BANKA SLOVENIJE

BANK OF SLOVENIA
EUROSYSTEM

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A WORD FROM THE GOVERNOR

The state of the real economy and the financial sector in Slovenia improved during 2015. The economy grew at a solid pace of 2.9%, supported by recovering domestic demand, the unemployment rate declined further, and the current account surplus increased to 7.3% of GDP thanks to strong growth in merchandise exports and an improvement in the terms of trade. However, annual average inflation fell into negative territory, primarily on account of lower energy prices and their spillover effects on core inflation. The headline general government deficit fell to below 3% of GDP.

The profitability of the banking system as a whole turned positive in 2015 after five years of losses, and aggregate systemic risk is assessed as having declined. These developments largely reflect the positive impact of measures taken by the government and the Bank of Slovenia in late 2013.

ECB monetary policy was eased further in 2015, primarily through the expansion of the asset purchase programme. In Slovenia this contributed to lower bond yields, a fall in bank lending rates, and ample bank liquidity. Lending to the household sector picked up from mid-2015 after three years of decline, but net bank lending to the corporate sector continued to decline, albeit at a more moderate pace. The main causes of the negative credit dynamics in the corporate sector were the ongoing deleveraging by firms with large debt overhang and the still-high volume of non-performing loans (NPLs) on the balance sheets of banks.

The Bank of Slovenia is actively pursuing an agenda of restructuring the banks' non-performing exposures. The banks need to set ambitious goals that in the future will enable them to undertake the final recovery of their balance sheets and to restore growth in credit activity. The Bank of Slovenia encouraged emergence in 2015, and was actively involved in the drafting of guidelines for the restructuring of NPLs to SMEs. To enhance the effectiveness of these efforts, the Bank of Slovenia has initiated steps to upgrade the Central Credit Register with the aim of improving the quantity and quality of debtor information.

Looking ahead, the financial sector is faced with new challenges associated with regulatory and institutional changes and the prevailing macroeconomic environment. Regulation and supervision is being strengthened to make the future of the banking system more stable and less crisis-prone. Prudential rules have therefore been put in place that require the establishment of new requirements on, among other things, the quality and quantity of capital (in the form of several layers of capital buffers). In Slovenia these requirements have been incorporated into the new Banking Act. The requirements of the new regulatory framework will impose higher costs on banks. In addition, the business models of banks have to adapt to the low-interest environment. The outlook is therefore for low bank profitability.

Regulation and supervision is being strengthened to make the future of the banking system more stable and less crisis-prone.

Notwithstanding the solid growth performance in 2014 to 2015, the conditions are not fully in place for strong sustainable growth. The recovery in domestic demand in 2015 was supported by a pick-up in private consumption and relatively high growth in public-sector investment. Private investment demand remained weak, and well below the saving rate of the corporate sector. The global economic outlook poses significant downside risks to Slovenia's prospects for export growth. Furthermore, economic growth in the near term is likely to be dampened by a decline in public investment, owing to an initial period of reduced EU funding during the changeover to the 2014-2020 financial framework.

In accordance with its new strategy, the Bank of Slovenia continued to reorganise in 2015, this time at the Analysis and Research Centre. It also formed a special organisational unit: the Resolution Unit. In order to achieve its strategic goals, the Bank of Slovenia adjusted its business planning system, which now emphasises clearly set objectives, results and responsibilities. The Bank of Slovenia started to implement a documentation system to help optimise and reduce operational risk. In light of the continual expansion of its tasks, the Bank of Slovenia is devoting particular attention to the allocation of tasks, to ensure that the need for additional recruitment is minimised.

Ljubljana, April 2016

Boštjan Jazbec
Governor of the Bank of Slovenia

1 INTRODUCTION

The Bank of Slovenia is the central bank of the Republic of Slovenia and shares responsibility with the Eurosystem for formulating and implementing the decisions of the latter's decision-making bodies. In doing so, it is committed to joint strategic objectives, and draws up its own fundamental objectives within that framework, and achieves those objectives through the implementation of the tasks that are set out in its annual financial plan. The Bank of Slovenia holds its own property as a legal entity under public law. It is under exclusive state ownership, with autonomy in terms of finances and governance.

1.1 Tasks of the Bank of Slovenia

The Bank of Slovenia performs a number of tasks as the central bank of the Republic of Slovenia and a member of the Eurosystem.

The Bank of Slovenia performs numerous tasks that support the functioning of the economy and the state.

It works towards the joint strategic objectives of the Eurosystem, and draws up its own fundamental objectives within this framework. It performs numerous tasks that support the functioning of the economy and the state.

The key areas of the Bank of Slovenia's operation are presented in the following points.

1.1.1 Implementation of the Eurosystem's monetary policy (section 3.2).

The Bank of Slovenia pursues the Eurosystem's fundamental objective of maintaining price stability. As a member of the Governing Council of the European Central Bank (ECB), the Governor of the Bank of Slovenia actively participates in the formulation of euro area monetary policy. Since the introduction of the euro as the legal tender of Slovenia, the Bank of Slovenia performs tasks in the area of monetary policy in accordance with the decisions of the decision-making bodies of the European System of Central Banks (ESCB).

The Bank of Slovenia opens accounts for banks and savings banks, accepts funds deposited by the aforementioned institutions and is party to transactions on the currency and financial markets.

1.1.2 Functioning of payment systems (section 3.3)

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

1.1.3 Banknotes and coins (section 3.4)

In accordance with Article 16 of the Statute of the ESCB and ECB, the Bank of Slovenia issues banknotes that serve as legal tender of Slovenia. It makes decisions regarding the release of banknotes and coins into circulation and their withdrawal from circulation, and supplies cash throughout Slovenia.

1.1.4 Banking supervision and role in maintaining financial stability (sections 3.6 and 3.7)

The Bank of Slovenia formulates, implements and oversees a system of rules for the secure and prudent operations of banks and savings banks, and ensures financial stability through the regular monitoring and analysis of banks. Together with the Securities Market Agency (SMA) and the Insurance Supervision Agency (ISA), the Bank of Slovenia exercises macroprudential supervision and addresses identified risks by means of macroprudential instruments. At the level of the European Union (EU) and Economic and Monetary Union (EMU), the Bank of Slovenia is involved in the creation and strengthening of the Banking Union. The first pillar – the Single Supervisory Mechanism – is fully operational, while the establishment of the second pillar of the Banking Union – the Single Resolution Mechanism – began in 2015.

1.1.5 Responsibility for the security of deposits and the resolution of banks (section 3.8)

The deposits of an individual bank are guaranteed up to the amount of EUR 100,000.

A sound and effective deposit guarantee scheme at banks and savings banks is one of the important conditions for maintaining financial stability in a country. The deposits of an individual bank are guaranteed up to the amount of EUR 100,000 (certain groups of depositors are excluded). Alongside its responsibility for the deposit guarantee scheme at banks, the Bank of Slovenia has also become the national resolution authority. Functioning within the Bank of Slovenia is a special fund for bank resolution, to which banks have contributed funds and which can be used for the implementation of extraordinary measures imposed by the Bank of Slovenia.

1.1.6 Statistics (section 3.11)

The Bank of Slovenia records, collects, processes and discloses data and information, including statistical data and information relating to the performance of its tasks and that are important for the functioning of the monetary and financial system (monetary and financial statistics, international economic relations statistics and financial accounts statistics).

1.1.7 Other (selected) tasks (sections 3.5, 3.10 and 3.12)

- The Bank of Slovenia holds and manages official foreign reserve assets and other assets;
- it manages accounts and provides payment services for the Republic of Slovenia, government bodies and public entities; and
- it provides an information system for the unhindered performance of its tasks.

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

1.2 Strategy of the Bank of Slovenia

The fundamental strategic document outlining the objectives, values and development of the Bank of Slovenia is its strategy for the period 2015–2020[1], which was adopted by the Governing Board of the Bank of Slovenia in October 2014. The figure below illustrates the Bank of Slovenia's five strategic objectives.

The Bank of Slovenia has five strategic objectives for the period 2015-2020.

Figure 1: **Strategic objectives of the Bank of Slovenia for the period 2015–2020**

The Bank of Slovenia is a proactively oriented central bank that employs experts with high ethical standards who are dedicated to participating in the formulation and implementation of tasks in the areas of monetary policy, banking supervision and financial stability, deposit guarantee schemes and the resolution of banks, the supply of cash, the smooth functioning of payment systems, and monetary and financial statistics.

The Bank of Slovenia's employees are committed to efficient governance and to performing the tasks entrusted to them effectively and efficiently in a spirit of cooperation and teamwork. By means of their experience and the exchange of knowledge, within the framework of the clearly defined roles and responsibilities of all Eurosystem members, they endeavour to strengthen the collective identity and unity of action, and to exploit potential synergies.

In the realisation of their objectives and the implementation of their tasks, employees place the greatest focus on credibility, trust, transparency and responsibility. They strive to communicate effectively with all strategic publics.

The Bank of Slovenia began implementing its established strategy in 2015. Key activities in 2015 were aimed at drawing up a redefined business plan that includes clearly defined objectives and the results of work with certain custodians.

1 The document Strategy of the Bank of Slovenia 2015–2020 is published on the Bank of Slovenia's website under Bank of Slovenia – About Bank of Slovenia – Strategy (www.bsi.si/en/bank-of-slovenia.asp?MapaId=1295).

1.3 Profile

Figure 2: **Excerpt of tasks performed by the Bank of Slovenia in 2015 in figures**

BANK OF SLOVENIA

Cash operations	Financial and monetary system	Monetary policy	Banking Supervision	Payment systems
• Banknotes totalling EUR 804.23 million counted • EUR 272.31 million in banknotes withdrawn form circulation and destroyed • Cash in the net amount of EUR 964.01 million placed in circulation	• Payment services for the government, municipalities and others • Number of transactions executed 48.7 million • Value of payment transactions executed: EUR 367,629 million	• 128 open market operations executed with Slovenian counterparties in the amount of EUR 1,644 million • Securities in the amount of EUR 2,228 million purchased from issuers in the Slovenian public sector within the framework of the Public Sector Purchase Programme (PSPP)	• 17 different inspections at 13 banks • 13 procedures initiated and 6 authorisations granted to perform the function of member of a bank's management board; 2 rejections. 5 other procedures not completed. • 24 decisions based on the ZBan-2	• The Bank of Slovenia's system facilitated real-time interbank settlement for: • 960,124 payment transactions • in the total amount of EUR 854,672 million

International cooperation/membership in international bodies

Analysis of economic policies and research

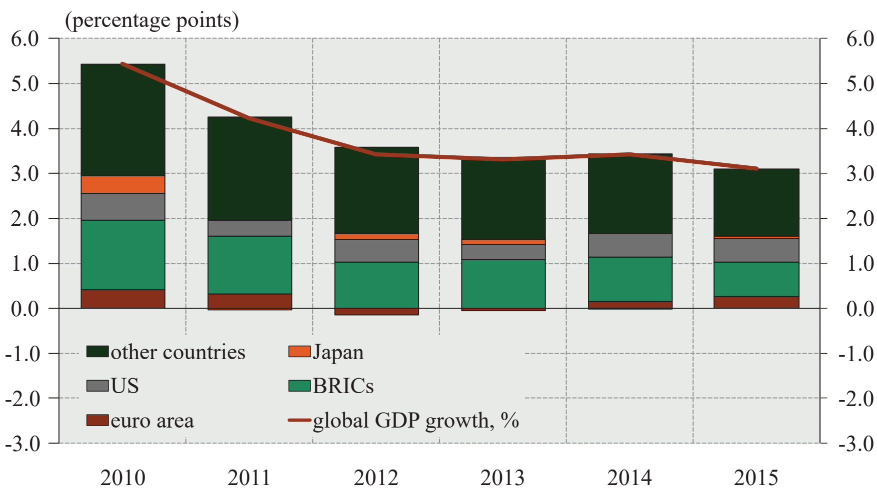
2 ECONOMIC AND INSTITUTIONAL ENVIRONMENT IN 2015

2.1 International situation

The international environment was characterised in 2015 by the deteriorating economic situation in the majority of large developing countries, falling oil prices and rising geopolitical tensions in the Middle East. With the exception of India, the economic situation in the BRIC countries deteriorated to the point of recession in Brazil and Russia, and in China in the form of slowing growth and problems on the financial markets. Russia was hit by sanctions from the West, and falling oil prices and the resulting depreciation of the ruble. The sharp drop in commodity prices also affected Brazil. Growth in China remains high, but its structure indicates problems in the country's transition to an economic model that is based more on private consumption. Global economic growth was thus sustained more than before by advanced economies, primarily the US. The moderate recovery continued in the euro area, but the economic situation remained less favourable than in the US, which began to be reflected in a divergence between the monetary policies of the ECB and the US Federal Reserve (Fed). The situation in the Middle East deteriorated further, but without major adverse effects, at the moment, on economic growth in Europe. The flow of refugees from conflict regions represents a bigger problem and has caused a political crisis in the EU.

Growth in household consumption strengthened.

Figure 3: **Contributions to growth in global GDP by country**



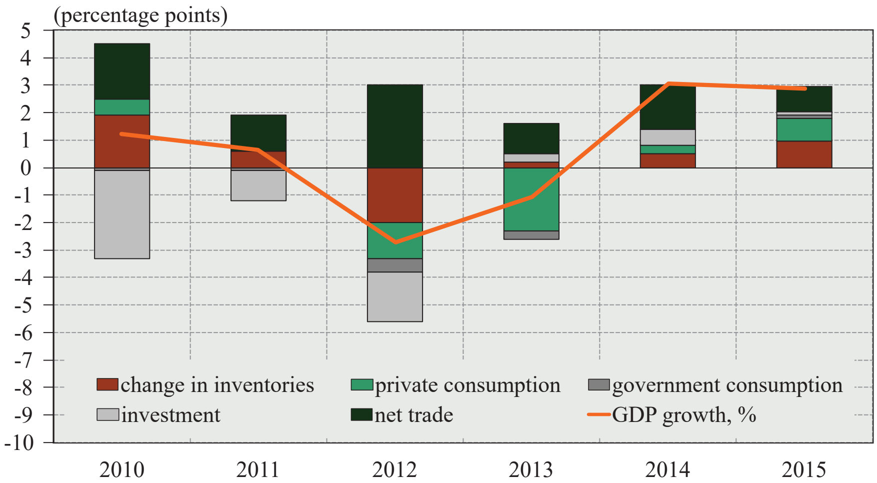
Source: IMF, Bank of Slovenia calculations and estimates

2.2 Slovenian economy

2.2.1 Economic activity

Economic growth remained relatively high in 2015. The gradual recovery in domestic consumption continued, and contributed two thirds to overall GDP growth of 2.9%. Growth in household consumption strengthened, but continued to be curbed by low wage growth, in part due to the increased employment of low-income workers, and by growth in precarious forms of employment. Growth in gross fixed capital formation was down sharply last year due to the fall in construction investment. This was the result of the end of a strong government investment cycle prompted by the uneven disbursement of EU funds. After years of rapid corporate deleveraging, growth in investment in machinery and equipment began to strengthen and exceeded 8%. Domestic demand also recovered due to more growth-friendly fiscal consolidation, which facilitated weak growth (of 0.7%) in final government consumption. Net exports contributed close to one third or 1 percentage point to last year's GDP growth, as real export growth exceeded 5%.

Figure 4: **Contributions by components of demand to annual GDP growth**



Source: SURS, Bank of Slovenia calculations

Box 1: **Consensus economic growth forecasts for Slovenia and its main trading partners in 2016**

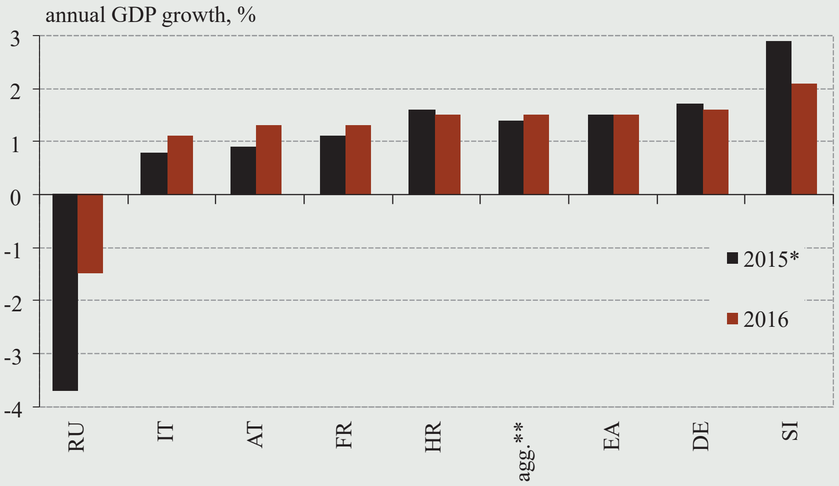
In its March forecasts, Consensus is forecasting a slowdown in economic growth in Slovenia in 2016. GDP is forecast to grow by 2.1%, 0.8 percentage points less than the growth recorded in 2015. According to Consensus estimates, the main reasons for the slowdown in growth are slowing growth in industrial production (forecast at 3.4%) and continued weak growth in investment, which is forecast at an average of 0.9% in 2016. At 1.6%, growth in private consumption is forecast to remain practically unchanged relative to 2015 and below the euro area average. Higher growth in industrial production in Slovenia (3.4%) than in the euro area (1.2%) is expected to contribute to faster growth in GDP in Slovenia relative to the euro area.

Aggregate economic growth in Slovenia's main trading partners is expected to strengthen only slightly in 2016 compared with 2015. Estimates point to overall GDP growth of 1.5%, but with differences between key markets.[2] Growth in Germany, which accounts for more than a fifth of Slovenian merchandise exports, is forecast to slow to 1.6%. The main reason for the lower forecast lies in the expected slowing of growth in investment in machinery and equipment, as well as a slowdown in growth in industrial production. Growth in Slovenia's next two most important trading partners, Italy and Austria, is forecast to strengthen but remain below the euro area average in 2016. Growth in Italian GDP is forecast at 1.1%. Investment and industrial production are expected to strengthen most, while the recovery in private consumption is forecast to remain weak. Economic growth in

[2] Consensus forecasts are briefly explained for Slovenia's trading partners that account at least 4% of total merchandise exports. Consensus Economics is an international organisation that collects and analyses the forecasts and views of a broad range of economists on a monthly basis. They include estimates of main macroeconomic indicators for more than 85 countries.

Austria is forecast at 1.3% in 2016. Primarily growth in the industrial sector is expected to strengthen. Croatia emerged from a long recession in 2015, and is expected to record moderate growth of 1.5% in 2016 according to Consensus forecasts, which see the economy recovering primarily on account of growth in private consumption and investment, while growth in industrial production is expected to slow slightly. French GDP is forecast to rise by 1.3% in 2016. Growth in private-sector investment and industrial production are expected to contribute most to overall growth. The recession in Russia is expected to ease in 2016. Consensus is forecasting a contraction in GDP of 1.5% owing to the continuing decline in private consumption and investment. Sanctions imposed by the West continue to be a significant reason for the weak economic situation, while the central bank continues to be cautious with regard to the cutting of interest rates due to the sharp depreciation in the ruble. A rise in oil prices is expected to have positive effects on the current account.

Figure 5: **Consensus economic growth forecasts for Slovenia and its main trading partners in 2016**



Notes: * Actual figure for 2015. ** Aggregate figure includes countries that account for at least 1% of Slovenia's total merchandise exports over the last 12 months according to available figures (more than 20 countries accounting for around 90% in total). The growth estimate for 2015 and forecast for 2016 are weighted by the individual country's share of total merchandise exports.

Source: Consensus, Bank of Slovenia's estimated aggregate

2.2.2 Employment and wages

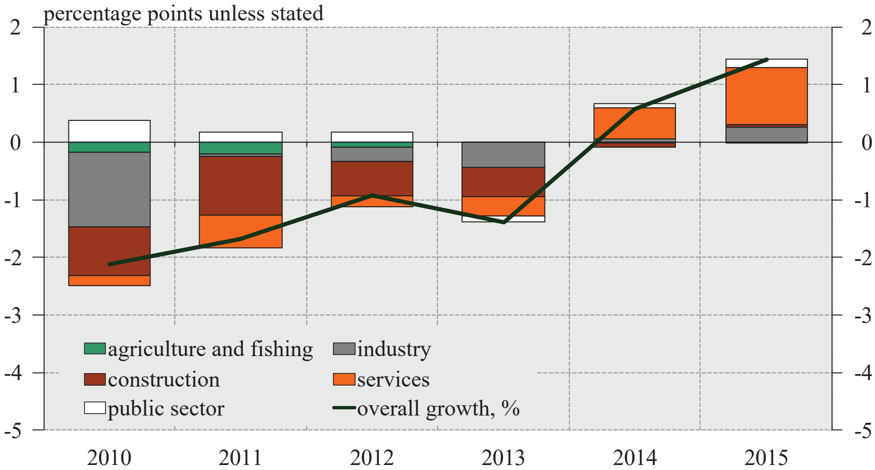
Uncertain forms of employment remained prevalent.

Positive trends on the labour market continued for the second year in a row, as employment continued to rise. Employment was 1.4% higher on average, with employment in the sectors of wholesale and retail trade, accommodation and food service activities, and manufacturing contributing most to that rise. Uncertain forms of employment[3] remained prevalent, as self-employment accounted for more than a third of the rise in employment. The number of registered unemployed was down more than 6% last year to stand at 113,000 at the end of the year. The registered and surveyed unemployment rates were both down. The latter had fallen to 8.4% by the end of the year, which is well below the euro area average. The largest factor in the fall in unemployment was a decline in the number of people newly registering as unemployed, while the number of deregistrations also fell due to a decline in subsidised jobs. The labour market reform of 2013 is no longer having the desired effect, as the proportion of temporary new hires is rising again and the proportion of those registering as unemployed because their temporary employment has ended is increasing. Nominal wage growth lagged

[3] The number of employees in employment activities and the number of self-employed persons were up 35% and 1.9% respectively in 2015 relative to 2014. Temporary employees accounted for 74.7% of all new hires, an increase of 2 percentage points on 2014.

behind economic activity last year and fell to just 0.7%, partly as a result of the increased employment of low-wage workers.

Figure 6: **Contributions by groups of activities to annual growth in employment**



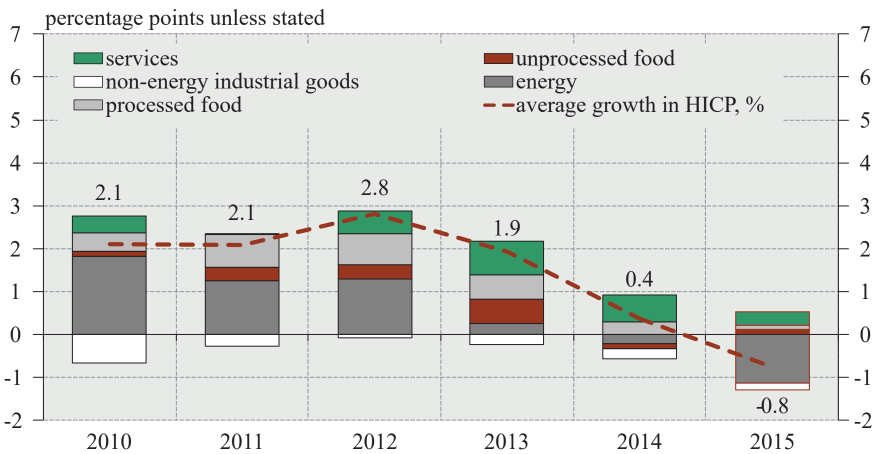
Source: SURS, Bank of Slovenia calculations

2.2.3 Inflation

Slovenia recorded deflation for the first time since price growth began to be measured by the HICP.

Annual inflation as measured by the HICP averaged -0.8% in Slovenia in 2015, the lowest figure to date, down 1.2 percentage points on the previous year. Slovenia thus recorded deflation in 2015 for the first time since price growth began to be measured by the HICP. Most notably there was a sharp fall in energy prices due to the fall in oil prices on global markets. At the same time still relatively weak domestic demand did not result in an increase in prices of non-energy industrial goods or services. Core inflation as measured by the HICP excluding energy and food was thus down 0.4 percentage points on the previous year. In addition to low food prices on the global markets, year-on-year growth in prices of processed food was down due to the fading effect of the rise in excise duties on tobacco and alcohol in 2014.

Figure 7: **Contributions of categories of prices to annual inflation**



Note: Rounding means that the components do not necessarily sum to the aggregate figure
Source: SURS, Bank of Slovenia calculations

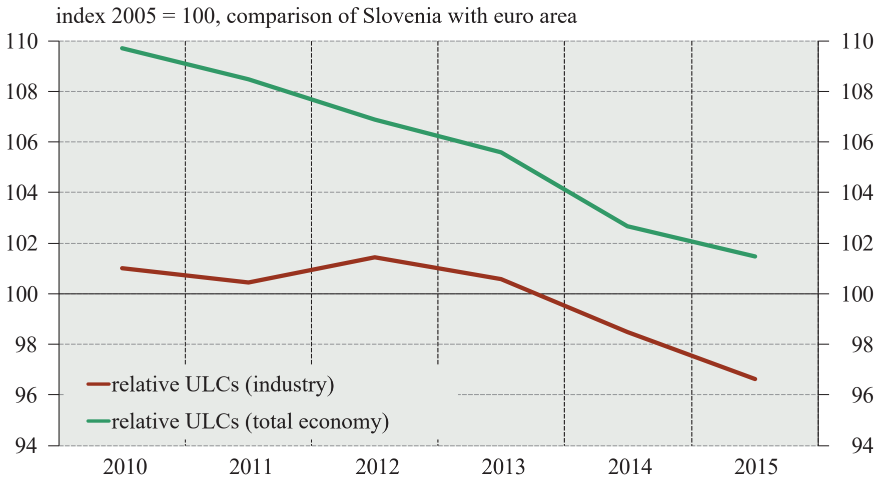
Slovenia was among the euro area countries with the strongest deflation in 2015. Euro area price growth averaged zero. Prices were down in Slovenia for two reasons. First, foreign factors have a greater impact on final prices in Slovenia owing to the higher weighting in the basket of prices. Thus the direct negative contribution of energy prices to inflation in Slovenia was 0.3 percentage points larger than in the euro area. Second, final consumption remained significantly weaker in Slovenia than in the euro area, as the drop in government and private consumption was more severe during the crisis, while growth in consumption following Slovenia's emergence from the crisis was likewise below the euro area average.

2.2.4 Competitiveness

The competitiveness of the Slovenian economy improved last year. Unit labour costs were down again. Because wage growth in the euro area was higher on average than growth in productivity, the relative cost competitiveness of the Slovenian economy improved further and was almost on par with the euro area average, but notably higher in the export sector. Deflation and the depreciation of the euro had a significant impact on price competitiveness. With inflation in Slovenia ranging below the euro area average, price competitiveness improved on euro area markets, while the depreciation of the euro improved operating conditions of exporters on a number of non-euro markets. Following a decline during the crisis, Slovenia's global market share was up again last year, as nominal growth in exports outstripped nominal growth in global trade, the fall in commodity prices contributing in part to the latter. A gradual strengthening is also expected in the technological intensity of exports, which nevertheless continues to lag behind the average of EU Member States according to available data.[4] Slovenian exporters have also maintained the considerable geographical diversity of export markets, as the number of countries that account for more than 1% of merchandise exports remains above 20.

The cost competitiveness of the Slovenian economy in 2015 was almost on par with the euro area average.

Figure 8: **Relative nominal unit labour costs**



Note: * Measured via value-added
Source: Eurostat, Bank of Slovenia calculations

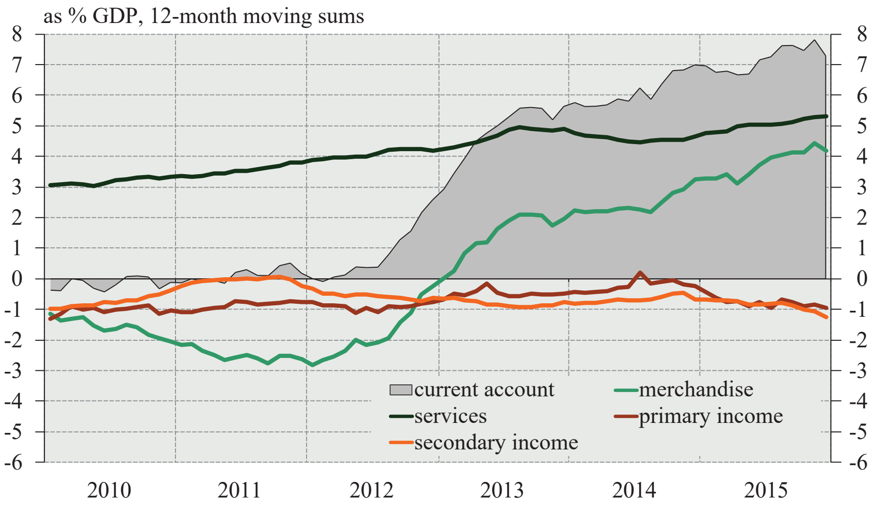
4 Source: IMAD: 2014 Development Report, p 121

2.2.5 Balance of payments and external debt

The surplus stood at 7.3% of GDP at the end the year.

The increase in the current account surplus slowed in 2015. The surplus stood at 7.3% of GDP at the end the year, compared with of 7.0% of GDP at the end of 2014. Growth in nominal merchandise exports remained solid, despite the expected slowdown due the specific cycle of Slovenia's automotive industry, while high growth in revenues from tourism contributed to growth in exports of services. Nominal growth in imports has slowed further, primarily due to the fall in commodity prices on global markets. The latter has contributed to improving terms of trade, as the fall in import prices (of 1.3%) was significantly higher than the fall in export prices. The surplus of trade in merchandise and services widened from EUR 3 billion to EUR 3.6 billion, improving terms of trade contributing EUR 350 million to that widening.[5] The deficit in income also widened considerably, from EUR 340 million in 2014 to EUR 854 million. The deficit in capital income widened by EUR 330 million to more than EUR 1 billion. The reason lies primarily in the widening deficit in income from equity, the estimate of reinvested earnings having a major impact on the latter.[6] The deficit in secondary income also widened, from EUR 250 million to EUR 480 million, primarily due to a reduced inflow of EU funds for administering certain common EU policies. The surplus in labour income exceeded EUR 0.5 billion in 2015 as a result of a rise in the number of residents working abroad.

Figure 9: **Components of the current account**



Source: Bank of Slovenia

2.2.6 Financial account and external debt

Slovenia was a net financer of the rest of the world in 2015 in the amount of EUR 2.0 billion, compared with EUR 2.3 billion in 2014. Financial assets were up EUR 1.1 billion in 2015, while liabilities were down EUR 0.8 billion. Investments in debt securities recorded the most significant increase (of EUR 1.9 billion), while investments in the form of currency and deposits and in loans granted were down EUR 0.5 billion and EUR 0.3 billion respectively. Direct investment was up on the

5 The effect of terms of trade is calculated based on deflators of exports and imports of merchandise and services from the national accounts.

6 The methodology used to administer reinvested earnings in the balance of payments may be found at http://www.bsi.si/financni-podatki-r.asp?MapaId=911. More precise estimates for 2015 will be available in June following the receipt of corporate annual reports.

liability side by slightly less than EUR 1 billion, while debt repayments were made in the items investments in securities (EUR 0.9 billion), currency and deposits (EUR 0.4 billion) and loans received (EUR 0.3 billion).

Slovenia's external debt was down in 2015 due to debt repayments by all sectors, except the general government. The gross external debt amounted to EUR 44.7 billion or 116.1% of GDP in December 2015, down EUR 1.6 billion on the previous year. The general government sector recorded the largest increase in debt (by EUR 593 million), while primarily the banking sector reduced its debt (by EUR 1.4 billion). The general government sector accounted for the largest proportion of the gross external debt (51%), followed by other sectors (24%) and banks (12%).

Slovenia's external debt was down in 2015 due to debt repayments by all sectors, except the general government.

Box 2: **Claims and liabilities associated with the TARGET2 payment system, and the Bank of Slovenia's position in that system in the period 2007–2015**

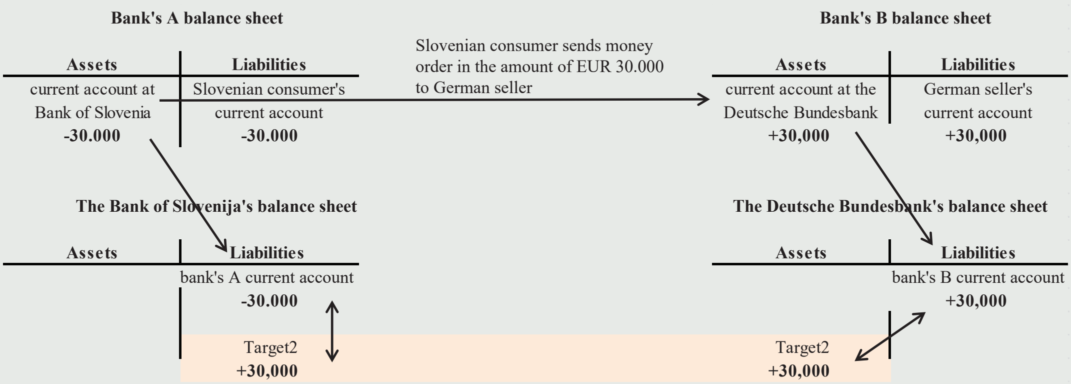
Claims and liabilities associated with the TARGET2 payment system arise in the balance sheets of euro area central banks as the result of cross-border non-cash payments in euros. The majority of such payments – initiated by households, corporates, banks, general governments or central banks – are settled directly or indirectly in the euro area via the TARGET2 payment system.[7] The effect of individual transactions will be explained using the case illustrated in Figure 1. We will take the case of a Slovenian consumer who purchases a car for EUR 30,000 from a German seller. The Slovenian consumer has a current account at Slovenian bank A, which has an account at the Bank of Slovenia. The German seller has a current account at German bank B, which has an account at the Deutsche Bundesbank. The Slovenian consumer's payment to the German seller reduces the former's balance on its current account at Slovenian bank A, whose balance on its current account at the Bank of Slovenia is reduced by the same amount. The Bank of Slovenia transfers the money to the Deutsche Bundesbank, which credits the current account of bank B, which in turn credits the account of the German seller. The transfer between the Bank of Slovenia and the Deutsche Bundesbank is reflected in the balance sheets of both central banks. The balance of the item *current accounts* (i.e. the current account of bank A at the Bank of Slovenia[8]) on the liability side of the Bank of Slovenia's balance sheet is reduced by EUR 30,000, while the balance of the item *Intra-Eurosystem liabilities* (which includes *inter alia* liabilities associated with the TARGET2 system) is increased by the same amount on the liability side. At the same time, the item *current accounts* (i.e. the current account of bank B at the Deutsche Bundesbank) on the liability side of the Deutsche Bundesbank's balance sheet and the item *Intra-Eurosystem claims* (which includes *inter alia* claims associated with the TARGET2 system) on the asset side are increased by EUR 30,000. All payments that flow in one way or the other during a given day are netted, and each central bank discloses a position at the end of the day of either net claims (if the amount of incoming payments to the country in question exceeds outgoing payments) or net liabilities associated with the TARGET2 system (if the amount of outgoing payments from the country in question exceeds incoming payments).

For cross-border payments a link is offered to the balance of payments, i.e. a record of all changes in claims and liabilities between the residents of a particular country and non-residents, regardless of currency. A change to the Bank of Slovenia's position in the TARGET2 system is linked to the balance of a part of changes in claims and liabilities in Slovenia's financial account of the balance of payments, i.e. those claims and liabilities in euros between residents of Slovenia and non-residents from the euro area. The position in the TARGET2 system will change if the balance of all other changes in the balance of payments, i.e. in the current, capital and financial accounts with those non-residents, is not closed, i.e. equal to zero. If the balance is negative, the domestic banks will require funding from the Bank of Slovenia, most likely in the form of monetary policy credit operations; if the balance is positive, the banks will deposit cash with the Bank of Slovenia.

