provide mortgage banking services. Examinations of asset valuation and stress tests for the assessment of the need for additional capital were conducted at two banks. In conjunction with the Payment and Settlement Systems Department, three examinations were conducted at two firms that hold an authorisation to provide individual functions of payment transactions and to operate a payment system. In conjunction with the Securities Market Agency, a joint examination of the provision of custodian services and fund management was conducted at one bank.

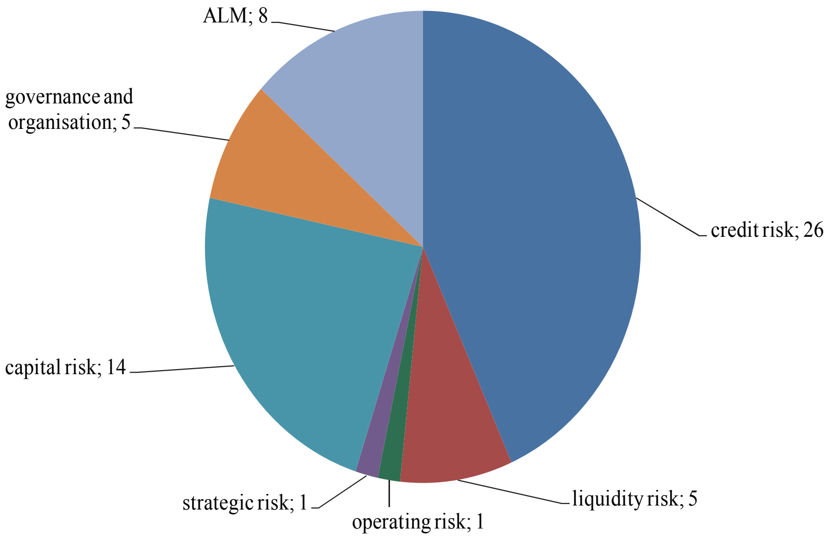
Table 7: **Number of imposed, implemented and open measures in 2013**

	Imposed	Implemented	Open
Number of measures	120	85	87

Source: Bank of Slovenia.

The purpose of supervisory measures is to eliminate violations and deficiencies. In examinations in which violations, deficiencies or bad banking practices are identified, the Bank of Slovenia has the power to impose supervisory measures on the banks to eliminate violations, to ensure that operations comply with regulations, and to enforce good banking practice for more efficient operations. The measures that the supervisor imposes on a bank are proportionate to the significance and materiality of the findings. Based on the findings of examinations and reviews, the Bank of Slovenia may issue banks with recommendations, admonishments or orders, or another measure in accordance with the Banking Act. There were 87 open (unresolved) measures in the process of implementation at the end of 2013, comprising 31 orders for the elimination of violations, nine admonishments, one recommendation to improve operations, and 46 additional requirements primarily relating to the need to meet capital requirements as assessed in the SREP, and to additional reporting for current monitoring of the implementation of measures and/or the monitoring of risks.

Figure 29: **Measures in areas of risk**



Source: Bank of Slovenia.

In the last two years there has been a notable trend of stricter supervisory measures being imposed. This was related to the adverse economic situation and the resulting difficulties in the performance of the banks and the corporate sector. Supervision is also identifying more serious or significant violations of regulations, such as significant shortfalls in the creation of impairments, difficulties in permanently meeting ever-increasing capital requirements as a result of increased risks, and persistent difficulties in meeting liquidity requirements, for which reason supervisors are imposing increasingly strict measures in the form of orders or even orders with additional measures. The number of measures issued is closely related to the materiality of the individual risk. A cross-section at the end of 2013 reveals that the largest number of open measures was in the area of credit risk, as it is the most significant risk at Slovenian banks, and the largest number of examinations is therefore conducted in this area. The next most examined area was capital, followed by other areas as illustrated in Figure 29.

In five cases banks were ordered to embark on procedures to investigate criminal liability and liability for damages on the part of the bank's responsible officers. This was necessary owing to the major violations identified in credit approval and credit risk management, and the resulting heavy losses and large capital deficit.

The failure to meet liquidity and capital requirements brought the most demanding action from supervisors. In September the extraordinary measure of an orderly wind-down was imposed on two banks that had failed to meet the required capital adequacy ratios as determined in the SREP and were no longer meeting liquidity requirements. A special administration was appointed, and the government recapitalised the banks and became their owner. The two banks had previously been the focus of intensive supervisory activity, particularly in the areas of analysis of the sustainability of the business model, liquidity, credit risk, and asset and collateral assessment. With the appointment of the special administration, the Bank of Slovenia assumed the role of the supervisory board and general meeting.

Changes to secondary legislation in the area of banking supervision

Current developments in the banking system and the findings and experience that supervisors obtained in banking supervision were the main reasons for certain changes to Bank of Slovenia secondary legislation in 2013 and early 2014. In addition to these changes, within the framework of its legal powers the Bank of Slovenia drew up secondary legislation transposing European directives in relation to banks and the guidelines of the European Banking Authority (EBA) aimed at achieving a convergence of European banking and supervisory practices.

- **Changes to secondary legislation in response to identified risks and to practical experience and findings from supervision**

Some of the changes to secondary legislation were adopted as a result of the findings from supervision of credit risk management at the banks. The aforementioned changes bring an upgrade to the methodology of the credit risk assessment, but also contribute to the qualitative aspects of credit risk management. When approving credit the banks must pay more attention to the formulation of loan agreements, as the requirement is for loan agreements to include relevant and clear clauses, and then during credit monitoring they should monitor the performance of contractual commitments (the new Regulation on risk management and implementation of the internal capital adequacy assessment process for banks and savings banks, January 2013).

A more precise definition has also been established of when a debtor is in default. The definition of default that the banks use for classifying claims in categories A to E has now been brought into line with the definition of default as set out in EU banking legislation. The same definition is used in the rules of the Eurosystem's prudential framework intended for assessing the eligibility of financial assets as collateral for Eurosystem credit operations (the new Regulation on the assessment of credit risk losses of banks and savings banks, February 2013).

Via changes to implementing regulations the Bank of Slovenia is also attempting to encourage banks to take a more active role in corporate restructuring and to reduce non-performing loans on bank balance sheets. The banks are required to strengthen their monitoring of forborne exposures, particularly to corporates for whom the successful forbearance of the banks' exposures requires comprehensive operational, ownership and financial restructuring. The banks are accordingly required to draw up corporate exposure forbearance plans, and to report to the Bank of Slovenia in connection with the corporate restructuring agreements that they reach (the new Regulation on risk management and implementation of the internal capital adequacy assessment process for banks and savings banks; the new Regulation on the reporting of individual facts and circumstances of banks and savings banks, May 2013). In addition, as part of the activities to encourage the banks to take a more active approach to the forbearance of non-performing investments, the definition of forborne financial assets was updated to accord with the technical standards for supervisory reporting to the EBA and the ECB. The types of forbearance that can be carried out by banks were defined, and requirements were prescribed for the classification of forborne financial assets into rating categories and in terms of their documentation or recording in books of account. As an incentive to faster write-offs of non-performing financial assets and redemption of collateral, a framework was put in place for the faster derecognition of non-performing financial assets from the statement of financial position when a bank judges that a financial asset will no longer be repaid or the conditions for derecognition under the IFRS have been met. A bank can make an assessment of the write-off of financial assets from a loan agreement or an exercised contingency when the following conditions have been met:

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

The requirements for reporting the classification of financial assets were also updated. It involves the reporting of individual transactions or counterparties to financial assets (the code for the counterparty and the number of days in arrears at the level of the individual transaction) and the reporting of forborne financial assets (type of forbearance, date of initial forbearance, date of last forbearance) (the new Regulation on the assessment of credit risk losses of banks and savings banks; the Guidelines for the implementation of the regulation, March 2014).

The new secondary legislation also addresses liquidity management at banks, and the banks' policy of expanding into other parts of the financial sector. A requirement was introduced for banks to monitor and report on their liquidity flows, which should make a positive contribution to the quality of liquidity management at banks. The monitoring and reporting of liquidity inflows and outflows and of liquid assets is expected to give a better insight into a bank's future liquidity situation, an early warning of potentially problematic areas and the timely preparation of measures to prevent or bridge liquidity deficits (the new Regulation on the minimum requirements for ensuring an adequate liquidity position at banks and savings banks; the Guidelines for the implementation of the regulation, November/December 2013). On the basis of the submission of the information and figures prescribed for the intended acquisition of a qualifying holding in the financial sector, the supervisor will be granted prior insight into the planned expansion of the bank's operations into other firms in the financial sector, and the consequences of such expansion. When the bank has failed to put in place an adequate system for managing the risks deriving from the acquired investments, or the effective implementation of supervision, the authorisation to acquire a qualifying holding may also be rejected or revoked (the Regulation on the documentation for the granting of authorisation to acquire a qualifying holding to banks and savings banks; the new Regulation on the reporting of individual facts and circumstances of banks and savings banks; the new Regulation on the amounts of annual fees for supervision and fees for decisions on requests for the granting of authorisations, September 2013).

The other changes to secondary legislation were a response to practical findings in supervision. The questionnaire used in the assessment of the reputation and experience of a candidate for the position of member of the management board of a bank or savings bank was updated. The updated questionnaire sets out detailed questions for the efficient assessment of the reputation and experience of candidates for the position of member of the management board by the Bank of Slovenia (the new Regulation on the documentation for demonstrating fulfilment of the conditions for performing the function of a member of the management board of a bank or savings bank, January 2014). The levels of the individual fees and the ratios between the individual fees that banks pay for the issue of various authorisations have been changed.

- **Changes to secondary legislation as a result of the transposition of EU directives and EBA guidelines**

Within the framework of its legal powers the Bank of Slovenia also passed several items of secondary legislation related to the implementation of EU banking legislation and EBA guidelines. A package of regulations was issued in connection with the transposition of the new financial conglomerates directive, which expanded supervision on a consolidated basis to groups headed by mixed financial holding companies (July 2013). There are no such groups for the moment in the Slovenian financial system. The EBA guidelines on the assessment of the suitability of members of the management or supervisory bodies and key function holders were transposed into Slovenian law by changes to Bank of Slovenia regulations (September 2013). On the basis of the changes banks will now have to adopt and implement policies setting out the criteria of reputation, experience and governance to be met by candidates for positions on management boards and supervisory boards. These criteria are also substantive guidelines for all entities participating in the proposal, selection or appointment of candidates for the aforementioned positions, including the owners of banks and savings banks. This should contribute to strengthening corporate governance at banks and savings banks. An amendment to the Regulation on the books of account and annual reports of banks and savings banks made minor changes to the structure of the statement of cash flows, and the structure of the statement of comprehensive income and the consolidated statement of comprehensive income, as a result of the amendments to IAS 1 and in consideration of the FINREP 3 form from the draft implementing technical standard on supervisory reporting. The Guidelines for compiling the statement of financial position, the income statement and the statement of comprehensive income, and for calculating performance indicators of banks and savings banks were also amended as a result (December 2013). For the implementation of new banking legislation, namely Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, which is applied directly in Member States, a regulation was issued to set out the manner and scope of the implementation of options and discretions and of other tasks that the aforementioned EU regulation assigns to the competent supervisory authority. These are primarily discretions that set out the way in which capital is calculated for banks during the transition period to full enforcement of the new rules and capital requirements for various types of risk and the treatment of certain other prudential requirements from the EU regulation (Regulation on the implementation of the EU regulation on prudential requirements for credit institutions and investment firms with regard to the implementation of options and discretions and of other tasks of the competent authority for credit institutions, January 2014).

Cooperation with foreign supervisors

Cooperation with supervisors in supervisory colleges is being substantively strengthened and is becoming the main form of cooperation between supervisors. For the banks under majority foreign ownership, cooperation with foreign supervisors is firmly established within supervisory colleges, which in accordance with the provisions of the European capital directive have recently assumed an increasingly important role in the exchange of information of relevance to supervisors of an individual banking group, in the coordination of supervisory activities, in the formulation of a joint risk assessment of a banking group, its required capital and the allocation of capital within the group, in decisions on whether the conditions for using advanced models in risk assessment have been met, in the preparation of business plans for contingencies, and in relation to other matters of significance to the functioning of the entire group. Managing supervisors and examiners responsible for individual banks regularly participate in supervisory colleges for individual international banking groups. The Bank of Slovenia participates in seven supervisory colleges for the following banking groups: the Austrian banks Erste, Raiffeisen, Hypo Alpe Adria and Sberbank, the Italian banks UniCredit and Intesa SanPaolo, and the French bank Societe Generale. For the operational functioning of these supervisory colleges the Bank of Slovenia has signed the relevant multilateral agreements with all other supervisors involved in supervision of the particular group. Within the framework of the supervisory colleges for all seven foreign banking groups, which are headed by the supervisors of the banking group's parent bank, and where the Bank of Slovenia participates as host supervisor responsible for the subsidiary bank in Slovenia, nine joint meetings of colleges were organised in 2013, at which a joint decision on the capital adequacy of the banking group and of individual banks within the group was reached by all competent supervisors for five banking groups. In addition to regular meetings, an increasingly intensive exchange of information on various matters of significance to the entire group in question is developing under the aegis of the supervisory colleges: the majority of the supervisory colleges have regular briefings, usually on a quarterly basis, about the operations of the group in the form of supervisory notices, and, where necessary, briefings on significant events that have an impact on the operations of the entire group. There was a focus on the following themes in 2013: i) the preparation of an individual banking group for a comprehensive assessment of operations as part of the preparations for the introduction of the Single Supervisory Mechanism under the aegis of the ECB; ii) greater emphasis on information about the liquidity position of the group; iii) planned recapitalisations or restructuring; and iv) the new European regulations requiring groups to draw up contingency plans to be discussed within the framework of supervisory colleges. In addition to the regular supervisory information about the operations of banks in Slovenia from banking groups of Member States, the Bank of Slovenia also briefed consolidated supervisors on the results of the asset quality review and stress tests. In accordance with agreements in the supervisory colleges on the joint planning of the supervision of banking groups, Bank of Slovenia examiners worked with colleagues from the Austrian and Italian central banks on joint examinations of two subsidiary banks in Slovenia in 2013.