7 TARGET2 (Trans-European Automated Real-time Gross Settlement Express Transfer System) is the abbreviation of the payment system that functions in accordance with the real time gross settlement principle (i.e. each payment transaction sent and received is settled separately).

8 The names of balance-sheet items are given in Table 1.7 of the Bank of Slovenia's Monthly Bulletin.

Figure 10: **Claims and liabilities associated with the TARGET2 payment system, and cross-border payments in euros**

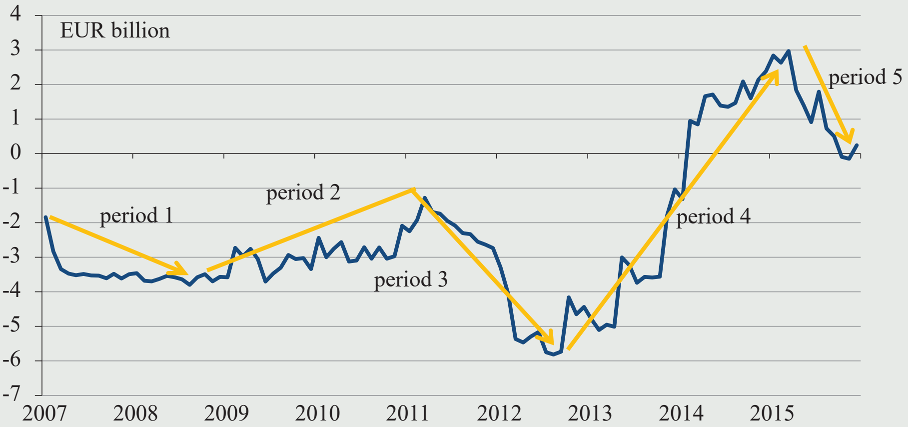


Source: BIS Working Paper No 393, Bank of Slovenia

The Bank of Slovenia has been a participant in the TARGET2 system since the adoption of the euro, i.e. since 1 January 2007. The following in particular affected the Bank of Slovenia's position in the TARGET2 system from 2007 to 2015: (1) conducting the Bank of Slovenia's independent monetary policy prior to the adoption of the euro; (2) the replacement of foreign market sources of funding with monetary policy credit operations due to the global economic and financial crisis; and (3) the management of general government liquidity and debt.

(1) The increase in liabilities associated with the TARGET2 system in the Bank of Slovenia's balance sheet to EUR 3.8 billion by August 2008 was the result of the termination of conducting the Bank of Slovenia's independent monetary policy prior to the adoption of the euro. While the tolar was legal tender, the Bank of Slovenia purchased foreign currencies using tolars to prevent an excessive depreciation of the tolar vis-à-vis the euro from balance of payment surpluses. Because a sharp increase in tolar supply could lead to rising inflation, the Bank of Slovenia withdrew (sterilised) tolars using various monetary policy instruments, including treasury bills that it sold to the banks. Following the adoption of the euro, the aforementioned instruments fully matured by April 2007. Banks which received that money, placed it in interbank deposits, used it to purchase securities or lent it to domestic households, corporates, and the government. A large portion of that money flowed either directly or indirectly abroad; the amount of money that flowed abroad was higher than inflows from abroad (e.g. in the form of external borrowing). Liabilities associated with the TARGET2 system thus arose in the Bank of Slovenia's balance sheet and stood at EUR 3.5 million in April 2007 (see the beginning of period 1 in Figure 11).

Figure 11: **Claims (+)/liabilities (–) of the Bank of Slovenia associated with the TARGET2 payment system; balance as at the end of the month**



Source: The Bank of Slovenia, ECB Statistical Data Warehouse

(2) The global economic and financial crisis made it difficult to secure international market sources of funding in Slovenia. The substitution of foreign sources of funding with monetary policy credit operations, particularly after 2008, resulted in an increase in the Bank of Slovenia's liabilities associated with the TARGET2 system, which reached their highest level of EUR 5.8 billion in August 2012. Slovenian corporates financed their growth prior to the crisis primarily via bank loans. The savings of the non-banking sector at Slovenian banks was insufficient for the funding of such loans by the aforementioned banks, which raised additional long-term funds, particularly at foreign banks. The banks began to repay the aforementioned sources after 2008. The banks secured a portion of the money required for those repayments via government deposits (see below), through the issue of government-guaranteed bonds and through a contraction in their assets, while a portion was borrowed from the Bank of Slovenia. The primary source was 1-year longer-term refinancing operations in 2009 and October 2011, and 3-year longer-term refinancing operations in December 2011 and February 2012. Monetary policy credit operations were up by a total of EUR 3.8 billion between September 2008 and August 2012 (see period 3 in Figure 11). Within this overall picture, the balance of all previously described sources and uses of funding between September 2008 and March 2011 even led to depositing banks' temporary surpluses with the Bank of Slovenia: monetary policy credit operations, government deposits and government-guaranteed bonds were of longer maturities and thus did not necessarily allow the banks to time their use when foreign sources needed to be replaced. As a result, the Bank of Slovenia's liabilities associated with the TARGET2 system fell to EUR 1.2 billion by the end of March 2011 (see period 2 in Figure 11).

(3) The management of general government liquidity and debt (depositing liquidity surpluses from the pre-financing of budget deficits at the banks and the Bank of Slovenia until 2014, and at foreign banks in 2015) led to a shift in the Bank of Slovenia's liabilities associated with the TARGET2 system into claims in February 2014 and back to liabilities at the end of 2015. The increase in borrowing by the government to finance budget deficits and repay the principle on government debt coincided with foreign debt repayments by the banks. The outstanding amount of issued government securities increased by EUR 7.5 billion to EUR 14.3 billion between July 2008 and September 2012. The majority of purchasers of the aforementioned securities were non-residents. The pre-financing of budget deficits due to the uncertain political situation and volatile market conditions led to depositing a portion of the proceeds of government borrowing at the banks and the Bank of Slovenia.

Growth in general government (external) debt continued even after the banks slowed their debt repayments abroad. Recapitalisations of banks in December 2013 and in 2014 further stabilised banks' funding sources, in part via renewed growth in household and corporate deposits at Slovenian banks. The banks fully repaid 3-year longer-term refinancing operations in March 2015, while the government adjusted its management of short-term liquidity surpluses by increasing deposits at the Bank of Slovenia and at foreign banks. The Bank of Slovenia's liabilities associated with the TARGET2 system were thus reduced due to increase in government deposits with the Bank of Slovenia, and the latter's position actually shifted into claims in February 2014 (see period 4 in Figure 11). The situation reversed in 2015 (see period 5 in Figure 11), as the government increased its deposits at foreign banks due to more favourable investment conditions, while the Bank of Slovenia purchased securities also from non-residents under the non-standard measure of asset purchase programmes.

2.2.7 Slovenia's fiscal position

With a reduction in the general government deficit below 3% of GDP, that objective has been achieved.

Slovenia's main fiscal objective in 2015 was to sustainably eliminate the excessive general government deficit, which is a condition for exiting the excessive deficit procedure[9]. With a reduction in the general government deficit below 3% of GDP, that objective has been achieved. The reduction in the general government deficit was due to the more favourable economic situation and measures to raise general government revenues (e.g. the introduction of contributions for student health and pension insurance, and a higher tax rate on financial services and insurance transactions), while the effect of one-off factors was considerably smaller.

General government revenues increased by 4.0%, with all main revenue categories recording an increase. Expenditure was down 1.7%, primarily due to

[9] More: http://eur-lex.europa.eu/summary/glossary/excessive_deficit_procedure.html?locale=en.

the diminishing effect of one-off factors. An example of a one-off factor in 2014 was the recapitalisation of two banks (Abanka and Banka Celje) in the amount of 0.9% of GDP, while the ruling by the European Court of Human Rights in connection with Ljubljanska banka savers increased expenditure by 0.7% of GDP. Expenditure on subsidies and interest was down in 2015, while expenditure on investment, intermediate consumption, wages and social security benefits was up.

The general government debt increased to 83.0% of GDP.

The general government debt increased to 83.0% of GDP. Other factors contributed to the rise in debt beside the deficit, in particular an increase in deposits for hedging against currency risk for bond issues in US dollars. The required yield on Slovenian government bonds averaged 1.66% during the year, a decrease on the previous year. Guarantees amounted to 18.3% of GDP at the end of 2015, a decrease relative to 2014, due to the maturity of certain bank bonds and loans to non-financial and financial corporations that were secured by government guarantees.

Figure 12: **Spreads of ten-year government bonds over the German benchmark**

Note: The spread is calculated as the difference between the yields on a 10-year government bond and the benchmark (German) bond on a daily basis, and reflects the risks that the markets ascribe to the country.
Source: Bloomberg, Bank of Slovenia calculations

2.2.8 Banking system

The level of government ownership exceeded 60% for the second consecutive year.

At the end of 2015 there were 16 banks, three savings banks and four branches of foreign banks operating in Slovenia. The banks held a market share of 95% of the banking system[10] in terms of total assets. The number of credit institutions was down one on the previous year. Following the recapitalisations carried out by the Slovenian government based on decisions regarding state aid in 2013 and 2014, the level of government ownership exceeded 60% for the second consecutive year. The proportion of equity held by non-residents amounted to around 30% in December, while other domestic entities accounted for the remaining ownership stake.

The banking system's total assets declined by EUR 1.3 billion to EUR 37.4 billion.

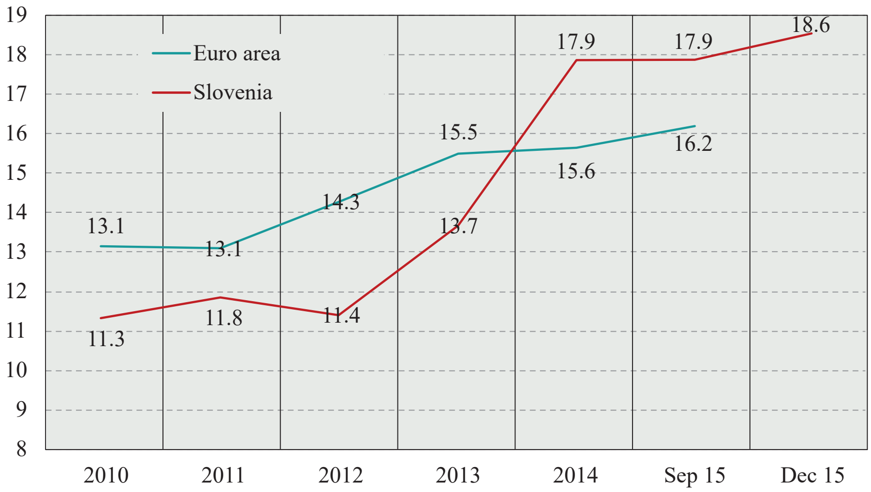
The contraction in the banking system's total assets continued last year, but at a slower pace than previous years. The banking system's total assets declined by EUR 1.3 billion last year to EUR 37.4 billion, a decrease of 3.4% in year-on-year terms. The main factors in the decline in total assets were the banks' repayment of debt on the wholesale markets, and the continuing contraction in

[10] Proportion of the entire banking system accounted for by the banks, including branches and savings banks.

lending activity on the asset side. Total assets were down in 2015 for the sixth year in succession, while the ratio of the total assets of banks and savings banks to GDP fell to 97%, a decrease of 49 percentage points relative to the situation in the middle of 2010, when that ratio reached its highest value since independence.

The capital position of the Slovenian banking system improved in 2015, but significant differences between bank groups remain. The small domestic banks are more exposed than the other banks. Overall capital adequacy on a consolidated basis stood at 18.6% at the end of December2015, while the Tier 1 capital ratio stood at 17.9%, with both continuing to exceed the last available average for euro area countries. The small difference between the two ratios indicates that Slovenian banks meet capital requirements with the highest quality forms of capital. The more notable improvement in 2014, when capital adequacy exceeded the euro area average, was the result of stabilisation measures imposed on certain state-owned banks. The banks further improved their capital position in 2015 by generating positive operating results and through minor recapitalisations. A further reduction in lending activity also contributed to the improvement in capital adequacy. An additional factor that affects growth in lending is the commitment given by banks receiving state aid to the European Commission (EC) regarding a contraction in operations.

Figure 13: **Capital adequacy at banks and comparison with the euro area**

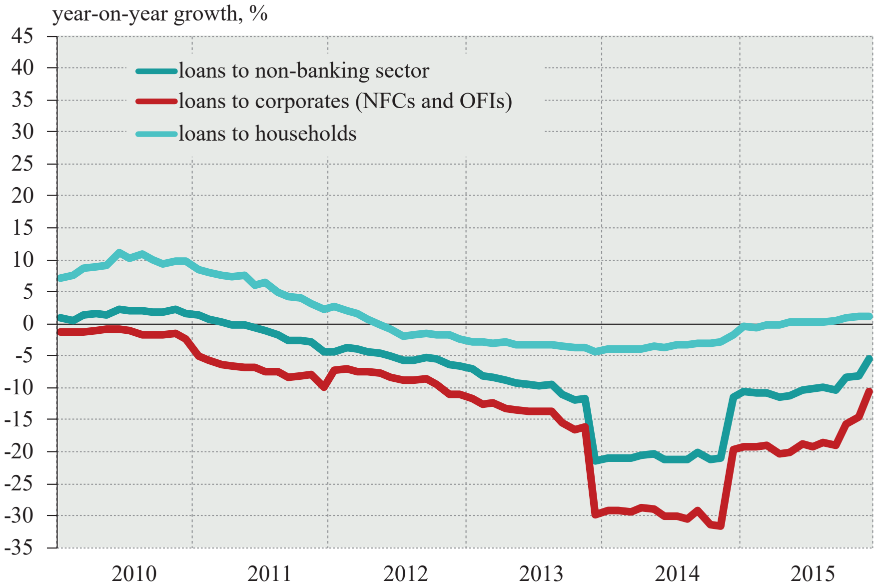


Source: Bank of Slovenia, ECB Statistical Data Warehouse

Credit standards for corporate loans have not tightened further.

Lending to the non-banking sector continued to contract, but at a slower pace. The year-on-year decline in loans to the non-banking sector stood at 5.5% at the end of the year. The improved economic environment and reduced corporate debt are resulting in gradual growth in demand for corporate loans. Credit standards for corporate loans are high in the context of a persistently high proportion of non-performing claims, but have not tightened further. The supply of bank loans was not limited by the banks' access to funding sources. After a three-year decline, loans to households began to record growth again in May 2015. Year-on-year growth in housing loans stood at 2.9% in December, while the decline is consumer loans eased. The banks have shown a greater appetite for household lending, which is reflected in a moderate easing of credit standards and in more favourable loan terms, including an increase in the approval of loans with a fixed interest rate.

Figure 14: **Lending to the non-banking sector**



Source: Bank of Slovenia

The proportion of claims more than 90 days in arrears had declined to 9.9% by December compared with 11.9% at the end of 2014.

The quality of the banks' credit portfolio improved in 2015. The proportion of claims more than 90 days in arrears[11] had declined to 9.9% by December compared with 11.9% at the end of 2014.

Table 1: **Coverage of claims more than 90 days in arrears by impairments and provisions**

(EUR million)	Nov 13	Dec 14	Dec 15
Claims more than 90 days in arrears	8,117	4,448	3,482
Impairments for claims more than 90 days in arrears	3,864	2,703	2,247
Coverage of claims more than 90 days in arrears by impairments	47.6	60.8	64.5
Unimpaired claims more than 90 days	4,253	1,746	1,235
Coverage of unimpaired claims more than 90 days by equity	94.4	289.0	331.3

Source: Bank of Slovenia

According to the definition of the European Banking Authority (EBA), which is broader[12] and by which the banks began reporting in 2015, the proportion of non-performing exposures in the Slovenian banking system stood at 11.4% at the end of 2015, down 2.8 percentage points on June 2015. The improving quality of the banks' portfolio benefits from the economic recovery via a smaller increase in non-performing claims and a higher level of transitions

[11] The proportion of claims according to this definition (more than 90 days in arrears) is used for reporting to the IMF.

[12] In addition to material exposures more than 90 days in arrears, the EBA's definition of non-performing exposure also includes exposures that meet the "unlikely to pay" criterion, which primarily comprise forborne exposures. For additional details, see the Bank of Slovenia's website in the tab Banking Supervision under the heading Supervisory disclosure – Information on non-performing exposures (http://www.bsi.si/en/banking-supervision.asp?MapaId=1890).

from non-performing to performing claims, and from the banks' activities aimed at resolving non-performing claims. A high concentration of non-performing claims in individual categories of bank investments was still characteristic for 2015, particularly in the categories of SMEs and non-residents. The coverage of non-performing claims by impairments was more favourable than in a number of euro area countries and increasing, while the coverage of the unimpaired portion of such claims in also on the rise, which increases the resilience of the banking system in the event of major credit risk losses.

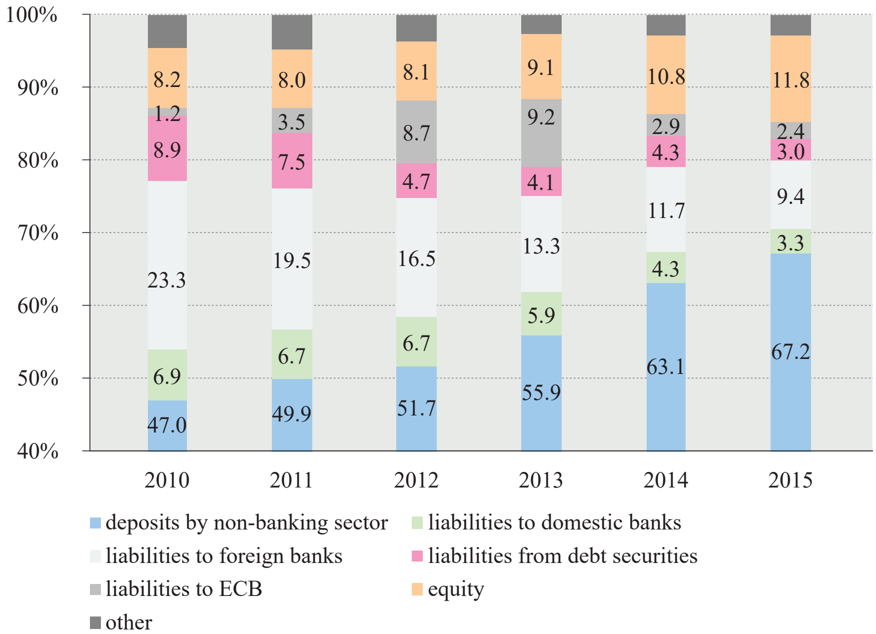
The banks' deleveraging process on the wholesale markets has slowed, while the banking system maintains a good liquidity position. The banks have reduced their dependence on foreign funding significantly in recent years. At 12.4%, the proportion of total funding accounted for by foreign sources is merely a third of the proportion of foreign funding during the pre-crisis period when it stood at 36%. The favourable liquidity position is reflected in a high first-bucket liquidity ratio, a high proportion of the pool of eligible collateral at the Eurosystem that is free, and in a stable stock of secondary liquidity.

The banks have reduced their dependence on foreign funding significantly in recent years.

The importance of funding accounted for by deposits by the non-banking sector has risen further, but the shortening of the maturity of the aforementioned source makes it less stable. Deposits by the non-banking sector (the most important being household deposits) accounted for more than two thirds of bank funding at the end of 2015. Growth in household deposits reached 3.1% in 2015, despite low interest rates. The overall maturity of deposits by the non-banking sector is shortening due to low interests rates, making the aforementioned source less stable due to the possible shift of a portion of deposits to alternative investments, or to consumption and investment.

Growth in household deposits reached 3.1% in 2015.

Figure 15: **Structure of bank funding**



Source: Bank of Slovenia

The banks generated a pre-tax profit of EUR 158 million in 2015. Net interest was down by 10% due to falling interest rates and the continuing contraction in bank balance sheets, with both interest expense and interest income falling sharply, the former by 42% and the latter by 22%. The banking system's gross

The banks generated a pre-tax profit of EUR 158 million in 2015.

income was down 6% on the previous year. The improved quality of the portfolio is having a decisive impact on the banks' profitability via lower impairment and provisioning costs. After generating a loss for five years, the banking system generated a pre-tax profit of EUR 158.3 million in 2015.

3 IMPLEMENTATION OF THE BANK OF SLOVENIA'S TASKS

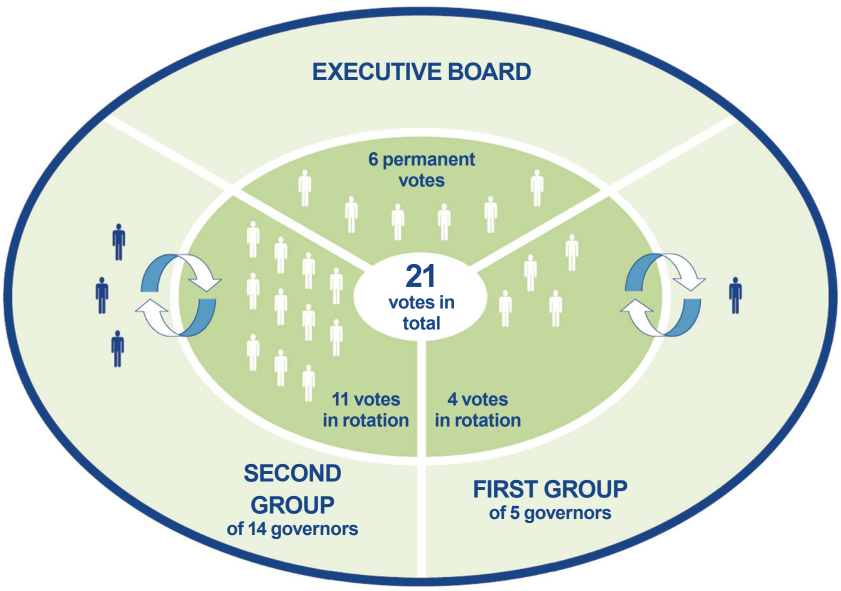
3.1 Institutional framework

The Eurosystem and ESCB are governed by the ECB's decision-making bodies: the Governing Council and Executive Board. The functioning of decision-making bodies is governed by the Treaty on the Functioning of the European Union, the Statute of the ECB, and the Rules of Procedure of the ECB's Governing Council and Executive Board. Decision-making within the Eurosystem and ESCB is centralised, while the implementation of decisions is decentralised via national central banks, i.e. the members of the Eurosystem.

The Governing Council is the main decision-making body of the ECB. It comprises the members of the Executive Board and the governors of national central banks. Lithuania adopted the euro on 1 January 2015, thus increasing the number of members of the Governing Council to 25. As a result, rules entered into force on the rotation of the voting rights of members of the Governing Council.

With the creation of the Single Supervisory Mechanism (SSM), a new system of banking supervision was introduced in Europe, while the ECB added a new body, the Supervisory Board, subordinate to the Governing Council. As a rule, the Supervisory Board meets twice a month. As an internal ECB body, its meetings include the discussion, planning and implementation of the ECB's supervisory tasks. It proposes draft decisions to the Governing Council under the non-objection procedure.

Figure 16: **Rotation system with two groups within the Governing Council, with the 19 euro area countries**



The rotation system of voting rights divides the governors on the Governing Council into two groups on the basis of economic and financial criteria. The five governors who comprise the first group share four voting rights. The 14 remaining governors who comprise the second group share 11 voting rights.

Voting rights rotate at monthly intervals in both groups. The members of the Executive Board with permanent voting rights are added to the 15 voting rights from the aforementioned two groups.

Since January 2015 the Governing Council meets every six weeks to make decisions on monetary policy.

The Governor of the Bank of Slovenia attends the meetings of the Governing Council and participates equally in the decision-making process. Since January 2015 the Governing Council meets every six weeks to make decisions on monetary policy. The minutes of the Governing Council meetings are published around four weeks after each meeting.[13]

The Bank of Slovenia's Business Areas are heavily involved in the work of the Eurosystem and ESCB, on the one hand to provide support for the decisions of the Governing Council (sessions, written procedures and meetings), and on the other hand due to its active participation in numerous committees, working groups and other working bodies.

Table 2: **Participation of the Bank of Slovenia in the Eurosystem and ESCB**

	Type of participation	Total
1.	Number of teleconferences	589
2.	Number of written procedures	6,277
3.	Number of questionnaires/surveys	305
4.	Technical assistance	10
5.	Alternative forms of participation (e.g. reports and proposals)	125

3.2 Implementation of the Eurosystem's monetary policy

Monetary policy measures adopted in 2014 have led to a considerable improvement in economic data and sentiment indicators, and a significant improvement in financing conditions, i.e. a reduction in borrowing rates for the financial and real sectors in the euro area. Nevertheless, that stimulus was not enough to stabilise inflationary expectations over the longer term and reduce the increased risk of a more sustained period of excessively low inflation. The sharp drop in energy prices during the final months of 2014 weakened inflation dynamics at the beginning of the year, which pushed medium to long-term inflationary expectations to historically low levels. Past monetary policy measures led to an improvement in corporate and household lending terms. However, the recovery in private sector lending remained modest. Moreover, those measures did not achieve the desired effect of improving the Eurosystem's balance sheet and liquidity in circulation, which reduced the contribution of the measures to raising inflation.

In January 2015 the Governing Council of the ECB expanded the programme of securities purchases.

The Eurosystem therefore adopted additional measures in 2015 with the aim of further anchoring medium- and long-term inflationary expectations. In January 2015 the Governing Council of the ECB expanded the programme of private-sector securities purchases, i.e. covered bonds and asset-backed securities, to include purchases of public-sector securities, i.e. bonds issued by euro area governments and agencies, and European institutions. Purchases of private- and public-sector securities under the Expanded Asset Purchase Programme amounted to EUR 60

13 https://www.ecb.europa.eu/press/accounts/2016/html/index.en.html

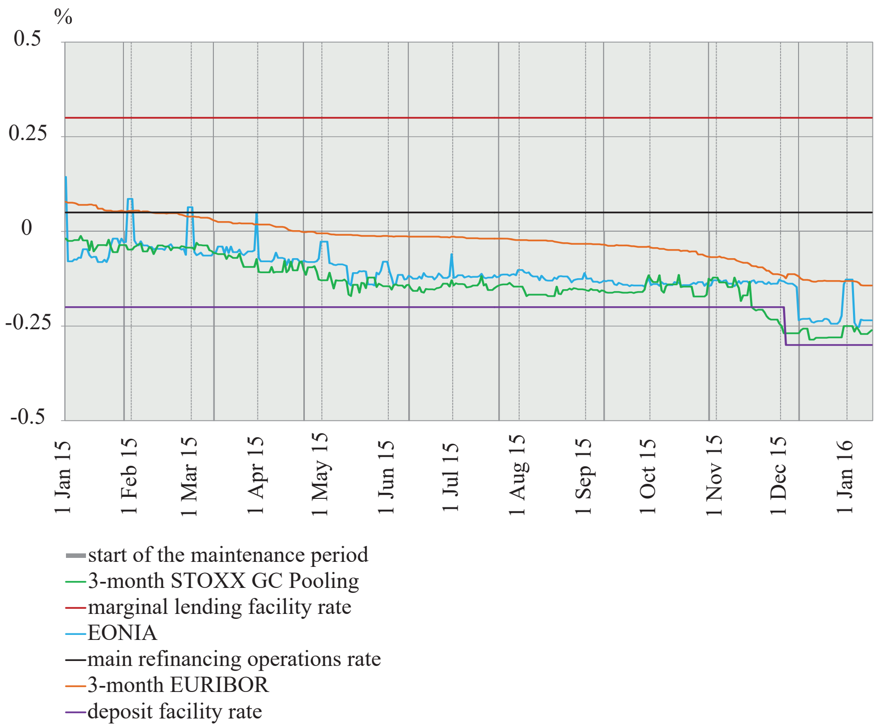
billion a month in 2015. The Eurosystem started to buy public-sector securities in March 2015. In that respect, the Governing Council emphasised that the Expanded Asset Purchase Programme would be implemented until September 2016 or until it assesses that the inflation trend has shifted sustainably towards the ECB's target, which is an inflation rate below but close to 2% over the medium term. At its January meeting, the Governing Council also cut the interest rate on the remaining six targeted longer-term refinancing operations (TLTROs) that it announced in June 2014, by abolishing the 10 basis point spread over the interest rate on main refinancing operations, which is valid during the execution of an individual TLTRO.

Towards the end of 2015, the Eurosystem re-evaluated the scope of monetary policy incentives and decided to recalibrate measures associated with the Asset Purchase Programme. The Governing Council extended the implementation of the Expanded Asset Purchase Programme until March 2017 or until it assesses that the inflation trend has shifted sustainably towards the relevant target. The Governing Council also decided that the Eurosystem will reinvest the principal on securities purchased under the Asset Purchase Programme when they mature, for as long as necessary. It also included euro-denominated debt securities issued by regional governments and local authorities from the euro area in the Public-Sector Purchase Programme.

The Governing Council cut the interest rate on the deposit facility once in 2015.

The Governing Council cut the interest rate on the deposit facility, which has been negative since June 2014, once in 2015. It also extended the fixed rate full allotment policy until at least December 2017. In December the Governing Council cut the interest rate on the deposit facility by 10 basis points to -0.30%, and left the rates on main refinancing operations and the marginal lending facility unchanged at 0.05% and 0.30% respectively (Figure 17). In addition to the deposit facility, excess reserves of banks and other balances in accounts at central banks are remunerated at the same interest rate to prevent the negative interest rate from being avoided by transferring money between various forms of overnight claims against euro area central banks.

Figure 17: **ECB and money market rates**



Source: Bloomberg, ECB

Money market interest rates turned increasingly negative during the year.

Lending operations and outright securities purchases significantly incerased the Eurosystem’s balance sheet in 2015 and led to a sharp rise in excess liquidity, which pushed money market rates to historically low levels. This interruped the trend of declining excess liquidity from 2014, which occurred as the result of early repayments of two longer-term refinancing operations executed by the Eurosystem in December 2011 and February 2012 with respective maturities of January and February 2015. Excess liquidity exceeded EUR 650 billion at the end of 2015, while the Eurosystem’s balance sheet rose from EUR 2,208 billion in January to EUR 2,781 billion in December. Money market interest rates turned increasingly negative during the year: the three- and six-month Euribor have fluctuated at negative levels since April and November respectively.

In 2015 the financial markets were to a large extent influenced by the expectations regarding Eurosystem measures, and the adoption and implementation thereof. The yields on euro area government securities reached record low levels during the first quarter of the year, as did the spreads between the yields on the government bonds of individual countries and the yields on German government bonds. Bonds with maturities of up to seven years issued by a number of countries, in particular those with high sovereign ratings, achieved negative yields to maturity. The required yields on covered bonds also declined, in part due to the Covered Bond Purchase Programme (CBPP3), which spurred new covered bond issues. The shift of investors to higher-risk investments also pushed down the required yield on corporate bonds issued by the financial and non-financial sectors, while share prices increased. The euro depreciated against major global currencies, as market participants were expecting the continuation of an expansionary monetary policy in the euro area. Particularly during the second half of the year volatility on the financial markets increased on account of developments in China and other developing economies, and due to the sharp fall in commodities prices. This reversed trends on the financial markets, in particular the yields on instruments bearing credit risk (corporate and covered bonds), which rose slightly in year-on-year terms. Nevertheless, the aforementioned yields remained at low levels in 2015, viewed over a somewhat longer timeframe.

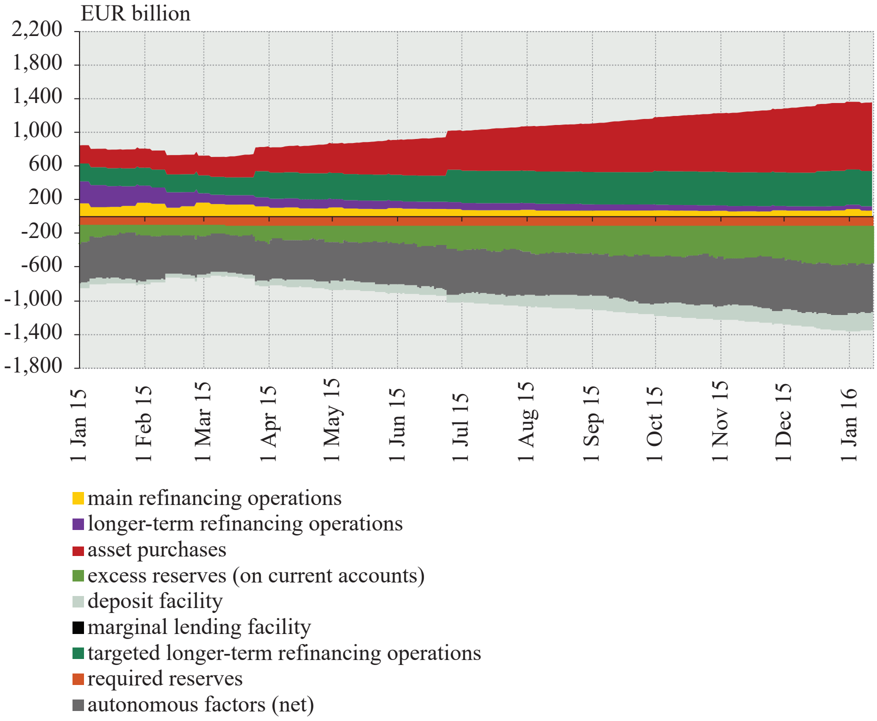
In the following text, the use of monetary policy instruments in 2015 is described in more detail and quantified below, while the use of financial assets as collateral for the Eurosystem’s monetary policy credit operations is also explained.

3.2.1 Open market operations

The Eurosystem executed three types of credit operations in 2015.

The Eurosystem executes all open market operations with full allotment at a fixed interest rate. This policy has been in place since October 2008 and will remain in place at least until the end of the last reserve maintenance period in 2017. In the context of full allotment, the banks themselves determine the level and maturity of allotted liquidity, which are adjusted to the desired liquidity and available collateral. The Eurosystem executed three types of credit operations in 2015. In addition to main refinancing operations (MROs) and longer-term refinancing operations (LTROs), which represent part of the standard framework of the Eurosystem’s monetary policy, four out of a series of eight TLTROs announced in 2014 were executed in 2015. TLTROs are executed quarterly. The Eurosystem began executing TLTROs in 2014 when it carried out the first two operations. The remaining two TLTROs will be executed in March and June 2016. All TLTROs will mature in September 2018.

Figure 18: **Supply of (+) and demand for (–) Eurosystem money**



Source: ECB.

Slovenian banks and savings banks increased their participation in the aforementioned operations slightly.

Main refinancing operations (MROs) are regular weekly lending operations with a typical maturity of one week. Their relative importance decreased further in 2015 in the context of high excess liquidity at the Eurosystem level. The interest rate on MROs is one of the main signals of the Eurosystem's monetary policy stance (key interest rate of the ECB). The average allotted amount of MROs in 52 operations in 2015 was EUR 92 billion, a decrease relative to 2014 when the average allotted amount was EUR 111 billion. The average number of banks participating in the weekly tenders fell to 127, compared with 150 in 2014. Slovenian banks and savings banks (hereinafter: Slovenian banks) increased their participation in the aforementioned operations slightly in 2015, as they balanced their liquidity over the short term via MROs in the context of a reduced number of transactions on the money market. They borrowed an average of EUR 21 million (only one bank, which borrowed EUR 1 million in March, participated in operations in 2014).

Longer-term refinancing operations (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 an interest rate calculated as the average of the ECB's key interest rate over the duration of the operation (the indexed rate). The banks' participation in these operations increased in 2015, as some banks switched to the 3-month LTROs when 3-year LTROs matured. An average of 120 banks participated in LTROs (compared with 71 in 2014), to whom an average of EUR 26 billion was allotted (compared with EUR 12 billion in 2014).

Slovenian banks also repaid the majority of operations prior to maturity

Two 3-year LTROs that were executed at the end of 2011 and the beginning of 2012 matured in 2015. These operations represented the main source of funding via the Eurosystem in past years. The maturity of the two LTROs (on 29 January and 26 February 2015) did not result in any significant decrease in excess liquidity, as the banks already intensified their early repayments back in December 2014.

When the two operations matured (in the amounts of EUR 39 billion and EUR 83 billion, or 8% and 16% of the initially borrowed amount), the banks switched to 3-month LTROs and MROs, and later to TLTROs. Slovenian banks also repaid the majority of operations prior to maturity, with the balance of both operations standing at just EUR 387 million at the end of 2014.

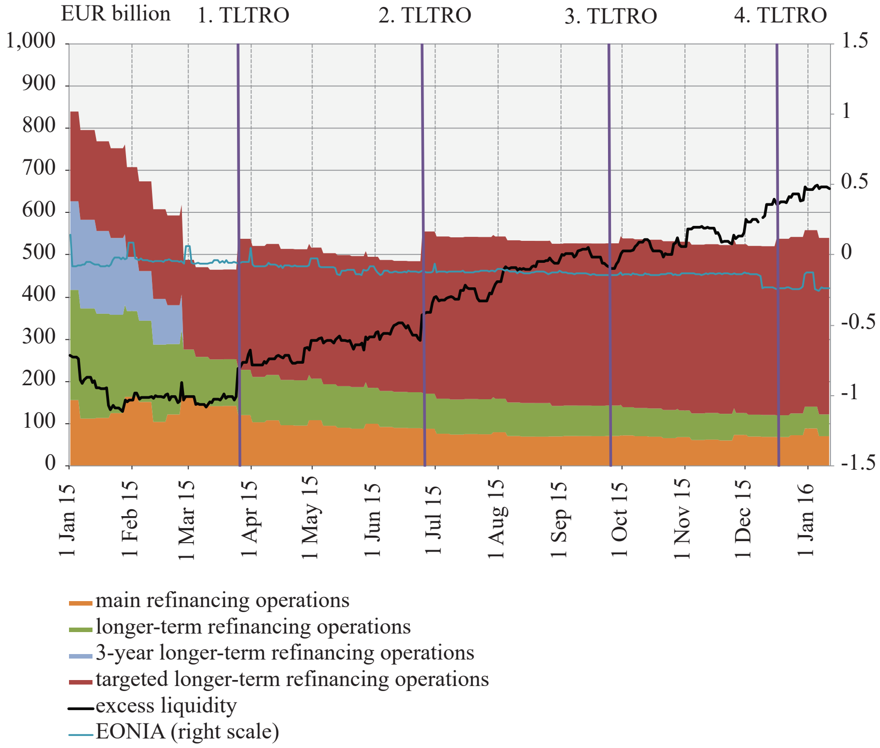
Targeted longer-term refinancing operations (TLTROs) are non-standard measures adopted by the Eurosystem with the aim of improving the banks' access to longer-term liquidity and stimulating growth in lending to the real sector. In contrast to other refinancing operations in which under the conditions of full allotment each bank's participation depends on their own liquidity needs and available collateral, the participation of each bank in a TLTRO is limited by their lending to the private non-financial sector (excluding housing loans to households).

The maximum maturity of all TLTROs is September 2018, while the banks may repay borrowed funds early on their own initiative or at the request of the Eurosystem. Banks whose lending does not increase in line with the relevant conditions will have to repay the operations early in September 2016. The interest rate on all four TLTROs executed in 2015 was 0.05%.

Total participation in TLTROs at the Eurosystem level was EUR 418 billion at the end of 2015, while Slovenian banks borrowed EUR 751 million.

Total participation in TLTROs at the Eurosystem level was EUR 418 billion at the end of 2015, while Slovenian banks borrowed EUR 751 million. The majority of drawn-down funds were accounted for by the first two operations executed in September and December 2014, Slovenian banks borrowed a total of EUR 706 million in these two operations, while they only borrowed EUR 45 million in the four TLTROs executed in 2015. The interest of banks in Slovenia and the wider euro area to participate in TLTROs gradually declined in 2015, as these operations became a less interesting source of funding for various reasons. The high level of excess liquidity due to previous TLTROs and asset purchase programmes reduced the banks' need for additional refinancing. Falling market interest rates and improving access to market sources of funding reduced the relative attractiveness of TLTROs in terms of costs. Moreover, each executed TLTRO has a shorter maturity, as all operations mature on the same date. The banks therefore borrowed intended amounts in earlier operations, while the liquidity they secure must be appropriately earmarked for lending to the private non-financial sector to avoid mandatory early repayment.

Figure 19: **Lending operations, excess liquidity in the euro area, and EONIA**



Source: Bloomberg

3.2.2 Asset purchase programmes

The Eurosystem purchased EUR 116.9 billion of covered bonds in 2015.

The Eurosystem purchases covered bonds under of the Covered Bond Purchase Programme (CBPP3), which it began to implement in October 2014. Purchases are made on a decentralised basis by NCBs and the ECB. The Eurosystem purchased EUR 116.9 billion of covered bonds in 2015. The majority of the purchases were made on the secondary market (80%), where liquidity was relatively good. The remaining 20% were purchased on the primary market, where the programme gave slight impetus to covered bond issues. Covered bond yields have fallen since the announcement of the CBPP3, and reached their lowest levels in March 2015, following the start of the Public-Sector Purchase Programme. Afterwards they rose slightly and ended the year practically unchanged, while spreads over the yields on German government bonds of comparable maturity slightly increased. Purchases are made in countries where covered bonds exists. National central banks purchase covered bonds from other jurisdictions in countries where covered bonds do not exist (including Slovenia).

The Eurosystem introduced the Asset-Backed Securities Purchase Programme (ABSPP) in November 2014. However, the Bank of Slovenia is not included in that programme at the implementation level.

The Eurosystem announced the Public-Sector Purchase Programme (PSPP) in January, with purchases beginning on 9 March 2015. Purchases within the PSPP account for the highest proportion of the expanded purchase programme. The PSPP is presented in detail in Box 3.

Box 3: **Public-Sector Purchase Programme (PSPP)**

The Eurosystem purchases securities issued by euro area governments and agencies, and European institutions under the PSPP. All purchases are made on the secondary market. Securities must meet the following eligibility criteria: (i) they must be denominated in euros and issued in the euro area by an eligible public-sector issuer; (ii) they must meet the eligibility criteria for marketable instruments used as collateral in monetary policy operations and have a credit rating of at least BBB- (the credit rating may be lower if the country in question is included in an aid programme, provided that the country meets the agreed commitments set out therein); (iii) their residual maturity must be between two and 30 years at the time of purchase; and (iv) their yield to maturity may not be lower than the deposit facility interest rate. The amount of purchases of securities issued by individual countries is determined using the capital key of national central banks. National central banks (NCBs) carry out 92% of securities purchases, while the ECB carries out the remaining 8%. The ECB purchases the government bonds of all countries, while the NCBs primarily purchase government and agency bonds from their own country. If the purchases by individual NCB do not achieve the share allocated to it, it may make substitute purchases of the bonds of European institutions and eligible public-sector non-financial corporations. The list of eligible agencies and eligible public-sector non-financial corporations is approved by the Governing Council of the ECB. In order to increase the flexibility of the programme and to ensure purchases with a minimum of undesired effects on the associated bonds markets, the Governing Council adjusted PSPP parameters several times in 2015 as follows: (i) in April and June it expanded the list of eligible agencies; and (ii) in December 2015 included the bonds of regional and local authorities in purchases under the PSPP.

The Eurosystem may purchase a maximum of 33% of the debt of an individual issuer, taking into account exposure in the portfolios of NCBs and in other monetary policy portfolios (e.g. the Securities Markets Programme or SMP). The limit on the purchases of an individual securities issue was raised from 25% to 33% at the September meeting of the Governing Council, under the condition that the Eurosystem will not be put in a position that could hinder the decisions of other creditors regarding the restructuring of debt based on a collective action clause.

Securities purchased under the PSPP are available for lending. The lending of securities is decentralised via the Eurosystem NCBs and the ECB. The aim of securities lending under the PSPP is to maintain the liquidity of secondary bond markets and repo markets, despite the large purchases by the Eurosystem. The Bank of Slovenia facilitates the lending of bonds in the scope of the automated Securities Lending and Borrowing programme of the custodian bank Euroclear Bank SA/NV, while bonds are also lent via the agent Deutsche Bank AG since November 2015.

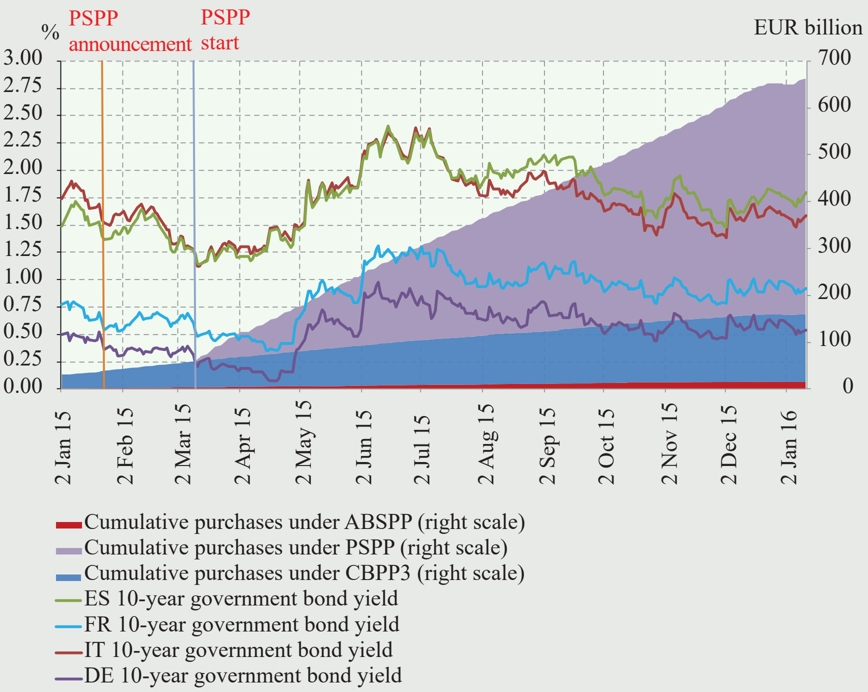
The Eurosystem purchased EUR 494.9 billion in public-sector bonds in 2015. Bonds issued by the Slovenian government and eligible Slovenian agencies accounted for EUR 2.2 billion of that amount. In accordance with the applicable shares, purchases of government debt (mostly government bonds) accounted for 88% of total purchases in 2015, while the bonds of European supranational institutions accounted for 12%. The average weighted maturity of the bonds was eight years, which is similar to the average weighted maturity of all PSPP-eligible bonds (8.5 years).

In combination with other measures adopted in 2014 and 2015, the PSPP had a positive impact on the financial markets and the real economy of the euro area via various transmission channels. The same is true for Slovenia, where the effect was somewhat less pronounced and more indirect. The required yields on various investment categories were down due to the Eurosystem's purchases, while the increase in liquidity in circulation led to a reduction in money market interest rates. **This resulted in an improvement in financing conditions for the government sector, and for the financial and non-financials private sectors.** As a result, banks in the majority of euro area countries cut interest rates on loans to the private non-financial sector, which halted the decline and in some places even stimulated an increase in loans to the private sector, and thus contributed to the recovery of the euro area economy. Moreover, the signalling effect of the proactive contribution of the Eurosystem to address the problem of excessively low inflation helped limit the fall in the medium-term inflationary expectations of market participants, including through the depreciation of the euro vis-à-vis the basket of global currencies. That effect was more indirect and somewhat less pronounced in Slovenia;

it was expressed primarily in falling market yields and a positive effect on the euro area economy, as many euro area countries are important trading partners of Slovenia. A drop was observed in the required yield on Slovenian government securities in 2015, of 90 basis points on 10-year securities and of 50 basis points on 2-year securities. Also worthy of noting was the fall in the lending rates of Slovenian banks, which lowered the spread over average corporate lending rates in the euro area from around 140 basis points to 40 point basis points. Both are however largely also the result of measures to strengthen the stability of Slovenian banks implemented in 2013 and 2014. The effect on the lending activity of banks, which remained negative primarily in the corporate sector, was less pronounced in Slovenia compared with the euro area.

The effect of the PSPP on the Slovenian economy was thus the result of the functioning of several transmission channels and not directly dependent on the volume of sales of Slovenian government bonds by Slovenian banks, which sold the aforementioned bonds from their portfolios to a lesser extent in 2015. In the context of record low market yields, which were actually negative in countries with a high sovereign rating, is it hard for Slovenian bank to find sufficiently profitable alternative investments at an acceptable level of risk. Furthermore, banks in general, not only Slovenian banks, do not sell a large volume of bonds issued by their home countries. The majority of sales of government bonds to the Eurosystem are made by investment funds and venture capital funds that are located for the most part outside the euro area.

Figure 20: **Government bond yield of selected countries, and cumulative balance of sales under the CBPP3, ABSPP and PSPP**



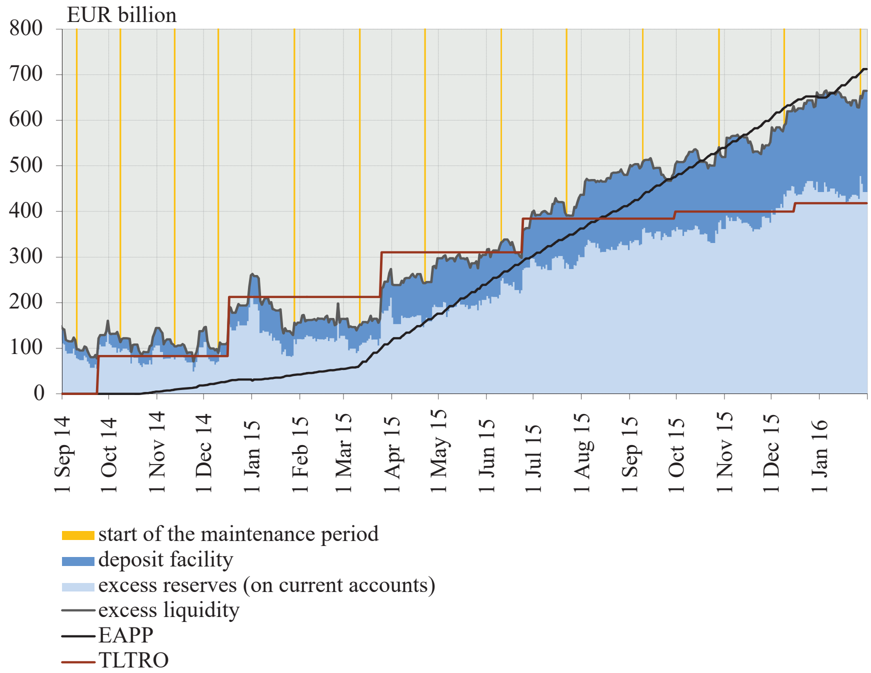
Source: Bloomberg

3.2.3 Standing facilities and minimum reserves

Banks in the euro area maintained the majority of their excess liquidity in settlement accounts in the form of excess reserves.

The excess reserves of euro area banks and recourse to the deposit facility began to rise rapidly following the expansion of the asset purchase programmes in March 2015 to the bonds issued by euro area governments, agencies, and European institutions. Euro area banks increased their excess reserves and recourse to the deposit facility back in December 2014 following the settlement of the second TLTRO, while a more pronounced increase in both has been recorded since March 2015, in part due to conducting four TLTROs, but primarily due to purchases under the Expanded Asset Purchase Programme (EAPP; Figure 21). Banks in the euro area maintained the majority of their excess liquidity in current accounts in the form of excess reserves also in 2015, while placing a smaller part in the deposit facility (see Figure 21). Although the returns on the two have been equal since the introduction of a zero interest rate for the deposit facility in June 2012 (negative remuneration was introduced for both in June 2014, -0.10%, which was further reduced to -0.30% in December 2015), banks in certain countries were still using the deposit facility because of the more favourable regulatory treatment of the deposit facility compared with excess reserves. The deposit facility rose from just under EUR 50 billion at the beginning of the year to just over EUR 210 billion at the end of the year. It averaged EUR 114 billion over the year, up EUR 83 billion compared with 2014. Slovenian banks did not use the deposit facility also in 2015.

Figure 21: **Excess liquidity, EAPP and TLTROs of euro area banks**



Source: ECB.

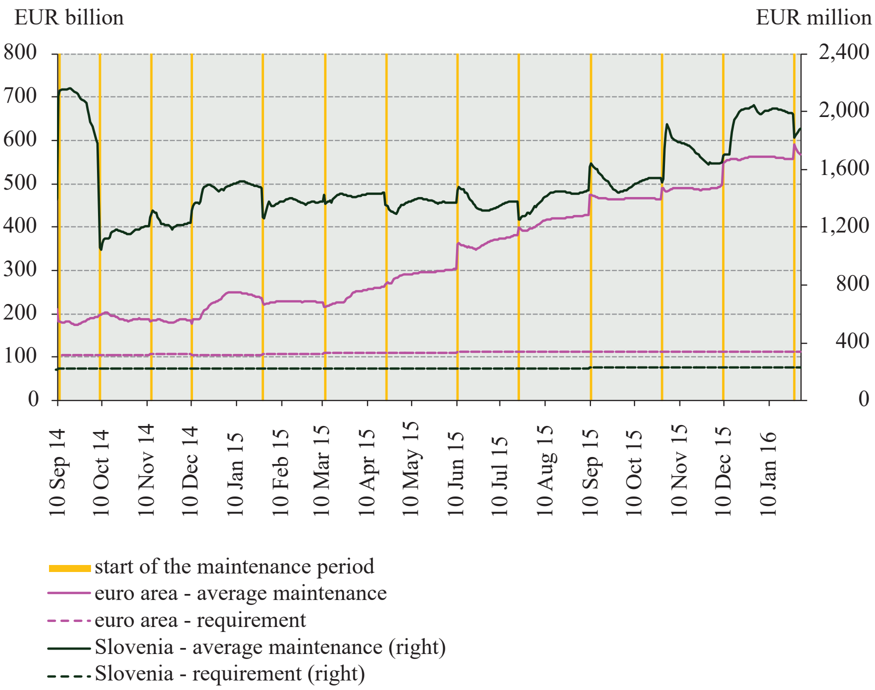
Recourse to the marginal lending facility in the euro area also increased slightly. The average recourse to the marginal lending facility amounted to EUR 0.3 billion in 2015, compared with an average of EUR 0.2 billion in 2014. The highest daily recourse was down for the third consecutive year to stand at EUR 4 billion (compared with EUR 5 billion in 2014). With the exception of one recourse, Slovenian banks did not use the marginal lending facility in 2015, similar to 2014.

Upon unchanged reserve ratio of 1%, the average reserve requirements in the euro area in 2015 were up compared to 2014 in both the euro area and Slovenia. The reserve requirements in the euro area rose to EUR 112 billion over the eight reserve maintenance periods in 2015, from EUR 105 billion over the 12 reserve maintenance periods in 2014. The average requirements in Slovenia rose from EUR 216 million to EUR 225 million.

The excess reserves of banks rose faster in the euro area than in Slovenia in 2015, but were still significantly lower relative to reserve requirements than in Slovenia (Figure 22). The average excess reserves in the euro area over the eight maintenance periods amounted to EUR 278 billion, up EUR 180 billion compared with 2014. This entailed an increase from approximately 100% of the reserve requirements in 2014 to approximately 250% of the reserve requirements in 2015. Slovenian banks maintained the majority of their excess liquidity in current accounts at the Bank of Slovenia, as in an environment of overall excess liquidity, negative interest rates on the money market and low returns on securities with an appropriately high credit rating they could only partly invest them on the market. The average daily excess reserves in Slovenia over the eight maintenance periods in 2015 totalled EUR 1,299 million, an increase of EUR 270 million compared with 2014. The excess reserves in current accounts at the Bank of Slovenia averaged approximately 580% of the reserve requirements (compared with approximately 480% in 2014).

Slovenian banks maintained the majority of their excess liquidity in current accounts at the Bank of Slovenia.

Figure 22: **Minimum reserve requirements and reserve holdings**



Source: ECB, The Bank of Slovenia

Box 4: **Net financial assets of the Bank of Slovenia**

Central banks have certain financial assets and liabilities in their balance sheets that do not relate to monetary policy and are referred to as net financial assets. They are calculated as the difference between certain asset and liability items in the balance sheets of central banks (see the announcement at the link below for details). Net financial assets arise as the result of the management of own investments by central banks, the receiving of government and non-banking sector deposits, membership in the International Monetary Fund, acting as a lender of last resort, they represent a central bank's capital, etc. Eurosystem NCBs implement the aforementioned tasks independently, provided that this does not impede the achievement of objectives and the implementation of the euro area's single monetary policy.

Similar to monetary policy instruments, changes in net financial assets result in a change in the level of liquidity available to banks. An excessive growth in net financial assets could lead to an excessive reduction in manoeuvring room for the implementation of monetary policy. The Eurosystem therefore adopted the Agreement on Net Financial Assets (ANFA), which sets an upper limit on the total amount of net financial assets of all NCBs and the allocation of that amount between them.

The European Central Bank published data regarding the total net financial assets of the Eurosystem, the ANFA and explanations regarding the ANFA (http://www.ecb.europa.eu/press/pr/date/2016/html/pr160205.en.html). Below are stated the actual net financial assets of the Bank of Slovenia for the period from the adoption of the euro (when the Bank of Slovenia became party to the ANFA) until the end of 2015.

Table 3: **Net financial assets in the Bank of Slovenia's balance sheet (EUR million)**

Balance as at	Net financial assets in the Bank of Slovenia's balance sheet, EUR million
31 December 2007	4,253
31 December 2008	4,128
31 December 2009	3,346
31 December 2010	2,870
31 December 2011	2,314
31 December 2012	2,022
31 December 2013	1,213
31 December 2014	-218
31 December 2015	973

Source: The Bank of Slovenia

The net financial assets of the Bank of Slovenia have declined every year, except in 2015. The decrease between 2007 and 2010 was primarily due to the contraction in the Bank of Slovenia's financial investments (they are disclosed in asset items in the Bank of Slovenia's balance sheet; a decrease in financial investments thus decreases net financial assets). Net financial assets declined further between 2011 and 2014, with a negative balance being recorded in 2014 primarily due to an increase in government deposits at the Bank of Slovenia (the aforementioned deposits represent liability of the Bank of Slovenia; an increase thus reduces net financial assets). The situation was reversed in 2015, when net financial assets rose for the first time and once again achieved a positive balance due to a reduction in government deposits held at the Bank of Slovenia.

3.2.4 US dollar lending

The Eurosystem continued its weekly US dollar operations with maturity of 7 days throughout 2015. Slovenian banks have not participated in US dollar operations since the end of 2009. The amount of borrowing was small, as euro area banks did not encounter any problems securing funding in US dollars on the financial markets in 2015. There were 50 US dollar refinancing operations with a maturity of seven days, but only one counterparty participated in tenders on average. 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.

3.2.5 Collateral for monetary policy loans

All credit operations provided to counterparties within the Eurosystem's monetary policy framework are based on eligible collateral. The Eurosystem accepts a wide range of financial assets as collateral in credit operations, although they must satisfy the eligibility criteria. Counterparties may collateralise monetary policy credit operations with marketable financial assets (debt securities on the Eurosystem's single list published on the ECB website) and non-marketable financial assets (primarily credit claims to eligible debtors).

In general the collateral framework for monetary policy credit operations remained unchanged. By eliminating the requirement for repatriation (which stated that a security must be transferred to the issuer's clearing and settlement system prior to mobilisation) in May, the Eurosystem facilitated to counterparties the easier cross-border use of securities. In November it started to accept a new category of non-marketable financial assets, i.e. non-marketable debt instruments backed by eligible credit claims (DECC), as eligible collateral. Owing to the need for increased transparency, requirements were tightened somewhat further with regard to the reporting of data on asset-backed securities. Those data are published by issuers in a data warehouse.

A reduction in drawdowns of operations has reduced the banks' need for financial assets as collateral for monetary policy credit operations. The banks might also reduced their stock of eligible collateral due to the sale of securities under the EAPP programme. The stock of euro area counterparties' eligible collateral was down by EUR 180 billion during the year to stand at EUR 1,673 billion.

The stock of euro area counterparties' eligible collateral was down by EUR 180 billion during the year to stand at EUR 1,673 billion.

The structure of eligible collateral was similar to the previous year. Government securities accounted for the highest proportion of assets eligible as collateral (24%), followed by credit claims (22%), covered bank bonds (19%) and asset-backed securities (18%).

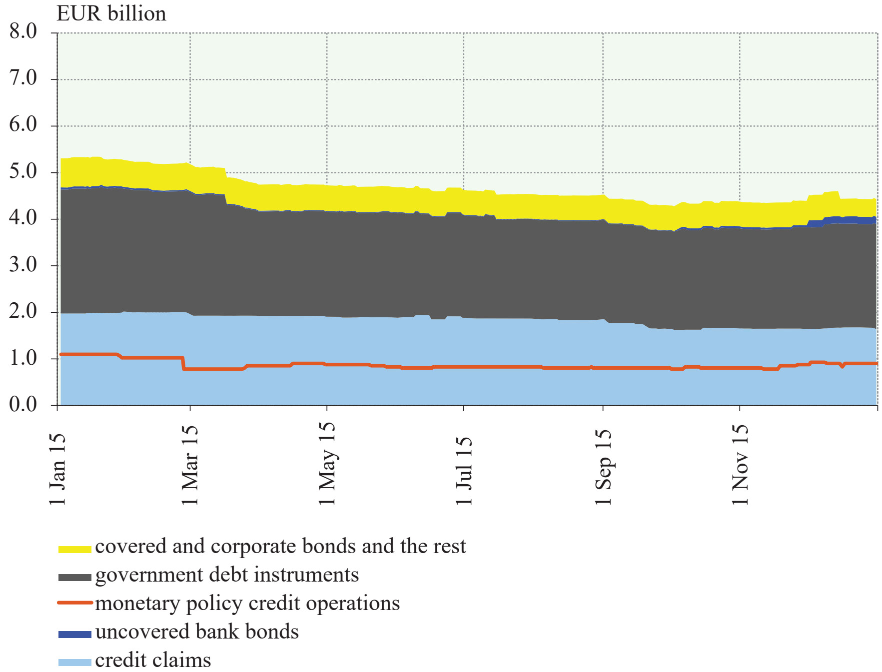
3.2.6 Collateral in the Bank of Slovenia credit operations

On the list of eligible assets around EUR 26 billion of marketable financial assets of Slovenian issuers were listed in 2015, of which Slovenian government securities accounted for the vast majority (91%). There were 50 securities on the list as at the end of the year, which alongside Slovenian government bonds and treasury bills included four SID banka bonds, two bonds of DARS d.d., three bonds issued by the Bank Asset Management Company and two Slovenia Sovereign Holding bonds (all with a government guarantee), as well as three bonds of Petrol d.d.

The pool of eligible assets at the Bank of Slovenia, in which the banks hold assets as collateral for monetary policy credit operations, decreased by EUR 873 million during the year to stand at EUR 4.4 billion. The reduction in the pool was around the same as the reduction in monetary policy credit operations in relative terms, as both decreased by around 18%. The banks most decreased credit claims and government securities. The portion of the unused pool, i.e. the surplus of the banks' pool of collateral over the Bank of Slovenia's credit operations to banks, stood at 80% at the end of the year (compared with 79% in 2014).

The pool of eligible assets at the Bank of Slovenia, in which the banks hold assets as collateral for monetary policy credit operations, decreased to EUR 4.4 billion.

Figure 23: **Breakdown of pool of collateral at the Bank of Slovenia by asset type and amount of drawn monetary policy credit operations**



3.2.7 The Bank of Slovenia as the lender of last resort

Article 4 of the Bank of Slovenia Act states that one of the Bank of Slovenia's objectives is to strive to ensure financial stability. On the basis of point 14 of Article 12 of the aforementioned law, the Bank of Slovenia may therefore act as a lender of last resort, i.e. in exchange for adequate collateral it lends to a solvent bank or savings bank in liquidity difficulties. The Bank of Slovenia did not approve any such loans in 2015.

3.3 Payment and Settlement Systems Department

Payment and settlement systems provide for the reliable, safe, effective and timely settlement of financial transactions. The Bank of Slovenia operates the TARGET2-Slovenija payment system, oversees the security and efficiency of other payment and settlement systems, and supervises the operations of operators of market infrastructure, payment service providers and electronic money issuers. Also of importance is its role as a catalyst and a promoter or guide of the activities of market participants, with the aim of promoting development in the area of payments and the settlement of transactions in financial instruments. Irrespective of the role in which the Bank of Slovenia is acting, its objective is to ensure transparent functioning and the clarity of its basic guidelines for all stakeholders in the payment services market and for settlement system participants.

3.3.1 TARGET2

The TARGET2-Slovenija payment system, in which there were 22 participants at the end of 2015, represents the local component of the pan-European TARGET2 payment system, which functions on a single shared platform and is operated by the Eurosystem. **A total of 960,124 transactions with a total value of EUR 854.7 billion were settled in the TARGET2-Slovenija system in 2015.** A major new feature of the system is the introduction of a TARGET2 optional module for standing facilities and the use of a credit line in the settlement accounts of payment system participants, thereby modifying the way in which intraday credit is provided and the way in which standing facilities operations are executed. This innovation entails greater integration and harmonisation of the implementation of the aforementioned instruments at Eurosystem level, and also the streamlining of the Bank of Slovenia's business processes. At the same time it enables participants in the TARGET2-Slovenija payment system to make simple use of the aforementioned instruments while reducing the volume of daily activities, thereby reducing operational risks.

A total of 960,124 transactions with a total value of EUR 854.7 billion were settled in the TARGET2-Slovenija system in 2015.

3.3.2 TARGET2-Securities

The Eurosystem continued its project to put in place the pan-European TARGET2-Securities (T2S) platform for securities settlement in central bank money. After the adoption of the entire legal basis, the final construction of the platform, the completion of user testing and the preparation of operating procedures, the first wave of markets and central securities depositories began operations on the T2S platform, namely Greece, Malta, Romania and Switzerland (all in June) and Italy (September). With the first migration wave, it is estimated that 10% of the projected volume has now been transferred to T2S. Under the plan the other markets will migrate to T2S in four remaining waves by September 2017, as part of which the Slovenian market is expected to begin operations on T2S in February 2017. Together with KDD (Central Securities Clearing Corporation), the Bank of Slovenia is comprehensively monitoring adaptations and is guiding activities for the inclusion of domestic market participants in T2S. The Bank of Slovenia again chaired the National T2S User Group in 2015, and the group for monitoring and coordinating activities for the migration of the Slovenian market to T2S. As part of these activities the Bank of Slovenia was involved in the drafting of amendments to sectoral legislation adopted in 2015 for the national implementation of international standards for corporate actions in securities, as a prerequisite for the Slovenian market commencing use of T2S. Amendments to the legal basis of the cash leg of T2S settlement were also adopted, while organisational and technological preparations for joining T2S were continued, including testing of the functionality of the T2S platform and internal infrastructure.

3.3.3 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 these payment systems, in 2015 **the Bank of Slovenia enabled banks and savings banks in Slovenia (as indirect participants) to exchange SEPA credit transfers with more than 4,400 payment service providers and to exchange SEPA direct debits with more than 3,700 payment service providers across Europe**. By providing this link the Bank of Slovenia enabled Slovenian banks and savings banks to meet the requirement for reachability for cross-border SEPA credit transfers and SEPA direct debits, which derives from EU legislation. The Bank of Slovenia performed

The Bank of Slovenia allowed banks and savings banks in Slovenia to exchange SEPA credit transfers with more than 4,400 payment service providers and to exchange SEPA direct debits with more than 3,700 payment service providers across Europe.

the settlement agent function for five payment systems for retail payments in 2015, via which credit transfers, direct debits and payments ordered by payment cards are executed. Providing this function means that the Bank of Slovenia settles the cash claims and liabilities of participants in these payment systems deriving from their participation in these payment systems in risk-free central bank money in the accounts that participants in these payment systems hold at the Bank of Slovenia. Within the framework of this function, it also executed procedures for interbank settlement of pension payments.

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

The Bank of Slovenia regularly monitored the operation and functioning of seven payment systems that operate under Slovenian law.

Another of the Bank of Slovenia's key roles is to conduct oversight of the payment systems and securities settlement systems, in particular with the aim of ensuring that systemic risk cannot be transmitted via these systems. Thus in 2015 the Bank of Slovenia regularly monitored the operation and functioning of seven payment systems that operate under Slovenian law. It conducted one on-site inspection of the functioning and operation of a payment system. In its oversight of securities settlement systems in Slovenia, where the sole system is operated by KDD, the Bank of Slovenia monitored the adequacy of the measures taken by KDD on the basis of Bank of Slovenia recommendations issued after an assessment of the compliance of the KDD system versus the Eurosystem oversight standards.The Bank of Slovenia also supervised the operations of authorised payment institutions (non-bank payment service providers) and granted an authorisation to a first electronic money instiution in Slovenia.

The Bank of Slovenia publishes a register of payment institutions and electronic money institutions on its website as a centralised database of such entities. The Bank of Slovenia also administers a list of payment institutions and electronic money institutions from the countries of the European Economic Area that may provide payment services and electronic money issuance services in Slovenia via a branch, via an agent or distributor, or directly, and that have provided the appropriate notification for such business activities.

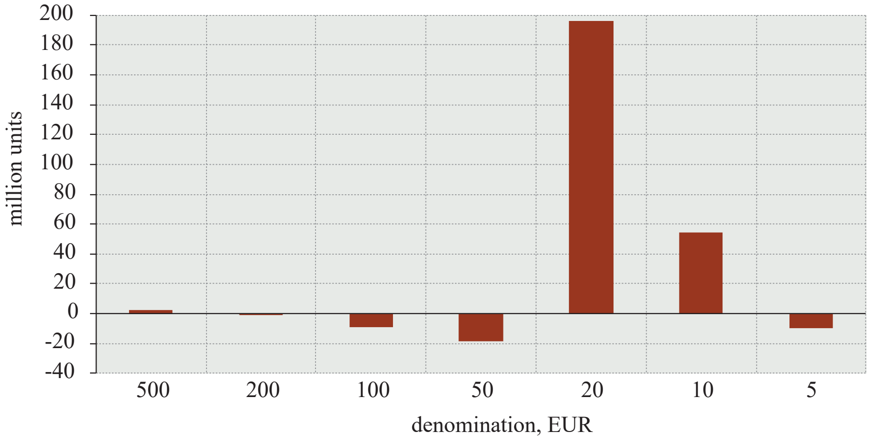
3.4 Banknotes and coins

By the end of 2015, a net total of EUR 3.55 billion of cash had been issued into circulation by the Bank of Slovenia since the introduction of the euro.

By the end of 2015, a net total of EUR 3.55 billion of banknotes and coins had been issued into circulation by the Bank of Slovenia since the introduction of the euro. This comprised EUR 3.49 billion in banknotes (214.07 million banknotes) and EUR 63.84 million in coins (217.28 million coins). In terms of quantity, the 20-euro note had the highest net issuance (196.42 million banknotes), followed by the 10-euro note (54.06 million banknotes) and the 500-euro note (2.32 million banknotes). In the case of all other denominations (200-euro, 100-euro, 50-euro and 5-euro), there has been a negative net issuance since the introduction of the euro (the number of banknotes issued was lower than the number returned to the Bank of Slovenia). The coins with the highest net issuance in terms of quantity were the 1-cent (64.62 million coins) and 2-cent (44.29 million coins), while the lowest net issuance was recorded by the 50-cent (7.48 million coins). Euro cash was supplied to the market through the Bank of Slovenia's banknote depots at four commercial banks, whose operations were coordinated by the Bank of Slovenia on a daily basis.

A new 20-euro banknote with an additional innovative security feature (the portrait window in the hologram) was issued at the end of November 2015 as the third banknote from the Europa series (after the 5-euro note in 2013 and the 10-euro note in 2014). As on the 5-euro note and 10-euro note, an emerald number is included on the 20-euro note.