The Bank of Slovenia also acts in the role of consolidated supervisor. The Bank of Slovenia is responsible for organising and heading the supervisory colleges for the Slovenian banking groups of Nova Ljubljanska banka and Nova Kreditna banka Maribor. An extraordinary asset quality review and stress tests were conducted at the two banking groups in the second half of the year at the request of the European Commission to determine the actual need for capital, and recovery plans were drawn up for the two banks. With regard to the material significance of the results of the aforementioned activities, the two supervisory colleges, whose objective was primarily to determine a joint risk assessment and profile for the entire group on the basis of the risk assessment of all the participating supervisors, were postponed to the beginning of 2014, when the results of stress tests were known and the two parent banks had already been recapitalised.

Supervisors also work together on the basis of bilateral memorandums of understanding. Cooperation with supervisors of third countries and cooperation with supervisors of Member States on bilateral matters that are of significance solely to the signatories of the MoU and not to all the supervisors in the college are undertaken on the basis of bilateral memorandums of understanding. The Bank of Slovenia has MoUs with the foreign supervisory institutions from the following 13 countries: Austria, Belgium, Bulgaria, Bosnia and Herzegovina, France, Germany, Italy, Macedonia, Montenegro, the Netherlands, Republika Srpska, Serbia and the US. Their purpose is to enable direct exchange of information on individual subsidiaries, and to conduct joint examinations at banks. In accordance with MoU, as the consolidated supervisor of the banking group the Bank of Slovenia participated in the completion of an examination at a subsidiary bank under the direct control of the supervisory authority from Bosnia and Herzegovina.

Cooperation with financial supervision agencies

On the basis of the rules on mutual cooperation between supervisory institutions, the Bank of Slovenia again worked constructively in 2013 with the other two supervisory authorities of the financial system, the Securities Market Agency and the Insurance Supervision Agency. This cooperation proceeded under the coordination of the Ministry of Finance, the body responsible for coordinating the joint work of the aforementioned supervisory authorities, the strategic development of the supervision of the entire financial system, and the active prevention and effective management of crisis situations in the financial system.

In accordance with the aforementioned rules, the supervisory authorities are even more actively involved in the Commission for Mutual Cooperation. The commission in particular monitors the implementation of the strategic and annual policies put in place during coordination, and the supervisory authorities' MoUs and regulations on cooperation, and plans and coordinates the joint supervisory examinations. At joint meetings the commission consults on other matters relating to more effective supervision of individual financial sectors, banking, insurance and investment groups, and financial conglomerates.

The Bank of Slovenia sees the mutual cooperation between the supervisory authorities in 2013 as positive. In 2013 the commission regularly discussed supervisory activities in the area of financial conglomerates and information on joint supervisory examinations conducted, and was at the same time briefed on activities related to changes of the European legislation in the area of the financial system, including the introduction of the Single Supervisory Mechanism and the banking union, changes to the European directive on deposit guarantee schemes, the entry into force of the EMIR, the drafting of a new CRR and the CRD IV, activities in connection with the Solvency II directive and other changes in the area of supervision of the insurance sector. At the meetings members of the commission also briefed one another on changes to Slovenian legislation in the area of the financial system and other systemically important and current issues in the financial sector, and on the work of the boards of supervisors of the EBA, the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA).

In addition to the regular exchange of information and cooperation within the framework of the Commission for Mutual Cooperation, certain other joint activities were pursued in 2013. The following joint activities were carried out:

- the Securities Market Agency and the Bank of Slovenia conducted the aforementioned joint examination at one bank;
- at the invitation of the Insurance Supervision Agency, the Bank of Slovenia participated for the first time in a supervisory college for an insurer that holds a significant qualifying holding in a bank.

Cooperation with other competent authorities in Slovenia

The Bank of Slovenia cooperates with other competent authorities in Slovenia when irregularities and violations that exceed the jurisdiction of banking supervision alone are identified. This cooperation has strengthened in recent years, particularly in the area of criminal complaints. At the invitation or request of other authorities, the Bank of Slovenia contributed available data and information relating to banking supervision.

Table 8: **Cooperation with competent authorities in Slovenia**

Year	Authority	Number of cases
2013	Office for Money Laundring Prevention	2
	National Bureau of Investigation	1
	Police Directorate Kranj	1
	Commission for the Prevention of the Corruption	3
	Police Directorate Ljubljana	1
2012	Office of the State Prosecutor General	2
	National Bureau of Investigation	7
	Police directorate Maribor	2
	Office for Money Laundring Prevention	2
2011	General Police Directorate	1
	National Bureau of Investigation	3
	Police Directorate Ljubljana	1
	Distric Public Prosecutor Office Ljubljana	1
	District Court in Ljubljana	1
	Ministry of Economic Development and Technology	1
	Office of the State Prosecutor General	1
	Office for Money Laundring Prevention	5
2010	National Bureau of Investigation	1
	Tax administration of the Republic of Slovenia	1
	District Public Prosecutor Office Celje	1
	Office for Money Laundring Prevention	3
2009	Police Directorate Murska Sobota	1
	Office for Money Laundring Prevention	1
2008	Commission for the Prevention of the Corruption	1
Total		44

Source: Bank of Slovenia.

Table 9: **Criminal complaints filed by the Bank of Slovenia by year**

Year	Authority	Number of criminal complaints
2013	National Bureau of Investigation	4
	Distric Public Prosecutor Office Maribor	1
2012	Police Directorate Ljubljana	1
	National Bureau of Investigation	3
2011	Distric Public Prosecutor Office Ljubljana	2
	Distric Public Prosecutor Office Maribor	1
2010	Police Directorate Ljubljana	1
2009	State Prosecutor General of the RS	1
TOTAL		14

Source: Bank of Slovenia.

Licensing

The Bank of Slovenia issued 16 authorisations in 2013, mostly authorisations to provide financial services and to perform the function of a management board member. In its role of supervisor of the banking system the Bank of Slovenia is competent and responsible for conducting comprehensive oversight at banks, part of which is the granting of authorisations for various banking operations. Oversight begins at each credit institution or bank with the issue of the requisite legally prescribed authorisations to perform banking activities (financial services), to acquire qualifying holdings in banks and to perform the function of a management board member of a bank. The authorisations issued by the Bank of Slovenia in 2013 are illustrated in Table 10.

In four cases the procedure to issue the authorisation was suspended. The number of authorisations issued in 2013 was down five on the 21 issued in 2012, of which 12 were authorisations to perform the function of a management board member.

The Bank of Slovenia issued five measures against members of the management board of a bank or savings bank during the reporting period. In the event of violations of the ZBan-1 or a failure to meet the conditions for performing the function of a management board member of a bank, the Bank of Slovenia can issue an admonishment to the management board member in question, can conditionally suspend the authorisation, or can revoke the authorisation to hold office.

Table 10: **Authorisations issued**

Authorisation/Licence	2012	2013
Authorisation to acquire a Qualifying Holding	1	2
Authorisation to perform Financial Services	3	5
Authorisation to issue Municipal Bonds and Mortgage Bonds	1	1
Authorisation to perform the Activities of Cover Register Administrator	2	2
Authorisation to perform the Function of a Management Board Member	12	5
Authorisation for Merger of a Company with a Bank	0	1
Authorisation for Merger of Banks	2	0

Source: Bank of Slovenia.

Table 11: **Bank of Slovenia measures against management board members**

Measure	2012	2013
Procedure for withdrawal of authorisation to perform the function of a member of the bank's management board	0	1
Admonisment to a member of the bank's management board	4	2
Conditional withdrawal of authorisation to perform the function of a member of the bank's management board	2	0
Discharging of bank's management board	0	2

Source: Bank of Slovenia.

Two supervisory board members were dismissed at two banks in 2013 on the basis of Bank of Slovenia action. In addition to issuing authorisations in connection with the provision of services, the management bodies, the holders of qualifying holdings of banks and changes of status, the Bank of Slovenia is also responsible for determining whether a bank's supervisory board is adequate, and for disqualifying a person from membership on a supervisory board in the event of a failure to meet the conditions or a violation of regulations. In 2013 the Bank of Slovenia conducted proceedings at two banks to disqualify two supervisory board members. One resigned, while the other was issued with a ruling on disqualification from membership of the supervisory board of a bank. Five members of the supervisory board of banks and savings banks resigned from their positions in 2012 having been called to do so.

In 2013 three banks submitted requests for an authorisation to acquire a qualifying holding. A qualifying holding in this case means a qualifying holding in the voting rights or capital of a financial institution established in the Republic of Slovenia or another Member State, or a financial corporation established in a third country. As of the end of 2012 banks have been required to obtain an authorisation from the Bank of Slovenia before the acquisition of a qualifying holding. The Bank of Slovenia has not yet issued any authorisations for the acquisition of a qualifying holding.

In 2013 the Bank of Slovenia received 16 notifications of the direct provision of services by banks of Member States in Slovenia, and one notification of the provision of services via a branch. A list of banks of EU Member States that may pursue their business activities in Slovenia is published on the Bank of Slovenia website.

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 in the bank's country of establishment may also provide these services in Slovenia. It may provide them via a branch (*in the case of permanent pursuit of business activities*) or directly (*in the case of occasional provision of services without elements of permanent presence in Slovenia*) without an authorisation from the Bank of Slovenia, which must be provided with a written notification by the relevant supervisory authority in the home Member State. The Bank of Slovenia received 16 notifications of the direct provision of banking and other mutually recognised financial services in 2013 (the same as in the previous year), and one notification of the provision of mutually recognised financial services via a branch. At present, four bank branches were established in Slovenia on this basis: one French and three Austrian.

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

Bank of Slovenia's participation in EU banking supervisors' infrastructure

Another of the Bank of Slovenia's priority strategic policies is participating in the convergence of supervisory practices at the EBA level and the implementation of the Single Supervisory Mechanism at the ECB level. This participation is of key importance to the Bank of Slovenia, particularly in light of the need for the effective and complete fulfilment of the requirements of the single rulebook in banking and the tasks that the Bank of Slovenia must carry out under the SSM.

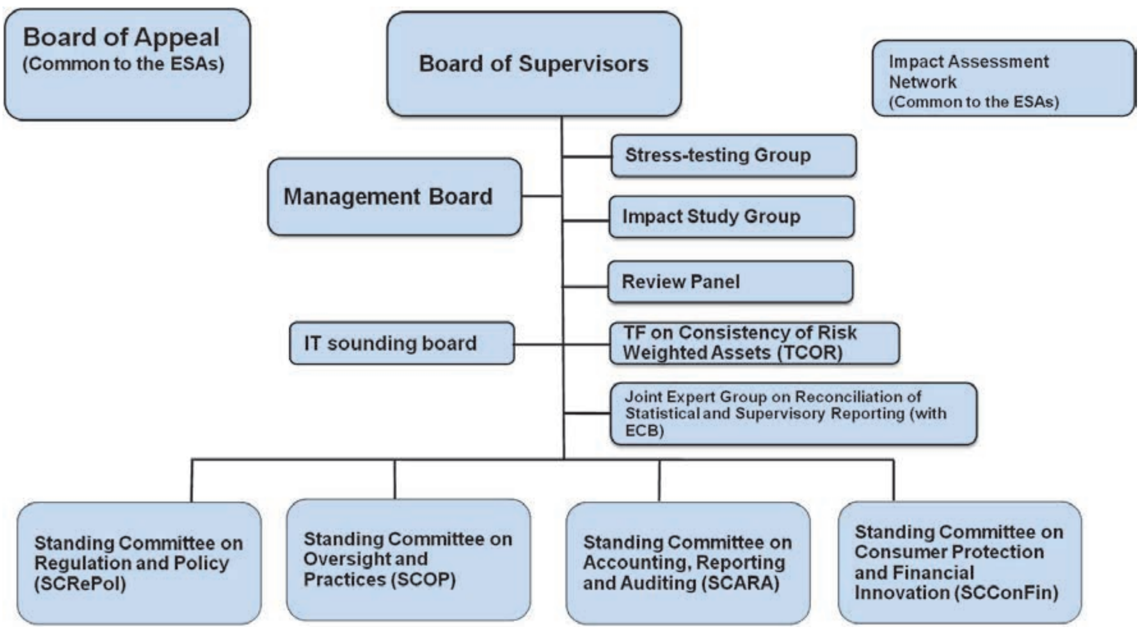
- **European Banking Authority (EBA)**

The convergence of supervisory banking practices taking place under the aegis of the EBA is aimed at establishing a harmonized implementation of regulatory and supervisory banking rules in all Member States. Banks in the EU are subject to prudential rules that need to be applied in a more standardised manner to provide the same business conditions for banks operating on the internal market. These rules include a range of binding technical standards, and the various guidelines and recommendations that have a basis in European banking legislation. The EBA drafts binding technical standards for submission to and approval by the European Commission, and adopts EBA guidelines and recommendations that directly aim at the convergence of supervisory practices and the establishment of standards of good banking practice. At the same time the EBA is developing standard instructions for conducting banking supervision that will be applied in the form of a single supervisory manual in the SSM.

Owing to the extraordinary size and complexity of these standards and rules, the Bank of Slovenia is intensively involved in the work of the EBA via inclusion in its numerous committees and working groups. The Bank of Slovenia can thus also contribute to the development of the single rulebook for banking, and can actively monitor the development of European secondary legislation. This is also important for the Bank of Slovenia because it has to interpret the rules for Slovenian banks and other relevant audiences, and has to directly apply them in supervisory reviews and measures.

In addition to the Board of Supervisors and four standing committees, there are 39 different subcommittees that function under the aegis of the EBA. These include various working groups, networks and committees that are active within the framework of inter-sectoral cooperation between the three European supervisory authorities (alongside the EBA, the ESMA[18] and the EIOPA[19]). The Bank of Slovenia participates in 30 committees, sub-committees and groups at the EBA.

Figure 30: **Current structure of EBA committees and groups**



Source: EBA.

[18] The European Securities and Markets Authority, established by Regulation (EU) No. 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No. 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331 of 15 December 2010, p 84; hereinafter: Regulation 1095/2010/EU).
[19] The European Insurance and Occupational Pensions Authority, established by Regulation (EU) No. 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No. 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331 of 15 December 2010, p 48; hereinafter: Regulation 1094/2010/EU).