Figure 24: **Net issuance of euro banknotes in circulation in terms of number**



Source: Bank of Slovenia

The Bank of Slovenia organised the issuance, distribution and storage of general circulation and commemorative coins for the Republic of Slovenia. In 2015 the Bank of Slovenia issued 2-euro commemorative coins into circulation to mark the Emona-Ljubljana event and the 30th anniversary of the Flag of Europe as the emblem of the European Union (one million coins for each event), and collector coins marking the 500th anniversary of the first Slovene printed text (1,500 gold, 2,500 silver and 138,000 bi-coloured 3-euro coins). For the collector market the Bank of Slovenia also issued euro coin sets minted in 2015 in BU (brilliant uncirculated) and proof quality, and a 2-euro Emona-Ljubljana commemorative coin and a 3-euro collector coin, both proof-quality in plastic capsules. Since 15 June 2015 it has again been possible to purchase the numismatic products issued by the Republic of Slovenia and the Bank of Slovenia at Bank of Slovenia counters.

The total value of the tolar banknotes, coins and payment notes still in circulation as at 31 December 2015 was EUR 41.84 million. This comprised 46.56 million tolar banknotes (worth SIT 7.47 billion or EUR 31.18 million), 444.09 million tolar coins (worth SIT 2.15 billion or EUR 8.98 million) and 20.92 million payment notes (worth SIT 403.62 million or EUR 1.68 million). Compared with the figures from the end of 2005, 58.87% of the tolar banknotes have been returned from circulation (96.51% of the total value of the tolar banknotes), while 13.80% of the tolar coins have been returned (37.98% 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 may be exchanged until 31 December 2016.

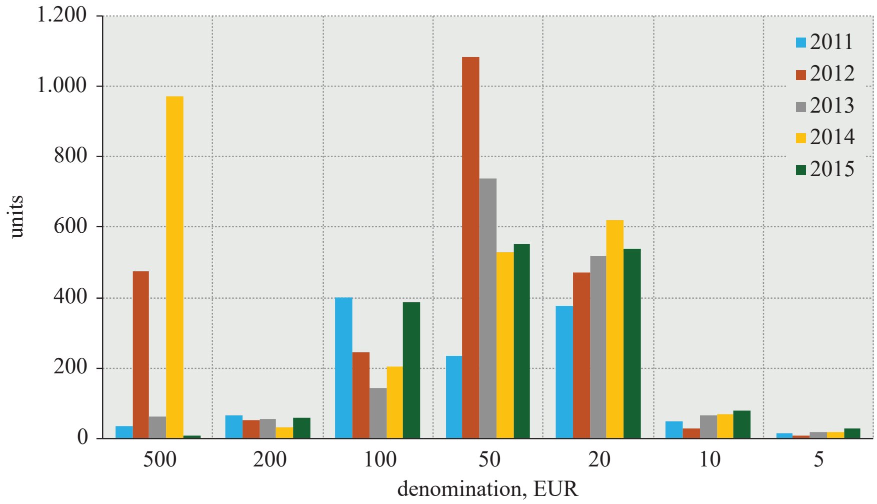
The total number of transactions via the counters of the Bank of Slovenia fell again last year. A total of 2,705 counter receipts and outlays of euro cash (2014: 2,408) and 2,495 incoming and outgoing payments of cash for the needs of government bodies were made in 2015 (2014: 2,642), while there were 2,016 exchanges of tolar banknotes and coins (2014: 2,339).

The Bank of Slovenia cash processing unit sorted 26.36 million banknotes and coins.

The Bank of Slovenia cash processing unit sorted 26.36 million banknotes and coins, compared with 30.26 million banknotes and coins in 2014. A total of 25.55 million banknotes and 808,550 coins were sorted in 2015 (2014: 29.67 million banknotes and 587,450 coins). A total of 8.75 million banknotes were taken out of circulation and destroyed in order to maintain the quality of banknotes in circulation (2014: 10.31 million banknotes).

A total of 1,653 counterfeit euro banknotes and 1,092 counterfeit euro coins were withdrawn[14] from circulation in 2015, compared with 2,439 euro banknotes and 1,181 euro coins in 2014. In terms of quantity, 50-euro notes accounted for the largest proportion of counterfeit banknotes (33.3%), while 2-euro coins accounted for the largest proportion of counterfeit coins (56.7%). The Eurosystem figures in this area rank Slovenia as a country where a small number of counterfeits are found. Some 39 foreign currency counterfeits (US dollar, pound sterling, Croatian kuna and Russian ruble) were found in 2015, compared with 340 counterfeits in 2014. The quality of foreign currency counterfeits has remained at approximately the same level.

Figure 25: **Breakdown of counterfeit euro banknotes withdrawn from circulation, by denomination and year**



Source: Bank of Slovenia

3.5 Joint management of the ECB's foreign reserves

The Bank of Slovenia and the Central Bank of Luxembourg have jointly managed their share of the ECB's foreign reserves.

The Bank of Slovenia also manages part of the ECB's foreign reserves. Upon the introduction of the euro on 1 January 2007, the Bank of Slovenia transferred a portion of its foreign reserves in US dollars and gold to the ECB. The main purpose of the ECB's foreign reserves is to ensure adequate liquidity for operations on the foreign exchange market. All euro area national central banks have contributed their shares to the ECB's foreign reserves, which they manage jointly with the ECB. Since 1 January 2007 the Bank of Slovenia and the Central Bank of Luxembourg have jointly managed their share of the ECB's foreign reserves. In addition to the foreign reserves transferred to the ECB, the Bank of Slovenia also holds a portion of its investments in foreign currency in

[14] According to the figures of the National Analysis Centre (NAC) and the Coin National Analysis Centre (CNAC). Their authorisation proceeds from Council Regulation (EC) No 1338/2001.

case the ECB calls for additional foreign reserves, which is in accordance with Article 30 of the Protocol on the Statute of the ESCB and the ECB.

3.6 Banking supervision

3.6.1 Tasks within the framework of the Single Supervisory Mechanism

Following the introduction of the Single Supervisory Mechanism (SSM) under the aegis of the ECB in 2014, there were extensive adaptations in 2015 to the new supervisory regime. This has had a significant impact on the powers, procedures, workload and organisation of the supervisory institutions in each country. The establishment of the SSM brought significant European banks under the direct supervision of the ECB. In operational terms supervision of these banks is conducted by Joint Supervisory Teams (JSTs), which consist of ECB coordinators and members of the national supervisory authorities. The national supervisory authorities participate in all the supervisory activities, while the supervisory decisions with regard to these banks are made by the ECB. The supervision of less significant banks, which is the responsibility of national supervisors, is conducted in accordance with the rules and methodology of the ECB and the SSM. National supervisors regularly submit supervisory data for less significant banks to the ECB, and inform it of the findings of their supervision. The national supervisory authorities may consult the ECB on the issue of measures, but the final decision is their responsibility, other than in exceptional cases when serious breaches have been found in supervision. The new arrangements also allow the ECB to directly take over the supervision of less significant banks at the proposal of the national supervisor, at its own initiative in the event of the potential occurrence of a systemic crisis, or if the national supervisor is failing to conduct adequate supervision.

In 2015 there were three banks in Slovenia classed as significant banks under the direct supervision of the ECB: NLB d.d., NKBM d.d. and UniCredit Banka d.d. The significant banks included banks that are members of banking groups established in euro area countries and that constitute a significant banking group. Two-thirds of the Slovenian banking system in terms of total assets thus came under the direct supervision of the ECB, while a third remained under Bank of Slovenia supervision (eight banks, including two undergoing the orderly wind-down process, three savings banks and four branches of foreign banks and banking groups).

In 2015 there were three banks in Slovenia classed as significant banks under the direct supervision of the ECB: NLB d.d., NKBM d.d. and UniCredit Banka d.d.

3.6.2 Supervision of significant banks

A JST is appointed for each systemically important bank, headed by an ECB coordinator, while at the national level the work of the JST is coordinated by a sub-coordinator from the Bank of Slovenia. The supervision and monitoring of significant banks is undertaken via ongoing supervision, which is conducted by the members of the JST, and via on-site inspections at the banks. Inspections are coordinated for significant banks by the ECB, whereby all the inspections at significant banks in 2015 were conducted in full by Bank of Slovenia examiners. Post-inspection measures are proposed and prepared by the JST, and are issued by the ECB. Supervision at significant banks is conducted according to the methodology set out in the SSM Supervisory Manual.

Within the framework of banking supervision, in early 2015 the ECB adopted priorities and set out the minimum scope of supervisory activities for all significant banks. The minimum scope of supervisory activities is tailored to the size and risk profile of the banks. A plan of standing supervisory activities and a plan of inspections for 2015 were formulated on this basis for each significant bank.

One of the more important regular tasks within the framework of the supervision and monitoring of banks is the Supervisory Review and Evaluation Process (SREP).

One of the more important regular tasks within the framework of the supervision and monitoring of banks is the Supervisory Review and Evaluation Process (SREP). The SREP is based on the review and evaluation of:

- the internal capital adequacy assessment process (ICAAP) put in place by the bank;
- the bank's risk exposure and the control environment that the bank has put in place for the management and mitigation of the risks taken up;
- compliance with the prudential standards prescribed by Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (the CRR), Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (the CRD IV), and the Banking Act (ZBan-2) and the corresponding secondary legislation.

Within the framework of the SREP and on the basis of the ICAAP and the bank's risk profile, a determination is made of the level of capital adequacy that the bank must maintain until the next SREP. The other supervisory activities in the significant banks segment focused primarily on the following in 2015:

- credit risk,
- corporate governance and risk management,
- operational risk,
- liquidity risk, and
- interest rate risk.

Credit risk is by far the most important risk in the banking system, for which reason it was a major focus of the ongoing supervision of banks and the inspections at banks. The following activities were carried out in the area of credit risk:

- within the framework of ongoing supervision, much attention was focused on the formulation of credit risk analysis, developments in non-performing claims, bank strategies for reducing non-performing claims, analysis of forborne exposures and foreclosed real estate, analysis of Swiss franc loans.
- The JST conducted a limited review of the credit process at two banks. The objective of the reviews was to investigate the entire procedure for carrying out the credit process (preparation of credit analysis, credit approval process, process of creating impairments, credit portfolio monitoring process) and to identify any deficiencies. On the basis of the deficiencies identified, supervisory letters were issued to the banks with a total of 17 requirements for improving the control environment for credit risk. The requirements relate primarily to the improvement of internal controls in the area of credit approval.
- A review of credit risk was conducted at two banks, and encompassed a follow-up of the requirements from the AQR of 2014, a review of forbearance and the assessment of impairments on forborne loans, the early warning system and a review of individual credit files. A follow-up review of the implementation of measures in the area of credit risk issued in 2014 was conducted at one bank.

A thematic review of risk governance and appetite was conducted for all significant banks within the framework of the SSM in 2015. The purpose of the review was to obtain a horizontal overview of various internal governance practices, and of risk management and risk take-up, and to order the banks to take corrective measures in the event of deficiencies being identified. As part of the review an assessment was made of the composition of the governing bodies, their knowledge and diversity, the quality of the risk appetite framework, and the quality of information and reports on risks. In areas where deficiencies or non-compliance with regulations and good banking practice were identified, the banks were issued with a supervisory letter with requirements to take corrective measures. Improvements are required in the area of the composition of supervisory boards, the organisation of their functioning and the quality of the documentation discussed on supervisory boards, while it is also necessary to better include a risk perspective in the decision-making process and to improve the assessment of the risk appetite framework.

A thematic review of risk governance and appetite was conducted for all significant banks.

In the area of operational risk the supervisory activities at the significant banks focused on the regular monitoring of the banks' exposure to operational risk, on the management of IT risks and on legal risk. A review of operational risk was conducted at two banks. The reviews focused on the area of the measurement and management of operational risk and IT risk (organisational framework, strategies, policies, procedures and system architecture, IT organisation and outsourcing, management of IT security, and IT operations management).

Exposure to liquidity risk was not to the fore in 2015, the banks having had adequate liquidity at their disposal.

The area of liquidity risk was reviewed at one bank in 2015. The review targeted funding risk and the bank's liquidity position, and liquidity management over the medium term. After the review the bank was issued with a supervisory letter with six requirements for improving the control environment in the area of liquidity risk.

The area of liquidity risk was reviewed at one bank.

A follow-up review of the implementation of measures in the area of liquidity risk issued in 2014 was conducted at one bank.

A review of interest rate risk was also conducted at one of the significant banks. The level and identification of risks, the interest rate risk measurement system and the control functions that the bank has put in place to manage and mitigate interest rate risk were all reviewed. The review process had not been completed by the end of 2015.

In the area of the use of advanced IRB approaches to the calculation of capital requirements, a regular review of the use of the IRB approach was conducted at one bank, and a review of the introduction of the IRB approach to the calculation of capital requirements for the corporate segment was conducted at one bank.

Owing to its reclassification as a significant bank in 2015, UniCredit Banka Slovenija was included in the group of euro area banks at which a comprehensive assessment was undertaken. The results of the comprehensive assessment revealed the bank's relatively strong capital position: according to the AQR its CET1 capital ratio under the adverse scenario for 2017 would be 14.17%, significantly higher than the prescribed limit of 5.5%. No additional impairments were required after a review of the credit portfolio. Under the baseline scenario, the bank met the required level of capital, disclosing a total capital surplus of EUR 162.6 million. The bank also disclosed a capital surplus under the adverse scenario, in the amount of EUR 120.8 million.

Pursuant to Article 396 of the ZBan-2, the banks prepared and submitted recovery plans in 2015. JST members reviewed two recovery plans in 2015.

Pursuant to Article 396 of the ZBan-2, the banks prepared and submitted recovery plans in 2015. JST members reviewed two recovery plans in 2015. The ECB issued the two banks with a supervisory letter in which it presented an assessment of the recovery plan and admonished the banks in relation to the deficiencies (the assumptions applied in the scenarios were not strict enough, a more detailed explanation is required of the recovery options, their effects and the planning of their implementation, the recovery plan indicators must be calibrated to a greater extent to the specifics of the individual bank), which they must rectify for the next submission of the recovery plan. A review of the recovery plan will be conducted for the other banks in 2016.

Another regular task for the JST is the review of disclosures under Regulation (EU) No 575/2013. A review of disclosures was conducted for four significant banks. It was found that the banks in certain segments are failing to disclose information to a sufficient extent. This primarily involved information related to the assessment of risk appetite, and the key indicators related to this assessment, a review of the organisation of risk management, the disclosure of information related to risk mitigation techniques, the disclosure of key policies related to the selection procedure and diversity of supervisory boards, and the disclosure of the remuneration of members of management boards and supervisory boards on a consolidated basis. The banks must rectify the deficiencies in the disclosures for the 2015 financial year.

The other activities undertaken by JST members include:

- monitoring of the implementation of the restructuring plan and the commitments given by Slovenia to the European Commission at banks receiving state aid;
- regular meetings at banks with their management boards and supervisory boards, and with other operational functions, in particular the internal audit department, the compliance department and the risk management department;
- participation in JST meetings under the aegis of the ECB, and in supervisory colleges when the supervised bank is a member of a banking group;
- daily cooperation with JST members at the ECB and its other departments.

3.6.3 Supervision of less significant banks

The ECB also issues guidelines and recommendations for the supervision of less significant banks, which national supervisors must apply, and requires various regular and *ad hoc* reports on the supervision and performance of such banks on an aggregate and individual basis. In accordance with the ECB requirements, the Bank of Slovenia is obliged to inform the ECB in advance of the issue of measures and the introduction of procedures that in substantive terms exert a material influence on the operations of an individual less significant bank. Within the framework of the ECB's indirect supervision of less significant banks, regular meetings of the Member States' task forces are organised, and teleconferences and meetings are held to exchange opinions and to inform the ECB about less significant banks in the Slovenian banking system.

As part of the annual SREP, in accordance with the process implementation methodology and the internal risk assessment methodology, in 2015 the Bank of Slovenia assessed individual risks and the adequacy of the control environment for managing the individual risks, and set out individual requirements for the maintenance of capital adequacy at individual less significant banks. There was particularly detailed monitoring of the banks that failed to fully meet the capital adequacy requirements determined in the SREP. These banks had to submit plans to meet and maintain the required capital adequacy. The Bank of Slovenia imposed a capital increase measure on two banks in 2015.

Four supervisory reviews were conducted at less significant banks in 2015.

Four supervisory reviews were conducted at less significant banks in 2015, in which the areas of credit risk, liquidity risk, interest rate risk, profitability risk, the business model and corporate governance were reviewed. One supervisory review was conducted in conjunction with ECB inspectors. After conducting the supervisory reviews the Bank of Slovenia imposed measures on the banks, in relation to **29 irregularities found in connection with credit risk** (deficient procedures for classifying clients to rating grades, erroneous classification of clients to rating grades, erroneous calculation of impairments of financial assets, erroneous recording and treatment of collateral, irregular monitoring of real estate collateral values, deficiencies in the early warning system for increased credit risk, disorder and lack of transparency of credit files, deficient internal controls in the calculation of capital requirements for credit risk for exposures secured by real estate collateral), **11 in connection with liquidity risk** (deficiencies in the calculation of stress scenarios, monitoring of the intraday liquidity position, inadequacy of the limit system in liquidity management, monitoring of indicators defining a crisis situation, deficiencies in the determination of the size of liquidity reserves), and **six in connection with interest rate risk** (irregularities in the identification and measurement of interest rate risk, incomplete implementation of the stress scenarios in interest rate risk management, updating of policies and guidelines relating to interest rate risk management, insufficient frequency of reviews by the internal audit function).

Within the framework of the ongoing supervision, which is based primarily on regular reports by the banks and additional requests for information and clarifications, analysis of operations is conducted at all the banks, and is used as the basis for organising thematic meetings on the performance of individual banks at various managerial levels and for subsequent supervisory activities (including reviews and inspections at the banks).

The newly merged bank is one of the three largest banks in the country in terms of total assets.

The Bank of Slovenia continually monitored the process of the merger of two banks and banking groups in 2015. The merger of the two banks was the result of a decision by the European Commission on the allowable amount of state aid, and the commitments issued by the government in the procedure for issuing the aforementioned decision. The banks merged on 5 October 2015. The Bank of Slovenia is responsible for the procedure for the merger of two less significant banks. The newly merged bank is one of the three largest banks in the country in terms of total assets, and as a result in 2016 will come under the direct supervision of the ECB, which has already issued the bank with a decision on its classification as a significant bank.

In 2015 the Bank of Slovenia participated in three supervisory college meetings in connection with the issue of the operations of a bank that is a member of a banking group from another Member State, where the banking group is defined as less significant and does not fall directly under the SSM.

On the basis of the new requirements of the ZBan-2, less significant banks had to submit recovery plans in accordance with the aforementioned law for the first time in 2015. The Bank of Slovenia will assess the plans in 2016, and will give feedback about any additions required.

Supervision of the operations of the four branches of foreign banks and banking groups (three from Austria and one from France) present in the Slovenian market was conducted by the Bank of Slovenia via regular reports, requests for additional clarification, and the monitoring of the liquidity positions of the branches.

3.6.4 Horizontal supervision

Horizontal supervision activities in 2015 focused on the planning and execution of supervisory reviews at banks, the preparation of analysis of individual risks (e.g. credit risk, market risks), the implementation of the SREP, and the maintenance and upgrading of the Bank of Slovenia internal credit assessment system (ICAS).

Examiners specialising in individual risks conducted reviews of various risk areas at 11 banks last year. The majority of the reviews were conducted in the area of credit risk, followed by liquidity risk, governance, and operational risk. Four reviews of the eligibility of collateral for monetary operations at the ECB were also conducted.

3.6.5 Prevention of money laundering and terrorist financing as part of the supervision of bank compliance

The only activities within the framework of compliance supervision carried out in 2015 related to the prevention of money laundering and terrorist financing (PMLTF), and the implementation of restrictive measures. Other major activities within the framework of compliance supervision in the area of fraud, misuse of inside information and breaches of law and regulations were carried out as part of the work of the Special Inspection Group (SIG) and in conjunction with other Bank of Slovenia departments.

One of the Bank of Slovenia’s key tasks in the area of PMLTF is supervision aimed at verifying whether a bank or savings bank is adequately managing risks in this area within the framework of its comprehensive risk management.

Supervisory activities are carried out via ongoing supervision, the monitoring of regular reports by banks, and occasional on-site inspections at banks. There are several types of inspection: comprehensive, targeted, thematic and follow-up.

There were six inspections conducted in 2015, of which one was a comprehensive inspection of PMLTF, three were targeted inspections, and two were follow-up inspections of the implementation of measures. In accordance with the updated FATF recommendations and Directive 849/2015/EU, which governs the area of PMLTF, in supervising the area of PMLTF supervisory authorities are required to take a risk-based approach. On this basis banks were required to report annually on the situation in the area of PMLTF, for the purpose of an assessment of their profile from the perspective of PMLTF, which provides the basis for planning on-site inspections. In light of the risk-based approach, the Bank of Slovenia conducted three targeted inspections in the area of PMLTF, where the primary focus was on clients assessed as constituting a high risk.

On the basis of the breaches identified, the banks were issued with three letters of admonishments covering multiple breaches, and one order on the rectification of breaches.

The supervision has established that awareness of the importance of risk management in the area of PMLTF has increased at the banks in recent years. The banks have accordingly strengthened the control environment in the area of PMLTF, which has also been reflected in a trend of increasing numbers of reports of suspicious transactions submitted by the banks to the Office for Money

Laundering Prevention. Here it should be highlighted that reports from the banking sector account for fully 85% of the total number of reports received by the Office.

3.6.6 Special Inspection Group

The Special Inspection Group (SIG) was established by the Bank of Slovenia by order of the Governor in April 2014 for the purpose of cooperating more actively with the judicial authorities and the prosecution authorities, and for the needs of faster responsiveness, analysis and interpretation of bank data and supervisory analysis. In organisational terms the SIG is directly answerable to the senior management, and is headed by a vice-governor who is also a member of the Governing Board of the Bank of Slovenia. The work of the SIG is currently organised in project form.

The SIG provides extra support for banking supervision; the key is that it ensures continuity of action and represents a constituent part of integral banking supervision, in light of the current situation and the public's sensitivity to the problem of holes in bank finances, and in light of Article 146 of the ZBan-2 and the guidelines of the Basel Committee on Banking Supervision.

The SIG's activities in 2015 focused on supporting the police, the Special State Prosecutor and, as necessary, the banks.

As part of banking compliance supervision, the SIG currently engages in analysis of individual cases from pre-criminal and criminal proceedings, with the identification of the facts, circumstances and forms of suspected criminal offences and frauds in banking as a result of breaches of laws and regulations, and interprets the banking content for the relevant prosecuting authorities. The SIG's activities in 2015 focused on supporting the police (under the memorandum of understanding between the police and the Bank of Slovenia), the Special State Prosecutor and, as necessary, the banks in compiling high-quality criminal indictments against responsible persons in connection with bad loans approved under non-standard terms and without consideration of the underlying economic indicators of creditworthiness in the event of breaches of laws and regulations in the area of banking. In this connection the SIG formulated extensive analysis of the actions of holding companies in Slovenia via the actual course of the development of holding companies in Slovenia, their governance and ownership consolidation, and analysis of their performance between 2000 and 2014 from the perspective of lending at the macro level.

Within the framework of its powers the SIG also conducted on-site and off-site supervision at banks aimed at identifying good banking practice by examining the structural problems of lending at banks, and in collaboration with the banks in the sense of promoting information and awareness and providing expert support in the identification of forms of bad banking practice,[15] namely irregularities in banking and finance that contain elements of criminal offences and entail a negative deviation away from good banking practice. The following identified forms should be highlighted: management buyouts; transgression of maximum exposures; repo transactions and option transactions; lending for own recapitalisation; concealment of credit risk via subsidiaries; inadequate management of claims; splitting of transactions; improper client credit assessment; misuse and manipulation of valuations; real estate transactions via project management firms; manipulation of guarantees; straw debt contracts; loan approval without the requisite documentation; loan approval in which the bank issued a guarantee to itself via subsidiaries; omission of the registration of claims in insolvency proceedings; economically unjustified loan extensions.

15 To date the SIG has identified 12 different forms of model behaviour.

The Bank of Slovenia will also devote more attention to prompt investigation of disallowed conduct in the banking sector that constitutes major credit risk and operational risk, i.e. not merely post festum in the event of an investigation being launched by the prosecution authorities, but also in the performance of its supervisory function. It has proven in practice that ordinary prudential supervision of banking fails to identify all irregularities, owing to its very nature. Banking regulations do not cover the initiation and take-up of risks in the sense of preventing excessive appetite for risk at banks, although the Bank of Slovenia can influence this by taking an ex post approach on the basis of analysis of cases, identifying the causes of non-compliant investments and the forms of model behaviour, which is the primary task of the SIG within the framework of analysing credit operations, and taking action against the bank, in keeping with the content, the structure and its powers, when it identifies breaches of laws and regulations. The Banking Act regulates the positioning of compliance departments at commercial banks as directly answerable to the management board and organisationally separate from the bank's other functions where a conflict of interest could arise. The compliance function identifies the risks to which a bank is exposed due to breaches of applicable regulations or requirements of the Bank of Slovenia during the supervision of valid agreements, prescribed practices or ethical standards that could impact the bank's income, capital or reputation. The SIG's activities are therefore complementary to prudential supervision in the sense of the identification of breaches of laws and regulations, and the issue of orders and other supervisory measures in the sense of the treatment of bad banking practice as a misdemeanour[16]. In this connection there is an indication of the long-term need to expand the content of work in the area of compliance within the Bank of Slovenia. The SIG's activities focused on identifying past bad banking practice, and on building the concept of its future role and position at the Bank of Slovenia with regard to the Banking Act.

3.6.7 Stress tests

In accordance with established practice, the Bank of Slovenia again conducted stress tests of the entire banking system in 2015.

In accordance with established practice, the Bank of Slovenia again conducted stress tests of the entire banking system in 2015. All banks and savings banks were included in the stress tests, with the exception of UniCredit Banka Slovenija, which conducted the stress tests as part of the comprehensive assessment of the bank under the supervision of the ECB. The banks drew up their calculations on the basis of the proposed methodology and assumptions, and submitted them to the Bank of Slovenia. The quality and consistency of the data, the application of the methodology and the technical accuracy of the calculation were vetted for the calculations received.

The general assumptions and methodology drawn up by the EBA for the pan-European stress tests in 2014 were taken into account in the stress tests. Two scenarios were envisaged on the basis of the macroeconomic assumptions:

- The baseline scenario for 2015 and 2016 was based on the European Commission's winter economic forecasts, and for 2017 was expanded with the ECB projection. Expectations of higher growth in GDP, persistently high

[16] The area of compliance encompasses insider trading, market manipulation, abuses of laws and regulations and misuse of authorisations, fraud, asymmetric information and manipulation on this basis, breaches of trading in instruments, unfair competition and trading in services, tax manipulation, money laundering, manipulation of benchmarks, and protection/misuse of data and technology. Compliance requires a comprehensive examination of content, a constant flow of information, and monitoring of live developments and examples of banking practice. The work of the SIG is thus a lever for the comprehensive treatment of the aforementioned content in the area of compliance pursuant to Article 146 of the ZBan-2.

unemployment and a gradual rise in inflation, which will nevertheless remain below 2%, were included at the EU level.
- The adverse scenario was based on a deterioration in the forecasts under the baseline scenario, and the application of the shocks approved for the 2014 stress tests by the European Systemic Risk Board (ESRB).

The scenarios were implemented on the basis of consolidated data from the closing accounts for 2014. The time horizon was three years (2015, 2016 and 2017). Under both scenarios banks worked on the basis of the assumption of a static balance sheet, including no change in the type and structure of transactions, and did not take account of the write-off of claims in default. The definitions of the highest-quality form of capital (common equity Tier 1) and capital requirements applicable inside the stress test horizon were used in the calculation of capital and capital adequacy ratios. In their calculations the banks did not take account of activities to mitigate the effects of shocks, other than the recapitalisations carried out by 31 May 2015. The capital adequacy threshold as measured by the highest-quality form of capital (CET1 capital ratio) had to be at least 8% under the baseline scenario and at least 5.5% under the adverse scenario.

Given the assumed changes in the macroeconomic environment on the basis of the baseline scenario and the adverse scenario, the banks assessed the increase in credit risk, country risk and market risk, the increase in funding costs, and the impact on net interest income and net non-interest income. The banks consequently disclosed increased capital requirements, and a decline in capital owing to a decline in profitability:
- owing to the increase in credit risk, the reclassification of claims as higher-risk items with a higher risk weight brought an increase in capital requirements;
- on account of the assumption of additional transitions from performing claims to non-performing claims and an increase in loss given default, there was an increase in impairment and provisioning costs, and consequently a deterioration in the operating result;
- the adverse effect in the area of market risks also reduced the operating result;
- the assumption of a rise in interest rates and the exclusion of interest income from non-performing claims brought a decline in net interest income;
- the decline in net non-interest income was estimated on the basis of internal assessments of the impact of changes in the macroeconomic assumptions;
- the decline in the value of investments in government securities led directly to a decline in capital.

On the basis of the assumptions under the baseline scenario all the banks remained solvent and maintained a common equity Tier 1 capital ratio above the threshold value. Under the adverse scenario four banks disclosed a small capital shortfall owing to the failure to meet the threshold capital ratio. All the banks with a deficit in 2015 have already taken action to improve their capital position.

All the banks with a deficit in 2015 have already taken action to improve their capital position.

3.6.8 Bank of Slovenia activities in the management of banks’ non-performing exposures

The Bank of Slovenia focused a significant part of its efforts in 2015 on the management of banks’ non-performing exposures. Action to promote and manage processes is organised within the framework of a special project and is directed at direct supervisory activities, and also at active cooperation with other stakeholders in Slovenia. This should ensure the requisite reduction in and permanent management of the banks’ stock of non-performing claims.

The Bank of Slovenia focused a significant part of its efforts in 2015 on the management of banks’ non-performing exposures.

The objectives of the Bank of Slovenia's activities in the restructuring of non-performing exposures are directly linked to an improvement in the effectiveness of corporate restructuring processes, the effective monitoring and supervision of banks in the area in question, the promotion of the requisite processes for restructuring SMEs and the design of solutions for supplier financing.

In the aforementioned process banks must provide for sustainable strategies for reducing non-performing exposures, and must set themselves appropriately ambitious targets that later allow them to enjoy a final balance sheet recovery and renewed growth in lending activity.

The Bank of Slovenia's supervisory activities and requirements related to the requirements for reporting by banks on their restructuring activities, the coordination and steering of restructuring processes at banks, communication with banks on the preparation and monitoring of their plans to reduce non-performing exposures, and communication with the public for the purpose of outlining the situation and achievements of the banking system in the area in question.

The Bank of Slovenia sent banks three letters in 2015 related to requirements and guidelines in the area of the restructuring of non-performing exposures.

Within the framework of its supervisory activities last year, the Bank of Slovenia overhauled reporting by banks in the area in question, issued a series of guidelines encouraging banks to take a more structured approach to the restructuring of non-performing exposures (Guidelines for creating impairments and provisions for exposures to restructured customers, Guidelines for monitoring customers and early warning systems for increased credit risk, Guidelines for managing problem claims), required the preparation and submission of plans to reduce non-performing exposures and put in place a structured process for monitoring corporate master restructuring agreements.

The Bank of Slovenia encouraged the creation of and participated in the drafting of the Guidelines for managing the non-performing claims of SMEs.

In 2015 the Bank of Slovenia encouraged the creation of and participated in the drafting of the Guidelines for managing the non-performing claims of SMEs, which introduce detailed guidance for the actions of banks into banking practice. The guidelines will aid the senior management of banks in making faster decisions, which will lead to the comprehensive restructuring of firms, and not merely to the continuation of the existing (often inviable) situation, and require good and fair conduct of the owners and senior management of these firms, including the disclosure of all material information, the observation of the banks' requirements, and additional financial investment by owners in the form of personal guarantees or recapitalisation.

In its supervision of the management of banks' non-performing exposures, on the basis of past achievements the Bank of Slovenia will continue its activities within the framework of ordinary supervisory dialogue with banks, in the area of the planning and monitoring of target values for non-performing exposures, with a particular emphasis on the SMEs segment. In addition Bank of Slovenia representatives are actively involved in the ECB's work in the area in question.

3.6.9 Integration of supervision into supervisory activities at EU level

The Bank of Slovenia has a presence in two supervisory authorities, and is involved in numerous supervisory activities and forms of collaboration at EU level via its participation in sub-groups and networks.

As part of the SSM, the Bank of Slovenia has a presence at the ECB in the form of the Supervisory Board, which meets twice a month. The Supervisory Board discusses, plans and carries out the ECB's supervisory tasks, and proposes draft decisions to the Governing Council under the non-objection procedure. Bank of Slovenia representatives also actively participate in more than 30 different SSM sub-groups and networks.

As part of the SSM, the Bank of Slovenia has a presence at the ECB in the form of the Supervisory Board.

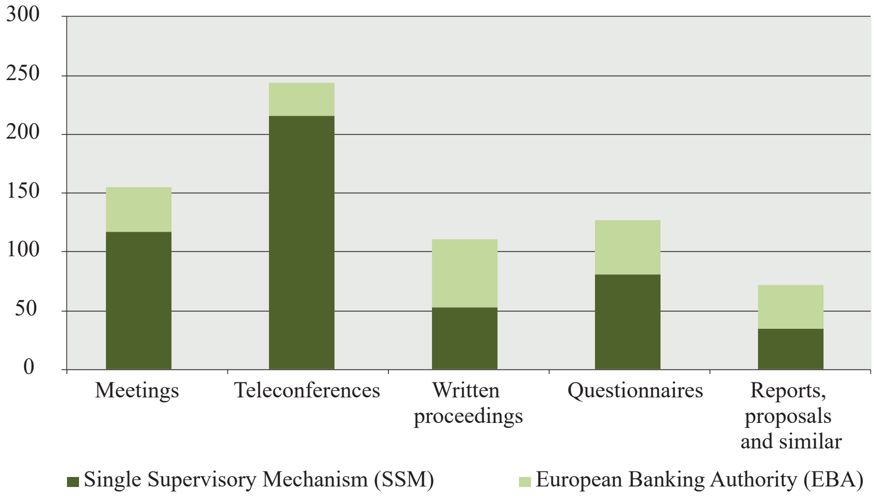
At the European Banking Authority (EBA) Bank of Slovenia representatives sit on the Board of Supervisors, which is the authority's main decision-making body and is responsible for all decisions in connection with EBA policy, such as adopting draft technical standards, guidelines, opinions and reports. Bank of Slovenia representatives also have a presence on 34 working groups, where they actively participate in promoting the convergence of supervisory practices and the preparation of binding technical standards and guidelines that provide for a single set of coordinated prudential rules for financial institutions across the entire EU, which will contribute to the establishment of a level playing field and ensure a high level of protections for depositors, investors and consumers.

Table 4: **Number of meetings and written procedures of the SSM Supervisory Board and the EBA Board of Supervisors**

	Type of participation	Total
1.	Number of written procedures of SSM Supervisory Board	984
2.	Number of meetings of SSM Supervisory Board	24
3.	Number of teleconferences of SSM Supervisory Board	34
4.	Number of written procedures of EBA Board of Supervisors	247
5.	Number of meetings of EBA Board of Supervisors	7
6.	Number of teleconferences of EBA Board of Supervisors	4

Source: Bank of Slovenia

Figure 26: **Number of meetings, teleconferences, written procedures and questionnaires at SSM and EBA**



Source: Bank of Slovenia

3.7 Macroprudential supervision and financial stability

The purpose of macroprudential policy and supervision is to mitigate the effects of financial cycles and to increase the resilience of the financial system to disruptions.

Box 5: **Risks in the banking sector**

The risks present in the banking sector in 2015 diminished relative to 2014. The trend of declining *credit risk* continued, as the stock of claims more than 90 days in arrears declined as a result of forbearance and write-offs, and as a result of the favourable impact of economic growth. Coverage of claims more than 90 days in arrears by impairments, bank capital and collateral improved. *Funding risk* also declined. Dependence on funding on the wholesale markets remained relatively small, while the maturity structure of the maturing remaining debt became more favourable than in previous years. Excess liquidity and availability of liquidity sources at the ECB were high. *Contagion risk* also declined, in terms of scale and in terms of the number of potential contagions between banks. As a result of the approach to recovery, the banks are relatively strongly *exposed to the general government sector*, although they will most likely diversify out of these investments at maturity. *Solvency risk* also declined, and is now at a significantly lower level than before the beginning of the programme to stabilise the banking system. The banking system's solvency improved further in 2015, and remained above the euro area average. The banks improved their capital adequacy not only via recapitalisations, but also by generating internal capital via profitable performance. In the wake of low and declining lending activity and low interest rates, the opportunities to generate profit, and thereby capital, became limited, and *income risk* therefore remained relatively high. The decline in credit risk had a beneficial impact on bank profitability via lower impairment and provisioning costs, but low and falling interest rates, and the narrowing interest spread at the same time as a reduction in interest-yielding assets and liabilities – the latter partly owing to a shortening of the maturity of funding – are contributing to the persistence of income risk. *Risks on the real estate market* have remained at a relatively low level. A potential easing of the banks' standards was discernible in relation to housing loans, which was evidenced in a higher average LTV ratio. *Macroeconomic risks* also remained unchanged, as the outlook in the majority of Slovenia's main trading partners remains relatively solid, in the wake of reductions in global economic growth forecasts. Ongoing GDP growth will remain significantly subject to risks and uncertainties, particularly in the external environment.

With the aim of operationalising macroprudential policy the Bank of Slovenia set out a strategic framework for macroprudential policy for the banking sector,[17] which builds on the Bank of Slovenia's Macroprudential Policy Guidelines published in early 2015.[18] The strategic framework has provided a basis for conducting macroprudential policy using instruments under the Bank of Slovenia's direct control.

The Bank of Slovenia developed two more macroprudential instruments in 2015: the *countercyclical capital buffer* and the *capital buffer for other systemically important institutions (O-SIIs).*

The Bank of Slovenia developed two more macroprudential instruments in 2015.

Table 5: **Macroprudential instruments used by the Bank of Slovenia**

MACROPRUDENTIAL INSTRUMENT	YEAR OF INTRO-DUCTION	OBJECTIVE	IDENTIFIED EFFECTS
Limits on deposit rates	2012	limiting income risk for banks in connection with an excessive rise in interest rates on deposits by the non-banking sector encouraging caution in the management of levels of liability interest rates, which should have a positive impact on lending rates	in an environment of low interest rates the instrument is not placing any limits on banks
GLTDF	2014	slowing the pace of reduction in the LTD ratio for the non-banking sector contributing to the stabilisation of funding structure reducing systemic liquidity risk in funding	slowdown in decline in the LTD ratio, increase in the proportion of stable funding
Countercyclical capital buffer	2016	increasing the banking system's resilience to shocks curbing the expansive phase of the credit cycle	
O-SII buffer	2016	increasing the resilience of O-SIIs, and consequently the entire banking system and financial system, to shocks	/

Notes: GLTDF: gross loans to deposits flows, a limit on the pace of reduction in the loan-to-deposit (LTD) ratio for the non-banking sector O-SIIs: other systemically important institutions
Source: Bank of Slovenia

The objectives set for the GLTDF instrument were realised in 2015. The instrument brought a slowdown in the pace of the reduction in the LTD ratio for the non-banking sector compared with previous years. It helped to stabilise funding structure in the direction of reduced dependence on wholesale funding. Stable funding, i.e. deposits by the non-banking sector, now accounts for more than two-thirds of the banks' total liabilities.

The objectives set for the GLTDF instrument were realised in 2015.

17 https://www.bsi.si/library/includes/datoteka.asp?DatotekaId=6646
18 https://www.bsi.si/library/includes/datoteka.asp?DatotekaId=6079

The purpose of the countercyclical capital buffer is to protect the banking system against potential losses when excessive growth in lending is linked to an increase in risks in the system as a whole. The basic criterion for determining the buffer rate is the gap between the credit-to-GDP ratio and its long-term trend, but in light of the specific attributes of the Slovenian economy other indicators are relevant, such as annual growth in real estate prices, annual growth in loans to the domestic private non-financial sector, the LTD ratio for the private non-banking sector, ROE and the ratio of credit to gross operating surplus. Since 1 January 2016 the buffer has been set at 0% on the basis of assessment of the deviation from the historical values of the aforementioned indicators.[19]

The reason for the special regulation of systemically important banks (O-SIIs) is that their collapse could endanger financial stability and could lead to significantly larger adverse effects on the financial system and the entire economy than could the collapse of a systemically unimportant institution. Banks are evaluated as O-SIIs with regard to the criteria of size, importance to the Slovenian economy, cross-border activity, and the interconnectedness of the bank or group with the financial system. Eight banks were identified as O-SIIs. The capital buffer ranges from 1.00% to 0.25%. The banks must meet the buffer requirement as of 1 January 2019.[20]

3.7.1 Financial Stability Board

The Financial Stability Board (FSB) is a macroprudential body established in 2014 by the Macroprudential Supervision of the Financial System Act, and is responsible for formulating macroprudential policy in Slovenia. The purpose of the FSB is to contribute to the stability of the Slovenian financial system, including the strengthening of its resilience and the reduction of accumulated systemic risks.

In 2015, its second year of operation, the FSB met at the end of each quarter, in four ordinary sessions. All sessions were attended by representatives of the supervisory authorities, which are the Bank of Slovenia, the Insurance Supervision Agency (ISA) and the Securities Market Agency (SMA), and representatives of the Ministry of Finance (who do not have the right to vote).

The regular duties of the FSB include identifying, monitoring and assessing risks in the Slovenian financial system.

The regular duties of the FSB include identifying, monitoring and assessing risks in the Slovenian financial system. Within the framework of the themes under discussion, the representatives of the individual supervisory authorities present the key risks arising at their supervised entities each quarter. The participating supervisory authorities endeavour to comprehensively discuss the systemic risks present in the Slovenian financial system, for which reason a standing working group was established in 2015, its task being to discuss current risks before each session of the FSB and to draw up a joint document with key findings. Additional analysis is drawn up on the basis of the identified risks as necessary. In 2015 the ISA drew up additional information on insurance corporations' investments in infrastructure bonds on the national markets of other EU Member States, which was discussed at the FSB's September session. Across Europe there has been a notable increase in investment in infrastructure bonds, for which reason the European Insurance and Occupational Pensions Authority (EIOPA) announced that it would begin developing a capital adequacy formula for this investment segment.

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19 https://www.bsi.si/en/financial-stability.asp?MapaId=1886

20 https://www.bsi.si/en/financial-stability.asp?MapaId=1887

The FSB analysed the assessments of the systemic impact of the deletion of the shares and subordinated liabilities of banks in recovery on insurance corporations, reinsurance corporations, pension companies and mutual funds. The assessment was made *post festum* on the basis of the available data and the reported limits of the Bank of Slovenia, the ISA and SMA. The assessment established that the deletion of the shares and subordinated liabilities of banks in recovery would not have systemically important effects and would not constitute a significant risk to the operations of entities supervised by the ISA and the SMA.

Other major themes discussed by the FSB related to the development of the Slovenian capital market, the strategy for the management of government-owned capital assets, the impact of quantitative easing on the insurance market, the strategy of the Bank of Slovenia's macroprudential policy, and the introduction of two macroprudential instruments.

3.8 Bank resolution and deposit guarantee

The Bank Resolution Fund and Authority Act designated the Bank of Slovenia as the resolution authority in Slovenia.

Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (the BRRD) defined a new task of resolution. It required Member States to establish a national resolution authority. The Bank Resolution Fund and Authority Act (ZOSRB) designated the Bank of Slovenia as the resolution authority in Slovenia. A bank resolution fund was also established pursuant to the ZOSRB, which is to be financed by the banks with their own funds and operated by the Bank of Slovenia.

Table 6: **Supervisory and resolution instruments for banks in 2015**

Extraordinary measures (ZBan-1: Section 7.7: Extraordinary measures to ensure the stability of the financial system; ZBan-2: Chapter 13: Implementation of extraordinary measures by the Bank of Slovenia
appointment of a special administration at a bank termination or conversion of the qualified liabilities of a bank sale of all shares in a bank increase in a bank's share capital transfer of a bank's assets
Additional measures (ZBan-2: Chapter 8)
Early intervention measures (ZBan-2: Chapter 8)
Bridge bank (ZORSB: Title 4)

Together with the resolution fund, the aforementioned measures entail a shift from bank resolution via bail-out to resolution via bail-in, i.e. the assets of the banks and bank creditors. The fund's assets can be used for financing extraordinary measures imposed by the Bank of Slovenia, namely:

- the payment of the founding capital or the maintenance of the capital adequacy of a bridge bank to which the assets and liabilities of a bank would be transferred in accordance with a Bank of Slovenia decision;

- the recapitalisation of a bank to ensure capital adequacy, provided that the bank's past losses are covered first;
- the provision of loans, guarantees, sureties or other forms of collateral to a bridge bank or to a bank against which extraordinary measures have been imposed.

The resolution unit was established in April 2015 and took over all tasks related to the deposit guarantee scheme

All the requisite activities related to the new task at the Bank of Slovenia as the national resolution authority are carried out by the resolution unit, which was established in April 2015. The unit also took over all tasks related to the deposit guarantee scheme.

3.9 Management of the assets of the Bank Resolution Fund

The banks paid assets totalling EUR 191.07 million into the bank resolution fund on 30 March 2015 (approximately 1.3% of total guaranteed deposits).

In accordance with the ZOSRB, the Governing Board of the Bank of Slovenia set out an investment policy, via the Regulation on the investment policy and management fees of the bank resolution fund, to ensure that the fund is secure, is low risk and has high liquid assets. Consequently, the following are eligible investments for the fund: (i) euro-denominated bonds or short-term securities of central or regional governments, agencies and supranational institutions whose second-best rating is not lower than A-, or BBB- in the case of a sovereign debt obligor; (ii) bank balances at foreign commercial banks or the Bank of Slovenia; and (iii) bank deposits with a maximum maturity of 14 days. The debt of banks established in Slovenia and of foreign banking groups including subsidiary banks established in Slovenia, and the debt of an obligor of the Republic of Slovenia are not eligible investments for the bank resolution fund.

3.10 Payment services for Bank of Slovenia clients

Total transactions of 48.6 million were executed in 2015.

The Bank of Slovenia administers accounts and provides payment services for clients. A total of 48.6 million transactions were executed in 2015, the majority consisting of credit transfers (93.8%) and direct debits (6.2%).

The Bank of Slovenia administers the government's single treasury account and 190 municipal single treasury accounts, open in a number of currencies. The accounts of direct and indirect spending units of the state budget and municipal budgets, the Health Insurance Institute and the Pension and Disability Insurance Institute (included in the single treasury account system as set out in the Public Finances Act) were opened as sub-accounts of the government or municipal treasury accounts. The sub-accounts are administered by the Public Payments Administration, to which direct and indirect spending units of the state budget and municipal budgets submit payment orders and from which they receive the full set of feedback about payments transacted.

In addition to the single treasury accounts, the Bank of Slovenia also administers 16 special-purpose accounts for the government and other budget spending units, a guarantee fund cash account and a fiduciary account for the custodian services of KDD, and the accounts of KDD members via which cash settlements are made for securities transactions. At the end of 2015 there were 14 KDD members, namely nine commercial banks and five investment firms, with open transaction accounts for customer funds and clearing accounts at the Bank of Slovenia.

The Bank of Slovenia also administers the account of the Bank Asset Management Company (BAMC), via which payments of loans and issued securities are executed, and accounts of foreign financial institutions and EU institutions.

3.11 Statistics

All current tasks in monetary and financial statistics, international economic relations statistics, financial accounts statistics and other statistics for which the Bank of Slovenia is responsible, including publication and the provision of statistics to users, were carried out successfully in 2015.

Activities continued in 2015 for the establishment of a central credit register as a broader database of exposures at the level of the individual credit operation, including the receipt and processing of data, and output for supervision and other purposes, subsequent reporting, and for the exchange of data on indebtedness of individual clients at lenders (credit bureau). In the design of the modified reporting system and the substantive queries of the proposed solutions the Bank of Slovenia collaborated successfully with the steering group of the Bank Association of Slovenia as the representative of the credit institutions. A register of business entities was also established at the Bank of Slovenia for the purposes of reporting at the level of the individual obligor.

The submission of data to the ECB on the basis of the amended regulations on the balance sheet and interest rate statistics of monetary financial institutions (MFIs) began in 2015. In addition, 2015 saw a significant expansion in reporting of individual MFI balance sheet data to the ECB, in particular for loans and deposits, from five of the seven banks included.

The ISA reached agreement with the Bank of Slovenia in 2015 on the transfer of insurance corporation data to the Bank of Slovenia, thereby completing the preparations for the introduction of expanded reporting by insurance corporations for the purposes of statistical reporting to the ECB. In the area of investment fund statistics, the OECD has introduced new quarterly reporting of financial assets and liabilities for institutional investors and households. The Bank of Slovenia amended the guidelines for quarterly reporting by firms engaged in leasing business. The reporting of off-balance-sheet operations in the statistical section of the report was introduced, with additional itemisation of two items of the report, works vehicles and cars.

In 2015 the Bank of Slovenia undertook the revision of its statistics on the balance of payments, the international investment position and the external debt for the period since 2007. The largest change was the standardised disclosure of euro currency in various statistical reports, which was required of euro area countries by the ECB. During the revision of the data the Bank of Slovenia also estimated the volume of imports via online sales for the period since 2010 on the basis of analysis of certain card transactions with the rest of the world.

The Bank of Slovenia worked with the Statistical Office of the Republic of Slovenia (SURS) on an inventory of the GDP methodology for Eurostat. In addition, a description of the data sources and methodology for the international economic relations statistics, which in 2016 will be published in the form of the BOP book for each EU Member State on the ECB website, was prepared.

Securities statistics were stabilised in 2015. All excess deviations between the CSDB[21] and SEC (US Securities and Exchange Commission) statistics were eliminated, and the main structural reasons for the deviation of the SHS (statistics on holdings of securities) statistics from the financial accounts statistics, balance of payments statistics and monetary and financial statistics were identified and rectified. Defining the need for securities data for the central credit register and in connection with the ECB's AnaCredit[22] project and the CSDB and SHS statistics also required a significant amount of work.

In 2015 the Bank of Slovenia continued its preparation of data for the Household Finance and Consumption Survey (HFCS) in a sample of around 3,000 households. The data was revised, imputed and weighted at the end of the year.

The Bank of Slovenia again conducted a survey of corporate access to financing in 2015.

The Bank of Slovenia again conducted a survey of corporate access to financing in 2015, providing insight into the availability of external financing from the firms' perspective. The analysis was published on the Bank of Slovenia website.

On the basis of the national accounts the Bank of Slovenia draws up annual financial accounts statistics for the government sector, and has taken over the commitments under Annex 5 for the report on the general government deficit and debt, in which data on state aid to financial institutions during the economic and financial crisis (GAFS) is collected. Representatives of the Bank of Slovenia, the SURS and the Ministry of Finance sit on an inter-institutional working group that resolves methodological issues in this area. In light of the refusal to accept Eurostat's instructions with regard to the booking of the BAMC, the group began drafting an official methodology-related letter with a description of the case and a proposal of booking for Eurostat, which will then make a decision on booking.

Real estate price statistics were compiled in 2015 for the banking supervision regression model for the market valuation of flats and houses from the values collated by the Surveying and Mapping Authority of the Republic of Slovenia, which has simplified the determination of collateral values for loans at commercial banks.

Alongside the ESCB, international statistical cooperation in 2015 also encompassed the BIS, Eurostat, the IMF, the OECD and the World Bank. With regard to the standard for the publication of IMF figures, the Bank of Slovenia prepared for the changeover to the expanded SDDS Plus version. The Bank of Slovenia also provided technical assistance for statisticians from Montenegro in 2015. At the national level the Bank of Slovenia continued its successful statistics cooperation with the SURS, the Ministry of Finance, AJPES, the SMA and the ISA in 2015.

3.12 Information system

The Bank of Slovenia information system consists of hardware, systems software, databases, communications equipment, computer connections, fixed and mobile telephony, primary and backup computer centres and, of course, trained staff. For end users the most visible segment is the applications software via which their everyday activities are carried out.

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21 https://www.ecb.europa.eu/pub/pdf/other/centralisedsecuritiesdatabase201002en.pdf

22 https://www.ecb.europa.eu/stats/money/aggregates/anacredit/html/index.en.html.

The Bank of Slovenia's business processes were modified in 2015, primarily on account of new requirements within the framework of the ESCB and the SSM. The Bank of Slovenia information system also had to be adapted to these modifications, both in terms of the computer infrastructure and in terms of the applications. The Oracle environment was migrated to an Intel platform, which helped to streamline the operating costs of the Oracle platform. Much attention was focused on the setting-up of infrastructure that allows users to use the Bank of Slovenia information system from different devices, irrespective of where the user is located. A register of foreign business entities was also established, which was particularly well-received by the commercial banks. Software was developed for the needs of harmonised supervisory reporting under the ITS on Supervisory Reporting. A new communications channel was established for reporting by banks and other entities to the Bank of Slovenia, including support for the BAS communication standard. The security of the Bank of Slovenia information system was the focus of much attention, in particular the consolidation of user rights, and the introduction of an identity management system and a system for the central recording of audit trails.

3.13 Conferences, seminars and workshops

In February 2015 the Bank of Slovenia and the European Investment Bank (EIB) organised a workshop entitled Promoting lending: The role of securitisation, guarantee products and other instruments providing capital relief. In addition to representatives of the Bank of Slovenia and the EIB, the discussion of financing methods with an emphasis on securitisation and issuance of covered bonds, and of the role of the corporate bond market in reducing dependence on bank financing and other EU initiatives to encourage the lending market was also attended by representatives of the Ministry of Finance, the Ministry of Economic Development and Technology, the Representation of the European Commission in Slovenia, the SMA and the ISA, Ljubljana Stock Exchange, the KDD, the BAS, commercial banks, savings banks, insurance corporations, pension funds, major companies listed on the stock exchange, audit firms and investment firms.

In September 2015 the Bank of Slovenia and the World Bank organised a seminar on Issues in the investigation, prosecution and trial of financial crime cases in financial institutions, with an emphasis on the identification of best international practices and Slovenian strategies for improving effectiveness, and also on clarification of the role and responsibilities of the management boards and supervisory boards of financial institutions during the investigation and court proceedings. In addition to representatives of the Bank of Slovenia and the World Bank, the seminar was attended by representatives of the Ministry of Justice, the National Bureau of Investigation, the police, the Office for Money Laundering Prevention, the courts, the state prosecution service, and well-known guests and lecturers from other countries.

An international conference entitled Challenges for debt restructuring and financing of SMEs was organised by the Bank of Slovenia and the Representation of the European Commission in Slovenia in September 2015. Representatives of the Bank of Slovenia and the Representation of the European Commission in Slovenia discussed the resolution of non-performing loans to SMEs at banks, alternative financing for SMEs and practical experience of Slovenia and other EU Member States, together with representatives of the BAS, commercial banks, the Ministry of Finance, the Ministry of Public Administration, the Ministry of Economic Development and Technology, the

Chamber of Commerce and Industry, the IMAD and the EBRD (Slovenia), ambassadors and representatives of foreign embassies in Ljubljana.

In October 2015 the Bank of Slovenia and the London-based Centre for Economic Policy Research (CEPR) established the European Central Banking Network (ECBN).

In October 2015 the Bank of Slovenia and the London-based Centre for Economic Policy Research (CEPR) established the European Central Banking Network (ECBN), within the framework of which the first research conference organised was entitled The allocation of credit before and after the Great Recession: Implications for the real economy. Researchers from 19 European central banks presented their analysis at the conference. The purpose of the conference was to compare the experiences of different countries in the areas covered by the conference, to identify similarities and differences between them, and to elucidate the main useful lessons from the analysis presented.

3.14 Technical assistance

Bank of Slovenia experts are also involved in programmes of technical assistance to other central banks and supervisory institutions.

Bank of Slovenia experts are also involved in programmes of technical assistance to other central banks and supervisory institutions. In 2015 the Bank of Slovenia provided bilateral assistance, assistance in conjunction with other institutions and via ESCB/Eurosystem programmes and Taiex, which operates under the aegis of the European Commission, to central banks and supervisory institutions from the following countries: Bosnia and Herzegovina, Bulgaria, Kosovo, Latvia, Moldova, Montenegro and Serbia. The Bank of Slovenia provided assistance in the areas of banking supervision, accounting, management of foreign reserves and risk management, statistics, internal audit, information technology, cash operations and identification of counterfeits, and payment systems. Seven study visits, five expert missions and two seminars were organised within the framework of this assistance. Assistance was also provided via correspondence and meetings.

The ESCB/Eurosystem programmes aimed at the central banks of the western Balkans, namely programmes for the central banks of Albania, Montenegro and Kosovo, in which the Bank of Slovenia also participated, came to an end in 2015. The aim of the programmes was to strengthen macroeconomic and financial stability in the region, by providing assistance to the central banks of candidate countries and potential candidate countries in their convergence with the EU. The Bank of Slovenia worked with the aforementioned central banks in the areas of internal audit and accounting.

In addition to technical assistance under the aegis of the ESCB/Eurosystem, the Bank of Slovenia also provided technical assistance in 2015 via Taiex, which falls under the aegis of the European Commission. The Bank of Slovenia provided technical support to two central banks within the framework of Taiex in 2015, namely those of Montenegro and Serbia.

In 2015 the Bank of Slovenia received technical assistance from international institutions (the IMF and the EBRD), Germany's Federal Agency for Financial Market Stabilisation, and the Savings Deposit Insurance Fund of Turkey in the areas of bank resolution, macroprudential supervision, restructuring of the financial sector and corporate governance at banks.

3.15 Publications

The Bank of Slovenia began overhauling its publications.

The Bank of Slovenia began overhauling its publications in 2015 with the aim of raising their profile and, while withdrawing certain publications,

strengthening the content of its flagship publications. It will give greater emphasis to data and to the exclusive treatment of content. The Bank of Slovenia's key periodical publications are the monthly report on bank performance, the Financial Stability Review (now to be issued twice a year), the Economic and Financial Developments, and the Summary of Macroeconomic Developments. The statistical publications are now listed in the Statistics section. All publications are available on the Bank of Slovenia website.

3.16 Media

The Bank of Slovenia was the focus of media attention in 2015 because of several subjects of current interest, most notably banking supervision and the recovery of the banking system in 2013 and 2014. The main subjects highlighted were holders of subordinated instruments, non-performing loans and the orderly wind-down of Probanka and Factor banka. Other subjects to the fore were those relating to corporate restructuring, Swiss franc loans, the end of the terms of office of three vice-governors and the merger of Abanka and Banka Celje.

The Bank of Slovenia was covered more than 2,700 times in the media in 2015, of which more than 400 were in February alone.

The Bank of Slovenia issued 54 press releases in 2015.

The Bank of Slovenia issued 54 press releases in 2015. The key subjects were also presented at six press conferences:

- February 2015: A detailed explanation of the Bank of Slovenia's decision-making procedures on extraordinary measures at banks and the result of the measures carried out;
- April 2015: Macroeconomic developments and projections;
- October 2015: Financial stability: performance of Slovenian banks;
- November 2015: Presentation of the new Europa series 20-euro banknote;
- November 2015: Non-performing loans in Slovenia;
- December 2015: Bank of Slovenia's view of strategic challenges for economic policy in Slovenia in 2015.

The Bank of Slovenia answered more than 400 questions from journalists in 2015. The most questions came from the daily newspapers Finance (71), Dnevnik (69), Delo (38) and Večer (20), the weekly Mladina (7) and Reporter (7), and from the TV stations RTV SLO (55) and POP TV (11), Radio Slovenija among the radio stations, and STA (17), Bloomberg (52) and Reuters (16) among the press agencies.

One of the Bank of Slovenia's five strategic objectives set out in the Strategy for 2015-2020 is to improve its reputation and the level of public trust that it enjoys. This is a particularly big challenge, because certain key court proceedings related to the recent bank recovery process and the measures carried out are still in progress.

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

4 BANK OF SLOVENIA'S COOPERATION WITH OTHER INSTITUTIONS

4.1 Cooperation with institutions in Slovenia

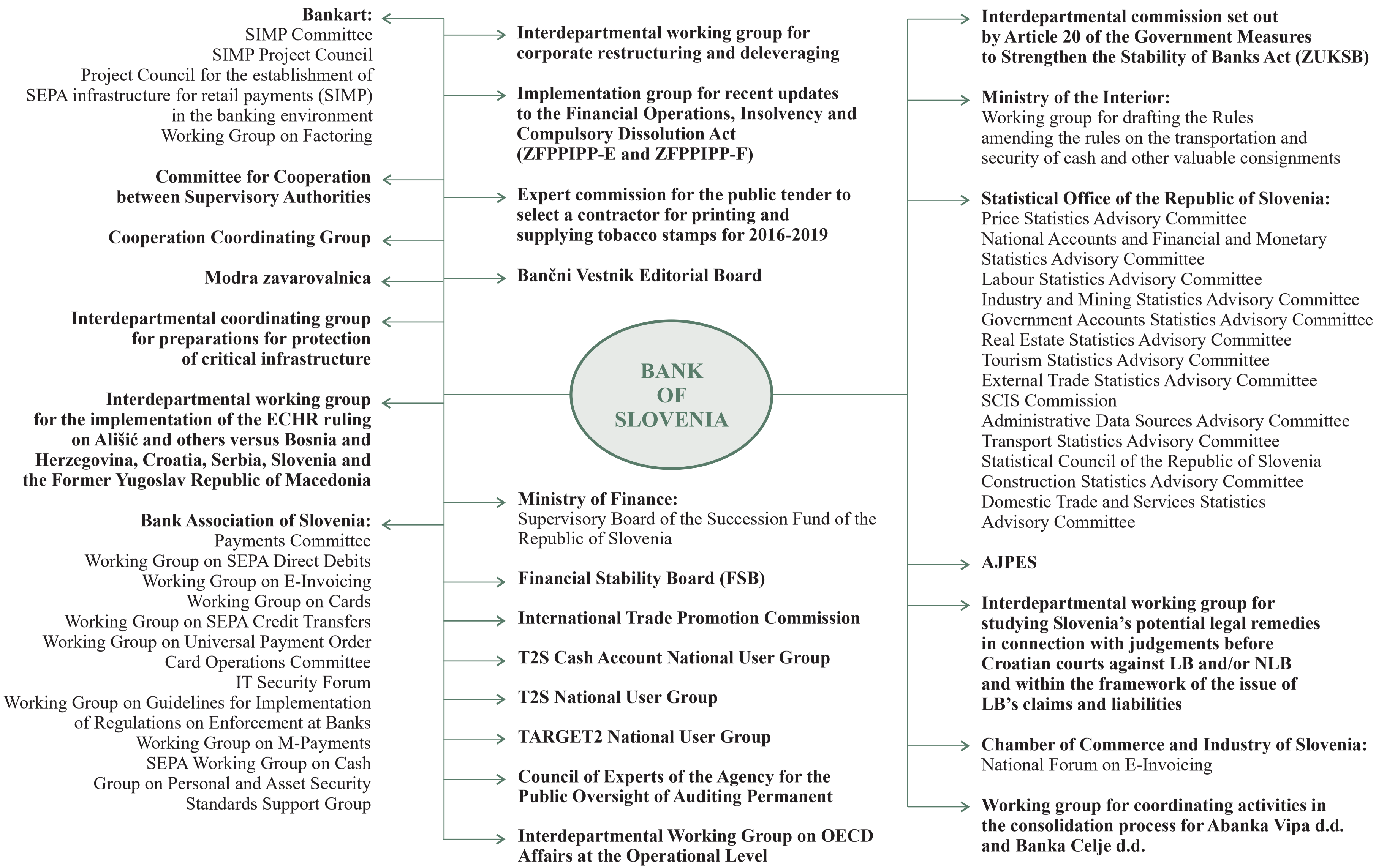
The committee for cooperation between supervisory authorities (the Bank of Slovenia, the SMA and the ISA) met at four ordinary sessions in 2015, to discuss new developments with the Ministry of Finance in connection with financial legislation and activities related to the meetings of the Financial Stability Committee, to define joint activities and joint on-site inspections, and to exchange information on the functioning of the board of supervisors at EU level.

The Bank of Slovenia collaborated particularly intensively with the BAS in the restructuring of non-performing exposures, the establishment of the single credit register, and internal governance and corporate governance arrangements.

Cooperation between representatives of the Bank of Slovenia and the Bank Association of Slovenia (BAS) has continued in line with established practice, with the participation of Bank of Slovenia representatives in various committees at the BAS (the risk committee, the accounting committee, the treasury committee, etc.), in the drafting of secondary legislation and within the framework of training programmes under the aegis of the BAS. The Bank of Slovenia collaborated particularly intensively with the BAS in the restructuring of non-performing exposures, the establishment of the single credit register, and internal governance and corporate governance arrangements. At the invitation of the BAS training centre Bank of Slovenia representatives participated in a number of expert conferences and panels, and gave a presentation to the internal control functions (most notably compliance, internal audit and risk management) on the new banking act and various elements of the internal governance arrangements deriving from various regulations and guidelines. Particular mention should be made of the all-day seminar on corporate governance that the Bank of Slovenia organised for the banks in conjunction with the EBRD. Last year the Bank of Slovenia also organised a comprehensive consultation process in connection with the new regulation on internal governance, the governing body and the ICAAP, where a detailed and lengthy debate was held at the BAS over the summer months with regard to individual regulatory requirements that banks have to meet in the areas in question.

The Bank of Slovenia participated in two important projects in 2015 under the aegis of the Office for Money Laundering Prevention, on the preparation of a national risk assessment and the drafting of a new law. Various institutions were included in the national risk assessment project, where an active role was also played by the Bank of Slovenia, when it assessed the risk from the perspective of PMLTF in the banking sector. The close cooperation established with banks and savings banks in the past continued in 2015. The Bank of Slovenia participated in various activities organised at the level of the BAS (participation in various forms of training, participation in the annual conference of PMLTF officers, joint preparation of a PMLTF booklet). The Bank of Slovenia also acted within the framework of the standing steering group for restrictive measures, which operates under the aegis of the Ministry of Foreign Affairs.

Figure 27: **Bank of Slovenia's cooperation with other institutions in Slovenia**



The Bank of Slovenia established the National Payments Council (NPC) at the end of 2013 with the aim of supporting the balanced and sustainable development of the market for safe and efficient payment services in Slovenia, and ensuring that the market adapts to changes in the international environment. The NPC is essentially a strategic, consultative and communications body whose decisions provide a basis for the work of its participants in the area of payment services. The platform provided by the NPC is a place where the supply and demand sides of the payment services market can meet to coordinate their interests, set their priorities and resolve any misunderstandings. Cooperation between stakeholders within the NPC strengthened in 2015, and the Bank of Slovenia organised two sessions at which current topics in the area of payment services were discussed. The Bank of Slovenia also acted in its role as a catalyst for the payment services market by releasing an NPC e-newsletter aimed at providing information to members of the NPC and the wider public about new developments in the area of payments in Slovenia and the EU.

The key activities in the oversight of securities settlement systems in 2015 related to the establishment of a legal basis for the Bank of Slovenia's potential new role as a competent authority under Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories, and to the definition of the requisite adaptations at the Bank of Slovenia. The activities encompassed coordination between the Bank of Slovenia, the SMA and the Ministry of Finance.

4.2 Cooperation with foreign institutions

4.2.1 European Union

Representatives of the Bank of Slovenia participated in informal meetings of the ECOFIN in 2015.

Representatives of the Bank of Slovenia participated in informal meetings of the ECOFIN in 2015. The first meeting was held in Riga in April 2015, at which the economic situation in the EU, structural reforms and the capital union, tax base erosion and profit shifting were discussed. The second meeting was held in Luxembourg in September 2015, and discussed financing action against climate change and the deepening of economic and monetary union.

In 2015 Bank of Slovenia representatives again attended sessions of committees, working groups and other bodies that are active within the institutions of the EU with a focus on financial and monetary matters. These include sessions of the Economic and Financial Committee (EFC) and its subcommittees, meetings of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) and other working groups from the relevant areas that are active within the European Commission and the Council of the EU. The EFC discussed the economic and financial situation in the EU, economic governance, the banking union, and the deepening of economic and monetary union. The CMFB addressed criteria for institutional sectorisation, the quality of indicators for macroeconomic imbalances, the use of the LEI (Legal Entity Identifier: an international, 20-character, alphanumeric code based on ISO 17442 that is used to uniquely identify legally distinct entities that engage in transactions in Slovenia and in the rest of the world), matters related to the balance of payments, big data (an exceptionally large quantity of structured and unstructured data that cannot be processed by traditional tools and software) and a review of business registers.

In January and September 2015 representatives of the European Commission and the ECB met representatives of the Bank of Slovenia within the framework of the European Semester (the annual cycle of economic policy coordination). The agenda included an in-depth review of the economic situation in Slovenia and the fulfilment of specific recommendations in accordance with the procedure for preventing and correcting macroeconomic imbalances. In February 2015 the European Commission found that Slovenia was facing imbalances that require decisive policy action and specific monitoring. The Commission felt that Slovenia had made a significant adjustment. The imbalances are no longer excessive, but there remain significant risks. In July 2015 the Council of the EU adopted specific recommendations for Slovenia within the framework of the 2015 European Semester. The recommendations relate to the areas of public finances, the pension system and healthcare system, the labour market and the setting of the minimum wage, the financial sector and access to finance for SMEs, and justice.

4.2.2 International Monetary Fund

The Bank of Slovenia is responsible for Slovenia's cooperation with the IMF.

The Bank of Slovenia is responsible for Slovenia's cooperation with the IMF, and the Governor of the Bank of Slovenia is a member of the IMF Board of Governors. Slovenia's quota at the IMF stood at SDR 275 million at the end of 2015. Under the 2010 quota and governance reforms, following the long-anticipated ratification by the US in December 2015, Slovenia's quota at the IMF increased to SDR 586.5 million in February 2016. The Bank of Slovenia delegation attended the spring and annual meetings of the IMF and the World Bank in 2015. The main topics of the meetings were current developments in the global economy and on international financial markets, the outlook and possible policy responses.

Within the framework of the Bank of Slovenia's participation in the IMF's financial arrangements, in 2015 Slovenia received eight repayments in the total amount of SDR 14.58 million on the basis of the bilateral borrowing agreement of 2010. The outstanding amount from the bilateral agreement was SDR 3.1 million at the end of December 2015. The bilateral agreement signed in October 2013 for two years was extended for the last time by one further year in 2015 until October 2017 on the basis of approval by the Bank of Slovenia.

Slovenia also participated in financial transactions under the Financial Transaction Plan (FTP) in 2015. As a result of repayments within the framework of this arrangement, Slovenia's reserve tranche position at the IMF declined relative to 2014 to stand at SDR 78.28 million at the end of December 2015.

IMF representatives conducted two visits to Slovenia as part of the Article IV consultations in 2015. During their visit between 8 and 10 June the IMF representatives were briefed on the situation in the economy, restructuring processes, the functioning of the financial sector and the banking system, and the challenges for the future. Under the new mission chief for Slovenia, Nikolay Gueorguiev, IMF representatives conducted another visit to Slovenia between 17 and 23 November in order to discuss the situation in the economy.

4.2.3 Bank for International Settlements

The Bank of Slovenia is a shareholder in the BIS.

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 2015 most notably on the links between financial markets and central bank decisions, inequality and monetary policy, innovations, payment and settlement systems, and financial literacy. **The Bank of Slovenia is a shareholder in the BIS, and the Governor attended the annual general meeting of the BIS in Basel in June 2015.**

4.2.4 Organisation for Economic Cooperation and Development

Bank of Slovenia representatives attended sessions of committees and working groups of the OECD.