- **Single Supervisory Mechanism (SSM)**

The Single Supervisory Mechanism is one of the fundamental pillars of the banking union. The drafting of the new Regulation (EU) No. 1024/2013, which regulates the functioning of the SSM (the SSM Regulation), was fast-tracked in 2013.

Intensive preparatory activities to establish the SSM were carried out at the ECB level in close cooperation with the national supervisors. In connection with the creation of the basis for the initiation of the SSM, even before the formal adoption of the SSM Regulation, the work of the ECB and numerous working groups and committees focused on the establishment of an effective system for the supervision of credit institutions in the SSM and an effective mechanism for national supervisors' cooperation and support in the work of the ECB, and their inclusion in supervisory decision-making procedures. The work under the leadership of the High-Level Group on Supervision (HLG) focused on the following areas: (i) the mapping of the banking system in the euro area to identify the systemically important banks, (ii) the establishment of a legal basis, and the drafting of all the requisite legal acts of the ECB; (iii) a supervisory model for the SSM, including the formulation of the single supervisory manual for the implementation of supervision under the SSM (the Supervisory Manual); and (iv) a framework for reporting supervisory data.

Preparations for a programme of comprehensive assessment of banks included in direct supervision by the ECB were begun in 2013, which in addition to an assessment of the risk profiles of these institutions also requires an asset quality review and stress tests. The three largest Slovenian banks in terms of total assets, namely NLB, NKBM and SID banka, are expected to be under the direct supervision of the ECB and were thus included in the comprehensive assessment.

The second phase of the asset quality review, in which reviews of selected portfolios at banks are scheduled to be conducted, had already begun in March 2014. Prior to that, between December and the end of February the portfolios for review had been determined and the external providers of the review selected on the basis of the data submitted by banks and in conjunction with the ECB. The completion of the aforementioned phase, most likely in July, will be followed by stress tests, whose results must be known by November 2014 (before the actual establishment of the SSM).

The national supervisors (the Bank of Slovenia in the case of Slovenia) act as coordinators, and are responsible for ensuring smooth progress at the local level, for supervising the external providers, for ensuring the quality of implementation and for reporting regularly to the ECB. Notwithstanding that the methodology of the comprehensive assessment will not differ significantly from the methodology used in the review conducted recently on a representative portion of the Slovenian banking system, the implementation of the comprehensive assessment will again require significant commitment from the staff of the Bank of Slovenia and the other banks involved.

With the assumption of responsibilities by the ECB, supervision will be carried out on the basis of standard methodologies in all Member States. The SSM endeavours to use best practice in the implementation of supervision and to meet high standards with the aim of restoring confidence in the banking system. The methodologies used will be subject to permanent supervision and will comply with European regulations (the EBA) and international standards and recommendations (the Basel Committee on Banking Supervision). This will restore stability and transparency, and investor confidence in the banking system.

Activities within the SSM are expected to increase this year. The Bank of Slovenia is planning to further expand activities in 2014 for the asset quality review at selected banks in the SSM and for the preparations of the initiation of the SSM scheduled for November 2014.

Stress tests

In accordance with established practice each year the Bank of Slovenia conducts stress tests of the entire banking system for the purpose of analysing risk exposure. In addition to the macro stress tests, as part of the ordinary supervisory process the Bank of Slovenia conducts simulations of micro stress tests using a bottom-up approach to examine the sensitivity of an individual bank to selected shocks. The micro stress tests are merely one of numerous supervisory tools used by the supervisor for monitoring the operations of the banks, and as such are intended primarily for internal use by the supervisor. The same scenarios are used for both types of stress test (macro and micro) for the sake of comparability of results. The Bank of Slovenia also conducts individual shock simulations, which may differ in each stress test approach, and are largely aimed at assessing individual significant risks (credit risk, country risk, refinancing risk, etc.). After being discussed by the Governing Board of the Bank of Slovenia, the results of the two stress test approaches are presented to the banks with the aim of drawing attention to their sensitivity to individual types of potential shock. The findings of the micro stress tests are also applied directly in the ICAAP-SREP dialogue as one of the risk profile indicators of an individual bank, and consequently also provide the basis for determining higher risk-based capital requirements for the bank.

In accordance with the aforementioned practice, such stress tests were conducted in the spring of 2013. Because the time frame of the stress testing coincided with the mission of the IMF's Financial Sector Assessment Programme, the methods and implementation of the stress tests were assessed by the latter. The results of the stress tests, which already included certain improvements and updates by the IMF, were published on the Bank of Slovenia website in May 2013.

On the basis of the Recommendation for a Council Recommendation on Slovenia's 2013 National Reform Programme and delivering a Council opinion on Slovenia's Stability Programme for 2012 -2016, the European Commission requested the execution of an independent asset quality review (AQR) and stress tests (bottom-up and top-down) for a representative portion of the banking system as a prerequisite for the transfer of non-performing claims to the BAMC and the approval of state aid. The Bank of Slovenia therefore embarked on the aforementioned exercise in July 2013, in conjunction with the Ministry of Finance. To ensure the complete independence and credibility of the reviews, the Bank of Slovenia engaged experienced international consultants and real estate appraisers, who conducted their reviews on the basis of tested methods and international standards. Implementation was coordinated by a steering committee involving the Bank of Slovenia, the Ministry of Finance, and observers from the European Commission, the ECB and the EBA.

Ten banks were involved in the comprehensive review conducted between early August and early December 2013, or approximately 70% of the banking system. The objective of the comprehensive review was to assess the ability of the Slovenian banking system to withstand a sharp deterioration in macroeconomic and market conditions in accordance with the projected adverse scenario, and to determine the potential capital deficit in the event of the aforementioned circumstances. The results of the stress tests, which were published on the Bank of Slovenia website on 12 December 2013, formed the starting point for the assessment of the requisite recapitalisations, and subsequently for the implementation of immediate measures to strengthen the capital position of individual banks.

Deposit guarantee scheme for banks and savings banks

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

The Bank of Slovenia is responsible for the stability of Slovenia's deposit guarantee scheme, as the scheme is of key importance to the maintenance of financial stability and depositors' confidence in the banking system. In 2012 the Bank of Slovenia decided to improve the mechanism for the payout of guaranteed deposits in the event of bankruptcy, for which reason it appointed potential successor banks to make the technological, organisational and personnel preparations for taking over the duties of the successor bank in the event of the bankruptcy of any bank or savings bank that is a member of the deposit guarantee scheme in Slovenia. It also changed the internal procedures in order to ensure smooth processes for paying out the guaranteed deposits to eligible depositors. The Bank of Slovenia continued these activities in 2013, focusing on the following:

- the abolition of the netting principle in the calculation of guaranteed deposits, according to which depositors' outstanding past-due liabilities as at the day of the bank's bankruptcy are deducted from their deposits, as in practice it was found that the process of calculating the net deposits lengthened the process of confirming the information about guaranteed deposits. In accordance with the incoming new European directive on deposit guarantee schemes, which gradually shortens the deadline for paying out guaranteed deposits to seven business days, the Bank of Slovenia assessed that it was necessary to eliminate this obstacle by amending the ZBan-1 and the secondary legislation (the Regulation on the deposit guarantee scheme, Official Gazette of the Republic of Slovenia, No. 29/13);

- the timely and accurate reporting of the information that banks must prepare in the event of bankruptcy (for each deposit and each individual depositor). This is the key to the preparation and verification of all the data for the payout, and to the actual payout process for paying out guaranteed deposits to depositors at the bank in bankruptcy. The Bank of Slovenia therefore conducted test reporting exercises and supervisory examinations at selected banks with the aim of confirming that its requirements for the form, format and deadlines for the reporting of information on guaranteed deposits have been met;

- participation in negotiations by EU institutions on the new European directive on deposit guarantee schemes, which introduce a major change for Slovenia in the form of the mandatory *ex ante* funding of the deposit guarantee scheme, something that the Bank of Slovenia had previously been working towards, as this would ensure that the funds for the payout of guaranteed deposits would be collected in advance, thereby directly contributing to the maintenance of financial stability in Slovenia. In parallel the Bank of Slovenia informed banks and savings banks of the anticipated changes to the deposit guarantee scheme, and under the aegis of the Bank Association of Slovenia sought common solutions to reforming the Slovenian guarantee scheme.

The Bank of Slovenia's priority in 2014 will be strengthening its activities to reform the deposit guarantee scheme. The Bank of Slovenia will be involved in drafting the legal and other changes required for transposing the new directive on the deposit guarantee schemes into Slovenian law, in close conjunction with the Bank Association of Slovenia. The Bank of Slovenia will simultaneously continue its activities to prepare banks and savings banks for the timely and accurate reporting of information about guaranteed deposits, which is one of the key elements in the functioning of the deposit guarantee scheme. The Bank of Slovenia will also continue its activities to establish a deposit guarantee scheme that complies with the new European directive, which not only raises public awareness of the deposit guarantee scheme, shortens the deadlines for paying out guaranteed deposits, and introduces other changes to improve depositor security, but also requires appropriate governance arrangements within deposit guarantee schemes.

Crisis management framework

The situation in 2013 deteriorated to an extent where it was evident that without state aid in the form of recapitalisation certain banks would fail. The deterioration in the economic situation in the country, particularly in 2010 and in 2012, caused by the collapse of numerous firms had an impact on the capital adequacy of the banks, while the decline in the government's ability to borrow also resulted in a deterioration in the liquidity position of the Slovenian banking system. The key to the crisis management measures was the adoption of the new Banking Act in 2013 (Act Amending the Banking Act [Official Gazette of the Republic of Slovenia, No. 96/13]; the ZBan-1L). In drafting the ZBan-1L and in carrying out this measure, the Bank of Slovenia acted prudently with the aim of ensuring that the adverse impact of this measure was kept to a minimum.

Arrangements were therefore enacted in Slovenia allowing the Bank of Slovenia to carry out bank resolution procedure in the event of a bank's insolvency employing measures that are similar in effect to the compulsory settlement proceedings carried out in the event of the insolvency of a non-financial corporation. The new arrangements provide for the statutory write-down of the shares of existing shareholders and the write-down or conversion into shares of the subordinated claims of the bank's creditors, i.e. those claims that in the event of the bank's bankruptcy would only be repaid after all of the bank's deposits and other ordinary claims of the bank's creditors have been repaid. The new measure of compulsory write-down or conversion was arranged as an extraordinary measure to be imposed by the Bank of Slovenia under its supervisory powers, provided that the conditions defined by law have been met. The new measure of statutory wind-down or conversion thus prevents the collapse of the bank, and provides for its viability in a similar manner as compulsory settlement for an insolvent non-financial corporation, whereby past losses are first covered by the current owners, and only later by creditors whose claims are classed as subordinate under the rules of general insolvency law (in order of the level of subordination of their claims). Slovenia is a constituent part of the EU, and Slovenian banks are a constituent part of the European banking system, which means it is obliged to uphold legislation adopted within the EU. In the case of state aid to banks, this includes the conditions that must be met for the state aid to be permitted. The conditions for permitting state aid for bank recovery are set out by the European Commission under its powers in the area of the protection of competition. The European Commission makes a separate assessment of the permissibility of each individual case of state aid (whether the government is earmarking funding for bank recovery or for corporate recovery and restructuring). Under the Treaty on the Functioning of the European Union, the prior consent of the European Commission is a prerequisite for a country being able to allocate state aid to an individual bank.

The entry into force of the ZBan-1L provided for the Bank of Slovenia, in the event of the identification of the insolvency and potential bankruptcy of a bank that could threaten the stability of the financial system, to use an extraordinary measure to enforce only certain effects of the bankruptcy of the bank, namely the cancellation of the bank's liabilities to shareholders and creditors from subordinated claims if the liabilities would not have been repaid in the bank's bankruptcy. This measure prevents the bank's bankruptcy, and as a result of this measure shareholders and creditors whose claims were cancelled cannot be worse-off than they would have been in the event of bankruptcy. Should the creditors in a specific class of subordinated claims receive at least partial repayment in bankruptcy, this portion cannot be subject to cancellation, but the Bank of Slovenia may decide to convert their claims into (new) shares in the bank. On the basis of an assessment by independent appraisers conducted at all the banks that have been subject to extraordinary measures (NLB, NKBM, Abanka, Factor banka and Probanka), the Bank of Slovenia established that the capital deficit in the event of the bankruptcy of a bank would be so large that the claims of subordinated creditors and the shares of existing shareholders would not be repaid, even in part. For the banks to be able to receive the state aid that was vital for stabilising their operations, each bank's shares and all its subordinated liabilities had to be cancelled before funds from the government could be contributed to recapitalisation. Were this not done, the recapitalisation of the banks via state aid would not be permitted under EU rules on state aid. According to these rules, public funds may not be used to bail out shareholders and subordinated creditors, but only to resolve the claims of ordinary creditors (the bank's depositors and other senior creditors). The bankruptcy and orderly wind-down of a bank in the sense of Article 320 of the ZBan-1 can be deferred, despite the bank's insolvency having been identified, if the Bank of Slovenia assesses that the causes of insolvency can be eliminated by means of extraordinary measures regulated by the ZBan-1. It follows that extraordinary measures are envisaged as an instrument of bank recovery, by which public funds are used to prevent the bank's bankruptcy to protect the public interest. This is only possible with precisely defined restructuring measures imposed by the Bank of Slovenia on the basis of the law in a manner that protects the fundamental rights of owners and creditors, and prevents the adverse effects of the threat of bank's bankruptcy on the financial system. The extraordinary measures that were regulated by the ZBan-1 before the entry into force of the new ZBan-1L gave the Bank of Slovenia the options of the recapitalisation of the bank (without a general meeting), the transfer of the bank's assets and liabilities to a receiver undertaking, the sale of the bank's shares, and the imposition of special administration. The extraordinary measures that were regulated by the ZBan-1 before the entry into force of the ZBan-1L did not provide for bank restructuring by means of the statutory write-down of the bank's liabilities in the manner applying to the liabilities of over-indebted debtors undergoing compulsory settlement proceedings (in accordance with the ZFPPIPP). The purpose of the restructuring procedures under the ZFPPIPP (preventive restructuring and compulsory settlement) is dual: to maintain the firm as a going concern and to achieve better repayment of creditors than under bankruptcy (Articles 44c and 136 of the ZFPPIPP). Maintenance as a going concern achieves beneficial effects from the point of view of the functioning of the economic system, and society as a whole. There is no burden on public funds from the costs of bankruptcy, and firms continue to generate revenue, to pay public taxes and levies, and to provide jobs.