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 2015 a Bank of Slovenia representative participated in meetings of the OECD's permanent interdepartmental working group, where Slovenia's current and planned activities within the framework of the OECD were discussed.

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

Figure 28: **Bank of Slovenia's cooperation with other institutions outside Slovenia**

BANK OF SLOVENIA

International Monetary Fund (IMF):
Board of Governors

Bank for International Settlements (BIS):
Annual General Meeting
Irwing Fischer Committee (IFC)
Meeting of the BIS Working Party on Monetary Policy in Central and Eastern Europe
Central Bank Governance Forum (CBGG)

Organisation for Economic Co-operation and Development (OECD):
Economic Policy Committee
Committee on Financial Markets
Working Group on International Investment Statistics
Working Party on Financial Statistics
Working Party on National Accounts
Working Party on International Trade in Goods and Services
Informal Steering Committee of the Working Party on SMEs and Entrepreneurship
Permanent Interdepartmental Working Group on OECD Affairs at the Operational Level

European Systemic Risk Board (ESRB):
General Board
Advisory Technical Committee
4 working bodies

European Banking Authority (EBA):
Board of Supervisors
30 working bodies

European Statistical Forum

Informal ECOFIN

European Commission
4 working bodies

Eurosystem/ESCB/SSM:
Governing Council of the ECB
General Council
Accounting and Monetary Income Committee (1 working group)
Banknote Committee (14 working bodies)
Financial Stability Committee (5 working bodies)
Eurosystem/ESCB Communications Committee (4 working bodies)
Information Technology Committee (3 working bodies)
Internal Auditors Committee (1 working body)
International Relations Committee (1 working body)
Legal Committee (1 working body)
Market Operations Committee (7 working bodies)
Monetary Policy Committee (9 working bodies)
Organisational Development Committee
Payment and Settlement Systems Committee (8 working bodies)
Risk Management Committee (1 working body)
Statistics Committee (11 working bodies)
Human Resources Conference
Committee on Controlling (3 working bodies)
Budget Committee
15 other working bodies
Supervisory Board
26 working bodies within the framework of the SSM

MONEYVAL (Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism)

Economic and Financial Committee (EFC)
4 working bodies

Committee on Monetary, Financial and Balance of Payments Statistics (CMFB)
3 working bodies

Council of the European Union
1 working group

5 BANK OF SLOVENIA'S REPORTING TO THE NATIONAL ASSEMBLY

In accordance with Article 152 of the Constitution of the Republic of Slovenia, the Bank of Slovenia is answerable to the National Assembly. Although its entry into the European System of Central Banks and its related obligations mean that the Bank of Slovenia also reports to EU institutions, the Bank of Slovenia's reporting to the National Assembly remains one of the important elements in ensuring oversight of its functioning.

In accordance with Article 26 of the Bank of Slovenia Act, without prejudice to other laws, the Bank of Slovenia reports on its work exclusively to the National Assembly. The Bank of Slovenia thus submits annual reports to the National Assembly, and publishes interim information on its activities on its website.

In 2015 Bank of Slovenia representatives thus attended 18 sessions of National Assembly committees and commissions, and two sessions of the National Assembly itself.

In addition to its regular reporting, the Bank of Slovenia also reports to and collaborates with the National Assembly at the latter's invitation. In 2015 Bank of Slovenia representatives thus attended 18 sessions of National Assembly committees and commissions, and two sessions of the National Assembly itself, at which regulations and issues relating to the Bank of Slovenia's functioning were debated.

The Bank of Slovenia's most intensive cooperation in 2015 was with the Commission of Inquiry for identifying abuses in the Slovenian banking system and determining the causes and parties responsible for the second recovery of the banking system in independent Slovenia. The Bank of Slovenia submitted all the data and documents to the aforementioned commission of the National Assembly as requested. The Bank of Slovenia submitted more than 23,000 pages of documentation to the aforementioned committee over the last five months of 2015.

The Bank of Slovenia submitted more than 23,000 pages of documentation to the aforementioned committee over the last five months of 2015.

The National Assembly's oversight of the Bank of Slovenia is also regulated by Article 33 of the Bank of Slovenia Act. The aforementioned article stipulates that a representative of the National Assembly committee responsible for finance and monetary policy is entitled to attend meetings of the Governing Board of the Bank of Slovenia. The representative of the aforementioned committee attended five meetings of the Governing Board in 2015. The Governing Board of the Bank of Slovenia generally meets twice a month (there were 24 meetings in 2015)

6 GOVERNANCE 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 consists of four members in addition to the Governor, namely the vice-governors who are members of the Governing Board. The Governor may authorise one of the vice-governors to be his/her deputy.

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.

In addition to the decision-making bodies, the Bank of Slovenia's governance structure includes working bodies (committees, commissions and working groups) and the internal and external levels of risk management control.

6.1 Governor

The Governor of the Bank of Slovenia manages the Bank of Slovenia's operations, organises its work and acts as its statutory representative.

The Governor of the Bank of Slovenia executes the decisions of the Governing Board of the Bank of Slovenia, and issues individual and general bylaws of the Bank of Slovenia that are not the responsibility of the Governing Board.

The Governor of the Bank of Slovenia may issue guidelines for implementing regulations of the Governing Board.

The Governor of the Bank of Slovenia is a member of the Governing Council of the ECB, and his/her membership is *ad personam*. The Governing Council of the ECB consists of the governors of the NCBs of the euro area and the members of the Executive Board.

6.2 Governing Board of the Bank of Slovenia

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

There were changes in the composition of the Governing Board of the Bank of Slovenia in 2015: in place of Dr Janez Fabijan, whose term of office ended on 10 September 2015, Irena Vodopivec Jean was appointed vice-governor on 23 September 2015.

There were changes in the composition of the Governing Board of the Bank of Slovenia in 2015.

As at 31 December 2015, the composition of the Governing Board was as follows:
- Dr Boštjan Jazbec, Governor;
- Darko Bohnec, Vice-Governor;
- Stanislava Zadravec Caprirolo, Vice-Governor;
- Dr Mejra Festić, Vice-Governor;
- Irena Vodopivec Jean, Vice-Governor;

6.2.1 Functioning of the Governing Board of the Bank of Slovenia

The Governing Board met 24 times.

The Governing Board met 24 times in 2015. It also held 18 correspondence sessions. The Governing Board discussed supervisory matters, economic and financial developments, international economic relations, the stability of the Slovenian banking system, bank performance, the implementation of monetary policy, payment and settlement systems, and cash operations.

In accordance with the Bank of Slovenia Act, the minister of finance and a representative of the National Assembly committee responsible for finance and monetary policy were invited to meetings of the Governing Board. The minister of finance attended six meetings of the Governing Board, and the chair of the committee attended five.

More detailed information about meetings and the items discusses is available in Tables 7 and 8.

Table 7: **Detailed information about meetings of the Governing Board of the Bank of Slovenia in 2015**

	Number of agenda items	Number of items in section Economic and monetary policy, financial stability and statistics	Number of items in section Banking Supervision	Number of items in section Payment and settlement systems, and cash operations	Number of items in section Other matters
Total in 2015	313	61	115	45	68

Table 8: **Information about individual correspondence sessions of the Governing Board of the Bank of Slovenia in 2015**

	Number of agenda items in session	Number of items in section Economic and monetary policy, financial stability and statistics	Number of items in section Banking Supervision	Number of items in section Payment and settlement systems, and cash operations	Number of items in section Other matters
Total in 2015	22	2	17		3

Among the more important matters discussed by the Governing Board of the Bank of Slovenia in 2015 were the guidelines adopted for the Bank of Slovenia's macroprudential policy, the strategic framework of macroprudential policy for the banking sector, two macroprudential measures (the countercyclical capital buffer and the capital buffer for other systemically important banks) and a comprehensive package of secondary legislation on the basis of the ZBan-2, the Bank of Slovenia Act, the Bank Resolution Authority and Fund Act and the

Commemorative Coins Act. A total of 58 regulations were adopted in the area of banking supervision, while three regulations were adopted in the area of payment and settlement systems and cash operations. A total of 112 decisions on individual matters in the area of banking supervision and 28 decisions in the area of payment and settlement systems and cash operations were also adopted.

6.2.1.1 Secondary legislation adopted in 2015

Following the entry into force of the new Banking Act, 21 regulations were issued to give more detailed definitions of various content of the ZBan-2, from licensing to internal governance arrangements, together with individual guidelines for the implementation of these regulations. Table 9 gives a brief summary of the regulations in each substantive area. Three updates of the aforementioned regulations had been adopted by the end of the year in connection with the overhaul of the reporting system, owing to the establishment of the broader credit register of business entities within the Bank of Slovenia.

Following the entry into force of the new Banking Act, 21 regulations were issued to give more detailed definitions of various content of the ZBan-2.

Table 9: **List of secondary legislation adopted by the Governing Board of the Bank of Slovenia in 2015**

Area and title of regulation	Publication	Contents
Licensing		
Regulation on the documentation for demonstrating fulfilment of the conditions for nomination as a member of the management body of a bank or savings bank	Official Gazette of the Republic of Slovenia, No. 73/15	Definition of more detailed content of the documentation for demonstrating or assessing fulfilment of the conditions for performing the function of a member of the management board or supervisory board of a bank
Regulation on the documentation for the granting of authorisations to provide banking and financial services and for status changes	Official Gazette of the Republic of Slovenia, No. 73/15	Definition of more detailed content of the documentation that is to be enclosed in the application for the granting of authorisations to provide banking and financial services and for status transformations
Regulation on the documentation for the granting of an authorisation to establish a branch of a third-country bank	Official Gazette of the Republic of Slovenia, No. 73/15	Definition of the detailed content of the documentation that a third-country bank is to enclose in its request for the granting of an authorisation to establish a branch in Slovenia
Regulation on holders of qualifying holdings in banks and savings banks	Official Gazette of the Republic of Slovenia, No. 73/15	Definition of detailed criteria for assessing the suitability of a future qualifying holder in a bank
Regulation on the documentation for the granting of an authorisation for a qualifying investment of banks and savings banks	Official Gazette of the Republic of Slovenia, No. 47/15	Definition of the detailed content of the documentation that a bank is to enclose in the request for the granting of an authorisation for a qualifying asset, i.e. for the acquisition of a qualifying holding in another financial institution established in the EU or a financial sector entity established in a third country.

Area and title of regulation	Publication	Contents
Regulation on the documentation for the granting of an authorisation to include a capital instrument in the calculation of the own funds of banks and savings banks	Official Gazette of the Republic of Slovenia, No. 50/15	Definition of the content of the documentation to be enclosed by a bank in the request for the inclusion of a capital instrument in the calculation of capital.
Regulation laying down the criteria for non-cash contributions to increase the share capital of banks and savings banks	Official Gazette of the Republic of Slovenia, No. 55/15	Definition of the criteria for a non-cash contribution in connection with bank recapitalisations, with regard to the availability of a non-cash contribution, its redeemability and its stability of value, and the documentation in connection with this method of increase in share capital
Reporting		
Regulation on the books of account and annual reports of banks and savings banks	Official Gazette of the Republic of Slovenia, No. 50/15	Definition of the content of the general ledger as it relates to the keeping of books of account, the types and templates of a bank's financial statements and consolidated financial statements, the detailed content of the annual report and consolidated annual report, and the reporting of financial information on an individual basis
Regulation on reporting by monetary financial institutions	Official Gazette of the Republic of Slovenia, No. 50/15	Definition of the institutions obliged to report and the obligations to report data of monetary financial institutions to the Bank of Slovenia in accordance with the requirements of the European System of Central Banks and other needs of the Bank of Slovenia
Regulation on reporting by branches of Member State banks	Official Gazette of the Republic of Slovenia, No. 50/15	Arrangements for reporting by branches of Member State banks in connection with liquidity ratios, information for statistical purposes and the implementation of the deposit guarantee scheme
Regulation on reporting by banks and savings banks in connection with a group	Official Gazette of the Republic of Slovenia, No. 63/15	Definition of the reporting obligations of banks in connection with their banking group or other group
Regulation on the reporting of individual facts and circumstances of banks and savings banks	Official Gazette of the Republic of Slovenia, No. 63/15	Definition of reporting requirements in connection with various requirements of the ZBan-2 or the CRR, such as qualifying holders, acquisition of qualifying assets, and transactions with persons in a special relationship with a bank
Regulations on the reporting of effective interest rates of banks and savings banks in accordance with the Consumer Credit Act	Official Gazette of the Republic of Slovenia, No. 47/15	Reporting by banks on effective interest rates in connection with consumer credit in accordance with the law governing consumer credit

Area and title of regulation	Publication	Contents
Risk management and internal governance arrangements		
Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks	Official Gazette of the Republic of Slovenia, No. 73/15	Definition of requirements in connection with the internal governance arrangements of banks and the governing body (corporate culture, risk management framework, internal control functions, diligence of members of the governing body, detailed requirements with regard to the management of credit risk, liquidity risk, operational risk and market risks)
Regulation on the criteria for designation of a significant bank	Official Gazette of the Republic of Slovenia, No. 41/15	Definition of quantitative and qualitative criteria for the designation of a significant bank, in connection with the bank's size and internal organisation, the nature, scale and complexity of its business activities, and its importance to the local market. The definition is aimed primarily at enforcing the requirements in the area of internal governance arrangements set out in the ZBan-2 and the CRR
Regulation on the assessment of credit risk losses of banks and savings banks	Official Gazette of the Republic of Slovenia, No. 50/15	Definition of the rules relating to the classification of financial assets and commitments given, the assessment of credit risk losses, the forbearance of financial assets, the management and content of credit files, and the reporting of risk-bearing assets and off-balance-sheet items
Regulation on the minimum requirements for ensuring an adequate liquidity position of banks and savings banks	Official Gazette of the Republic of Slovenia, No. 50/15	Definition of the requirements for ensuring an adequate liquidity position, the planning of liquidity flows, and the minimum requirements with regard to the loan-to-deposit ratio for the non-banking sector
Regulation on the content of the recovery plans of banks and savings banks	Official Gazette of the Republic of Slovenia, No. 63/15	Definition of the detailed content of bank recovery plans that are to be submitted to the Bank of Slovenia or the ECB
Other		
Regulation on the calculation of an institution-specific countercyclical capital buffer rate for banks and savings banks	Official Gazette of the Republic of Slovenia, No. 55/15	Definition of the method for calculating an institution-specific countercyclical capital buffer rate, having regard for the applicable buffer rate in each country and the beginning of the application of such rates
Regulation on the minimum scope and content of the additional audit and the additional auditor's report of compliance with risk management rules at banks and savings banks	Official Gazette of the Republic of Slovenia, No. 104/15	Definition of the scope and content of the additional audit and the additional auditor's report of compliance with risk management rules at banks

Area and title of regulation	Publication	Contents
Regulation on annual fees for supervision and fees in connection with decision-making procedures by the Bank of Slovenia	Official Gazette of the Republic of Slovenia, No. 47/15	Method for calculating the Bank of Slovenia's annual fees for supervision and fees in connection with decision-making procedures
Regulation on the determination of the capital buffer for other systemically important banks	Official Gazette of the Republic of Slovenia, No. 96/15	The thresholds for the bands in which systemically important banks are classed, and the rates corresponding to each of these bands

The Bank of Slovenia issued three guidelines for the area of credit risk management last year.

In addition, the Bank of Slovenia issued three guidelines for the area of credit risk management last year, namely the Guidelines for monitoring customers and early warning systems (EWSs) for increased credit risk, the Guidelines for the management of doubtful claims and the Guidelines for calculating default rate and loss rate. The aforementioned guidelines provide a detailed definition of individual elements of credit risk management that are of particular importance in situations when banks face a relatively large proportion of non-performing and forborne exposures in their portfolios.

A significant number of regulations on the application of guidelines and recommendations were adopted in connection with guidelines and recommendations adopted by the EBA. This is a new regulatory instrument pursuant to Article 13 of the ZBan-2, by which the Bank of Slovenia decides on the compliance with individual EBA guidelines or recommendations as required by the Regulation establishing the EBA[23] in a transparent, standardised and consistent manner. The regulatory framework was supplemented by numerous interpretations of European and domestic legislation and clarifications in connection with its implementation submitted to banks and other interested parties. In this way the Bank of Slovenia is contributing to the enforcement of the Single Rulebook as the first pillar of the banking union in the Slovenian banking environment.

In its regulatory activities last year the Bank of Slovenia also focused on **banks' internal governance and corporate governance arrangements**. In addition to the significant upgrade of content in this area in the ZBan-2, a new Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks was adopted, which fundamentally upgraded the two regulations that had governed this area until the entry into force of the new regulation. The new regulation contributes *inter alia* to:
- a rise in corporate governance standards at banks;
- greater awareness of the importance of effective risk management and the prevention of business activities from being pursued without explicit consideration of the bank's risk appetite;
- an increase in the importance and role of internal control functions at banks (internal audit department, risk management function, compliance department).

23 Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC.

The regulation brings significant innovations to the risk management framework in the areas of the relationship between business strategy and risk management strategy, corporate culture and the code of conduct and ethics, conflicts of interest at the level of members of the governing body, supervision of the senior management, assessment of the suitability of key function holders, the governing body's concise risk statement, and stress tests. In addition, it sets out requirements in the area of the effectiveness and independence of a bank's internal control functions, particularly in the sense of encouraging best practice in the treatment of findings and reports by these functions and in their access to the management board and the supervisory board. The bank's supervisory board should also be actively involved in encouraging the independence of action by these functions. To encourage best practice in the actions of supervisory boards, requirements have also been set out in the area of the diligence of members of the governing body, most notably in the sense of requirements for appropriate knowledge on the part of members of the supervisory board and the exercise of the duties of diligent and loyal conduct. All the aforementioned innovations of the regulation were harmonised with the Corporate governance principles for banks issued by the Basel Committee on Banking Supervision, the ECB's SSM Supervisory Manual and certain recommendations by the EBRD, with whom the Bank of Slovenia worked on selected content in this area.

Three letters of admonishments containing multiple breaches and one order on the rectification of breaches were issued to banks on the basis of breaches identified in the area of prevention of money laundering and terrorist financing.

6.2.1.2 Authorisations

The Bank of Slovenia conducted 24 procedures for granting of authorisations in 2015.

The establishment of the SSM has also brought significant changes to the Bank of Slovenia's powers in the granting of authorisations. The ECB is responsible for granting the authorisation to provide banking services and the authorisation to acquire a qualifying holding for all banks. With regard to other authorisations, the responsibility is shared (the ECB is responsible for significant banks, and the Bank of Slovenia for less significant banks).

In addition to granting authorisations in connection with the provision of services, management bodies, holders of qualifying holdings in banks and changes of status, the Bank of Slovenia is also responsible for determining the suitability of members of bank supervisory boards. **The Bank of Slovenia conducted 16 procedures for assessing the suitability of members of bank supervisory boards in 2015, completing nine of the procedures.** Of these, the final suitability assessment was provided by the ECB in the case of four members of a bank's supervisory board. Of the seven remaining procedures, two concluded with the resignation of the member of the supervisory board in question, while five are still in progress.

The most common authorisations granted in 2015 were to perform the function of a member of a bank's management board (six in all).

The most common authorisations granted in 2015 were to perform the function of a member of a bank's management board (six in all), followed by three authorisations to merge a bank with another bank or another legal person, and one authorisation each to acquire a qualifying holding and to provide financial services.

Table 10: **Authorisations in 2015**

LICENSING	Number of procedures		Number of authorisations granted		Number of rejected requests for authorisation		Suspended procedures		Incomplete procedures
GRANTING OF AUTHORISATIONS	2015	2014	2015	2014	2015	2014	2015	2014	2015
Qualifying holding	**3**	2	**1**	0	**0**	2	**1**	0	1
Other member of the management board	**13**	11	**6**	11	**2**	0	**0**	0	5
Banking and financial services	**3**	2	**1**	1	**0**	0	**0**	1	2
Mergers and demergers	**4**	1	**3**	1	**0**	0	**1**	0	0
Opinions for SMA under ZIFI	**1**	0	**-**	-	**-**	-	**-**	-	0
Total	**24**	16	**11**	13	**2**	2	**2**	1	8

Source: Bank of Slovenia

Within the framework of supervisory measures in the area of licensing, the Governing Board of the Bank of Slovenia imposed **two disqualifications from performing the function of a member of a bank's supervisory board, issued one admonishment to a member of a management board, and withdrew the authorisation for a qualifying holding in a bank from one qualifying holder in 2015.**

On the basis of requests from banks in a group of less significant banks, the Bank of Slovenia issued five authorisations for the inclusion of paid-up instruments in the calculation of common equity Tier 1 capital, eight authorisations for the inclusion of additional own funds instruments in the calculation of capital, and two authorisations for a reduction in the inclusion of instruments in the calculation of common equity Tier 1 capital and for the repayment of additional own funds instruments (repayment of subordinated debt).

The Bank of Slovenia received 14 notifications of the direct provision of services by Member State banks in Slovenia in 2015 (the same as in 2014). A list of EU Member State banks that may pursue their business activities in Slovenia is published on the Bank of Slovenia website. Two banks established in Slovenia notified the direct provision of services in two other Member States in 2015, the first such instances since Slovenia joined the EU.

Two authorisations to amend payment system rules, one authorisation to create a payment system and one authorisation to operate a payment system, and one authorisation to provide electronic money issuance services and payment services as an electronic money issuer were granted in 2015, while one authorisation to provide currency exchange services was granted to one currency exchange office and one currency exchange office had its authorisation terminated on the basis of a notification that it was ceasing to provide currency exchange services.

The Bank of Slovenia received 56 new notifications relating to payment institutions in 2015 (taking the total to 261 notified payment institutions by the end of the year), and 19 notifications relating to electronic money issuers (taking the total to 69 notified electronic money issuers by the end of the year).

6.2.1.3 Extraordinary measures

The Bank of Slovenia received 56 new notifications relating to payment institutions in 2015 and 19 notifications relating to electronic money issuers.

The Governing Board of the Bank of Slovenia exercises the powers of a bank's supervisory board for the duration of special administration. It met as the supervisory board of two banks in 2015. In connection with the operations of Probanka d.d., against which the measure of special administration was imposed, the Governing Board of the Bank of Slovenia met ten times in 2015, and additionally held five correspondence sessions. In connection with the operations of Factor banka d.d., the Governing Board met 11 times, and additionally held three correspondence sessions. The sessions were devoted to discussion of the activities of the special administrations, the liquidity and performance of the banks, and the implementation of each bank's restructuring plan, with an emphasis on the repayment of ordinary creditors.

6.2.2 Working bodies

The Bank of Slovenia had 30 different working bodies as at 31 December 2015.

The Bank of Slovenia had 30 different working bodies as at 31 December 2015, comprising commissions, committees and task forces. The most important working bodies are:

- Operational Risk Committee (president: Darko Bohnec);
- Audit Committee (president: Dr Dušan Zbašnik);
- Investment Committee (president: Ernest Ermenc);
- Licensing Commission (president: Stanislava Zadravec Caprirolo);
- Liquidity Commission (president: Tomaž Košak);
- Ad Hoc Resolution Task Force (head: Peter Kupljen);
- Commission of the Governing Board of the Bank of Slovenia for Research Work (president: Dr Mejra Festić);
- Crisis Management Task Force (president: Stanislava Zadravec Caprirolo);
- Project Work Committee (president: Irena Vodopivec Jean).

6.2.2.1 Investment Committee

The Bank of Slovenia's own financial assets encompass its investments that are not related to the implementation of the Eurosystem monetary policy. They are managed at the strategic, tactical and operational levels. As a body of the Governing Board, the Investment Committee plays an intermediate-level role in asset management, which is manifested in the annual approval of the strategic asset allocation, monthly approval of benchmark portfolios, and the adoption of asset management criteria to define the investment space and to limit exposure to individual types of risk.

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

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

The Bank of Slovenia's investment policy must comply with Article 123 of the Treaty on the Functioning of the European Union, which prohibits the monetary financing of public sector institutions. The prohibited forms of financing include deposits and purchases of primary-issue debt securities, commercial papers and certificates of deposit when the obligor is a public sector institution. Purchasing EU public sector financial instruments on the primary market is prohibited, while investments are permitted on the secondary market within the framework of monthly and quarterly limits for each issuer home country. The management of the Bank of Slovenia's financial assets was carried out in line with the described criteria in 2015.

The value of the Bank of Slovenia's financial assets stood at EUR 3,805 million as at 31 December 2015.

The value of the Bank of Slovenia's financial assets stood at EUR 3,805 million as at 31 December 2015 (2014: EUR 3,736 million), of which EUR 3,171 million comprised assets denominated in euros (2014: EUR 3,163 million). The remaining EUR 634 million (2014: EUR 573 million) was denominated in foreign currencies.

6.2.2.2 Operational Risk Committee

The Operational Risk Committee is responsible for defining guidelines and oversight in the area of operational risk management at the Bank of Slovenia. The committee regularly reviews and monitors the functioning of the operational risk management system, and reports to the Governing Board on the implementation of the master security policy, operational risk management policy and business continuity policy at the Bank of Slovenia. The committee met in three sessions in 2015. Among the most important activities conducted by the committee in 2015 was the coordination of the operational risk management process at the Bank of Slovenia. The process consists of analysis of the criticality of business processes, assessment of the identified operational risk and coordination of the preparation and presentation of the operational risk management plans formulated at the organisational units with the most critical business processes from the point of view of operational risk. After discussion on the committee, the report and plans were discussed and approved by the Governing Board.

In the area of business continuity, the committee monitored the preparation and execution of regular analysis of impacts on operations, and 19 business continuity drills prepared and executed at the organisational units with the most critical business processes from the point of view of availability. The most comprehensive drill involved 36 participants from the Bank of Slovenia, in addition to external participants from Bankart and from commercial banks in Slovenia.

Within the framework of the monitoring and coordination of policy, the committee approved amendments to the operational risk management policy and to implementing policies in the area of information security.

6.2.2.3 Audit Committee

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

The Audit Committee consists of one representative of the Governing Board of the Bank of Slovenia and two external experts. It functions as a consultative body to the Governing Board.

The Audit Committee formulates opinions and advice to aid the Governing Board in making decisions with regard to:

- ensuring that the financial statements are faultless,
- supervising internal controls and risk management,
- ensuring the functioning of auditing at the Bank of Slovenia, and
- ensuring compliance with legislation, guidelines, the code of ethics and other bylaws.

The Audit Committee met eight times in 2015. It discussed the external auditor's report on the audited financial statements, and proposed them to the Governing Board for adoption. It contributed to the implementation of internal controls and risk management by monitoring the findings of the internal audit department and the implementation of its recommendations. It was highly active in advising on the establishment of a whistleblowing system, and advised on the formulation of the plan of internal auditing work.

The Audit Committee met eight times in 2015.

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

The commission's tasks and objectives include promoting the development of research work by Bank of Slovenia staff by means of secondment and the financing of specialist and other postgraduate studies, encouraging skill development on the part of Bank of Slovenia staff for the purposes of developing research work at the bank, promoting training for staff of other national central banks and supervisory institutions, encouraging training and study practice for postgraduate students, and encouraging students of Slovenian universities in producing high-quality dissertations and theses for master's degrees and doctorates. In addition to these objectives, it also discusses papers authored by staff intended for publication in the Bank of Slovenia Working Papers.

Via the commission the Bank of Slovenia seconded one staff member to postgraduate studies abroad, one staff member to doctoral studies in Slovenia, and one staff member to postgraduate distance learning in 2015. A one-year extension of funding was also approved for one current doctoral student. The publication of three articles in the Bank of Slovenia Working Papers was approved. The Bank of Slovenia prize for the best master's degree dissertation and doctoral thesis was awarded to seven recipients in 2015.

The Bank of Slovenia prize for the best master's degree dissertation and doctoral thesis was awarded to seven recipients in 2015.

6.2.2.5 Project Work Committee

The Project Work Committee is the Bank of Slovenia's working body for monitoring and making decisions on project work. The committee is responsible for discussing and approving the complete documentation in connection with project work at the Bank of Slovenia. It undertakes its duties at sessions where documentation in connection with project work is discussed and approved, and changes or updates are requested. It ensures that project work procedures and the corresponding documents are correct and complete. It discusses and coordinates proposals received from organisational units and initiatives from committee members relating to project work at the Bank of Slovenia. It discusses and approves the prioritisation of projects and developmental tasks, analyses the need for changes in the area of project work, and provides briefings on the progress of development work. It alerts project councils and oversight authorities with regard to any substantive issues that arise. It reports projects and developmental tasks that are not in accordance with the financial plan to the Governing Board, and proposes resolutions to address them.

The committee met in four ordinary sessions in 2015, and convened five correspondence sessions.

The projects whose realisation began in 2015 were the Establishment of the central credit register and the Deposit guarantee scheme, deposit guarantee fund and bank resolution fund.

In accordance with the Bank of Slovenia's project work rulebook, the committee approved ten project work applications in 2015 for eight projects and two developmental tasks. **The projects whose realisation began in 2015 were the Establishment of the central credit register, the Refurbishment of the commercial premises at Cankarjeva 1, the Refurbishment of the main hall, Phase III of restructuring, the Deposit guarantee scheme, deposit guarantee fund and bank resolution fund, the Special Inspection Group, the Merger of supervision by the Bank of Slovenia, SMA and ISA, and the Introduction of IFRS 9.** The developmental tasks approved by the committee in 2015 were the development of a risk disclosure system and the computerisation of reports for the needs of the SMA.

The projects that were continued in 2015 were the Establishment of a document management system and a long-term electronic storage system, the Establishment of a change management function and services in the cash leg of TARGET2-Securities, the Upgrade of the PPBS2 application and epi@BS, the Automation of reporting and computerisation of cash operations, the Expansion of the AVTO project, the Changeover to the SSM, and the Computerisation of project work at the Bank of Slovenia. The developmental tasks registered in 2014 and continued in 2015 were the Development of the risk disclosure system and the Overhaul of the Bank of Slovenia's internet/intranet pages.

Human resources amounting to 5,011 man-days were envisaged for the execution of all projects and developmental tasks in the financial plan. A total of 4,158 man-days were spent in 2015 for the execution of project work in the four phases of the project life cycle (initiation, preparation, realisation, completion).

Project managers drew up five project plans in the initiation phase, on which the committee was briefed and which the committee approved. Plans were approved for the projects of the Establishment of the central credit register, the Refurbishment of the main hall, Phase III of restructuring and the Refurbishment of the commercial premises at Cankarjeva 1.

During the preparation phase project managers and developmental task managers drew up seven project charters, on which the committee was briefed and which the committee approved. The projects that moved into the realisation phase after approval were Phase III of restructuring, the Changeover to the SSM, the Deposit guarantee scheme, deposit guarantee fund and bank resolution fund, the Refurbishment of the main hall, the Refurbishment of the commercial premises at Cankarjeva 1 and the Establishment of the central credit register.

The developmental task in the realisation phase was the Development of the risk disclosure system.

The developmental task of the Overhaul of the Bank of Slovenia's internet/intranet pages and the Harmonised reporting project were completed in 2015. The committee discussed and approved the closing reports of the project work.

In addition to the aforementioned activities, the committee received quarterly briefings on the execution of projects and developmental tasks. The briefings were drawn up by the project office, and gave the committee a quarterly insight into the implementation of project work from a financial and HR perspective. The committee discussed the proposal for project work priorities and the detailed information from project managers on developments in projects and developmental tasks.

6.3 Performance Report

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

6.3.1 Balance sheet developments in 2015

The balance sheet total amounted to EUR 10.3 billion as at 31 December 2015, down EUR 0.6 billion on the end of 2014. The most significant change on the asset side was net purchases of securities related to the implementation of monetary policy, in the amount of EUR 2.3 billion. With these purchases the Bank of Slovenia contributed to the implementation of the objectives of Eurosystem monetary policy, which is endeavouring to encourage economic activity and to maintain financial stability. There was a decline of EUR 0.7 billion in claims against the Eurosystem related to the adjustments in euro banknotes. This claim represents the difference between the value of banknotes allocated to the Bank of Slovenia as the legal issuer in accordance with the banknote allocation key (0.45%), and the value of banknotes that it actually puts into circulation. On the liability side there was a decline of EUR 1.1 billion in euro-denominated deposits by government and other clients, primarily as a result of the transfer of government investments abroad. There were increases in current account balances of banks (by EUR 0.2 billion) and banknotes in circulation (by EUR 0.3 billion). The aforementioned developments resulted in a reduction in the Bank of Slovenia's claims against the ECB from cross-border transactions with other national central banks and the ECB via the TARGET2 system (by EUR 2.1 billion).

The balance sheet total amounted to EUR 10.3 billion as at 31 December 2015, down EUR 0.6 billion on the end of 2014.

6.3.2 Financial result in 2015

The main source of the Bank of Slovenia's income is interest earned on monetary policy instruments and portfolios, and on its own investments in securities. Net interest income amounted to EUR 58.0 million in 2015, EUR 10.9 million less than in the previous year. The main reasons were lower primary interest rates and yields on securities, and the gradual maturing and early repayment of certain monetary policy instruments and portfolios.

The net gain realised on the sale of securities and foreign exchange positions amounted to EUR 24.9 million. The Bank of Slovenia marks its positions to market at the end of the year, disclosing the negative revaluation effects as an expense. These expenses amounted to EUR 3.8 million in 2015, and were the result of market prices of securities and exchange rates at the end of 2015 being lower than the average price of the positions. To preserve the real value of assets the Bank of Slovenia created provisions in the amount of EUR 21.1 million for covering expenses from currency risk, interest rate risk, credit risk, price risk and other risks.

Net fees and commission (EUR 3.5 million), income from participating interests (EUR 5.1 million), the net result from the combination of Eurosystem monetary income (EUR 15.1 million) and other income (EUR 3.0 million) amounted to EUR 26.7 million in 2015.

The Bank of Slovenia generated a surplus of income over expenses in the amount of EUR 54.0 million in 2015.

Operating costs amounted to EUR 30.7 million. The Bank of Slovenia generated a surplus of income over expenses in the amount of EUR 54.0 million in 2015. The surplus will be distributed in accordance with Articles 50 and 50a of the Bank of Slovenia Act.

Table 11: **Bank of Slovenia's contributions to Slovenia's state budget, in EUR million**

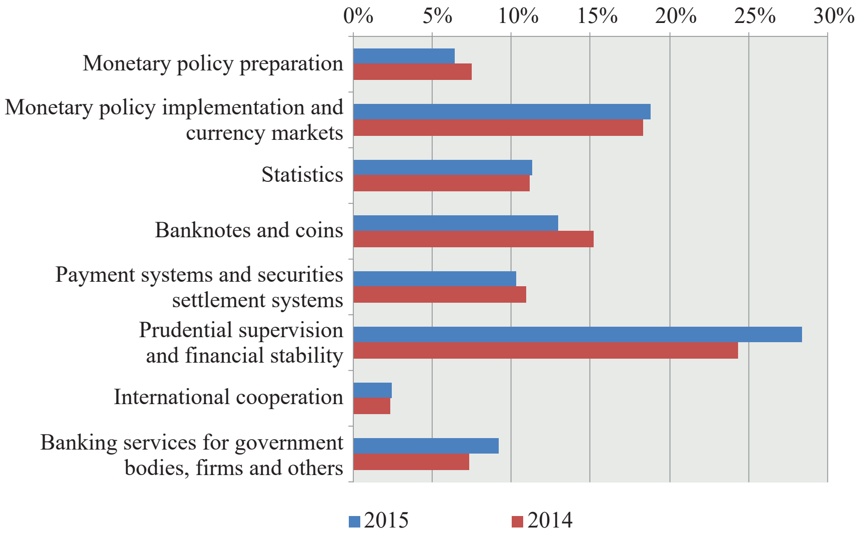
Year	Surplus, EUR million	Statutory contributions to state budget, EUR million	Contribution to state budget, EUR million
2012	131.9	33.0	108.9
2013	50.4	12.6	46.8
2014	74.8	18.7	60.0
Total	257.1	64.3	215.7

Source: Bank of Slovenia

6.3.3 Operating costs

The Bank of Slovenia's operating costs are the result of the implementation of its tasks set out by law. Figure 29 illustrates the percentage allocation of costs by task. In addition to direct costs, these include the imputed indirect costs of support functions (information technology, accounting, legal services and similar internal services).

Figure 29: **Costs by individual task**



Source: Bank of Slovenia

Operating costs amounted to EUR 30.7 million in 2015, broadly unchanged from 2014.

Operating costs amounted to EUR 30.7 million in 2015, broadly unchanged from 2014. Of the individual cost categories, the Bank of Slovenia recorded a decline of EUR 1.3 million compared with the previous year in the costs of banknote printing, primarily owing to a delay in the supply of banknotes, which will be realised in 2016 instead of 2015.

Labour costs, which include costs of wages and salaries and other labour costs together with the corresponding taxes and social security contributions, amounted to EUR 20.2 million, up 5.56% on 2014. The increase was attributable to several factors, most notably:

- an increase in the basic wage in accordance with the agreement on the indexation of the basic wage for the 2015 to 2016 period, and on the convergence of the basic wage at the Bank of Slovenia with the minimum wage in Slovenia;
- recruitment owing to the Bank of Slovenia's strengthened role in the macroprudential supervision of the banking and financial system (particularly in the area of the SSM);
- recruitment owing to the establishment of the Resolution Unit on the basis of the Bank Resolution Authority and Fund Act.

Costs of materials, amortisation and depreciation of non-current assets and other costs were broadly unchanged from 2014.

Table 12: **Year-end balance sheet, 2011 to 2015, in EUR million**

Assets	2011	2012	2013	2014	2015
1. Gold and gold receivables	125	129	89	101	100
2. Claims on non-euro-area residents denominated in foreign currency	641	592	578	734	685
3. Claims on euro area residents denominated in foreign currency	246	269	209	139	220
4. Claims on non-euro-area residents denominated in euro	786	782	784	1,022	1,059
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	1,740	3,982	3,337	1,098	901
6. Other claims on euro area credit institutions denominated in euro	289	49	379	230	51
7. Securities of euro area residents denominated in euro	3,444	3,774	2,995	2,552	4,999
8. General government debt denominated in euro	-	-	-	-	-
9. Intra-Eurosystem claims	2,736	2,839	2,216	4,774	1,948
10. Items in course of settlement	-	-	-	-	-
11. Other Assets	211	227	226	204	291
Total assets	10,218	12,643	10,813	10,854	10,254

Source: Bank of Slovenia

Liabilities	2011	2012	2013	2014	2015
1. Banknotes in circulation	3,843	3,947	4,136	4,615	4,892
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	1,126	1,320	2,068	1,434	1,627
3. Other liabilities to euro area credit institutions denominated in euro	15	18	14	8	4
4. Debt securities issued	-	-	-	-	-
5. Liabilities to other euro area residents denominated in euro	890	1,039	1,756	2,847	1,743
6. Liabilities to non-euro-area residents denominated in euro	21	12	15	10	16
7. Liabilities to euro area residents denominated in foreign currency	71	75	73	94	60
8. Liabilities to non-euro-area residents denominated in foreign currency	-	-	-	-	-
9. Counterpart of special drawing rights allocated by the IMF	256	252	241	257	275
10. Intra-Eurosystem liabilities	2,728	4,409	1,024	-	-
11. Items in course of settlement	-	-	-	-	-
12. Other obligations	108	109	96	114	155

Liabilities	2011	2012	2013	2014	2015
13. Provisions	149	330	402	409	423
14. Revaluation accounts	163	156	69	116	122
15. Capital and reserves	831	844	866	874	882
16. Surplus of income over expenses for the current year	17	132	50	75	54
Total liabilities	10,218	12,643	10,813	10,854	10,254

Source: Bank of Slovenia

Table 13: **Profit and loss account for 2011 to 2015, in EUR million**

	2011	2012	2013	2014	2015
1. Net interest income	112	251	127	69	58
2. Net result of financial operations, write-downs and risk provisions	-91	-134	-53	11	0
3. Net income from fees and commissions	6	4	3	4	3
4. Other income	17	37	23	22	23
5. Operating costs	-27	-26	-50	-31	-31
Surplus of income over expenses for the current year	17	132	50	75	54

Source: Bank of Slovenia

6.3.4 Risk management

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

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

effectiveness of the governance process, risk management processes and internal control systems, and assurances of compliance. In ensuring that the Bank of Slovenia's financial statements are faultless and that the internal audit function is effective, the Governing Board is advised by the Audit Committee, which also provides opinions to assist it;

- **external audit level:** the independent external auditor audits the Bank of Slovenia's annual financial statements as required by the Statute of the ESCB (Article 27.1) and the Bank of Slovenia Act. The selection of the independent external auditor is undertaken in accordance with the Public Procurement Act and best practice at ECB level. The selected auditor is approved by the Council of the European Union at the proposal of the Governing Council of the ECB. For the purposes of auditing the external auditor has access to all bylaws, accounts and information about transactions at the Bank of Slovenia. The auditor's report is an integral part of the Bank of Slovenia's financial statements.

6.3.4.1 Strategic risk

Strategic risk is the risk of loss and a failure to achieve strategic objectives as a result of incorrect business decisions by the bank, a failure to implement the decisions taken and insufficient responsiveness to changes in the business environment by the bank. Strategic risk is managed by the Governing Board, which approves the Bank of Slovenia's strategic objectives and the strategy for attaining these objectives, and oversees the implementation of the strategy.

6.3.4.2 Financial risk

The Bank of Slovenia is exposed to currency risk, price risk, interest rate risk and credit risk inherent in its own portfolio of investments and its monetary policy portfolios. The Bank of Slovenia implements its investment policy in accordance with the applicable Regulation on the method of management of the financial assets of the Bank of Slovenia and the Criteria for managing the financial assets of the Bank of Slovenia. The central guideline of the investment policy is the strategic asset allocation (SAA), which is optimised once a year and, in addition to observing all the limits set out by the regulation and the criteria, pursues the objective of optimising the expected return while keeping risk to an acceptable level. The Bank of Slovenia follows market developments, and monitors announcements by rating agencies and regulatory changes on a daily basis. In so doing it regularly monitors the exposure of its own portfolio of investments and its monetary policy portfolios to various risk factors (price risk, interest rate risk and credit risk). Bank of Slovenia staff prepare regular reports of the stock of investments and exposures with regard to various sources of risk.

6.3.4.3 Operational risk

Operational risk is the risk of loss resulting from developments in connection with inadequate or failed internal processes, people and systems or from external events or factors. Operational risk management is guided and overseen at the control level by the Operational Risk Committee. This includes the areas of operational risks, business continuity, information security, and physical and technical security.

As part of ordinary operational risk management, an assessment was made of the criticality of all of the Bank of Slovenia's business processes from the perspective of impact on business objectives, reputation and financial assets. Operational risks were identified and assessed for the most critical business processes, and the causes and potential reasons for their realisation were analysed. A risk management plan was formulated for the risks that exceed the acceptable level, and activities to mitigate, accept, avoid or transfer existing risks were envisaged.

To ensure business continuity the Bank of Slovenia has put in place a backup centre to provide technological support for business processes and a backup location that allows for the most time-critical business processes to continue uninterrupted. Plans for the recovery of business processes are formulated for scenarios ranging from a failure of technological support for individual business processes to the complete destruction of the Bank of Slovenia's business premises, including the destruction of the entire technological support for the execution of business processes. Reviews of all the scenarios were conducted in accordance with the annual plans.

To ensure business continuity the Bank of Slovenia has put in place a backup centre to provide technological support for business processes and a backup location.

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

As part of Slovenia's critical infrastructure, the Bank of Slovenia took part in a Nato exercise of protective measures against cyber attack.

6.3.4.4 Reputation risk

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

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

The Bank of Slovenia's reputation does not depend solely on internal risk management factors, but has recently been dependent to a great extent on opinions expressed in the media, which the Bank of Slovenia can only refute with difficulty.

The Bank of Slovenia's proactive approach to strengthening its reputation is expressed in its efforts to act more transparently, including the addition of the senior management's business report to the content of this annual report. It explains the main developments that had an impact on items of the balance sheet and the profit and loss account, on changes therein, and on risk moving forward. It also summarises the vision, the mission statement and strategy, and the plans of the Bank of Slovenia for the upcoming period.

6.3.5 Organisational structure of the Bank of Slovenia

One of the bank's strategic objectives is to be an effective institution in terms of development, organisation and cost, committed to prudent asset management and to the quest for effective and cost efficient solutions. In accordance with these guidelines there were certain changes in the bank's organisational structure in 2015.

At the end of March 2015 the Bank of Slovenia established a special organisational unit on the basis of the ZOSRB, the **ResolutionUnit**, for the purpose of performing the tasks set out by the aforementioned law. Pursuant to the ZOSRB the resolution fund will cease operating on 31 December 2024. In addition to the tasks related to bank resolution, the department is also engaged on the deposit guarantee scheme.

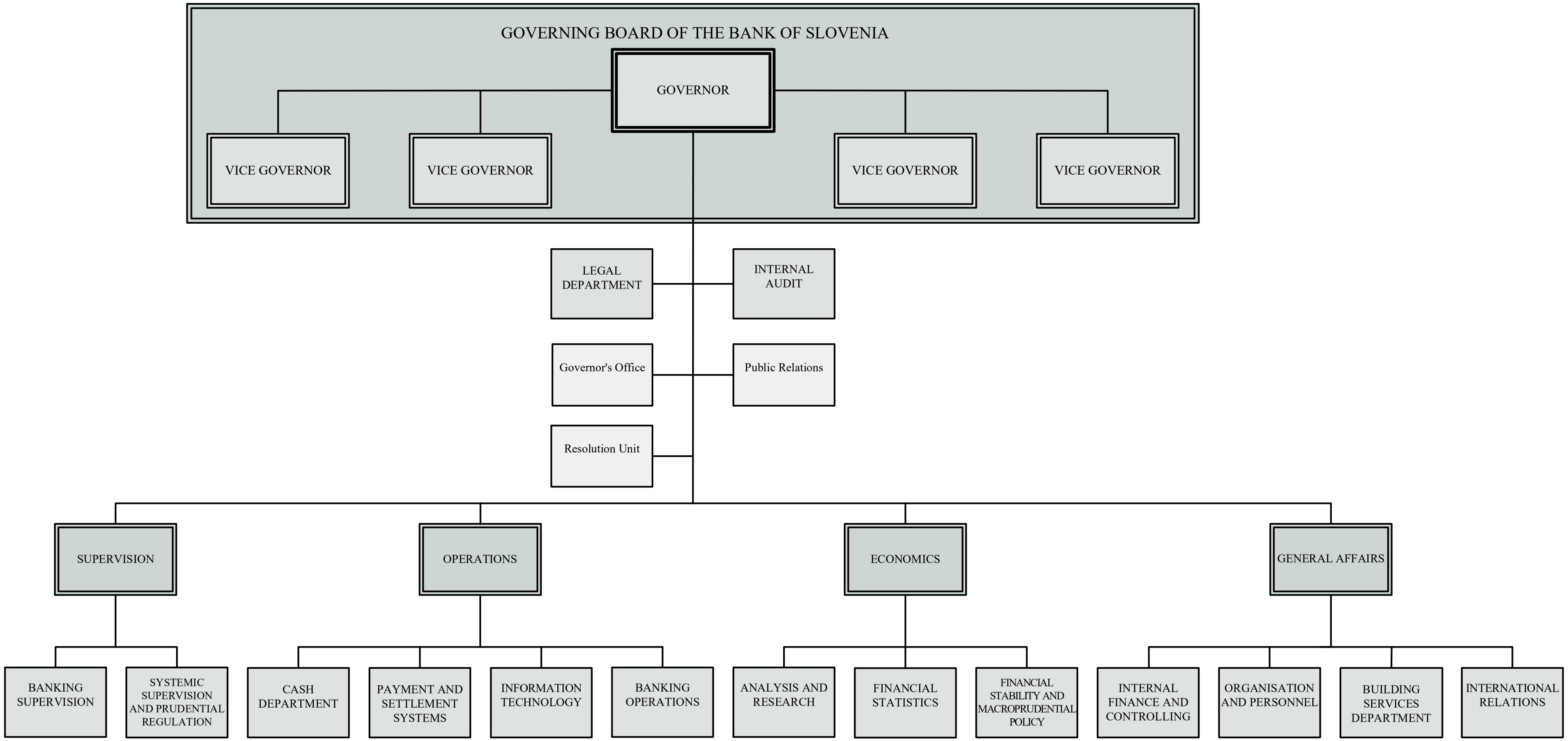
In accordance with the upgraded set of tasks that the Bank of Slovenia took over pursuant to the ZOSRB, the Banking Operations Department and Internal Finance and Controlling Department expanded their set of business processes to cover those supporting the activity of the Resolution Unit and the bank resolution fund.

The new organisation of the Analysis and Research Centre has also been in place since September 2015.

The new organisation of the Analysis and Research Centre has also been in place since September 2015. The previously unitary department was divided into two sections, Macroeconomic Trends and Projections, and Research.

Towards the end of the year there were intensive preparations for the transfer of SISBON, which was owned by the commercial banks, to the Bank of Slovenia.

Figure 30: **Organizational structure of the Bank of Slovenia**



Source: Bank of Slovenia

6.3.6 Employees

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

In 2015 the Bank of Slovenia invested heavily in development and training, implemented a competency model, designed a planning and succession model, obtained basic Family-Friendly Company certification, overhauled the system of annual interviews, actively encouraged internal and international staff mobility, and sought various opportunities for constructive collaboration with students.

The Bank of Slovenia had 447 employees as at 31 December 2015.

The Bank of Slovenia had 447 employees as at 31 December 2015, of whom almost 90% were on permanent contracts. The headcount was up 10 on the previous year.

The largest rise in headcount was in the Supervision Division, as a result of the strengthened supervision of the banking and financial system and the establishment of the SSM, which has significantly expanded the scope and complexity of the work inside the division in order to meet ECB procedural requirements.

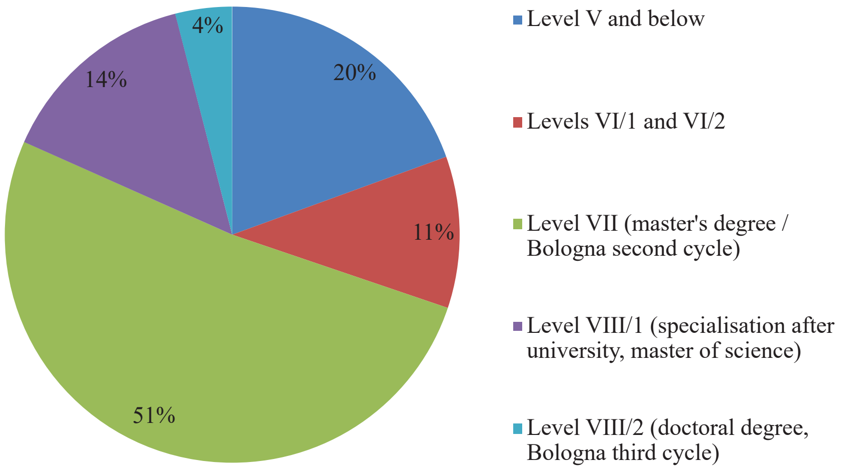
The number of employees has also increased due to the establishment of the Resolution Unit in April 2015, as a result of harmonization with the Directives of the European Parliament and of the Council in the areas of recovery and resolution of credit institutions and investment firms and the deposit guarantee schemes. The gender balance is tilted slightly towards women, who account for 56% of staff.

Table 14: **Human resources in 2015**

Number of employees as at the final day of the year	447
Average number of employees during the year	441
Number of permanent employment contracts	400
Number of temporary employment contracts	47
Number of men	205
Number of women	242
Average age of employees	43 years, 8 months
Average total years of service	19 years, 3 months
Average years of service at the Bank of Slovenia	13 years, 5 months
Number of disabled employees	10
Number of employees on reduced hours	22
Average gross wage at the Bank of Slovenia as at 1 December 2015, EUR	2,724.46

Source: Bank of Slovenia

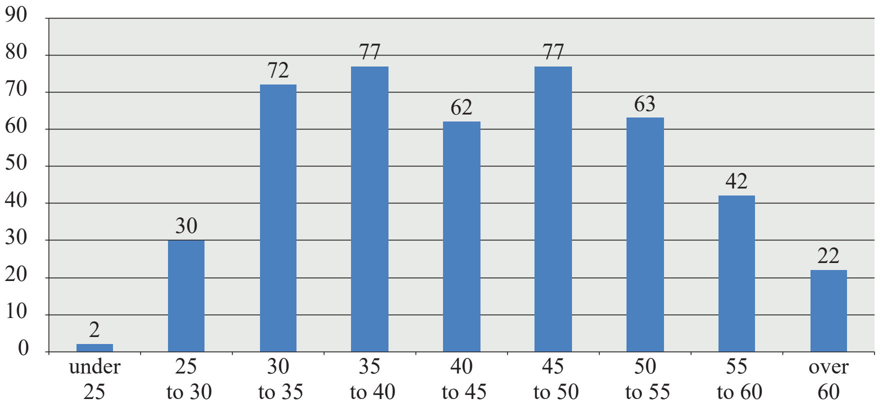
Figure 31: **Breakdown of staff qualifications at the Bank of Slovenia as at 31 December 2015**



Source: Bank of Slovenia

The age breakdown of the staff is illustrated below.

Figure 32: **Breakdown of age of staff at the Bank of Slovenia as at 31 December 2015**



Source: Bank of Slovenia

The Bank of Slovenia earmarked approximately EUR 350,000 for education and training in 2015, which is EUR 780 per employee. The majority of training organised internally for individual groups at the bank related to improvements in professional and managerial competencies.

The Bank of Slovenia also encourages other forms of training and staff development. Personal development plans were drawn up for executive staff with the aim of improving managerial competencies, while the bank also provided appropriate training for managers to this end.

The bank has designed its competency model in three sets of competencies:
- generic competencies, which all staff members should have;
- managerial competencies, which are specific to staff in managerial and executive positions;

- professional competencies, which are required of staff with particular areas of expertise.

A required level of competencies is set out for all positions. The actual competencies of all staff in managerial and executive positions and in positions requiring a Level VII qualification were finally measured in 2015.

A comparison between the required competencies and the actual competencies was the basis for the preparation of personal training plans and ongoing staff development.

In 2015 the Bank of Slovenia drew up its succession policy

In 2015 the Bank of Slovenia drew up its succession policy, by which its aims to mitigate the operational risk related to turnover in key staff. The model is designed on the basis of the identification of key staff and their potential successors, and on the implementation of tools for development, motivation and commitment, and will be continued by the bank in 2016.

The bank overhauled its system of annual interviews in 2015 with an emphasis on management by objectives. The centrepiece of the annual interview is the setting of individual work objectives, which should be related to the objectives of the organisational unit and the bank's strategic objectives, and an interview on the level of competencies attained. The assessment of the realisation of the objectives set in this manner and the identified competency gap will then form the basis for potential bonuses and promotions, and other developmental measures.

The Bank of Slovenia obtained the basic Family-Friendly Enterprise certification in 2015.

The Bank of Slovenia obtained the basic Family Friendly Enterprise certification in 2015, and set out nine measures to make the coordination of family life and work life easier, which will be gradually implemented over the next three years.

The Bank of Slovenia is an active member of the ESCB. It had 14 staff members involved in various forms of collaboration in 2015, on secondment from their employment at the bank.

The bank thus invests in the personal and professional development of its staff, as they use the experience and knowledge that they have gained and the contacts that they have made to their advantage when they return to the Bank of Slovenia, thereby raising its intellectual capital.

6.3.7 Links with the school system and younger generations

The Bank of Slovenia again participated in the ECB's Generation €uro schools competition in the 2015/16 academic year.

The Bank of Slovenia again participated in the ECB's Generation €uro schools competition in the 2015/16 academic year. The competition is aimed at secondary school students in euro area countries. It encourages young people to study economics and finance, and to learn about the role, duties and actions of the ECB and the Eurosystem. A total of 28 student teams from 20 secondary schools successfully applied for the competition in this academic year.

The bank also works with secondary schools and, in particular, universities in providing internships: 13 Slovenian students and two students from abroad took internships at the bank in 2015.

6.4 Court proceedings

Court proceedings in connection with the extraordinary measures implemented by the Bank of Slovenia in 2013 and 2014 continued in 2015.

Court proceedings in connection with the extraordinary measures implemented by the Bank of Slovenia in 2013 and 2014 continued in 2015. The Administrative Court of the Republic of Slovenia denied the actions in the majority of proceedings in 2014 and 2015, stayed the proceedings in six cases, and has yet to rule on one case. In the majority of the aforementioned disputes the plaintiffs appealed or filed for a review. These proceedings are now before the Supreme Court of the Republic of Slovenia, which had concluded one case and was still resolving 31 cases as at 31 December 2015. In addition to the aforementioned disputes, the Administrative Court ruled on five other cases in connection with access to information of a public nature, while proceedings are still in progress in one case. Two proceedings in connection with supervisory measures imposed by the Bank of Slovenia not in connection with extraordinary measures are also before the Administrative Court.

So-called registration disputes, where the plaintiffs are challenging the legality of entries in the companies register in connection with extraordinary measures, are still in progress in connection with extraordinary measures imposed by the Bank of Slovenia in 2013 and 2014. These proceedings were not concluded in 2015. Eight cases were still in progress before district courts at the end of 2015, one case having been concluded during the year, while one case was in progress before a local court, one other case having been concluded.

The Bank of Slovenia filed an application with the Constitutional Court in 2014 for an assessment of the constitutionality and legality of the ZDIJZ-D. The Constitutional Court ruled in February 2015 that the disputed provisions of the law should be abrogated.

7 PRIORITIES IN 2016

7.1 Priority supervisory activities

The first part of banking supervision in 2016 will be conducted via established practices of collaboration with the ECB on systemically important banks and banks owned by large foreign banks. The collaboration is the responsibility of the JSTs, which conduct on-site inspections, and via which the constant exchange of information, opinions, reports and other documentation proceeds.

The following are additionally envisaged within the framework of supervisory activities: (i) a comprehensive assessment within the framework of the SSM for a new systemically important bank; (ii) monitoring of the fulfilment of the commitments to the European Commission deriving from state aid procedures at banks under government ownership; (iii) a review of the first recovery plans at banks.

The second part of supervision covers the non-systemic credit institutions, with full supervisory powers and slightly less collaboration with the ECB.

With back-office support, the focus in 2016 will be on the development of knowledge and tools for enhanced risk identification (RAS, ICAAP, SREP, IMAS), an overhaul of regulations in prevention of money laundering and terrorist financing (PMLTF) and the strengthening of collaboration with competent authorities inside and outside Slovenia.

Within the framework of systemic supervision and regulations, the focus will subsequently be on the establishment of high-quality supervisory databases and the development of effective and transparent methodologies, techniques and standards of supervision.

The major challenges within the framework of the first task include the upgrade of reporting and the preparation for introduction of the new IFRS 9, while those within the framework of the second task include the NPE forbearance project (progress in the reduction of non-performing exposures), the establishment of infrastructure for conducting bottom-up stress tests and the implementation of the methodology for ensuring quality of supervision.

7.2 Special Inspection Group / compliance supervision

The continuation of the SIG's planned activities is to be ensured in 2016.

The continuation of the SIG's planned activities is to be ensured in 2016. Given the wide range of content in the area of compliance (from fraud, insider trading, market manipulation, abuse of laws and regulations, abuse of asymmetric information, breaches of trading in instruments, unfair competition, tax manipulation and money laundering, to misuse of data) and with regard to the Banking Act, compliance is an area that demands comprehensive examination of the content and monitoring of live developments in banking practice. The work of the SIG is thus a lever for the comprehensive treatment of the aforementioned content in the area of compliance pursuant to the Banking Act, where it is joined by prevention of money laundering, which is a necessary if not vital source of information for the effective supervision of compliance at the commercial banks. The SIG is thus being properly positioned in the Bank of Slovenia's organisational structure as a rise in supervisory standards and complementary activity in prudential banking supervision.

As a lever for the comprehensive treatment of bank compliance and as part of banking supervision pursuant to the Banking Act, the SIG will also require proper positioning in the Bank of Slovenia's organisational structure.

7.3 Resolution and deposit guarantee scheme

On the basis of Directive 2014/59/EU of the European Parliament and of the Council of 2014 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes, the Resolution Unitwas established in April 2015. Its most important tasks are:

- putting in place resolution plans and coordinating activities in the event of bank resolution, and
- establishing and ensuring the operational readiness of the deposit guarantee scheme.

Within the framework of the first task, in 2016 the Bank of Slovenia will draw up resolution plans for all banks in Slovenia and will take part in five international teams under the leadership of the Single Resolution Board (SRB), which are drawing up resolution plans for systemically important groups that also do business in Slovenia. The Bank of Slovenia conducts regular communications with banks for the purpose of ensuring resolution plans are up-to-date, and represents the interests of the Bank of Slovenia as the national resolution authority in the SRB.

In 2016 the Bank of Slovenia will draw up resolution plans for all banks in Slovenia.

Within the framework of the second task, the Resolution Unit attends to the operational readiness of the deposit guarantee scheme. To give this assurance, it will conduct testing of the functioning of the deposit guarantee scheme and will communicate with the banks on the subject of the deposit guarantee. The Resolution Unit represents the Bank of Slovenia at the International Association of Deposit Insurers (IADI) and at the European Forum of Deposit Insurers (EFDI).

The Bank of Slovenia has put in place a risk-weighted methodology for calculating the contributions of individual banks to the deposit guarantee fund in accordance with the EBA guidelines, and banks in Slovenia will begin paying contributions in 2016. Another important activity in 2016 is the preparation of regulations on the basis of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and Directive 2014/49/EU on deposit guarantee schemes.

7.4 Central credit register

The basic concept of the initiative to establish a central credit register is for the central bank to have a single set of detailed information about lending by financial institutions to non-financial sectors.

The establishment of a central credit register will allow the Bank of Slovenia to collect, produce and analyse data for:

- monetary policy analysis,
- risk management,
- financial stability,
- economic research, and
- banking supervision.

The Bank of Slovenia will undertake the full transfer of SISBON in 2016. The reporting of a set of attributes for legal entities will be established. All preparations for the establishment of integral reporting by other financial institutions and the final transfer of SISBON to the Bank of Slovenia information system will also be carried out.

The objectives in 2016 are to ensure legal support for the functioning of the central credit register, to complete development of the register for legal entities, to attain full operability in accordance with the basic concept and to properly position the central credit register inside the Bank of Slovenia, to adequately reflect its new substantive function.

7.5 Cash operations

The Bank of Slovenia is planning to put in place a new model for supplying currency to the market in 2016.

The Bank of Slovenia is planning to introduce a new cash supply system in Slovenia in 2016, on the basis of which the processing of banknotes will be gradually centralised at the central bank so that notes are processed just once, and damaged notes are promptly destroyed by high-capacity banknote processing machines. This will gradually reduce the number of depot banks via which the market is currently supplied with banknotes. The Bank of Slovenia thus aims to automate banknote processing, to increase the number of banknotes processed and to achieve economies of scale, thereby reducing the costs of cash operations. The aforementioned banknote processing services will be offered to all major market participants.

7.6 Establishment of a document management system

The growth in the scale of the information coming into the bank or being generated in its work, and the storage and management of this information represent a major challenge to the Bank of Slovenia.

Defining the requirements for a documentation system and a system for the long-term storage of documentary material, and implementing the two systems that will provide the bank with the requisite hardware and software for document management will allow the bank to put in place the systemically organised storage of documentary material.

The objective of the project work is to put in place a document management system and a system of long-term electronic storage at the Bank of Slovenia.

7.7 Phase III of restructuring

The restructuring process can only be successful if all the main institutions of government and the private sector take part in the process. The restructuring process has been slow, for which reason it is vital to take a more organised and systematic approach to the matter.

The objective of the Bank of Slovenia's future activities in the area of restructuring focuses on two parallel areas:
- supervisory activities, which encompass the following groups of tasks:
  - monitoring of corporate restructuring processes,

   - monitoring and supervision of individual banks (and the banking system as a whole); and
- other Bank of Slovenia activities related to the broader institutional and financial environment:
   - participation of institutions at government level,
   - promotion of restructuring of SMEs,
   - establishment of infrastructure for non-bank financing of firms.

8 FINANCIAL STATEMENTS

Financial statements of the Bank of Slovenia for the Year 2015

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

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

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

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

Building a better working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the Bank of Slovenia

Report on the Financial Statements

We have audited the accompanying financial statements of Bank of Slovenia (the "Bank"), which comprise the balance sheet as at December 31, 2015, and the income statement for the year then ended and a summary of significant accounting policies and other explanatory information.

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 December 31, 2015 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.

Other matter
The financial statements as at December 31, 2014 were audited by other auditor, which issued unqualified opinion on March 16, 2015.

Ljubljana, March 17, 2016

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

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

Primož Kovačič
Certified Auditor

Constitution

The Bank of Slovenia was constituted by the Law on the Bank of Slovenia dated 25 June 1991. The Bank of Slovenia is a legal entity, governed by public law, which independently disposes of its own property. The Bank of Slovenia is wholly owned by the state and is autonomous as regards its finances and administration. The Bank of Slovenia is supervised by Parliament. The primary objective of the Bank of Slovenia shall be to maintain price stability. In pursuing this objective, the Bank of Slovenia shall strive for financial stability, while taking into account the principles of an open market economy and free competition. According to the Bank of Slovenia Act, from the day of introduction of the euro, the Bank of Slovenia shall begin to perform the tasks in accordance with the Treaty establishing the European Community and in accordance with the Statute of the ESCB and the 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 of Slovenia became part of the Eurosystem and took over joint responsibility for defining and implementing of monetary policy and for exercising the common strategic goals of the ESCB[2].

Accounting principles and standards
The Bank of Slovenia 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 of the ECB, this legal framework was adopted by the Governing Board of the Bank of Slovenia at its 342nd meeting on 20 December 2006.

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

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

Basic principles
The financial statements are prepared in conformity with the provisions governing the Eurosystem's accounting and reporting procedures, which follow accounting principles, harmonized by Community law 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 positive revaluation effects 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 'ESCB (European System of Central Banks)' refers to the twenty-eight National Central Banks (NCBs) of the member states of the European Union on 31 December 2015 plus the European Central Bank (ECB). The term 'Eurosystem' refers to the nineteen NCBs of the member states participating in the Monetary Union, plus the ECB on the same date.

[3] OJ L 35, 09.02.2011, p. 31-68. The Accounting guideline is amended by the Guideline of the European Central Bank of 21 December 2011 (ECB/2011/27), OJ L19, 24.01.2012, p. 37-50, Guideline of the European Central Bank of 10 December 2012 (ECB/2012/29), OJ L356, 22.12.2012, p. 94-108, Guideline of the European Central Bank of 15 December 2014 (ECB/2014/54), OJ L68, 13.03.2015, p. 69-87, and by the Guideline of the European Central Bank of 2 July 2015 (ECB/2015/24), OJ L193, 21.07.2015, p. 147-165.

- 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 of Slovenia, substantially all of the associated risks and rewards have been transferred to the Bank of Slovenia, and the cost or value of the asset or the amount of the obligation can be measured reliably.

Economic approach

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

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

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

Conversion of foreign currencies

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

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

Gold and gold receivables

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

Securities held for monetary policy purposes

Securities held for monetary policy purposes are accounted for at amortised cost (subject to impairment), regardless of the holding intention.

Other securities

Marketable securities (other than those classified as held-to-maturity) and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. For the year ending 31 December 2015, mid-market prices on 30 December 2015 (for securities held for monetary policy purposes) or 31 December 2015 (for other securities) were used.

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 of Slovenia's own assets. Securities lent by the Bank of Slovenia 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:

	2015	2014
Buildings	1.3 – 1.8 %	1.3 – 1.8 %
Hardware and software	20 – 33 %	20 – 33 %
Other equipment	10 – 25 %	10 – 25 %

Gains and losses 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 of Slovenia'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 of Slovenia revalues these properties once every 5 years; the last revaluation was performed in year 2014). This revaluation method represents the deviation from generally accepted accounting principles. 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 the Statute of the ESCB and of the ECB and every time when a new country joins EU.

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

Banknotes in circulation
The ECB and the euro area NCBs[4], which together comprise the Eurosystem, issue euro banknotes[5]. The total value of euro banknotes in circulation is allocated to the Eurosystem central banks on the last working day of each month in accordance with the banknote allocation 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 each NCB is disclosed in the balance sheet under liability item 'Banknotes in circulation'.
The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation also gives rise to

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

[5] Decision of the European Central Bank of 13 December 2010 on the issue of euro banknotes (recast) (ECB/2010/29), OJ L 35, 09.02.2011, p. 26-30, amended by the Decision of the European Central Bank of 21 June 2013 (ECB/2013/16), OJ L 187, 06.07.2013, p. 13-14, Decision of the European Central Bank of 29 August 2013 (ECB/2013/27), OJ L 16, 21.01.2014, p. 51-52 and Decision of the European Central Bank of 27 November 2014 (ECB/2014/49), OJ L 50, 21.02.2015, p. 42-43.

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

remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest[7], are disclosed under the sub-item 'Intra Eurosystem: Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem' (see 'Intra-ESCB balances/Intra-Eurosystem balances' in the notes on accounting policies).

From the cash changeover year[8] until five years following the cash changeover year the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in NCBs' relative income positions as compared to previous years. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the reference 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 will be reduced in annual stages until the first day of the sixth year after the cash changeover year when income on banknotes will be allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital. In the year under review the adjustments resulted from the accession of Eesti Pank (in 2011), Latvijas Banka (in 2014), and Lietuvos bankas (in 2015) and will terminate at the end of 2016, 2019 and 2020, respectively.

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

ECB profit distribution
The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, as well as the income arising from the securities held under (a) the securities markets programme, (b) the third covered bond purchase programme, (c) the asset-backed securities purchase programme and (d) the public sector purchase programme is due to the euro area NCBs in the financial year in which it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year by means of an interim distribution of 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 aforementioned programmes, and subject to any decisions by the Governing Council to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks. The Governing Council may also decide to charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against income earned on euro banknotes in circulation.

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

Provisions
Provisions for legal claims are recognised when the Bank of Slovenia 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 of Slovenia may, with the intention of maintaining the real value of assets, take a decision to create general provisions for anticipated exchange rate, interest rate and price risks. Provisions may not be created if, 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

[7] Decision of the European Central Bank of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast) (ECB/2010/23), OJ L 35, 09.02.2011, p. 17-25, amended by the Decision of the European Central Bank of 3 November 2011 (ECB/2011/18), OJ L 319, 02.12.2011, p. 116, Decision of the European Central Bank of 5 June 2014 (ECB/2014/24), OJ L 117, 07.06.2014, p. 168, Decision of the European Central Bank of 15 December 2014 (ECB/2014/56), OJ L 53, 25.02.2015, p. 21-23 and by the Decision of the European Central Bank of 19 November 2015 (ECB/2015/37), OJ L 313, 28.11.2015, p. 42-43.

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

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

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

of provisions for credit risks is given. The relevant amount of provision for all such financial risks is determined annually on the basis of Value-at-Risk (VaR) or Expected Shortfall (ES) method. VaR is defined as the maximum loss of portfolio with a given diversification of that portfolio at a certain level of probability (99%) and for a given holding period (one year). ES at a given confidence level is defined as an expected portfolio loss taken into account only the losses equal or greater to VaR figure at the same confidence level. The provision will be used to fund future unrealised losses not covered by the revaluation accounts.

Intra-ESCB balances / Intra-Eurosystem balances
Intra-Eurosystem balances result primarily 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 of the Bank of Slovenia vis-a-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro (e.g. interim ECB profit distribution, monetary income results), are presented on the Balance Sheet of the Bank of Slovenia as a single net asset position and disclosed under "Other claims 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 of Slovenia's participating interest in the ECB are reported under 'Participating interest in ECB'.