The European Commission took a favourable view of the government's application for the approval of state aid in the form of bank recapitalisations (state aid would not have been allowed without its consent), as a result of which the recapitalisation could be carried out before the end of the year. Because the recapitalisation of the banks in such a short time frame was only possible with state aid, the measure of the cancellation of the shares and subordinated liabilities was a vital prerequisite for the government's involvement in bank recovery in the form of recapitalisation. Without this measure the entire operation would have been impossible, and the bankruptcy of the banks would have been unavoidable under current legislation. The Bank of Slovenia is aware of the gravity of the measure imposed via the cancellation of the banks' shares and subordinated liabilities, but at the same time it has established that in the given circumstances using this measure was the only solution to prevent the bankruptcy of these banks and to ensure the stability of the financial system as a whole.

In drafting the ZBan-1L and in carrying out this measure, the Bank of Slovenia acted prudently with the aim of ensuring that the adverse impact of this measure was kept to a minimum. During a period of economic recession, the risk arising from the ownership of shares and other financial instruments entailing a higher capital return in the context of higher risk increases significantly compared with the risks and expectations that existed at a time of economic growth and a good situation at the banks. We anticipate that economic growth and the recovery and restructuring of the corporate sector will also improve the situation at the banks, which was also the purpose of the recapitalisation of the banks in 2013.

In 2014 (and later in 2015) Slovenia's crisis management framework will have to be completely adjusted to the future single rulebook that will be prescribed by the new European directive on the recovery and resolution of credit institutions and investment firms (the BRRD) and the EU regulation on the Single Resolution Mechanism (SRM). The crisis management framework, most notably bank resolution, will set out the requisite measures, procedures and authorisations by means of which bank resolution will be undertaken in a manner that prevents financial instability, at the lowest possible cost to the government. In connection with the two items of proposed legislation, the Bank of Slovenia actively participated in negotiations with European institutions in 2013, and was also active in the work of the EBA, which is responsible for drafting wide-ranging regulations of this completely new area. In 2014 the government will have to precisely define the authorities for performing functions and tasks in connection with resolution, and ensure that the present crisis management system, i.e. for the recovery and resolution of institutions in the financial system in Slovenia and within the framework of cross-border cooperation with other EU Member States, will be adapted to the aforementioned EU crisis management framework. The authority responsible for resolution will have to modify its organisation in such a manner to ensure the separation of the supervisory function from the resolution-related tasks, thereby ensuring rapid action and avoiding conflicts of interest. The Bank of Slovenia expects to retain its powers in the area of bank resolution, for which reason it will make the requisite adaptations to the new European legislation and the requirements for the separation of the function of the banking supervisor from the function of the bank resolution authority.

2.3 Other tasks

2.3.1 Payment services for Bank of Slovenia clients

The Bank of Slovenia administers accounts and provides payment services for clients. SEPA payment services account for the majority of payment services (99.6%) in terms of number. SEPA credit transfers accounted for 93.6% of SEPA payment services, and SEPA direct debits for 6.4%.

Administration of budget user accounts

The Bank of Slovenia administers the government's single treasury account and 194 standard municipal treasury accounts, open in various currencies. The accounts of direct and indirect spending units of the state budget and municipal budgets, the Health Insurance Institute and the Pension and Disability Insurance Institute (included in the single treasury account system as set out in the Public Finances Act) were opened as sub-accounts of the government or municipal treasury accounts. The sub-accounts are administered by the Public Payments Administration, to which direct and indirect spending units of the state budget and municipal budgets submit payment orders and from which they receive the full set of feedback about payments transacted. In 2013 there were EUR 139,033 million of inflows and EUR 138,702 million of outflows processed through the government's single treasury account, and EUR 40,330 million of inflows and EUR 40,320 million of outflows processed through municipal treasury accounts. In addition to the single treasury accounts, the Bank of Slovenia also administers 33 special-purpose accounts for the government and other budget spending units.

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 2013 there were 17 CSCC members, namely 12 commercial banks and five investment firms, with open transaction accounts for customer funds and clearing accounts at the Bank of Slovenia. EUR 2,459 million of inflows and EUR 2,461 million of outflows were processed through the accounts of the CSCC and its members in 2013.

Administration of accounts for foreign financial institutions and EU institutions

The Bank of Slovenia also administers accounts for foreign financial institutions and EU institutions. EUR 939.7 million in inflows and EUR 936.5 million of outflows were processed through these accounts in 2013.

2.3.2 Risk management at the Bank of Slovenia

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

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

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

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

In 2013 the bank of Slovenia successfully put in place a system for managing operational risk. The operational risk management policy was updated in accordance with the ESCB guidelines. An assessment of the criticality of business processes was drafted, and served as the basis for identifying and analysing operational risks, while specific plans to manage the identified risks were drawn up and implemented. A comprehensive register of incidents and the corresponding loss events was established. The activities carried out on the basis of the identified incidents and loss events give the Bank of Slovenia a practical basis for improving internal controls and implementing new preventive measures for mitigating risks.

2.3.3 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 stood at EUR 4,723.6 million as at 31 December 2013, of which EUR 4,054.3 million comprised financial instruments, which are either claims against euro area residents or claims against non-euro residents both denominated in euro. These include EUR 3,792 million of investments in capital market instruments, EUR 2.4 million in derivatives and EUR 259.9 million in cash and deposits. In addition EUR 669.3 million was invested in financial instruments which are claims against non-euro area residents denominated in currencies that have the status of international monetary reserves. The size of the financial investments also depends on the level of liabilities to the Eurosystem.

According to the IMF's definition, foreign currency cash and foreign exchange holdings abroad, investment-grade securities of foreign issuers, monetary gold, holdings of SDRs and the reserve tranche position at the IMF are classified as international monetary reserves. As of 1 January 2007 the Republic of 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 position and SDRs, the portion of foreign currency reserves not denominated in euro and placed outside the euro area is also classified as international monetary reserves. The methodology is explained in detail in the article entitled *Statistical Treatment of International Monetary Reserves Following Slovenia's Entry to the Euro Area* (Surveys and Analysis, May 2007).

Table 12: **Bank of Slovenia's financial investments**

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. 2010	4,242.5	803.2	5,045.7
31 Dec. 2011	4,824.7	766.8	5,591.5
31 Dec. 2012	4,771.1	722.2	5,493.3
31 Dec. 2013	4,054.3	669.3	4,723.6

Source: Bank of Slovenia.

The management of the Bank of Slovenia's financial investments is based on a three-layer 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 determine the long-term policies and objectives of management. The second level of the management process is represented by the Investment Committee, which defines the *Criteria for managing the Bank of Slovenia's financial investments*, thereby restricting exposure to various types of risk. The Investment Committee further defines the methodology for measuring performance and the quantification of risks. At the third level, portfolio managers carry out the operational part of the management process within set tolerances.

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

The exposure towards market risk factors of the Bank of Slovenia's financial investments is defined by the investment criteria. The criteria lay down a target currency structure and target currency exposure for Bank of Slovenia investments. In 2007 the foreign exchange swap was added to the list of eligible instruments, which allows for exposure to types of risk denominated in foreign currency while hedging against changes in the exchange rate itself. The Bank of Slovenia hedged its entire foreign currency exposure in January 2008, with the exception of the portion of investments representing the amount potentially called into foreign reserves by the ECB. The interest rate risk management criterion sets out the modified duration of financial investments and lays down the maximum allowable deviation from the target modified duration. The liquidity risk management criterion 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 the Article 123 of the Treaty on the Functioning of the European Union, which prohibits the monetary financing of public sector institutions. The prohibited forms of financing the ladder include investment deposits, reverse repos and purchases of primary-issue debt securities, commercial papers and certificates of deposit if the issuer is an EU public sector institution. Purchasing EU public sector financial instruments on the primary market is prohibited, while investments are permitted on the secondary market within a prescribed limit for each country. The management of the Bank of Slovenia's financial investments was carried out in line with all stipulated criteria in 2013. More detailed information on the structure of the international monetary reserves as at 31 December 2013 is given in the section on the financial statements.

2.3.4 International cooperation

European Union

The Governor of the Bank of Slovenia participated in informal sessions of the ECOFIN, and in sessions of the General Board of the European Systemic Risk Board (ESRB) in 2013. In addition to the finance ministers, the informal ECOFIN is attended by the governors of the central banks of EU Member States. The General Board of the ESRB takes the decisions necessary to the performance of the duties entrusted to the ESRB. The ESRB is responsible for the macro-prudential supervision of the financial system of the EU as a whole, and for monitoring and assessing risks to its stability. The Bank of Slovenia representative also attended the meetings of the Advisory Technical Committee, which operates under the aegis of the ESRB. In addition to the ESRB, the new European structure for financial sector supervision in the EU also comprises the European Banking Authority (EBA), which is one of the three European supervisory authorities. The vice-governor responsible for banking supervision and financial stability attended sessions of the Board of Supervisors, while employees from the Banking Supervision Department attended sessions of the EBA's committees and working groups.

In 2013 Bank of Slovenia representatives attended sessions of committees, working groups and other bodies that are active within the institutions of the EU with a focus on financial and monetary matters. These include sessions of the Economic and Financial Committee (EFC) and its subcommittees, meetings of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) and other working groups from the relevant areas that are active within the European Commission and the Council of the EU.

In 2013 representatives of the European Commission and the ECB met with representatives of the Bank of Slovenia within the framework of the European Semester (the annual cycle of economic policy coordination). The agenda included an in-depth review of the economic situation in Slovenia and the fulfilment of specific recommendations in accordance with the procedure for preventing and eliminating macroeconomic imbalances.

International Monetary Fund

The Bank of Slovenia is responsible for Slovenia's cooperation within the IMF, and the Governor of the Bank of Slovenia is a member of the IMF Board of Governors. Slovenia's quota remained unchanged at SDR 275 million, or 0.14% of the voting power at the IMF. In accordance with Resolution 66-2 on the reform of quotas and governance, which the Board of Governors approved in December 2010, quotas will be doubled from the current SDR 238.4 billion to SDR 476.8 billion as part of the 14th general review of quotas. The aforementioned increase was not made in 2013, as the resolution includes an amendment to the IMF's Articles of Agreement, which requires ratification by at least three-fifths of members having 85% of the total voting power.

A new bilateral loan agreement was signed in 2013 within the framework of the Bank of Slovenia's participation in the IMF's financial arrangements. In December 2011 EU finance ministers agreed to further strengthen the IMF's lending capacity by means of increased contributions from euro area countries in the form of bilateral loans. Under the proposed allocation on the basis of the new quota shares after the reform of 2010, a framework for the new bilateral loan in the amount of EUR 910 million was envisaged for Slovenia. The aforementioned agreement was signed and entered into force on 28 October 2013. SDR 0.7 million was drawn in 2013 under the previous bilateral loan agreement signed in September 2010 between the Bank of Slovenia and the IMF. Disbursement from this agreement was ended on 1 April 2013 on the basis of a decision by the IMF to terminate all the 2009 bilateral agreements.

Slovenia also contributed to the financing of IMF loans under the Financial Transaction Plan (FTP) in 2013. It contributed funds in the total amount of SDR 9 million for lending to Portugal, Cyprus and Pakistan. Slovenia's reserve tranche position at the IMF increased relative to 2012 to stand at SDR 99.6 million at the end of December 2013.

IMF representatives visited Slovenia as part of the Article IV consultations. The 2012 autumn consultations led by Antonio Spilimbergo were continued between 12 and 18 March 2013. During their visit the IMF representatives were briefed on the situation in the economy, the functioning of the financial sector and the banking system, and the future challenges. IMF representatives also held their annual consultations with Slovenia under Article IV of the IMF's Articles of Agreement from 17 to 28 October 2013. The members of the mission met representatives of the Bank of Slovenia, the Slovenian government, the National Assembly, the banking sector and trade unions, who presented the macroeconomic situation and the Slovenian government's economic policy guidelines in the upcoming period. In accordance with IMF practice, the final report of the IMF mission under Article IV of the Statute was discussed by the IMF's Executive Board on 13 January 2014.

Bank for International Settlements

The Governor of the Bank of Slovenia attends meetings of central bank governors of BIS members, which are held every two months. The meetings discuss developments in the global economy and on the financial markets. The governors' meetings are also an opportunity to exchange views on various central banking issues, in 2013 particularly changes in banking regulation. The Bank of Slovenia is a shareholder in the BIS, and its representative attended the annual general meeting of the BIS in Basel.

Organisation for Economic Cooperation and Development

Bank of Slovenia representatives attended sessions of committees and working groups of the OECD. They participated in meetings of the Economic Policy Committee, the Committee on Financial Markets, the Working Group on International Investment Statistics, the Working Party on Financial Statistics and the Working Party on National Accounts, and in the informal steering committee of the Working Party on SMEs and Entrepreneurship. In 2013 a Bank of Slovenia representative participated in the interministerial working group. Bank of Slovenia representatives participated in the Economic Review for Slovenia in April 2013, and met OECD representatives.

Technical assistance

Bank of Slovenia experts are also involved in programmes of technical assistance to other central banks. In 2013 the Bank of Slovenia participated in technical assistance projects for countries of the western Balkans financed by the European Commission and led by the ECB. In addition it provided technical assistance via TAIEX (the Technical Assistance Information Exchange Instrument), and offered technical assistance directly to the central banks of the western Balkans.