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

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

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

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

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

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

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

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

Since spot and forward amounts in foreign currencies are converted to euro at the same exchange rate, foreign exchange swaps do not influence Profit and Loss 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.

Cash flow statement
Taking account of the Bank of Slovenia'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 of Slovenia is not subject to Slovenian corporate income tax.

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

A net loss of the Bank of Slovenia is covered from general reserves. In case that the net loss arises from unrealised exchange rate and price changes, it shall be covered from the special reserves created for that purpose. Any net loss which cannot be covered from general reserves is covered by the budget of the Republic of Slovenia.

Auditing of financial statements
The financial statements were audited by Ernst & Young Revizija, poslovno svetovanje, d. o. o., Ljubljana, who was appointed as the external auditor of the Bank of Slovenia for the financial years 2015 to 2017.

Balance Sheet as at 31 December 2015

ASSETS (thousands of euro)		Note number	31 December 2015	31 December 2014
1	**Gold and gold receivables**	1	**99,591**	**101,082**
2	**Claims on non-euro area residents denominated in foreign currency**	2	**685,232**	**734,027**
2.1	Receivables from the IMF		367,178	391,517
2.2	Balances with banks and security investments, external loans and other external assets		318,054	342,509
3	**Claims on euro area residents denominated in foreign currency**	3	**219,623**	**138,553**
4	**Claims on non-euro area residents denominated in euro**	4	**1,058,674**	**1,022,064**
4.1	Balances with banks, security investments and loans		1,058,674	1,022,064
4.2	Claims arising from the credit facility under ERM II		-	-
5	**Lending to euro area credit institutions related to monetary policy operations denominated in euro**	5	**901,380**	**1,098,380**
5.1	Main refinancing operation		-	-
5.2	Longer-term refinancing operations		901,380	1,098,380
5.3	Fine-tuning reverse operations		-	-
5.4	Structural reverse operations		-	-
5.5	Marginal lending facility		-	-
5.6	Credits related to margin calls		-	-
6	**Other claims on euro area credit institutions denominated in euro**	6	**50,797**	**230,272**
7	**Securities of euro area residents denominated in euro**	7	**4,999,371**	**2,551,839**
7.1	Securities held for monetary policy purposes		2,978,571	677,302
7.2	Other securities		2,020,800	1,874,538
8	**General government debt denominated in euro**		**-**	**-**
9	**Intra-Eurosystem claims**	8	**1,948,379**	**4,773,764**
9.1	Participating interest in ECB		82,199	82,199
9.2	Claims equivalent to the transfer of foreign reserves		200,221	200,221
9.3	Claims related to promissory notes backing the issuance of ECB debt certificates*		-	-
9.4	Net claims related to the allocation of euro banknotes within the Eurosystem		1,406,543	2,087,724
9.5	Other claims within the Eurosystem (net)		259,416	2,403,619
10	**Items in course of settlement**		**-**	**-**
11	**Other assets**	**9**	**290,533**	**204,260**
11.1	Coins of euro area		1,324	2,435
11.2	Tangible and intangible fixed assets		34,485	29,726
11.3	Other financial assets		53,107	51,058
11.4	Off-balance sheet instruments revaluation differences		207	811
11.5	Accruals and prepaid expenses		100,113	54,204
11.6	Sundry		101,297	66,026
12	**Loss for the year**		**-**	**-**
Total assets			**10,253,580**	**10,854,241**

* Only an ECB balance sheet item

LIABILITIES (thousands of euro)		Note number	31 December 2015	31 December 2014
1	**Banknotes in circulation**	10	**4,891,682**	**4,615,083**
2	**Liabilities to euro area credit institutions related to monetary policy operations denominated in euro**	11	**1,627,183**	**1,434,063**
	2.1 Current accounts (covering the minimum reserve system)		1,627,183	1,434,063
	2.2 Deposit facility		-	-
	2.3 Fixed-term deposits		-	-
	2.4 Fine-tuning reverse operations		-	-
	2.5 Deposits related to margin calls		-	-
3	**Other liabilities to euro area credit institutions denominated in euro**	12	**4,348**	**7,997**
4	**Debt certificates issued**		**-**	**-**
5	**Liabilities to other euro area residents denominated in euro**	13	**1,742,822**	**2,847,451**
	5.1 General government		1,729,704	2,718,258
	5.2 Other liabilities		13,118	129,192
6	**Liabilities to non-euro area residents denominated in euro**	14	**15,885**	**10,227**
7	**Liabilities to euro area residents denominated in foreign currency**	15	**59,600**	**93,919**
8	**Liabilities to non-euro area residents denominated in foreign currency**		**-**	**-**
	8.1 Deposits, balances and other liabilities		-	-
	8.2 Liabilities arising from the credit facility under ERM II		-	-
9	**Counterpart of special drawing rights allocated by the IMF**	16	**274,774**	**257,417**
10	**Intra-Eurosystem liabilities**		-	-
	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)		-	-
11	**Items in course of settlement**		**-**	**-**
12	**Other liabilities**	17	**155,359**	**113,828**
	12.1 Off-balance sheet instruments revaluation differences		45,081	21,213
	12.2 Accruals and income collected in advance		11,265	6,946
	12.3 Sundry		99,013	85,669
13	**Provisions**	18	**423,247**	**408,525**
14	**Revaluation accounts**	19	**122,383**	**116,458**
15	**Capital and reserves**	20	**882,278**	**874,492**
	15.1 Capital		8,346	8,346
	15.2 Reserves		873,932	866,146
16	**Profit for the year**		**54,018**	**74,782**
Total liabilities			**10,253,580**	**10,854,241**

* Only an ECB balance sheet item

Profit and Loss Account for the year ended 31 December 2015

thousands of euro	Note number	2015	2014
1.1 Interest income		59,457	73,822
1.2 Interest expense		-1,490	-4,976
1 Net interest income	24	**57,967**	**68,846**
2.1 Realised gains/losses arising from financial operations		24,878	17,521
2.2 Write-downs on financial assets and positions		-3,756	-482
2.3 Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks and other operational risks		-21,131	-6,149
2 Net result of financial operations, write-downs and risk provisions	25	**-9**	**10,890**
3.1 Fee and commission income		6,183	5,610
3.2 Fee and commission expense		-2,692	-2,019
3 Net income from fees and commissions	26	**3,491**	**3,591**
4 Income from equity shares and participating interests	27	5,114	4,777
5 Net result of pooling of monetary income	28	15,111	13,619
6 Other income	29	3,021	3,793
Total net income		**84,695**	**105,515**
7.1 Staff costs		-20,218	-19,153
7.2 Administrative expenses		-6,840	-6,315
7.3 Depreciation of tangible and intangible fixed assets		-1,422	-1,560
7.4 Banknote production services		-1,188	-2,534
7.5 Other expenses		-1,008	-1,172
7 Total operating expenses	30	**-30,677**	**-30,733**
8 Profit for the year	31	**54,018**	**74,782**

The notes on pages 13 to 32 form an integral part of the financial statements.

The unaudited financial statements were approved by the Governing Board on 23 February 2016 and these audited financial statements were approved by the Governing Board on 31 March 2016 and were signed on its behalf by:

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

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

Notes to the balance sheet

1. Gold and gold receivables

With the exception of gold stocks held in the Bank of Slovenia, the Bank of Slovenia'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 2015. This price, notified by the ECB, amounts to EUR 973.225 per ounce of fine gold compared with EUR 987.769 on 31 December 2014. Unrealised positive valuation effects of EUR 50.2 million (of which EUR 8.8 million from year 2007, EUR 5.5 million from year 2008, EUR 14.8 million from year 2009, EUR 29.6 million from year 2010, EUR 16.5 million from year 2011, EUR 4.5 million from year 2012, EUR -39.9 million from year 2013, EUR 11.9 million from year 2014 and EUR -1.5 million from year 2015) were disclosed under the liability balance sheet item ‘Revaluation accounts’.

	000 EUR	Fine troy ounces
Balance as at 31 December 2013	89,156	102,334
Revaluation of gold stock as at end of 2014	11,927	-
Balance as at 31 December 2014	101,082	102,334
Underdelivery of gold in 2015 (gold deposit transactions)	-2	-4
Revaluation of gold stock as at end of 2015	-1,490	-
Balance as at 31 December 2015	99,591	102,330

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

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

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

The reserve tranche corresponds to the difference between Slovenian’s quota in the IMF and the IMF’s holdings of EUR with the Bank of Slovenia. 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 of Slovenia 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 1.2728 (31 December 2014: SDR 1 = EUR 1.1924) calculated by the ECB at the end of the year for all central banks participating in the Eurosystem. At the balance sheet date, the market rate of SDR was above the average cost and positive valuation effects were therefore recognised in accordance with the accounting rules in the liability balance sheet item ‘Revaluation accounts’.

	31 December 2015		31 December 2014		Change	
	000 SDR	**000 EUR**	**000 SDR**	**000 EUR**	**000 SDR**	**000 EUR**
Quota	275,000	350,020	275,000	327,910	-	22,110
Less IMF holdings of EUR	-196,717	-250,381	-171,350	-204,318	-25,367	-46,063
Reserve tranche in the IMF	78,283	99,639	103,650	123,592	-25,367	-23,953
Loan to the IMF	3,100	3,946	17,680	21,082	-14,580	-17,136
SDR Holdings	207,097	263,594	207,014	246,843	83	16,750
Total	288,481	367,178	328,344	391,517	-39,863	-24,339

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 2015.

Breakdown of foreign currency assets by type of investment:

	31 December 2015	31 December 2014	Change
	000 EUR	**000 EUR**	**000 EUR**
Current accounts	4,273	5,742	-1,469
Time deposits	17,452	29,652	-12,200
Securities	296,329	307,116	-10,787
Total	318,054	342,509	-24,455

Breakdown of foreign currency assets by currency:

	31 December 2015	31 December 2014	Change
	000 EUR	**000 EUR**	**000 EUR**
USD	315,347	337,747	-22,400
CHF	2,498	4,535	-2,038
GBP	70	42	29
Other currencies	139	185	-47
Total	318,054	342,509	-24,455

Breakdown of securities according to their residual maturity:

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	106,794	131,704	-24,910
>1 year and ≤5 years	137,931	140,157	-2,226
> 5 years	51,605	35,256	16,349
Total	296,329	307,116	-10,787

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 2015.

Breakdown of foreign currency assets by type of investment:

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Current accounts	8	73	-65
Time deposits	84,229	28,663	55,566
Securities	135,385	109,817	25,569
Total	219,623	138,553	81,069

Breakdown of foreign currency assets by currency:

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
USD	219,623	138,553	81,069
Total	219,623	138,553	81,069

Breakdown of securities according to their residual maturity:

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	77,997	75,621	2,377
>1 year and ≤5 years	57,388	34,196	23,192
Total	135,385	109,817	25,569

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 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Current accounts	0	0	0
Time deposits	102,000	151,000	-49,000
Securities	956,674	871,064	85,610
Total	1,058,674	1,022,064	36,610

Breakdown of securities according to their residual maturity:

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	294,677	148,893	145,784
>1 year and ≤5 years	661,997	722,171	-60,174
Total	956,674	871,064	85,610

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

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

The total Eurosystem holding of monetary policy assets amounts to EUR 558,989 million (2014: EUR 630,341 million), of which the Bank of Slovenia holds EUR 901 million (2014: EUR 1,098 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 'Provisions' in the notes on accounting policies).

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

Longer-term refinancing operations aim to provide counterparties with additional longer-term refinancing. In 2015 operations were conducted with maturities equal to the reserve maintenance period and with maturities between 3 and 48 months. These operations were conducted at fixed rate with allotment of the total amount bid.

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Longer term refinancing operations	901,380	1,098,380	-197,000
Total	901,380	1,098,380	-197,000

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

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

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Current accounts	2,797	1,272	1,525
Time deposits	48,000	229,000	-181,000
Total	50,797	230,272	-179,475

7. Securities of euro area residents denominated in euro

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

The sub-item 7.1 'Securities held for monetary policy purposes' contains securities acquired by the Bank of Slovenia within the scope of the three covered bonds purchase programmes (CBPP)[12], the securities markets programme (SMP)[13] and the public sector purchase programme (PSPP)[14].

Purchases under the first covered bond purchase programme were completed on 30 June 2010, while the second covered bond purchase programme ended on 31 October 2012. The Securities Markets Programme was terminated on 6 September 2012.

On 2 October 2014 the Governing Council announced the operational details of the third covered bond purchase programme (CBPP3) and the asset-backed securities purchase programme (ABSPP). The aim of these programmes is to facilitate credit provision to euro area economy, generate positive spillovers to other markets and, as a result, ease the ECB's monetary policy stance.

Under the two programmes, the ECB and the NCBs may purchase, in both the primary and secondary markets, euro-denominated covered bonds issued in the euro area and *senior* and guaranteed *mezzanine* tranches of asset-backed securities that are denominated in euro and issued by entities that are resident in the euro area.

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

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

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

On 22 January 2015 the Governing Council decided that asset purchases should be expanded to include a secondary market public sector asset purchase programme. This programme aims to further ease monetary and financial conditions, including those relevant to borrowing conditions of euro area and non-financial corporations and households, thereby supporting aggregate consumption and investment spending in the euro area and ultimately contributing to a return of inflation rates to levels below but close to 2% over the medium term. Under this programme the ECB and the NCBs may purchase, in the secondary market, euro-denominated securities issued by euro area central governments, agencies and European institutions.

The combined monthly purchases of CBPP3, ABSPP and PSPP are intended to amount EUR 60 billion and are expected to be carried out until at least March 2017.

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

The amortised cost of these securities, as well as their market value[15] (which is not recorded on the Balance sheet or in the Profit and Loss Account but is provided for comparison purposes only), are as follows:

	31 December 2015		**31 December 2014**		**Change**	
	Amortised cost	**Market value**	**Amortised cost**	**Market value**	**Amortised cost**	**Market value**
	000 EUR	**000 EUR**	**000 EUR**	**000 EUR**	**000 EUR**	**000 EUR**
First covered bond purchase programme	28,095	31,513	34,143	38,431	-6,048	-6,918
Second covered bond purchase programme	-	-	-	-	-	-
Third covered bond purchase programme	651,721	645,782	153,949	154,233	497,772	491,549
Securities market programme	287,975	319,427	489,209	523,578	-201,235	-204,152
Public sector purchase programme	2,010,780	2,024,375	-	-	2,010,780	2,024,375
Total	2,978,571	3,021,097	677,302	716,242	2,301,269	2,304,855

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

	31 December 2015	**31 December 2014**	**Change**
	000 EUR	**000 EUR**	**000 EUR**
≤ 1 year	99,494	209,856	-110,363
>1 year and ≤5 years	1,168,954	316,377	852,577
> 5 years	1,710,123	151,068	1,559,055
Total	2,978,571	677,302	2,301,269

The Governing Council of the ECB assesses on a regular basis the financial risks associated with the securities held under these programmes.

The total Eurosystem NCB's holding of SMP, CBPP3 and ABSPP securities and PSPP securities issued by International or supranational institutions, located in the euro area, amounts to EUR 341,374 million (2014: EUR 173,895 million), of which the Bank of Slovenia holds EUR 940 million (2014: EUR 643 million). In accordance with Article 32.4 of the Statute, losses from holdings of SMP, CBPP3 and ABSPP securities and

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

PSPP securities issued by International or supranational institutions, located in the euro area, 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 2015 on securities purchased under the Securities Markets Programme, the covered bond purchase programmes and the public sector purchase programme, the Governing Council considered that the identified impairment indicator due to the Hellenic republic failing to repay to the IMF and to the Bank of Greece on 30 June 2015 had not affected the estimated future cash flows. No impairment losses were therefore recorded at the year-end on the Bank of Slovenia's holdings of securities under the Securities Markets Programme. Furthermore, no impairment losses were recorded in respect of the other securities purchased under the Securities Markets Programme, the covered bond purchase programmes and the public sector purchase programme.

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 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Marketable securities other than those held to maturity	1,994,327	1,847,806	146,521
Held-to-maturity securities	26,473	26,731	-259
Total	2,020,800	1,874,538	146,263

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

Breakdown of other securities according to their residual maturity:

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	851,567	591,916	259,651
>1 year and ≤5 years	903,890	1,180,396	-276,506
> 5 years	265,343	102,225	163,118
Total	2,020,800	1,874,538	146,263

8. Intra-Eurosystem claims

Sub-item 9.1 shows the Bank of Slovenia's participating interest in the ECB. Pursuant to Article 28 of the Statute of the ESCB and the ECB, the ESCB national central banks are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29 of the Statute and are subject to adjustment every five years. The most recent such adjustment took effect on 1 January 2014.

The subscribed and paid up capital of the 28 European central banks in the capital of the ECB on 31 December 2015 is as follows:

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

In accordance with Article 49.2 of the Statute of the ESCB and the ECB and the legal acts adopted by the Governing Council of the ECB, the Bank of Slovenia also made a contribution 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 of Slovenia in accordance with its capital key (disclosed under asset item 9.2), the amount of EUR 7.6 million was used as the advance contribution to the ECB reserves, provisions and provisions equivalent to reserves on 3 January 2007. The rest of the contribution was paid after the approval of the ECB 2006 Annual Accounts by the Governing Council of the ECB in March 2007.

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

	31.12.2015
	000 EUR
Contribution to revaluation accounts	
- paid on 3 January 2007	7,647
- paid on 12 March 2007	18,105
Contribution to provisions	
- paid on 12 march 2007	10,947
Contribution paid on 9 March 2009	2,700
Contribution paid on 12 July 2013	50
Contribution paid on 21 February 2014	5,350
Total	44,799

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

Sub-item 9.4 'Net claims related to the allocation of euro banknotes within the Eurosystem' consists of the claims and liabilities of the Bank of Slovenia vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem (see 'Banknotes in circulation' and 'Intra-ESCB balances/Intra-Eurosystem balances' in the notes on accounting policies)[16]. The decrease of the net claim in comparison to 2014 (of EUR 681.2 million) ~~is~~ was due to increase in banknotes put into circulation by the Bank of Slovenia in 2015 (increase of 37.9% compared to 2014), as well as the rise in banknotes in circulation in the Eurosystem as a whole (increase of 6.6% compared to 2014). The remuneration of this claim is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

Sub-item 9.5 'Other claims within the Eurosystem (net)' represents the sum of three components: 1) the position of the Bank of Slovenia vis-à-vis the ECB in respect of the transfers issued and received through TARGET2 by the ESCB national central banks, including the ECB; 2) the position vis-à-vis the ECB in respect of the pooling and allocation of monetary income within the Eurosystem pending settlement; and 3) the Bank of Slovenia's position vis-à-vis the ECB in respect of any amounts receivable or refundable, including the amount due to the Bank of Slovenia from the ECB in respect of the ECB's interim profit distribution.

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Due from ECB in respect of TARGET2 balances	240,319	2,385,849	-2,145,530
Due from ECB in respect of monetary income	15,111	13,619	1,492
Due from ECB in respect of the ECB interim profit distribution	3,986	4,151	-165
Total	259,416	2,403,619	-2,144,203

[16] 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'.

Regarding the first component, the year-end net transfers via TARGET2 had a debit balance of EUR 240.3 million. The remuneration of this position is calculated daily at the latest available (marginal) interest rate used by the Eurosystem in its tenders for main refinancing operations.

The second component, i.e. the position vis-à-vis the ECB in respect of the annual pooling and allocation of monetary income within the Eurosystem national central banks, had a debit balance of EUR 15.1 million at year-end (see “Net result of pooling of monetary income” in the notes to the profit and loss account).

Concerning 2015, following a decision by the Governing Council, the amount due to euro area NCBs with respect to the ECB’s interim profit distribution was EUR 812 million (see “ECB profit distribution” in accounting policies). The related amount due to the Bank of Slovenia as at 31 December 2015 was EUR 4.0 million (see “Income from equity shares and participating interests” in the profit and loss account).

9. Other assets

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

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

	Land and buildings	**Computers & equipment**	**Total**
	000 EUR	**000 EUR**	**000 EUR**
Cost or valuation			
At 31 December 2014	**29,610**	**23,737**	**53,347**
Additions	10,948	1,716	12,664
Disposals	10,227	2,343	12,570
At 31 December 2015	**30,331**	**23,110**	**53,441**
Depreciation			
At 31 December 2014	**4,173**	**19,448**	**23,620**
Disposals	202	1,234	1,436
Charge for the year	3,764	2,338	6,101
At 31 December 2015	**611**	**18,344**	**18,955**
Net book value			
At 31 December 2014	**25,437**	**4,289**	**29,726**
At 31 December 2015	**29,720**	**4,766**	**34,485**

In 2015 the Bank of Slovenia purchased an immovable property as a part of the process of establishing the legal ownership of that property. The purchase value amounted to EUR 10.2 million.

As at 31 December 2015 an amount of EUR 12.4 million relating to investment properties in Austria is included in land and buildings (2014: EUR 12.4 million).

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

Sub-item 11.4 'Off-balance sheet instruments revaluation differences' includes the valuation result of foreign exchange spot transactions agreed in 2015 which are to be settled in the subsequent year.

Sub-item 11.5 'Accruals and prepaid expenses' contains the accrued income identified at 31 December 2015. 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.

10. Banknotes in circulation

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

During 2015, the total value of banknotes in circulation within the Eurosystem increased by 6.6%. According to the allocation key, the Bank of Slovenia had euro banknotes in circulation worth EUR 4,891.7 million at the end of the year (compared with EUR 4,615.1 million at the end of 2014). The value of the euro banknotes actually issued by the Bank of Slovenia in 2015 increased by 37.9% from EUR 2,527.4 million to EUR 3,485.1 million. As this was less that the allocated amount, the difference of EUR 1,406.5 million (2014: EUR 2,087.7 million) is shown under asset sub-item 9.4 'Net claims related to the allocation of euro banknotes within the Eurosystem'.

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Total value of euro banknotes put into circulation by the Bank of Slovenia	3,485,139	2,527,358	957,781
Liability resulting from the ECBs share of euro banknotes in circulation	-425,420	-401,512	-23,909
Claim according to Bank of Slovenia's weighting in the ECB's capital key	1,831,964	2,489,236	-657,273
Total banknotes in circulation	4,891,682	4,615,083	276,599

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

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
EUR 5	-49,014	-39,468	-9,547
EUR 10	540,619	434,898	105,721
EUR 20	3,928,453	3,607,206	321,247
EUR 50	-919,717	-1,377,622	457,905
EUR 100	-932,127	-846,649	-85,478
EUR 200	-242,411	-221,612	-20,799
EUR 500	1,159,336	970,604	188,732
Total value of euro banknotes put into circulation by the Bank of Slovenia	3,485,139	2,527,358	957,781

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

Current accounts contain the credit balances on the transaction accounts of credit institutions that are required to hold minimum reserves. Banks' minimum reserve balances have been remunerated since January 1, 1999 at the latest available (marginal) interest rate used by the Eurosystem in its tenders for main refinancing operations. Since June 2014 the reserves held in excess of the minimum requirements are remunerated at the lower rate of either zero per cent or the deposit facility rate.

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Current accounts (covering the minimum reserve system)	1,627,183	1,434,063	193,121
Total	1,627,183	1,434,063	193,121

12. Other liabilities to euro area credit institutions denominated in euro

This balance sheet item contains other credit institutions' accounts unrelated to the monetary policy operations.

13. Liabilities to other euro area residents denominated in euro

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

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Government sight deposits and special funds	1,676,458	2,690,518	-1,014,060
Other public sector deposits	53,246	27,740	25,505
Total	1,729,704	2,718,258	-988,554

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

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

Balance sheet item 'Liabilities to non-euro area residents denominated in euro' contains euro balances of international and supranational organisations. The IMF account No. 2 and the liability for the funds received from the financial institutions to be transferred to the Single Resolution Fund are also included in this balance sheet item.

15. Liabilities to euro area residents denominated in foreign currency

This item contains the foreign currency sight and fixed-term deposits of central government and its special funds.

16. Counterpart of special drawing rights allocated by the IMF

This item represents the liability of the Bank of Slovenia towards 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 2015 on the basis of the market rate of SDR 1 = EUR 1.2728 (31 December 2014: SDR 1 =

EUR 1.1924) calculated by the ECB at the end of the year for all central banks participating in the Eurosystem. The increase in the amount of this liability in 2015 is solely due to valuation effects, i.e. the depreciation of the euro against the SDR.

17. 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 2015. 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.

18. Provisions

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Provisions for employees and for known risks	13,047	21,625	-8,578
Provisions for general risks	410,200	386,900	23,300
Total	423,247	408,525	14,722

Provisions for employees and for known risks

Provisions for post-employment benefits are calculated in accordance with IAS 19 – Employee benefits. The latter consider the stipulations of the Bank of Slovenia collective agreement, expected future salary increase, fluctuation and a rate for discounting the future obligations. Provisions were calculated on the basis of actuarial assumptions as at 31.12.2015.

Provisions for known risks relate to potential liabilities of the Bank of Slovenia 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 2015 in amount of EUR 1.2 million.

Provisions for general risks

Taking into account the Bank of Slovenia’s exposure to interest rate, exchange rate, credit and price risks, general provisions for interest rate, exchange rate and (gold) price change losses and credit events could be created. In 2015, the Bank of Slovenia created additional general provisions based on the assessment of risk exposure in the net amount of EUR 23.3 million.

19. Revaluation accounts

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

In case of valuation of securities, positive valuation effects of EUR 14.0 million arose from the valuation of EUR denominated portfolio (2014: EUR 27.3 million) and EUR 1.1 million from the valuation of USD denominated assets (2014: EUR 1.2 million).

In case of foreign currency positions, positive valuation effects of EUR 46.3 million arose from the valuation of USD position and EUR 10.8 million from the valuation of SDR position (2014: EUR 26.6 million from the valuation of USD position and EUR 9.7 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 2015 (2014: EUR 482.688), comparing with market price at the end of 2015, which was EUR 973.225 per fine ounce of gold (2014: EUR 987.769). Market value of gold position exceeded its acquisition price and resulted in a positive valuation effects amounting to EUR 50.2 million (2014: EUR 51.7 million).

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Price effect	15,125	28,504	-13,380
- securities in foreign currencies (asset items 2 and 3)	1,141	1,170	-29
- securities in euro (asset items 4 and 7)	13,983	27,334	-13,351
Exchange rate effect	57,062	36,267	20,795
Gold value effect	50,197	51,687	-1,490
Total	122,383	116,458	5,925

20. Capital and reserves

In accordance with the Article 5 of the Bank of Slovenia Act, the capital of the Bank of Slovenia was created from the general reserves in the amount of EUR 8.3 million in year 2002. Bank of Slovenia'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. They are generated through the allocation of annual surplus of the Bank of Slovenia. Special reserves serve to cover exchange rate and price risks. Investment properties revaluation reserve are created out of the valuation gains arising mainly from the appraisal of the investment properties in Austria, performed by the independent real estate assessor.

The composition of reserves is the following:

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Initial capital of the Bank of Slovenia	8,346	8,346	-
General reserve	667,516	659,734	7,782
Special reserve for foreign exchange differences	174,214	174,214	-
Special reserve – price risk (gold)	19,736	19,736	-
Revaluation reserve	12,467	12,463	4
Total reserves	882,278	874,492	7,787

Notes to the off-balance-sheet items

21. Foreign currency swaps

As at 31 December 2015, the forward foreign currency position arising from EUR/foreign currency swap transactions amounts to EUR 240.3 million (2014: EUR 176.9 million.

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

	31 December 2015		31 December 2014		Change	
	000 Foreign currency	000 EUR	000 Foreign currency	000 EUR	000 Foreign currency	000 EUR
Forward liabilities in USD	261,600	240,287	214,800	176,921	46,800	63,365
Total	261,600	240,287	214,800	176,921	46,800	63,365

22. Securities lending

As at 31 December 2015, securities with a market value of EUR 264 million (31 December 2014: EUR 225 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.

23. Other off-balance-sheet items

The following other financial claims and liabilities of the Bank of Slovenia were stated off-balance-sheet as at 31 December 2015:

- obligation under the IMF's statutes to provide currency on demand in exchange for SDRs up to the point at which the Bank of Slovenia's SDR holdings are three times as high as the amount it has received gratuitously from the IMF, which was equivalent to EUR 560.7 million as at 31 December 2015 (31 December 2014: EUR 525.4 million);

- obligation under the Loan Agreement between the Bank of Slovenia and the IMF to lend to the IMF an SDR denominated amount up to the equivalent of EUR 910.0 million (31 December 2014: EUR 910.0 million);

- a contingent liability of EUR 172.8 million, equivalent to the Bank of Slovenia's share of the maximum of EUR 50 billion reserve assets that the ECB may require the euro area NCBs to transfer under Article 30.1 of the Statute of the ESCB and of the ECB (31 December 2014: EUR 172.8 million);

- contingent claim arising from the credit lines as an instrument of intraday liquidity provision, amounting to EUR 600 million, granted based on eligible collateral and by means of overdraft on participant's settlement accounts.

Notes to the profit and loss account

24. Net interest income

Interest income

Net interest income consists of interest income on foreign reserve assets and euro-denominated portfolio and interest income on euro-denominated claims and liabilities. Euro-denominated claims include monetary policy instruments, foreign reserve assets transferred to the ECB, net claim arising from the allocation of banknotes within the Eurosystem and TARGET2 balances. Negative interest expense generated by liabilities to euro area credit institutions related to monetary policy operations as well as by government accounts and deposits is also disclosed under interest income.

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Interest income			
Gold	**436**	**206**	**231**
Current accounts and deposits	**430**	**961**	**-531**
- In foreign currency	265	300	-35
- In euro	165	661	-496
Securities	**49,313**	**58,318**	**-9,005**
- In foreign currency	4,112	2,706	1,406
- In euro	45,201	55,613	-10,411
IMF	**177**	**320**	**-143**
Monetary policy operations	**1,159**	**3,897**	**-2,739**
- Main refinancing operation	12	0	11
- Longer-term refinancing operations	1,147	3,896	-2,749
- Other refinancing operations	0	1	-1
Intra Eurosystem claims	**1,559**	**5,541**	**-3,982**
- Claims arising from the transfer of foreign reserves to the ECB	86	282	-195
- Net claims related to the allocation of banknotes within the Eurosystem	905	3,524	-2,619
- TARGET2 balances	568	1,735	-1,167
Other interest income	**15**	**2,731**	**-2,716**
Negative interest expense	**6,368**	**1,849**	**4,520**
- liabilities related to monetary policy operations	2,675	978	1,697
- clients accounts and deposits	3,693	871	2,823
Total	**59,457**	**73,822**	**-14,365**

A decrease of interest income in year 2015 in comparison with 2014 mainly relates to the lower interest rates level, gradual maturity of SMP securities and lower balances of longer-term refinancing operations.

Interest expense

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

Significantly lower interest expense in 2015 comparing to 2014 is a result of a lower interest rates level ~~and~~ as well as lower balances of monetary policy related deposits and government deposits.

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Interest expense			
Current accounts and deposits	**104**	**2,788**	**-2,684**
- In foreign currency	104	123	-19
- In euro	0	2,665	-2,664
IMF	**121**	**184**	**-63**
Monetary policy operations	**114**	**1,399**	**-1,285**
- Minimum reserves	114	337	-223
- Fixed term deposits	-	1,062	-1,062
Intra Eurosystem liabilities	**59**	**417**	**-359**
- TARGET2 balances	-59	417	-359
Foreign currency swaps	**1,092**	**188**	**904**
Total	**1,490**	**4,976**	**-3,486**

25. 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 2015 below the average cost of the respective currencies or securities. The valuation losses in 2015 mostly occurred in EUR and USD denominated securities (similar as in 2014).

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

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

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Realised gains/losses			
Gold	2	-	2
Currency position	10,764	807	9,957
Securities	14,112	16,715	-2,603
Total	**24,878**	**17,521**	**7,357**
Write-downs			
Currency position	-183	-32	-151
Securities	-3,573	-450	-3,123
Total	**-3,756**	**-482**	**-3,274**

Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks and other operational risks			
Provisions for known risks	2,169	14,001	-11,831
Provisions for general risks	-23,300	-20,150	-3,150
Total	**-21,131**	**-6,149**	**-14,981**
Total	**-9**	**10,890**	**-10,899**

26. Net income from fees and commissions

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

27. Income from equity shares and participating interests

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

Also included under this caption is the amount due to the Bank of Slovenia with respect to the ECB's interim profit distribution totalling EUR 4.0 million (2014: EUR 4.2 million) (see 'ECB profit distribution' in the notes on accounting policies).

28. Net result of pooling of monetary income

This item contains the net result of pooling of monetary income for 2015, amounting to an income of EUR 15.1 million in comparison to an income of EUR 13.6 million in the previous year.

	31 December 2015	31 December 2014	Change
	000 EUR	000 EUR	000 EUR
Net monetary income pooled by the Bank of Slovenia	28,972	38,608	-9,636
Net monetary income allocated to the Bank of Slovenia	44,079	49,109	-5,030
Monetary income reallocation for the year	**15,107**	**10,502**	**4,606**
Corrections to monetary income reallocation of previous years	**3**	**3,117**	**-3,114**
Total	**15,111**	**13,619**	**1,492**

The monetary income of the Eurosystem national central banks is allocated in accordance with the decision taken by the Governing Council of the ECB[17]. 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.

[17] Decision of the European Central Bank of 25 November 2010 on the allocation of monetary income of the national central banks of member states whose currency is euro (recast) (ECB/2010/23), OJ L 35, 09.02.2011, p. 17-25, amended by the Decision of the European Central Bank of 3 November 2011 (ECB/2011/18), OJ L 319, 02.12.2011, p. 116, Decision of the European Central Bank of 5 June 2014 (ECB/2014/24), OJ L 117, 07.06.2014, p. 168, Decision of the European Central Bank of 15 December 2014 (ECB/2014/56), OJ L 53, 25.02.2015, p. 21-23 and Decision of the European Central Bank of 19 November 2015 (ECB/2015/37), OJ L 313, 28.11.2015, p. 42-43.

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.

The monetary income pooled by the Eurosystem is allocated among the NCBs according to the subscribed ECB capital key. The pooling and reallocation of monetary income to NCBs leads to certain net reallocation effects. One reason is that the yields earned on certain earmarkable assets and the interest expense paid on certain liability base items may differ to a varying degree among the Eurosystem NCBs. In addition, usually each Eurosystem NCB's share of earmarkable assets and in the liability base deviates from its share in the subscribed capital of the ECB. The difference between the monetary income pooled by the Bank of Slovenia amounting to EUR 29.0 million and reallocated to the Bank of Slovenia amounting to EUR 44.1 million is the net result arising from the calculation of monetary income.

29. Other income

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

30. Operating expenses

Staff costs

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

The Bank of Slovenia employed 447 employees as at 31 December 2015 (31 December 2014: 437 employees).

In accordance with the contract between the Bank of Slovenia and the Trade union from March 2002 Bank of Slovenia employees have been included into Voluntary supplementary pension insurance, which is defined as a contribution plan. Staff costs include contribution of the Bank of Slovenia for Voluntary supplementary pension insurance of EUR 0.6 million (2014: EUR 0.5 million).

In 2015 the remuneration of the Governing board members of the Bank of Slovenia was of EUR 0.8 million (2014: EUR 0.7 million). The amount for 2015 includes the additional contractual obligations due to expiration of the mandate of the Bank of Slovenia Board member.

Administrative 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 decrease in banknote production costs in comparison to the preceding year arises from the late delivery of banknotes that will be realised in 2016 instead in year 2015.

Other expenses

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

31. Profit for the year

According to the Accounting Guideline, to which the unrealised negative valuation effects shall be covered from the current financial result, whilst the unrealised positive valuation effects are transferred directly to revaluation accounts, the Bank of Slovenia shows the profit amounted to EUR 54.0 million (2014: EUR 74.8 million). Appropriation of the financial result will be performed in accordance with the Article 50 of the Law on the Bank of Slovenia.