In 2013 the Bank of Slovenia participated in both ESCB projects aimed at the central banks of the western Balkans, namely the National Bank of Serbia (NBS) and the National Bank of the Republic of Macedonia (NBRM). The project at the NBS was the most comprehensive ESCB project for the countries of the western Balkans to date. The first part of the project, which ran from 1 February 2011 to 31 January 2013, involved 21 EU central banks of the EU, which provided technical assistance in 11 areas. The second part of the project, which ran from 1 February 2013 to 31 December 2013, involved ten EU central banks in three areas. The project at the NBRM began on 15 October 2012, and ran until 15 July 2013. In addition to the ECB and the Bank of Slovenia, the project involved 11 ESCB central banks.

In addition to the technical assistance within the framework of the ESCB, the Bank of Slovenia provided assistance via TAIEX and directly to central banks. In April 2013 the Bank of Slovenia provided technical assistance via TAIEX to two groups of experts from Northern Cyprus in connection with free movement of capital and payment services and systems. The Bank of Slovenia provided technical assistance directly to the NBS in June and October 2013. The technical assistance covered the areas of the use of an advanced approach for the assessment of credit risk from an economic and legal point of view, and matrix reporting.

3 ORGANISATIONAL STRUCTURE OF THE BANK OF SLOVENIA

Governing Board of the Bank of Slovenia

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

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

There were changes to the make-up of the Governing Board of the Bank of Slovenia in 2013. Dr Boštjan Jazbec was appointed as Governor of the Bank of Slovenia on 2 April 2013 for a six-year term of office, under National Assembly regulation No. 450-03/13-2/8. He replaced Dr Marko Kranjec, who had held the position since 16 July 2007.

As at 31 December 2012, the make-up of the Governing Board was as follows:

- Dr. Boštjan Jazbec, Governor
- Darko Bohnec, Vice-Governor
- Mag. Janez Fabijan, Vice-Governor and Deputy Governor
- Dr. Mejra Festić, Vice-Governor
- Stanislava Zadravec Caprirolo, M.I.A.,Vice-Governor

Organisational structure of the Bank of Slovenia

All of the Bank of Slovenia's work is carried out by employees at various organisational units, namely sectors, departments, sections and offices (see the organisational chart).

Work between departments is coordinated within the individual sector. The sectors are typically coordinated by the Governor, the vice-governors and the Secretary-General.

Operational tasks and work of similar content are carried out within the departments. The Bank of Slovenia has 14 departments, which may be divided into smaller organisational units, sections and offices.

Commissions, committees and working bodies of the Bank of Slovenia

There are a total of 18 commissions, five committees and seven working groups in various areas of operation functioning at the Bank of Slovenia.

The most important working bodies are:

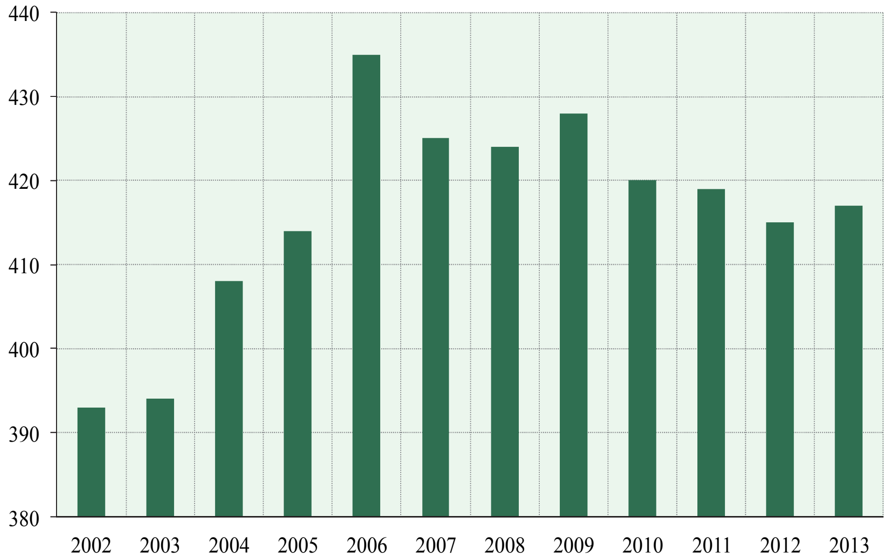
- Operational Risk Committee (president: Darko Bohnec),
- Audit Committee (president: Dr. Dušan Zbašnik),
- Investment Committee (president: Ernest Ermenc),
- Commission of the Governing Board of the Bank of Slovenia for the Preparation of Opinions on the Qualifications of Individuals to Hold Office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

Employees

The Bank of Slovenia had 417 employees as at 31 December 2013.

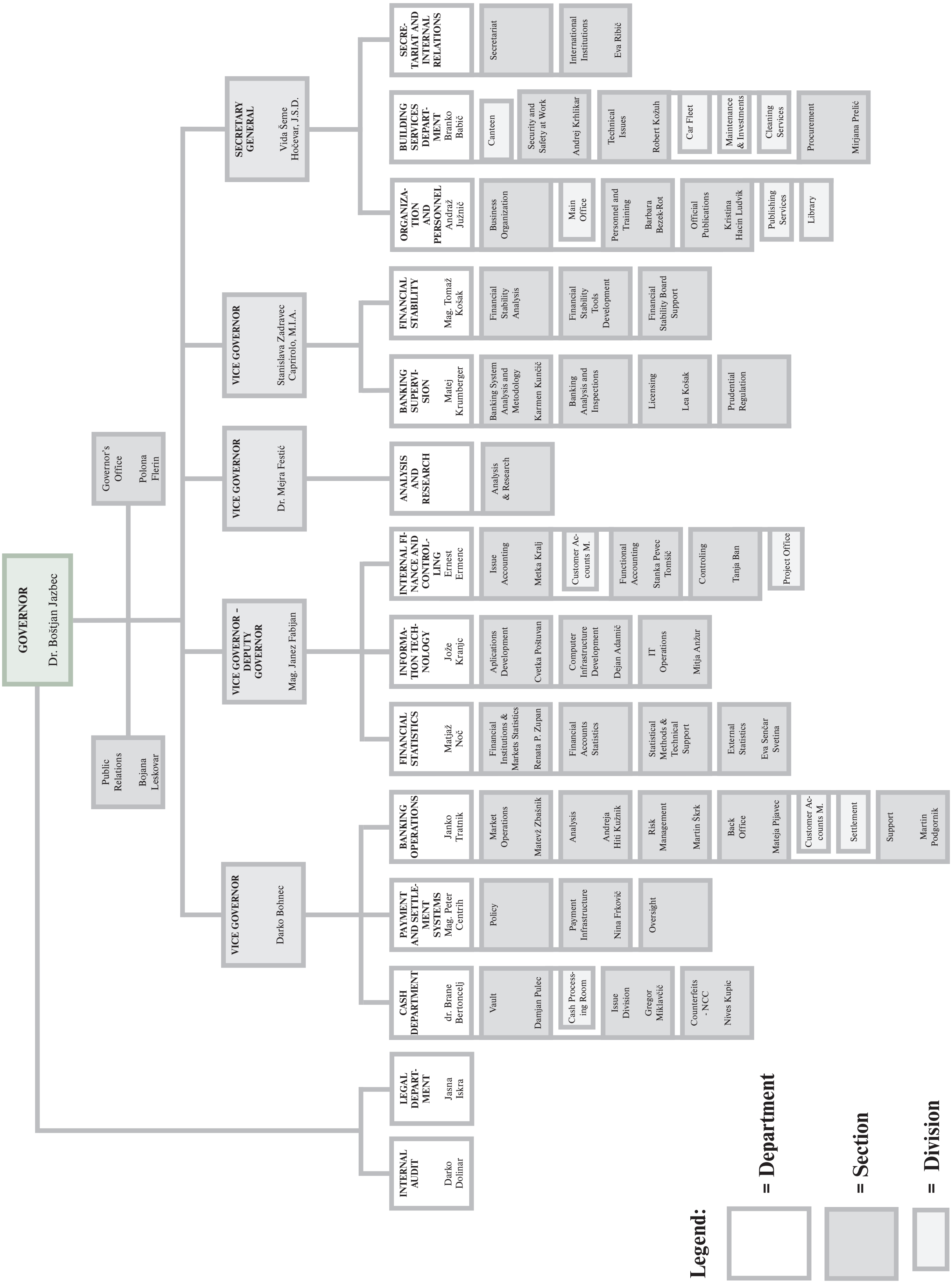
The average age of employees of the Bank of Slovenia was 43 years and 3 months in 2013. The proportion of employees with qualifications of higher than Level V was 77.5%.

Figure 31: **Headcount at the Bank of Slovenia at year end**



Source: Bank of Slovenia.

Organisational structure of the Bank of Slovenia as at 31 December 2013



4 FINANCIAL STATEMENTS

Financial statements of the Bank of Slovenia for 2013

Statement of responsibilities of the Governing Board

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

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

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

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the Bank of Slovenia

Report on the Financial Statements

We have audited the accompanying financial statements of Bank of Slovenia (the 'Bank'), which comprise the balance sheet as at 31 December 2013 and the income statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of Bank of Slovenia as of 31 December 2013 are prepared, in all material respects, in accordance with the Guideline of the European Central Bank of 11th November 2010 on the Legal Framework for Accounting and Financial reporting in the European System of Central Banks (ECB/2010/20) and articles of Law on Bank of Slovenia, applicable for financial reporting.

DELOITTE REVIZIJA d.o.o.

Yuri Sidorovich
Certified Auditor
President of the board

Ljubljana, 12 March 2014

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

For signature please refer to the original Slovenian version.

FOR TRANSALTION ONLY – SLOVENE ORIGINAL PREVAILS

Constitution

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

Accounting policies

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

Accounting principles and standards
The Bank applies the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks (recast) (ECB/2010/20)[3] (Accounting Guideline) as the legal basis for the accounting and reporting. According to the Bank of Slovenia Act and according to the Statute of the ESCB and the ECB, this legal framework was adopted by the Governing Board of the Bank at its 342nd meeting on 20 December 2006.

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

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

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

The following fundamental accounting principles have been applied:

- economic reality and transparency: the accounting methods and financial reporting shall reflect economic reality and shall be transparent;
- prudence: the valuation of assets and liabilities, as well as the recognition of income, shall be carried out prudently. In the context of the Accounting Guideline, this implies that unrealised gains are not recognised as income in the profit and loss account, but are transferred directly to a revaluation account;

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

[2] The term 'European System of Central Banks (ESCB)' refers to the twenty-eight National Central Banks (NCBs) of the member states of the European Union on 31 December 2013 plus the European Central Bank (ECB). The term 'Eurosystem' refers to the seventeen NCBs of the member states participating in the Monetary Union, plus the ECB on the same date.

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

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

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

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

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

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 Profit and Loss account.

Properties located in Austria are included in Bank's fixed assets. They are carried at fair value and are not depreciated. The fair value is demonstrated as half of appraisal value, obtained by an external certificated valuer (the Bank revalues these properties once every 5 years; the last revaluation was performed in year 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, ECB's (net) income arising from SMP securities and the ECB's profit/loss.

Banknotes in circulation
The ECB and the seventeen 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].

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

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities[7] are disclosed under

[4] Central bank of Latvia has only participated in the Eurosystem since 1st January 2014.

[5] Decision of the European Central Bank of 13 December 2010 on the issue of euro banknotes (recast) (ECB/2010/29), OJ L 35, 09.02.2011, p. 26-30, amended by the Decision of the European Central Bank of 21 June 2013 (ECB/2013/16), OJ L 187, 06.07.2013, p. 13-14.

[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 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast) (ECB/2010/23), OJ L 35, 09.02.2011, p. 17-25, amended by the Decision of the European Central Bank of 3 November 2011 (ECB/2011/18), OJ L 319, 02.12.2011, p. 116.

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

From the cash changeover year[8] until five years following the cash changeover year the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted (smoothing mechanism) in order to avoid significant changes in NCBs' relative income positions as compared to previous years. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the reference period[9] and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments are reduced in annual stages until the first day of sixth year after the cash changeover year when income on banknotes is allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital. For the Bank of Slovenia, the adjustment period ended on 31 December 2012. In the year under review the adjustments resulted from the accession of Central Bank of Cyprus and Central Bank of Malta (in 2008), Národná banka Slovenska (in 2009) and Eesti Pank (in 2011) and will terminate at the end of 2013, 2014 and 2016, respectively.

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

Interim profit distribution

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, and the ECB's (net) income arising from SMP securities shall be due in full to the NCBs in the same financial year it accrues. Unless otherwise decided by the Governing Council, the ECB shall distribute this income in January of the following year in the form of an interim distribution of profit[10]. It is distributed in full unless the ECB’s net profit for the year is less than its income earned on euro banknotes in circulation and securities purchased under the Securities Markets Programme, and subject to any decisions by the Governing Council to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks. The Governing Council may also decide to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against income earned on euro banknotes in circulation.

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

Provisions

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

In compliance with Article 49a of Bank of Slovenia Act, after introduction of the euro as the Republic of Slovenia’s currency, the Governing Board of the Bank may, with the intention of maintaining the real value of assets, take a decision to create general provisions for anticipated exchange rate, interest rate and price risks. Provisions may not be created if, together with the unrealised exchange rate differences, securities’ valuation effects and gold valuation effects, they exceed 20% of established net income. With the amendment of the Accounting Guideline, which entered into force as at the end of 2012, the legal background for the creation of provisions for credit risks is given. The relevant amount of provision for all such financial risks is determined annually on the basis of Value-at-Risk (VaR) or Expected Shortfall (ES) method. VaR is defined as the maximum loss of portfolio with a given diversification of that portfolio at a certain level of probability (99%) and for a given holding period (one

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[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 25 November 2010 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and arising from securities purchased under the securities markets programme (ECB/2010/24), OJ L 6, 11.01.2011, p. 35-36, amended by the Decision of the European Central Bank of 19 December 2012 (ECB/2012/33), OJ L 13, 17.01.2013, p.12.

year). Expected shortfall at a given confidence level is defined as an expected portfolio loss taken into account only the losses equal or greater to VaR figure at the same confidence level. The provision will be used to fund future unrealised losses not covered by the revaluation accounts. In the year under review, taking into account Basel recommendations, the Bank used 99% confidence level (until the end of 2012 – 95% confidence level).

Intra-ESCB balances / Intra-Eurosystem balances
Intra-Eurosystem balances result from cross-border payments in the EU that are settled in central bank money in euro. They are primarily settled in TARGET2[11] and give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are netted out and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-a-vis the ECB only.

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

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

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

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

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

From the beginning of 2007, the foreign exchange and price valuation is performed on a quarterly basis in accordance with the Accounting Guideline. Net unrealised 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 cannot 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.

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

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

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

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

Off-balance-sheet instruments
Forward legs of foreign exchange swaps are disclosed off-balance-sheet and are included in the net foreign currency position for the purpose of calculating the average cost of currencies and foreign exchange gains and losses. Gains and losses arising from the forward legs are recognised and treated in a similar manner to on-balance sheet instruments. Unrealised 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 liability side.

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

On 1 January 2014, Latvia adopted euro as a new legal tender and paid up its capital share to the ECB in full. Furthermore, ESCB capital keys were adjusted in accordance with a Statute on 1 January 2014 due to regular quinquennial capital key change. As a result, the Bank’s share in the fully paid-up capital of the ECB increased from 0.4701% to 0.4937% on 1 January 2014.

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

Taxation
The Bank is not subject to Slovenian corporate income tax.

Appropriations
In accordance with the Bank of Slovenia Act, net profit is allocated to general reserves and the Budget of the Republic of Slovenia. Unrealised income deriving from exchange rate and price changes is allocated in its entirety to the revaluation accounts and it is not included in a net profit available for distribution. Revaluation accounts may only be used to cover a shortfall deriving from unrealised 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 2012 to 2014.

Balance Sheet as at 31 December 2013

ASSETS (thousands of euro)	31 December 2013	31 December 2012
1 Gold and gold receivables	**89,156**	**129,062**
2 Claims on non-euro area residents denominated in foreign currency	**578,169**	**591,634**
2.1 Receivables from the IMF	368,745	387,621
2.2 Balances with banks and security investments, external loans and other external assets	209,424	204,013
3 Claims on euro area residents denominated in foreign currency	**208,530**	**269,241**
4 Claims on non-euro area residents denominated in euro	**783,955**	**781,898**
4.1 Balances with banks, security investments and loans	783,955	781,898
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	**3,337,000**	**3,982,160**
5.1 Main refinancing operation	-	125,000
5.2 Longer-term refinancing operations	3,337,000	3,857,160
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	**378,800**	**49,094**
7 Securities of euro area residents denominated in euro	**2,995,476**	**3,774,162**
7.1 Securities held for monetary policy purposes	726,721	1,097,801
7.2 Other securities	2,268,755	2,676,361
8 General government debt denominated in euro	**-**	**-**
9 Intra-Eurosystem claims	**2,215,530**	**2,838,955**
9.1 Participating interest in ECB	74,847	74,780
9.2 Claims equivalent to the transfer of foreign reserves	189,500	189,410
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	1,951,183	2,574,764
9.5 Other claims within the Eurosystem (net)	-	-
10 Items in course of settlement	**-**	**-**
11 Other assets	**225,940**	**226,929**
11.1 Coins of euro area	2,543	2,624
11.2 Tangible and intangible fixed assets	22,558	22,610
11.3 Other financial assets	49,171	50,376
11.4 Off-balance sheet instruments revaluation differences	164	0
11.5 Accruals and prepaid expenses	101,134	91,936
11.6 Sundry	50,370	59,382
12 Loss for the year	**-**	**-**
Total assets	**10,812,554**	**12,643,134**

* Only an ECB balance sheet item

LIABILITIES (thousands of euro)	31 December 2013	31 December 2012
1 Banknotes in circulation	**4,135,500**	**3,946,960**
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	**2,068,276**	**1,320,335**
2.1 Current accounts (covering the minimum reserve system)	1,463,776	1,313,335
2.2 Deposit facility	-	7,000
2.3 Fixed-term deposits	604,500	-
2.4 Fine-tuning reverse operations	-	-
2.5 Deposits related to margin calls	-	-
3 Other liabilities to euro area credit institutions denominated in euro	**14,159**	**17,758**
4 Debt certificates issued	**-**	**-**
5 Liabilities to other euro area residents denominated in euro	**1,755,768**	**1,039,113**
5.1 General government	1,713,820	1,023,225
5.2 Other liabilities	41,948	15,888
6 Liabilities to non-euro area residents denominated in euro	**14,881**	**11,671**
7 Liabilities to euro area residents denominated in foreign currency	**73,323**	**74,883**
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	**241,421**	**251,653**
10 Intra-Eurosystem liabilities	**1,024,450**	**4,409,285**
10.1 Liabilities equivalent to the transfer of foreign reserves*	-	-
10.2 Liabilities related to promissory notes backing the issuance of ECB debt certificates	-	-
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem	-	-
10.4 Other liabilities within the Eurosystem (net)	1,024,450	4,409,285
11 Items in course of settlement	**-**	**-**
12 Other liabilities	**96,387**	**109,377**
12.1 Off-balance sheet instruments revaluation differences	822	10,641
12.2 Accruals and income collected in advance	14,790	17,721
12.3 Sundry	80,775	81,015
13 Provisions	**402,376**	**330,339**
14 Revaluation accounts	**69,141**	**156,343**
15 Capital and reserves	**866,484**	**843,507**
15.1 Capital	8,346	8,346
15.2 Reserves	858,138	835,161
16 Profit for the year	**50,390**	**131,910**
Total liabilities	**10,812,554**	**12,643,134**

* Only an ECB balance sheet item

Profit and Loss Account for the year ended 31 December 2013

thousands of euro	2013	2012
1.1 Interest income	152,511	300,671
1.2 Interest expense	-25,645	-49,855
1 Net interest income (expenditure)	**126,866**	**250,816**
2.1 Realised gains/losses arising from financial operations	24,284	50,324
2.2 Write-downs on financial assets and positions	-3,297	-54
2.3 Transfer to/from provisions for foreign exchange risks, price risks and other operational risks	-73,718	-184,239
2 Net result of financial operations, write-downs and risk provisions	**-52,730**	**-133,968**
3.1 Fee and commission income	5,370	6,110
3.2 Fee and commission expense	-2,158	-2,152
3 Net fee and commission income	**3,212**	**3,958**
4 Income from equity shares and participating interests	8,939	3,577
5 Net result arising from allocation of monetary income	9,136	29,705
6 Other operating income	5,218	4,207
Total net income	**100,641**	**158,294**
7.1 Staff costs	-18,206	-18,170
7.2 Administrative expenses	-6,092	-5,546
7.3 Depreciation of tangible and intangible fixed assets	-1,557	-1,561
7.4 Banknote production services	-1,649	-391
7.5 Other expenses	-22,747	-716
7 Total operating expenses	**-50,251**	**-26,384**
8 Profit (Loss) for the year	**50,390**	**131,910**

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

The unaudited financial statements were approved by the Governing Board on 25 February 2014 and these audited financial statements were approved by the Governing Board on 25 March 2014 and were signed on its behalf by:

Boštjan Jazbec, Ph. D.
President of the Governing Board and
Governor of the Bank of Slovenia

BANKA SLOVENIJE
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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 2013. This price, notified by the ECB, amounts to EUR 871.220 per ounce of fine gold compared with EUR 1,261.179 on 31 December 2012. Unrealised valuation gains of EUR 39.8 million (of which EUR 8.8 million from year 2007, EUR 5.5 million from year 2008, EUR 14.8 million from year 2009, EUR 29.6 million from year 2010, EUR 16.5 million from year 2011, EUR 4.5 million from year 2012 and EUR -39.9 million from year 2013) were disclosed under the liability balance sheet item 'Revaluation accounts'.

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

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

This item includes holdings of Special Drawing Rights (SDRs) allocated by the International Monetary Fund (IMF) and foreign currency claims on non-euro area residents included in the Bank's foreign reserves.

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

The reserve tranche corresponds to the difference between Slovenian's quota in the IMF and the IMF's holdings of EUR with the Bank. The tranche is usually used for the purpose of financing the balance of payments deficit in the member countries.

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

SDRs are reserve assets created by the IMF and allocated by it to its members in order to increase international liquidity. They are used in transactions between official monetary authorities. The SDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of exchange rates of four currencies (USD, GBP, JPY and EUR).

All claims are shown in the balance sheet on the basis of the market rate of SDR 1 = EUR 1.1183 (31 December 2012: SDR 1 = EUR 1.1657) 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 as an expense in the Profit and Loss Account.

	31 December 2013		31 December 2012	
	000 SDR	**000 EUR**	**000 SDR**	**000 EUR**
Quota	275,000	307,533	275,000	320,568
Less IMF holdings of EUR	-175,350	-196,094	-184,350	-214,897
Reserve tranche in the IMF	99,650	111,439	90,650	105,671
Loan to the IMF	33,380	37,329	34,300	39,984
SDR Holdings	196,707	219,977	207,572	241,967
Total	329,737	368,745	332,522	387,621

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 2013.

Breakdown of foreign currency assets by type of investment:

	31 December 2013	31 December 2012
	000 EUR	**000 EUR**
Current accounts	2,201	4,103
Time deposits	111,014	55,707
Securities	96,208	144,203
Total	209,424	204,013

Breakdown of foreign currency assets by currency:

	31 December 2013	31 December 2012
	000 EUR	**000 EUR**
USD	207,829	200,349
AUD	15	79
GBP	34	24
Other currencies	1,545	3,562
Total	209,424	204,013

Breakdown of securities according to their residual maturity:

	31 December 2013 000 EUR	31 December 2012 000 EUR
≤ 1 year	28,595	52,976
>1 year and ≤5 years	67,613	87,477
> 5 years	-	3,750
Total	96,208	144,203

3. Claims on euro area residents denominated in foreign currency

The foreign currency assets held with euro area residents are invested in sight deposits, time deposits and securities in foreign currencies. Foreign currency assets are shown at their euro equivalent as calculated on basis of market exchange rates on 31 December 2013.

Breakdown of foreign currency assets by type of investment:

	31 December 2013 000 EUR	31 December 2012 000 EUR
Current accounts	74	256
Time deposits	-	19,100
Securities	208,456	249,886
Total	208,530	269,241

Breakdown of foreign currency assets by currency:

	31 December 2013 000 EUR	31 December 2012 000 EUR
USD	208,518	269,167
AUD	-	45
GBP	12	29
Total	208,530	269,241

Breakdown of securities according to their residual maturity:

	31 December 2013	31 December 2012
	000 EUR	000 EUR
≤ 1 year	107,704	53,686
>1 year and ≤ 5 years	100,752	196,199
Total	208,456	249,886

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

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

Breakdown of euro denominated assets by type of investment:

	31 December 2013	31 December 2012
	000 EUR	000 EUR
Current accounts	0	0
Time deposits	36,100	88,500
Securities	747,855	693,398
Total	783,955	781,898

Breakdown of securities according to their residual maturity:

	31 December 2013	31 December 2012
	000 EUR	000 EUR
≤ 1 year	347,221	363,237
>1 year and ≤ 5 years	400,634	330,161
Total	747,855	693,398

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 752,288 million (2012: EUR 1,126,019 million), of which the Bank holds EUR 3,337 million (2012: EUR 3,982 million). In accordance with Article 32.4 of the Statute, losses from monetary policy operations, if they were to materialise, are shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares (see section on liability item L13 on provisions).

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

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

Longer-term refinancing operations are regular liquidity-providing reverse transactions with a maturity of one or three months, in the past also operations with maturity of six or twelve months were occasionally conducted. At the end of 2011 and beginning of 2012, two three-year operations were conducted with the option of early repayment after one year. Both operations will mature in the beginning of 2015. In the year under review longer-term refinancing operations provided the bulk of refinancing to the banking sector. They were conducted as fixed rate tender procedures with full allotment. For some operations the rate was fixed at the average minimum bid rate of the MROs over the life of this operation. In the year 2013, regular one- and three-month operations existed, conducted with a monthly frequency.

	31 December 2013	31 December 2012
	000 EUR	000 EUR
Main refinancing operations	-	125,000
Longer term refinancing operations	3,337,000	3,857,160
Total	3,337,000	3,982,160

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 and Emergency Liquidity Assistance, granted on the basis of appropriate collateral to solvent domestic credit institutions that faced liquidity problems.

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	31 December 2013	31 December 2012
	000 EUR	000 EUR
Current accounts	2,326	1,335
Time deposits	31,974	47,759
Emergency Liquidity Assistance	344,500	-
Total	378,800	49,094

7. Securities of euro area residents denominated in euro

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

The sub-item 7.1 'Securities held for monetary policy purposes' contains securities acquired by the Bank within the scope of the purchase programme for covered bonds (CBPP)[12], and public debt securities acquired in the scope of the securities market programme (SMP)[13]. The securities are classified as held-to-maturity securities and are valued on an amortised cost basis subject to impairment (see 'Securities' in the notes on accounting policies). Annual impairment tests are conducted on the basis of the information available and estimated recoverable amounts as at the year-end.

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

The total Eurosystem NCB's holding of SMP securities amounts to EUR 178,836 million (2012: EUR 208,733 million), of which the Bank holds EUR 662 million (2012: EUR 975 million). In accordance with Article 32.4 of the Statute, losses from holdings of SMP securities, if they were to materialise, are shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

In the context of the impairment test conducted as at the end of 2013 on securities purchased under the Securities Markets Programme, the Governing Council identified one impairment trigger in February 2013 due to the restructuring of Irish sovereign debt as a result of the exchange of promissory notes (PNs) for long-term government bonds, in the context of the resolution of the Irish Bank Resolution Corporation (IBRC). The Governing Council considered that the occurrence of this impairment indicator did not warrant an impairment of the Bank's securities holdings since, on the basis of the information available as at 31 December 2013, there was no evidence of changes in the estimated future cash flows. No impairment losses were therefore recorded at the year-end on the Bank's holdings of Irish securities under the Securities Markets Programme. Furthermore, no impairment losses were recorded in respect of the other securities purchased under the Securities Markets Programme.

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

[12] Decision of the European Central Bank of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), OJ L 175, 04.07.2009, p. 18-19.

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

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

Breakdown of securities held for monetary policy purposes per portfolio:

	31 December 2013	31 December 2012
	000 EUR	000 EUR
CBPP securities	64,703	122,737
SMP securities	662,018	975,064
Total	726,721	1,097,801

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

	31 December 2013	31 December 2012
	000 EUR	000 EUR
≤ 1 year	208,162	327,520
>1 year and ≤ 5 years	371,395	585,463
> 5 years	147,164	184,818
Total	726,721	1,097,801

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

Breakdown of securities per portfolio:

	31 December 2013	31 December 2012
	000 EUR	000 EUR
Marketable securities other than those held to maturity	2,242,780	2,418,632
Held-to-maturity securities	25,975	257,729
Total	2,268,755	2,676,361

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

During 2012 the Bank has reclassified the part of its investment in securities, for which it decided that it intends to hold them until maturity, from market portfolio subject to regular valuation according to market prices, to the held to maturity portfolio. Reclassification was performed at the book value of individual securities at the end of previous year taking into account the premium/discount amortisation until the day of the reclassification, in the amount of EUR 177.2 million. Respective securities matured in 2013.

Breakdown of other securities according to their residual maturity:

	31 December 2013	31 December 2012
	000 EUR	000 EUR
≤ 1 year	731,734	1,219,259
>1 year and ≤ 5 years	1,488,568	1,330,003
> 5 years	48,452	127,099
Total	2,268,755	2,676,361

9. Intra-Eurosystem claims

Sub-item 9.1 shows the Bank's participating interest in the ECB. Pursuant to Article 28 of the Statute of the ESCB and the ECB, the ESCB national central banks are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29 of the Statute and are subject to adjustment every five years.

On 1 July 2013 a change of the ECB’s capital key occurred as a result of the accession of Croatia. Consequently, on 1 July 2013, the share that the Bank held in the subscribed capital of the ECB (EUR 35.38 million in total), decreased from 0.3288% to 0.3270%. In accordance with Article 48.3 of the Statute of the ESCB and the ECB, the ECB's subscribed capital is automatically increased when a new Member State accedes to the EU and its NCB joins the ESCB. Therefore, the asset item 9.1 ‘Participating interest in the ECB’ increased by EUR 0.02 million to EUR 35.40 million, as a result of the additional capital contribution that was transferred to the ECB.

The subscribed and paid up capital of the 28 European central banks in the capital of the ECB on 31 December 2013 is as follows:

	Capital key per cent	EUR	Of which fully paid up	Eurosystem key
Nationale Bank van België/ Banque Nationale de Belgique	2.4176	261,705,371	261,705,371	3.4757
Deutsche Bundesbank	18.7603	2,030,803,801	2,030,803,801	26.9707
Eesti Pank	0.1780	19,268,513	19,268,513	0.2559
Central Bank and Financial Services Authority of Ireland	1.1111	120,276,654	120,276,654	1.5974
Bank of Greece	1.9483	210,903,613	210,903,613	2.8010
Banco de España	8.2533	893,420,308	893,420,308	11.8653
Banque de France	14.1342	1,530,028,149	1,530,028,149	20.3200
Banca d'Italia	12.4570	1,348,471,131	1,348,471,131	17.9088
Central Bank of Cyprus	0.1333	14,429,734	14,429,734	0.1916
Banque centrale du Luxembourg	0.1739	18,824,687	18,824,687	0.2500
Central Bank of Malta/Bank Ċentrali ta' Malta	0.0635	6,873,879	6,873,879	0.0913
De Nederlandsche Bank	3.9663	429,352,255	429,352,255	5.7021
Oesterreichische Nationalbank	1.9370	209,680,387	209,680,387	2.7847
Banco de Portugal	1.7636	190,909,825	190,909,825	2.5354
Banka Slovenije	**0.3270**	**35,397,773**	**35,397,773**	**0.4701**
Národná banka Slovenska	0.6881	74,486,874	74,486,874	0.9892
Suomen Pankki-Finlands Bank	1.2456	134,836,288	134,836,288	1.7907
Total euro-area NCBs	**69.5581**	**7,529,669,242**	**7,529,669,242**	**100.0000**
Bulgarian National Bank	0.8644	93,571,361	3,508,926	
Česká národní banka	1.4539	157,384,778	5,901,929	
Danmarks Nationalbank	1.4754	159,712,154	5,989,206	
Hrvatska narodna banka	0.5945	64,354,667	2,413,300	
Latvijas Banka	0.2742	29,682,169	1,113,081	
Lietuvos bankas	0.4093	44,306,754	1,661,503	
Magyar Nemzeti Bank	1.3740	148,735,597	5,577,585	
Narodowy Bank Polski	4.8581	525,889,668	19,720,863	
Banca Naţională a României	2.4449	264,660,598	9,924,772	
Sveriges Riksbank	2.2612	244,775,060	9,179,065	
Bank of England	14.4320	1,562,265,020	58,584,938	
Total non-euro area NCBs	**30.4419**	**3,295,337,827**	**123,575,169**	
Total euro area and non-euro area NCBs	**100.0000**	**10,825,007,070**	**7,653,244,411**	

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 and 1 July 2013, the additional contribution to the ECB's net equity was made on 9 March 2009 and 12 July 2013.

	31 December 2013
	000 EUR
Contribution to revaluation accounts	
- paid on 3 January 2007	7,647
- paid on 12 March 2007	18,105
Contribution to provisions	
- paid on 12 march 2007	10,947
Contribution paid on 9 March 2009	2,700
Contribution paid on 12 July 2013	50
Total	39,449

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 interest rate used by the Eurosystem in its tenders for main refinancing operations, adjusted to reflect a zero return on the gold component.

The adjustment to the capital key weightings of the ECB on 1 July 2013 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 0.09 million to EUR 189.5 million on 1 July 2013.

Sub-item 9.4 'Net claims related to the allocation of euro banknotes within the Eurosystem' consists of the claims and liabilities of the Bank vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem which arise from applying the euro banknote allocation key (see ‘Banknotes in circulation’ and ‘Intra-ESCB balances/Intra-Eurosystem balances’ in the notes on accounting policies)[14]. The decrease of the net claim in comparison to 2012 (EUR 623.6 million) is due to increase in banknotes put into circulation by the Bank in 2013 (which represents an increase of 59.2%), as well as the rise in banknotes in circulation in the Eurosystem as a whole (increase of 4.8% compared to 2012). The remuneration of this claim is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

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.

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

	Land and buildings	Computers & equipment	Total
	000 EUR	000 EUR	000 EUR
Cost or valuation			
At 31 December 2012	**22,441**	**21,975**	**44,416**
Additions	21	1,535	1,556
Disposals	57	590	646
At 31 December 2013	**22,406**	**22,920**	**45,325**
Depreciation			
At 31 December 2012	**3,824**	**17,981**	**21,805**
Disposals	23	587	611
Charge for the year	185	1,387	1,573
At 31 December 2013	**3,986**	**18,781**	**22,768**
Net book value			
At 31 December 2012	**18,617**	**3,993**	**22,610**
At 31 December 2013	**18,420**	**4,138**	**22,558**

As at 31 December 2013 an amount of EUR 8.0 million relating to investment properties in Austria is included in land and buildings (2012: EUR 8.0 million).

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

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

Sub-item 11.5 'Accruals and prepaid expenses' contains the accrued income identified at 31 December 2013. This consists mainly of interest income which is due in the new financial year.

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

Liabilities

1. Banknotes in circulation

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

The total value of euro banknotes issued by the central banks in the Eurosystem is distributed among these banks on the last business day of each month in accordance with the key for allocating euro banknotes (see Accounting policies). In accordance with the banknote allocation key applying on 31 December 2013, the Bank has a 0.4325% (2012: 0.4325%) share of the value of all euro banknotes in circulation. During 2013, the total value of banknotes in circulation within the Eurosystem increased by 4.8% from EUR 912,592 million to EUR 956,185 million. In accordance with the allocation key, the Bank shows holdings of euro banknotes amounting to EUR 4,135.5 million at the end of the year 2013 (2012: EUR 3,947.0 million). The value of the euro banknotes actually issued by the Bank was EUR 2,184.3 million (2012: EUR 1,372.2 million). As this was less that the allocated amount, the difference of EUR 1,951.2 million (2012: EUR 2,574.8 million) is shown in asset sub-item 9.4 'Net claims related to the allocation of euro banknotes within the Eurosystem'.

	31 December 2013	31 December 2012
	000 EUR	000 EUR
EUR 5	-30,955	-25,965
EUR 10	344,822	267,822
EUR 20	3,328,895	3,057,064
EUR 50	-1,570,122	-1,712,036
EUR 100	-675,708	-586,368
EUR 200	-195,207	-171,917
EUR 500	982,592	543,597
Total euro banknotes actually put into circulation by the Bank	2,184,317	1,372,196
Redistribution of euro banknotes in circulation within the Eurosystem	2,310,793	2,917,835
Euro banknotes issued by the ECB (8%)	-359,610	-343,071
Total EUR banknotes according to the Bank's banknote allocation key	4,135,500	3,946,960

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

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

Sub-item 2.1 'Current accounts' contains the deposits of credit institutions, which are used to meet the minimum reserve requirements and to settle payments. The main criterion for including these deposits in this sub-item is that the respective institution is subject to the Eurosystem minimum reserve system. Reserve requirements have to be fulfilled on average over the reserve maintenance period, which lasts approximately one month, in accordance with the schedule published by the ECB. Banks' reserve balances up to calculated reserve requirements have been remunerated at the prevailing interest rate for the Eurosystem's main refinancing operations.

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

Sub-item 2.3 'Fixed term deposits' contains overnight operations, performed in the past by the ECB usually on the last day of the reserve maintenance period. Conducting of those operations on the last day of the reserve maintenance period was abolished in January 2012, however, since the establishment of the securities markets programme in May 2010, fixed term deposit operations with a weekly frequency and maturity of one week are conducted, with the aim to sterilise liquidity issued using this programme. Fixed term deposit operations are conducted as variable rate tenders.

	31 December 2013	31 December 2012
	000 EUR	000 EUR
Current accounts (covering the minimum reserve system)	1,463,776	1,313,335
Deposit facility	-	7,000
Fixed term deposits	604,500	-
Total	2,068,276	1,320,335

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. 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 2013 on the basis of the market rate of SDR 1 = EUR 1.1183 (31 December 2012: SDR 1 = EUR 1.1657) calculated by the ECB at the end of the year for all central banks participating in the Eurosystem. The decrease in the amount of this liability in 2013 is solely due to valuation effects, i.e. the appreciation of the euro against the SDR.

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 ECB's interim profit distribution (see profit and loss item 4 'Income from equity shares and participating interests').

The net TARGET2 balance is remunerated at the latest available marginal rate for the main refinancing operations. The settlement takes place monthly on the second business day of the month 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 2013. 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 2013	31 December 2012
	000 EUR	000 EUR
Provisions for employees and for known risks	35,626	42,558
Provisions for general risks	366,750	286,360
Provision in respect of monetary policy operations	-	1,421
Total	402,376	330,339

Provisions for employees and for known risks

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

Provisions for known risks relate to potential liabilities of the Bank for the certain legal claims pending and to the potential liabilities streaming from off-balance sheet positions. Provisions for potential liabilities streaming from off-balance sheet positions were reduced on the basis of Value-at-Risk assessment as at 31 December 2013 in amount of EUR 9.5 million.

Provisions for general risks

Taking into account the Bank's exposure to interest rate, exchange rate, credit and price risks, general provisions for future unrealised interest rate, exchange rate and (gold) price change losses and credit events could be created. In 2013, the Bank created additional general provisions based on the assessment of risk exposure in the net amount of EUR 80.4 million.

Provisions in respect of monetary policy operations

In accordance with the decision of the Governing Council taken under Article 32.4 of the Statute, the provision against counterparty risks in monetary policy operations that was established in 2008 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. The provision has been reviewed annually and amounted to EUR 310 million as at 31 December 2012. In line with the general accounting principle of prudence, the Governing Council has reviewed the appropriateness of the outstanding provision and decided to dissolve it at the end of 2013. The respective adjustments are released into the NCB's Profit and loss account. In case of Bank of Slovenia the resulting income amounted to EUR 1.4 million in 2013 (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 27.5 million arose from the valuation of EUR denominated portfolio (2012: EUR 58.1 million) and EUR 1.0 million from the valuation of USD denominated assets (2012: EUR 2.6 million).

In case of foreign currency positions, gains of EUR 0.9 million arose from the valuation of USD position (2012: EUR 11.0 million from the valuation of USD position and EUR 5.0 million from the valuation of SDR position).

In case of gold the acquisition cost is EUR 482.688 per fine ounce of gold at the end of 2013 (2012: EUR 482.688), comparing with market price at the end of 2013, which was EUR 871.220 per fine ounce of gold (2012: EUR 1,261.179). Market value of gold position exceeded its acquisition price and resulted in a revaluation gain amounting to EUR 39.8 million (2012: EUR 79.7 million).

	31 December 2013	31 December 2012
	000 EUR	000 EUR
Price effect	28,527	60,678
- securities in foreign currencies (asset items 2 and 3)	991	2,606
- securities in euro (asset items 4 and 7)	27,535	58,072
Exchange rate effect	854	15,999
Gold value effect	39,760	79,666
Total	69,141	156,343

15. Capital and reserves

In accordance with the Article 5 of the Bank of Slovenia Act, the capital of the Bank was created from the general reserves in the amount of EUR 8.3 million in year 2002. Banka Slovenije's initial capital may be increased by allocating of funds from the general reserves in an amount to be determined by the Governing Board.

The reserves of the Bank of Slovenia are composed of general reserves and special reserves. General reserves serve to cover general risks associated with the operations of the Bank of Slovenia. Special reserves serve to cover exchange rate and price risks. Investment properties revaluation reserve are created out of the valuation gains arising from the appraisal of the investment properties in Austria, performed by the independent real estate assessor.

	31 December 2013	31 December 2012
	000 EUR	000 EUR
Composition of reserves:		
Initial capital of the Bank of Slovenia	8,346	8,346
General reserve	656,136	633,159
Special reserve for foreign exchange differences	174,214	174,214
Special reserve – price risk (gold)	19,736	19,736
Revaluation reserve	8,053	8,053
Total reserves	866,484	843,507

Notes to the off-balance-sheet items

Foreign currency swaps

As at 31 December 2013, the forward foreign currency position arising from EUR/foreign currency swap transactions amounts net to EUR 152.9 million (2012: EUR 195.3 million), of which forward liabilities amounts to EUR 189.2 million and forward claims to EUR 36.3 million.

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

	31 December 2013		31 December 2012	
	000 Foreign currency	000 EUR	000 Foreign currency	000 EUR
Forward liabilities in USD	260,900	189,181	257,700	195,316
Forward claims in USD	50,000	36,256	-	-
Total	**210,900**	**152,926**	**-**	**195,316**

Securities lending

As at 31 December 2013, securities with a market value of EUR 150 million (31 December 2012: EUR 481 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 2013:

- 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 504.0 million as at 31 December 2013 (31 December 2012: EUR 513.0 million);

- a contingent liability of EUR 163.5 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 2012: EUR 164.4 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 2013	31 December 2012
	000 EUR	**000 EUR**
Interest income		
Gold	**83**	**-**
Current accounts and deposits	**467**	**2,376**
- In foreign currency	269	589
- In euro	198	1,788
Securities	**114,250**	**244,771**
- In foreign currency	3,445	5,292
- In euro	110,806	239,479
IMF	**284**	**402**
Monetary policy operations	**21,246**	**31,076**
- Main refinancing operation	355	501
- Longer-term refinancing operations	20,890	30,574
- Other refinancing operations	1	1
Intra Eurosystem claims	**13,838**	**22,014**
- Claims arising from the transfer of foreign reserves to the ECB	904	1,442
- Net claims related to the allocation of banknotes within the Eurosystem	12,935	20,572
Foreign currency swaps	**-**	**-**
Other interest income	**2,342**	**32**
Total	**152,511**	**300,671**

A decrease of interest income in comparison with 2012 mainly relates to the effect of reclassification of some securities to held to maturity portfolio in year 2012 (see section on asset item 7 ‘Securities of euro area residents denominated in euro’). Recognised income in 2012 that arose from the discount amortisation after the reclassification date until 31 December 2012 amounted to EUR 139.7 million and in 2013 EUR 34.0 million.

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 2013	31 December 2012
	000 EUR	000 EUR
Interest expenditure		
Current accounts and deposits	**529**	**1,084**
- In foreign currency	194	233
- In euro	335	851
IMF	**174**	**239**
Monetary policy operations	**1,484**	**3,434**
- Minimum reserves	1,179	2,043
- Overnight deposits	-	1,102
- Fixed term deposits	305	289
Intra Eurosystem liabilities	**23,030**	**44,350**
- TARGET balances	23,030	44,350
Foreign currency swaps	**428**	**745**
Other interest expense	**-**	**2**
Total	**25,645**	**49,855**

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 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 2013 below the average cost of the respective currencies or securities. The valuation losses in 2013 occurred in EUR and USD denominated securities as well as in Bank's SDR currency position (in 2012 mostly in EUR denominated securities.

According to the Governing Board decision, additional provisions have been made for the certain legal claims pending. Provisions for potential liabilities streaming from off-balance sheet positions were reduced on the basis of Value-at-Risk assessment.

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

	31 December 2013	31 December 2012
	000 EUR	000 EUR
Realised gains/losses		
Currency position	3,429	2,281
Securities	20,855	48,043
Total	**24,284**	**50,324**
Write-downs		
Currency position	-1,870	-2
Securities	-1,427	-52
Total	**-3,297**	**-54**
Transfer to/from provisions for foreign exchange risks, price risks, credit risks and other operational risks		
Provisions for specific risks	6,673	38,624
Provisions for general risks	-80,390	-222,863
Total	**-73,718**	**-184,239**
Total	**-52,730**	**-133,968**

3. Net fee and commission income

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

4. Income from equity shares and participating interests

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

Also included under this caption is the amount due to the Bank with respect to the ECB's interim profit distribution totalling EUR 6.4 million (2012: EUR 2.7 million) (see 'Interim profit distribution' in the notes on accounting policies). In 2013 the part of ECB's profit was retained by the ECB in accordance with a decision of the Governing Council with respect to the establishment of a provision for foreign exchange rate, interest rate, credit and gold price risks. The retained amount not distributed to the Bank amounts to EUR 0.02 million (2012: EUR 5.5 million).

5. Net result of pooling of monetary income

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

[15] Decision of the European Central Bank of 25 November 2010 on the allocation of monetary income of the national central banks of member states whose currency is euro (recast) (ECB/2010/23), OJ L 35, 09.02.2011, p. 17-25, amended by the Decision of the European Central Bank of 3 November 2011 (ECB/2011/18), OJ L 319, 02.12.2011, p. 116.

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 2013 the allocation of monetary income resulted in a net claim of EUR 7.7 million for the Bank (2012: EUR 26.8 million). This net claim consists of the claim for year 2013, which represents the difference between the EUR 70.7 million (2012: EUR 83.6 million) of monetary income paid by the Bank into the common pool and the Bank's claim of EUR 78.4 million (2012: EUR 110.0 million) on the common pool, corresponding to the Bank's share in the ECB's paid-up capital, and of net claims resulting from subsequent adjustment for years 2008 and 2012 (2012: for years 2008, 2009, 2010 and 2011).

This item also includes the effect of the release of the provisioning against counterparty risks in monetary policy operations of the Eurosystem amounting to an income of EUR 1.4 million (2012: income of EUR 2.9 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 417 employees as at 31 December 2013 (31 December 2012: 415 employees).

In accordance with the contract between the Bank and the Trade union from March 2002 Bank employees have been included into Voluntary supplementary pension insurance, which is defined as a contribution plan. Staff costs include contribution of the Bank for Voluntary supplementary pension insurance of EUR 0.5 million (2012: EUR 0.5 million).

In 2013 the remuneration of the Governing board members of the Bank was of EUR 754 thousands (2013: EUR 700 thousands).

Other operating expenses

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

Depreciation of tangible and intangible fixed assets

Depreciation of buildings, furniture and office equipment, computer hardware and software was performed according to the adopted depreciation rates.

Banknote production services

Expenses for banknotes production services include mainly the expenses related to the production and transportation. The additional quantity of banknotes to be printed is determined on the basis of assessed needs for banknotes in circulation and for the maintenance of adequate volume of stock in the Eurosystem, distributed to individual NCB according to its capital key and denomination structure. Significant increase in banknote production costs in comparison to the preceding year arises from the late delivery of banknotes that realised in 2013 instead in year 2012.

Other expenses

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

8. Profit for the year

According to the Accounting Guideline, to which the unrealised 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 50.4 million (2012: EUR 131.9 million). Appropriation of the financial result will be performed in accordance with the Article 50 of the Law on the Bank of Slovenia.

5 APPENDICES

5.1 Publications and website

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

Research

The articles discuss areas of professional interest and working relevance to the central bank, which primarily means macroeconomic policy with a focus on analysis of the transmission of monetary policy, the banking system, money, financial markets and the balance of payments. The content of the articles may be analytical or merely informative.

Delovni zvezki / Working Papers
(papers in Slovene or English)
released occasionally

Analytical and methodological presentations in macroeconomic and other areas.

Surveys and Analysis
(papers in Slovene or English)
released occasionally

Website

The website of the Bank of Slovenia with information about the institution, 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 securities, and major publications in electronic form.

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

5.2 Secondary legislation affecting banking supervision

January 2013:

- Regulation amending the regulation on risk management and implementation of the internal capital adequacy assessment process for banks and savings banks (Official Gazette of the Republic of Slovenia, No. 3/13)

February 2013:

- Regulation amending the regulation on the assessment of credit risk losses of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 12/13)

- Regulation amending the regulation on the minimum requirements for ensuring an adequate liquidity position of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 26/12 of 6 April 2012)

April 2013:

- Regulation amending the regulation on the deposit guarantee scheme (Official Gazette of the Republic of Slovenia, No. 29/13)

May 2013:

- Regulation amending the regulation on risk management and implementation of the internal capital adequacy assessment process for banks and savings banks (Official Gazette of the Republic of Slovenia, No.38/13)

- Regulation amending the regulation on the reporting of individual facts and circumstances of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 38/13)

July 2013:

- Regulation amending the regulation on risk management and implementation of the internal capital adequacy assessment process for banks and savings banks (Official Gazette of the Republic of Slovenia, No. 60/13)
- Regulation amending the regulation on the holders of qualifying holdings of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 60/13)
- Regulation amending the regulation on the calculation of capital requirements for market risk for banks and savings banks (Official Gazette of the Republic of Slovenia, No. 60/13)
- Regulation amending the regulation on the calculation of capital requirements for credit risk under the internal ratings-based approach for banks and savings banks (Official Gazette of the Republic of Slovenia, No. 60/13)
- Regulation amending the regulation on the calculation of capital requirements for credit risk in securitisation and rules on the exposure of banks and savings banks to transferred credit risk (Official Gazette of the Republic of Slovenia, No. 60/13)
- Regulation amending the regulation on the calculation of capital requirements for credit risk under the standardised approach for banks and savings banks (Official Gazette of the Republic of Slovenia, No. 60/13)
- Regulation amending the regulation on the calculation of capital requirements for operational risk for banks and savings banks (Official Gazette of the Republic of Slovenia, No. 60/13)
- Regulation amending the regulation on the supervision of banks and savings banks on a consolidated basis (Official Gazette of the Republic of Slovenia, No. 60/13)
- Regulation amending the regulation on the investments of banks and savings banks in qualifying holdings in entities in the non-financial sector (Official Gazette of the Republic of Slovenia, No. 60/13)
- Regulation amending the regulation on disclosures by banks and savings banks (Official Gazette of the Republic of Slovenia, No. 60/13)
- Regulation amending the regulation on the amounts of annual fees for supervision and fees for decisions on requests for the granting of authorisations (Official Gazette of the Republic of Slovenia, No. 60/13)

September 2013:

- Regulation amending the regulation on the diligence of members of the management and supervisory boards of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 74/13)
- Regulation amending the regulation on risk management and implementation of the internal capital adequacy assessment process for banks and savings banks (Official Gazette of the Republic of Slovenia, No. 74/13)
- Regulation amending the regulation on the reporting of individual facts and circumstances of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 74/13)
- Regulation amending the regulation on the documentation for the granting of an authorisation to provide banking and financial services and for status transformations (Official Gazette of the Republic of Slovenia, No. 74/13)
- Regulation on the documentation for demonstrating fulfilment of the conditions for performing the function of a member of the management board of a bank or savings bank (Official Gazette of the Republic of Slovenia, No. 74/13)

- Regulation on the documentation for the granting of authorisation to acquire a qualifying holding to banks and savings banks (Official Gazette of the Republic of Slovenia, No. 80/13)

- Regulation amending the regulation on the reporting of individual facts and circumstances of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 80/13)

- Regulation amending the regulation on the amounts of annual fees for supervision and fees for decisions on requests for the granting of authorisations (Official Gazette of the Republic of Slovenia, No. 80/13)

December 2013:

- Regulation amending the regulation on the minimum requirements for ensuring an adequate liquidity position at banks and savings banks (Official Gazette of the Republic of Slovenia, No. 98/13)

- Guidelines amending the guidelines for the implementation of the regulation on the minimum requirements for ensuring an adequate liquidity position at banks and savings banks (Official Gazette of the Republic of Slovenia, No. 100/13)

- Regulation amending the regulation on the books of account and annual reports of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 104/13)

January 2014:

- Regulation on the implementation of the EU regulation on prudential requirements for credit institutions and investment firms with regard to the implementation of options and discretions and of other tasks of the competent authority for credit institutions (Official Gazette of the Republic of Slovenia, No. 5/14)

- Regulation amending the regulation on the documentation for demonstrating fulfilment of the conditions for performing the function of a member of the management board of a bank or savings bank (Official Gazette of the Republic of Slovenia, No. 5/14)

February 2014:

- Regulation amending the regulation on the assessment of credit risk losses of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 12/14)

- Regulation on the amounts of annual fees for supervision and fees for decisions on requests for the granting of authorisations (Official Gazette of the Republic of Slovenia, No. 12/14)

5.3 Glossary of selected terms

Autonomous factors – see Structural position of the money market.

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

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

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

EUREPO – The reference interest rate for euro interbank loans secured by selected government bonds.

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

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

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

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

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

Own use of collateral for monetary policy loans – The use of collateral by the counterparty who issued the collateral instrument (i.e. the debtor of the instrument), or by a closely related debtor, i.e. where there is a direct or indirect capital link of more than 20% between the two parties. This is possible for covered bonds or uncovered government-guaranteed (bank) securities.

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

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

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

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

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

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

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

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

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

Excess reserves – The balances of institutions in accounts at NCBs in excess of the minimum reserve requirement.

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

Structural position of the money market or structural liquidity position – The difference between the autonomous items on the right (asset) and left (liability) side of the balance sheet of a central bank. When the right side of autonomous items is greater (or less) than the left side, the result is a deficit (or surplus) structural position of the money market. The structural position of the euro area money market is in deficit. 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 central bank money, and thus the liquidity of banks, changes autonomously, i.e. even when this is not the central bank's aim, and when the central bank uses monetary policy measures to that end. Examples of autonomous items from a central bank's balance sheet are banknotes in circulation, government deposits with the central bank, cash in transit, foreign reserves and other assets of the central bank, as well as its own funds and reserves. These are items that cannot be directly linked to the exercise of monetary policy. The structural liquidity position indicates to what extent (e.g. just right, too little or too much) banks are being provided with liquidity, i.e. the autonomous supply of central bank money to banks in the absence of central bank monetary policy measures. This is also the structural position of the money market, and the interbank market, in which central bank money is used for payment.

Forward interest rate – The interest rate derived from the (spot) yield curve for a period beginning in the future. For example, the 3-month forward interest rate six months in the future is derived in the manner described as the implicit interest rate on a 3-month deposit that begins six months in the future.